

CODE OF ETHICS

(Revised 2019)



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

CODE OF ETHICS

(Revised 2019 edition, effective from 1st April, 2020)



Issued by

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FOREWORD TO THE TWELFTH EDITION

The Ethics in contemporary terms is not a domain that has to be separate from the practical world, but is very much a part of it. It has to be inculcated in the habit and temperament of the individual, so that there is an overall culture of ethics; the force has to be strong enough to withstand any selfish motive or temptation. It is in this spirit of things that the Institute of Chartered Accountants of India (ICAI) requires its members to comply with the principles of ethics while performing their duties. The ethics for Chartered Accountants have, therefore, been codified as ethical compliance has always been a philosophy of the profession. The members of the Institute, whether in practice or in service, are required to comply with the provisions of Code of Ethics.

The eleventh edition of Code of Ethics for the first time adopted the provisions of International Federation of Accountants (IFAC) Code of Ethics for the professional accountants. The Part-A of the Code of Ethics was brought as a Guideline of the Council.

This revised Code of ICAI is also based on the 2018 edition of Code of Ethics issued by International Ethics Standards Board for Accountants (IESBA) and will be applicable from 1st April, 2020. Till then, the existing Code of ethics (11th edition) will continue to be effective. This revised edition of Code of Ethics is also being brought as Guideline of the Council.

The members may take note of the provisions of new Code. It is understood that the time period of more than one year will be sufficient to be conversant with the provisions of the new Code, so that members are aware about the revised provisions. With this, ICAI is all set to be converged with the latest edition of IESBA Code of Ethics, as per membership requirements of IFAC.

In bringing the revised publication, the Ethical Standards Board of ICAI has given critical time share in discussions on various aspects of the Code. I compliment the members of the Ethical Standards Board particularly CA. Sanjiv Kumar Chaudhary, Chairman and CA. Kemisha Soni, Vice-

Chairperson. I appreciate the efforts and contribution of the Secretariat of Ethical Standards Board in bringing out this publication.

I am happy and confident that the publication will take the profession to newer heights.

NEW DELHI
17th January, 2019

CA. NAVEEN N.D. GUPTA
President

PREFACE TO THE TWELFTH EDITION

With the changing business environment and increasing complexities, the ethical dilemmas faced by an accountant today is different from that faced by him a decade ago. Accordingly, it became imperative to revise the ethical framework for chartered accountants to keep pace with the changing dynamics of the profession.

Today, the members of the Institute are not restricted to professional assignments within the country or domestic employment opportunities. Further, even in the domestic domain, there are international clients and international perspectives. There is no denying the fact that the members have to keep abreast of what are the latest international developments. There is lot of research on ethics related issues done by International Ethics Standards Board for Accountants (IESBA). Its final recommendations are placed in its Code of Ethics, which is regularly updated. It is, therefore, important to refer and follow the provisions of Code of Ethics, based on IESBA Code of Ethics.

This revised Code is based on the 2018 edition of Code of Ethics issued by International Ethics Standards Board for Accountants (IESBA). IESBA is the ethics standards setting Committee of IFAC. The 2018 edition of Code has almost completely been rewritten by IESBA. The existing Independence sections (290 and 291) have been characterized as Independence Standards (Parts 4A and 4B) in the new Code. There is new pattern of structuring of each Section. The parts shown as Requirements establish general and specific obligations to be complied with by the members, while the Application material provides context, explanations, suggestions or actions, illustrations and other guidance to assist in complying with the requirements. Practical examples have been incorporated in the Code to illustrate different situations in which pressure might arise. There are dedicated provisions that apply to all professional accountants in all circumstances, when dealing with ethics and independence issues. There is emphasis that if threats cannot be addressed, the professional Accountant must decline or end the specific professional activity. The Accountant is required to form an overall

conclusion about whether the actions he takes, or intends to take, to address the threats created to eliminate those threats, or reduce them to an acceptable level. The revised edition of the Code has been made compatible with Indian conditions so that it does not contradict with Indian domestic law. Further, the provisions of the revised Code have been aligned with the provisions of Companies Act, 2013.

While the revised Code retains the fundamental ethical principles from the earlier code, it covers refreshed approach and contains certain new/ substantially revised requirements.

Some of the new requirements include:

- Certain additional terms such as Public Interest Entity (in the context of application of certain independence provisions- Employment with an audit client, Long Association of personnel, Non-assurance services to Audit client), Key Audit Partner (in the context of partner rotation), “Relative” as defined under the Companies Act, 2013 are reckoned if the client is a company while “immediate family” and “close family” are reckoned in case of other clients, Responding to Non-Compliance of Laws and Regulations (NOCLAR)
- Section for Chartered Accountants in service considering the fundamental and crucial role played by such accountants in the financial reporting supply chain and facilitating effective governance in organisations.
- Enhanced description of inducements with a view to respond to continuing concerns about bribery and corruption.
- Stronger independence provisions concerning long association of personnel (including partner rotation) with audit clients.
- A more robust framework for addressing a breach of the requirements of the Code.
- Section dealing with ‘Management Responsibilities’. The Code contains a description of activities that would, and would not, be

generally regarded as a management responsibility and provides enhanced guidance.

