

SEMINAR ON DRAFT ICAP CODE OF ETHICS (REVISED 2024)

KEY CHANGES MADE IN PART 1, 2 & 3 OF THE CODE

Presented by: Tasawar Hussain, ACA



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BRIEF ABOUT THE IESBA CODE & ICAP OBLIGATIONS

- ICAP is a member of the International Federation of Accountants (IFAC) and is always committed to promote IFAC's ethical principles and standards.
- International Ethics Standards Board for Accountants (IESBA) is an independent global standard-setting board of IFAC – aims to serve public interest by setting high-quality, international ethics (including independence) standards.
- Being IFAC member, ICAP is required to adopt latest IESBA Code of Ethics, implement and enforce it locally;
- IESBA yearly issues the updated 'Handbook of the International Code of Ethics for Professional Accountants' after incorporating the substantive revisions made during the period.

BACKGROUND OF THE CODE

1990

First time IFAC Code was adopted by ICAP

2018

ICAP current Code of Ethics (Revised 2019) is based on IESBA Code 2018 (subject to few modifications) which is applicable from July 01, 2020.

2019-2023

From 2019 to 2023, certain significant changes have been made by IESBA which need to be incorporated in the ICAP Code with few modifications.

Latest IESBA Code Handbook is of 2023, issued in Sep 2023.

STRUCTURE OF THE CODE

PART 1

Complying with the Code, Fundamental Principles
and Conceptual Framework (Sections 100-199)

(All Chartered Accountants)

PART 2

Chartered Accountants in Business (CAIBs)

(Sections 200-299)

PART 3

Chartered Accountants in Practice (CAIPs)

(Sections 300-399)

PART 4A & 4B

International Independence
Standards

Part 4A – Independence for Audit and Review Engagements

(Sections 400-899)

Part 4B – Independence for Assurance Engagements Other
than Audit and Review Engagements

(Sections 900-999)

GLOSSARY

(All Chartered Accountants)

PURPOSE OF THE CODE

The Code

- **Sets out** the high-quality standards of Ethical Behavior
- **Establishes** the Fundamental principles
- **Provides** a Conceptual framework
- **Sets out** the International independence standards

The Conceptual framework

Sets out the Approach to Identify, evaluate and address the Threats to Compliance with Fundamental principles.

Self-Interest | Self-Review | Advocacy | Familiarity | Intimidation

Complying with the code requires an understanding of the relevant provisions in a Particular section in the context of Part 1, together with all other applicable provisions of other parts of the code.

Which one will prevail???

The Code

OR

The CA Ordinance 1961

ICAP DUE PROCESS OF ADOPTION OF IESBA CODE

- The Auditing Standards and Ethics Committee of ICAP after a comprehensive study and detailed discussions of the IESBA Code 2023 has recommended the adoption of IESBA Code of Ethics 2023, subject to few changes to align with Chartered Accountants Ordinance, 1961 and other local legal frameworks.
- An Exposure Draft of the ICAP Code of Ethics (Revised 2024) was issued through ICAP Circular No. 12 (dated December 30, 2023) for members' comments /feedback.

SPECIFIC - IESBA PROVISIONS NOT ADOPTED BY ICAP

1. Section 370 'Public Notices, Announcements and Communications'

- This section has been developed by ICAP due to restriction on promotion and marketing activities in the CA Ordinance.
- IESBA Code Section 115.2 on marketing has not been adopted previously.
- Same changes will be carried forward in the ICAP revised Code 2024 with one proposed to change in para 370.2 (c) (iii) '**Directories & Internet**':

'A chartered accountant and his firm may be listed in the directories ([including electronic professional platforms, such as LinkedIn](#)), 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".....'

SPECIFIC - IESBA PROVISIONS NOT ADOPTED BY ICAP

2. IESBA paragraph 330.3 A2 related to **Audit Fee** has not been adopted due to **prohibition on Undercutting of Audit Fee** in the CA Ordinance.
3. **Rotation of auditors of PIE client** - restricted to five (5) years in compliance with CCG Regulations 2019 for listed companies as compared to seven (7) years permitted in IESBA Code for all PIE.
4. **Contingent fees** is not allowed in CA Ordinance (clause 9 of Schedule I Part I), therefore IESBA provisions on contingent fees have not been adopted previously.

(These changes are not in conflict with the requirements of IESBA code; rather make it more stringent and principally arising out of the requirements of the CA Ordinance, 1961.)

BASIC DRAFTING CONVENTION CHANGES IN DRAFT ICAP CODE

Replacement of word **'Professional Accountant'** with **'Chartered Accountant'**.

Replacement of word **'Public Practice'** with **'Practice'**.

These changes have been made to align with the requirements of CA Ordinance 1961 (CA Ordinance) and local practice.

