

Code of Ethics
For
Chartered Accountants

(Revised - May 2008)



The Institute of Chartered
Accountants of Pakistan

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FOREWORD

The adoption and promulgation of the revised Code of Ethics is a matter of great satisfaction for the Council.

In order to spot intolerable business practices and to exercise good judgment when conflicts arise, professional and ethical practice is essential. The revised Code of Ethics would serve as a reminder to chartered accountants to sift right from wrong in any given situation. As you are aware, most ethical problems hinge on integrity and objectivity and it is in these areas, particularly, that we must demonstrate the highest degree of ethical behaviour.

Chartered Accountants are expected to demonstrate the highest standards of ethical conduct to serve public interest. The ethical behavior of Chartered Accountants has a vital role in ensuring public trust in financial reporting and business practices and upholding the reputation of the accountancy profession.

The Code of Ethics expresses the members' recognition of their responsibilities to the public, to clients, to government and to colleagues. The Code guides members in the performance of their professional responsibilities and expresses the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

I hope that the members of the Institute would try their best endeavors to implement the Code in both letter and spirit.

Karachi, May 26, 2008

Imran Afzal
President

PREFACE

Historical Background

It was in 1969-70 that the Institute of Chartered Accountants of Pakistan published a Manual which basically explained in detail the objects and implications of various provisions of Schedule 'C' and 'D' of the Chartered Accountants Bye-Laws, 1961 (now superseded) relating to professional misconduct. This Manual also known, as the "Green Book" was issued to new members as part of Members' Handbook.

In 1983 new Bye-Laws were issued and Chartered Accountants Ordinance, 1961 was amended in the same year. Schedules relating to misconduct now form part of the Ordinance instead of the Bye-laws.

Professional ethics is not all about misconduct. It is, to quote from the Green Book; "basically the moral fabric for a profession and its practice is largely a matter of conscience. The stricter its self-imposed discipline, the nobler is the image.

It is not uncommon to be confronted with some act or the other which strictly may not fall under any clause of the Schedules and yet it may be improper by ethical standards. Such occasions are the true tests of professional integrity, and if members then rise to the occasion, the public image emerges not only unscathed but retains a lasting lustre of probity. In the case of an individual, one's character finally shapes one's destiny; in the case of a profession scrupulous observance of its ethics or the lack of it must determine its future. Where edicts fail precepts succeed. This is universally true".

The Institute, as a member body of the International Federation of Accountants (IFAC), is committed to the IFAC's broad objective of developing and enhancing a coordinated worldwide accountancy profession with common standards. In working towards this objective, IFAC develops guidance on ethics for professional accountants. IFAC believes that issuing such guidance will improve the degree of uniformity of professional ethics throughout the world.

As an obligation of its membership, the Institute is obliged to support the work of IFAC by (a) informing its members of every pronouncement developed by IFAC and (b) implementing to the extent possible under local circumstances.

The Institute in July 1990 initially adopted the IFAC Code of Ethics for Professional Accountants. This has been revised several times since then. In June 2005 the IFAC Code was again revised and in order to adopt the same the Technical Advisory Committee of the Institute took up the review of this Code and after an exhaustive study the IFAC Code has been adopted subject to few minor changes. It may be noted that the changes are not in conflict with the requirements of IFAC Code rather some of the requirements of ICAP Code are more stringent than those of IFAC Code.

Adoption by the Council

Pursuant to clause (i) of sub-section (2) of Section 15 of the Chartered Accountants Ordinance, 1961 the Council in its 196th meeting held on May 06, 2008 has adopted the following Code of Ethics to be effective from January 01, 2009. Section 290 is applicable to assurance engagements when the assurance report is dated on or after January 1, 2009.

About the Code

The revised Code establishes a conceptual framework for all chartered accountants to ensure compliance with the five fundamental principles of professional ethics. These principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Under the framework, all chartered accountants will be required to identify threats to these fundamental principles and take all possible measures to ensure that the principles are not compromised. The framework applies to all chartered accountants, whether in practice or not.

Chartered Accountants are expected to demonstrate the highest standards of professional conduct and to take into consideration the public interest. Ethical behaviour by Chartered Accountants plays a vital role in ensuring public trust in financial reporting and business practices and upholding the reputation of the accountancy profession.

The Code of Ethics helps the members of the Institute meet these obligations by providing them with ethical guidance. The Code applies to all members, students, affiliates, employees of member firms and, where applicable, member firms, in all of their professional and business activities, whether remunerated or voluntary.

This Code of Ethics is being issued as a Directive of the Council and any violation of the provisions of the Code will fall under Part 4 of Schedule 1 of the Chartered Accountants Ordinance, 1961.

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PART A GENERAL APPLICATION OF THE CODE

Section 100	Introduction and Fundamental Principles
Section 110	Integrity
Section 120	Objectivity
Section 130	Professional Competence and Due Care
Section 140	Confidentiality
Section 150	Professional Behavior

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Section 100

Introduction and Fundamental Principles

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a **chartered accountant's*** responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest a chartered accountant should observe and comply with the ethical requirements of this Code.
- 100.2 This Code is in three parts. Part A establishes the fundamental principles of professional ethics for chartered accountants and provides a conceptual framework for applying those principles. The conceptual framework provides guidance on fundamental ethical principles. Chartered accountants are required to apply this conceptual framework to identify threats to compliance with the fundamental principles, to evaluate their significance and, if such threats are other than **clearly insignificant*** to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised.
- 100.3 Parts B and C illustrate how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats and consequently the activity or relationship creating the threats should be avoided. Part B applies to **chartered accountants in practice***. Part C applies to **chartered accountants in business***. Chartered accountants in practice may also find the guidance in Part C relevant to their particular circumstances.

Fundamental Principles

- 100.4 A chartered accountant is required to comply with the following fundamental principles:

(a) *Integrity*

A chartered accountant should be straightforward and honest in all professional and business relationships.

* See Definitions

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(b) *Objectivity*

A chartered accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) *Professional Competence and Due Care*

A chartered accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A chartered accountant should act diligently and in accordance with applicable technical and professional standards when providing **professional services***.

(d) *Confidentiality*

A chartered accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the chartered accountant or third parties.

(e) *Professional Behavior*

A chartered accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Each of these fundamental principles is discussed in more detail in Sections 110 – 150.

* See Definitions

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Conceptual Framework Approach

- 100.5 The circumstances in which chartered accountants operate may give rise to specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates such threats and specify the appropriate mitigating action. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires a chartered accountant to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest. This Code provides a framework to assist a chartered accountant to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than clearly insignificant, a chartered accountant should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.
- 100.6 A chartered accountant has an obligation to evaluate any threats to compliance with the fundamental principles when the chartered accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- 100.7 A chartered accountant should take qualitative as well as quantitative factors into account when considering the significance of a threat. If a chartered accountant cannot implement appropriate safeguards, the chartered accountant should decline or discontinue the specific professional service involved, or where necessary resign from the client (in the case of a chartered accountant in practice) or the employing organization (in the case of a chartered accountant in business).
- 100.8 A chartered accountant may inadvertently violate a provision of this Code. Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 100.9 Parts B and C of this Code include examples that are intended to illustrate how the conceptual framework is to be applied. The examples are not intended to be, nor should they be interpreted as,

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an exhaustive list of all circumstances experienced by a chartered accountant that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for a chartered accountant merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances encountered by the chartered accountant.

Threats and Safeguards

100.10 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- (a) Self-interest threats, which may occur as a result of the financial or other interests of a chartered accountant or of an immediate or **close family*** member;
- (b) Self-review threats, which may occur when a previous judgment needs to be re-evaluated by the chartered accountant responsible for that judgment;
- (c) Advocacy threats, which may occur when a chartered accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;
- (d) Familiarity threats, which may occur when, because of a close relationship, a chartered accountant becomes too sympathetic to the interests of others; and
- (e) Intimidation threats, which may occur when a chartered accountant may be deterred from acting objectively by threats, actual or perceived.

Parts B and C of this Code, respectively, provide examples of circumstances that may create these categories of threats for chartered accountants in practice and chartered accountants in business. Chartered accountants in practice may also find the guidance in Part C relevant to their particular circumstances.

100.11 Safeguards that may eliminate or reduce such threats to an acceptable level fall into two broad categories:

- (a) Safeguards created by the profession, legislation or regulation; and

* See Definitions

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(b) Safeguards in the work environment.

100.12 Safeguards created by the profession, legislation or regulation include, but are not restricted to:

- Educational, training and experience requirements for entry into the profession.
- Continuing professional development requirements.
- Corporate governance regulations.
- Professional standards.
- Professional or regulatory monitoring and disciplinary procedures.
- External review by a legally empowered third party of the reports, returns, communications or information produced by a chartered accountant.

100.13 Parts B and C of this Code, respectively, discuss safeguards in the work environment for chartered accountants in practice and those in business.

100.14 Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation or an employing organization, include, but are not restricted to:

- Effective, well publicized complaints systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior.
- An explicitly stated duty to report breaches of ethical requirements.

100.15 The nature of the safeguards to be applied will vary depending on the circumstances. In exercising professional judgment, a chartered accountant should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would conclude to be unacceptable.

Ethical Conflict Resolution

100.16 In evaluating compliance with the fundamental principles, a chartered accountant may be required to resolve a conflict in the application of fundamental principles.

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100.17 When initiating either a formal or informal conflict resolution process, a chartered accountant should consider the following, either individually or together with others, as part of the resolution process:

- (a) Relevant facts;
- (b) Ethical issues involved;
- (c) Fundamental principles related to the matter in question;
- (d) Established internal procedures; and
- (e) Alternative courses of action.

Having considered these issues, a chartered accountant should determine the appropriate course of action that is consistent with the fundamental principles identified. The chartered accountant should also weigh the consequences of each possible course of action. If the matter remains unresolved, the chartered accountant should consult with other appropriate persons within the **firm**^{*} or employing organization for help in obtaining resolution.

100.18 Where a matter involves a conflict with, or within, an organization, a chartered accountant should also consider consulting with those charged with governance of the organization, such as the board of directors or the audit committee.

100.19 It may be in the best interests of the chartered accountant to document the substance of the issue and details of any discussions held or decisions taken, concerning that issue.

100.20 If a significant conflict cannot be resolved, a chartered accountant may wish to obtain professional advice from the appropriate committee of the Institute or legal advisors, and thereby obtain guidance on ethical issues without breaching confidentiality. For example, a chartered accountant may have encountered a fraud, the reporting of which could breach the chartered accountant's responsibility to respect confidentiality. The chartered accountant should consider obtaining legal advice to determine whether there is a requirement to report.

* See Definitions

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100.21 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a chartered accountant should, where possible, refuse to remain associated with the matter creating the conflict. The chartered accountant may determine that, in the circumstances, it is appropriate to withdraw from the **engagement team**^{*} or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

* See Definitions

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Section 110

Integrity

- 110.1 The principle of integrity imposes an obligation on all chartered accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.
- 110.2 A chartered accountant should not be associated with reports, returns, communications or other information where they believe that the information:
- (a) Contains a materially false or misleading statement;
 - (b) Contains statements or information furnished recklessly; or
 - (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.
- 110.3 A chartered accountant will not be considered 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.

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Section 120

Objectivity

- 120.1 The principle of objectivity imposes an obligation on all chartered accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.
- 120.2 A chartered accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgment of the chartered accountant should be avoided.

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Section 130

Professional Competence and Due Care

- 130.1 The principle of professional competence and due care imposes the following obligations on chartered accountants:
- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
 - (b) To act diligently in accordance with applicable technical and professional standards when providing professional services.
- 130.2 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:
- (a) Attainment of professional competence; and
 - (b) Maintenance of professional competence.
- 130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical professional and business developments. Continuing professional development develops and maintains the capabilities that enable a chartered accountant to perform competently within the professional environments.
- 130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- 130.5 A chartered accountant should take steps to ensure that those working under the chartered accountant's authority in a professional capacity have appropriate training and supervision.
- 130.6 Where appropriate, a chartered accountant should make clients, employers or other users of the professional services aware of limitations inherent in the services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

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Section 140

Confidentiality

- 140.1 The principle of confidentiality imposes an obligation on chartered accountants to refrain from:
- (a) Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
 - (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.
- 140.2 A chartered accountant should maintain confidentiality even in a social environment. The chartered accountant should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a close or **immediate family*** member.
- 140.3 A chartered accountant should also maintain confidentiality of information disclosed by a prospective client or employer.
- 140.4 A chartered accountant should also consider the need to maintain confidentiality of information within the firm or employing organization.
- 140.5 A chartered accountant should take all reasonable steps to ensure that staff under the chartered accountant's control and persons from whom advice and assistance is obtained respect the chartered accountant's duty of confidentiality.
- 140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a chartered accountant and a client or employer. When a chartered accountant changes employment or acquires a new client, the chartered accountant is entitled to use prior experience. The chartered accountant should not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

* See Definitions

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- 140.7 The following are circumstances where chartered accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:
- (a) Disclosure is permitted by law and is authorized by the client or the employer;
 - (b) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
 - (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the Quality Control Review (QCR) program of the Institute;
 - (ii) To respond to an inquiry or investigation by the Institute or other regulatory body;
 - (iii) To protect the professional interests of a chartered accountant in legal proceedings; or
 - (iv) To comply with technical standards and ethics requirements.
- 140.8 In deciding whether to disclose confidential information, chartered accountants should consider the following points:
- (a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the chartered accountant;
 - (b) Whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any; and

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- (c) The type of communication that is expected and to whom it is addressed; in particular, chartered accountants should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

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Section 150

Professional Behavior

- 150.1 The principle of professional behavior imposes an obligation on chartered accountants to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession. This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively affects the good reputation of the profession.

