FREQUENTLY ASKED QUESTIONS ON ICAP REVISED CODE OF ETHICS FOR

CHARTERED ACCOUNTANTS

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The Institute of Chartered Accountants of Pakistan

Introduction

The ICAP revised Code of Ethics (the Code) is applicable from 1 July 2015. The Auditing Standards Committee of the Institute has assembled and developed this frequently asked questions (FAQs) publication for guidance and better understanding of the provisions of the Code.

This FAQs publication is accordingly issued by the Institute to assist members as they adopt the Code which is based on the Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA) and implement it.

These FAQs have been developed utilizing ICAP's Technical opinions on Code of Ethics, the requirements of Companies Ordinance 1984, the CA Ordinance 1961 and IESBAs FAQs.

For member's easy reference, separate question numbering for each topic has been maintained which will help us in future update also.

This publication does not amend or override the Code, the text of which alone is authoritative. Reading the Q&As is not a substitute for reading the Code. The FAQs are not meant to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

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PART A: GENERAL APPLICATION OF THE CODE

1. Application of the Conceptual Framework Approach

Q1.1. Under the conceptual framework approach in the Code, can a chartered accountant apply safeguards to avoid having to comply with a prohibition in the Code? For example, can an interest or relationship that is prohibited under the Code be entered into if the chartered accountant applies safeguards?

Ans: No. The prohibitions in the Code are derived from the application of the conceptual framework. Therefore, when an interest or relationship is prohibited, it has already been considered whether safeguards can be effective in eliminating the related threat or reducing it to an acceptable level.

Q1.2. Can an audit firm apply safeguards to enable it to avoid complying with a provision that prohibits a non-assurance service? Does it make a difference if the firm is a small audit firm?

Ans: The answer to both questions is No. Refer to the answer to Question 1 above. The significance of a threat does not differ just because an audit firm is a small firm.

Q1.3. What a chartered accountant should do, if he is prohibited by the law or regulation, not to comply with any part of the Code of Ethics?

Ans: If a chartered accountant is prohibited from complying with certain parts of the ICAP Code of Ethics under any law or regulations, the Chartered Accountant shall comply with all other parts of the code of ethics. (Paragraph 100.1)

Q1.4. Are the provisions of ICAP Code of Ethics to be mandatorily followed/complied with by a chartered accountant?

Ans: Where the word “shall” is used in this Code, it imposes a requirement on the chartered accountant or a firm to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by the Code. (Paragraph 100.4)

Q1.5. If an interest or relationship with the audit client is not prohibited under the Code (e.g., the Code does not address it or there is no provision in the Code that would apply by analogy), does that mean the interest or relationship is automatically permitted?

Ans: No, not necessarily. Under the conceptual framework approach in the Code, any interest or relationship must be evaluated to determine whether it creates any threats to independence. If any threats are created, safeguards must be applied to eliminate the threats or reduce them to an acceptable level.

Q1.6. Paragraph 100.3 states that “Chartered accountants in practice may also find Part C relevant to their particular circumstances.” What are examples of circumstances for

which a chartered accountant in practice might find it useful to refer to the guidance in the Code for Chartered Accountants Ordinance, 1961 in business?

Ans: Chartered Accountants in practice who are partners or employees of firms may face circumstances that are similar to those that the chartered accountants in business might face when working for their employers. Some examples include (a) receiving an offer of inducement in an attempt to unduly influence the actions or decisions of the chartered accountant in public practice, (b) being eligible for a bonus, the value of which could be affected by decisions made by the chartered accountant in practice, (c) being provided with insufficient time to properly perform relevant duties, (d) being pressured to be associated with financial information that materially misrepresents the facts and (e) serving in a management position for two employing organisations and acquiring confidential information from one that could be used to the advantage / disadvantage of the other.

Q1.7. The revised ICAP Code does not use the term "clearly insignificant," which was used in the previous ICAP Code. How does this affect the evaluation of threats and application of safeguards when applying the conceptual framework approach?

