International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 8, No. 04 July-August; 2026 Page. No. 79-87

To cite this article: Nagaraj Inamadar (2026). ETHICS IN ACCOUNTING: AN ANALYSIS OF THE INDIAN REGULATORY FRAMEWORK IN THE CONTEXT OF GLOBAL STANDARDS, International Journal of Research in Commerce and Management Studies (IJRCMS) 8 (4): 79-87 Article No. 804 Sub Id 1342

ETHICS IN ACCOUNTING: AN ANALYSIS OF THE INDIAN REGULATORY FRAMEWORK IN THE CONTEXT OF GLOBAL STANDARDS

Nagaraj Inamadar

Guest Lecturer
K.R.C.E.S. G.G.D. Arts, B.M.P. Commerce & S.V.S. Science College, Bailhongal -591102

DOI: https://doi.org/10.38193/IJRCMS.2026.8407

ABSTRACT

Accounting is frequently described as the language of business, and the credibility of that language depends entirely on the ethical conduct of those who prepare, audit, and certify financial information. This paper examines the concept of ethics in accounting with particular emphasis on the institutional and regulatory framework governing the profession in India. It traces the evolution of the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI), the statutory obligations placed on auditors under the Companies Act, 2013, and the emergence of the National Financial Reporting Authority (NFRA) as an independent oversight body following a series of corporate governance failures. The paper then situates this domestic framework within the global architecture of accounting ethics built around the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). A comparative discussion highlights the convergence between Indian and international standards as well as the practical challenges of enforcement, particularly for small and medium practitioners. The paper concludes that while India's ethical infrastructure has matured considerably over the past two decades, the durability of ethical conduct in the profession depends as much on institutional culture, education, and enforcement capacity as on the formal text of codes and statutes.

KEYWORDS: Accounting ethics; ICAI Code of Ethics; Companies Act, 2013; National Financial Reporting Authority; IESBA; corporate governance; India

1. INTRODUCTION

The accounting profession occupies a distinctive position in the modern economy. Investors, lenders, regulators, employees, and tax authorities rely on financial statements and audit opinions that they themselves cannot independently verify. This reliance is only justified when the professionals who prepare and attest to such information act with integrity, objectivity, and independence. Ethics in accounting, therefore, is not a peripheral matter of professional etiquette; it is the foundation on which the credibility of financial reporting, and by extension the efficient functioning of capital markets,

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ultimately rests.

The importance of this foundation becomes most visible when it fails. The collapse of Enron and the subsequent dissolution of its auditor, Arthur Andersen, in the United States in the early 2000s prompted the enactment of the Sarbanes-Oxley Act, 2002 and a global re-examination of auditor independence. India experienced its own reckoning with the Satyam Computer Services scandal of 2009, in which fictitious cash balances and revenues were reported for several years, implicating both company management and its statutory auditors. Such episodes reveal a recurring pattern: when the ethical safeguards of the profession are compromised, the damage extends far beyond a single firm to shake confidence in the broader financial reporting ecosystem.

This paper has three objectives. First, it develops a conceptual understanding of what is meant by ethics in accounting and why the profession is treated as a public-interest activity rather than an ordinary commercial service. Second, it examines in some depth the Indian regulatory and institutional framework for accounting ethics, covering the Chartered Accountants Act, 1949, the Code of Ethics issued by the ICAI, the relevant provisions of the Companies Act, 2013, and the role of the National Financial Reporting Authority. Third, it situates the Indian position within the global standard-setting architecture centred on the IESBA, before offering a comparative discussion of convergence, divergence, and the challenges that remain. The paper closes with reflections on the road ahead for accounting ethics in an era of automation, sustainability reporting, and heightened regulatory scrutiny.

2. Conceptual Framework: Understanding Ethics in Accounting

2.1 Defining Professional Ethics in Accounting

Ethics in accounting may be understood as the application of moral principles and professional values to the practice of recording, reporting, and attesting to financial information. It is best understood as a branch of professional ethics rather than of business ethics in general, because the accountant's duty extends beyond the party who pays for the service. A chartered accountant conducting a statutory audit is engaged by the company but owes a duty of care to shareholders, creditors, regulators, and the investing public who rely on the audited financial statements. This dual relationship, sometimes described as the profession's "public interest" mandate, is what distinguishes accounting ethics from ordinary contractual obligations between a service provider and a client.

2.2 Why Ethics Matters: Information Asymmetry and Trust

The economic rationale for accounting itself is the reduction of information asymmetry between those who manage an enterprise and those who supply it with capital. Financial statements and independent audit opinions exist precisely because outside investors cannot observe a firm's internal affairs directly. If the professionals responsible for producing or verifying this information act unethically,

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whether through manipulation of figures, concealment of material facts, or compromised independence, the very mechanism intended to reduce information asymmetry instead amplifies it. This is why regulators around the world treat breaches of accounting ethics with a severity disproportionate to the apparent size of the individual transgression: the harm is systemic, not merely private.

