

**Exposure Draft of the Code of Ethics for Chartered Accountants (Revised)
Amendments in the International Ethics Standards Board Restructured Code of Ethics for Professional Accountants**

The Auditing Standards & Ethics Committee of the Institute has approved to expose the '*Draft Code of Ethics for Chartered Accountants (Revised)*' (Draft Revised ICAP Code) to the members for their comments.

The Draft Revised ICAP Code has been taken from the International Ethics Standards Board for Accountants (IESBA) issued International Code of Ethics for Professional Accountants (including International Independence Standards) (termed as IESBA Restructured Code). The Draft Revised ICAP Code will supersede the currently applicable Code of Ethics for Chartered Accountants (Revised) (termed as Extant ICAP Code) issued in April 2015. The proposed effective date of the Draft Revised ICAP Code is June 15, 2019.

This Annexure outlines the amendments made to the IESBA Restructured Code.

In Draft Revised ICAP Code few amendments to the IESBA Restructured Code have been made in order to ensure compliance with the Chartered Accountants Ordinance, 1961 and other legal provisions applicable in Pakistan. These amendments are in following forms:

- a. Insertion of wordings in the Restructured Code;
- b. Substitution of a paragraph of IESBA Restructured Code with the paragraph of the Extant ICAP Code of Ethics for Chartered Accountants (Extant ICAP Code);
- c. Deletion of a paragraph of the IESBA Restructured Code; and
- d. Change in the terminology of the Restructured Code.

Further, The Auditing Standards & Ethics Committee has proposed a transition period for application of paragraph R540.11 (Cooling-off Period for audit engagement period). The relevant paragraph will be applicable for the financial year beginning on or after 01 January 2022.

The changes made in Draft Revised Code from the IESBA Restructured Code along with an explanation to the same are presented from the next page.

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Reference of the Part, section and Paragraph of the Draft Revised ICAP Code of Ethics	Revised paragraph, through additional wordings in the IESBA Restructured Code	Brief explanation for the amendment to the IESBA Restructured Code
<p>Part 4 A Section 540</p> <p>R540.5</p>	<p>Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years <u>unless the law prescribes a shorter period</u> (the “time-on” period):</p> <ul style="list-style-type: none"> (i) The engagement partner; (ii) The individual appointed as responsible for the engagement quality control review; or (iii) Any other key audit partner role. 	<p>In paragraph R540.5 wordings “<i>unless the law prescribes a shorter period</i>” have been inserted.</p> <p>The Code of Corporate Governance Regulations, 2017 and Public Sector Companies (Corporate Governance) Rules, 2013, prescribe rotation of audit partner after 5 years.</p> <p>The wordings <i>unless the law prescribes a shorter period</i> were also added in the Extant ICAP Code.</p>

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<p>Part 3 Section 330</p> <p>R330.4</p>	<p>When entering into negotiations regarding professional services, a chartered accountant in practice may quote whatever fee is deemed to be appropriate commensurate with the nature and service to be rendered. However, in such cases, chartered accountants in practice should be careful not to quote fee lower than that charged by the chartered accountants 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.</p>	<p>Proposed paragraph R330.4 substitutes paragraph 330.3A2 of the IESBA Restructured Code. The proposed paragraph was also added in the Extant ICAP Code.</p> <p>As per clause (11) of Part I of Schedule I of the Chartered Accountants Ordinance, 1961, undercutting is a professional misconduct. However, IESBA Restructured Code through paragraph 330.3A2 allows quoting a fee lower than another accountant.</p> <p>Due to the undercutting related provision in the Chartered Accountants Ordinance, 1961, existing provision of the Extant Code has been carried forward through proposed paragraph R330.4.</p>

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<p>Part 3 Section 370</p> <p>R370.1</p>	<p>In any communications, announcements and public notices, chartered accountants should not:</p> <ul style="list-style-type: none"> a) use means, which bring the profession into disrepute; b) make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; and c) denigrate the work of other accountants. <p>A chartered accountant preparing or authorizing the issue of matter falling within this Section should do so with a due sense of responsibility to the profession and to the public as a whole. In particular, such material should be in good taste both as to content and presentation and should not belittle services offered by others, whether members or not, either by claiming superiority for the services of a particular member or otherwise. The same attitude should be adopted towards activities mentioned in subsequent paragraphs.</p>	<p>Paragraphs R370.1 and R370.2 substitute paragraphs R115.2 and 115.2A1 of the IESBA Restructured Code. These paragraphs were also added in the Extant ICAP Code.</p> <p>As per clause (5) & (6) of Part I of Schedule I and clause (1) & (2) of Part II of Schedule I of Chartered Accountants Ordinance, 1961, marketing or advertising the professional services by certain means is a considered as a professional misconduct.</p>
<p>R370.2</p>	<p>All communications, announcements and public notices be issued in such manner and within the limits prescribed in the following paragraphs so that 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, are not violated:</p> <ul style="list-style-type: none"> a. All announcements, communications and public notices should: <ul style="list-style-type: none"> (i) be aimed at informing the recipients or the public in an objective manner; 	<p>Due to the above restrictions in Chartered Accountants Ordinance, 1961, existing provisions of the Extant Code have been carried forward through proposed paragraphs R370.1 & R370.2</p>