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PART B: CHARTERED ACCOUNTANTS IN PRACTICE

Section 200	Introduction
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Section 211	Other Occupations in which Chartered Accountants can Engage without Council's Permission
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Section 250	Public Notices, Announcements and Communications
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Section 270	Custody of Client Assets
Section 280	Objectivity–All Services
Section 290	Independence–Assurance Engagements

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Section 200

Introduction

200.1 This Part of the Code illustrates how the conceptual framework contained in Part A is to be applied by chartered accountants in practice. The examples in the following sections are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a chartered accountant in practice that may create threats to compliance with the principles. Consequently, it is not sufficient for a chartered accountant in practice merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances faced.

200.2 A chartered accountant in practice should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the rendering of professional services.

Threats and Safeguards

200.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- (a) Self-interest;
- (b) Self-review;
- (c) Advocacy;
- (d) Familiarity; and
- (e) Intimidation.

These threats are discussed further in Part A of this Code.

The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to a **financial statement audit client***, a non-financial statement audit **assurance client*** or a non-assurance client.

* See Definitions

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200.4 Examples of circumstances that may create self-interest threats for a chartered accountant in practice include, but are not limited to:

- A **financial interest*** in a client or jointly holding a financial interest with a client.
- Undue dependence on total fees from a client.
- Having a close business relationship with a client.
- Concern about the possibility of losing a client.
- Potential employment with a client.
- **Contingent fees*** relating to an **assurance engagement***.
- A loan to or from an assurance client or any of its directors or officers.

200.5 Examples of circumstances that may create self-review threats include, but are not limited to:

- The discovery of a significant error during a re-evaluation of the work of the chartered accountant in practice.
- Reporting on the operation of financial systems after being involved in their design or implementation.
- Having prepared the original data used to generate records that are the subject matter of the engagement.
- A member of the **assurance team*** being, or having recently been, a **director or officer*** of that client.
- A member of the assurance team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement.
- Performing a service for a client that directly affects the subject matter of the assurance engagement.

* See Definitions

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200.6 Examples of circumstances that may create advocacy threats include, but are not limited to:

- Promoting shares in a **listed entity*** when that entity is a financial statement audit client.
- Acting as an advocate on behalf of an assurance client in litigation or disputes with third parties.

200.7 Examples of circumstances that may create familiarity threats include, but are not limited to:

- A member of the engagement team having a close or immediate family relationship with a director or officer of the client.
- A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.
- A former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.
- Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant.
- Long association of senior personnel with the assurance client.

200.8 Examples of circumstances that may create intimidation threats include, but are not limited to:

- Being threatened with dismissal or replacement in relation to a client engagement.
- Being threatened with litigation.
- Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

* See Definitions

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200.9 A chartered accountant in practice may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In either professional or business relationships, a chartered accountant in practice should always be on the alert for such circumstances and threats.

200.10 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

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

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.12 of Part A of this Code.

200.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement specific safeguards. A chartered accountant in practice should exercise judgment to determine how to best deal with an identified threat. In exercising this judgment a chartered accountant in practice should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would reasonably conclude to be acceptable. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

200.12 Firm-wide safeguards in the work environment may include:

- Leadership of the firm that stresses the importance of compliance with the fundamental principles.
- Leadership of the firm that establishes the expectation that members of an assurance team will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of

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the significance of these threats and the identification and the application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level.

- For firms that perform assurance engagements, documented **independence*** policies regarding the identification of threats to independence, the evaluation of the significance of these threats and the evaluation and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level.
- Documented internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- Timely communication of a firm's policies and procedures, including any changes to them, to all partners and Professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- Advising partners and professional staff of those assurance clients and related entities from which they must be independent.

* See Definitions

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- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

200.13 Engagement-specific safeguards in the work environment may include:

- Involving an additional chartered accountant to review the work done or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another chartered accountant.
- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- Involving another firm to perform or re-perform part of the engagement.
- Rotating senior assurance team personnel.

200.14 Depending on the nature of the engagement, a chartered accountant in practice may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.

200.15 Safeguards within the client's systems and procedures may include:

- When a client appoints a firm in practice to perform an engagement, persons other than management ratify or approve the appointment.
- The client has competent employees with experience and seniority to make managerial decisions.

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- The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

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Section 210

Professional Appointment

Client Acceptance

- 210.1 Before accepting a new client relationship, a chartered accountant in practice should consider whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management and activities).
- 210.2 Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.
- 210.3 The significance of any threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 210.4 Appropriate safeguards may include obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities, or securing the client's commitment to improve corporate governance practices or internal controls.
- 210.5 Where it is not possible to reduce the threats to an acceptable level, a chartered accountant in practice should decline to enter into the client relationship.
- 210.6 Acceptance decisions should be periodically reviewed for recurring client engagements.

Engagement Acceptance

- 210.7 A chartered accountant in practice should agree to provide only those services that the chartered accountant in practice is competent to perform. Before accepting a specific client engagement, a chartered accountant in practice should consider whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot

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acquire, the competencies necessary to properly carry out the engagement.

210.8 A chartered accountant in practice should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
- Acquiring knowledge of relevant industries or subject matters.
- Possessing or obtaining experience with relevant regulatory or reporting requirements.
- Assigning sufficient staff with the necessary competencies.
- Using experts where necessary.
- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.9 When a chartered accountant in practice intends to rely on the advice or work of an expert, the chartered accountant in practice should evaluate whether such reliance is warranted. The chartered accountant in practice should consider factors such as reputation, expertise, resources available and applicable Professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in a Professional Appointment

210.10 A chartered accountant in practice who is asked to replace another chartered accountant in practice, or who is considering tendering for an engagement currently held by another chartered accountant in practice, should determine whether there are any reasons, professional or other, for not accepting the engagement, such as circumstances that threaten compliance with the fundamental

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principles. For example, there may be a threat to professional competence and due care if a chartered accountant in practice accepts the engagement before knowing all the pertinent facts.

210.11 The significance of the threats should be evaluated. Depending on the nature of the engagement, this may require direct communication with the **existing accountant*** to establish the facts and circumstances behind the proposed change so that the chartered accountant in practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision as to whether to accept the appointment.

210.12 An existing accountant is bound by confidentiality. The extent to which the chartered accountant in practice can and should discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and on:

- (a) Whether the client's permission to do so has been obtained;
or
- (b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

210.13 In the absence of specific instructions by the client, an existing accountant should not ordinarily volunteer information about the client's affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 140 of Part A of this Code.

210.14 If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

210.15 Such safeguards may include:

- Discussing the client's affairs fully and freely with the existing accountant;

* See Definitions

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- Asking the existing accountant to provide known information on any facts or circumstances, that, in the existing accountant's opinion, the proposed accountant should be aware of before deciding whether to accept the engagement;
 - When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing accountant will be requested so that inquiries may be made as to whether there are any Professional or other reasons why the appointment should not be accepted.
- 210.16 A chartered accountant in practice will ordinarily need to obtain the client's permission, preferably in writing, to initiate discussion with an existing accountant. Once that permission is obtained, the existing accountant should comply with relevant legal and other regulations governing such requests. The existing accountant should promptly transfer to the new chartered accountant in practice all books and papers of the client, which are or may be held after the change in appointment has been effected and should advise the client accordingly, unless he has a legal right to withhold them. Where the existing accountant provides information, it should be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing accountant, the proposed accountant should try to obtain information about any possible threats by other means such as through inquiries of third parties or background investigations on senior management or those charged with governance of the client.
- 210.17 Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a chartered accountant in practice should, unless there is satisfaction as to necessary facts by other means, decline the engagement.
- 210.18 A chartered accountant in practice may be asked to undertake work that is complementary or additional to the work of the existing accountant. Such circumstances may give rise to potential threats to professional competence and due care resulting from, for example, a lack of or incomplete information. Safeguards against such threats include notifying the existing accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

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- 210.19 Where an existing chartered accountant is removed by the proprietors of the business before he has completed the audit and submitted his report, the existing chartered accountant must immediately inform the Institute with relevant facts about his removal.
- 210.20 The proposed chartered accountant in practice should not only follow the procedure detailed in the preceding paragraphs of this Section, he should also inform the Institute about the offer of appointment.
- 210.21 The proposed chartered accountant in practice should not accept the offer without prior clearance from the Institute, which clearance shall not be unreasonably withheld. Provided however, in case the Institute refuses to give its clearance, it shall communicate its decision within 15 (fifteen) days with reasons therefore.
- 210.22 Where an existing chartered accountant, though willing for re-appointment has not been re-appointed, he shall file with the Institute a copy of the statement which he may have sent to the proprietors/Board of Directors of the Company for circulation among the shareholders under section 253 of the Companies Ordinance, 1984. It shall be obligatory on the proposed chartered accountant before accepting the appointment, to obtain a copy of such a communication and follow the procedure detailed in preceding paragraphs of this Section.
- 210.23 In case the proprietors of the business decide to remove the existing chartered accountant before the completion of their term for whatever reasons, they may, if they consider necessary, refer the matter to the Institute for appropriate action in accordance with the Chartered Accountants Ordinance, 1961 and its rules, regulations and bye-laws for the time being in force.

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Section 211

Other Occupations in which Chartered Accountants can Engage without Council's Permission

- 211.1 A chartered accountant in practice shall not concurrently engage in any business, occupation or activity which is inconsistent and incompatible with the provision of professional services to clients.
- 211.2 The simultaneous engagement in another business, occupation or activity unrelated to the provision of professional services to clients, which has the effect of not allowing the chartered accountant to properly conduct his practice in accordance with the fundamental ethical principles of the Institute is inconsistent and incompatible with practice.
- 211.3 A business, occupation or activity is inconsistent and incompatible with the provision of professional services to client when it:-
- (a) creates or would create conflict of interest with existing clients;
 - (b) impairs or would impair integrity, objectivity or independence. in providing professional services to clients;
 - (c) impairs or would impair to material extent the ability to provide professional services to clients;
 - (d) impairs or would impair the good reputation of the profession.
- 211.4 A chartered accountant in practice may engage in the following occupations without obtaining the prior approval of the Council:-
- (a) Employment under chartered accountants in practice or firms of such chartered accountants.
 - (b) Private tutorship.
 - (c) Attending classes and appearing for any examination, either academic or accountancy or any examination relating to the other professions and obtaining membership of such bodies/associations.
 - (d) Authorship of books

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- (e) Appearing before any Court of Law for representing clients etc., in respect of the "other functions" as stated in the Bye-Laws of the Institute, if so eligible.
- (f) Proprietorship, partnership or directorship of educational and training institutions extending professional or business education and training.
- (g) Part-time lecturer-ship in Universities or other institutions including those relating to or accredited by the Institute or those run under the auspices of the Institute or the Regional Committees.
- (h) Acting as examiner/paper-setter for educational and professional institutions and to be a member of Universities/Colleges, Committees, Board etc.
- (i) Honorary editorship of professional journals.
- j) Holding membership/office in any charitable, religious, social or educational organization without remuneration.
- (k) Engaging in research and report writing and assisting national and international organizations in the preparation of their research reports.
- (l) Accepting directorship of any company as non-executive director.
- (m) Holding public elected offices such as Member Provincial Assembly, Member National Assembly, Senator etc.; or offices such as Special Assistant or Advisor to a Minister or Prime Minister etc.

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Section 220

Conflicts of Interest

- 220.1 A chartered accountant in practice should take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may give rise to threats to compliance with the fundamental principles. For example, a threat to objectivity may be created 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. A threat to objectivity or confidentiality may also be created when a chartered accountant in practice 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.
- 220.2 A chartered accountant in practice should evaluate the significance of any threats. Evaluation includes considering, before accepting or continuing a client relationship or specific engagement, whether the chartered accountant in practice has any business interests, or relationships with the client or a third party that could give rise to threats. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 220.3 Depending upon the circumstances giving rise to the conflict, safeguards should ordinarily include the chartered accountant in practice:
- (a) Notifying the client of the firm's business interest or activities that may represent a conflict of interest, and obtaining their consent to act in such circumstances; or
 - (b) Notifying all known relevant parties that the chartered accountant in practice is acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent to so act; or
 - (c) Notifying the client that the chartered accountant in practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act.
- 220.4 The following additional safeguards should also be considered:
- (a) The use of separate engagement teams; and

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- (b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing); and
 - (c) Clear guidelines for members of the engagement team on issues of security and confidentiality; and
 - (d) The use of confidentiality agreements signed by employees and partners of the firm; and
 - (e) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.
- 220.5 Where a conflict of interest poses a threat to one or more of the fundamental principles, including objectivity, confidentiality or professional behavior, that cannot be eliminated or reduced to an acceptable level through the application of safeguards, the chartered accountant in practice should conclude that it is not appropriate to accept a specific engagement or that resignation from one or more conflicting engagements is required.
- 220.6 Where a chartered accountant in practice has requested consent from a client to act for another party (which may or may not be an existing client) in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, then they must not continue to act for one of the parties in the matter giving rise to the conflict of interest.

