

For internal use of Indian Audit and
Accounts Department only



Code of Ethics for the IAAD

**Office of the Comptroller and Auditor General of India
New Delhi**

Preface

With the Lima Declaration of Guidelines on Auditing Precepts as its foundation, the International Organization of Supreme Auditing Institutions (INTOSAI) has deemed it essential to establish a Code of Ethics, which are Standards with Ethical Significance for auditors in the public sector. While the INTOSAI Code of Ethics is intended to constitute a foundation for the national Codes of Ethics, each Supreme Audit Institution (SAI) has the responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the national Code of Ethics and act accordingly. Due to national differences of culture, language, and legal and social systems, it is the responsibility of each SAI to develop its own Code of Ethics, which best fits its own environment.

It is in this context and in keeping with international best practices that it has been decided to adopt a Code of Ethics for the organization of the Comptroller and Auditor General of India. The Code of Ethics incorporates the values and principles contained in the Central Civil Services Conduct Rules for Government Servants in India (CCS Conduct Rules) and adapting the broad principles contained in ISSAI 30 (INTOSAI Standards for Supreme Audit Institutions), issued by The Professional Standards Committee. The Code of Ethics for SAI India thus comprises the general ethical requirements prescribed for civil servants in India as enunciated in the CCS Conduct Rules and the particular requirements of auditors, including the latter's professional obligations.

Befittingly, the Code has been framed just as the institution of the CAG of India has completed 150 years of its existence. The independence, powers and responsibilities of the public sector auditor place high ethical demands on the CAG of India and the staff he employs or engages in the discharge of his duties and responsibilities as enshrined in the Constitution of India. A Code of Ethics is in fact a comprehensive statement of the values and principles which should guide the daily work of auditors. It sets the tone and creates a culture of honesty and integrity. Adherence to ethics and integrity needs to be ensured at all times and not compromised under any circumstances.

I am pleased to release the Code of Ethics of SAI India which would be applicable to the CAG of India, executive officers, individual auditors and all individuals working for or on behalf of the SAI India. It is the duty of every person working in the Indian Audit and Accounts Department or on behalf of the CAG of India, to acquaint themselves with the values and principles contained in the Code and act accordingly.

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(Vinod Rai)

Comptroller and Auditor General of India

Chapter 1

Introduction

1.1 A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors ¹ in the SAI India ²(SAI). The independence, powers and responsibilities of the public sector auditor place high ethical demands on the SAI and the staff he employs or engages for auditing and accounting work. The Code of Ethics incorporates the values and principles contained in the Central Civil Services Conduct Rules (CCS Conduct Rules) adapting the broad principles contained in ISSAI 30 (INTOSAI Standards for Supreme Audit Institutions, issued by The Professional Standards Committee). The Code of Ethics for SAI India thus comprises the general ethical requirements prescribed for civil servants in India as enunciated in the CCS Conduct Rules and the particular requirements of auditors, including the latter's professional obligations.

1.2 The Code of Ethics is directed at the individual auditor, the head of the SAI, executive officers and all individuals working for or on behalf of the SAI who are involved in auditing and accounting work. The SAI has the responsibility to ensure that all his personnel acquaint themselves with the values and principles contained in the Code of Ethics and that they act accordingly.

1.3 It is of fundamental importance that the SAI is looked upon with trust, confidence and credibility. The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key principles - Integrity, Independence and Objectivity, Confidentiality and Competence. The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, the SAI India, and the quality and validity of their work in an unfavourable light, and may raise doubts about the reliability and competence of the SAI itself. The adoption and application of a Code of Ethics for auditors in the public sector promotes trust and confidence in the auditors and their work.

Trust, Confidence and Credibility

1.4 The legislative and/or executive authority, the general public and the audited entities are entitled to expect the SAI's conduct and approach to be above suspicion and reproach and worthy of respect and trust.

1.5 Auditors should conduct themselves in a manner which promotes co-operation and good relations between auditors and within the profession. The support of the profession by its members and their co-operation with one another are essential elements of professional character. The public confidence and respect which an auditor enjoys is largely the result of the cumulative accomplishments of all auditors, past and present. It is therefore in the

¹ The term "auditor" used in this document refers to officials employed both in the auditing and accounting wings of SAI India

² SAI is a generic term which refers to the Comptroller and Auditor General of India in the Indian context.

interest of auditors, as well as that of the general public, that the auditor deals with fellow auditors in a fair and balanced way.

