

## Exposure Draft

March 2019

*Comments due: June 26, 2019*

*International Ethics Standards Board  
for Accountants®*

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# Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)

**IESBA**

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Board for Accountants®



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## About the IESBA

The [International Ethics Standards Board for Accountants®](#) (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

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## REQUEST FOR COMMENTS

This Exposure Draft, *Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)*, was developed and approved by the IESBA.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. Comments are requested by **June 26, 2019**.

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Senior Technical Director, at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

# PROPOSED REVISIONS TO PART 4B OF THE CODE TO REFLECT TERMS AND CONCEPTS USED IN ISAE 3000 (REVISED)

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# EXPLANATORY MEMORANDUM

## I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed revisions to Part 4B of the Code to reflect terms and concepts used in International Standard on Assurance Engagements 3000 (Revised) ('ISAE 3000 (Revised)'<sup>1</sup>). The IESBA approved this Exposure Draft in March 2019.

## II. Background

2. Part 4B of the Code comprises the independence standards for assurance engagements other than audit and review engagements, as defined in the Code.
3. In its [proposed Strategy and Work Plan, 2019 – 2023](#), the IESBA announced that it had made a commitment to review Part 4B of the Code for any changes that are needed to make the provisions in that Part consistent with the revised assurance terms and concepts in ISAE 3000 (Revised). The need for this review had been identified during the restructuring of the Code but was outside the remit of the Structure project. To avoid delaying completion of that project, the IESBA agreed to defer the review of Part 4B until after completion of the restructuring of the Code.
4. In December 2013, the International Auditing and Assurance Standards Board (IAASB) finalized a project to revise ISAE 3000 (originally issued in 2004). The objectives of the revision were mainly to incorporate enhanced requirements and guidance in the light of experiences with applying ISAE 3000, and to adopt the IAASB's clarity drafting conventions.
5. The main changes that were made sought to clarify the distinction between the types of assurance engagement and to identify more clearly the parties to an assurance engagement and their roles and responsibilities. These are also the changes that are most relevant to the IESBA in addressing the independence requirements.

### Co-ordination with the IAASB

6. In developing this Exposure Draft, the IESBA has coordinated with IAASB representatives to ensure that the proposed revisions to Part 4B are consistent with the terms and concepts in ISAE 3000 (Revised).

### Definition of an Assurance Engagement

7. An assurance engagement is defined in ISAE 3000 (Revised)<sup>2</sup> as an engagement in which a practitioner (referred to as a 'professional accountant in public practice' for the purposes of the Code) aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (i.e. the outcome of the measurement or evaluation of an underlying subject matter against criteria).
8. ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement for engagements conducted under that Standard. The IAASB's [International Framework for Assurance](#)

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<sup>1</sup> [ISAE 3000 \(Revised\), Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#)

<sup>2</sup> Paragraph 12(a) of ISAE 3000 (Revised)

[Engagements](#) (the ‘Assurance Framework’) provides a general description of assurance engagements.

### **New Terminology Used in ISAE 3000 (Revised)**

9. ISAE 3000 (Revised) introduced a change in terminology in the two types of assurance engagement from ‘assertion-based’ and ‘direct reporting’ engagements in the original ISAE 3000 to ‘attestation’ and ‘direct’ engagements in the revised Standard. In changing the terminology, the IAASB has clarified that the distinction between the two types of assurance engagement is based on who is undertaking the measurement or evaluation of the subject matter (now referred to as “underlying subject matter” to avoid confusion with the term “subject matter information”) against the criteria.
10. Moving from the term “assertion-based engagements” to “attestation engagements” and “direct reporting engagements” to “direct engagements” involved taking one of the two types of direct reporting engagements (where a measurer or evaluator, other than the professional accountant in public practice, measures or evaluates the underlying subject matter and makes an assertion as to the subject matter information that is not available to intended users) and including that type of engagement under attestation engagements. Direct engagements now *only* include the other type of engagement, where the accountant directly measures or evaluates the underlying subject matter. This results in a reclassification, but no substantive change in concepts.
11. ISAE 3000 (Revised) includes requirements and guidance for attestation engagements only, rather than for both attestation engagements and direct engagements. Nonetheless, in the introduction, ISAE 3000 (Revised) notes that the ISAE may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.

