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**The Institute of
Chartered Accountants
of Pakistan**

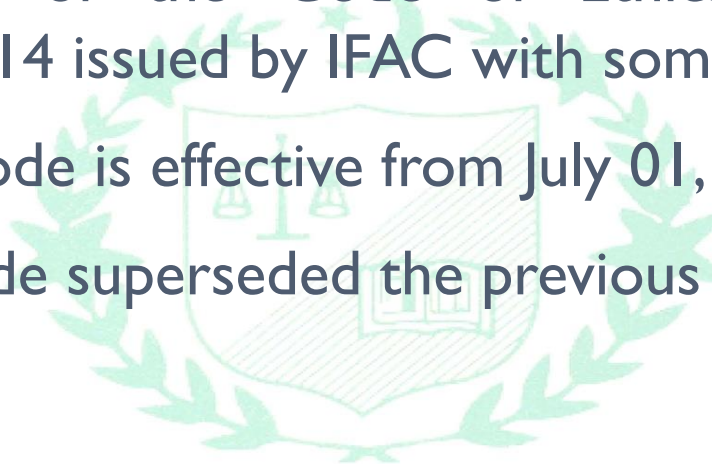
**PRESENTATION
ON
KEY CHANGES IN THE
REVISED ICAP CODE OF ETHICS 2015**

DISCLAIMER

This presentation is developed for member's facilitation and guidance in the implementation of the revised ICAP Code of Ethics (the Code). This is not intended to be a substitute for the revised Code itself. Therefore members are advised to refer the Code for detailed understanding. ICAP disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this presentation.

INSTITUTE'S COUNCIL DECISION

- The Council in its 26th meeting held on January 24, 2015 adopted the revised Code of Ethics 2015 which is based on the Handbook of the Code of Ethics for Professional Accountants 2014 issued by IFAC with some amendments.
- The revised Code is effective from July 01, 2015.
- The revised Code superseded the previous ICAP Code issued in May 2008.



REASON TO ADOPT THE NEW CODE

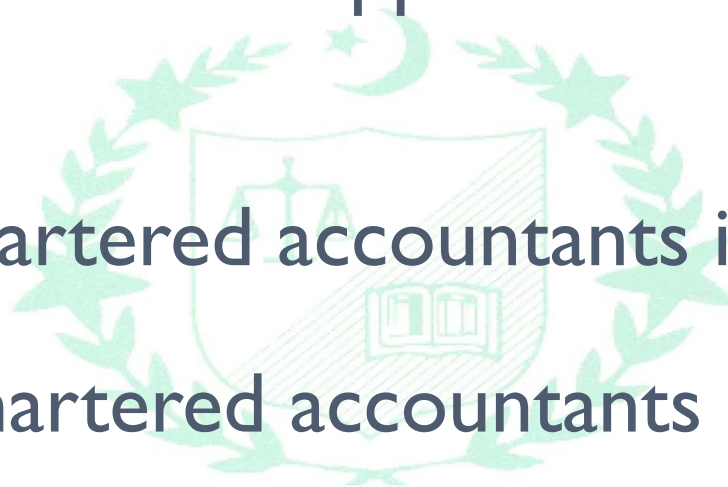
- International Ethics Standards Board for Accountants (IESBA) of IFAC issued revised “Code of Ethics” for Professional Accountants (Code) in July 2009.
- Since 2009, IESBA has issued Handbook of the Code of Ethics every year after incorporating Exposure Drafts changes issued in that respective year.
- In July 2014, the IESBA issued 2014 edition of the Handbook of the Code which replaces the previous editions.
- Significant changes have been made in the IFAC Code in the last 5 years, which needed to be incorporated in the ICAP Code.

KEY REVISIONS IN THE REVISED CODE

- In the revised IESBA Code, the word 'shall' has been adopted in place of word 'should'.
- Replacement of words 'professional accountant' with 'chartered accountant' and 'public practice' with 'practice' only as done in the existing ICAP Code.
- Any matter related to Companies Ordinance 1984, Listing Regulations and/or CCG 2012 reproduced anywhere in the ICAP Code of Ethics has now been deleted, to avoid duplication.