Ans: In the 2008 ICAP Code, the term “clearly insignificant” was used to establish the starting point for determining which threats (i.e., threats that were not clearly insignificant) might require the application of safeguards. Under both the old and revised ICAP Codes, a threat that is not at an acceptable level requires the application of safeguards to eliminate the threat or reduce it to an acceptable level before the interest or relationship that creates the threat can be deemed acceptable. Accordingly, the change simplified the application of the conceptual framework approach, without changing the requirement that threats that are not at an acceptable level be eliminated or reduced to an acceptable level by the application of safeguards.

Q1.8. Certain paragraphs in the Code provide a list of safeguards that could be applied. Are these lists all-inclusive or are there other safeguards that might be effective in the particular circumstances?

Ans: Where the list of safeguards is preceded by wording such as "examples of such safeguards include," the list is not all inclusive but merely contains examples of safeguards that could be effective in the specific circumstance. Other safeguards might also be effective. Judgment would be required to determine the effectiveness of any safeguards in each circumstance.

2. Reasonable and Informed Third Party

Q2.1. The Code contains a reasonable and informed third party test—for example, paragraph 100.7 requires a chartered accountant to apply safeguards to eliminate threats to compliance with the fundamental principles in the Code or reduce them to an acceptable level. The Code defines an acceptable level as "a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the chartered accountant at that time, that compliance with the fundamental principles is not compromised." How should the reasonable and informed third party test be applied?

Ans: The chartered accountant shall exercise his professional judgement to determine whether the threat identified has been eliminated or reduced to an acceptable level. Additionally he needs to support his professional judgement by considering whether any stakeholder of ordinary prudence who under similar circumstances and based on the information available at the time when the determination was made, would come to the same determination that the threat has been eliminated or reduced to an acceptable level.

Q2.2. Paragraph 110.3 states that a chartered accountant will be deemed not to be in breach of paragraph 110.2 if the chartered accountant provides a modified report in respect of a matter contained in paragraph 110.2. Does paragraph 110.3 apply to Chartered Accountants in business as well as Chartered Accountants in practice?

Ans: Yes. Section 110, and therefore paragraph 110.3, applies to all chartered accountants, including Chartered Accountants in business. Accordingly, if a chartered accountant in business can utilize a form of reporting that in substance accomplishes the same thing as a modified report issued by a chartered accountant in practice, 110.3 would apply.

Q2.3. The code 100.11 refers to unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest. Can you give some example of unusual circumstances?

Ans: The purpose of this paragraph is to ensure that a chartered accountant consults if they feel unusual circumstances make the spirit of the Code inconsistent with the strict application of the Code. An example of such an unusual circumstance is if an audit client narrowly misses classification as a public interest entity, however application of non-public interest entity guidelines permits providing non-assurance services that may appear imprudent from a third party view.

PART B - CHARTERED ACCOUNTANTS IN PRACTICE

3. Self-interest Threat Example

Q3.1. Paragraph 200.4 states that a chartered accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the chartered accountant's firm is an example of a circumstance that creates a self-interest threat. The previous Code described this as a self-review threat. Why did the Code change this?

Ans: A self-review threat is the threat that the chartered accountant will not appropriately evaluate the results of the previous service and, for example, find any errors. However, if an error has been discovered after the previous service was appropriately evaluated; the threat is that now the chartered accountant might not address the error because it is not in the accountant's self-interest (or the firm or employing organization's interest) to do so. Thus, upon discovery of the error, the threat that is created is a self-interest threat.

4. Professional Appointment

Q4.1. What factors should be considered when a chartered accountant in practice intends to rely on the advice or work of an expert?

Ans: Factors to consider include: reputation, expertise, and resources available and applicable professional and ethical standards. Such information may be gained from prior experience with the expert or from consulting others (para 210.8).

Q4.2. Why is direct communication of the incoming auditor with the outgoing auditor required before accepting the engagement?

Ans: You may observe that communicating with the retiring auditor is a crucial safeguard as per paragraph 210.11. Under the Conceptual Framework Approach, a heavy onus would lie on the incoming auditor to display as to how he identified, addressed and resolved threats referred to in paragraphs 210.9 and 210.10. Furthermore, a chartered accountant shall be guilty of professional misconduct as per clause (7) Part I of Schedule I to the Chartered Accountants Ordinance, 1961 if he accepts a position as auditor previously held by another member of the Institute without first communicating with him in writing.