2.3 Rules, Principles, and Character

Scholars of professional ethics generally distinguish between rules-based approaches, which prescribe specific conduct for specific situations, and principles-based approaches, which articulate broad standards of behaviour and require professionals to exercise judgement in applying them. Contemporary international standard-setting has moved decisively toward the latter, built around a small set of fundamental principles supported by a conceptual framework for identifying and addressing threats to compliance. Alongside this, a growing body of accounting ethics literature emphasises virtue ethics, the cultivation of professional character, judgement, and moral courage, arguing that codes and rules alone cannot produce ethical behaviour unless practitioners have internalised the underlying values (Mintz & Morris, 2020). The Indian and international frameworks discussed in the following sections reflect elements of both traditions: detailed statutory rules on one hand, and a principles-based conceptual framework on the other.

3. Ethics in Accounting: The Indian Regulatory and Institutional Framework

3.1 The Chartered Accountants Act, 1949 and the ICAI

The Institute of Chartered Accountants of India (ICAI) was established under the Chartered Accountants Act, 1949, as the statutory body responsible for regulating the accounting profession in India. The Act empowers ICAI to prescribe standards of professional conduct through Schedules I and II, which enumerate acts and omissions constituting "professional misconduct," and to enforce these standards through its Disciplinary Committee. For much of its history, ICAI functioned as a self-regulatory body: the same professional institute that trained, admitted, and represented chartered accountants was also responsible for disciplining them, a structure that would later attract scrutiny in the aftermath of major corporate failures.

3.2 Evolution of the ICAI Code of Ethics

ICAI's Code of Ethics has been revised repeatedly since its first publication as a Code of Conduct booklet in 1963, with subsequent revisions in the 1960s tracking amendments to the Chartered Accountants Regulations. A significant turning point came with the eleventh edition, applicable from July 2009, which for the first time incorporated the provisions of the International Federation of Accountants (IFAC) Code of Ethics alongside the domestic requirements of the Chartered Accountants Act, reflecting ICAI's membership obligations to IFAC. The twelfth edition, applicable

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from 1 July 2020, aligned the Code with the IESBA's completely restructured 2018 Code, adopting the now-familiar division into Requirements and Application Material and incorporating provisions on responding to non-compliance with laws and regulations.

Most recently, ICAI's Ethical Standards Board issued a thirteenth edition of the Code of Ethics, applicable from 1 April 2026, converging Volume II of the Code with the IESBA's 2024 edition. This revision is notable for introducing a dedicated Volume III containing ethics standards for sustainability assurance engagements, including related independence requirements, and for widening the scope of permissible Management Consultancy and Other Services to cover newer areas such as artificial intelligence advisory work, forensic accounting and investigation, and social and CSR impact assessment. The revision also liberalised long-standing restrictions on advertising and website use by CA firms, while introducing stricter requirements such as the acceptance of audit fees only through traceable digital or banking channels. Taken together, this evolution illustrates a Code that has grown from a short domestic booklet into a layered, three-volume framework combining statutory domestic provisions with an internationally converged core.

3.3 Statutory Provisions under the Companies Act, 2013

Alongside ICAI's Code of Ethics, Indian company law imposes independent statutory obligations on auditors. Section 143 of the Companies Act, 2013 prescribes the auditor's powers and duties, including the obligation to report suspected fraud to the Central Government or the audit committee under Section 143(12). Section 144 restricts the categories of non-audit services an auditor may provide to the company it audits, addressing self-review and familiarity threats to independence. Section 139 governs the mandatory rotation of auditors and audit firms for specified classes of companies, intended to reduce the risk of over-familiarity between auditor and client over long engagements. Section 447 separately criminalises corporate fraud, reinforcing the seriousness with which the law treats the falsification of financial information. These statutory provisions operate in parallel with, and are reinforced by, ICAI's own disciplinary mechanism.

3.4 The National Financial Reporting Authority

The most significant institutional development in Indian accounting ethics over the past decade has been the creation of the National Financial Reporting Authority (NFRA) under Section 132 of the Companies Act, 2013. Although the statutory provision dates to 2013, NFRA was constituted only in October 2018, following recommendations made after the Satyam scandal and reinforced by subsequent governance failures at IL&FS, DHFL, and in the Punjab National Bank-Nirav Modi fraud case. In 2018, the Supreme Court of India, in S. Sukumar v. The Secretary, Institute of Chartered Accountants of India, had itself suggested that the Union Government consider legislation modelled on the Sarbanes-Oxley Act and the Dodd-Frank Act in the United States, underscoring the view that

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self-regulation by ICAI alone was no longer sufficient for auditors of large public-interest entities.