#### *Attestation Engagements*

12. In an attestation engagement, a party other than the professional accountant in public practice measures or evaluates the underlying subject matter against the criteria. A party other than the accountant also often presents the resulting subject matter information (the outcome of the measurement or the evaluation) in a report or statement. In some cases, however, the subject matter information may be presented by the accountant in the assurance report. The accountant’s conclusion addresses whether the subject matter information is free from material misstatement.<sup>3</sup>

#### *Direct Engagements*

13. In a direct engagement, the professional accountant in public practice measures or evaluates the underlying subject matter against the criteria. In addition, the accountant applies assurance skills and techniques to obtain sufficient appropriate evidence about the outcome of the measurement or evaluation of the underlying subject matter against the criteria. The accountant may obtain that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it before or after such measurement or evaluation. In a direct engagement, the accountant’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria and is phrased in terms of the underlying subject matter and the criteria. In some direct engagements, the accountant’s conclusion is, or is part of, the subject matter information.<sup>4</sup>

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<sup>3</sup> Paragraph 12 of ISAE 3000 (Revised)

<sup>4</sup> Paragraph 13 of ISAE 3000 (Revised)

**Independence Considerations Concerning Direct Engagements**

14. As referred to in the [Basis of Conclusions](#) issued by the IAASB on the publication of ISAE 3000 (Revised) in 2013, some respondents to that Exposure Draft had questioned whether direct engagements are compatible with the independence of the professional accountant in public practice, either:
- Because there might be a self-review threat where the accountant is responsible for measuring or evaluating the underlying subject matter and obtaining assurance for the purposes of expressing a conclusion; or
  - Because the accountant might participate in the development of the criteria.
15. Direct engagements are more commonly performed in the public sector, for example where auditors-general or equivalent have a statutory mandate to provide assurance reports on matters of public interest, such as performance audits on aspects of public administration. An example might be assurance on whether a government finance department has implemented government policy in an efficient and effective manner. In this context, the assurance report can be lengthy and might also be discursive. However, direct engagements are assurance engagements and must satisfy all the elements of an assurance engagement, including the existence of suitable criteria and an assurance conclusion.
16. It seems generally the case that the professional accountant in public practice does not first perform the evaluation or measurement and then obtain assurance on it: rather, the accountant obtains assurance while performing the measurement and evaluation. In these circumstances, the accountant is not required to re-evaluate work previously performed by the accountant for the purposes of providing the assurance opinion. Accordingly, a self-review threat does not generally arise.
17. It might be that the professional accountant in public practice participates in the development of the criteria, but this is likely to be in conjunction with the intended user(s) or engaging party and possibly the party responsible for the underlying subject matter. In order to comply with ISAE 3000 (Revised), the accountant also needs to be satisfied as to the appropriateness of the criteria, and the criteria are required to be available to the intended users.<sup>5</sup> The Standard also states that it is desirable for the intended users or the engaging party to acknowledge that specifically developed criteria are suitable for the intended users' purposes. The absence of such an acknowledgement might affect what is to be done to assess the suitability of the criteria, and the information provided about the criteria in the assurance report.<sup>6</sup>
18. It is relevant to note that the Code requires the professional accountant in public practice to apply the conceptual framework to identify, evaluate and address threats to independence. Specifically, in the case of Part 4B, paragraph R900.15 states: 'A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.' This would, therefore, apply in the case of considering whether the accountant could accept a direct engagement in the particular circumstances, taking into account how the suitable criteria are to be determined and how the accountant will be obtaining assurance to enable the conclusion to be provided. In making these considerations, the accountant will need to apply the guidance in ISAE 3000 (Revised) as to the prerequisites for an assurance engagement.