Q4.3. Should a proposed chartered accountant in practice need to obtain the client's permission to initiate discussion with an existing chartered accountant? And what steps should be performed if he is unable to communicate with the existing chartered accountant?

Ans: A chartered accountant generally needs to obtain the client's permission, preferably in writing, to initiate a discussion with an existing chartered accountant. Once that permission is obtained, the existing chartered accountant will comply with relevant legal and other regulations governing such requests. If the proposed chartered accountant is unable to communicate with the existing chartered accountant, the proposed chartered accountant should take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client.

Q4.4. Does a new cost auditor require obtaining NOC from the retiring auditors before holding the office? As per understanding, the NOC mentioned in the law is required for the financial audit because cost audits can also be carried on by CMAs in addition to CAs?

Ans: Answer to Q.4.2 equally applies in this case except that the Chartered Accountants Ordinance 1961 does not explicitly cover this situation but it may be interpreted that adoption of the Code of Ethics also has the backing of the above Ordinance.

5. Conflicts of Interest

Q5.1. When does a conflict of interest arise and what threats does it pose?

Ans: A conflict of interest arises when services to be provided to a client would conflict with the professional obligations owed to interests of the chartered accountant, his firm or its partners or staff, or to other clients under applicable professional standards, laws or regulations. A conflict of interest poses a threat to objectivity. Examples of potential conflicts of interest include when a chartered accountant in practice competes directly with a client, or has a joint venture or similar arrangement with a major competitor of a client, or performs services for clients whose interests are in conflict, or the clients are in dispute with each other in relation to the matter or transaction in question. Further examples of conflicts of interest can be found in paragraph 220 of the Code.

6. Fees and Other Types of Remuneration

Q6.1. Can a chartered accountant in practice quote a fee lower than that charged by the chartered accountant in practice previously carrying out the audit? (Para 240.1)

Ans: A fee should not be quoted lower than that charged by the Chartered Accountant in practice previously carrying out the audit unless scope and quantum of work materially differs from the scope and quantum of work carried out by the previous auditor, as it could then be regarded as undercutting. Furthermore, a chartered accountant shall be guilty of professional misconduct as per clause (11) Part I of Schedule I to the Chartered Accountants Ordinance, 1961 if he accepts a position as auditor previously held by some other chartered accountant in such conditions as to constitute undercutting.

Q6.2. Whether the incoming auditor can accept the engagement at a fee less than that received by existing joint auditors?

Ans: Audit fee is a composite figure and it is presumed to have been fixed keeping in view the scope and quantum of work of a particular audit engagement irrespective of the fact that the audit is conducted by joint auditors.

Q6.3. What is undercutting?

Ans: The term ‘undercutting’ itself has not been precisely defined in International Standards of Auditing or ICAP’s Code of Ethics. Literal meaning of the verb ‘undercut’ means “to sell or work at lower price than”. To stretch the term, undercutting may also mean to gain out of an event, transaction or appointment at the cost of another. Accordingly, if the incoming auditor takes up an audit appointment at lower fees to the detriment of the existing auditor whether directly or indirectly, it would amount to undercutting. To put it plainly, charging a smaller fee in itself is not conclusive proof of undercutting since there may be good reasons for it to prove otherwise. Undercutting is, therefore, always a question of fact dependent on the circumstances of each case.

7. Public Notices, Announcements and Communications

Q7.1. Can the firm have its name included in such an advertisement, placed by some client?

Ans: A firm cannot have its name included in such an advertisement placed by a bank or financial institution. However if the client of the practicing member who is the beneficiary of the services decides to place an advertisement then the name of such practicing member can be included in such advertisement provided the practicing member advises the client that permission should first be obtained before publication of the document. The document shall comply with the provisions of clauses (5) and (6) of Part 1 and clauses (1) and (2) of Part 2 of Schedule-I of the Chartered Accountants Ordinance, 1961.

