Frequently Asked Questions (FAQs)

ICAP Code of Ethics for Chartered Accountants (Revised 2024)

The Institute of Chartered Accountants of Pakistan

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Contents

Introduction

The ICAP Code of Ethics for Chartered Accountants (Revised 2024) [the “Code”] establishes the ethical requirements applicable to Chartered Accountants in Pakistan. The Code is based on the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) 2023 Edition, together with local additions and modifications issued by the Institute of Chartered Accountants of Pakistan (ICAP).

The Institute has prepared this publication to facilitate consistent application of the Code by providing practical guidance through frequently asked questions.

These FAQs are intended to assist members in understanding and applying the requirements of the Code in common practical situations.

This publication does not amend, override or replace the Code. The Code itself remains the authoritative pronouncement. Members should always refer to the relevant provisions of the Code when evaluating specific facts and circumstances.

Disclaimer

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In the event of any inconsistency between these FAQs and the applicable provisions of the ICAP Code of Ethics or any Council notification, the provisions of the Code and the relevant Council notification shall prevail.

1 Who is required to comply with the ICAP Code of Ethics (Revised 2024)?

The Code applies to all members of the Institute, whether in public practice, business, academia, government or any other professional capacity. Firms are also required to comply with the applicable provisions of the Code.

2. What is meant by having an "inquiring mind" under Section 120 of the revised Code, and how does it differ from "professional skepticism"?

Under Paragraph R120.5 and Paragraph 120.5 A1, having an inquiring mind is a prerequisite for all professional accountants (both in business and in public practice) when identifying, evaluating, and addressing threats to compliance with the fundamental principles.

Having an inquiring mind involves:

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

Distinction from Professional Skepticism:

While having an inquiring mind applies to all professional accountants across all professional activities, professional skepticism is specifically required under auditing, review, and other assurance standards and includes a critical assessment of audit/assurance evidence.

3. How does the 2024 Code articulate the professional accountant's responsibility to act in the public interest?

Paragraphs 100.6 A1 through 100.6 A4 introduce explicit application guidance regarding the public interest:

- <u>Public Interest Role:</u> Upholding fundamental principles and complying with the Code enables accountants to meet their responsibility to act in the public interest.
- <u>Aim and Intent:</u> Compliance includes giving appropriate regard to the aim and intent of specific ethical requirements.
- <u>Beyond Client Preferences:</u> When acting in the public interest, a professional accountant must consider not only the preferences or requirements of an individual client or employing organization, but also the interests of other relevant stakeholders.
- <u>Not Solely Checklist Compliance:</u> Complying strictly with the wording of requirements does not automatically mean an accountant has met their full responsibility to act in the public interest if the underlying threat remains unaddressed.

4. What guidance does Subsection 111 provide regarding "acting appropriately" when confronted with ethical dilemmas?

Paragraph 111.1 A2 clarifies that acting with integrity and appropriately when faced with dilemmas or difficult situations involves:

a) Standing one's ground when confronted by dilemmas and difficult situations.

b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

5. Does the revised Code require firms to establish procedures to mitigate unconscious bias, or is the requirement applicable only to individual professional accountants?

Paragraphs 120.12 A2 and 120.12 A3 introduce guidance on conscious and unconscious bias as factors that may impair professional judgement when applying the conceptual framework.

Although the Code addresses the responsibilities of individual professional accountants, firms should also consider incorporating policies and training aimed at recognizing and mitigating bias, particularly within engagement acceptance, consultation, review and quality management processes.

6. What specific types of biases are accountants required to guard against under Section 120?

Paragraph 120.12 A2 introduces examples of conscious and unconscious biases that can impair professional judgment:

- Anchoring bias: Tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias: Tendency to favor output generated from automated systems/technology, even when human reasoning or contradictory information raises questions.
- Availability bias: Placing excessive weight on readily available or recent information/events.
- Confirmation bias: Favoring information that confirms existing beliefs while ignoring contradictory evidence.
- Groupthink: Discouraging individual critical reasoning due to group pressures.
- Overconfidence bias: Overestimating one's ability to make accurate risk assessments or decisions.
- Representation bias and selective perception: Forming judgments based on unrepresentative patterns or personal expectations.

Mitigation Actions (Para 120.12 A3): Mitigation includes seeking expert advice, consulting others for appropriate challenge, and receiving training on identifying bias.

7. How do organizational and firm culture impact compliance with the Code?

Paragraphs 120.13 A1–A3 and 120.14 A1 emphasize that an effective ethical culture enhances the application of the conceptual framework:

Leadership Accountability: Leaders must promote ethical values and hold themselves and others accountable.

Whistleblower Protection & Training: Effective policies protecting whistleblowers and encouraging reporting of illegal/unethical behavior are vital.

ISQM 1 Linkage: For firms in public practice, Paragraph 120.14 A1 explicitly ties firm culture to responsibilities under ISQM 1 (Quality Management for Firms).

8. What additions have been made to Section 220 regarding technology and bias for accountants in business?

Under revised Paragraph R220.4, when preparing or presenting information, a professional accountant in business shall:

Avoid undue influence of, or undue reliance on, individuals, organizations, or technology (Sub-para e).
Be aware of the risk of bias (Sub-para f).

9. How does Section 270 address pressure related to fee levels exerted on professional accountants?

Paragraph 270.3 A2 includes pressure related to the level of fees as a specific example of pressure creating ethical threats.

This occurs when pressure is exerted to provide professional services at a fee level that does not allow for sufficient and appropriate resources (human, technological, or intellectual) to perform the service in accordance with professional standards.