1.6 The legislative and/or executive authority, the general public and the audited entities should be fully assured of the fairness and impartiality of the SAI India in the discharge of his constitutional mandate. It is therefore essential that there is a Code of Ethics which governs the SAI in carrying out his mandated duties and responsibilities.

1.7 In all parts of society there is a need for credibility. It is therefore essential that the reports and opinions of the SAI are considered to be thoroughly accurate and reliable.

1.8 All work performed by the SAI must stand the test of legislative and/or executive scrutiny, public judgements on propriety, and examination against The Code of Ethics.

Chapter 2

Integrity

2.1 Integrity is the core value of a Code of Ethics. The integrity of auditors establishes trust and thus provides the basis for reliance on their judgment. Auditors have a duty to adhere to high standards of behaviour in the course of their work and in their relationships with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach.

2.2 Integrity can be measured in terms of what is right and just. Integrity requires auditors to observe both the form and the spirit of auditing and ethical standards. Integrity also requires auditors to observe the principles of independence and objectivity, maintain irreproachable standards of professional conduct, exercise due diligence, discharge their duties responsibly, make decisions with the public interest in mind, and apply absolute honesty in carrying out their work and in handling the resources of the SAI.

Chapter 3

Independence, Objectivity and Impartiality

3.1 The general standards for the auditor and the SAI include independence from the legislature and independence from the executive. Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence.

3.2 Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review.

3.3 It is essential that auditors are independent and impartial, not only in fact but also in appearance. Independence of mind and appearance is necessary to enable the auditor to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest or undue influence of others.

3.4 In all matters relating to the audit work, the independence of auditors should not be impaired by personal or external interests. Independence may be impaired, for example, by external pressure or influence on auditors; prejudices held by auditors about individuals, audited entities, projects or programmes; recent previous employment with the audited entity; or personal or financial dealings which might cause conflicts of loyalties or of interests. Auditors have an obligation to refrain from becoming involved in all matters in which they have a vested interest and to report the same to their administrative head so as to ensure appropriate course of action in accordance with the Standards/CCS Conduct Rules.

3.5 There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should, therefore, be based exclusively on evidence obtained and replies received from the audited entity and assembled in accordance with the SAI's Auditing Standards.

3.6 Auditors should make use of information brought forward by the audited entity and other parties. This information is to be taken into account in the opinions expressed by the auditors in an impartial way.

Political neutrality

3.7 It is important to maintain both the actual and perceived political neutrality of the SAI India. Therefore, it is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way. This is relevant for auditors since the SAI works closely with the legislative authorities, the executive or other government entity empowered by law to consider the SAI's reports. It is therefore important for the auditors to refrain from involvement in political activities as

such involvement violates the CCS Conduct Rules and is also likely to impact their ability to discharge their professional duties impartially.

3.8 It is from the Constitution that SAI India derives his mandate, and an important feature of the audit function is its reporting to the legislature. The SAI works closely with the legislature, including with committees empowered by the legislature to consider audit reports.

3.9 The SAI may give members of the Public Accounts Committee or Committee on Public Undertakings factual briefings on audit reports, but it is important that the SAI maintains his independence from political influence, in order to preserve an impartial approach to his audit responsibilities. This implies that the SAI not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests.

3.10 While the SAI must observe the laws enacted by the legislature, adequate independence requires that it not otherwise be subject to direction by the legislature in the programming, planning and conduct of audits. The SAI needs freedom to set priorities and program his work in accordance with his mandate and adopt methodologies appropriate to the audits to be undertaken.

3.11 While the executive branch of government and the SAI have common interests in the promotion of public accountability, the essential relationship with the executive is that of an external auditor. As such the SAI's reports assist the executive by drawing attention to deficiencies in administration and recommending improvements. Care should be taken to avoid participation in the executive's functions of the kind that would militate against the SAI's independence and objectivity in the discharge of his mandate.

3.12 It is important for the independence of the SAI that there be no powers of direction by the executive in relation to the SAI's discharge of his mandate. The SAI is not obliged to carry out, modify or refrain from carrying out, an audit or suppress or modify audit findings, conclusions and recommendations.

3.13 Maintenance of the SAI's independence does not preclude requests to the SAI by the executive proposing matters for audit. It is fundamental to the concept of SAI India's independence that decisions as to the audits to be undertaken should rest finally with the SAI.

3.14 Any imposition of resource or other restrictions by the executive, which would constrain the SAI's exercise of its mandate, would be an appropriate matter for report by the SAI to the legislature.