Q7.2. What information about a member and his firm may be listed in the directories and Internet?

Ans: Entries should be limited to name, address, telephone numbers, e-mail address, professional description and any other information necessary to enable the users of the directories to make contact with the member and his firm.

Q7.3. Whether a chartered accountant may approach another chartered accountant when seeking employment or professional business?

Ans: Yes he can.

Q7.4. Whether a chartered accountant may recruit on behalf of a client?

Ans: A member may advertise on behalf of clients. However, he should ensure that the emphasis in the advertisement is directed towards the objectives to be achieved for the client. The designation of any services provided by the practice as being of specialist nature is not permitted. (250.2 (viii))

Section 290 - Independence – Audit and Review Engagements

8. Related Entities

Q8.1. When applying paragraph 290.27 in a situation involving an audit client that is not a listed entity, where the client does not control the related entity (e.g., a company over which the client has significant influence), should a firm consider all interests and relationships that it has with that related entity, or just the interest or relationship that caused the audit team to believe that the related entity is relevant to its evaluation of the firm's independence from the client?

Ans: All interests and relationships with the related entity should be considered once the audit team has concluded that the related entity is relevant to its evaluation of the firm's independence from the client.

9. Mergers and Acquisitions

Q9.1. Paragraphs 290.33-290.38 provide guidance on the actions to be taken when, as a result of a merger or acquisition, an entity becomes a related entity of an audit client. In some mergers a new entity is formed that is made up of the two entities involved in the merger, as opposed to one entity becoming a related entity of the audit client. Do the provisions in paragraphs 290.33-290.38 apply in such situations?

Ans: Yes.

10. Financial Interests

Q10.1. Paragraph 290.116 requires the disposal of a financial interest received by way of an inheritance, gift, or as a result of a merger. Why must the firm, members of the audit team, and their immediate family dispose of such an interest immediately while individuals who are not members of the audit team are required to dispose as soon as possible?

Ans: The requirement to dispose immediately reflects the urgency of reducing or eliminating the self-interest threat created by such an interest so that the audit is not being conducted by those who have a financial stake in the outcome of the audit. Accordingly, if a member of the audit team or their immediate family member cannot dispose of the interest immediately, the individual should be removed from the audit team.

If the interest is received by an individual who is not a member of the audit team, or by an immediate family member of the individual, the financial interest shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material. Pending the disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary.

Q10.2. Some of the paragraphs in Section 290 that apply to the provision of non-assurance services to an audit client state that a service shall not be provided if it will have a material effect on the client's financial statements. The Code does not provide any guidance on materiality. How should materiality be determined?

Ans: Reference should be made to the auditing standard, ISA 320, Materiality in Planning and Performing an Audit, which deals with an auditor's responsibility to apply the concept of materiality in planning and performing an audit. What is material is a question of fact and dependent upon the circumstances of the case. Generally speaking, an item/ information is set to be material if its omission or misstatement (individually/ collectively) influence the economic decisions of users taken on the basis of the financial statements.

Q10.3. Paragraph 290.174 states that a firm shall not provide valuation services to an audit client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion. If a firm assesses that the valuation service will not have a material effect on the financial statements, it starts the service and it becomes apparent that the service would have a material effect, can the firm continue the valuation service on the basis that the service initially met the materiality test?

Ans: In this circumstance, the firm would not be independent if it continued the service. The Code prohibits a firm that is required to be independent from providing valuation services that would have a material effect on the financial statements of a public interest entity audit client. Accordingly, if at any time after agreeing to perform the valuation service it becomes apparent that the valuation service will have a material effect on the financial statements, the firm may not provide the valuation service and continue to be the entity's auditor.

11. Network Firms

Q11.1. Can firms that are members of an association of firms comprise a network?

Ans: Yes. This would be the case if some of the firms share profits, costs, or a significant part of professional resources, or have common ownership, control, or management, common quality control policies and procedures, a common business strategy, or use a common brand name.

Q11.2. If a firm is part of a larger structure that is aimed at co-operation and the firms within that larger structure use a common brand name to sign assurance reports that are not audit or review reports, would that larger structure be deemed to be a network under the Code?