10. What new factors must be considered regarding fee levels and client acceptance in Section 320?

Paragraph 320.3 A4 aligns engagement acceptance with ISQM 1. When evaluating threats to competence and due care upon appointment, firms must consider:

Policies and procedures under the firm's System of Quality Management (ISQM 1).

The level of fees and the extent to which fees provide for the required resources, taking into account commercial and market priorities.

11. What is the scope of the new Section 325 regarding Engagement Quality Reviewers?

Section 325 is a dedicated section addressing the objectivity of an Engagement Quality Reviewer (EQR) and other appropriate reviewers. It highlights threats to objectivity such as:

Self-interest threat: Two engagement partners acting as reciprocal EQRs for each other's engagements.

Self-review threat: Serving as an EQR on an audit engagement shortly after serving as the engagement partner on the same engagement.

Familiarity threat: Close relationship or immediate family connection with engagement team members.

Intimidation threat: The EQR having a direct reporting line to the audit engagement partner.

12. How do Section 115 and Section 370 of the ICAP Code regulate marketing activities?

While IESBA Section 115 sets general principles against exaggerated claims or disparaging references, ICAP Section 370 ("Public Notices, Announcements and Communications") contains localized requirements tailored to the local regulatory environment in Pakistan. Members must adhere strictly to Section 370 guidelines regarding dignified communication, avoiding undue publicity, and maintaining professional good taste.

13. Can a practicing member participate as a Knowledge Partner and professional exhibitions?

Yes. The revised Section 370 specifically recognizes such participation, provided the member's involvement complies with the conditions prescribed in the Code and does not amount to solicitation or undue publicity.

14. Does replacing references to ISQC 1 with ISQM 1 require firms to revise their independence policies?

Yes. The revised Code replaces references to ISQC 1 with ISQM 1 and clarifies that responsibility for designing and operating the firm's system for independence compliance rests with individuals or groups assigned operational responsibility under the firm's System of Quality Management. However, this does not diminish the personal responsibility of each professional accountant to comply with the applicable independence requirements.

Accordingly, firms should review their independence manuals, governance arrangements and assignment of responsibilities to ensure consistency with ISQM 1 terminology and responsibilities.

15. Where are the rules on management responsibilities located, and what is required under Paragraph R400.14?

Prohibition requirements on assuming management responsibilities have been shifted from Section 600 to Section 400 (Paragraph R400.13 & R400.14).

To avoid assuming management responsibilities when providing advice/services, the firm must be satisfied that client management:

- Designates a suitable individual (preferably within senior management) who possesses appropriate skills, knowledge, and experience to oversee decisions.

- Provides oversight and evaluates the adequacy of results.

- Accepts full responsibility for actions arising from the service.

16. What are the strict conditions in Paragraph R400.32 for accepting a Public Interest Entity (PIE) audit client?

If a firm provided a non-assurance service to an entity prior to its appointment as auditor, and that service creates a self-review threat regarding financial statements, the firm shall not accept appointment as auditor of a PIE unless:

- The non-assurance service ceases before the commencement of the audit engagement period.
- Action is taken to address independence threats.
- A reasonable and informed third party would conclude that threats are eliminated or reduced to an acceptable level (e.g., prior auditing by predecessor firm, pre-issuance review equivalent to an EQR by an external accountant, or re-performance/evaluation by an independent firm).

17. What key changes were made to Section 410 regarding fee dependence and transparency?

Section 410 was comprehensively revised:

- <u>Public Transparency:</u> Requires public and TCWG (Those Charged With Governance) disclosures of fee-related information for PIE audit clients to enhance stakeholder confidence.
- <u>Fee Dependence Thresholds:</u> Heightened scrutiny and required safeguards (e.g., pre- or post-issuance reviews) when total fees from an audit client represent a significant proportion of the firm's total fees over consecutive years.

18. Which section of the Code is affected by the circular 9/2026?

The circular applies only to Section 604 of the ICAP Code of Ethics for Chartered Accountants (Revised 2024). All other provisions of the Revised 2024 Code remain applicable as notified. The deferment is retrospective and is effective from January 1, 2026, which was the original effective date of Section 604 under the Revised 2024 Code.

19. Which requirements should members follow during the deferment period?

During the deferment period, members should continue to comply with Section 604 of the ICAP Code of Ethics for Chartered Accountants (Revised 2019) until further notification.

20. How are breaches communicated under Paragraph R400.80?

When a breach occurs, Paragraph R400.80 requires immediate end/elimination of the breach, evaluation of its significance, and prompt communication to:

- The engagement partner.
- The individual with operational responsibility for independence compliance under ISQM 1.
- Relevant firm/network personnel and affected audit team members.
- TCWG and relevant regulatory authorities where required.

21. What updates were made to Part 4B?

Part 4B applies to assurance engagements other than audits and reviews. Section 900.1 expands engagement examples to include:

- Assurance on Key Performance Indicators (KPIs).
- Assurance on Greenhouse Gas (GHG) statements.
- Assurance on internal control effectiveness and compliance with laws/regulations.
- Assurance on public sector value-for-money criteria.

22. Non-Assurance Services to Non-Audit Assurance Clients - what safeguards exist under Section 950?

Under Paragraph 950.12 A3, actions that serve as safeguards when providing non-assurance services to assurance clients include:

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

If safeguards cannot reduce threats to an acceptable level, Paragraph 950.12 A4 requires adjusting the scope of the service, declining/ending the non-assurance service, or ending the assurance engagement.

23. The revised Code recognizes the increasing use of technology. Does reliance on Artificial Intelligence reduce a member's professional responsibilities?

No. Regardless of whether technology, automation or artificial intelligence is used, the member remains fully responsible for all professional judgements and conclusions.

Technology should support not replace professional competence, professional skepticism and ethical decision-making.