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	<p>(ii) conform to the basic principles of legality, decency, clarity, honesty and truthfulness; and</p> <p>(iii) not project an image, which is inconsistent with that of a professional person bound to high ethical and technical standards.</p> <p>b. Activities which may expressly be considered not to meet the above criteria and are therefore prohibited include those that:</p> <p>(i) create false, deceptive or unjustified expectations of favorable results;</p> <p>(ii) imply the ability to influence any court, tribunal, regulatory agency or similar body or official;</p> <p>(iii) consist of self-laudatory statements that are not based on verifiable facts;</p> <p>(iv) make comparisons with other chartered accountants in practice;</p> <p>(v) contain testimonials or endorsements;</p> <p>(vi) contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived; and</p> <p>(vii) make unjustified claims to be an expert or specialist in a particular field of accountancy.</p> <p>c. The examples which follow are illustrative of circumstances in which communications, announcements, public notices, etc., are acceptable and</p>	

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	<p>the matters to be considered in connection therewith subject always to the overriding requirements mentioned in the preceding paragraphs:</p> <p>(i) Appointments and Awards</p> <p>It is in the interests of the public and the profession that any appointment or other activity of a chartered accountant in a matter of national or local importance, or the award of any distinction to a member, should receive publicity and that membership of the Institute should be mentioned. However, the chartered accountant should not make use of any of the aforementioned appointments or activities for personal professional advantage.</p> <p>(ii) Chartered Accountants Seeking Employment or Professional Business</p> <p>A chartered accountant may inform interested parties through any medium that a partnership or salaried employment of an accountancy nature is being sought. The chartered accountants should not, however, publicize for subcontract work in a manner, which could be interpreted as seeking to procure professional business. Public announcements or public notices seeking subcontract work may be acceptable if placed only in the professional press and provided that neither the chartered accountant's name, address or telephone number appears in the public announcements or public notices. A chartered accountant may write a letter or make a direct approach to another chartered accountant when seeking employment or professional business.</p>	

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	<p>(iii) Directories & Internet</p> <p>A chartered accountant and his firm may be listed in the directories both alphabetically and in lead type and in classified list under "Chartered Accountants" in the directories. He can however, use the classification "Accountants and Auditors" when the directories do not have specific classification for "Chartered Accountants". Entries should be limited to name, address, telephone numbers, internet address, e-mail address, professional description and any other information necessary to enable the users of the directories to make contact with the chartered accountant and his firm may also develop and maintain a web site on the internet provided the contents comply with the requirements of paragraphs 250.1, (a) and (b) of 250.2 and (ix) of 250.2(d).</p> <p>(iv) Books, Articles, Interviews, Lectures, and Electronic Media</p> <p>A member who is author of a book or articles on a professional subject, may state his name and professional qualifications and give the name of his firm but shall not give any information as to the services that the firm provides.</p> <p>Similar provisions are applicable to participation by a chartered accountant in practice in a lecture, interview or a radio or television program on a professional subject. What practicing member write or say, however, should not be promotional of themselves or their firm but should be an objective professional view of the topic under consideration. Practicing members are responsible for using their best endeavors to ensure that what ultimately goes before the public complies with these requirements.</p>	

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	<p>When interviewed by a writer or reporter, the chartered accountant should observe the limitations imposed on him by this Section. The chartered accountant may not provide the press with any information for publication that he could not publish himself.</p> <p>(v) Training Courses, Seminars, etc.</p> <p>A chartered accountant may invite clients, their staff and the general public to attend training courses or seminars conducted for imparting professional education. However, undue prominence should not be given to the name of a chartered accountant in any booklets or documents issued in connection therewith.</p> <p>(vi) Professional Literature and Publications</p> <p>Any professional literature bearing the name of a chartered accountant or his firm giving technical information for the assistance of staff and clients may be issued to any other firm or persons.</p> <p>A publication developed / authored by a firm may be published in the firm's name but it shall not give any information as to the services that the firm provides.</p> <p>Such professional literature and publications can also be placed on the website of the firm.</p> <p>(vii) Staff Recruitment</p> <p>Genuine vacancies for staff may be communicated to the public through any medium in which comparable staff vacancies normally appear. The</p>	

