

ICAP HEAD OFFICE

Chartered Accountants Avenue,
Block 8, Clifton, Karachi, 75600
Pakistan.

U: (+92 21) 111 000 422
T: (+92 21) 99251628
E: secretary.office@icap.org.pk
F: (+92 21) 99251626
W: www.icap.org.pk

Reach Us Out:



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

SECRETARY

Circular No. 1/2025

January 27, 2025

ALL PRACTICING MEMBERS OF THE INSTITUTE

Dear Member,

Auditors' Independence: Adherence to Provisions under ICAP Code of Ethics and applicable Laws and Regulations

The Institute of Chartered Accountants of Pakistan (ICAP) regularly provides guidance relating to professional and ethical standards to practicing members. Through this circular the Institute draws attention and advise the practicing members about the critical importance of maintaining independence in audit and non-assurance engagements in accordance with the provisions of the Companies Act, 2017, Pakistan Stock Exchange (PSX) Rule Book, SECP Listed Companies (Code of Corporate Governance), 2019 and ICAP Code of Ethics for Chartered Accountants.

This circular outline key requirements relating to auditors' independence, audit fees, provision of non-assurance services, and related approvals to ensure compliance with the legal and ethical framework governing our profession:

Companies Act, 2017

- Section 247 of the Companies Act, 2017 deals with the qualification and disqualification of auditors that includes various independence related specific requirements.
- Section 247 (3) (i) of the Companies Act, 2017 provides that a person shall not be appointed as auditor of a company who is not eligible to act as auditor under the Code of Ethics as adopted by ICAP. This legal provision fundamentally provides for the independence of the auditors in accordance with the requirements of the ICAP Code of Ethics.
- Section 247 (3) (j) of the Companies Act, 2017 provides that a person shall not be appointed as auditor of a company where a person or his spouse or minor children, or in case of a firm, all partners of such firm who hold any shares of an audit client or any of its associated companies.
- The Fourth Schedule (clause 32) and Fifth Schedule (clause 26) to the Companies Act, 2017 require the disclosure of auditor's remuneration in the note to the financial statements separately for audit and non-audit services stating the nature of such services.

Pakistan Stock Exchange Rule Book

- Regulation 5.10.3 and 5.10.4 of the PSX Rule Book reinforce the independence requirements for the external auditors of the listed company specifically prohibiting certain non-audit services to be provided to listed company that may create conflicts of interest or impair auditor's objectivity.

REGISTERED OFFICE

Chartered Accountants Avenue,
Block 8, Clifton, Karachi, 75600, Pakistan.



CONTINUED

Listed Companies (Code of Corporate Governance) Regulations, 2019

- The relevant provisions for the auditor's independence contained in the Listed Companies (Code of Corporate Governance) Regulations, 2019 are summarized below:
 - clause 27 (4) requires that the terms of reference of the audit committee shall be explicitly documented which shall also include under sub clause (xv) that audit committee to recommend to the Board the appointment of auditors, audit fees and provision of any service permissible to be rendered to the company by the external auditors in addition to audit of its financial statements.
 - clause 32 (2) mandatorily requires that no company shall appoint as external auditors, a firm of auditors which or a partner of which is non-compliant with the International Federation of Accountants' Guidelines on Code of Ethics, as adopted by the ICAP.
 - clause 32 (4) mandatorily requires that no company shall appoint its external auditors to provide services in addition to audit except in accordance with the corporate governance regulations and shall require the auditors to observe applicable International Federation of Accountants guidelines.
 - clause 32 (5) mandatorily requires the company to ensure that the auditors do not perform management functions or make management decisions, responsibility for which remains with the Board and management of the company.
 - clause 32 (6) mandatorily requires that the company shall not appoint a person as an external auditor or a person involved in the audit of a company who is a close relative (spouse, parents, dependents and non-dependent children) of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary or a director of the company.

ICAP Code of Ethics for Chartered Accountants

- The ICAP Code of Ethics for Chartered Accountants contains a specific section 'International Independence Standard' (Part 4) that provides all the details relating to auditor's independence including section 600 '*Provision of Non-Assurance Services to Audit Clients*' of the ICAP Code. Section 600 sets out a conceptual framework for auditors to identify, evaluate and address threats to independence when providing non-assurance services to audit clients or whether interests or relationships create threats to auditor's independence.
- The subsections (601 to 610) of the ICAP Code prohibits a firm or a network firm to provide certain non-assurance services to audit client that are Public Interest Entities (PIE) and other than PIE, if a service may create a self-review and advocacy threat in relation to the audit of the financial statements on which the firm will express an opinion.