STRUCTURE OF CODE OF ETHICS

- Part A – Framework applies to all chartered accountants
- Part B – Chartered accountants in practice
- Part C – Chartered accountants in business



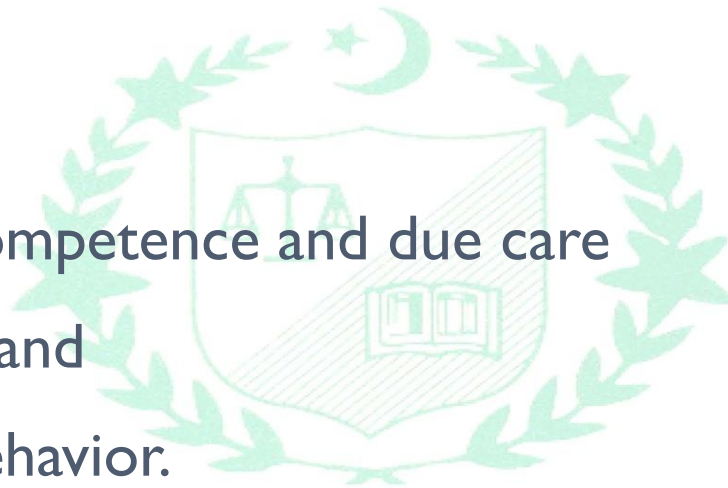


PART A
FRAMEWORK APPLIES TO ALL
CHARTERED ACCOUNTANTS

FUNDAMENTAL PRINCIPLES

Five fundamental principles of professional ethics are:

- integrity
- objectivity
- professional competence and due care
- confidentiality and
- professional behavior.

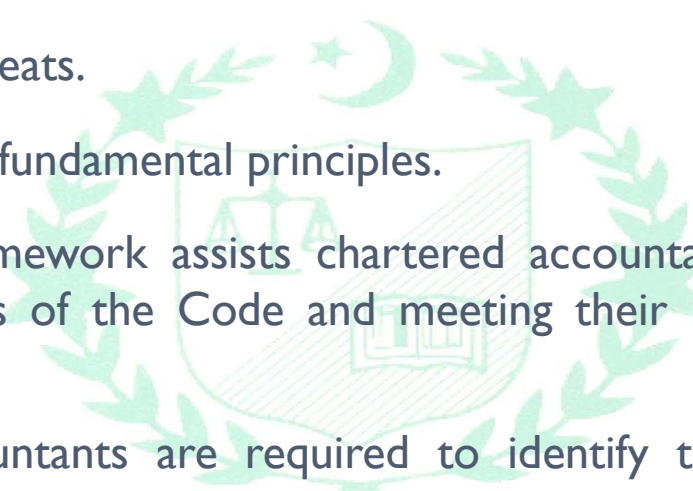


CONCEPTUAL FRAMEWORK APPROACH

- The Code establishes a conceptual framework approach that requires a chartered accountant to:
 - identify;
 - evaluate; and
 - address threats.

to compliance with the fundamental principles.

- The conceptual framework assists chartered accountants in complying with the ethical requirements of the Code and meeting their responsibility to act in the public interest.
- All chartered accountants are required to identify threats to the fundamental principles and if there are threats, then apply safeguards to ensure that the principles are not compromised.
- It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a chartered accountant from concluding that a situation is permitted if it is not specifically prohibited.



THREATS & SAFEGUARDS

Threats may fall into one or more of the following categories:

- Self-interest
- Self-review
- Advocacy
- Familiarity
- Intimidation



Parts B and C of this Code explain how these categories of threats may be created for chartered accountants in practice and in business respectively and what safeguards to be applied. Safeguards fall into two broad categories:

- a) Safeguards created by the profession, legislation or regulation; and
- b) Safeguards in the work environment.

