

Permissible and Non-permissible services by CA in practice

For WIRC of ICAI

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Fundamental Principles of Ethics

Five fundamental principles of ethics for professional accountants:

- **Integrity** – to be straightforward and honest
- **Objectivity** – not to compromise professional judgements because of bias
- **Professional Competence and due care** – to attain and maintain professional knowledge and to act diligently
- **Confidentiality** – to respect the confidentiality of information acquired
- **Professional behavior** – to comply with relevant laws and regulations

Threats to compliance with the fundamental principles

- **Self – interest threat** - the financial or other interest will inappropriately influence a professional accountant's judgement or behavior.
e.g. auditor has only one client or one client represents a significant proportion of his business
- **Self – review threat** – activity performed by the accountant within the accountant's firm or employing organization, on which the accountant will rely when forming a judgement
e.g. external auditor performing accounting work of the firm

- **Advocacy threat** – to promote a client’s position to the point that the accountant’s objectivity is compromised
e.g. Promoting client’s newly issued shares in the market, Acting as an advocate for an assurance client in litigation or dispute with third parties
- **Familiarity threat** – sympathy or easy acceptance of work due to long or close relationship with client.
e.g. If auditor is a childhood friend of finance manager of company
- **Intimidation threat** – when a professional accountant is deterred from acting objectively because of perceived pressures
e.g. being threatened with dismissal or replacement of client engagement

Provision of Non-assurance services to an Audit client

As per Section 144 of the Companies Act 2013, “an auditor appointed under the Companies Act 2013 shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding or subsidiary company), namely:-

- Accounting and book keeping services;
- Internal audit;
- Design and implementation of any financial information system;
- Actuarial services;
- Investment advisory services;
- Investment banking services;
- Rendering of outsourced financial services;
- Management services; and
- Any other kind of services as may be prescribed:

Provided that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement.

Explanation.—For the purposes of this sub-section, the term —directly or indirectlyll shall include rendering of services by the auditor,—

(i) in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual;

(ii) in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.

Management Responsibility

A firm shall not assume a management responsibility for an audit client or to the holding or subsidiary company of such client.

Activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the action of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.

- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Responsibility of – Preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- Responsibility of designing, implementing, monitoring or maintaining internal control.

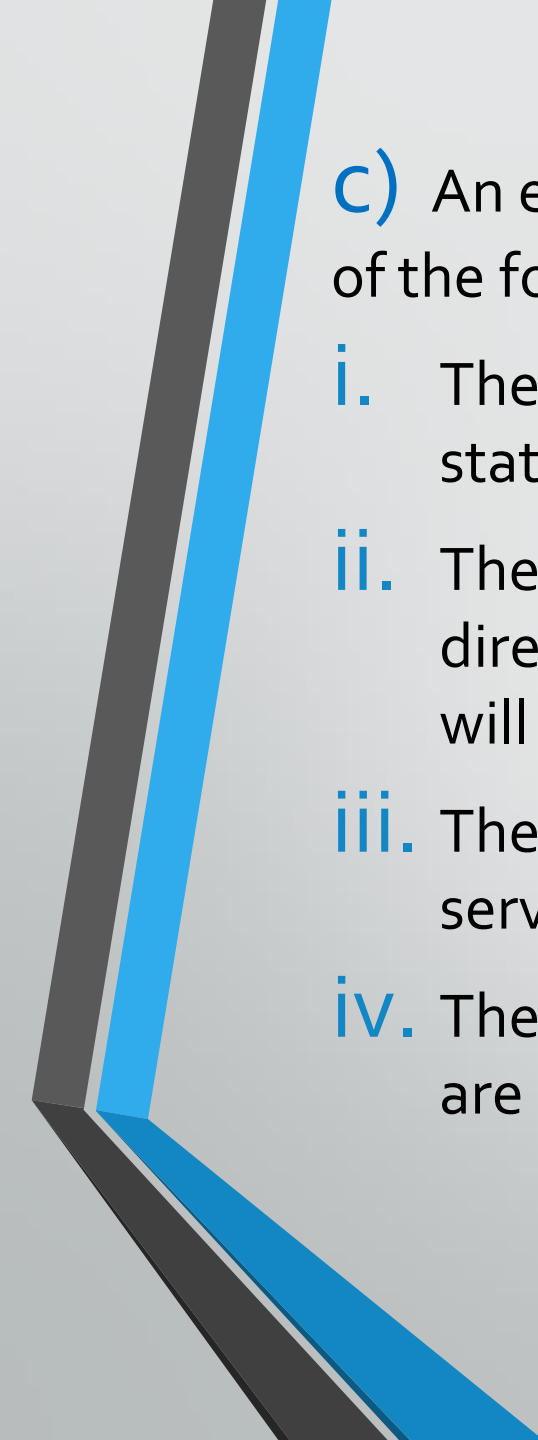
Therefore, these activities are not permissible.

However, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. Hence, these services can be rendered to the management.

Services to certain related entities

A firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

- a) An entity that has direct control over the client (other than an engagement to which Companies Act, 2013 applies);
- b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or

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- c) An entity which is under common control with the client, provided that all of the following conditions are met:
- i. The firm or a network firm does not express an opinion on the financial statements of the related entity;
 - ii. The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
 - iii. The services do not create a self-review threat because the results of the services will not be subject to audit procedures; and
 - iv. The firm addresses other threats created by providing such services that are not at an acceptable level.

Services provided by Auditor

Section	Type of services	Allowed/Not Allowed
601 – Accounting & Book Keeping	Determining accounting policies	Not Allowed.
	Preparing or changing source documents (e.g. Payroll records, Purchase order)	
	Originating or changing journal entries	
	Determining or approving the account classifications of transactions	

Section	Type of services	Allowed/Not Allowed
	Applying accounting standards or policies and financial statements disclosure requirements.	Allowed
	Assessing the appropriateness of financial and accounting controls and methods used in determining the stated amounts of assets and liabilities.	
	Proposing adjusting journal entries	
	Technical assistance on matters such as i) resolving accounting reconciliation problems or analyzing and accumulating information for regulatory reporting.	

Section	Type of services	Allowed/Not Allowed
	ii) technical advice on accounting issues.(Complying with group accounting policies, Transitioning effects)	Allowed
	Payroll calculations/reports	For which require little or no professional judgement
	Recording recurring transactions for which amounts are easily determinable from source documents	
	Calculating depreciation (Accounting policy, estimates of useful life and residual value – determined by the client)	
	Posting transactions coded by the client to the general ledger	

Section	Type of services	Allowed/Not Allowed
	Posting client approved entries to the trial balance	Allowed
	Audit clients – Public Interest Entities	
	Preparing Financial statements on which firm will express an opinion	Not Allowed
	Accounting and Book keeping services for related entities (excluding Subsidiary or holding co.) of routine or mechanical nature	Allowed. (Provided the personnel providing the services is not an audit team member. And services provided are immaterial or service relates to immaterial matters)

Section	Type of services	Allowed/Not Allowed
602 - Administrative Services	Word processing service	Allowed
	Preparing administrative or statutory forms for client approval	
	Submitting such forms	
	Monitoring statutory compliance dates	

Section	Type of services	Allowed/Not Allowed
603 – Valuation services	Valuation for tax reporting or tax planning purposes which do not have direct effect on financial statements	Allowed. Subject to factors such as – <ul style="list-style-type: none"> • Use and purpose of such report • Whether the report will be made in public • Extent of client’s involvement in determining valuation methodology and other significant matters of judgement • Degree of subjectivity • Impact on financial statements • Extent and clarity of the disclosures in the financial statements • Degree of dependence on future events

Section	Type of services	Allowed/Not Allowed
	Audit clients – Other than Public Interest Entities	Not allowed
	If valuation involves significant degree of subjectivity AND Valuation will have material effect on financial statements	
	Audit clients- Public Interest Entities	Not allowed
	Valuation will have material effect on financial statements	