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Section 230

Second Opinions

- 230.1 Situations where a chartered accountant in practice is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may give rise to threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant, or is based on inadequate evidence. The significance of the threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.
- 230.2 When asked to provide such an opinion, a chartered accountant in practice should evaluate the significance of the threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.
- 230.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, a chartered accountant in practice should consider whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

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Section 240

Fees and Other Types of Remuneration

- 240.1 When entering into negotiations regarding professional services, a chartered accountant in practice may quote whatever fee 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.
- 240.2 Chartered accountants in practice shall comply with ATR-14, Minimum Hourly Charge Out Rates and Minimum Fee for Audit Engagements.
- 240.3 The significance of such threats will depend on factors such as the level of fee quoted and the services to which it applies. In view of these potential threats, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards which may be adopted include:
- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
 - Assigning appropriate time and qualified staff to the task.
- 240.4 Professional services should not be offered or rendered to a client under an arrangement otherwise whereby no fee will be charged unless a specific finding or result is obtained or when the fee is otherwise contingent upon the findings or results of such services.
- Fees should not be regarded as being contingent if fixed by a court or other public authority. Fees charged on a percentage or similar basis, except when authorized by statute or approved by the Institute as generally accepted practice for certain professional services, should be regarded as contingent fees.
- 240.5 In certain circumstances, a chartered accountant in practice may receive a referral fee or commission relating to a client. For example, where the chartered accountant in practice does not provide the specific service required, a fee may be received for referring a

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continuing client to another chartered accountant in practice or other expert. A chartered accountant in practice may receive a commission from a third party (e.g., a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission may give rise to self-interest threats to objectivity and chartered competence and due care.

240.6 A chartered accountant in practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another chartered accountant in practice but requires specialist services not offered by the existing accountant. The payment of such a referral fee may also create a self-interest threat to objectivity and professional competence and due care.

240.7 A chartered accountant in practice should not pay or receive a referral fee or commission, unless the chartered accountant in practice has established safeguards to eliminate the threats or reduce them to an acceptable level. Such safeguards may include:

- Disclosing to the client any arrangements to pay a referral fee to another chartered accountant for the work referred.
- Disclosing to the client any arrangements to receive a referral fee for referring the client to another chartered accountant in practice.
- Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.

240.8 A chartered accountant in practice may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraph 240.5 – 240.7 above.

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Section 250

Public Notices, Announcements and Communications

Undue publicity be avoided

250.1 In any communications, announcements and public notices, chartered accountants should not:

- (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.

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 Chartered Accountant or otherwise. The same attitude should be adopted towards activities mentioned in subsequent paragraphs.

Advertising for solicitation be avoided

250.2 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:-

- (a) All announcements, communications and public notices should:-
 - (i) be aimed at informing the recipients or the public in an objective manner;
 - (ii) conform to the basic principles of legality, decency, clarity, honesty and truthfulness; and
 - (iii) not project an image, which is inconsistent with that of a professional person bound to high ethical and technical standards.

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- (b) Activities which may expressly be considered not to meet the above criteria and are therefore prohibited include those that:
- (i) create false, deceptive or unjustified expectations of favourable results;
 - (ii) imply the ability to influence any court, tribunal, regulatory agency or similar body or official;
 - (iii) consist of self-laudatory statements that are not based on verifiable facts;
 - (iv) make comparisons with other professional accountants in practice;
 - (v) contain testimonials or endorsements;
 - (vi) contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived; and
 - (vii) make unjustified claims to be an expert or specialist in a particular field of accountancy.
- (c) The examples which follow are illustrative of circumstances in which communications, announcements, public notices, etc., are acceptable and the matters to be considered in connection therewith subject always to the overriding requirements mentioned in the preceding paragraphs:-
- (i) **Appointments and Awards**

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.

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(ii) Chartered Accountants Seeking Employment or Professional Business

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.

(iii) Directories & Internet

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(c).

(iv) Books, Articles, Interviews, Lectures, and Electronic Media

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.

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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.

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.

(v) Training Courses, Seminars, etc.

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.

(vi) Professional Literature and Publications

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.

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.

Such professional literature and publications can also be placed on the website of the firm.

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(vii) Staff Recruitment

Genuine vacancies for staff may be communicated to the public through any medium in which comparable staff vacancies normally appear. The 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.

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.

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.

(viii) Recruitment on Behalf of Clients

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.

(ix) Brochures and Firm Directories

A Chartered Accountant in practice may issue:-

- (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

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breaches client confidentiality) and of professional assignments undertaken and;

- (b) A directory setting out names of partners, office addresses and names and addresses of associated firms and correspondents.

- (x) Stationery and Nameplates

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.

- (xi) Newspaper Announcements

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.

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.

- (xii) Inclusion of the Name of a Chartered Accountant in practice in a Document Issued by a Client

When a client proposes to publish a report by a practicing member 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

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circumstances, practicing member should advise the client that permission should first be obtained before publication of the document.

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.

This does not preclude the inclusion of the name of a Chartered Accountant in practice in the annual report of a client.

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.

(xiii) Advertising Material Used to Promote a Course, Which He Has Been Asked to Conduct

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.

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(xiv) The Use of the CA title on an Employer's Stationery

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.

(xv) Greeting and Invitation Cards

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.

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Section 260

Gifts and Hospitality

- 260.1 A chartered accountant in practice, or an immediate or close family member, may be offered gifts and hospitality from a client. Such an offer ordinarily gives rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity may be created if a gift from a client is accepted; intimidation threats to objectivity may result from the possibility of such offers being made public.
- 260.2 The significance of such threats will depend on the nature, value and intent behind the offer. Where gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider clearly insignificant are made a chartered accountant in practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the chartered accountant in practice may generally conclude that there is no significant threat to compliance with the fundamental principles.
- 260.3 If evaluated threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a chartered accountant in practice should not accept such an offer.

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Section 270

Custody of Client Assets

- 270.1 A chartered accountant in practice should not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a chartered accountant in practice holding such assets.
- 270.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is self-interest threat to professional behavior and may be a self interest threat to objectivity arising from holding client assets. To safeguard against such threats, a chartered accountant in practice entrusted with money (or other assets) belonging to others should:
- (a) Keep such assets separately from personal or firm assets; and
 - (b) Use such assets only for the purpose for which they are intended; and
 - (c) At all times, be ready to account for those assets, and any income, dividends or gains generated, to any persons entitled to such accounting; and
 - (d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.
- 270.3 In addition, chartered accountants in practice should be aware of threats to compliance with the fundamental principles through association with such assets, for example, if the assets were found to derive from illegal activities, such as money laundering. As part of client and engagement acceptance procedures for such services, chartered accountants in practice should make appropriate inquiries about the source of such assets and should consider their legal and regulatory obligations. They may also consider seeking legal advice.

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Section 280

Objectivity–All Services

- 280.1 A chartered accountant in practice should consider when providing any professional service whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or directors, officers or employees. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.
- 280.2 A chartered accountant in practice who provides an assurance service is required to be independent of the assurance client. Independence of mind and in appearance is necessary to enable the chartered accountant in practice to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest or undue influence of others. Section 290 provides specific guidance on independence requirements for chartered accountants in practice when performing an assurance engagement.
- 280.3 The existence of threats to objectivity when providing any professional service will depend upon the particular circumstances of the engagement and the nature of the work that the chartered accountant in practice is performing.
- 280.4 A chartered accountant in practice should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:
- Withdrawing from the engagement team.
 - Supervisory procedures.
 - Terminating the financial or business relationship giving rise to the threat.
 - Discussing the issue with higher levels of management within the firm.
 - Discussing the issue with those charged with governance of the client.

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SECTION 290

Independence—Assurance Engagements

- 290.1 In the case of an assurance engagement it is in the public interest and, therefore, required by this Code of Ethics, that members of **assurance teams**,* firms and, when applicable, **network firms** be independent of assurance clients.
- 290.2 Assurance engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The International Framework for Assurance Engagements (the Assurance Framework) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply. For a description of the elements and objectives of an assurance engagement reference should be made to the Assurance Framework.
- 290.3 As further explained in the Assurance Framework, in an assurance engagement the chartered accountant in practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.
- 290.4 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term "subject matter information" is used to mean the outcome of the evaluation or measurement of subject matter. For example:
- The recognition, measurement, presentation and disclosure represented in the **financial statements*** (subject matter information) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as International Financial Reporting Standards, (criteria) to an entity's financial position, financial performance and cash flows (subject matter).

* See Definitions

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- An assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO or CoCo, (criteria) to internal control, a process (subject matter).
- 290.5 Assurance engagements may be assertion-based or direct reporting. In either case they involve three separate parties: a public accountant in public practice, a responsible party and intended users.
- 290.6 In an assertion-based assurance engagement, which includes a **financial statement audit engagement***, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.
- 290.7 In a direct reporting assurance engagement the chartered accountant in practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.
- 290.8 Independence requires:

Independence of Mind

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

Independence in appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

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- 290.9 The use of the word “independence” on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.
- 290.10 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms and members of assurance teams to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

A Conceptual Approach to Independence

- 290.11 Members of assurance teams, firms and network firms are required to apply the conceptual framework contained in Section 100 to the particular circumstances under consideration. In addition to identifying relationships between the firm, network firms, members of the assurance team and the assurance client, consideration should be given to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence.
- 290.12 The examples presented in this section are intended to illustrate the application of the conceptual framework and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to independence. Consequently, it is not sufficient for a member of an assurance team, a firm or a network firm merely to comply with the examples presented, rather they should apply the framework to the particular circumstances they face.
- 290.13 The nature of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level differ depending on the characteristics of the individual assurance engagement: whether it is a financial statement audit engagement or another type of assurance engagement; and in

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the latter case, the purpose, subject matter information and intended users of the report. A firm should, therefore, evaluate the relevant circumstances, the nature of the assurance engagement and the threats to independence in deciding whether it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and whether a particular individual should be a member of the assurance team.

Assertion-Based Assurance Engagements

Financial Statement Audit Engagements

290.14 Financial statement audit engagements are relevant to a wide range of potential users; consequently, in addition to independence of mind, independence in appearance is of particular significance. Accordingly, for financial statement audit clients, the members of the assurance team, the firm and network firms are required to be independent of the financial statement audit client. Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client in a position to exert direct and significant influence over the subject matter information (the financial statements). Also, consideration should be given to whether threats to independence are created by relationships with employees of the client in a position to exert direct and significant influence over the subject matter (the financial position, financial performance and cash flows).

Other Assertion-Based Assurance Engagements

290.15 In an assertion-based assurance engagement where the client is not a financial statement audit client, the members of the assurance team and the firm are required to be independent of the assurance client (the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter). Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client in a position to exert direct and significant influence over the subject matter information. Also, consideration should be given to whether threats to independence are created by relationships with employees of the client in a position to exert direct and significant influence over the subject matter of the engagement. Consideration should also be given to any threats that the firm has reason to believe may be created by network firm interests and relationships.

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- 290.16 In the majority of assertion-based assurance engagements, that are not financial statement audit engagements, the responsible party is responsible for the subject matter information and the subject matter. However, in some engagements the responsible party may not be responsible for the subject matter. For example, when a chartered accountant in practice is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices, for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).
- 290.17 In those assertion-based assurance engagements that are not financial statement audit engagements, where the responsible party is responsible for the subject matter information but not the subject matter the members of the assurance team and the firm are required to be independent of the party responsible for the subject matter information (the assurance client). In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

Direct Reporting Assurance Engagements

- 290.18 In a direct reporting assurance engagement the members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter).

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Restricted Use Reports

290.19 In the case of an assurance report in respect of a non-financial statement audit client expressly restricted for use by identified users, the users of the report are considered to be knowledgeable as to the purpose, subject matter information and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to deliver the services, including the criteria against which the subject matter are to be evaluated or measured. This knowledge and the enhanced ability of the firm to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence in appearance. These circumstances may be taken into account by the firm in evaluating the threats to independence and considering the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level. At a minimum, it will be necessary to apply the provisions of this section in evaluating the independence of members of the assurance team and their immediate and close family. Further, if the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Limited consideration of any threats created by network firm interests and relationships may be sufficient.

Multiple Responsible Parties

290.20 In some assurance engagements, whether assertion-based or direct reporting, that are not financial statement audit engagements, there might be several responsible parties. In such engagements, in determining whether it is necessary to apply the provisions in this section to each responsible party, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is other than clearly insignificant in the context of the subject matter information. This will take into account factors such as:

- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest associated with the engagement.

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If the firm determines that the threat to independence created by any such interest or relationship with a particular responsible party would be clearly insignificant it may not be necessary to apply all of the provisions of this section to that responsible party.

Other Considerations

290.21 The threats and safeguards identified in this section are generally discussed in the context of interests or relationships between the firm, network firms, members of the assurance team and the assurance client. In the case of a financial statement audit client that is a listed entity, the firm and any network firms are required to consider the interests and relationships that involve that client's related entities. Ideally those entities and the interests and relationships should be identified in advance. For all other assurance clients, when the assurance team has reason to believe that a **related entity*** of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards.

290.22 The evaluation of threats to independence and subsequent action should be supported by evidence obtained before accepting the engagement and while it is being performed. The obligation to make such an evaluation and take action arises when a firm, a network firm or a member of the assurance team knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence. There may be occasions when the firm, a network firm or an individual inadvertently violates this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to an assurance client provided the firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

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290.23 Throughout this section, reference is made to significant and clearly insignificant threats in the evaluation of independence. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is deemed to be both trivial and inconsequential.

