

Enquiry on Clarification of "short period" in comparison of tenure appointment of the Auditor

A. Brief facts of the Enquiry:

The Code of Ethics for Chartered Accountants (Revised 2024) under R525.4(a) prohibits a firm or network firm from loaning personnel to an audit client, unless the firm or network firm is satisfied that the assistance is provided only for a "short period of time." We are writing to seek clarification regarding the interpretation of the term "short period" within the context of R525.4(a).

In a recent case, secondment services were provided to an audit client by an audit firm over an extended period from July 2022 to October 2023. These services were provided under separate contracts, each lasting between two and six months, but with no interruption in the provision of services, resulting in a total duration of sixteen consecutive months.

Given this continuous arrangement, we would appreciate clarification on whether such a duration would still be considered a "short period" under R525.4, or if additional factors need to be considered.

B. The Auditing Standards & Ethics Board's due process

The Auditing Standards & Ethics Board (ASEB / the Board) in accordance with its due process deliberated and concluded on the enquired matter. As part of the Board's due process the matter was referred to the relevant working group formed for addressing the technical queries and has been approved by the Board.

C. The Board's Comments and Conclusion:

1. The Board considers and issues opinions on audit and ethics-related matters after consideration of:

- the particular facts and information provided in each enquiry; and
- the requirements of the International Standards on Auditing as applicable in Pakistan (ISAs), ICAP Code of Ethics for Chartered Accountants (ICAP Code of Ethics), and Rule Book of Pakistan Stock Exchange Limited (the PSX Rules).

The Board's analysis and response to the enquired matter are based on the parameters outlined above and do not include ascertainment of documents/ facts relating to the enquired matter or independent study or evaluation of the legal and statutory obligations.

2. The Board noted that the ICAP Code of Ethics is issued under the provisions of the Chartered Accountants Ordinance, 1961 (CA Ordinance) as Directive 6.04 of the Institute. The Board's response is based on the requirements of the current ICAP Code of Ethics 2019, which is applicable.
3. In context of the enquired matter section 525 '*Temporary Personnel Assignments*' of the ICAP Code of Ethics sets out guidance and specific requirements when the firm or network firm shall not loan personnel to an audit client. It explains that the loan of personnel to an audit client might create a self-review, advocacy or familiarity threat, since in such arrangement there may be risk that the firm or the network firm becomes too closely aligned with the views and interests of management, provided safeguards are applied to reduce such threat to an acceptable level.
4. In the context of the enquired matter, the Board would like to refer paragraph R525.4 of the ICAP Code of Ethics, reproduced below for reference:

"R525.4 A firm or network firm shall not loan personnel to an audit client unless:

(a) Such assistance is provided only for a short period of time;

(b) The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and

Enquiry on Clarification of "short period" in comparison of tenure appointment of the Auditor

(c) The personnel do not assume management responsibilities and the audit client is responsible for directing and supervising the activities of the personnel."

5. In view of the enquired fact pattern, we understand that the matter involves Board's interpretation of the term "short period of time" and its analysis with other factors. We have noted that the term "short period" is not defined in the ICAP Code of Ethics. We also understand that it is context-dependent, not universally defined by a fixed number of days or weeks and could be a period of time that is not considered long enough to significantly impact the auditor's independence.
6. Since the matter involves interpretation of the term "short period of time", the Board has sought clarification from the International Ethics Standards Board for Accountants (IESBA).

In response, we have received a guidance from the IESBA Staff (based on their understanding of the Board's deliberations but has not been discussed, reviewed, or approved by the IESBA), which says that:

"The Code does not define "short period of time" or prescribe a fixed duration. This is intentional, allowing for flexibility and professional judgment, in line with the Code's principles-based approach and recognizing that temporary vacancies at audit clients may arise under varying circumstances. Generally, a "short period" may be understood as the time reasonably required for the audit client to recruit or engage another individual to fill a temporary resource gap. In practice, this would likely mean no more than a few weeks to a few months, depending on the nature of the assignment".

Though the above cannot be termed as a formal view of IESBA, however, guidance can be sought from this.

Board Conclusion:

Based on our understanding of the enquired fact pattern and above discussion, it is concluded that:

1. The term "short period of time" is not defined in the ICAP Code of Ethics and it may vary, depending on the nature of the assignment, internal risk management policies of the firm and adherence with the spirit of the Code (including implementation of appropriate safeguards as prescribed by the Code to address familiarity risk).
2. In view of IESBA response, we understand that the IESBA has intentionally not defined "short period of time" or prescribed a fixed duration in the IESBA Code to allow the flexibility and professional judgment of the auditors, in line with the Code's principles-based approach. The IESBA also recognizes that temporary vacancies at audit clients may arise under varying circumstances, but generally, a "short period" is the time reasonably required for the audit client to recruit or engage another individual to fill a temporary resource gap. In practice, this would likely mean no more than a few weeks to a few months, depending on the nature of the assignment.

(Issued on May 16, 2025)

Disclaimer

An opinion is based on the facts, circumstances, assumptions and quantitative analyzes provided by the enquirer. The opinions, accordingly, do not provide a judgment about the adequacy of the data provided to us by the enquirers. An opinion may change if the facts and the circumstances change. In addition, an opinion may also change due to subsequent change in law, pronouncements, and other relevant changes, made by the regulators, the International Auditing & Assurance Standards Board, the International Ethics Standards Board for Accountants, the Institute, the Board/ Committee or any other body. The opinions are not legal advice. The Institute and Board/ Committee believes that the enquired matters, transactions or arrangements have been or will be made considering the legal, ethical and moral requirements. The Institute, the Board/ Committee and staff will have no liability in connection with opinions.