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	<p>fact that a job specification necessarily gives some detail as to one or more of the services provided by the chartered accountant or his firm is acceptable but it should not contain any promotional element. There should not be any suggestion that the services offered are superior to those offered by other chartered accountants as a consequence of size, associations, or for any other reason.</p> <p>In publications such as those specifically directed to schools and other places of education to inform students and graduates of career opportunities in the profession, services offered to the public may be described in a businesslike way.</p> <p>More latitude may also be permissible in a section of a newspaper devoted to staff vacancies than would be allowed if the vacancy appears in a prominent position elsewhere in a newspaper on the grounds that it would be most unlikely that a potential client would use such media to select his professional adviser.</p> <p>(viii) Recruitment on behalf of Clients</p> <p>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.</p> <p>(ix) Brochures and Firm Directories</p> <p>A Chartered Accountant in practice may issue:</p>	

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	<p>(a) A factual and objectively worded account of the services provided, the firm's resources (human and other, specifying qualifications and experience of personnel where appropriate), existing clients (unless this breaches client confidentiality) and of professional assignments undertaken and;</p> <p>(b) A directory setting out names of partners, office addresses and names and addresses of associated firms and correspondents.</p> <p>(x) Stationery and Nameplates</p> <p>Stationery of chartered accountants in practice should be of an acceptable professional standard and comply with the requirements of the directives issued by the Council of the Institute from time to time as to names of partners, principals and others who participate in the practice, use of professional descriptions and designatory letters, cities or countries where the practice is represented, logotypes, etc. The designation of any services provided by the practice as being of specialist nature is not permitted. Similar provisions apply to nameplates.</p> <p>(xi) Newspaper announcements</p> <p>Appropriate newspapers or magazines may be used to inform the public of the establishment of a new practice, of changes in the composition of a partnership, or of any alteration in the address and telephone number of a practice.</p> <p>Such announcements should be limited to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the newspaper or magazine and number of insertions.</p>	

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	<p>(xii) Inclusion of the name of a Chartered Accountant in practice in a document issued by a Client</p> <p>When a client proposes to publish a report by a chartered accountant in practice dealing with the client's existing business affairs or in connection with the establishment of a new business venture, chartered accountant in practice should take steps to ensure that the context in which the report is published is not such as might result in the public being misled as to the nature and meaning of the report. In these circumstances, practicing member should advise the client that permission should first be obtained before publication of the document.</p> <p>Similar consideration should be given to other documents proposed to be issued by a client containing the name of a chartered accountant in practice acting in an independent professional capacity.</p> <p>This does not preclude the inclusion of the name of a chartered accountant in practice in the annual report of a client.</p> <p>When chartered accountant in practice in their private capacity are associated with, or hold office in, an organization, the organization may use their name and professional status on stationery and other documents. The chartered accountant in practice should ensure that this information is not used in such a way as might lead the public to believe that there is a connection with the organization in an independent professional capacity.</p> <p>(xiii) Advertising Material used to promote a course, which he has been asked to conduct</p>	

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	<p>It is of value to prospective students and course participants to know the instructor's background - such as degrees he holds, professional body affiliations, and the name of his firm. The chartered accountant has the responsibility to ascertain that all promotional efforts are within the bounds of this Section.</p> <p>(xiv) The Use of the CA title on an Employer's Stationery</p> <p>The use of the CA title on an employer's stationery by a chartered accountant not in practice is proper. It would also be proper for the CA title of the member to appear in paid advertisements of the employer that list the officers and directors.</p> <p>(xv) Greeting and Invitation Cards</p> <p>Greeting and invitation cards may be sent in the name of a chartered accountant or his firm. Professional qualifications may be indicated but no information shall be given regarding the services that the chartered accountant or the firm provides.</p>	
Glossary, including lists of abbreviations	<p>Chartered Accountant in Practice</p> <p>"As defined in the Chartered Accountant Ordinance, 1961"</p>	<p>The definition is aligned with the Chartered Accountants Ordinance, 1961. It replaces the definition of "<i>Professional Accountants in Public Practice</i>" of the Restructured Code.</p>

