



CA
PAKISTAN

Code of Ethics for Chartered Accountants (Revised 2019)

Questions and Answers
on
**Provision of Non-Assurance Services
to an Audit Client**

From the Desk of Technical Services
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Introduction

On the advice of the Auditing Standards & Ethics Committee of the Institute, the Technical Services team has developed this publication containing Questions and Answers (Q&A) on section 600 '*Provision of Non-Assurance Services to an Audit Client*' of the ICAP Code of Ethics for Chartered Accountants (Revised 2019) (the ICAP Code 2019).

Section 600 of the ICAP Code 2019 sets out requirements and application material for the identification, evaluation and addressal to threats to independence when providing non-assurance services to audit clients. The subsections (601 to 610) that follow set out specific requirements and application material relevant when a firm or network firm provides certain non-assurance services to audit clients and indicate the types of threats that might be created as a result. These sections also include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.

This publication considers the requirements of section 600 of the ICAP Code 2019 and also highlights relevant requirements of the Pakistan Stock Exchange (PSX) Rule Book, the Listed Companies (Code of Corporate Governance) Regulations, 2019, the Public Sector Companies (Corporate Governance) Rules, 2013 and the Code of Corporate Governance for Insurers, 2016. Source references of the ICAP Code 2019 i.e. relevant paragraph number (for example 600.5 4A) are also provided. It outlines some of the key areas for member's consideration, however appropriate responses to issues will depend on unique facts and circumstances of each matter. The matters and examples included in this document are not all-inclusive, and this publication could be updated with additional and modified information. Further, in case of any specific or additional enquiry you may approach the Technical Services team.

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General

1. Can an audit firm or network firm provide multiple non-assurance services to their audit client?

A firm or network firm might provide multiple non-assurance services to an audit client. Paragraph 600.5 A4 of the ICAP Code 2019 provides that in these circumstances the consideration of the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Subsections 601 to 610 include examples of actions, including safeguards that might address threats to independence created by providing those non-assurance services when threats are not at an acceptable level (600.6 A1). However, some of the subsections covered in this document include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client because the threats created cannot be addressed by applying safeguards.

Network firm as defined in Glossary of the ICAP Code 2019

A firm or entity that belongs to a network.

For further information, see paragraphs 400.50 A1 to 400.54 A1

Prohibitions under law to provide Non-Assurance Services to an Audit Client

2. Which non-assurance services are prohibited under the PSX Rule Book?

Clause 5.10.3 of the PSX Rule Book lists down the prohibited services. Pursuant to this a statutory auditor of a listed company is prohibited to provide following non-assurance services:

- (a) Preparing financial statements, accounting records and accounting services;
- (b) Financial information technology system design and implementation, significant to overall financial statements;
- (c) Appraisal or valuation services for material items of financial statements;
- (d) Acting as an Appointed Actuary within the meaning of the term defined by the Insurance Ordinance, 2000;
- (e) Actuarial advice and reviews in respect of provisioning and loss assessments for an insurance entity;
- (f) Internal audit services related to internal accounting controls, financial systems or financial statements;
- (g) Human resource services relating to:
 - (i) Executive recruitment;
 - (ii) Work performed (including secondments) where management decision will be made on behalf of a listed audit client;
- (h) Legal Services;
- (i) Management functions or decisions;

- (j) Corporate finance services, advice or assistance which may involve independence threats such as promoting, dealing in or underwriting of shares of audit clients;
 - (k) Any exercise or assignment for estimation of financial effect of a transaction or event where an auditor provides litigation support services as identified in subsection 607 of the Code of Ethics for Chartered Accountants;
 - (l) Share Registration Services (Transfer Agents); and
 - (m) Any other service(s) which the Council with the prior approval of the Commission, may determine to be a “prohibited service”.
- 3. Can an external auditor perform services other than the statutory audit of a client, under the local laws?**

Following laws provide guidelines for performing services other than the statutory audit:

Listed Companies (Code of Corporate Governance) Regulations, 2019’ (the CCG Regulations 2019)

The CCG Regulations 2019 (in Regulation 32(4)) outline that a listed company can allow its statutory auditor to provide non-assurance services, subject to the requirements of CCG Regulations 2019.

In this regard, the CCG Regulations 2019 require the auditors to observe applicable guidelines of the International Federation of Accountants (IFAC) that is ICAP Code of Ethics for Chartered Accountants. Therefore, a statutory auditor can perform non-assurance services by observing the ICAP Code of Ethics.