Objective and Structure of this Section

290.24 The objective of this section is to assist firms and members of assurance teams in:

- (a) Identifying threats to independence;
- (b) Evaluating whether these threats are clearly insignificant; and
- (c) In cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

Consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable. In situations when no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement.

290.25 This section concludes with some examples of how this conceptual approach to independence is to be applied to specific circumstances and relationships. The examples discuss threats to independence that may be created by specific circumstances and relationships (paragraphs 290.100 onwards). Professional judgment is used to determine the appropriate safeguards to eliminate threats to independence or to reduce them to an acceptable level. In certain examples, the threats to independence are so significant the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement. In other examples, the threat can be eliminated or reduced to an acceptable level by the application of safeguards. The examples are not intended to be all-inclusive.

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- 290.26 Certain examples in this section indicate how the framework is to be applied to a financial statements audit engagement for a listed entity.
- 290.27 When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.
- 290.28 The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threats to an acceptable level, takes into account the public interest. Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Examples of such entities may include listed companies, credit institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of listed entities, certain paragraphs in this section deal with additional matters that are relevant to the financial statement audit of listed entities. Consideration should be given to the application of the framework in relation to the financial statement audit of listed entities to other financial statement audit clients that may be of significant public interest.
- 290.29 Audit committees can have an important corporate governance role when they are independent of client management and can assist the Board of Directors in satisfying themselves that a firm is independent in carrying out its audit role. There should be regular communications between the firm and the audit committee (or other governance body if there is no audit committee) of listed entities regarding relationships and other matters that might, in the firm's opinion, reasonably be thought to bear on independence.
- 290.30 Firms should establish policies and procedures relating to independence communications with audit committees, or others charged with governance of the client. In the case of financial statement audit of listed entities, the firm should communicate orally and in writing at least annually, all relationships and other matters between the firm, network firms and the financial statement audit client that in the firm's professional judgment may reasonably be thought to bear on independence. Matters to be communicated will vary in each circumstance and should be decided by the firm, but should generally address the relevant matters set out in this section.

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290.31 In case of a listed company, the chartered accountants in practice shall take cognizance of the following clause (xlii) of the Code of Corporate Governance:

- (xlii) No listed company shall appoint a person as the CEO, the CFO, an internal auditor or a director of the listed company who was a partner of the firm of its external auditors (or an employee involved in the audit of the listed company) at any time during the two years preceding such appointment or is a close relative, i.e. spouse, parents, dependents and non-dependent children, of such partner (or employee).

Engagement Period

290.32 The members of the assurance team and the firm should be independent of the assurance client during the period of the assurance engagement. The period of the engagement starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature. If the assurance engagement is expected to recur, the period of the assurance engagement ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.

290.33 In the case of a financial statement audit engagement, the engagement period includes the period covered by the financial statements reported on by the firm. When an entity becomes a financial statement audit client during or after the period covered by the financial statements that the firm will report on, the firm should consider whether any threats to independence may be created by:

- Financial or business relationships with the audit client during or after the period covered by the financial statements, but prior to the acceptance of the financial statement audit engagement; or
- Previous services provided to the audit client.

Similarly, in the case of an assurance engagement that is not a financial statement audit engagement, the firm should consider whether any financial or business relationships or previous services may create threats to independence.

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290.34 If a non-assurance service was provided to the financial statement audit client during or after the period covered by the financial statements but before the commencement of professional services in connection with the financial statement audit and the service would be prohibited during the period of the audit engagement, consideration should be given to the threats to independence, if any, arising from the service. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards may include:

- Discussing independence issues related to the provision of the non-assurance service with those charged with governance of the client, such as the audit committee;
- Obtaining the client's acknowledgement of responsibility for the results of the non-assurance service;
- Precluding personnel who provided the non-assurance service from participating in the financial statement audit engagement; and
- Engaging another firm to review the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

290.35 A non-assurance service provided to a non-listed financial statement audit client will not impair the firm's independence when the client becomes a listed entity provided:

- (a) The previous non-assurance service was permissible under this section for non-listed financial statement audit clients;
- (b) The service will be terminated within a reasonable period of time of the client becoming a listed entity, if they are impermissible under this section for financial statement audit clients that are listed entities; and
- (c) The firm has implemented appropriate safeguards to eliminate any threats to independence arising from the previous service or reduce them to an acceptable level.

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(For further guidance regarding provision of non-assurance services to listed financial statement audit client , refer to list of prohibited services given in the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges)

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Introduction

- 290.100 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all inclusive. In practice, the firm, network firms and the members of the assurance team will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 200.12-200.15 can be applied to satisfactorily address the threats to independence.
- 290.101 Some of the examples deal with financial statement audit clients while others deal with assurance engagements for clients that are not financial statement audit clients. The examples illustrate how safeguards should be applied to fulfill the requirement for the members of the assurance team, the firm and network firms to be independent of a financial statement audit client, and for the members of the assurance team and the firm to be independent of an assurance client that is not a financial statement audit client. The examples do not include assurance reports to a non-financial statement audit client expressly restricted for use by identified users. As stated in paragraph 290.19 for such engagements, members of the assurance team and their immediate and close family are required to be independent of the assurance client. Further, the firm should not have a material financial interest, direct or indirect, in the assurance client.
- 290.102 The examples illustrate how the framework applies to financial statement audit clients and other assurance clients. The examples should be read in conjunction with paragraphs 290.20 which explain that, in the majority of assurance engagements, there is one responsible party and that responsible party comprises the assurance client. However, in some assurance engagements there are two responsible parties. In such circumstances, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.
- 290.103 Interpretation 2005-01 to this section provides further guidance on the application of the independence requirements contained in this section to assurance engagements that are not financial statement audit engagements.

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Financial Interests

- 290.104 A financial interest in an assurance client may create a self-interest threat. In evaluating the significance of the threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest. This includes an evaluation of the role of the person holding the financial interest, the materiality of the financial interest and the type of financial interest (direct or indirect).
- 290.105 When evaluating the type of financial interest, consideration should be given to the fact that financial interests range from those where the individual has no control over the investment vehicle or the financial interest held (e.g., a mutual fund, unit trust or similar intermediary vehicle) to those where the individual has control over the financial interest (e.g., as a trustee) or is able to influence investment decisions. In evaluating the significance of any threat to independence, it is important to consider the degree of control or influence that can be exercised over the intermediary, the financial interest held, or its investment strategy. When control exists, the financial interest should be considered direct. Conversely, when the holder of the financial interest has no ability to exercise such control the financial interest should be considered indirect.

Provisions Applicable to all Assurance Clients

- 290.106 If a member of the assurance team, or their immediate family member, has a **direct financial interest***, or a material **indirect financial interest*** in the assurance client, the self-interest threat created would be so significant the only safeguards available to eliminate the threat or reduce it to an acceptable level would be to:
- (a) Dispose of the direct financial interest prior to the individual becoming a member of the assurance team;

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- (b) Dispose of the indirect financial interest in total or dispose of a sufficient amount of it so that the remaining interest is no longer material prior to the individual becoming a member of the assurance team; or
- (c) Remove the member of the assurance team from the assurance engagement.

290.107 If a member of the assurance team, or their immediate family member receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat would be created. The following safeguards should be applied to eliminate the threat or reduce it to an acceptable level:

- (a) Disposing of the financial interest at the earliest practical date; or
- (b) Removing the member of the assurance team from the assurance engagement.

During the period prior to disposal of the financial interest or the removal of the individual from the assurance team, consideration should be given to whether additional safeguards are necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Discussing the matter with those charged with governance, such as the audit committee; or
- Involving an additional chartered accountant to review the work done, or otherwise advise as necessary.

290.108 When a member of the assurance team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat may be created. In evaluating the significance of any threat, consideration should be given to the nature of the relationship between the member of the assurance team and the close family member and the materiality of the financial interest. Once the significance of the threat has been evaluated, safeguards should be considered and applied as necessary. Such safeguards might include:

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- The close family member disposing of all or a sufficient portion of the financial interest
- Discussing the matter with those charged with governance, such as the audit committee;
- Involving an additional chartered accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team with the close family relationship or otherwise advise as necessary; or
- Removing the individual from the assurance engagement.

290.109 When a firm or a member of the assurance team holds a direct financial interest or a material indirect financial interest in the assurance client as a trustee, a self-interest threat may be created by the possible influence of the trust over the assurance client. Accordingly, such an interest should only be held when:

- (a) The member of the assurance team, an immediate family member of the member of the assurance team, and the firm are not beneficiaries of the trust;
- (b) The interest held by the trust in the assurance client is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance client; and
- (d) The member of the assurance team or the firm does not have significant influence over any investment decision involving a financial interest in the assurance client.

290.110 Consideration should be given to whether a self-interest threat may be created by the financial interests of individuals outside of the assurance team and their immediate and close family members. Such individuals would include:

- Partners, and their immediate family members, who are not members of the assurance team;
- Partners and managerial employees who provide non-assurance services to the assurance client; and

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- Individuals who have a close personal relationship with a member of the assurance team.

Whether the interests held by such individuals may create a self-interest threat will depend upon factors such as:

- The firm's organizational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the assurance team.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Where appropriate, policies to restrict people from holding such interests;
- Discussing the matter with those charged with governance, such as the audit committee; or
- Involving an additional chartered accountant who did not take part in the assurance engagement to review the work done or otherwise advise as necessary.

290.111 An inadvertent violation of this section as it relates to a financial interest in an assurance client would not impair the independence of the firm, the network firm or a member of the assurance team when:

- (a) The firm, and the network firm, have established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client;
- (b) The firm, and the network firm, promptly notify the professional that the financial interest should be disposed of; and
- (c) The disposal occurs at the earliest practical date after identification of the issue, or the professional is removed from the assurance team.

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290.112 When an inadvertent violation of this section relating to a financial interest in an assurance client has occurred, the firm should consider whether any safeguards should be applied. Such safeguards might include:

- Involving an additional chartered accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team; or
- Excluding the individual from any substantive decision-making concerning the assurance engagement.

Provisions Applicable to Financial Statement Audit Clients

290.113 If a firm, or a network firm, has a direct financial interest in a financial statement audit client of the firm the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement.

290.114 If a firm, or a network firm, has a material indirect financial interest in a financial statement audit client of the firm a self-interest threat is also created. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

290.115 If a firm, or a network firm, has a material financial interest in an entity that has a controlling interest in a financial statement audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to dispose of the financial interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

290.116 If the retirement benefit plan of a firm, or network firm, has a financial interest in a financial statement audit client a self-interest threat may be created. Accordingly, the significance of any such threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

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- 290.117 If other partners, including partners who do not perform assurance engagements, or their immediate family, in the **office*** in which the **engagement partner*** practices in connection with the financial statement audit hold a direct financial interest or a material indirect financial interest in that audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such partners or their immediate family should not hold any such financial interests in such an audit client.
- 290.118 The office in which the engagement partner practices in connection with the financial statement audit is not necessarily the office to which that partner is assigned. Accordingly, when the engagement partner is located in a different office from that of the other members of the assurance team, judgment should be used to determine in which office the partner practices in connection with that audit.
- 290.119 If other partners and managerial employees who provide non-assurance services to the financial statement audit client, except those whose involvement is clearly insignificant, or their immediate family, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such personnel or their immediate family should not hold any such financial interests in such an audit client.

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- 290.120 A financial interest in a financial statement audit client that is held by an immediate family member of (a) a partner located in the office in which the engagement partner practices in connection with the audit, or (b) a partner or managerial employee who provides non-assurance services to the audit client is not considered to create an unacceptable threat provided it is received as a result of their employment rights (e.g., pension rights or share options) and, where necessary, appropriate safeguards are applied to reduce any threat to independence to an acceptable level.
- 290.121 A self-interest threat may be created if the firm, or the network firm, or a member of the assurance team has an interest in an entity and a financial statement audit client, or a director, officer or controlling owner thereof also has an investment in that entity. Independence is not compromised with respect to the audit client if the respective interests of the firm, the network firm, or member of the assurance team, and the audit client, or director, officer or controlling owner thereof are both immaterial and the audit client cannot exercise significant influence over the entity. If an interest is material, to either the firm, the network firm or the audit client, and the audit client can exercise significant influence over the entity, no safeguards are available to reduce the threat to an acceptable level and the firm, or the network firm, should either dispose of the interest or decline the audit engagement. Any member of the assurance team with such a material interest should either:
- (a) Dispose of the interest;
 - (b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material; or
 - (c) Withdraw from the audit.
- 290.122 Chartered Accountants in practice should also keep in mind the requirements of clause (d) of sub-section (3) of section 254 of the Companies Ordinance, 1984 regarding their indebtedness to the financial statement audit client.

Provisions Applicable to Non-Financial Statement Audit Assurance Clients

- 290.123 If a firm has a direct financial interest in an assurance client that is not a financial statement audit client the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement.

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- 290.124 If a firm has a material indirect financial interest in an assurance client that is not a financial statement audit client a self-interest threat is also created. The only action appropriate to permit the firm to perform the engagement would be for the firm to either dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.
- 290.125 If a firm has a material financial interest in an entity that has a controlling interest in an assurance client that is not a financial statement audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only action appropriate to permit the firm to perform the engagement would be for the firm either to dispose of the financial interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.
- 290.126 When a restricted use report for an assurance engagement that is not a financial statement audit engagement is issued, exceptions to the provisions in paragraphs 290.106-290.110 and 290.123-290.125 are set out in 290.19.