Section	Type of services	Allowed/Not Allowed
604 – Tax services	Tax Return Preparation services	Allowed
	Assisting clients with tax reporting obligations	
	Advising on the tax return treatment of past transactions	
	Responding on behalf of clients to the tax authorities	

Section	Type of services	Allowed/Not Allowed
604 – Tax services	Tax calculation for the purpose of preparing accounting entries such as current and deferred tax liabilities (or assets) for the financial statements that will be subsequently audited by him	Not allowed
	For other than Public interest entities	
	Actions that might be safeguards: <ul style="list-style-type: none"> • Using professionals who are not audit team members • Having an appropriate reviewer who was not involved in providing the service review of the audit work 	Allowed in such cases

Section	Type of services	Allowed/Not Allowed
604 – Tax services	For Public interest entities-	
	Preparation of tax calculations that are material to the financial statements	Not allowed. However, professional accountant may review the tax calculation and provide recommendations.
	Actions that might be safeguards : <ul style="list-style-type: none"> • Using professionals who are not audit team members • Having an appropriate reviewer who was not involved in providing the service review of the audit work 	Allowed in such cases

Section	Type of services	Allowed/Not Allowed
604 – Tax services	Tax planning and other tax advisory services	
	Structuring its affairs in tax efficient manner	Not allowed
	To an audit client when the effectiveness of tax advice depends on a particular accounting treatment or presentation in financial statements and audit team has reasonable doubt as to the appropriateness and the outcome of tax advice will have a material effect on the financial statements	

Section	Type of services	Allowed/Not Allowed
604 – Tax services	Actions that might be safeguards: <ul style="list-style-type: none">• Using professionals who are not audit team members• Having an appropriate reviewer who was not involved in providing the service review of the audit work	Allowed

Section	Type of services	Allowed/Not Allowed
604 – Tax services	Tax services involving valuations	
	<ul style="list-style-type: none"> • If the same has material effect on financial statements • If the valuation is subject to external review by tax authority 	<p>Not allowed</p> <p>Allowed</p>
	<p>Actions that might be safeguards :</p> <ul style="list-style-type: none"> • Using professionals who are not audit team members • Having an appropriate reviewer who was not involved in providing the service review of the audit work • Obtaining pre-clearance from tax authorities 	Allowed

604 – Tax services	Assistance in the Resolution of tax	
	<p>if</p> <ul style="list-style-type: none"> • Service involve acting as an advocate for the audit client before a court and • Amounts involved are material to the financial statements 	Not allowed
	<p>Actions that might be safeguards :</p> <ul style="list-style-type: none"> • Using professionals who are not audit team members • Having an appropriate reviewer who was not involved in providing the service review of the audit work • Obtaining pre-clearance from tax authorities 	Allowed

Section	Type of services	Allowed/Not Allowed
604 – Tax services	Responding to specific requests for information	Allowed
	Providing factual accounts or testimony about the work	
	Assisting the client in analyzing the tax issues related to the matter.	

Section	Type of services	Allowed/Not Allowed
605 – Internal Audit services	Monitoring of internal control	Not allowed. (Statutory auditor cannot be Internal auditor of the same entity)
	Examining financial and operating information	
	Reviewing economy, efficiency and effectiveness of operating activities	
	Reviewing compliances with laws, regulations and other external requirements, management policies, directives and other internal requirement, etc	

Section	Type of services	Allowed/Not Allowed
606- Information Technology Systems services	Designing or implementing IT systems that are unrelated to internal control over financial reporting	Allowed provided personnel of the firm or network firm do not assume a management responsibility
	Designing or implementing IT systems that do not generate information forming a significant part of accounting records or financial statements	
	Implementing “off-the-shelf” accounting or financial information reporting software that was not developed by the firm or network firm	
	Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client	

Section	Type of services	Allowed/Not Allowed
	<p>Audit clients- Public Interest Entities</p> <p>Designing or implementing IT systems that</p> <ul style="list-style-type: none"> a) Form significant part of internal control over financial reporting or b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion 	Not allowed

