



KEY AREAS OF CHANGE IN ICAEW CODE OF ETHICS 2020

4 December 2019

There are few changes of substance in the restructured ICAEW Code of Ethics applicable from 1 January 2020. The changes that are being made now to ICAEW's Code are due to the adoption of accumulated changes made by the International Ethics Standards Board for Accountants (IESBA) since 2011. These changes are mostly expanded discussion of existing requirements rather than substantive changes, but there are a few areas where some differences arise and which therefore merit closer attention. Those areas which will have an impact on the ICAEW Code are summarised below:

NON-COMPLIANCE WITH LAW AND REGULATION ('NOCLAR') – SECTIONS 260 AND 360

1. For some years the ICAEW Code has included additional material giving members specific permission to breach confidentiality where the accountant considers it to be in the public interest. Until now, the IESBA Code did not contain a corresponding provision.
2. The inclusion of NOCLAR in the IESBA Code requires an accountant suspecting a business-related illegal act to consider whether the act is inconsequential; and if not, they should raise it internally with the client or employer. If the accountant does not consider that the client or employer has dealt with the issue properly, the accountant should make disclosure to the relevant external authority, if it is in the public interest to do so.
3. On the basis that the ICAEW Code already had a fundamental override, we consider that the introduction of NOCLAR in the IESBA Code is a changed nuance for ICAEW members rather than a fundamentally new requirement.
4. A separate summary is [available](#) explaining the NOCLAR provisions in more detail.

CONFLICTS OF INTEREST – SECTIONS 210 AND 310

5. The sections on conflicts of interest in the revised IESBA Code completely replace the existing ICAEW sections 220 and 310. The new IESBA sections do not significantly change the substance of the existing requirements, but they do enhance the guidance on how to apply the conflicts of interest requirements.
6. The ICAEW Code applying until 31 December 2019 states that conflicts can create threats to objectivity, so safeguards should be applied. For practitioners, this would generally mean dividing personnel and obtaining consent from the affected parties. The new IESBA section maintains the requirement for consent, but also provides:

- Examples of types of conflict;
 - Explicit reference to the reasonable and informed third party test;
 - Additional discussion of e.g. conflict identification processes, safeguards, types of disclosure and consent, and when work can be taken on without disclosure and consent.
7. Some of this material was previously covered in the add-on material within the ICAEW Code, including section 221 for corporate finance practitioners. A separate helpsheet has now been created for the latter.

PROFESSIONAL ACCOUNTANTS IN BUSINESS – SECTIONS 200 TO 270

8. A new section has been added (s270) that explicitly requires accountants not to allow pressure to result in a breach of the fundamental principles; and not to place pressure on others that would result in such a breach. We consider that this requirement was implicit in the existing ICAEW Code.

BREACHES OF THE CODE – R100.4 ET SEQ.

9. The ICAEW Code applying to 31 December 2019 requires that, should a provision of the Code be breached, the accountant needs to evaluate the consequences, correct the breach, and apply other safeguards as necessary. The restructured Code is more explicit, and also requires the accountant to consider whether the breach needs to be reported. It also notes that there are additional requirements for breaches of audit and assurance independence provisions.

CHANGES TO AUDIT AND OTHER ASSURANCE INDEPENDENCE PROVISIONS – PART 4

10. In the UK, members carrying out audit work are required to apply the FRC Ethical Standard, rather than the detailed independence provisions of the ICAEW Code. The changes to the independence requirements in this Code are therefore applicable in very few circumstances but detailed in below for reference.

Breaches of the Code

The requirements in IESBA's/ICAEW's Code in respect of audit and other assurance engagements will now also require: a) consideration of whether the engagement needs to be terminated; and b) a discussion with those charged with governance.

Definition of those charged with governance

Changed to align more closely with ISA 260. The extended definition recognises that those charged with governance (TCWG) may sometimes include organisations (eg a corporate trustee) and/or those with management responsibilities (eg owner managers). In addition, a new paragraph is inserted in the front section of the Code noting that when communicating with TCWG, it may in some circumstances be acceptable to communicate with a subset of that group. There are also conforming changes to a paragraph in IESBA's/ICAEW's Code.

Definition of engagement team

Changed to align with that used in ISAs. The definition now excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement, where this is permitted by ISA610. Note that such assistance is prohibited by the FRC versions of the ISAs in any event.

Clarification of management responsibilities and changes re accounting services when providing assurance work

Additional guidance and clarification in IESBA's/ICAEW's Code provided relating to:

- management responsibilities, including demarcation of 'administrative services'; and
- 'routine and mechanical', in the context of the provision of accounting services to entities to which audit and assurance services are also supplied.

Accounting and tax accounting services are currently not permitted in respect of audited public interest entities (only), except in 'emergency situations'. This emergency exception is now abolished, over concerns that it was misused.

Long association of audit personnel with audit clients

Tightens up on cooling-off rotation requirements for partners on PIE audits and what they can do during that period. The rotation periods are now:

- | | |
|--|---------------|
| • Engagement partner | • 7 on/ 5 off |
| • Individual responsible for the engagement quality control review | • 7 on/ 3 off |
| • Other key audit partners | • 7 on/ 2 off |

Note that the FRC ES is largely stricter than the new provisions anyway.

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TECPLN15834