Loans and Guarantees

- 290.127 A loan, or a guarantee of a loan, to the firm from an assurance client that is a bank or a similar institution, would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements and the loan is immaterial to both the firm and the assurance client. If the loan is material to the assurance client or the firm it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional chartered accountant from outside the firm, or network firm, to review the work performed.
- 290.128 A loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution, to a member of the assurance team or their immediate family would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

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- 290.129 Similarly, deposits made by, or brokerage accounts of, a firm or a member of the assurance team with an assurance client that is a bank, broker or similar institution would not create a threat to independence provided the deposit or account is held under normal commercial terms.
- 290.130 If the firm, or a member of the assurance team, makes a loan to an assurance client, that is not a bank or similar institution, or guarantees such an assurance client's borrowing, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team and the assurance client.
- 290.131 Similarly, if the firm or a member of the assurance team accepts a loan from, or has borrowing guaranteed by, an assurance client that is not a bank or similar institution, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team and the assurance client.
- 290.132 The examples in paragraphs 290.127-290.131 relate to loans and guarantees between the firm and an assurance client. In the case of a financial statement audit engagement, the provisions should be applied to the firm, all network firms and the audit client.

Close Business Relationships with Assurance Clients

- 290.133 A close business relationship between a firm or a member of the assurance team and the assurance client or its management, or between the firm, a network firm and a financial statement audit client, will involve a commercial or common financial interest and may create self-interest and intimidation threats. The following are examples of such relationships:
- Having a material financial interest in a joint venture with the assurance client or a controlling owner, director, officer or other individual who performs senior managerial functions for that client.
 - Arrangements to combine one or more services or products of the firm with one or more services or products of the assurance client and to market the package with reference to both parties.

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- Distribution or marketing arrangements under which the firm acts as a distributor or marketer of the assurance client's products or services, or the assurance client acts as the distributor or marketer of the products or services of the firm.

In the case of a financial statement audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm, the network firm and the audit client, no safeguards could reduce the threat to an acceptable level. In the case of an assurance client that is not a financial statement audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm and the assurance client, no safeguards could reduce the threat to an acceptable level. Consequently, in both these circumstances the only possible courses of action are to:

- (a) Terminate the business relationship;
- (b) Reduce the magnitude of the relationship so that the financial interest is immaterial and the relationship is clearly insignificant; or
- (c) Refuse to perform the assurance engagement.

Unless any such financial interest is immaterial and the relationship is clearly insignificant to the member of the assurance team, the only appropriate safeguard would be to remove the individual from the assurance team.

290.134 In the case of a financial statement audit client, business relationships involving an interest held by the firm, a network firm or a member of the assurance team or their immediate family in a closely held entity when the audit client or a director or officer of the audit client, or any group thereof, also has an interest in that entity, do not create threats to independence provided:

- (a) The relationship is clearly insignificant to the firm, the network firm and the audit client;
- (b) The interest held is immaterial to the investor, or group of investors; and
- (c) The interest does not give the investor, or group of investors, the ability to control the closely held entity.

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290.135 The purchase of goods and services from an assurance client by the firm (or from a financial statement audit client by a network firm) or a member of the assurance team would not generally create a threat to independence providing the transaction is in the normal course of business and on an arm's length basis. However, such transactions may be of a nature or magnitude so as to create a self-interest threat. If the threat created is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Eliminating or reducing the magnitude of the transaction;
- Removing the individual from the assurance team; or
- Discussing the issue with those charged with governance, such as the audit committee.

Family and Personal Relationships

290.136 Family and personal relationships between a member of the assurance team and a director, an officer or certain employees, depending on their role, of the assurance client, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors including the individual's responsibilities on the assurance engagement, the closeness of the relationship and the role of the family member or other individual within the assurance client. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to be applied to reduce the threat to an acceptable level.

290.137 When an immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter information of the assurance engagement, or was in such a position during any period covered by the engagement, the threats to independence can only be reduced to an acceptable level by removing the individual from the assurance team. The closeness of the relationship is such that no other safeguard could reduce the threat to independence to an acceptable level. If application of this safeguard is not used, the only course of action is to withdraw from the assurance engagement. For example, in the case of an audit of financial statements, if the spouse of a member of the assurance team is an employee in a position to exert direct and significant

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influence over the preparation of the audit client's accounting records or financial statements, the threat to independence could only be reduced to an acceptable level by removing the individual from the assurance team.

290.138 When an immediate family member of a member the assurance team is an employee in a position to exert direct and significant influence over the subject matter of the engagement, threats to independence may be created. The significance of the threats will depend on factors such as:

- The position the immediate family member holds with the client; and
- The role of the professional on the assurance team.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Removing the individual from the assurance team;
- Where possible, structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the immediate family member; or
- Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

290.139 When a close family member of a member of the assurance team is a director, an officer, or an employee of the assurance client in a position to exert direct and significant influence over the subject matter information of the assurance engagement, threats to independence may be created. The significance of the threats will depend on factors such as:

- The position the close family member holds with the client; and
- The role of the professional on the assurance team.

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The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Removing the individual from the assurance team;
- Where possible, structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the close family member; or
- Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

290.140 In addition, self-interest, familiarity or intimidation threats may be created when a person who is other than an immediate or close family member of a member of the assurance team has a close relationship with the member of the assurance team and is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter information of the assurance engagement. Therefore, members of the assurance team are responsible for identifying any such persons and for consulting in accordance with firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship and the role of the individual within the assurance client.

290.141 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a partner or employee of the firm who is not a member of the assurance team and a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter information of the assurance engagement. Therefore partners and employees of the firm are responsible for identifying any such relationships and for consulting in accordance with firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the firm professional with the assurance team, the position held within the firm, and the role of the individual within the assurance client.

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290.142 An inadvertent violation of this section as it relates to family and personal relationships would not impair the independence of a firm or a member of the assurance team when:

- (a) The firm has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence;
- (b) Either the responsibilities of the assurance team are re-structured so that the professional does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or, if this is not possible, the firm promptly removes the professional from the assurance engagement; and
- (c) Additional care is given to reviewing the work of the professional.

290.143 When an inadvertent violation of this section relating to family and personal relationships has occurred, the firm should consider whether any safeguards should be applied. Such safeguards might include:

- Involving an additional chartered accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team; or
- Excluding the individual from any substantive decision-making concerning the assurance engagement.

Employment with Assurance Clients

290.144 A firm or a member of the assurance team's independence may be threatened if a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter information of the assurance engagement has been a member of the assurance team or partner of the firm. Such circumstances may create self-interest, familiarity and intimidation threats particularly when significant connections remain between the individual and his or her former firm. Similarly, a member of the assurance team's independence may be threatened when an individual participates in the assurance engagement knowing, or

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having reason to believe, that he or she is to, or may, join the assurance client some time in the future.

290.145 If a member of the assurance team, partner or former partner of the firm has joined the assurance client, the significance of the self-interest, familiarity or intimidation threats created will depend upon the following factors:

- (a) The position the individual has taken at the assurance client.
- (b) The amount of any involvement the individual will have with the assurance team.
- (c) The length of time that has passed since the individual was a member of the assurance team or firm.
- (d) The former position of the individual within the assurance team or firm.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Considering the appropriateness or necessity of modifying the assurance plan for the assurance engagement;
- Assigning an assurance team to the subsequent assurance engagement that is of sufficient experience in relation to the individual who has joined the assurance client;
- Involving an additional chartered accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary; or
- Quality control review of the assurance engagement.

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In all cases, all of the following safeguards are necessary to reduce the threat to an acceptable level:

- (a) The individual concerned is not entitled to any benefits or payments from the firm unless these are made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be of such significance to threaten the firm's independence.
- (b) The individual does not continue to participate or appear to participate in the firm's business or professional activities.

290.146 A self-interest threat is created when a member of the assurance team participates in the assurance engagement while knowing, or having reason to believe, that he or she is to, or may, join the assurance client some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

- (a) Policies and procedures to require the individual to notify the firm when entering serious employment negotiations with the assurance client.
- (b) Removal of the individual from the assurance engagement.

In addition, consideration should be given to performing an independent review of any significant judgments made by that individual while on the engagement.

290.147 In case of audit of listed companies, a chartered accountant in practice should bear in mind the requirements of following clause (xlii) of the Code of Corporate Governance:-

- (xlii) No listed company shall appoint a person as the CEO, the CFO, an internal auditor or a director of the listed company who was a partner of the firm of its external auditors (or an employee involved in the audit of the listed company) at any time during the two years preceding such appointment or is a close relative, i.e. spouse, parents, dependents and non-dependent children, of such partner (or employee).

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Recent Service with Assurance Clients

- 290.148 To have a former officer, director or employee of the assurance client serve as a member of the assurance team may create self-interest, selfreview and familiarity threats. This would be particularly true when a member of the assurance team has to report on, for example, subject matter information he or she had prepared or elements of the financial statements he or she had valued while with the assurance client.
- 290.149 If, during the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter information of the assurance engagement, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the assurance team.
- 290.150 If, prior to the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter information of the assurance engagement, this may create self-interest, self-review and familiarity threats. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the assurance client, is to be evaluated in the current period as part of the current assurance engagement. The significance of the threats will depend upon factors such as:
- The position the individual held with the assurance client;
 - The length of time that has passed since the individual left the assurance client; and
 - The role the individual plays on the assurance team.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

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- Involving an additional chartered accountant to review the work done by the individual as part of the assurance team or otherwise advise as necessary; or
- Discussing the issue with those charged with governance, such as the audit committee.

Serving as an Officer or Director on the Board of Assurance Clients

- 290.151 If a partner or employee of the firm serves as an officer or as a director on the board of an assurance client the self-review and self-interest threats created would be so significant no safeguard could reduce the threats to an acceptable level. Consequently, if such an individual were to accept such a position the only course of action is to refuse to perform, or to withdraw from the assurance engagement.
- 290.152 The position of Company Secretary has different implications in different jurisdictions. The duties may range from administrative duties such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally this position is seen to imply a close degree of association with the entity and may create self-review and advocacy threats.
- 290.153 If a partner or employee of the firm or a network firm serves as Company Secretary for a financial statement audit client the self-review and advocacy threats created would generally be so significant, no safeguard could reduce the threat to an acceptable level.
- 290.154 Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters is generally not perceived to impair independence, provided client management makes all relevant decisions.

Long Association of Senior Personnel with Assurance Clients

General Provisions

- 290.155 Using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat. The significance of the threat will depend upon factors such as:

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- The length of time that the individual has been a member of the assurance team;
- The role of the individual on the assurance team;
- The structure of the firm; and
- The nature of the assurance engagement.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied to reduce the threat to an acceptable level. Such safeguards might include:

- Rotating the senior personnel off the assurance team;
- Involving an additional chartered accountant who was not a member of the assurance team to review the work done by the senior personnel or otherwise advise as necessary; or
- Independent internal quality reviews.

Financial Statement Audit Clients that are Listed Entities

290.156 Using the same engagement partner or the same individual responsible for the **engagement quality control review*** on a financial statement audit over a prolonged period may create a familiarity threat. This threat is particularly relevant in the context of the financial statement audit of a listed entity and safeguards should be applied in such situations to reduce such threat to an acceptable level. Accordingly in respect of the financial statement audit of listed entities the chartered accountants in practice shall take cognizance of the following requirements of the Code of Corporate Governance:

- (a) All banks DFIs are required to ensure that the external auditors are rotated on expiration of five years. In case of banks / DFIs having two audit firms jointly auditing their accounts and both of them complete their five years period at the same time, one of them will be rotated on completion of five years and the other one in the next year.

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- (b) All listed companies in the financial sector shall change their auditors every five years. Financial sector for this purpose means Non-Banking Finance Companies (NBFCs), Modarabas and Insurance Companies.
- (c) All listed companies other than those mentioned at (a) and (b) shall at a minimum rotate the engagement partner after every five years.
- (d) A partner rotating after five years should not resume the lead engagement partner role until a further period of time, normally two years has elapsed.

* See Definitions

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Provision of Non-Assurance Services to Assurance Clients

290.157 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Assurance clients value the benefits that derive from having these firms, which have a good understanding of the business, bring their knowledge and skill to bear in other areas. Furthermore, the provision of such nonassurance services will often result in the assurance team obtaining information regarding the assurance client's business and operations that is helpful in relation to the assurance engagement. The greater the knowledge of the assurance client's business, the better the assurance team will understand the assurance client's procedures and controls, and the business and financial risks that it faces. The provision of nonassurance services may, however, create threats to the independence of the firm, a network firm or the members of the assurance team, particularly with respect to perceived threats to independence. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards are available to reduce the threat to an acceptable level.

290.158 The following activities would generally create self-interest or self review threats that are so significant that only avoidance of the activity or refusal to perform the assurance engagement would reduce the threats to an acceptable level:

- Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so.
- Determining which recommendation of the firm should be implemented.
- Reporting, in a management role, to those charged with governance.