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Throughout the draft revised ICAP Code	The terms ‘Professional Accountant’ and ‘Public Practice’ have been substituted with the terms ‘Chartered Accountant’ and ‘Practice’, respectively.	<p>IESBA Code uses the term “Professional Accountants” and “<i>Professional Accountants in Public Practice.</i>”</p> <p>However, the Chartered Accountants Ordinance, 1961, uses the terms “<i>Chartered Accountants</i>” and “<i>Chartered Accountants in Practice</i>”. Therefore, these terms have been used in the draft Revised ICAP Code.</p> <p>These terms have also been used in the Extant ICAP Code.</p>

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<p>Part 3 Section 330</p> <p>330.4 A1</p>	<p>Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.</p>	<p>The draft Revised ICAP Code does not contain IESBA Restructured Code paragraphs relating to the contingent fee.</p>
<p>330.4 A2</p>	<p>Factors that are relevant in evaluating the level of such threats include:</p> <ul style="list-style-type: none"> • The nature of the engagement. • The range of possible fee amounts. • The basis for determining the fee. • Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration. • Quality control policies and procedures. • Whether an independent third party is to review the outcome or result of the transaction. • Whether the level of the fee is set by an independent third party such as a regulatory body. 	<p>Contingent fee based arrangement is not allowed under clause (9) of Part I of Schedule I of the Chartered Accountants Ordinance, 1961. Therefore, IESBA Restructured Code paragraphs relating to contingent fee have been deleted.</p> <p>In the Extant ICAP Code the contingent fee related paragraphs have also been deleted.</p>
<p>330.4 A3</p>	<p>Examples of actions that might be safeguards to address such a self-interest threat include:</p>	

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	<ul style="list-style-type: none"> • Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the professional accountant. • Obtaining an advance written agreement with the client on the basis of remuneration. 	
330.4 A4	Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in International Independence Standards.	
Part 4 A Section 410 410.12 A1	Paragraphs R400.10 and R400.11 preclude a firm from entering into certain contingent fee arrangements with an audit client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, a self-interest threat might still be created.	
410.12 A2	Factors that are relevant in evaluating the level of such a threat include: <ul style="list-style-type: none"> • The range of possible fee amounts. • Whether an appropriate authority determines the outcome on which the contingent fee depends. • Disclosure to intended users of the work performed by the firm and the basis of remuneration. • The nature of the service. 	

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	<ul style="list-style-type: none"> The effect of the event or transaction on the subject matter information. 	
410.12 A3	<p>Examples of actions that might be safeguards to address such a self-interest threat include:</p> <ul style="list-style-type: none"> Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work. Obtaining an advance written agreement with the client on the basis of remuneration. 	
<p>Part 4 B Section 905</p> <p>905.9 A1</p>	<p>Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.</p>	
905.9 A2	<p>Factors that are relevant in evaluating the level of such a threat include:</p> <ul style="list-style-type: none"> The range of possible fee amounts. Whether an appropriate authority determines the outcome on which the contingent fee depends. Disclosure to intended users of the work performed by the firm and the basis of remuneration. The nature of the service. 	

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 Amendments in the International Ethics Standards Board Restructured Code of Ethics for Professional Accountants

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	<ul style="list-style-type: none"> The effect of the event or transaction on the subject matter information. 	
905.9 A3	<p>Examples of actions that might be safeguards to address such a self-interest threat include:</p> <ul style="list-style-type: none"> Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work. Obtaining an advance written agreement with the client on the basis of remuneration. 	

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Paragraph Reference to the Draft Revised Code of Ethics	Transitional provision (Paragraph where transition period is provided)	Brief explanation for the transition provision
<p>Part 4 A Section 540</p> <p>R540.11</p>	<p>Effective for the financial year beginning on or after 01 January 2022.</p>	<p>In consideration of the practicality of the matter i.e. the application of the cooling-off period requirement to an audit engagement partner immediately after the adoption of the revised ICAP Code of Ethics, a transitional period has been proposed for the application of paragraph R540.11. Accordingly, the transitional provision wordings “<i>Effective for the financial year beginning on or after 01 January 2022</i>” have been inserted under paragraph R540.11”</p> <p>During the transition period, the extant ICAP Code cooling off requirement of two years would be applicable. However, from 01 January 2022 the cooling-off period requirement of five consecutive years would be applicable, if the individual has acted as the engagement partner for seven cumulative years.</p>