Ans: Yes. Under paragraph 290.20, a firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with its firm name when a partner of the firm signs an audit report. Paragraph 290.21 states that care should be taken as to how a firm makes reference to membership of an association of firms or a perception may be created that the firm belongs to a network. The use of a common brand name in signing assurance reports that are not audit or review reports would give the perception to the users of those reports that the firm belongs to a network.

Q11.3. If a firm is part of a larger structure that is aimed at co-operation and the firms within that larger structure make reference to the larger structure in their stationery and promotional materials, would that larger structure be deemed to be a network under the Code?

Ans: Not necessarily, guidance may be sought from answers to the questions Nos.11.1 & 11.2 above. However, para 290.21, cautions regarding such reference as it may give the appearance that it belongs to the network. Care should be exercised as to how a firm describes such membership so that a perception is not created that the firm belongs to a network.

12. Definition of Key Audit Partner

Q12.1. Would a tax partner who participates on the audit team be considered a key audit partner?

Ans: Yes if he makes key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.

13. Partner Rotation

Q13.1. The Code defines a key audit partner to include partners who make "key decisions or judgments" on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. The Code does not provide guidance for determining when decisions or judgments are "key" decisions or judgments. What are some examples?

Ans: Whether a decision or judgment is a key decision or judgment will depend on the specific facts and circumstances. Professional judgment is required to make that determination. Generally, the subject matter of the decision or judgment would be significant to the financial statements taken as a whole. Examples might be reaching a conclusion about whether there was a material impairment of long-lived assets or about a significant uncertainty on going concern, a risk assessment decision, judgment on materiality or pending litigation the entity is facing, the outcome of which could adversely affect the financial statements under audit. Providing advice about such matters to the individual who has the responsibility to make such decisions would not make the person who provides the advice a key audit partner.

14. Public Interest Entities

Q14.1. Section 290 contains additional requirements, restrictions, and prohibitions that reflect the extent of public interest in certain entities that are referred to as "public interest entities." If an entity is required to have a statutory audit, does that mean the entity is a public interest entity?

Ans: No. To be a public interest entity, the entity must meet the definition given in paragraph 290.25 of the Code and section 2(iv)A of the 5th Schedule of the Companies Ordinance 1984The Code does, however, in paragraph 290.26 encourage firms and member bodies to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders.

Q14.2. Who is not allowed to serve as a director or officer of an audit client? (290.144)

Ans: If a partner or employee of the firm serves as a director or officer of an audit client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of an audit client.

Q14.3. Under paragraph 290.149, an individual shall not be a key audit partner for an audit client that is a public interest entity for more than seven years. After serving in such a role for seven years, paragraph 290.149 requires a two-year "time-out" period. Could that individual have a role in which he or she would have regular or ongoing contact with management or the audit committee of the client (for example, as the "client relationship partner," "client service partner" or "senior advisory partner") during the two year time-out period?

Ans: No. Paragraph 290.149 states that during the time-out period the individual cannot be a member of the engagement team, be a key audit partner for the client, participate in the audit of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry-specific issues, transactions, or events, or otherwise directly influence the outcome of the engagement. This would preclude having any role that would enable the individual to exercise the duties or responsibilities of someone in those positions. An individual with a high level of contact with management or the audit committee, such as a client relationship partner, would be able to directly influence the outcome of the engagement.

Q14.4. If a person is KAP of a company since year 2000 and the company is listed (and thus becomes PIE) in 2012, then whether such a listed company will come under the scope of this rotation requirement, i.e., whether this clause is applicable for companies becoming PIE before 01 July 2015 (the effective date for the Code) or the companies becoming PIE after this date.

Ans: The revised code of ethics 2015 is applicable from 01 July 2015 and clause 290.152 is applicable to all existing PIEs. More specifically, this clause is applicable for companies becoming PIEs before 01 July 2015.

The principle set by the Code under clause 290.152 is "When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation....."

The company became listed in 2012 at which time the engagement partner had served the audit client for more than six years and under clause 290.152, a maximum of two additional years are permissible. Based thereon the extended period expired in 2013 (after conducting audits for 2012 and 2013 year ends) and rotation of partner in this case is immediately applicable.