It also relevant to mention that as explained under question 2, above, the PSX Rule Book also specifies certain services which cannot be performed by the statutory auditor of a listed company.

Public Sector Companies (Corporate Governance) Rules, 2013 (the PSC Rules)

Under the PSC Rules (Rule 23(5)), the external auditors are required to observe applicable guidelines issued by IFAC that is ICAP Code of Ethics for Chartered Accountants with regard to restriction of non-audit services.

Code of Corporate Governance for Insurers, 2016 (the CCG for Insurers)

Under clause (Ixiii) of the Code of Corporate Governance for Insurers, 2016, the insurer shall not appoint its auditors to provide services in addition to audit and require auditor to observe applicable guidelines issued by IFAC that is ICAP Code of Ethics for Chartered Accountants in this regard.

Management Responsibilities

- 4. What does management responsibility involve and what is not considered as assuming management responsibility?**

Paragraph 600.7 A1 explains that management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

The provision of non-assurance services that involve management responsibility, to an audit client, would create self-interest and self-review threat. Assuming management responsibility creates familiarity threat and might create advocacy threat.

In order to determine whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment (600.7 A3). Examples of activities that would be considered as management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

Paragraph 600.7 A4 of the ICAP Code 2019 permits that advice and recommendations can be provided to assist the management of an audit client in discharging its responsibilities and this would not be considered as assuming a management responsibility.

5. Can a firm or a network firm assume a management responsibility for an audit client?

No. A firm or a network firm shall not assume a management responsibility for an audit client (R600.7).

6. What does our local law require about performing management function?

The PSX Rule Book:

Clause 5.10.3 (l) of the PSX Rules Book specifically prohibits a statutory auditor to perform management functions or decisions of an audit client.

The CCG Regulations 2019:

Under Regulation No. 32(4) and 32(5) of the CCG Regulations 2019, it is mandatory for a company to ensure that its statutory auditor follow the IFAC Code of Ethics and thereby does not perform management functions or make management decisions, the ultimate responsibility for which remains with the board and management of the company.

The PSC Rules:

Under Rule 23(5) of the PSC Rules, the audit committee is required to ensure that the external auditors do not perform management functions or make management decisions, responsibility for which remains with the Board and management of the Public Sector Company.

The CCG for Insurers:

Under clause (lxiii) of the CCG for Insurers, 2016, the insurer is required to ensure that its auditors do not perform management functions or make management decisions, responsibility for which remains with the Board of Directors and management of the insurer.

7. Which threats could be created if a firm or a network firm assumes management responsibility when providing non-assurance service to an audit client?

If the firm or network firm assumes a management responsibility while providing a non-assurance service to an audit client, it creates self-review and self-interest threats. Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management (600.7 A2).

8. Can a firm or network firm assume management responsibilities or provide certain non-assurance services to the related entities of the audit client that are otherwise prohibited?

Paragraph R600.10 of the ICAP Code 2019 provides guidance that a firm or network firm may assume management responsibilities or provide certain non-assurance services that are otherwise prohibited to the following related entities of the audit client on whose financial statements the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client,

The above can be performed subject to the fulfillment of all of the following conditions:

- The firm or a network firm does not express an opinion on the financial statements of the related entity;
- The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
- The services do not create a self-review threat because the results of the services will not be subject to audit procedures; and
- The firm addresses other threats created by providing such services that are not at an acceptable level.

9. Occasionally the audit client requests technical assistance from the firm on resolving account reconciliation problems or providing technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Would these activities create threats to independence?

In general, these activities/services do not usually create threats, provided neither the firm nor the network firm assumes a management responsibility for the client.

Prohibitions of varied services to audit clients

10. What are the non-assurance services that a firm is prohibited to provide to public interest audit client under the ICAP Code 2019?

Following non-assurance services to a public interest audit client are prohibited:

Prohibited without regard to Materiality

- Assuming a management responsibility;
- Serving as General Counsel for legal affairs of an audit client;
- Accounting and bookkeeping services, including preparing accounting records and financial statements;
- Promoting, dealing in, or underwriting client shares;
- Negotiating for the client as part of a recruiting service;
- Recruiting directors/officers, or senior management who will have significant influence over accounting records or financial statements;

Prohibited if material to the financial statements

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

Public interest entity is defined in the ICAP Code 2019 as:

(a) A listed entity; or

(b) An entity:

(i) Defined by regulation or legislation as a public interest entity; or

(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

Other entities might also be considered to be public interest entities, as set out in paragraph 400.8

Accounting Services & Bookkeeping Services

11. Is it permissible for a firm or a network firm to provide services related to the preparation of accounting records and financial statements to the audit client?

No. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

Audit clients that are not public interest entities

Paragraph 601.5 of the ICAP Code 2019 explains that a firm or a network firm is not permitted to provide accounting and bookkeeping services to an audit client that is not a public interest entity including preparing financial statements on which the firm expresses an audit opinion, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are created by providing such services that are not at an acceptable level.

This is owing to the reason that providing accounting and bookkeeping services to an audit client might create a self-review threat (601.1).

Audit clients that are public interest entities

A firm or network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements (R601.6).

However, as an exception, a firm or network firm may provide accounting and bookkeeping services of routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members (R601.7) and:

- (a) The divisions or related entities are collectively immaterial to the financial statements on which the firm will express an opinion; or
- (b) The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.

12. What safeguards are available to address a self-review threat created when providing accounting and bookkeeping services of a routine and mechanical nature to an audit client?

Following safeguards are provided in paragraph 601.5 A1 of the ICAP Code 2019 to address self-review threat created when providing accounting and bookkeeping services of a routine and mechanical nature to an audit client:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Administrative services

Provision of routine administrative services

13. Is it permissible for a firm or a network firm to perform routine administrative services to support the company secretary function of an audit client?

Yes, it is permissible. Under paragraph 602.1 of the ICAP Code 2019, providing administrative services to an audit client does not usually create a threat. Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature. Examples of administrative services include:

- Word processing services.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates, and advising an audit client of those dates.

Tax services to an audit client

a. Tax return preparation service to audit clients

14. Can a firm compile financial information, including the amount of income tax due required to be submitted to the tax authorities as part of the client's tax reporting obligation for its audit client?

Yes. Compilation of such financial information is within the scope of tax return preparation services under paragraph 604.4 of the ICAP Code 2019, which usually does not create a threat.

Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practices. Further, tax returns are subject to review or approval process from the tax authority. The same is also approved by the client before filing.

b. Tax calculations for the purpose of preparing the accounting entries to audit clients

15. Can an audit firm provide services of calculating current and deferred tax liabilities (or assets) for the preparation of accounting entries to an audit client (for both public interest entity and others) that will subsequently be audited by the firm?

Management must take the responsibility for the preparation of accounting entries. Preparation of calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat (604.5A1).

A firm or a network firm is not allowed to prepare tax calculations of current and deferred tax liabilities (or assets) for preparing accounting entries that are material to the financial statements of an audit client that is a public interest entity on which the firm will express an opinion (R604.6).

In other situations, the existence and significance of the threat depends on factors such as:

- Whether the audit client is a public interest entity;
- The materiality of the amounts involved and its effect on the financial statements on which firm will express an opinion;
- The level of tax expertise of the client's personnel;
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process;
- Complexity of the relevant tax regime and degree of judgment necessary in applying it (604.3A2).

Following actions might provide safeguards to address a self-review threat:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed (604.5 A3).

c. Tax planning and other tax advisory services to audit clients (for both public interest entities and non-public interest entities)

16. What does tax planning and other tax advisory services comprise?

Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation (604.7 A2).

17. Can a firm provide tax planning or other tax advisory services to an audit client?

Providing tax planning and other tax advisory services might create a self-review or advocacy threat (604.7 A1). Audit client must take the responsibility on consideration and implementation of the tax advice, and ultimately its tax treatment and reporting.

Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing tax planning and other tax advisory services to audit clients in addition to paragraph 604.3 A2 include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.
- The extent to which the outcome of the tax advice will have a material effect on the financial statements.
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework (604.7 A3).

18. Which safeguards are available in the ICAP Code 2019 to address threats explained in question 17 above when providing tax planning and other tax advisory services?

Following safeguards are discussed in paragraph 604.7 A4, including, but not limited to the following:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

If the threat cannot be reduced to an acceptable level by the application of safeguards, such non-assurance service shall not be provided.

19. Can a firm provide tax advice to an audit client when the advice is dependent on a particular accounting treatment or presentation?

