SIRC OF ICAI

SEMINAR ON CODE OF ETHICS-10 DECEMBER 2025

Case studies in Code of Ethics

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1. You are the auditor of a private limited company for the year ended on 31 Mar 24. While issuing the audit report, you did not mention the UDIN in the audit report. A person who is not connected with the private limited company filed a complaint against you stating that you did not mention UDIN in the financial statements and the audit report. ICAI forwards the complaint to you and seeks your reply. You reply stating that the complainant has no locus standi and therefore the complaint is liable to be dismissed. Thereafter the ICAI converts the case into 'information' case and seeks your response as well as the details of other audits done by you and the respective UDIN generated by you. Now you realize that you did not obtain UDIN for this company as well as for other statutory audit engagements for the year ended on 31 Mar 24 and accordingly send the information to the ICAI. Now Director Discipline sends you a prima facie opinion that you are guilty of professional misconduct, 'grossly negligent' under clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949. Suppose for only one company if you miss out to generate UDIN what will be the situation.

   For ready reference, item (7) of Part I of Second Schedule reads as under:

   A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he – Clause (7): does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

2. A complaint was filed against you alleging certain failures in the disclosures in the audit report of M/s M Private Limited for the year ended on 31st Mar 20. M/s M Private Limited had a supplier by name M/s PP. The said supplier had entered a factoring arrangement with the complainant NBFC. M/s M Private Limited gave an undertaking to pay the NBFC, the dues that were payable to M/s PP against the supplies made, if the invoices under the supplies made were factored/discounted with the complainant. The NBFC made a claim against M/s M Private Limited for its failure to pay an amount of Rs. 2 crores on the alleged supply made by M/s PP. M/s M Private Limited while denying the claim of Rs.2.00 crores stating that it was claim against fictitious supply and also filed a complaint against PP, NBFC and also against one of its employees alleging fraud that PP never supplied goods to that extent of RS. 2 crores. In this backdrop, NBFC alleges disclosure failures in the audit report

for the year ended on 31st Mar 20. The audit report was signed on 12 Aug 20 and the compliant to the ICAI dated 12 Nov 20. You are aware of the allegation only when the complaint was forwarded to you.

It was further alleged that you did not report this as a fraud.

3. You were appointed as the auditor of a housing society arising out of resignation of a previous auditor. Your appointment was issued by the Executive Committee. The previous auditor issued a no objection letter on 15 Jun and on the same day you signed the financials of the society. One of the flat owners who did not pay the flat maintenance and consequently expelled from the membership of the society sought some clarification on the accounts of the society and you refused to answer him. He filed a complaint against you stating that your appointment as auditor was invalid as you have to appointed only in a general meeting. Your appointment was ratified in the subsequent AGM. Tamil Nadu Societies Registration Act does not specifically provide for casual vacancy in the office of the auditor.

4. You are the auditor of a small NBFC. The company ceased its operations. As part of the closure procedure, you issued a certificate that the company had repaid all the deposits as at the year ended 31 Mar 20. However one of the depositor wrote to RBI stating that the company had taken deposits but not repaid the same and gave copies of the deposit receipts which showed it was renewed last 2019 for 2 more years. RBI conducted inspection of the company and the managing director of the company gave in writing to the RBI that deposits were collected by one of the employees of the company who forged the FD receipts and also gave in writing that due to operations of the company was not in a position to maintain proper records. Based on the complaint filed by RBI, ICAI issued a notice stating that without proper books you certified proper books of accounts have been maintained by the company in the audit report.

5. There was a dispute between you and the company for which you were the auditor. The company filed the following complaint against you with ICAI.

   a) Excess payment of Service Tax without any demand under auditor guidance
   b) Excess payment of Income Tax under auditor guidance with penalty.
   c) Not carrying out statutory and tax audit for the company for the FY 20-21 intimating only on 6th January 2021.

6. You issued a certificate "This is to certify a sum of Rs. 1,28,92,172 is due from various customers for the supplies made on 30th June 2021 as found from the books of accounts of M/s PSM. The list of dues included certain other clients of yours also. A nationalized provided finance to PSM which did not repay the same. The bank wrote a letter with a photocopy of the certificate (which was blurred) and asking you to confirm the issuance of the certificate. You deny the certificate without stating the reasons. The bank referred the matter to CBI. CBI calls you for an inquiry and request you to confirm the issuance of the certificate based on the original issued by you, which was seized and in their possession. Before CBI you admit the issuance of the certificate. CBI filed a complaint against you with ICAI stating that before bank you denied issuing the certificate but later admitting the same and further complained certain of the parties who owed money to PSM were also your clients.