KEY REVISIONS IN PART A

Conceptual Framework Approach

- Enhanced explanation of the ‘Conceptual Framework Approach’(100.1–100.11).
- This includes a requirement to apply safeguards, when necessary, to eliminate threats or reduce them to an ‘acceptable level’.
- Previously safeguards had to be considered if a threat was other than ‘clearly insignificant’.
- As a result, references to ‘clearly insignificant’ have been removed and ‘Acceptable level’ has been defined.
- ▶ The Code includes a revised description of the ‘threats’ (100.12), together with modified examples of circumstances which create threats (see 200.3 – 200.8).



PART B
CHARTERED ACCOUNTANTS IN
PRACTICE

KEY REVISIONS IN PART B

■ **Structure**

Existing Section 290 (Independence) has been split into two sections:

- Section 290, dealing with audit and review engagements
- Section 291, dealing with other assurance engagements

If the assurance client is also an audit or review client, the requirements in Section 290 will also apply to the firm, network firms and members of the audit or review team.

■ **Review Engagements**

Reviews of financial statements are subject to the same independence requirements as audits of financial statements.

KEY REVISIONS IN PART B

■ **Changes in a Professional Appointment**

Previous Code sections from 210.19-210.23 were rule based so have been deleted. These paras were overstepping the existing laws, resulting in overburdening the members and the Institute itself.

■ **Other Occupations in which CAs can engage**

- Section 211.2 was merely a repetition of 211.1 and some parts of section 211.3.
- Section 211.4 was relating to main occupation which addresses practice management issues, hence, decided to be issued as a separate directive.

Both the sections have now been deleted from the revised Code.

KEY REVISIONS IN PART B

■ Section 220 ‘Conflicts of Interest’

This section has been revised by IESBA in 2014 which is adopted as it is.

■ Section 240 ‘Fees and Other Types of Remuneration’

- Previous Section 240.2 of Code was related to practice management and due to its sensitivity it was decided to continue to remain a separate directive (i.e.ATR-14)
 - The wordings of previous Section 240.4 already existed in CA Ordinance therefore to avoid duplication, it is now deleted.
- ## ■ IFAC Section 250 ‘Marketing Professional services’ has entirely been replaced with old ICAP Section 250 ‘Public Notices, Announcements and Communications’.

KEY REVISIONS IN PART B

There are no substantial changes to requirements in the below sections of the Code:

- 230 Second Opinions
- 260 Gifts and Hospitality
- 270 Custody of Client Assets
- 280 Objectivity – All Services

KEY REVISIONS TO SECTION 290

- Audit and review engagements for purposes of Section 290 include a:
 - Complete set of financial statements; and
 - Single financial statement.
- Modification of the independence requirements that apply to audit and review engagements is permitted where the audit or review report includes a restriction on use or distribution, provided certain conditions are met.

KEY REVISIONS TO SECTION 290

The revised Code introduces the following new requirements:

Network Firms (section 290.13-24)

- Network firms are required to be independent of audit clients of other firms within the network
- Network is defined as a larger structure that is:
 - Aimed at co-operation; and
 - Clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
- ▶ New definition of '**Public Interest Entities**' (PIE) has been introduced to which additional provisions will apply (**section 290.25**).
- ▶ New term '**Key Audit Partner**' has been introduced. In case of PIE, certain requirements will apply. Firms will need to analyse which partners should be regarded as KAP with respect to an individual audit client.

KEY REVISIONS TO SECTION 290

- **Related Entities (section 290.27)**

Related entities of the audit client is an entity that has direct or indirect control over the client if the client is material to such entity.

- **Those Charged with Governance (section 290.28)**

Considering the nature and importance of the particular circumstances, the chartered accountant or firm shall determine whom to communicate the matter within the entity's governance structure. Regular communication with those charged with governance is encouraged.

KEY REVISIONS TO SECTION 290

- **Documentation (section 290.29)**

The chartered accountant is required to document conclusions regarding compliance with independence requirements and the substance of relevant discussions supporting conclusions.