Section	Type of services	Allowed/Not Allowed
607 – Litigation Support Services	Assisting with document management and retrieval	Not allowed if there are factors indicating self-review threats such as: <ul style="list-style-type: none"> • Legal and regulatory environment • Nature and characteristics of the service • Material effect on financial statements
	Acting as a witness, including an expert witness	
	Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute (if it affects financial statements)	

Section	Type of services	Allowed/Not Allowed
6o8 – Legal services	Contract support	Not allowed if there are factors such as : <ul style="list-style-type: none"> • Materiality in relation to financial statements • Complexity of legal matter and degree of judgement
	Supporting in executing a transaction	
	Mergers and acquisitions	
	Supporting and assisting in client's internal legal department	
	Legal due diligence and restructuring	
	Acting as a general counsel for legal affairs of client	Not Allowed
Acting in an advocacy role in resolving a dispute or litigation when the amounts involved are material to the financial statements.(e.g. Appeals)	Not Allowed	

Section	Type of services	Allowed/Not Allowed
609 – Recruiting services	Developing a job description	Not allowed
	Developing a process for identifying and selecting potential candidates	
	Searching for or seeking out candidates	
	Screening potential candidates for the role by understanding reference checks of prospective candidates	
	Determining employment terms and negotiating compensation details	

Section	Type of services	Allowed/Not Allowed
	Reviewing professional qualification of applicants and providing advice on their suitability	Allowed provided personnel of the firm or network firm do not assume a management responsibility
	Interviewing candidates and advising on candidate's competence	
	Recruiting services for audit clients the firm acting as a negotiator on client's behalf	Not Allowed
	If the service relates to Searching for or seeking out candidates	

Section	Type of services	Allowed/Not Allowed
	<p>Understanding reference checks of prospective candidates for following positions:</p> <ol style="list-style-type: none"> 1. A director or officer 2. Member of senior management in a position to exert significant influence 	Not Allowed

Section	Type of services	Allowed/Not Allowed
610 – Corporate Finance services	Assisting in developing corporate strategy	Not allowed Factors to be considered for level of threats : <ul style="list-style-type: none"> • Degree of subjectivity • Effect of advice on financial statements • Materiality of amounts in the financial statements • Effectiveness of advice depends on a particular treatment or presentation and there is doubt as to appropriateness of the same
	Identifying possible targets to acquire	
	Advising on disposal transactions	
	Assisting in finance raising transactions	
	Providing structuring advice	
	Providing advice on structuring of corporate finance transactions or on financial arrangements	


Section	Type of services	Allowed/Not Allowed
	<p>Actions that might be safeguards:</p> <ul style="list-style-type: none"> • Using professionals who are not audit team members • Having an appropriate reviewer who was not involved in providing the service review of the audit work 	Allowed
	Corporate finance services involving promoting, dealing in, or underwriting client's shares	Not allowed
	<p>Corporate finance services where effectiveness of advice depends on particular treatment or presentation and</p> <ol style="list-style-type: none"> a) Audit team has reasonable doubt on such treatment and b) The outcome of advice will have material effect on Financial statements 	Not allowed