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<sup>5</sup> Paragraphs A51 and A52 of ISAE 3000 (Revised)

<sup>6</sup> Paragraphs 24 and A50 of ISAE 3000 (Revised)

### III. Significant Matters

#### Changes in Key Terminology, including Definition of Assurance Client – Per Glossary

19. The change in terminology used in ISAE 3000 (Revised) requires corresponding changes in the Code, in particular in the two types of assurance engagement (changed from assertion-based engagement to attestation engagement, and from direct reporting engagement to direct engagement).
20. ISAE 3000 (Revised) states that all assurance engagements have at least three parties: the responsible party, the practitioner (i.e. the professional accountant in public practice), and the intended users. Additionally, depending on the engagement circumstances, there may also be a separate role of measurer or evaluator or engaging party. In ISAE 3000 (Revised), the term ‘responsible party’ is used only for the party responsible for the underlying subject matter, and the term ‘measurer or evaluator’ is reserved for the party who evaluates the underlying subject matter against the criteria to produce the subject matter information. The terminology used in the Exposure Draft has been aligned with these terms as they are now used in ISAE 3000 (Revised).
21. The change in terminology used in ISAE 3000 (Revised) requires a change in the definition of Assurance Client in the Code. The IESBA believes that, although the term ‘assurance client’ is not used in ISAE 3000 (Revised) or in other IAASB material, it is nevertheless preferable to use this term in Part 4B for ease of reference when describing the party or parties from whom the professional accountant in public practice is required to be independent. The term is consistent with the principles of ISAE 3000 (Revised). It is also the equivalent of the term ‘audit client’ used in Part 4A.
22. The proposed revised definition of Assurance Client in the Exposure Draft is as follows:
 

Assurance client	The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).
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23. The definitions of ‘responsible party’, ‘attestation engagement’, ‘direct engagement’, ‘criteria’, ‘subject matter information’ and ‘underlying subject matter’ have also been included in the Glossary to the Code consistent with ISAE 3000 (Revised).
24. The IESBA believes that it is important for the user of the Code to understand the requirement for the firm to be independent of the assurance client and that this might be more than one party. The IESBA therefore proposes to amend paragraph R900.14 to clarify that the firm is required to be independent of the assurance client and then to reproduce the definition of assurance client as application material at paragraph 900.14 A1.
25. This proposed approach differs from that taken in the equivalent paragraph in Part 4A which states: ‘A firm performing an audit engagement shall be independent’ (paragraph 400.11). However, the IESBA believes that this departure is justified because in the case of an assurance engagement, it is not necessarily intuitive from which entity, or entities, the firm is required to be independent.

#### Impact of the Revised Assurance Client Definition on the Independence Requirements in Sections 910 to 924

26. The clear distinction between the roles of the different parties has implications for the Code in so far as concerns the parties from whom the professional accountant in public practice has to be independent and the requirements for independence, both in an attestation and a direct engagement.