- **Engagement Period (section 290.30)**

Independence is required during the engagement period and the period covered by the financial statements.

KEY REVISIONS TO SECTION 290

- **Client Mergers and Acquisitions (Section 290.33 – 38)**

The Code introduces new requirements and application guidance addressing situations where, as a result of a merger or acquisition, an entity becomes a related entity of an audit client.

- **Breach of a Provision (Section 290.39-290.49)**

When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.

KEY REVISIONS TO SECTION 290

■ **Cooling Off Period (Section 290.137)**

A cooling off period of one year must be met before a Key Audit Partner or the firm's Managing Partner (or equivalent) joins an audit client that is a PIE as:

- a Director or Officer, or
- an employee in a position to exert significant influence over the preparation of the accounting records or the financial statements.

KEY REVISIONS TO SECTION 290

- **Rotation of Key Audit Partner (KAP) (section 290.149)**
 - Current auditor's rotation requirement of 5 years has been changed with the IESBA requirement.
 - New partner rotation requirement has been extended to all PIEs and KAPs:
 - KAP in respect of a public interest entity is required to rotate after **seven years, unless** the law prescribes shorter period in which case the requirement of the law shall prevail for such specific entities.
 - After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for **two years.**

APPLICATION OF THE CONCEPTUAL FRAMEWORK APPROACH TO INDEPENDENCE

Specific circumstances and relationships that create or may create threats to independence (**section 290.102 to 290.224**):

- Financial interests
- Loans and guarantees
- Business relationships
- Family and personal relationships
- Employment with an audit client
- Temporary staff assignments
- Recent service with an audit client
- Serving as a director or officer of an audit client
- Long association of senior personnel (including partner rotation) with an audit client



PROVISION OF NON-ASSURANCE SERVICES

- Before the firm accepts an engagement to provide a non-assurance service to an audit client, a determination shall be made whether providing the service creates a threat to independence.
- Paragraphs 290.102 to 290.224 describe specific circumstances and relationships that create or may create threats to independence.
- The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level and identify certain situations where no safeguards could reduce the threats to an acceptable level.
- The firm shall not provide the service if the threats cannot be reduced to an acceptable level by the application of safeguards.

INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

- Provision of non-assurance services to audit clients **(section 290.154-290.213)**
 - Management responsibilities
 - Preparing accounting records and financial statements
 - Valuation services
 - Taxation services
 - Internal audit services
 - IT systems services
 - Litigation support services
 - Legal services
 - Recruiting services
 - Corporate finance services



INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Management Responsibilities (section 290.159–290.163)

- The Code introduces this new section.
- The firm shall not assume a management responsibility for an audit client.
- The Code contains a description of activities that would, and would not, be generally regarded as a management responsibility.
- Management must accept certain responsibilities in order to avoid the risk of the firm assuming a management responsibility when providing non-assurance services to an audit client.

PROVISION OF NON-ASSURANCE SERVICES

Taxation Services (section 290.175-188)

- The Code contains new provisions relating to threats that are created by certain tax services. The provisions address tax services under four broad headings:
 - Tax return preparation
 - Tax calculations for the purposes of preparing the accounting entries
 - Tax planning and other advisory services, and
 - Assistance in the resolution of tax disputes

Corporate Finance Services (section 290.210-213)

- Enhanced discussion of nature of Corporate Finance Services, the threats created, factors to consider and potential safeguards.
- Introduces a prohibition on a service where the effectiveness of corporate finance advice depends upon a particular accounting treatment or presentation and there is a reasonable doubt thereon, and the effect on the financial statements is material.

KEY REVISIONS TO SECTION 290

- **Fees – Relative Size (section 290.216)**

Introduces required safeguards (pre or post issuance reviews) if fees from a PIE audit client and its related entities exceed 15% of the firm's total revenues for two consecutive years or more.

- **Contingent Fees (section 290.218 -290.220)**

The Code introduces a new prohibition on contingent fees for a non-audit assurance service to an audit client if certain specified conditions are met.