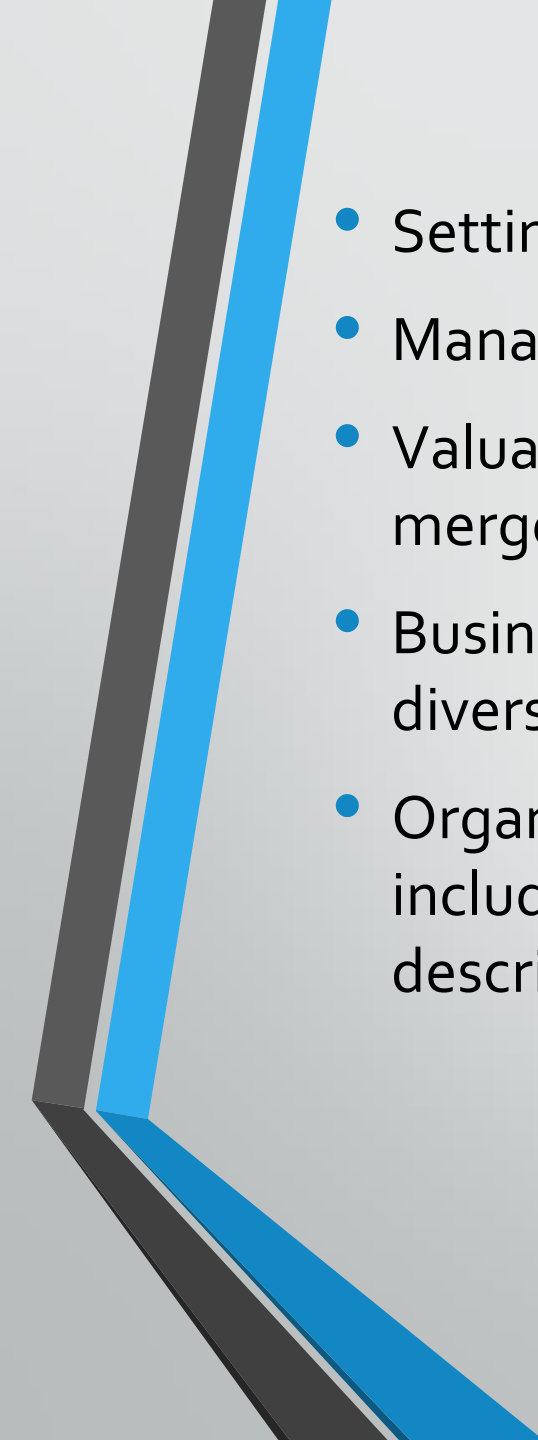
Management consultancy and other services

- Background – To empower the members to face the challenges in the service sector and to equip for the opportunities in the non-audit service area
- The council at its 261st meeting has decided to allow members in practice to render Management Consultancy and Other services in corporate form, subject to the guidelines issued by the Institute

Type of services included in Management Consultancy and other services

- Financial management planning and financial policy determination.
- Capital structure planning and advice regarding raising finance
- Working capital management
- Preparing project reports and feasibility studies
- Preparing cash budget, cash flow statements, profitability statements, statements of sources and application of funds etc.
- Budgeting including capital budgets and revenue budgets.

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- Inventory management ,material handling and storage.
 - Market research and demand studies.
 - Price-fixation and other management decision making.
 - Management accounting systems, cost control and value analysis
 - Control methods and management information and reporting.
 - Personnel recruitment and selection.