7. On September 2024 you receive a letter from ICAI requesting you provide the following information in respect of the audit of a school.

   Copy of the appointment letter for the financial year 2011-12 and also certain clarification on the said financials as well as why an audit report was not issued though the financials were signed by you.

8. In a financial statements audited by you the following were observed.
   - In respect of inventory- Estimated Resale Value instead of net realizable value.
   - Managerial remuneration was disclosed in schedule of salaries and wages but not disclosed under the related party.
   - There are no movements in the liability of GST and Income Tax from the previous year

9. Based on a request of a client to recommend a good part time accountant for his organization, you recommended your father in law, who has an accounting degree and quite experienced and on some occasions you had forwarded the invoice raised by your FIL to the client with a recommendation to pay. After some time there was a dispute between you and the client and the client complained that apart from the above matter you also did not advice him on cash payments resulting in addition to his income under the income tax act.

10. In one of your audit clients, one of the directors is a non-resident Indian who also holds substantial shares in the company. He is represented by his power of attorney. Due to some disputes between the shareholders of the company on the financial position of the company, the NRI director files a complaint

against you before the Director Discipline, through his GPA alleging various failures on your part.

11. After completing your CA, you started your own practice as a sole proprietor. On the demise of one of the partners of the firm in which you did your CA articleship, you were invited to merge your practice with that firm and you become the partner of firm with effect from the next day of the demise of the erstwhile partner. The reconstitution was duly notified to ICAI and approved. The firm allocated the professional responsibility of the deceased partner to you. The wife of the deceased files a complaint against you alleging that you had taken his professional clients as well as not provided the copy of the audited financial statements upto the date of death of her husband and your failure to settle the dues to him. She also filed a separate complaint against the firm as well.

12. You are tax auditor of two entities S Private Limited and S Enterprises a partnership firm. You reported in the tax audit report that both entities follow mercantile basis of accounting. In a transactions involving both the entities, S Pvt Ltd, the company had claimed expenditure while the same was not shown as income in the hands of S Enterprises. The Income tax department filed a complaint against you that you omitted to disclose income and thus vitiated matching concept thereby mercantile system was not followed.

13. You are the tax auditor, tax advisor and consultant to SJ and filed his tax audit report for the year ended on 31st Mar 2022. SJ wanted to change his auditor for the ensuing years and you agreed to issue a no objection to any chartered accountant appointed by him, provided he settles professional bill raised by your firm for the services rendered. While disputing the bill and the services rendered SJ filed a compliant against you with Director Discipline stating that you are refusing to issue NOC and demanding compensation and he also adduced as evidences certain mail correspondences that took between you and him.

14. There are two partners in your firm. A complaint was filed against the firm in respect of audit done by the other partner. The complaint also mentioned your membership number. The Director Discipline had sent a notice to addressed to you and requested you to provide specific reply. In your reply you had stated that the audit was done by your partner and you are providing a reply since the letter by the Director Discipline was addressed to you. Based on your reply and also the rejoinder of the complainant the Director Discipline holds your prima facie guilty.

15. A nationalized bank appoints concurrent auditor for one year term for a particular branch starting with every financial year beginning. Thereafter as per the policy of the bank, a new concurrent auditor is appointed. You are appointed as concurrent auditor of a branch with effect from 1st apr of a year. The said appointment was made in the month of May of that year but the scope was to cover the entire financial year. You accepted the concurrent audit and proceeded to conduct the same. The previous concurrent auditor of the branch filed a complaint against you stating that you did not seek his no objection.

16. Three partners of a firm of which you are the auditors, entered into a memorandum of understanding which was duly signed and the original was given to you for safe custody. On a later date when two of the parties requested for a copy of the same duly signed by you as true copy, you have provided the same to those persons, with the oral consent of the third party to the MOU. You did not generate the UDIN for this. The third party filed a complaint with ICAI, stating that you provided the copy without his consent and that too attested the same. The Director Discipline holds you prima facie guilty on the ground that you attested the document to which you were not a party.

17. One of your clients is approaching banks for financing. In order to satisfy the requirements of the bank, the board of directors pass a resolution stating that promoters will infuse capital into the company before a specified date. They require you to certify the company's resolution to the bank.