290.159 The examples set out in paragraphs 290.170-290.209 are addressed in the context of the provision of non-assurance services to an assurance client. The potential threats to independence will most frequently arise when a non-assurance service is provided to a financial statement audit client. The financial statements of an entity provide financial information about a broad range of transactions and events that have affected the entity. The subject matter information of other assurance services, however, may be

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limited in nature. Threats to independence, however, may also arise when a firm provides a non-assurance service related to the subject matter information, of a non- financial statement audit assurance engagement. In such cases, consideration should be given to the significance of the firm's involvement with the subject matter information, of the engagement, whether any self-review threats are created and whether any threats to independence could be reduced to an acceptable level by application of safeguards, or whether the engagement should be declined. When the non-assurance service is not related to the subject matter information, of the non- financial statement audit assurance engagement, the threats to independence will generally be clearly insignificant.

290.160 The following activities may also create self-review or self-interest threats:

- Having custody of an assurance client's assets.
- Supervising assurance client employees in the performance of their normal recurring activities.
- Preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

The significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Making arrangements so that personnel providing such services do not participate in the assurance engagement;
- Involving an additional chartered accountant to advise on the potential impact of the activities on the independence of the firm and the assurance team; or
- Other relevant safeguards set out in national regulations.

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- 290.161 New developments in business, the evolution of financial markets, rapid changes in information technology, and the consequences for management and control, make it impossible to draw up an all-inclusive list of all situations when providing non-assurance services to an assurance client might create threats to independence and of the different safeguards that might eliminate these threats or reduce them to an acceptable level. In general, however, a firm may provide services beyond the assurance engagement provided any threats to independence have been reduced to an acceptable level.
- 290.162 The following safeguards may be particularly relevant in reducing to an acceptable level threats created by the provision of non-assurance services to assurance clients:
- Policies and procedures to prohibit professional staff from making management decisions for the assurance client, or assuming responsibility for such decisions.
 - Discussing independence issues related to the provision of nonassurance services with those charged with governance, such as the audit committee.
 - Policies within the assurance client regarding the oversight responsibility for provision of non-assurance services by the firm.
 - Involving an additional chartered accountant to advise on the potential impact of the non-assurance engagement on the independence of the member of the assurance team and the firm.
 - Involving an additional chartered accountant outside of the firm to provide assurance on a discrete aspect of the assurance engagement.
 - Obtaining the assurance client's acknowledgement of responsibility for the results of the work performed by the firm.
 - Disclosing to those charged with governance, such as the audit committee, the nature and extent of fees charged.
 - Making arrangements so that personnel providing non-assurance services do not participate in the assurance engagement.

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- 290.163 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, consideration should be given to whether the provision of such a service would create a threat to independence. In situations when a threat created is other than clearly insignificant, the non-assurance engagement should be declined unless appropriate safeguards can be applied to eliminate the threat or reduce it to an acceptable level.
- 290.164 The provision of certain non-assurance services to financial statement audit clients may create threats to independence so significant that no safeguard could eliminate the threat or reduce it to an acceptable level. However, the provision of such services to a related entity, division or discrete financial statement item of such clients may be permissible when any threats to the firm's independence have been reduced to an acceptable level by arrangements for that related entity, division or discrete financial statement item to be audited by another firm or when another firm reperforms the non-assurance service to the extent necessary to enable it to take responsibility for that service.

Preparing Accounting Records and Financial Statements

- 290.165 Assisting a financial statement audit client in matters such as preparing accounting records or financial statements may create a self-review threat when the financial statements are subsequently audited by the firm.
- 290.166 It is the responsibility of financial statement audit client management to ensure that accounting records are kept and financial statements are prepared, although they may request the firm to provide assistance. If firm, or network firm, personnel providing such assistance make management decisions, the self-review threat created could not be reduced to an acceptable level by any safeguards. Consequently, personnel should not make such decisions. Examples of such managerial decisions include:
- Determining or changing journal entries, or the classifications for accounts or transaction or other accounting records without obtaining the approval of the financial statement audit client;
 - Authorizing or approving transactions; and

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- Preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data.

290.167 The audit process involves extensive dialogue between the firm and management of the financial statement audit client. During this process, management requests and receives significant input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. Technical assistance of this nature and advice on accounting principles for financial statement audit clients are an appropriate means to promote the fair presentation of the financial statements. The provision of such advice does not generally threaten the firm's independence. Similarly, the financial statement audit process may involve assisting an audit client in resolving account reconciliation problems, analyzing and accumulating information for regulatory reporting, assisting in the preparation of consolidated financial statements (including the translation of local statutory accounts to comply with group accounting policies and the transition to a different reporting framework such as International Financial Reporting Standards), drafting disclosure items, proposing adjusting journal entries and providing assistance and advice in the preparation of local statutory accounts of subsidiary entities. These services are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.

General Provisions

290.168 The examples in paragraphs 290.174-290.177 indicate that self-review threats may be created if the firm is involved in the preparation of accounting records or financial statements and those financial statements are subsequently the subject matter information of an audit engagement of the firm. This notion may be equally applicable in situations when the subject matter information of the assurance engagement is not financial statements. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this prospective financial information. Consequently, the firm should evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat is other than clearly insignificant safeguards should be considered and applied as necessary to reduce the threat to an acceptable level.

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Financial Statements Audit Clients that are Not Listed Entities

290.169 The firm, or a network firm, may provide a financial statement audit client that is not a listed entity with accounting and bookkeeping services, including payroll services, of a routine or mechanical nature, provided any self-review threat created is reduced to an acceptable level. Examples of such services include:

- Recording transactions for which the audit client has determined or approved the appropriate account classification;
- Posting coded transactions to the audit client's general ledger;
- Preparing financial statements based on information in the trial balance; and
- Posting the audit client approved entries to the trial balance.

The significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Making arrangements so such services are not performed by a member of the assurance team;
- Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the audit client;
- Requiring the source data for the accounting entries to be originated by the audit client;
- Requiring the underlying assumptions to be originated and approved by the audit client; or
- Obtaining audit client approval for any proposed journal entries or other changes affecting the financial statements.

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Valuation Services

- 290.170 A valuation comprises the making of assumptions with regard to future developments, the application of certain methodologies and techniques, and the combination of both in order to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.
- 290.171 A self-review threat may be created when a firm or network firm performs a valuation for a financial statement audit client that is to be incorporated into the client's financial statements.
- 290.172 If the valuation service involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any safeguard. Accordingly, such valuation services should not be provided or, alternatively, the only course of action would be to withdraw from the financial statement audit engagement.
- 290.173 Performing valuation services for a financial statement audit client that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, may create a self-review threat that could be reduced to an acceptable level by the application of safeguards. Such safeguards might include:
- Involving an additional chartered accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary;
 - Confirming with the audit client their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;
 - Obtaining the audit client's acknowledgement of responsibility for the results of the work performed by the firm; and
 - Making arrangements so that personnel providing such services do not participate in the audit engagement.

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In determining whether the above safeguards would be effective, consideration should be given to the following matters:

- (a) The extent of the audit client's knowledge, experience and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgment.
- (b) The degree to which established methodologies and professional guidelines are applied when performing a particular valuation service.
- (c) For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.
- (d) The reliability and extent of the underlying data.
- (e) The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved.
- (f) The extent and clarity of the disclosures in the financial statements.

290.174 When a firm, or a network firm, performs a valuation service for a financial statement audit client for the purposes of making a filing or return to a tax authority, computing an amount of tax due by the client, or for the purpose of tax planning, this would not create a significant threat to independence because such valuations are generally subject to external review, for example by a tax authority.

290.175 When the firm performs a valuation that forms part of the subject matter information of an assurance engagement that is not a financial statement audit engagement, the firm should consider any self-review threats. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

Provision of Taxation Services to Financial Statement Audit Clients

290.176 The firm may be asked to provide taxation services to a financial statement audit client. Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes.

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Such assignments are generally not seen to create threats to independence.

Provision of Internal Audit Services to Financial Statement Audit Clients

- 290.177 A self-review threat may be created when a firm, or network firm, provides internal audit services to a financial statement audit client. Internal audit services may comprise an extension of the firm's audit service beyond requirements of generally accepted auditing standards, assistance in the performance of a client's internal audit activities or outsourcing of the activities. In evaluating any threats to independence, the nature of the service will need to be considered. For this purpose, internal audit services do not include operational internal audit services unrelated to the internal accounting controls, financial systems or financial statements.
- 290.178 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 with respect to the audit client 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.
- 290.179 When the firm, or a network firm, provides assistance in the performance of a financial statement audit client's internal audit activities or undertakes the outsourcing of some of the activities, any self-review threat created may be reduced to an acceptable level by ensuring that there is a clear separation between the management and control of the internal audit by client management and the internal audit activities themselves.
- 290.180 Performing a significant portion of the financial statement audit client's internal audit activities may create a self-review threat and a firm, or network firm, should consider the threats and proceed with caution before taking on such activities. Appropriate safeguards should be put in place and the firm, or network firm, should, in particular, ensure that the audit client acknowledges its responsibilities for establishing, maintaining and monitoring the system of internal controls.
- 290.181 Safeguards that should be applied in all circumstances to reduce any threats created to an acceptable level include ensuring that:
- (a) The audit client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls;

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- (b) The audit client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
- (c) The audit client, the audit committee or supervisory body approves the scope, risk and frequency of internal audit work;
- (d) The audit client is responsible for evaluating and determining which recommendations of the firm should be implemented;
- (e) The audit client evaluates the adequacy of the internal audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining and acting on reports from the firm; and
- (f) The findings and recommendations resulting from the internal audit activities are reported appropriately to the audit committee or supervisory body.

290.182 Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the financial statement audit engagement and with different reporting lines within the firm.

Provision of IT Systems Services to Financial Statement Audit Clients

290.183 The provision of services by a firm or network firm to a financial statement audit client that involve the design and implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may create a self-review threat.

290.184 The self-review threat is likely to be too significant to allow the provision of such services to a financial statement audit client unless appropriate safeguards are put in place ensuring that:

- (a) The audit client acknowledges its responsibility for establishing and monitoring a system of internal controls;

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- (b) The audit client designates a competent employee, preferably within senior management, with the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system;
 - (c) The audit client makes all management decisions with respect to the design and implementation process;
 - (d) The audit client evaluates the adequacy and results of the design and implementation of the system; and
 - (e) The audit client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.
- 290.185 Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the financial statement audit engagement and with different reporting lines within the firm.
- 290.186 The provision of services by a firm, or network firm, to a financial statement audit client which involve either the design or the implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may also create a self-review threat. The significance of the threat, if any, should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.
- 290.187 The provision of services in connection with the assessment, design and implementation of internal accounting controls and risk management controls are not considered to create a threat to independence provided that firm or network firm personnel do not perform management functions.

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Temporary Staff Assignments to Financial Statement Audit Clients

290.188 The lending of staff by a firm, or network firm, to a financial statement audit client may create a self-review threat when the individual is in a position to influence the preparation of a client's accounts or financial statements. In practice, such assistance may be given (particularly in emergency situations) but only on the understanding that the firm's or network firm's personnel will not be involved in:

- (a) Making management decisions;
- (b) Approving or signing agreements or other similar documents; or
- (c) Exercising discretionary authority to commit the client.

Each situation should be carefully analyzed to identify whether any threats are created and whether appropriate safeguards should be implemented. Safeguards that should be applied in all circumstances to reduce any threats to an acceptable level include:

- The staff providing the assistance should not be given audit responsibility for any function or activity that they performed or supervised during their temporary staff assignment; and
- The audit client should acknowledge its responsibility for directing and supervising the activities of firm, or network firm, personnel.

Provision of Litigation Support Services to Financial Statement Audit Clients

290.189 Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a dispute or litigation.

290.190 A self-review threat may be created when the litigation support services provided to a financial statement audit client include the estimation of the possible outcome and thereby affects the amounts or disclosures to be reflected in the financial statements. The significance of any threat created will depend upon factors such as:

- The materiality of the amounts involved;

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- The degree of subjectivity inherent in the matter concerned; and
- The nature of the engagement.

The firm, or network firm, should evaluate the significance of any threat created and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Policies and procedures to prohibit individuals assisting the audit client from making managerial decisions on behalf of the client;
- Using professionals who are not members of the assurance team to perform the service; or
- The involvement of others, such as independent experts.

290.191 If the role undertaken by the firm or network firm involved making managerial decisions on behalf of the financial statement audit client, the threats created could not be reduced to an acceptable level by the application of any safeguard. Therefore, the firm or network firm should not perform this type of service for an audit client.

Provision of Legal Services to Financial Statement Audit Clients

290.192 Legal services are defined as any services for which the person providing the services must either be admitted to practice before the Courts of the jurisdiction in which such services are to be provided, or have the required legal training to practice law. Legal services encompass a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition advice and support and the provision of assistance to clients' internal legal departments. The provision of legal services by a firm, or network firm, to an entity that is a financial statement audit client may create both self-review and advocacy threats.