No. A firm or a network firm shall not provide tax planning or other tax advisory services to an audit client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

- The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion (R604.8).

d. Tax Services involving Valuations

20. Can a firm provide tax valuation services to an audit client?

Providing tax valuation services to an audit client might create a self-review or advocacy threat. A firm or a network firm might perform a valuation for tax purposes only, where the result of the valuation will not have a direct effect on the financial statements (604.9 A2).

A firm or network firm might also perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation has a direct effect on the financial statements. In such situations, the requirements of Subsection 603 relating to valuation services apply (604.9 A5).

In case if the effect on the financial statements is material or the valuation is not subject to external review, the firm must evaluate following factors (604.9 A3) and also apply safeguards as given in para 604.9 A4 of the ICAP Code 2019:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

If the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority, no threats would be created (604.9 A2).

e. *Provision of assistance in the resolution of tax disputes to audit clients*

21. Can a firm represent an audit client in the formal proceedings on a tax dispute?

Providing assistance in the resolution of tax disputes to an audit client might create a self-review or advocacy threat (604.10 A1). Therefore, an audit client must take the responsibility for its formal proceedings on a tax dispute.

A tax dispute might reach a point when the tax authorities have notified an audit client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example, before a public tribunal or court. What constitutes a “Public tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction (604.10 A2).

Paragraph 604.10 A3 explains that the existence and significance of the threat depends on factors such as:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion.
- Whether the advice that was provided is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

22. What safeguard are to be applied to eliminate or reduce the threats created by assisting an audit client in the resolution of tax dispute?

If the threat is considered to be at an acceptable level based on evaluation, then no safeguard is needed to be employed. Otherwise, the firm is to apply necessary safeguard to eliminate the threat or reduce it to an acceptable level, including:

- Using professionals who are not members of the audit team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the audit team on the services and review the financial statement treatment (604.10 A4).

If the threat cannot be reduced to an acceptable level by the application of safeguards, such service shall not be provided.

f. *Resolution of tax matters involving acting as an Advocate*

23. Can a firm or a network firm act as advocate for the audit client before a public tribunal for resolution of tax matter that are material to the financial statements?

A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client if:

- (a) The services involve acting as an advocate for the audit client before a public tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion (R604.11).

However, this does not preclude a firm or network firm from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter

Prohibited services permitted to incoming auditor

24. In which scenarios prohibited services are permitted under the ICAP Code 2019?

Five of the prohibited services are permitted to incoming auditor if it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the client's financial statements:

- Bookkeeping
- Internal audit outsourcing
- Valuation services
- Actuarial services
- Financial information system design and implementation

Where an incoming auditor provides these types of services in connection with the financial statements of a prior period audited by a predecessor auditor, the incoming auditor's independence would not be impaired, in the current period, so long as the services:

- i. Relate solely to the prior period audited by the predecessor auditor; and
- ii. Were performed before the incoming auditor was engaged in the audit of the current audit period.

However, it would impair independence if the incoming auditor was engaged to help design a financial system in the prior period, which was not implemented until the current period.

Internal Audit Services

25. Can a firm or network firm accept an engagement to provide internal audit services to an audit client?

When a firm or network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because there is a possibility that the audit team will use the results of the internal audit service for the purposes of the audit engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

Further there are other factors like the materiality of the related financial statement amounts, risk of misstatement of the assertions, degree of reliance that the external auditor will place on the work of the internal audit service, which need to be taken care of before accepting engagement to provide internal audit services (605.4 A4).

A safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service (605.4 A5).

26. What types of internal audit services involve assuming management responsibilities and hence are prohibited in the ICAP Code 2019??

Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Performing a significant part of the client's internal audit activities increases the possibility that firm or network firm personnel providing internal audit services will assume a management responsibility.

Paragraph 605.4 A2 provides examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to TCWG on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function.

Audit Client that is Public Interest Entity

27. Can a firm or a network firm provide internal audit services to an audit client that is a public interest entity?

No. Paragraph R605.5 requires that a firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity, if the services relate to:

- (a) A significant part of the internal controls over financial reporting;
- (b) Financial accounting systems that generate information that is, individually or in the aggregate, material to the client's accounting records or financial statements on which the firm will express an opinion; or

- (c) Amounts or disclosures that are, individually or in the aggregate, material to the financial statements on which the firm will express an opinion.

Information Technology Systems Services

28. Can a threat be created by providing IT system services to an audit client?

IT systems services include the design or implementation of hardware or software systems. The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements, including related disclosures (R606.3A1).