- Requirement restricting audit team members and Key Audit Partners from being compensated for providing non-assurance services to audit clients.
- Requirements and applicable guidance addressing situations where, as a result of a merger or acquisition, an entity becomes a related entity of an audit client, to assist the Chartered Accountant in evaluating previous or current interests and relationships.
- Provisions relating to threats that are created by certain tax services.
- Requirement where the total gross annual professional fees from the audit client and its related entities exceed 15% of the total fees of the firm for two consecutive years.
- Detailed independence requirements included for assurance engagements.
- Auditor rotation requirements included under various local regulations.

In particular, responding to Non-Compliance of Laws and Regulations (NOCLAR) is one of the new features in the revised Code. In the course of providing a professional service to a client or carrying out professional activities for an employer, a professional accountant may come across an instance of NOCLAR or suspected NOCLAR committed or about to be committed by the client or the employer, or by those charged with governance, management or employees of the client or employer. Recognizing that such a situation can often be a difficult and stressful one for the professional accountant, and accepting that he has a prima facie ethical responsibility not to turn a blind eye to the matter, the IESBA has incorporated this feature to help guide the professional accountant in dealing with the situation and in deciding how best to serve the public interest in these circumstances.

I acknowledge the contribution of all my council colleagues and particular the support provided by Audit & Assurance Standards Board led by CA Shyam Lal Agarwal, Chairman.

I thankfully acknowledge the contribution of all members of Ethical Standards Board. Special thanks is also acknowledged to CA. Divya Upadhya, Special Invitee in bringing out this publication.

I also compliment Shri Ashish Swaroop Bhatnagar, Secretary, Ethical Standards Board and CA. Neeta Gupta for their efforts and valuable contribution in revising the Code of Ethics.

NEW DELHI
17th January, 2019

CA. SANJIV KUMAR CHAUDHARY
Chairman, Ethical Standards Board

FOREWORD TO SECOND REPRINT OF THE ELEVENTH EDITION

Ethics is something which comes from within of an individual. But equally true is that the complexity which the world has acquired today has created need for a vigilant system of ethics for the professionals. This is more true for the profession of chartered accountants, as the society in general, and governments, clients, taxing authorities, employees, investors, the business and financial community in particular, have reposed tremendous trust in their services.

The Council of Institute of Chartered Accountants of India (ICAI) brought the first edition of the Code of Ethics, then 'Code of Conduct', in 1963. Since then, the Code has been constantly updated from time to time to keep it relevant to the profession. The present (eleventh) edition of Code of Ethics, incorporates for the first time ever, the provisions of International Federation of Accountants (IFAC) Code of Ethics, thus complying with the membership obligation of ICAI towards IFAC. The two parts of the Code, one incorporating provisions of IFAC Code of Ethics, and the other based on the Chartered Accountants Act, 1949, compliment each other and together constitute perhaps one of the best Code for a profession.

It is my pleasure to inform that the further modifications in the Code of Ethics, 2009 are underway in view of the revised edition (2010) of IFAC Code of Ethics.

I am convinced that the reprint edition of the Code would take us to still greater heights and we outshine others and gain edge over others, nationally and internationally.

NEW DELHI
31st December, 2010

CA. AMARJIT CHOPRA
President

FOREWORD TO THE REPRINT OF ELEVENTH EDITION

Every professional ethics in the world require a high toned morally and integrity. It considers the rightness and wrongness of man's conduct. It is a source of justifiable pride to a professional to consider the great role members of his profession have played to maintain the human values in order to strengthen the social structure and finally the public interest.

The Code of Ethics is a guiding force to the members of the profession and today the professionals act totally on the principles enunciated in the Code of Ethics. It is not for getting the examination passed and acquiring the qualification but it is required to be followed in line and spirit.

Recently the Council of the Institute has notified the advertisement guidelines and Council General Guidelines-2008 to strengthen the impact of profession on the globalized economy by finding a level playing field on the changing scenario.

In the present reprint-edition the provisions of the International Federation of Accountants (IFAC) Code of Ethics have been incorporated in order to compliance of membership obligations of the Institute of Chartered Accountants of India (ICAI) and to facilitate the participation of the members of Institute in global business.

I am sure that the members will appreciate the spirit of the provisions of this edition of the Code of Ethics and will be benefited to a great extent.

NEW DELHI
25th May, 2009

CA. UTTAM PRAKASH AGARWAL
President

FOREWORD TO THE ELEVENTH EDITION

The Ethics is the science of morals in human conduct. Moral principles and Rules of Conduct impose obligations and withdraw certain areas of conduct from free option of the individual to do as he likes. The professional ethics is based on morality and it interprets the compliance for the specific working of a particular profession in order to achieve the mission of building the best social environment.