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- 290.193 Threats to independence need to be considered depending on the nature of the service to be provided, whether the service provider is separate from the assurance team and the materiality of any matter in relation to the entities' financial statements. The safeguards set out in paragraph 290.162 may be appropriate in reducing any threats to independence to an acceptable level. In circumstances when the threat to independence cannot be reduced to an acceptable level the only available action is to decline to provide such services or withdraw from the financial statement audit engagement.
- 290.194 The provision of legal services to a financial statement audit client which involve matters that would not be expected to have a material effect on the financial statements are not considered to create an unacceptable threat to independence.
- 290.195 There is a distinction between advocacy and advice. Legal services to support a financial statement audit client in the execution of a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Such a service would not generally impair independence, provided that:
- (a) Members of the assurance team are not involved in providing the service; and
 - (b) In relation to the advice provided, the audit client makes the ultimate decision or, in relation to the transactions, the service involves the execution of what has been decided by the audit client.
- 290.196 Acting for a financial statement audit client in the resolution of a dispute or litigation in such circumstances when the amounts involved are material in relation to the financial statements of the audit client would create advocacy and self-review threats so significant no safeguard could reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for a financial statement audit client.
- 290.197 When a firm is asked to act in an advocacy role for a financial statement audit client in the resolution of a dispute or litigation in circumstances when the amounts involved are not material to the financial statements of the audit client, the firm should evaluate the significance of any advocacy and self-review threats created and, if the threat is other than clearly insignificant, safeguards should be

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considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Policies and procedures to prohibit individuals assisting the audit client from making managerial decisions on behalf of the client; or
- Using professionals who are not members of the assurance team to perform the service.

290.198 The appointment of a partner or an employee of the firm or network firm as General Counsel for legal affairs to a financial statement audit client would create self-review and advocacy threats that are so significant no safeguards could reduce the threats to an acceptable level. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company and consequently, no member of the firm or network firm should accept such an appointment for a financial statement audit client.

Recruiting Senior Management

290.199 The recruitment of senior management for an assurance client, such as those in a position to affect the subject matter information of the assurance engagement, may create current or future self-interest, familiarity and intimidation threats. The significance of the threat will depend upon factors such as:

- The role of the person to be recruited; and
- The nature of the assistance sought.

The firm could generally provide such services as reviewing the professional qualifications of a number of applicants and provide advice on their suitability for the post. In addition, the firm could generally produce a short-list of candidates for interview, provided it has been drawn up using criteria specified by the assurance client.

The significance of the threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. In all cases, the firm should not make management decisions and the decision as to whom to hire should be left to the client.

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Corporate Finance and Similar Activities

- 290.200 The provision of corporate finance services, advice or assistance to an assurance client may create advocacy and self-review threats. In the case of certain corporate finance services, the independence threats created would be so significant no safeguards could be applied to reduce the threats to an acceptable level. For example, promoting, dealing in, or underwriting of an assurance client's shares is not compatible with providing assurance services. Moreover, committing the assurance client to the terms of a transaction or consummating a transaction on behalf of the client would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level. In the case of a financial statement audit client the provision of those corporate finance services referred to above by a firm or a network firm would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level.
- 290.201 Other corporate finance services may create advocacy or self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Examples of such services include assisting a client in developing corporate strategies, assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria, and providing structuring advice and assisting a client in analyzing the accounting effects of proposed transactions. Safeguards that should be considered include:
- Policies and procedures to prohibit individuals assisting the assurance client from making managerial decisions on behalf of the client;
 - Using professionals who are not members of the assurance team to provide the services; and
 - Ensuring the firm does not commit the assurance client to the terms of any transaction or consummate a transaction on behalf of the client.

(For further guidance regarding provision of non-assurance services to listed financial statement audit client refer to list of prohibited services given in the Listing Regulations of Karachi, Lahore Islamabad Stock Exchanges)

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Fees and Pricing

Fees—Relative Size

290.202 When the total fees generated by an assurance client represent a large proportion of a firm's total fees, the dependence on that client or client group and concern about the possibility of losing the client may create a self-interest threat. The significance of the threat will depend upon factors such as:

- The structure of the firm; and
- Whether the firm is well established or newly created.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Discussing the extent and nature of fees charged with the audit committee, or others charged with governance;
- Taking steps to reduce dependency on the client;
- External quality control reviews; and
- Consulting a third party, such as a professional regulatory body or another chartered accountant.

290.203 A self-interest threat may also be created when the fees generated by the assurance client represent a large proportion of the revenue of an individual partner. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Policies and procedures to monitor and implement quality control of assurance engagements; and
- Involving an additional chartered accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary.

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Fees—Overdue

290.204 A self-interest threat may be created if fees due from an assurance client for professional services remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report for the following year. Generally the payment of such fees should be required before the report is issued. The following safeguards may be applicable:

- Discussing the level of outstanding fees with the audit committee, or others charged with governance.
- Involving an additional chartered accountant who did not take part in the assurance engagement to provide advice or review the work performed.

The firm should also consider whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed.

Pricing

290.205 When a firm obtains an assurance engagement at lower fee level than that charged by the predecessor firm, or quoted by other firms, the self-interest threat created will not be reduced to an acceptable level:

- (a) The firm is able to demonstrate that appropriate time and qualified staff are assigned to the task; and
- (b) All applicable assurance standards, guidelines and quality control procedures are being complied with.

Contingent Fees

290.206 Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them.

290.207 A contingent fee charged by a firm in respect of both assurance and non-assurance engagements creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard. Accordingly, a firm should not enter

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into any fee arrangement for either assurance or non-assurance engagement under which the amount of the fee is contingent on the result of the assurance or non-assurance work or on items that are the subject matter information of the assurance or non-assurance engagement.

Gifts and Hospitality

290.208 Accepting gifts or hospitality from an assurance client may create self-interest and familiarity threats. When a firm or a member of the assurance team accepts gifts or hospitality, unless the value is clearly insignificant, the threats to independence cannot be reduced to an acceptable level by the application of any safeguard. Consequently, a firm or a member of the assurance team should not accept such gifts or hospitality.

Actual or Threatened Litigation

290.209 When litigation takes place, or appears likely, between the firm or a member of the assurance team and the assurance client, a self-interest or intimidation threat may be created. The relationship between client management and the members of the assurance team must be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. The firm and the client's management may be placed in adversarial positions by litigation, affecting management's willingness to make complete disclosures and the firm may face a self-interest threat. The significance of the threat created will depend upon such factors as:

- The materiality of the litigation;
- The nature of the assurance engagement; and
- Whether the litigation relates to a prior assurance engagement.

Once the significance of the threat has been evaluated the following safeguards should be applied, if necessary, to reduce the threats to an acceptable level:

- (a) Disclosing to the audit committee, or others charged with governance, the extent and nature of the litigation;

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- (b) If the litigation involves a member of the assurance team, removing that individual from the assurance team; or
- (c) Involving an additional chartered accountant in the firm who was not a member of the assurance team to review the work done or otherwise advise as necessary.

If such safeguards do not reduce the threat to an appropriate level, the only appropriate action is to withdraw from, or refuse to accept, the assurance engagement.

Section 290 Interpretation

The interpretation is directed towards the application of the *Code of Ethics for Chartered Accountants* to the topics of the specific queries received.

Interpretation 2005-01

Application of Section 290 to Assurance Engagements that are Not Financial Statement Audit Engagements

This interpretation provides guidance on the application of the independence requirements contained in Section 290 to assurance engagements that are not financial statement audit engagements.

This interpretation focuses on the application issues that are particular to assurance engagements that are not financial statement audit engagements. There are other matters noted in Section 290 that are relevant in the consideration of independence requirements for all assurance engagements. For example, paragraph 290.15 states that consideration should be given to any threats the firm has reason to believe may be created by network firms' interests and relationships. Similarly, paragraph 290.21 states that for assurance clients, that are other than listed entity financial statement audit clients, when the assurance team has reason to believe that a related entity of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards. These matters are not specifically addressed in this interpretation.

As explained in the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board, in an assurance engagement, the professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the

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intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Assertion-Based Assurance Engagements

In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

In an assertion-based assurance engagement independence is required from the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter.

In those assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter, independence is required from the responsible party. In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

Direct Reporting Assurance Engagements

In a direct reporting assurance engagement, the professional accountant in public practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

In a direct reporting assurance engagement independence is required from the responsible party, which is responsible for the subject matter.

Multiple Responsible Parties

In both assertion-based assurance engagements and direct reporting assurance engagements there may be several responsible parties. For example, a public accountant in public practice may be asked to provide assurance on the monthly circulation statistics of a number of independently owned newspapers. The assignment could be an assertion based assurance engagement where each newspaper measures its circulation and the statistics are presented in an assertion that is available to the intended users. Alternatively, the assignment could be a direct reporting assurance engagement, where there is no assertion and there may or may not be a written representation from the newspapers.

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In such engagements, when determining whether it is necessary to apply the provisions in Section 290 to each responsible party, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is other than clearly insignificant in the context of the subject matter information. This will take into account:

- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest that is associated with the engagement.

If the firm determines that the threat to independence created by any such relationships with a particular responsible party would be clearly insignificant it may not be necessary to apply all of the provisions of this section to that responsible party.

Example

The following example has been developed to demonstrate the application of Section 290. It is assumed that the client is not also a financial statement audit client of the firm, or a network firm.

A firm is engaged to provide assurance on the total proven oil reserves of 10 independent companies. Each company has conducted geographical and engineering surveys to determine their reserves (subject matter). There are established criteria to determine when a reserve may be considered to be proven which the professional accountant in public practice determines to be suitable criteria for the engagement.

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The proven reserves for each company as at December 31, 20X0 were as follows:

	Proven oil reserves thousands barrels
Company 1	5,200
Company 2	725
Company 3	3,260
Company 4	15,000
Company 5	6,700
Company 6	39,126
Company 7	345
Company 8	175
Company 9	24,135
Company 10	9,635
Total	104,301

The engagement could be structured in differing ways:

Assertion-Based Engagements

A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

Direct Reporting Engagements

D1 Each company measures the reserves and provides the firm with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

D2 The firm directly measures the reserves of some of the companies.

Application of Approach

A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

There are several responsible parties in this engagement (companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an

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interest or relationship with a particular company would create a threat to independence that is other than clearly insignificant. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (Paragraph 290.20.)

For example Company 8 accounts for 0.16% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties which would be considered to be the assurance client (paragraph 290.20).

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

The firm would be required to be independent of the entity that measures the reserves and provides an assertion to the firm and to intended users (paragraph 290.17). That entity is not responsible for the subject matter and so consideration should be given to any threats the firm has reason to believe may be created by interests/relationships with the party responsible for the subject matter (paragraph 290.17). There are several parties responsible for subject matter in this engagement (Companies 1-10) As discussed in example A1 above, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is other than clearly insignificant.

D1 Each company provides the firm with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (Companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is other than clearly insignificant. This will take into account factors such as:

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- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (paragraph 290.20).

For example Company 8 accounts for 0.16% of the reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6 that accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties which would be considered to be the assurance client (paragraph 290.20).

D2 The firm directly measures the reserves of some of the companies.

The application is the same as in example D1.

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PART C: CHARTERED ACCOUNTANTS IN BUSINESS

- Section 300 Introduction
- Section 310 Potential Conflicts
- Section 320 Preparation and Reporting of Information
- Section 330 Acting with Sufficient Expertise
- Section 340 Financial Interests
- Section 350 Inducements

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Section 300

Introduction

- 300.1 This Part of the Code illustrates how the conceptual framework contained in Part A is to be applied by chartered accountants in business.
- 300.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of chartered accountants in business. Chartered accountants in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 300.3 A chartered accountant in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organization. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the chartered accountant in business.
- 300.4 A chartered accountant in business has a responsibility to further the legitimate aims of their employing organization. This Code does not seek to hinder a chartered accountant in business from properly fulfilling that responsibility, but considers circumstances in which conflicts may be created with the absolute duty to comply with the fundamental principles.
- 300.5 A chartered accountant in business often holds a senior position within an organization. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A chartered accountant in business is expected, therefore, to encourage an ethics-based culture in an employing organization that emphasizes the importance that senior management places on ethical behavior.
- 300.6 The examples presented in the following sections are intended to illustrate how the conceptual framework is to be applied and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a chartered accountant in business that may create threats to compliance with the principles. Consequently, it is not sufficient for a chartered accountant in

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business merely to comply with the examples; rather, the framework should be applied to the particular circumstances faced.

Threats and Safeguards

300.7 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- (a) Self-interest;
- (b) Self-review;
- (c) Advocacy;
- (d) Familiarity; and
- (e) Intimidation.

These threats are discussed further in Part A of this Code.

300.8 Examples of circumstances that may create self-interest threats for a chartered accountant in business include, but are not limited to:

- Financial interests, loans or guarantees.
- Incentive compensation arrangements.
- Inappropriate personal use of corporate assets.
- Concern over employment security.
- Commercial pressure from outside the employing organization.

300.9 Circumstances that may create self-review threats include, but are not limited to, business decisions or data being subject to review and justification by the same chartered accountant in business responsible for making those decisions or preparing that data.

300.10 When furthering the legitimate goals and objectives of their employing organizations chartered accountants in business may promote the organization's position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.

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300.11 Examples of circumstances that may create familiarity threats include, but are not limited to:

- A chartered accountant in business in a position to influence financial or non-financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.
- Long association with business contacts influencing business decisions.
- Acceptance of a gift or preferential treatment, unless the value is clearly insignificant.

300.12 Examples of circumstances that may create intimidation threats include, but are not limited to:

- Threat of dismissal or replacement of the chartered accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.
- A dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts or the application of an accounting principle.

300.13 Chartered accountants in business may also find that specific circumstances give rise to unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In all professional and business relationships, chartered accountants in business should always be on the alert for such circumstances and threats.

