

A Practical Guide for Chartered Accountants on Ethical Audit Acceptance



Professional Ethics & Practice:

The Retiring Auditor Protocol – What Every Chartered Accountant Must Know Before Accepting an Audit

In the course of professional practice, few obligations are as consistently misunderstood – and as frequently violated – as the requirement to communicate with the retiring auditor before accepting a new appointment. Yet this seemingly procedural step carries profound ethical weight, underpinned by the Code of Ethics and the Chartered Accountants Act, 1949.

This article walks through the key principles, procedural requirements, and practical realities of this obligation – one that every incoming auditor must observe without exception. Particular attention is given to two questions that arise most often in practice: what professional reasons justify declining an appointment, and what is the correct position when the previous auditor’s fees remain unpaid?

Why Communication Is Not Merely Courtesy

Many practitioners treat the communication with the retiring auditor as a formality – a professional courtesy extended out of collegial habit. That framing is incorrect, and the Council of ICAI has explicitly said so.

The underlying objective is threefold: to allow the incoming auditor to learn the reasons for the change, to safeguard his own professional interests, and to protect the legitimate interests of the public and the independence of the existing auditor. In short, the communication is a due-diligence tool, not a ceremonial gesture.

The Legal Basis

The requirement flows from Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949. A Chartered Accountant who accepts a position previously held by another CA without first communicating in writing is in direct violation of this clause and risks being found guilty of professional misconduct.

There are no exceptions for informality, urgency, or prior telephonic intimation – the law requires written communication, and that standard is absolute.

What Counts as Valid Communication?

This is where many practitioners err. The test is not whether communication was sent – it is whether there is positive evidence of delivery. A letter posted under a Certificate of Posting, for instance, does not meet this standard unless there is evidence the letter actually reached the addressee.

Accepted modes of communication:

Mode	Description
A.	Registered post with Acknowledgement Due
B.	Delivery by hand against a written acknowledgement
C.	Email to retiring auditor’s ICAI-registered address or last known official email – valid only on receipt of acknowledgement from the retiring auditor
D.	UDIN generated on the UDIN portal (subject to separate Council guidelines)

Importantly, email communication is now an accepted – but additional – mode. It does not replace earlier methods. And the email acknowledgement must come back from the retiring auditor; a read receipt is not sufficient. An SMS or a WhatsApp message, no matter how convenient, does not qualify.

If no acknowledgement is received from the email, it is not treated as valid communication. The incoming auditor must then resort to other accepted modes. Similarly, communication made verbally over the phone – even if followed up in writing – does not satisfy the requirement unless the written communication is delivered with positive evidence of receipt.

Professional Reasons to Decline an Appointment – A Detailed Examination

The communication exercise is not a rubber stamp. There are three specific professional grounds recognised by the ICAI Council on which an incoming auditor should, or must, decline an appointment. Each ground carries distinct legal and ethical consequences, and a proper understanding of all three is essential to avoiding professional misconduct.

Reason for Decline	Consequence / Obligation
Non-compliance with Sections 139 & 140, Companies Act, 2013	Incoming auditor guilty of professional misconduct if appointment is accepted
Undisputed audit fees of the previous auditor remain unpaid	Incoming auditor must not accept the appointment until such fees are fully paid
Previous auditor issued a qualified report for valid and good reasons	Incoming auditor should decline; acceptance risks professional disrepute and undermines audit independence

Ground I: Qualified Audit Report by the Retiring Auditor

This is perhaps the most nuanced – and the most consequential – of the three grounds. When a retiring auditor has issued a qualified audit report, the incoming auditor faces a critical decision that goes well beyond procedure. It is a test of his independence, his professional judgment, and ultimately, his integrity.

The Council's position is clear: the incoming auditor may accept the audit if he is satisfied that the attitude of the retiring auditor was not proper and justified. If, on the other hand, he feels that the retiring auditor had qualified the report for good and valid reasons, he should refuse to accept the audit.

There is no written or unwritten rule which prevents an auditor from accepting an appointment where the previous auditor issued a qualified report. However, before accepting, he must ascertain the full facts of the case – and then exercise genuine professional judgment, not merely commercial convenience.

Why This Ground Deserves the Most Careful Scrutiny

In practice, a client who has received an adverse or qualified audit opinion will naturally seek a replacement auditor. The pressure on the incoming auditor is therefore real and immediate. He may be offered the engagement at an attractive fee, or with assurances from the client that the qualification was unwarranted. None of this should influence his decision.