- **Compensation & Evaluation policies (section 290.221-290.222)**

The Code introduces a requirement that a KAP shall not be evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's audit client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.

KEY REVISIONS TO SECTION 290

Prohibitions Applicable to Audits of Public Interest Entities

- ***Prohibited Non-Assurance Services***
 - *Prohibited Without Regard to Materiality*
 - *Prohibited if material to the financial statements*
- ***Prohibited Interests and Relationships***

KEY REVISIONS TO SECTION 290

Prohibited Non-Assurance Services - Without Regard to Materiality

- Assuming a management responsibility.
- Serving as General Counsel.
- Accounting services*
- Bookkeeping services*
- Payroll services*
- Preparing the financial statements and related financial information*
- Promoting, dealing in, or underwriting client shares
- Negotiating for the client
- Recruiting directors/officers, or senior management who will have significant influence over accounting records or financial statements
- Evaluating or compensating a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client

* **Can be provided to divisions/related entities if routine/mechanical, or in an emergency, if specified conditions are met.**

KEY REVISIONS TO SECTION 290

Prohibited Non-Assurance Services - if material to the financial statements:

- Valuation services
- Calculations of current/deferred taxes.
- Tax or corporate finance advice that depends on a particular accounting treatment/financial statement presentation with respect to which there is reasonable doubt as to its appropriateness.
- Acting as an advocate before a public tribunal or court to resolve a tax matter.
- Internal audit services relating to internal controls over financial reporting, financial accounting systems, or financial statement amounts/disclosures.
- Designing/implementing financial reporting IT systems.
- Estimating damages or other amounts as part of litigation support services.
- Acting as an advocate to resolve a dispute

KEY REVISIONS TO SECTION 290

Prohibited Interests and Relationships

- Financial interests in the client.
- Financial interests in an entity in which the client has a material interest, and can significantly influence.
- Loans from a client lending institution that have not been made under normal lending procedures, terms, and conditions, or from a client that is not a lending institution and that are material.
- Material loans to a client.
- Deposits with a client not held under normal terms.
- Close business relationships with a client that are significant or entail a material financial interest.
- Audit team members whose immediate family member is a client director/officer, or an employee able to significantly influence the accounting records or financial statements.
- Former audit team members or a partner joining the client if significant connections with the firm remain.
- A key audit partner or senior/managing partner joining a client before a defined period of time.
- A key audit partner serving for more than 7 years (5 years for listed).
- An individual being on the audit team if, during the period covered by the audit, the person was a client director/officer, or an employee able to significantly influence the accounting records or financial statements.
- Partners/employees serving as a client director or officer.
- Accepting gifts or hospitality from the client that are other than trivial and inconsequential.

INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS – SECTION 291

- The provisions relating to other assurance engagements have now been moved to a separate new Section 291.
- Many of the changes made to Section 290 have impacted the revised language in Section 291.
- Otherwise, there are no significant changes relating to the independence requirements.

INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS – SECTION 29 I

- Assertion-based assurance engagements
 - Independence required from assurance client (party responsible for the subject matter information, and which may be responsible for the subject matter)
 - When client not responsible for subject matter evaluate the threats firm has reason to believe created by interests and relationships with party responsible for subject matter
- Direct reporting engagements
 - Independence required from assurance client (party responsible for the subject matter)



PART C
CHARTERED ACCOUNTANTS IN
BUSINESS

KEY REVISIONS TO PART – C

- **Section 310 Conflicts of Interest** has been revised with the revision of section 220 (as discussed in above slides).



DEFINITIONS

Following **new terms** have been added by IESBA:

- Key Audit Partner
- Public Interest Entities
- Those charged with governance
- Engagement team
- Professional activity

Following **five** definitions which are nowhere defined in the CA Ordinance / byelaws have been retained:

- Chartered Accountant in Business
 - Code of Corporate Governance
 - Company
 - Network firm
 - Publicity
- Remaining have been deleted as they are already defined in the CAO/ Byelaws or other laws and therefore, would be referred in the Code accordingly.