300.14 Safeguards that may eliminate or reduce to an acceptable level the threats faced by chartered accountants in business fall into two broad categories:

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

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300.15 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 100.12 of Part A of this Code.

300.16 Safeguards in the work environment include, but are not restricted to:

- The employing organization's systems of corporate oversight or other oversight structures.
- The employing organization's ethics and conduct programs.
- Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
- Strong internal controls.
- Appropriate disciplinary processes.
- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- Policies and procedures to implement and monitor the quality of employee performance.
- Timely communication of the employing organization's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
- Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organization any ethical issues that concern them without fear of retribution.
- Consultation with another appropriate chartered accountant.

300.17 In circumstances where a chartered accountant in business believes that unethical behavior or actions by others will continue to occur within the employing organization, the chartered accountant in business should consider seeking legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a chartered accountant in business may conclude that it is appropriate to resign from the employing organization.

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Section 310

Potential Conflicts

310.1 A chartered accountant in business has a professional obligation to comply with the fundamental principles. There may be times, however, when their responsibilities to an employing organization and the professional obligations to comply with the fundamental principles are in conflict. Ordinarily, a chartered accountant in business should support the legitimate and ethical objectives established by the employer and the rules and procedures drawn up in support of those objectives. Nevertheless, where compliance with the fundamental principles is threatened, a chartered accountant in business must consider a response to the circumstances.

310.2 As a consequence of responsibilities to an employing organization, a chartered accountant in business may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from a supervisor, manager, director or another individual within the employing organization. A chartered accountant in business may face pressure to:

- Act contrary to law or regulation.
- Act contrary to technical or professional standards.
- Facilitate unethical or illegal earnings management strategies.
- Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
 - The auditors of the employing organization; or
 - Regulators.
- Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for example:
 - The financial statements;
 - Tax compliance;

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- Legal compliance; or
- Reports required by securities regulators.

310.3. The significance of threats arising from such pressures, such as intimidation threats, should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:

- Obtaining advice where appropriate from within the employing organization, an independent professional advisor or a relevant professional body.
- The existence of a formal dispute resolution process within the employing organization.
- Seeking legal advice.

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Section 320

Preparation and Reporting of Information

- 320.1 Chartered accountants in business are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organization. Such information may include financial or management information, for example, forecasts and budgets, financial statements, management discussion and analysis, and the management letter of representation provided to the auditors as part of an audit of financial statements. A chartered accountant in business should prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.
- 320.2 A chartered accountant in business who has responsibility for the preparation or approval of the general purpose financial statements of an employing organization should ensure that those financial statements are presented in accordance with the applicable financial reporting standards.
- 320.3 A chartered accountant in business should maintain information for which the chartered accountant in business is responsible in a manner that:
- (a) Describes clearly the true nature of business transactions, assets or liabilities;
 - (b) Classifies and records information in a timely and proper manner; and
 - (c) Represents the facts accurately and completely in all material respects.
- 320.4 Threats to compliance with the fundamental principles, for example self-interest or intimidation threats to objectivity or professional competence and due care, may be created where a chartered accountant in business may be pressured (either externally or by the possibility of personal gain) to become associated with misleading information or to become associated with misleading information through the actions of others.

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- 320.5 The significance of such threats will depend on factors such as the source of the pressure and the degree to which the information is, or may be, misleading. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include consultation with superiors within the employing organization, for example, the audit committee or other body responsible for governance, or with a relevant professional body.
- 320.6 Where it is not possible to reduce the threat to an acceptable level, a chartered accountant in business should refuse to remain associated with information they consider is or may be misleading. Should the chartered accountant in business be aware that the issuance of misleading information is either significant or persistent, the chartered accountant in business should consider informing appropriate authorities in line with the guidance in Section 140. The chartered accountant in business may also wish to seek legal advice or resign.

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Section 330

Acting with Sufficient Expertise

330.1 The fundamental principle of professional competence and due care requires that a chartered accountant in business should only undertake significant tasks for which the chartered accountant in business has, or can obtain, sufficient specific training or experience. A chartered accountant in business should not intentionally mislead an employer as to the level of expertise or experience possessed, nor should a chartered accountant in business fail to seek appropriate expert advice and assistance when required.

330.2 Circumstances that threaten the ability of a chartered accountant in business to perform duties with the appropriate degree of professional competence and due care include:

- Insufficient time for properly performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties properly.
- Insufficient experience, training and/or education.
- Inadequate resources for the proper performance of the duties.

330.3 The significance of such threats will depend on factors such as the extent to which the chartered accountant in business is working with others, relative seniority in the business and the level of supervision and review applied to the work. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards that may be considered include:

- Obtaining additional advice or training.
- Ensuring that there is adequate time available for performing the relevant duties.
- Obtaining assistance from someone with the necessary expertise.

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- Consulting, where appropriate, with:
 - Superiors within the employing organization;
 - Independent experts; or
 - A relevant professional body.
- 330.4 Where threats cannot be eliminated or reduced to an acceptable level, chartered accountants in business should consider whether to refuse to perform the duties in question. If the chartered accountant in business determines that refusal is appropriate the reasons for doing so should be clearly communicated.

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Section 340

Financial Interests

340.1 Chartered accountants in business may have financial interests, or may know of financial interests of immediate or close family members, that could, in certain circumstances, give rise to threats to compliance with the fundamental principles. For example, self-interest threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price sensitive information in order to gain financially. Examples of circumstances that may create self-interest threats include, but are not limited to situations where the chartered accountant in business or an immediate or close family member:

- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the chartered accountant in business;
- Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the chartered accountant in business;
- Holds, directly or indirectly, share options in the employing organization, the value of which could be directly affected by decisions made by the chartered accountant in business;
- Holds, directly or indirectly, share options in the employing organization which are, or will soon be, eligible for conversion; or
- May qualify for share options in the employing organization or performance related bonuses if certain targets are achieved.

340.2 In evaluating the significance of such a threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, chartered accountants in business must examine the nature of the financial interest. This includes an evaluation of the significance of the financial interest and whether it is direct or indirect. Clearly, what constitutes a significant or valuable stake in an organization will vary from individual to individual, depending on personal circumstances.

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340.3 If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards may include:

- Policies and procedures for a committee independent of management to determine the level of form of remuneration of senior management.
- Disclosure of all relevant interests, and of any plans to trade in relevant shares to those charged with the governance of the employing organization, in accordance with any internal policies.
- Consultation, where appropriate, with superiors within the employing organization.
- Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.
- Internal and external audit procedures.
- Up-to-date education on ethical issues and the legal restrictions and other regulations around potential insider trading.

340.4 A chartered accountant in business should neither manipulate information nor use confidential information for personal gain.

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Section 350

Inducements

Receiving Offers

- 350.1 A chartered accountant in business or an immediate or close family member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.
- 350.2 Offers of inducements may create threats to compliance with the fundamental principles. When a chartered accountant in business or an immediate or close family member is offered an inducement, the situation should be carefully considered. Self-interest threats to objectivity or confidentiality are created where an inducement is made in an attempt to unduly influence actions or decisions encourage illegal or dishonest behavior or obtain confidential information. Intimidation threats to objectivity or confidentiality are created if such an inducement is accepted and it is followed by threats to make that offer public and damage the reputation of either the chartered accountant in business or an immediate or close family member.
- 350.3 The significance of such threats will depend on the nature, value and intent behind the offer. If a reasonable and informed third party, having knowledge of all relevant information, would consider the inducement insignificant and not intended to encourage unethical behavior, then a chartered accountant in business may conclude that the offer is made in the normal course business and may generally conclude that there is no significant threat to compliance with the fundamental principles.
- 350.4 If evaluated threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a chartered accountant in business should not accept the inducement. As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made, additional safeguards should be adopted. A chartered accountant in business should assess the risk associated with all such offers and consider whether the following actions should be taken:

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- (a) Where such offers have been made, immediately inform higher levels of management or those charged with governance of the employing organization;
- (b) Inform third parties of the offer – for example, a professional body or the employer of the individual who made the offer; a chartered accountant in business should, however, consider seeking legal advice before taking such a step; and
- (c) Advise immediate or close family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example as a result of their employment situation; and
- (d) Inform higher levels of management or those charged with governance of the employing organization where immediate or close family members are employed by competitors or potential suppliers of that organization.

Making Offers

- 350.5 A chartered accountant in business may be in a situation where the chartered accountant in business is expected to, or is under other pressure to, offer inducements to subordinate the judgment of another individual or organization, influence a decision-making process or obtain confidential information.
- 350.6 Such pressure may come from within the employing organization, for example, from a colleague or superior. It may also come from an external individual or organization suggesting actions or business decisions that would be advantageous to the employing organization possibly influencing the chartered accountant in business improperly.
- 350.7 A chartered accountant in business should not offer an inducement to improperly influence professional judgment of a third party.
- 350.8 Where the pressure to offer an unethical inducement comes from within the employing organization, the chartered accountant should follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

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DEFINITIONS

In this Code of Ethics for Chartered Accountants the following expressions have the following meanings assigned to them:

Advertising The communication to the public of information as to the services or skills provided by Chartered Accountants in practice with a view to procuring professional business.

Assurance client The responsible party that is the person (or persons) who:

(a) In a direct reporting engagement, is responsible for the subject matter; or

(b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.

(For an assurance client that is a financial statement audit client see the definition of financial statement audit client.)

Assurance engagement An engagement in which a Chartered Accountant in practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

(For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)

Assurance team (a) All members of the engagement team for the assurance engagement;

(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:

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- (i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement. For the purposes of a financial statement audit engagement this includes those at all successively senior levels above the engagement partner through the firm's chief executive;
 - (ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement; and
- (c) For the purposes of a financial statement audit client, all those within a network firm who can directly influence the outcome of the financial statement audit engagement.

Bye- Laws The Chartered Accountants Bye-Laws, 1983 as amended or added to from time to time.

Chartered Accountant A natural person who is a member.

Chartered accountant in business A Chartered Accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a Chartered Accountant contracted by such

Chartered Accountant In Practice A member shall be deemed "to be in practice" when he engages himself in practice as Chartered Accountant or Management Consultant as the case may be.

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A member of the Institute shall be deemed "to be in practice" when individually or in partnership with Chartered Accountants in practice, he in consideration received or to be received:-

- i. engages himself in the practice of accountancy; or
- ii. offers to perform or performs services involving the auditing, or verification of financial transactions, books, accounts, or records or the preparation, verification or certification of financial accounting and related statements or holds himself out to the public as an accountant; or
- iii. renders professional services or assistance in or about matters of principle or detail relating to accounting procedure or the recording, presentation or certification of financial facts or data; or
- iv. renders such other services in the field of management consultancy; or
- v. renders such services as, in the opinion of the Council, are or may be rendered by a chartered accountant in practice and the words "to be in practice" with their grammatical variations and cognate expression shall be construed accordingly.

Clearly insignificant

A matter that is deemed to be both trivial and inconsequential.

Close family

A parent, child or sibling, who is not an immediate family member.

Code of Corporate Governance

As embodied in the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges.

Company

Any entity or person(s), whether organized for profit or not, including a parent company and all of its subsidiaries.

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Contingent fee	A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.
Direct financial interest	A financial interest: <ul style="list-style-type: none">• Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or• Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control
Director or officer	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement quality control review	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement team	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
Existing accountant	A Chartered Accountant in practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial	The balance sheets, income statements or profit and

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statements	loss accounts, statements of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements.
Financial statement audit client	An entity in respect of which a firm conducts a financial statement audit engagement. When the client is a listed entity, financial statement audit client will always include its related entities.
Financial statement audit engagement	A reasonable assurance engagement in which a Chartered Accountant in practice expresses an opinion whether financial statements are prepared in all material respects in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with the International Standards on Auditing. This includes a statutory audit, which is a financial statement audit required by legislation or other regulation.
Firm	(a) A sole practitioner, partnership or corporation of Chartered Accountants; (b) An entity that controls such parties; and (c) An entity controlled by such parties.
Immediate family	A spouse (or equivalent) or dependant.
Independence	Independence is: (a) Independence of mind – the states of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional judgment. (b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having

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knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

Indirect financial Interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.
Institute	The Institute of Chartered Accountants of Pakistan constituted under the Chartered Accountants Ordinance, 1961.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
Member	A natural person whose name appears in the Register for the time being.
Network firm	An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
Ordinance	The Chartered Accountants Ordinance, 1961 as amended or replaced from time to time
Office	A distinct sub-group, whether organized on geographical or practice lines.
Prescribed	Prescribed by the Bye-laws
Professional services	Services requiring accountancy or related skills performed by a Chartered Accountant including accounting, auditing, taxation, management consulting and financial management services.

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Publicity	The communication to the public of facts about a chartered accountant which are not designed for the deliberate promotion of that chartered accountant
Register	The Register of the Members of the Institute maintained under the Chartered Accountants Ordinance, 1961
Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none">(a) An entity that has direct or indirect control over the client provided the client is material to such entity;(b) An entity with a direct financial interest in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity;(c) An entity over which the client has direct or indirect control;(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and(e) An entity which is under common control with the client (hereinafter a "sister entity") provided the sister entity and the client are both material to the entity that controls both the client and sister entity.
Schedule	The Schedules annexed to the Chartered Accountants Ordinance, 1961.

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EFFECTIVE DATE

The Code is effective on January 1, 2009. Section 290 is applicable to assurance engagements when the assurance report is dated on or after January 1, 2009. Earlier application is encouraged.

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