NFRA's duties under Section 132(2) include recommending accounting and auditing standards for the Central Government's approval, monitoring and enforcing compliance with those standards, overseeing the quality of service of the auditing profession, and investigating professional misconduct by chartered accountants or audit firms. Its jurisdiction extends to auditors of listed companies (whether listed in India or abroad), large unlisted public companies exceeding specified thresholds of paid-up capital, turnover, or borrowings, and companies in regulated sectors such as banking, insurance, and electricity. During an investigation, NFRA possesses powers equivalent to those of a civil court, including the power to summon persons, examine them under oath, and call for the production of documents; once NFRA takes up a matter, no other authority, including ICAI, may continue parallel proceedings on the same matter. NFRA is widely described as having been modelled on the Public Company Accounting Oversight Board (PCAOB) in the United States, and its creation marks a structural shift in India from pure professional self-regulation toward an independent statutory oversight model for auditors of public-interest entities, while ICAI continues to exercise disciplinary jurisdiction over the wider body of its members.

3.5 SEBI and the Wider Corporate Governance Architecture

Ethics in accounting in India cannot be understood in isolation from the broader corporate governance framework administered by the Securities and Exchange Board of India (SEBI). SEBI's Listing Obligations and Disclosure Requirements Regulations require listed companies to maintain independent audit committees, disclose related-party transactions, and establish whistle-blower mechanisms, all of which are designed to create institutional checks that support, rather than replace, the ethical conduct of individual accountants and auditors. This layered structure, professional Code of Ethics, company law, an independent audit regulator, and securities market regulation, reflects a deliberate move to distribute responsibility for financial reporting integrity across multiple institutions rather than relying on any single mechanism.

3.6 Ethical Failures as Catalysts for Reform

The trajectory of Indian accounting regulation has, in large part, been reactive: significant reform has tended to follow, rather than pre-empt, major ethical failures. The Satyam scandal of 2009, in which the company's chairman admitted to years of falsified accounts and inflated cash balances, is widely regarded as India's most consequential accounting fraud and a direct catalyst for the overhaul of company law that culminated in the Companies Act, 2013 and, eventually, the establishment of NFRA. Subsequent episodes, including the liquidity and governance crisis at Infrastructure Leasing & Financial Services (IL&FS) in 2018, the collapse of Dewan Housing Finance Corporation Limited (DHFL), and the large-scale fraud involving Punjab National Bank and jeweller Nirav Modi, further

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exposed weaknesses in audit oversight and reinforced the case for an independent regulator with real enforcement teeth. Read together, these episodes suggest that Indian accounting ethics regulation has evolved substantially through a cycle of crisis and institutional response, a pattern also visible internationally, most notably in the American experience with Enron and the Sarbanes-Oxley Act.

4. Ethics in Accounting: The Global Standard-Setting Architecture

Beyond the Indian context, the accounting profession is governed by an increasingly harmonized set of global ethical standards. The central instrument in this architecture is the International Code of Ethics for Professional Accountants (including International Independence Standards), developed by the International Ethics Standards Board for Accountants (IESBA), an independent standard-setting board historically operating under the International Federation of Accountants (IFAC) and, since 2023, within the newly established International Foundation for Ethics and Audit. The Code articulates five fundamental principles that establish the standard of behaviour expected of every professional accountant: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Rather than attempting to list every possible ethical scenario, the Code adopts a conceptual framework approach: professionals are required to identify threats to compliance with these principles (categorized as self-interest, self-review, advocacy, familiarity, and intimidation threats), evaluate whether such threats are at an acceptable level, and, where they are not, either eliminate the underlying circumstance, apply appropriate safeguards, or decline or terminate the engagement altogether.

The Code has evolved considerably since a major restructuring took effect in 2005, with subsequent milestones including the introduction of provisions on responding to non-compliance with laws and regulations (NOCLAR) in 2016, a comprehensive restructuring effective from June 2019 that separated independence requirements into dedicated parts, and a steady stream of targeted revisions addressing a globally consistent definition of public interest entities (2022), the ethical implications of digitalization and artificial intelligence (2023), tax planning services (2024), and, most recently, dedicated ethics and independence standards for sustainability assurance engagements. The Code is reported to be adopted, used, or referenced in more than 130 jurisdictions worldwide, including a majority of G20 economies, making it arguably the most widely harmonized professional ethics framework in any discipline globally.