Therefore, providing IT systems services to an audit client might create a self-review threat (R606.1).

However, the IT systems might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

29. What types of IT services does not create any threat and not considered as assuming management responsibilities in the ICAP Code 2019?

Providing following IT systems services to an audit client does not usually create a threat as long as personnel of the firm or network firm do not assume a management responsibility:

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;
- (c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant; and
- (d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.

However, before providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;

- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Audit Client that is Public Interest Entity

30. Can a firm or a network firm provide IT services to an audit client that is a public interest entity?

No, in accordance with paragraph R606.5 of the ICAP Code 2019, a firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the services involve designing or implementing IT systems that:

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

Litigation Support Services

31. What are the litigation support services as explained in section 607 of the ICAP Code 2019 and whether threats be created by providing such services?

Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute (607.3A1).

Providing certain litigation support services to an audit client might create a self-review or advocacy threat. Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit client include:

- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm will express an opinion (607.3A2).

32. What safeguard can be applied to address self-review or advocacy threat?

As explained in paragraph 607.3A3, a safeguard to address a self-review or advocacy threat is using a professional who was not an audit team member to perform the service.

Legal Services

33. What are Legal Services as explained in the ICAP Code 2019?

Legal services are defined as any services for which the individual providing the services must either:

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

Further (as per 608.4 A1 of the Code) legal advisory services might include a wide and diversified range of service areas including both corporate and commercial services to audit clients, such as:

- Contract support.
- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit client's internal legal department.
- Legal due diligence and restructuring.

34. Can a partner or employee of the firm or the network firm serve as General Counsel?

A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit client (R608.5). The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

35. Can a firm or a network firm act in an advocacy role for an audit client?

A firm or a network firm shall not act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion (R608.6).

Recruiting Services

36. What are Recruiting Services as explained in the ICAP Code 2019?

Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.

- Undertaking reference checks of prospective candidates.
- Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation (609.3A1).

37. Does the ICAP Code 2019 allow the firm or the network firm to provide recruiting services to an audit client?

Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat. Subsection 609 of the ICAP Code 2019 prohibit firms and network firms from providing following types of recruiting services to an audit client because the threats created cannot be addressed by applying safeguards:

- When providing recruiting services to an audit client, the firm or the network firm shall not act as a negotiator on the client's behalf (R609.6).
- A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:
 - (a) Searching for or seeking out candidates; or
 - (b) Undertaking reference checks of prospective candidates, with respect to the following positions:
 - (i) A director or officer of the entity; or
 - (ii) A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion (R609.7).

Corporate Finance Services

38. Would a threat be created if corporate finance services are provided to an audit client?

Yes. Providing corporate finance services to an audit client might create a self-review or advocacy threat. Subsection 610 of the ICAP Code 2019 includes requirements that prohibit firm and network firm from providing following corporate finance services to an audit client because the threats created cannot be addressed by applying safeguards:

- Promoting, dealing in, or underwriting the audit client's shares (R610.4).
- Corporate finance advice to an audit client cannot be provided where the effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion and:
 - i. The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
 - ii. The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion (R610.5).

Secretarial Services

39. Can a firm provide the services of writing minutes of board of director meetings to an audit client?

Under Schedule 1 of the Companies Act, 2017 (the Companies Act), the Company Secretary is responsible for all secretarial functions including preparation of minutes of board of director meetings or other board committee meetings.

As explained in Bye Law-135 of the Chartered Accountants Bye Laws, 1983, a chartered accountant in practice may act as secretary in his professional capacity not being a whole time salaried employee.

In case of an audit client, a firm can provide secretarial functions subject to applying necessary safeguards, as explained in the ICAP Code 2019, to eliminate or reduce self-review or familiarity threats to an acceptable level. For providing this service, a firm shall ensure that it is not assuming any management responsibility for an audit client, as explained in Q4 above.

Disclaimer

This publication does not amend or override the ICAP Code 2019, the text of which alone is authoritative. Reading this publication is not a substitute for reading the ICAP Code 2019, the Companies Act 2017, the PSX Rule Book, the CCG Regulations 2019, the PSC Rules and related rules and regulations. The examples in this publication are not intended to address all possible circumstances. The Q&As are not meant to be exhaustive and reference to the ICAP Code 2019 should always be made before any decision making.

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