Human nature being what it is, a man often places his personal gain above service. Therefore, persons who as individuals and as a class, are willing to place public good above their personal gain have enjoyed respect and honour. But such a relationship can be maintained or enhanced only if the professional body to which they belong would interpret the concept of public interest as broadly as possible. The respect and confidence enjoyed by a profession, to a great extent, is dependent on the strictness and scrupulousness with which such a code is adhered to by self discipline. When in public practice, an accountant should both be, and appear to be, free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

The over-riding motto has been 'pride of service in preference to personal gain'. A code of professional conduct may have the force of law, as is the case in this country in some matters, as well as the result of discipline and conventions voluntarily established by the members, any breach whereof would result in the person being disentitled to continue as a member of the professional body. In any event, it has a great deal of practical value in so far as it proclaims to the public that the members of the profession will discharge their duties and responsibilities, having regard to the public interest. This, in turn, will give an assurance to the public that in the event of a member straying away from the path of duty, he would be suitably dealt with by the professional body. The self imposed discipline is necessary to earn respect as sometimes, some act or omission may not fall strictly under any clause of the Schedules yet it may be contrary to the ethics. The professionals are expected to withstand such tests of professional integrity.

A need was felt to revise the existing Code of Ethics with a view to meet the ethical requirements in view of the amendment in The Chartered Accountants Act, 1949 and in the changing scenario of increasing participation in the

accountancy profession worldwide. While revising the Code of Ethics, the Institute of Chartered Accountants of India (ICAI) has adopted the International Federation of Accountants (IFAC) Code of Ethics for professional accountants subject to the variances, wherever required, have been made to make it compatible with Indian laws. The provisions of this Code of Ethics are more stringent than those of IFAC Code. The adoption of IFAC Code is a step towards compliance of ICAI's membership obligations of IFAC.

In bringing out this publication, the Ethical Standards Board and the Study Group constituted for the revision of the Code, has given their considerable time in discussions on each and every part of the Code. In this publication the Board has incorporated and presented very nicely all the decisions of the Council on ethical issues as well as the decisions of the Courts on disciplinary cases. Part – A of the Code has been issued as 'Guidelines of the Council'.

I must compliment the members of the Study Group and the Board particularly Shri J. N. Shah, Chairman and Shri V. C. James, Vice-Chairman & Convener of the Study Group, for achieving this difficult task in a short time.

I record my appreciation for contribution of Shri N.P.Singh, Secretary of the Board and the officials of the Institute in bringing out this publication in record time.

I am confident that this publication will be of great help to all the members of the Institute.

NEW DELHI
14th January, 2009

VED JAIN
President

FOREWORD TO THE TENTH EDITION

A distinguishing mark of the accountancy profession is acceptance of its responsibility to the public. The accountancy profession's public consists of clients, credit guarantors, governments, employers, employees, investors, the business and financial community and others who rely on the objectivity and integrity of a professional accountant to maintain the orderly functioning of economic order. This reliance imposes a public interest responsibility on the accountancy profession.

The Information Technology revolution and globalization of economy have changed the world for ever and every profession is facing challenges in this era of tough competition. Accountability of any profession is crucial for its survival and prosperity. In formulating the Code of Ethics for the profession, the Institute has always considered the motto "Pride of service in preference to personal gain" as a litmus test. User expectation and public perception are crucial criteria while formulating the Code of Ethics so that there should not be any expectation gap between the "standards expected" and "those prescribed". The Code of Ethics was last revised in January 2001. Since then, the Council considered various concerns of the profession and the interest of the society generally as well as the expectations of the stakeholders in particular.

Whether the notification imposing ceiling on non-audit fees, norms relaxing the criteria in responding to tenders of government agency or similar organizations or permitting the members to publish passport size photograph in their website, the Council, at its own wisdom, appreciated the changing scenario in the world order and the emerging opportunities of the profession. At the same time, the Council ensured that the ethical standards for the profession should be complied with at any cost. We feel proud that the Institute has always marched beyond the expectation of the society and the members have always considered as their solemn responsibility to comply with the ethical standards prescribed by the Council. In this era of globalized economy, our members are marching confidently ahead to provide the globally acceptable solutions to the world community.

In bringing out this publication, the Committee on Ethical Standards Unjustified Removal of Auditors (CESURA) has done an excellent job. I learnt that the Committee while updating and revising the draft, had

requested the Past Presidents to give their views/suggestions and the suggestions received have been appreciated. I gratefully acknowledge their valuable contribution.

To update the Code, the Committee has incorporated very nicely all the decisions of the Council on Ethical issues as well as the decisions on disciplinary cases.

I wish to place on record my deep appreciation & compliment for Shri Abhijit Bandyopadhyay, Chairman, Committee on Ethical Standards & Unjustified Removal of Auditors and its other members.

I appreciate the efforts & contribution of Dr. Alok Ray, Secretary to the Committee and the officials of Institute for this commendable job.

I have no doubt that this publication will make our members more confident and comfortable to carry out their professional jobs in this new world order.

NEW DELHI
21st January, 2005

SUNIL GOYAL
President