You may further note that as the company was listed in 2012 the revised Code of Corporate Governance (CCG) also became applicable then. The maximum years for partner rotation under CCG are 5 years. Although CCG is not expressive about the situation of rotation of partner in case of new listed company, it is advised keeping in view the independence requirements under the Code of Ethics where the partner had led the engagement for a continuous period of over 10 years from 2000 to 2012 the rotation of partner is immediately applicable.

Q14.5. The Code requires rotation of key audit partners, which include other audit partners on the engagement team who make key decisions or judgments on significant matters with respect to the audit. This might include audit partners responsible for significant subsidiaries or divisions. ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) states that the group engagement partner is responsible for the direction, supervision, and performance of the group audit. Does this mean that if an audit is conducted in compliance with ISA 600, the engagement partner is the only key audit partner (other than the engagement quality control reviewer) subject to the rotation requirements?

Ans: No. While ISA 600 states that the group engagement partner is responsible for the direction, supervision, and performance of the audit, this does not override the Code's definition of a key audit partner and does not eliminate the judgment required in determining whether other partners on the engagement are key audit partners. Depending upon the circumstances, the size of the group, and the role of the individuals, there may be other audit partners who make key decisions or judgments on significant matters with respect to the group financial statements—as may be the case with an audit partner who is responsible for the audit of a significant subsidiary of the group.

Q14.6. If a firm is unable to meet the partner rotation requirements because it does not have enough audit partners in the firm, paragraph 290.153 notes that partner rotation may not be an available safeguard. If a firm has determined that it is not possible to apply that safeguard, and the independent regulator in that jurisdiction has not provided an exemption from partner rotation in such circumstances, is there any other alternative for that situation?

Ans: No. It is believed that partner rotation strikes the right balance between the objective of bringing a fresh set of eyes to the engagement and the objective of retaining a firm's institutional knowledge of the client to promote audit quality. The other possible safeguards would not be effective in achieving the first objective.

15. Taxation Services

Q15.1. Why does the revised Code contain more detailed guidance on tax services than the previous 2008 Code?

Ans: The previous Code did not adequately address the range of tax services that clients request or the threats that such services may create. It is believed that the statement in the 2008 Code that tax services "are generally not seen to create threats to independence" is appropriate when the service is tax return preparation, provided management takes responsibility for the returns and any significant judgments made in their preparation. However, it is not always the case for other tax services and decided to expand the guidance in the Code to convey this to assist Chartered Accountants in meeting the objectives of the fundamental principles.

Q15.2. What is an example of tax advice where the effectiveness of the advice depends on a particular accounting treatment or financial statement presentation (paragraph 290.184) for which the audit team could have reasonable doubt as to its appropriateness?

Ans: Situations will vary depending on the taxing jurisdiction and judgment will be required. For example, in our jurisdiction, generally tax treatment is independent of accounting treatment, so no self-review threat is created by the tax advice. Different treatment of leases is a good example. However, in situations where the effective tax advice regarding, for instance, valuation of an asset or treating an asset as expense and their presentation and disclosure in the financial statements is as per generally accepted reporting framework, then no safeguards can reduce the threat to an acceptable level.

Q15.3. Paragraph 290.179 prohibits tax calculations of current and deferred taxes for the purpose of preparing accounting entries for a public interest entity audit client where the entries would be material to the financial statements. If the entries would not be material, could the firm provide the service without performing an evaluation of any threats that may be created by the service?

Ans: No. Whenever a chartered accountant performs work which is generally the duty of the management and that work is permissible under the Code, threats must be identified and addressed to eliminate them or reduce them to an acceptable level.

16. Services Involving the Extension of Audit Procedures

Q16.1. The revised Code does not include the statement that is in the previous ICAP Code that "services involving an extension of the procedures required to conduct a financial statement audit in accordance with International Standards on Auditing would not be considered to impair independence . . . provided that the firm's or network firm's personnel do not act or appear to act in a capacity equivalent to a member of audit client management." Does the absence of this statement mean that such a service is prohibited under the revised Code?