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27. The IESBA believes that the independence requirements in the restructured Code<sup>7</sup> with respect to the different parties to an assurance engagement can be clarified. The restructured Code also has arguably inconsistent requirements for attestation and direct engagements.
28. The IESBA believes that the professional accountant in public practice should be independent, as provided in Part 4B, of the responsible party (i.e. the party responsible for the underlying subject matter). Additionally, in an attestation engagement, the accountant should be independent of the measurer or evaluator (where different from the responsible party) in the situation where that party takes responsibility for the subject matter information.
29. In the majority of attestation engagements, the responsible party and the measurer or evaluator are likely to be part of the same entity and therefore there would be only one assurance client. There would also only be one assurance client in circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator), where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. By contrast, another party (the measurer or evaluator) might be appointed (either by the responsible party or a party such as the intended user) to perform the evaluation or measurement, for example a review of an entity's sustainability practices, on the basis that that other party will take responsibility for the subject matter information. If a professional accountant in public practice is engaged to perform an assurance engagement in these circumstances, the IESBA believes that the accountant should be independent of the other party (the measurer or evaluator) as well as the responsible party. This is achieved through the revised definition of Assurance Client (see above) and the application material in 900.14. A2.
30. In the restructured Code, there are different independence requirements between assertion-based and direct reporting engagements with respect to interests and relationships between the firm and the party responsible for the underlying subject matter. This is achieved in the restructured Code through providing a different definition of Assurance Client for assertion-based and direct reporting engagements,<sup>8</sup> such that when applied to the detailed requirements for independence of the assurance client in the later sections, different requirements apply depending on the type of assurance client and whether the parties responsible for the underlying subject matter and the subject matter information are one and the same.
31. Accordingly, in the case of direct reporting engagements the specific prohibitions on interests and relationships with the assurance client (referred to in the restructured Code in paragraph R900.20, but set out in detail in the sections that follow), apply to the party responsible for the underlying subject matter. In the case of an assertion-based engagement, however, these specific prohibitions apply to the party responsible for the subject matter information and only to the party responsible for the underlying subject matter when both parties are the same entity. In this latter situation, the IESBA's proposals as set out in the Exposure Draft will not affect the independence requirements. However, in the case where the party responsible for the underlying subject matter is different from the party

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<sup>7</sup> References to the restructured Code are to the revised and restructured *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued in April 2018.

<sup>8</sup> The definition of 'assurance client' in the restructured Code is as follows:

"The responsible party that is the person (or persons) who:

- (a) In a direct reporting engagement, is responsible for the subject matter; or
- (b) In an assertion-based engagement, is responsible for the subject matter information and might be responsible for the subject matter."

responsible for the subject matter information, the IESBA's proposed revised definition of 'assurance client' will mean that the specific prohibitions in the restructured Code on certain interests and relationships will apply also to the party responsible for the underlying subject matter. To this extent, the IESBA's proposals represent a strengthening of the Code's requirements.

32. The IESBA believes that it is more common in an attestation engagement for the same party to be responsible both for the underlying subject matter and the subject matter information. For this reason, the IESBA does not believe that the changes in the independence requirements that it is proposing will represent a significant change in the practical application of the Code. The IESBA also believes that its proposed approach to the independence requirements is clearer and more logical than the restructured Code which itself represents a strong argument for making the changes.
33. A list of the requirements and application material where the IESBA's proposed revised definition of assurance client affects the application of the independence requirements for attestation engagements is set out in the appendix to this memorandum.

**Proposal to Delete Paragraphs R900.18, R900.19 and R900.20 and to Rework and Relocate Paragraph 900.19 A1**

34. The restructured Code sets out a summary of the independence requirements for the different types of assurance engagement in paragraphs R900.18, R900.19 and R900.20. The main reason why these requirements are included in the restructured Code is to draw a distinction between the requirements applying to assertion-based engagements and direct reporting engagements. The IESBA is, however, proposing a closer alignment of the provisions for the two types of engagement under ISAE 3000 (Revised), at least so far as the party responsible for the underlying subject matter is concerned. The IESBA also believes that it may confuse the user to have summary requirements expressed in this form when the specific requirements follow in the later sub-sections.
35. In the light of these considerations, the IESBA proposes to delete the summary of the requirements.
36. Under the IESBA's proposal, the important explanatory material in paragraph 900.19 A1, addressing the situation where the parties responsible for the underlying subject matter and subject matter information are different, has been reworked and relocated in paragraph 900.14 A2 (as explained above).
37. The IESBA proposes to clarify, for the avoidance of doubt, that certain provisions of Part 4B that apply with respect to the subject matter information of the assurance engagement only apply in the case of attestation engagements and not direct engagements. This is because in the case of direct engagements, the professional accountant in public practice is responsible for the subject matter information so the provisions are not relevant in this situation. This clarification is achieved in the Exposure Draft by adding the words 'in an attestation engagement' in the relevant places in the text.<sup>9</sup>