PART 1

Complying with the Code, Fundamental Principles and Conceptual Framework

(Sections 100-199)

(All Chartered Accountants)

- Sec 100 - Complying with the Code – Few Changes
- Sec 110 - The Fundamental Principles – Few Changes
 - 111- Integrity - Change
 - 112- Objectivity - Change
 - 113- Professional Competence and Due care - No Change
 - 114- Confidentiality - No Change
 - 115- Professional Behaviour - Minor Change
- Sec 120 - The Conceptual Framework – Key Changes

KEY CHANGES IN PART 1

100 Clear and concise introduction and objective of the Code explained as well as more emphasize is provided to comply with the Code. (100.2, 100.3 & 100.4)

Section 100.2: New Para added focusing on **Building Confidence** in the Accountancy profession.

Section 100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve Chartered accountants in a broad range of areas, including financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

- (a) Adherence to ethical principles and professional standards;
- (b) Use of business acumen;
- (c) Application of expertise on technical and other matters; and
- (d) Exercise of professional judgment.

The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

KEY CHANGES IN PART 1

100 **Section 100.3:** New para added focusing on **High Quality Standards** sets out by the code

Section 100.4: New para added clearly stating the **Five Fundamental Principles**

Section 100.3: The Code sets out **high quality standards** of ethical behavior expected of Chartered accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

KEY CHANGES IN PART 1

110 Following fundamental principles have become more strengthened:



- **Integrity** – Changes have been made to define Integrity in more detailed manner by adding "**Acting appropriately**" - in difficult situations even when facing pressure to do otherwise (111.2 A2)

Acting appropriately involves:

- (a) ***Standing one's ground** when confronted by dilemmas and difficult situations; or*
- (b) ***Challenging others** as and when circumstances warrant, in a manner appropriate to the circumstances.*



- **Objectivity** - **undue reliance** on, individuals, organizations, **technology** or other factors has been added. (R112.1)

Section 111.A2: Integrity involves fair dealing, truthfulness and **having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.**

Section 112.1: A professional accountant shall comply with the principle of objectivity, which requires an accountant to exercise professional or business judgment without being compromised by: (a) Bias; (b) Conflict of interest; or

(c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors

KEY CHANGES IN PART 1

- 120** “Applying the Conceptual Framework”- Introduced a term ‘**Having an Inquiring mind**’ to have an understanding of known facts/ circumstances when identifying, evaluating and addressing threats to fundamental principles (R120.5 A1)

Having an inquiring mind involves:

- (a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and*
- (b) Being open and alert to a need for further investigation or other action.*

- 120** Promotion of ethical principles within organization (120.13)

- 120** Design, implement and operate firm SOQM as per ISQM 1 (120.14 A1)

KEY CHANGES IN PART 1

120

Other Considerations added, when 'Applying the Conceptual Framework':
Effect of **Conscious or unconscious bias** on the exercise of professional judgement and mitigating actions (120.12)

Examples of Potential Bias:

<input type="checkbox"/> Anchoring Bias	<input type="checkbox"/> Availability Bias	<input type="checkbox"/> Groupthink Bias	<input type="checkbox"/> Representation Bias
<input type="checkbox"/> Automation Bias	<input type="checkbox"/> Confirmation Bias	<input type="checkbox"/> Overconfidence Bias	<input type="checkbox"/> Selective Perception

- **Anchoring bias** : tendency to use **an initial piece of information** as an anchor.
- **Automation bias** : tendency to favor **output generated from automated systems**.
- **Availability bias** : tendency to place more weight on **events or experiences that immediately come to mind or are readily available**.
- **Confirmation bias** : tendency to place more weight on **information that corroborates an existing belief**.
- **Groupthink** : tendency for a group of individuals **to discourage individual creativity and responsibility**.
- **Overconfidence bias** : tendency to overestimate **one's own ability**.
- **Representation bias** : tendency to base an understanding on a **pattern of experiences, events or beliefs**.
- **Selective perception** : tendency for a **person's expectations** to influence.

PART 2

Chartered Accountants in Business (CAIBs)

(Sections 200-299)

- Sec 200 - Applying the Conceptual Framework - *few additions*
- Sec 210 - Conflicts of Interest – *No Change*
- Sec 220 - Preparation and Presentation of Information - *few additions*
- Sec 230 - Acting with Sufficient Expertise - *No Change*
- Sec 240 - Financial Interests, Compensation & Incentives Linked to Financial Reporting and Decision Making - *No Change*
- Sec 250 - Inducements, Including Gifts and Hospitality - *No Change*
- Sec 260 - Responding to Non-Compliance with Laws and Regulations - *No Change*
- Sec 270 - Pressure to Breach the Fundamental Principles – *addition of pressure related to level of fees*

KEY CHANGES IN PART 2

Sec 200 More emphasis to **promote ethical culture** in the organization (200.5 A3)