CONTINUED

Requirements of Current ICAP Code of Ethics (Revised 2019)

- The extant ICAP Code of Ethics for Chartered Accountants (Revised 2019) disallows PIE auditors to provide non-assurance services to PIE audit client including accounting and bookkeeping services (paragraph R601.6), valuation services (paragraph R603.5), calculation of current and deferred tax liabilities (or assets) (paragraph R604.6), if these services would have a material effect on the financial statements on which the firm will express an opinion.
- The extant Code also requires audit firm to be vigilant before acting as an advocate for the audit client before a Public Tribunal or Court (paragraph R604.11) or acting in an advocacy role in resolving a dispute or litigation (paragraph R608.6), when the amounts involved are material to the financial statements on which the firm will express an opinion. It is also pertinent to mention that Regulation 5.10.3 (viii) and (xi) of PSX Rule Book categorically prohibits auditors of listed companies to provide litigation support services and legal services to their audit clients.
- The current ICAP Code (in its paragraph 400.40 A2) also encourages regular communication between a firm and those charged with governance (TCWG) of the audit client regarding relationships and other matters.

Enhanced Requirements of ICAP Code of Ethics (Revised 2024)

- ICAP has adopted the Code of Ethics for Chartered Accountants (Revised 2024) which is effective from January 01, 2026. The revised ICAP Code is based on 2023 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA).
- The revised ICAP Code has significantly strengthened auditor's independence requirements for the fee-related provisions (section 400) and non-assurance services (section 600). The revised ICAP Code now explicitly requires auditors of PIE to communicate with TCWG (paragraph 600.20 A1) on matters related to fee information for the audit and non-audit services (paragraphs R410.23, R410.25), fee dependency provisions (paragraph R410.28) and communication before accepting to provide non-assurance services to PIE audit client (paragraphs R600.21- R600.23). The purpose of the communication is to enable TCWG of PIE to have effective oversight of the independence of firm that audits the financial statements of that PIE.
- The revised ICAP Code provides enhanced guidance that the concept of materiality is not relevant in evaluating whether a self-review threat might be created by the provision of a non-assurance services to PIE audit client. It explicitly prohibits PIE auditors to provide certain non-assurance services to audit clients, including accounting and bookkeeping services (paragraph R601.6), calculation of tax provisions (paragraph R604.10), acting as an advocate for the audit client before a tribunal or court (paragraph R604.26) and other non-assurance services which may impact auditor's independence in certain situations.
- With respect to audit firm acting as an advocate for the audit client before a Tribunal, the revised ICAP Code 2024 has provided Transitional Provision which allows firms to continue to provide tax services to audit clients for the existing matters that are being heard before a Tribunal till the conclusion of such matters.



CONTINUED

International Standards on Auditing (ISAs)

- In accordance with ISA 260, *Communication with Those Charged with Governance*, the auditor must communicate all significant matters with TCWG that may affect independence, disclose the nature and extent of non-assurance services provided.

Accordingly, audit firms are reminded to document their compliance with the above requirements, wherever applicable, and ensure that engagement teams remain free of threats to independence. Further the practicing members who are external auditors of PIE are reminded to strictly adhere to the following:

- Avoid any non-assurance services that may impair independence.
- Obtain prior approval where applicable for permissible non-assurance services from the Board of Directors or Audit Committee of listed / PIE audit clients.
- Maintain comprehensive documentation of compliance with the independence requirements.
- Ensure clear and timely communication with TCWG under ICAP Code of Ethics and ISA 260.

ICAP remains committed to upholding the highest standards of ethics and independence in the accountancy profession. Members are urged to revisit the relevant provisions of the ICAP Code of Ethics, Companies Act, Corporate Governance Regulations and PSX Rulebook, and to ensure that all engagements comply with these requirements.

Non-compliance will not only lead to professional repercussions but also jeopardize public trust in the profession. Should you have any queries or require further clarification, please contact the Technical Services Department of ICAP.

Yours truly,

Omaid Jamal, FCA
Secretary