3.15 The legal mandate provided in the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and Regulations on Audit and Accounts, 2007 provides for full and free access for the SAI and his auditors to all premises and records relevant to audited entities and their operations and provides adequate powers to the SAI to obtain relevant information from persons or entities possessing it.

3.16 By legal provision, the executive permits access by the SAI to sensitive information, which is necessary and relevant to the discharge of the SAI's responsibilities.

3.17 In order that the SAI not only exercises his functions independently of the executive but is also seen to do so, it is important that his mandate and his independent status be properly appreciated by all stakeholders. The SAI may, as appropriate opportunities arise, undertake an educational role in that regard.

3.18 The SAI's functional independence need not preclude arrangements with executive entities in regard to the SAI's administration in matters such as personnel management, property management or common purchasing of equipment and stores, though executive entities should not be in a position to take decisions that would jeopardise the SAI's independence in discharging his mandate.

3.19 The SAI, while retaining his independence, can agree to be associated with reforms which are planned by the executive in areas such as public accounts or financial legislation or agree to be consulted about the preparation of draft laws or rules affecting his competence or his authority.

3.20 The SAI may co-operate with academic institutions and enter into formal relationships with professional bodies, provided the relationships do not inhibit its independence and objectivity, in order to avail of the advice of experienced members of the profession at large.

Conflict of Interest

3.21 In contrast to private sector audit, where the auditor's agreed task is specified in an engagement letter, the audited entity is not in a client relationship with the SAI. The SAI has to discharge his mandate freely and impartially, taking management views into consideration in forming audit opinions, conclusions and recommendations, but owing no responsibility to the management of the audited entity for the scope or nature of the audits undertaken.

3.22 The SAI should not participate in the management or operations of an audited entity. Audit personnel should not become members of management committees and if audit advice is to be given, it should be conveyed as audit advice or recommendation and acknowledged clearly as such.

3.23 Any SAI personnel having such affiliations with the management of an audited entity which may be conducive to a lessening of objectivity should not be assigned to audit that entity.

3.24 It is the duty of the SAI to ensure that policies and procedures have been put in place to safeguard independence, objectivity and impartiality. To this end, prior to commencement of an auditing assignment, all members of the audit party, including the supervising Group Officer, should give individual undertakings in the format enclosed in Annexure I. Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities which could influence or be perceived as influencing

their independence and integrity. Similarly, all individuals working for or on behalf of the SAI who are engaged in assisting him in the discharge of his duties and responsibilities as enshrined in the Constitution of India should give an undertaking in the format enclosed in Annexure II.

3.25 Auditors should avoid such relationships with managers and staff in the audited entity and other parties which may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.

3.26 Auditors should not use their official position for private purposes and should avoid relationships which involve the risk of corruption or which may raise doubts about their objectivity and independence.

Chapter 4

Professional Secrecy

4.1 Auditors shall be prudent in the use and protection of information acquired in the course of their duties. They should not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purposes of meeting the SAI's statutory or other identified responsibilities as part of the SAI's normal procedures or in accordance with relevant laws. Auditors shall not use information in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the SAI.

4.2 Auditors should not use or disclose information obtained in the performance of their duties as a means of securing personal benefit for themselves or for others. Confidentiality of information to which they have access, should be maintained. Neither should they divulge information which would provide unfair or unreasonable advantage to other individuals or organisations, nor should they use such information as a means for harming others.

4.3 Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor's responsibilities. It is essential that the SAI maintain confidentiality regarding audit matters and information arising from its audit task. However, the SAI should report offences against the law to proper prosecuting authorities.

4.4 The documents classified as 'confidential' or 'secret' or 'top secret' made available to SAI shall be dealt with by SAI in accordance with the standing instructions of the Government for handling and custody of such documents.

4.5 If certain privileged or confidential information prohibited from general disclosure by law is obtained in course of an audit, the auditor should maintain confidentiality of that information and ensure that the audit notes, the inspection reports or the audit reports do not become a means of compromising such privilege or confidentiality of the information.

Chapter 5

Competence

5.1 Since the duties and responsibilities borne by the SAI are crucial to the concept of public accountability, the SAI must apply to his audits, methodologies and practices of the highest quality. It is incumbent upon the SAI to formulate appropriate procedures for the effective discharge of its responsibilities for auditing and ensuring full adherence by its personnel or external experts to its standards, planning procedures, methodologies and supervision.

5.2 The SAI needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Persons whose skills are commensurate with the nature, scope and complexities of the audit task should carry out the audit work. The SAI may equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems.