*“Management processes and **performance evaluation and reward criteria** that **promote an ethical culture**”*

Sec 220 **Preparation and presentation of information:**

Additional requirement of “Avoidance of risk of bias and undue reliance on organizations or technology” (R220.4)

Sec 270 **Pressure to breach the fundamental principles:**

Addition of example of ‘Pressure Related to level of Fees’ by one accountant on another for providing professional services at a fee level that does not allow for appropriate resources (human, technological and intellectual resources) (270.3 A2)

PART 3

Chartered Accountants in Practice (CAIPs)

(Sections 300-399)

- Sec 300 - Applying the Conceptual Framework – *one minor addition*
- Sec 310 - Conflicts of Interest - *No Change*
- Sec 320 – Professional Appointments - *few additions*
- Sec 321 – Second Opinions - *No Change*
- **Sec 325 – Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers – *Newly added Section***
- Sec 330 – Fees and Other Types of Remuneration - *few additions*
- Sec 340 – Inducements, including Gifts and Hospitality - *No Change*
- Sec 350 – Custody of Client Assets - *No Change*
- Sec 360 – Responding to Non-Compliance with Laws and Regulations - *No Change*
- Sec 370 – Public Notices, Announcements and Communications Undue Publicity be Avoided (*section added by ICAP to comply with CAO requirements of marketing and promotion*)

KEY CHANGES IN PART 3

- Sec 300** ▪ **Applying the Conceptual framework:** In the **familiarity threats** a safeguard has been added to have an **appropriate reviewer**, where there is a close relationship with an individual who performed the work. (300.6A1)
- Sec 320** ▪ **Professional Appointments- Client and Engagement Acceptance:** Firm policies and procedures should be aligned with ISQM 1 to respond to quality risks;
 - **New point about level of fees** and required resources has been added. (320.3A4)

Section 320.3A4: Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as **ISQM 1**, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

The level of fees and the extent to which they have regard to the resources required, taking into account the professional accountant's commercial and market priorities.

KEY CHANGES IN PART 3

- Sec 325** ▪ New Section ‘**Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers**’ has been added which discussed the identification, evaluation and how to address threats to the objectivity of an individual appointed as EQR.

Section 325.6A1 (Summarized form): The following are **examples of circumstances** where threats to the objectivity of a professional accountant appointed as an engagement quality reviewer might be created:

- (a) **Self-interest threat-** each serving as an EQR for the other’s engagement.
- (b) **Self-review threat-** serving as an EQR after previously serving as the EP.
- (c) **Familiarity threat-** serving as an EQR has a close relationship with or is an immediate family member.
- (d) **Intimidation threat-** serving as an EQR for an engagement has a direct reporting line to the partner.

- Sec 360** ▪ In section 360.16, Communication with Respect to Groups, conforming amendments have been made to align with ISA 600 (Revised) terminology (i.e in addition to component, legal entities or business units have been added)

New Revisions to the IESBA Code Addressing Tax Planning and Related Services

Due to the complexity and sensitivity of *Tax Planning services* and that were potentially posing threats for all professional accountants (PA) to comply with fundamental principles, the IESBA has recently issued ethical framework through introduction of two new sections :

1. Section 280 '*Tax Planning Activities*' for PAIB; and
2. Section 380 '*Tax Planning Services*' for practicing members. (*effective from period beginning after 30 June 2025*)

Summary of changes:

- Clear description of TP and Related Services with illustrative examples;
- PAs responsibility to determine credible basis as per laws and regulations for the TP arrangement;
- Addition of Responsibilities of Management, TCWG and all PAs in relation TP;
- PAs basis for recommending or otherwise advising on a Tax Planning Arrangement - consideration of other factors i.e. reputational, commercial and wider economic consequences and their adverse implications;
- PA responsibilities in identifying and addressing areas of uncertainty;
- More examples of self-review/ self-interest threats, how to eliminate such threats and safeguards provided;
- PA responsibilities to provide advice on TP arrangement developed by third party;
- When disagreement arises between PA and employer/ client;
- Documentation requirement.

CHANGES- NOT YET EFFECTIVE

Approved Changes that are Not Yet Effective

The IESBA 2023 edition of the handbook contains:

- The **revised definition of a public interest entity (PIE)** which, among other matters, specifies a broader list of PIE categories, including a new category “publicly traded entity” to replace the category of “listed entity.”

The revised PIE definition and related provisions will be effective for audits of financial statements for periods beginning on or after December 15, 2024. Early adoption will be permitted.

- **Changes to the definitions of “audit client” and “group audit client” in the Glossary** arising from the approved revisions to the definitions of listed entity and public interest entity will be effective for audits of financial statements and group financial statements for periods beginning on or after December 15, 2024.

- **Technology-related revisions to the Code.** The technology-related revisions to Parts 1 to 3 will be effective as of December 15, 2024.

THANKS