National jurisdictions typically adapt this global Code to local legal and institutional contexts rather than displacing it. In the United States, the Sarbanes-Oxley Act, 2002 created the Public Company Accounting Oversight Board as an independent regulator of public-company auditors, moving away from pure self-regulation by the American Institute of Certified Public Accountants in a manner broadly analogous to India's later creation of NFRA. Professional bodies elsewhere, such as the Association of Chartered Certified Accountants, adopt the IESBA Code directly and in full,

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supplementing it only with jurisdiction-specific guidance. This pattern illustrates a broader global convergence in the substance of accounting ethics, even as enforcement architecture continues to differ from one country to another depending on local institutional history and capacity.

5. Convergence and Divergence: A Comparative Reading

Placed side by side, the Indian and global frameworks display a considerable degree of convergence in substance and a more varied picture in enforcement. ICAI's decision to structure its Code of Ethics explicitly around, and periodically reconverge with, successive editions of the IESBA Code, most recently the 2024 edition, reflects a deliberate policy choice to keep Indian ethical standards closely aligned with international practice rather than developing a wholly indigenous framework. At the same time, the retention of a separate domestic volume rooted in the Chartered Accountants Act, 1949 shows that international principles are not adopted wholesale but are layered onto a pre-existing statutory structure specific to India.

The more interesting divergence lies in enforcement architecture. For much of its history, India relied on ICAI's Disciplinary Committee as the sole mechanism for enforcing ethical standards, a self-regulatory model that came under sustained criticism after the Satyam scandal for being too lenient toward errant auditors. The creation of NFRA represents India's belated but significant move toward the model already adopted in the United States through the PCAOB and, to varying degrees, in other jurisdictions through independent audit oversight bodies. The two mechanisms, ICAI's disciplinary jurisdiction and NFRA's statutory oversight of public-interest entities, now operate side by side, and the coordination between them remains a live institutional question as NFRA continues to mature as a regulator.

A further point of convergence is emerging around sustainability assurance. Both IESBA and ICAI have, within a similar timeframe, introduced dedicated ethics and independence standards for sustainability assurance engagements, reflecting the rapid global expansion of non-financial and environmental, social, and governance (ESG) reporting. This near-simultaneous development suggests that, on emerging issues at least, the gap between Indian and international standard-setting has narrowed considerably compared to earlier decades. However, IFAC's own guidance has repeatedly flagged those small and medium practices as facing particular difficulty in fully applying a principles-based conceptual framework, a concern of direct relevance to India, where the overwhelming majority of practicing-chartered accountants operate in small or proprietary firms rather than large networks with dedicated ethics and quality-control functions.

6. Emerging Challenges and the Way Forward

Several challenges will shape the next phase of accounting ethics in India. First, the growing use of automation, data analytics, and artificial intelligence in audit and accounting work raises new questions about professional scepticism and over-reliance on technology; both IESBA and ICAI have begun to address these questions, but practical implementation guidance, particularly for smaller firms with limited technological resources, remains at an early stage. Second, NFRA is still a relatively young institution, and its long-term effectiveness will depend on continued investment in investigative capacity and on clearer coordination with ICAI, SEBI, and the Reserve Bank of India to avoid regulatory overlap or gaps. Third, ethics education within the Chartered Accountancy curriculum and continuing professional education programmes needs to move beyond a check-box familiarity with the Code's provisions toward the cultivation of professional judgement and character, a shift long argued for in the accounting ethics literature (Mintz & Morris, 2020). Finally, any future reform must be sensitive to the structural realities of the Indian profession, an economy still substantially served by small and proprietary accounting practices, ensuring that global principles are implemented in a manner that is rigorous but practically workable.

7. CONCLUSION

Ethics in accounting is not a supplementary consideration layered on top of technical competence; it is the condition on which the value of accounting information depends. This paper has traced how India's regulatory response, from the Chartered Accountants Act, 1949 and successive editions of ICAI's Code of Ethics, through the statutory obligations of the Companies Act, 2013, to the creation of an independent oversight body in NFRA, has evolved substantially, often in direct response to major ethical failures such as the Satyam scandal. It has also shown that this domestic evolution has occurred in increasingly close step with the global architecture built around the IESBA's International Code of Ethics, reflecting both ICAI's institutional membership obligations and a broader global convergence in the substance of professional ethics. Yet formal convergence in the text of codes is only part of the story. The credibility of accounting as a profession ultimately depends on whether its practitioners, in the day-to-day pressure of client relationships and commercial deadlines, internalise these principles rather than merely comply with them on paper. Future research would benefit from empirical investigation of how Indian practitioners, particularly in small and medium practices, actually experience and resolve ethical dilemmas in practice, an area that remains comparatively underexplored relative to the rich body of doctrinal and regulatory literature on the subject.

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