5.3 Auditors should know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity.

Due care

5.4 Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality. Auditors should exercise due professional care in conducting and supervising the audit and in preparing related reports.

5.5 Auditors should use methods and practices of the highest possible quality in their audits. In the conduct of the audit and the issue of reports, auditors have a duty to adhere to basic postulates and generally accepted auditing standards.

5.6 If the SAI employs external experts as consultants he must exercise due care to assure him of the consultants' competence and aptitude for the particular tasks involved. This would also apply in cases where outside auditors are engaged on contract with the SAI. In addition care must be taken to ensure that audit contracts include adequate provision for the SAI to determine the planning, the audit scope, the performing, and the reporting on the audit. Obtaining advice from an external expert does not relieve the SAI of responsibility for the opinions formed or conclusions reached on the audit task.

5.7 When the SAI uses the work of another auditor(s), it must apply adequate procedures to provide assurance that the other auditor(s) has exercised due care and complied with relevant auditing standards, and may review the work of the other auditor(s) to satisfy itself as to the quality of that work.

Professional Development

5.8 The SAI should adopt policies and procedures to recruit personnel with suitable qualifications and train them professionally. The SAI should establish, and regularly review, minimum training requirements for the appointment of auditors at each level within the organisation. It should take adequate steps to provide for continuing professional development of its personnel.

5.9 Audit of financial systems, accounting records and financial statements requires training in accounting and related disciplines as well as knowledge of applicable legislation and executive orders affecting the accountability of the audited entity. Further, the conduct of performance audits may require, in addition to the above, training in such areas as administration, management, economics and the social sciences. It would also require that the auditor possesses domain knowledge of the functions discharged by the audited entity.

5.10 Auditors have a continuous obligation to update and improve the skills required for the discharge of their professional responsibilities and the effectiveness and quality of their services. The SAI should encourage his personnel to become members of a professional body relevant to their work.

5.11 The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits. Communication to staff of the SAI by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out the SAI's policies, standards and practices, is important in maintaining the quality of audits.

5.12 The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify those skills which are deficient; provide an appropriate distribution of skills to auditing tasks and a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

ANNEXURE I

(ref: Para 3.24 of the Code of Ethics)



Declaration regarding adherence to the Code of Ethics of the Comptroller and Auditor General of India

(This declaration is required to be signed separately by each member of the audit team prior to the commencement of the audit. A copy of the declaration should be given to the head of the audited entity as soon as the audit commences. Each declaration should be enclosed in original with the Inspection Report).

I, Shri/Smt/Kum _____ (name), _____ (designation) hereby declare that:

- I have read and understood the SAI India's Code of Ethics.
- I will uphold and abide by the SAI India's Code of Ethics and the CCS (Conduct) Rules.
- I do not have any personal or professional interest in the audited entity.

As a representative of the SAI India, I undertake to adhere to the following:

- I will conduct the audit assigned to me in a fair, honest, timely and competent manner.
- I will maintain strict confidentiality of all information gathered in the course of audit.
- I will not behave or conduct myself in an inappropriate manner with any official of the audited entity.
- I will not accept any kind of inducement prohibited under the Central Civil Services (Conduct) Rules, 1964, directly or indirectly from the audited entity.

Signed: _____

Date: _____

ANNEXURE II

(ref: Para 3.24 of the Code of Ethics)



Declaration regarding adherence to the Code of Ethics of the Comptroller and Auditor General of India

(This declaration is required to be signed separately by each individual who has been engaged as an expert, consultant, statutory auditor, etc by the SAI India to assist him in his auditing and accounting functions. A copy of the declaration should be given to the head of the audited entity as soon as the audit commences. Each declaration should be enclosed in original with the Report required to be submitted to SAI India).

I, Shri/Smt/Kum _____ (name), _____ (designation) hereby declare that:

- I have read and understood the SAI India's Code of Ethics.
- I will uphold and abide by the SAI India's Code of Ethics.
- I do not have any personal or professional interest in the audited entity.

As a representative of the SAI India, I undertake to adhere to the following:

- I will conduct the audit assigned to me in a fair, honest, timely and competent manner.
- I will maintain strict confidentiality of all information gathered in the course of audit.
- I will not behave or conduct myself in an inappropriate manner with any official of the audited entity.
- I will not accept any kind of inducements, including gifts and hospitality, directly or indirectly from the audited entity.

Signed: _____

Date: _____

References

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