Ans: No. IESBA believes that the statement continues to hold true. However, it is no longer necessary given the revised Code's description of certain internal audit activities, which does not include performing extended procedures as part of a financial statement audit, and its expanded guidance on management responsibilities, both in the section dealing with internal audit services and in a new section dealing with management responsibilities.

17. Provision of IT Systems Services

Q17.1. A firm has been asked to implement an IT system for a public interest entity audit client. Since the system will not form a significant part of the client's internal control over financial reporting and will not generate information that is significant to the client's accounting records or financial statements, the service is not prohibited under paragraph 290.200, which explicitly applies to public interest entity audit clients. Can the firm provide the service without performing an evaluation of any threats that may be created by the service?

Ans: No, an evaluation of any threats that may be created is still required. Paragraph 290.200 is a prohibitive provision. Just because a service is not prohibited under that paragraph doesn't mean it is automatically permitted.

18. Pre- or Post-issuance Review When Total Fees Exceed 15%

Q18.1. Under paragraph 290.216, a pre or post-issuance review of the audit engagement is required to be conducted by a chartered accountant who is not a member of the firm. It could be difficult to engage an outside chartered accountant to perform that review because of concerns that the review would expose the accountant to liability. Is there any alternative in that situation?

Ans: The reviews, which must be equivalent to an engagement quality control review, is a necessary safeguard when for two consecutive years, total fees from an audit client that is a public interest entity exceed 15% of the firm's total fees. . Firms might also consider indemnifying the outside chartered accountant to address concerns about exposure to liability. Under either arrangement, the chartered accountant performing the review would need to comply with the confidentiality requirements in the Code with respect to the firm and the firm's audit client.

Q18.2. When determining whether total fees from a public interest entity audit client exceed 15% of the firm's total fees, how should the calculation be made? Should the firm include in the calculation all fees charged for all services rendered to the audit client (i.e., not just audit fees) and all fees charged for all services rendered to all clients?

Ans: Yes, total fee includes all fees, not just audit fees.

19. Fees - Relative Size

Q19.1. Under paragraph 290.216, a "post-issuance review" equivalent to an engagement quality control review is one of two safeguards that a firm is required to apply. What would such a review entail?

Ans: ISA 220, Quality Control for an Audit of Financial Statements addresses the responsibilities of the engagement quality control reviewer. In performing a post-issuance review that is equivalent to an engagement quality control review, the reviewer would provide an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor's report. The evaluation would involve:

- discussion of significant matters with the engagement partner;
- (review of the financial statements and the auditor's report); review of selected audit documentation relating to the significant judgments of the engagement team and the conclusions it reached; and
- evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the auditor's report was appropriate.

For listed entities, such review also include following additional steps:

a) evaluation of the firm's independence; and

b) appropriate consultation on matters involving difference of opinion or other difficult or contentious matters and conclusion thereon.

20. Contingent Fees

Q20.1. Paragraph 290.220(a) prohibits the charging of a contingent fee in respect of a non-assurance service provided to the audit client, if the fee is charged by the "firm expressing the opinion on the financial statements" and the fee is material to that firm. Why is this term used and to which firm does it refer?

Ans: Paragraph 290.3 states that the term "firm" includes network firm unless otherwise stated. The term "firm expressing the opinion on the financial statements" is used to make it clear that, in a group audit situation; materiality should be measured against the firm itself, and not the network firms. Paragraph 290.220(b) addresses network firms.

21. Application of Section 291

Q21.1. Section 290 applies to audit and review engagements and provides additional requirements for entities that are public interest entities. Section 291 applies to other assurance engagements (i.e., non-audit assurance engagements) but does not provide any additional requirements for public interest entities. Which parts of Section 291 apply to an engagement to provide an "other assurance service" to a public interest entity?

Ans: Section 291 applies equally with respect to non-audit assurance clients that are public interest entities and those that are not public interest entities. There is no distinction in that section between the two types of non-audit assurance clients. If the client is one for which the firm also provides an audit or review service, the provisions of Section 290 would also apply.