The incoming auditor must go beyond what the client tells him. He must independently ascertain:

- The specific nature of the qualification – whether it relates to non-disclosure, non-compliance with accounting standards, going concern issues, limitation of scope, or disagreement on accounting policies.
- Whether the matter qualified upon has since been resolved, or whether the underlying issue persists into the current year.
- Whether the qualification was raised consistently in prior years and was being suppressed by a change of auditor.
- Whether the retiring auditor communicated the qualification to management and those charged with governance before issuing it – which would indicate the matter was not trivial.

The Council has emphasised that nothing brings the profession to disrepute so much as the knowledge among the public that if an auditor is found to be 'inconvenient' by the client, he can readily be replaced by another who would not displease the client. This point, the Council notes, cannot be over-emphasised.

An incoming auditor who accepts an engagement knowing that the previous qualification was valid is, in substance, lending his name and credentials to a cover-up. The short-term gain of securing a new audit client is vastly outweighed by the long-term damage to professional credibility – both personal and institutional.

Practical Guidance: How to Evaluate a Prior Qualified Report

1. Obtain the full text of the qualified audit report – not just a client summary.
2. Review the specific paragraph of qualification and the financials to which it relates.
3. Request clarification from the retiring auditor on whether the underlying issue has been remedied.
4. If the qualification involved a disagreement on accounting treatment, assess independently whether the retiring auditor's position was technically sound.
5. If satisfied the qualification was unjustified, document your reasoning before accepting.
6. If any doubt remains, the safe and professional course is to decline.



Ground II: Non-Payment of Undisputed Audit Fees

The second professional ground for declining an appointment is among the most frequently encountered in practice, and yet also among the most frequently overlooked. The rule is simple and unequivocal: where the undisputed audit fees for carrying out statutory audit under the Companies Act, 2013 or any other statute have not been paid, the incoming auditor must not accept the appointment unless such fees are first paid.

This requirement exists to protect the financial interests of the profession and to prevent clients from using auditor replacements as a mechanism to avoid paying legitimate audit fees. It is not a rule about sympathy for the retiring auditor – it is a rule about professional solidarity and the integrity of the audit process itself.

What Are 'Undisputed' Audit Fees?

The Council has drawn an important and precise distinction here. Audit fees are considered 'undisputed' when they have been provided for in the accounts, and those accounts have been signed by both the auditor and the auditee. The provision for fees in signed accounts, along with any other expenses incurred by the auditor in connection with the audit, together constitute the undisputed amount.

Definition: Undisputed Audit Fees (ICAI Council Position)

The provision of audit fees made in accounts signed by both the auditor and the auditee, along with other expenses if any incurred by the auditor in connection with the audit, shall be considered as 'undisputed' audit fees.

This means: if the accounts are signed and fees are reflected therein, non-payment cannot later be characterised as a 'dispute' by the client.

The practical significance of this definition is considerable. A client who refuses to pay fees reflected in signed accounts cannot claim those fees are 'disputed' simply by raising a belated objection. The incoming auditor must, therefore, satisfy himself that the fees outstanding were indeed provided for in signed accounts before concluding whether the non-payment is a barrier to acceptance.

The Exception: Sick Units

The Council has carved out a specific exception for sick units. Where a company has been declared a sick unit under the applicable statutory framework, the prohibition on acceptance in case of unpaid fees does not automatically apply with the same force. The rationale is straightforward: a sick unit may be financially incapable of clearing its dues, and denying it an auditor on that basis could prejudice creditors, employees, and other stakeholders who depend on audited financial statements.

However, even in the case of sick units, the incoming auditor should exercise caution and not treat this exception as a blanket permission. He should consider whether the non-payment is genuinely attributable to the financial distress of the entity, or whether it reflects a deliberate choice by promoters to avoid a payment obligation.

The Incoming Auditor's Responsibilities Beyond His Own Appointment

The Council has gone further than merely prohibiting acceptance where fees are unpaid. It has directed that in respect of other dues – that is, fees that may be in dispute or amounts owed under circumstances that do not squarely fall within the 'undisputed' definition – the incoming auditor should, in appropriate circumstances, use his influence in favour of his predecessor to have the dispute as regards fees settled.

This is a significant and often-overlooked responsibility. It means the incoming auditor is not a passive bystander once the transition occurs. He has an active duty to facilitate, where possible, the resolution of financial disputes between the client and the outgoing auditor. His position of trust with the client gives him a degree of moral influence that the retired auditor, by definition, no longer enjoys.