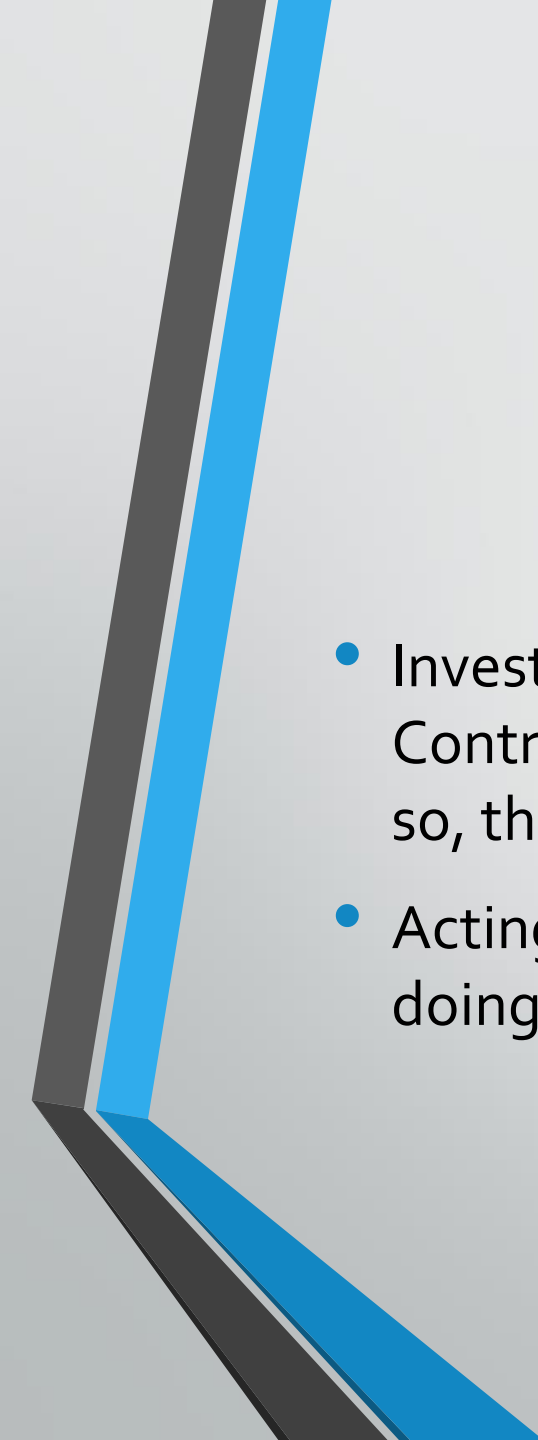
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- Setting up executive incentive plans, wage incentive plans etc.
 - Management and operational audits.
 - Valuation of shares and business and advice regarding amalgamation, merger and acquisition.
 - Business Policy, corporate planning, organisation development, growth and diversification
 - Organisation structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of work loads


- Systems analysis and design, and computer related services including selection of hardware and development of software in all areas of services which can otherwise be rendered by a Chartered Accountant in practice and also to carry out any other professional services relating to EDP
- Acting as advisor or consultant to an issue, including such matters as:
 - a) Drafting of prospectus and memorandum containing salient features of prospectus. Drafting and filing of listing agreement and completing formalities with Stock Exchanges, Registrar of Companies and SEBI.
 - b) 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 (In doing so, the relevant provisions of the Code of Ethics must be kept in mind).

c) Advice regarding selection of various agencies connected with issue, namely Registrars to Issue, printers and advertising agencies.

(d) Advice on the post issue activities, e.g., follow-up steps, which include listing of instruments and despatch of certificates and refunds, with the various agencies connected with the work. CODE OF ETHICS 18o Explanation: For removal of doubts, it is hereby clarified that the activities of broking, underwriting and portfolio management are not permitted.

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- Investment counseling in respect of securities [as defined in the Securities Contracts (Regulation) Act, 1956 and other financial instruments.] (In doing so, the relevant provisions of the Code of Ethics must be kept in mind)
 - Acting as registrar to an issue and for transfer of shares/other securities. (In doing so, the relevant provisions of the Code of Ethics must be kept in mind)

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- Quality Audit
 - Environment Audit.
 - Energy Audit.
 - Acting as Recovery Consultant in the Banking Sector.
 - Insurance Financial Advisory Services under the Insurance Regulatory & Development Authority Act, 1999, including Insurance Brokerage.

Type of services not included in Management Consultancy and other services

- Statutory or periodical audit
- Tax (both direct taxes and indirect taxes) representation or advice concerning tax matters or acting as liquidator, trustee, executor, administrator, arbitrator or receiver

Permissible services under clause (11) of Part I of the First schedule of the Chartered Accountant's Act, 1949

- Director Simplicitor – who is not a Managing or Whole time director
- Promoter/Promoter-Director
- To acquire interest in family business in any manner
 - a) As a proprietary firm
 - b) As a partnership firm
 - c) In the name and style of HUF as its Karta or a member

Conclusion

- There may not be 'Yes' or 'No' type answers to many specific questions.
- One has to be guided by one's conscience and use one's discretion.
- Further, whenever there is a threat perceived, there must be a note in our working papers as to what safeguards have provided.
- We need to be careful while accepting any assignment where our independence is likely to be questioned.