In appropriate circumstances, the incoming auditor should use his influence in favour of his predecessor to have any dispute as regards audit fees settled. This duty of professional solidarity extends beyond the moment of appointment and reflects the collegial obligations that bind all members of the Institute.

Why This Rule Matters for the Profession at Large

The requirement to withhold acceptance until unpaid fees are cleared serves a purpose far beyond the bilateral relationship between incoming and retiring auditors. It establishes, systemically, that audit appointments cannot be used as leverage against a professional's legitimate financial entitlements. If the rule did not exist, a client could routinely refuse to pay audit fees knowing that the threat of appointment termination – and the resulting ability to find a more compliant auditor – would eventually render the fee obligation meaningless.

Put plainly: the incoming auditor who accepts an appointment when fees to the retiring auditor are unpaid is, knowingly or unknowingly, enabling a client to treat professional audit fees as optional. This is damaging to the profession as a whole, not merely to the individual retiring auditor.



When Time Is Against You: Government and Bank Appointments

In practice, government entities and banks often impose tight timelines that leave little room to await a reply from the retiring auditor. The Council has provided practical guidance: the incoming auditor may give a conditional acceptance, commence urgent work, and simultaneously communicate with the retiring auditor in the prescribed manner.

In the acceptance letter, the incoming auditor must make explicitly clear that the appointment is subject to any professional objections the retiring auditor may raise, and that the final acceptance will be decided after considering information received from the retiring auditor.

The Duties of the Retiring Auditor

Communication is a two-way professional obligation. When approached by the incoming auditor, the retiring auditor must respond honestly and without ambiguity. Paragraph R 320.8 of Volume-I of the Code of Ethics makes this clear – the predecessor accountant is required to provide all information that, in his opinion, the proposed accountant needs before deciding whether to accept the engagement.

Stonewalling, selective disclosure, or evasive responses are not consistent with professional conduct. The retiring auditor who refuses to cooperate is not protecting himself – he is undermining the very framework that protects all practitioners.

Scope: All Audits, All Contexts

Some practitioners mistakenly believe this requirement is limited to statutory audits of companies. It is not. The obligation applies uniformly across all forms of professional audit engagements:

- Statutory audit
- Tax audit
- GST audit
- Internal audit
- Concurrent audit
- Revenue audit
- Bank audits – including nationalised and cooperative banks
- Special audits conducted under the Income-tax Act

In the case of a special audit appointed by Income Tax Authorities under the Income-tax Act, 1961, the Council has directed that it would be healthy practice for the tax auditor to communicate with the member who conducted the statutory or tax audit, even where no explicit mandate exists.

Periodic Review of Recurring Engagements

The obligation of due diligence does not end at appointment. As per Subsection R320.9 of Volume-I of the Code of Ethics, for recurring client engagements, a professional accountant shall periodically review whether to continue with the engagement.

Threats to compliance with the fundamental principles might arise after acceptance which, had they been known earlier, would have caused the accountant to decline the engagement. A self-interest threat arising from earnings manipulation or irregular balance sheet valuations is one such example. Vigilance must be ongoing, not one-time.

Closing Thoughts

The profession's standing in public life depends on auditors being willing to ask hard questions before they accept engagements, not after. The retiring auditor communication is the first such question – and getting it right is both a legal obligation and a matter of professional self-respect.

The retiring auditor protocol is, at its core, a test of professional integrity. An auditor who shortcuts the communication process – whether through an informal phone call, an unacknowledged email, or a registered letter without acknowledgement due – is not simply making a procedural error. He is signalling that client convenience matters more to him than the independence and credibility of the audit process itself.

The two grounds examined in depth in this article – the qualified audit report and the unpaid audit fees – each present the incoming auditor with a choice between short-term gain and long-term professional integrity. In both cases, the right course is the harder one: to ask questions, verify facts, and if necessary, decline an engagement that compromises either the profession's standards or a colleague's legitimate financial entitlements.

Compliance is not difficult. What is difficult, sometimes, is resisting the pressure to begin work quickly when a new audit appointment is in hand. It is precisely in those moments that the quality of the professional is tested – and the right response is always the same: communicate first, verify thoroughly, accept only when satisfied.

References & Statutory Basis

- Clause (8) of Part I, First Schedule – Chartered Accountants Act, 1949
- Clause (9) of Part I, First Schedule – Chartered Accountants Act, 1949
- Sections 139 & 140, Companies Act, 2013
- Volume-I & Volume-II, Code of Ethics – ICAI
- FAQs on Communication and Changes in Professional Appointments
- Paragraph R 320.8 & R320.9, Volume-I, Code of Ethics

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