**Split of Assurance Engagements between Parts 4A and 4B**

38. Part 4B covers 'assurance engagements other than audit and review engagements'. For the purposes of the Code, however, 'assurance engagements' extend beyond engagements covered by International Standards on Assurance Engagements (in particular ISAE 3000 (Revised)), and include audits of specific elements, accounts or items of a financial statement which are conducted under

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<sup>9</sup> R921.5(b); 921.6 A1(b); R921.7(b); 921.8 A1(b); R922.3(b); 922.4 A1(b); 924.3 A1; R924.4(b); 940.3 A3; 940.3 A4; 950.4 A1; R950.6; 950.6 A2; R950.7; 950.8 A1

ISA 805 (Revised).<sup>10</sup> The IESBA continues to believe that it is not appropriate or necessary to apply the independence requirements in Part 4A to these engagements given their narrow scope. This type of engagement is listed in paragraph 900.1 as an example of one falling within the scope of Part 4B.

39. Although audits of specific elements, accounts or items of a financial statement are audit engagements under IAASB Standards, they are not audit engagements as defined in the Glossary to the Code because they do not relate to financial statements as defined in the Glossary. The IESBA proposes to clarify the intention of the Code by adding a sentence to the end of the definition of Financial Statements in the Glossary, as follows:

*'The term does not refer to specific elements, accounts or items of a financial statement'*.

### **Examples of Assurance Engagements**

40. The IESBA believes that it is helpful to illustrate the range of assurance engagements addressed in Part 4B. So, it proposes to include in paragraph 900.1 more examples of the types of assurance engagement that fall within the scope of Part 4B.

### **Source of Guidance on Assurance Engagements**

41. The restructured Code includes material in paragraphs 900.7 to 900.11 which is intended to provide the user of the Code with a convenient summary of the key elements of the two different types of assurance engagement. Based on advice from representatives of the IAASB, however, the IESBA believes that it is more appropriate for the user to refer to the definitive source of that material in IAASB literature. Accordingly, in the proposed revised text in the Exposure Draft most of this material has been removed, other than a brief description in paragraph 900.7 of an assurance engagement and a reference to where further guidance can be obtained. The definition of 'assurance engagement' in the Glossary has also been amended accordingly.

### **Multiple Responsible Parties**

42. Paragraph 900.21 A1 of restructured Part 4B (paragraph 900.16 A1 in the proposed revised Part 4B) provides a discussion of how a firm might apply the independence requirements of the Code where there are multiple responsible parties. Essentially, the paragraph recognizes that it might not be necessary for the firm to apply all of the provisions of Section 900 to a responsible party if it determines that the threat created by an interest or relationship with that responsible party would be trivial and inconsequential in the context of the engagement.
43. Although the IESBA believes that it is not common for there to be multiple responsible parties, a situation might arise, for example, where a professional accountant in public practice is to provide an assurance conclusion on a statement made by an internet portal provider of aggregated data for a particular industry sector. The situation envisioned is that the portal provider is responsible for compiling and evaluating the data to produce a summary (subject matter information), presented according to the requirements of the industry regulatory body, from raw data (the underlying subject matter) provided by the different operators in that industry. In this case, there would be a single party responsible for the subject matter information and multiple responsible parties. Paragraph 900.16 A1 in the proposed revised Part 4B might be relevant in the situation where a firm's relationship with one

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<sup>10</sup> ISA 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

of the responsible parties is determined to be trivial or inconsequential in the context of an assurance engagement.

44. The IESBA believes that the principle in paragraph 900.16 A1 is clear and proposes to withdraw Interpretation 2005-01 which was originally developed primarily to provide guidance on this paragraph.
45. Further, the IESBA does not believe it would be likely that a situation could arise where there would be multiple measurers or evaluators (different from the responsible parties) who take responsibility for the subject matter information. Accordingly, the IESBA does not propose to include any provisions covering this hypothetical situation.

#### **Long Association of Personnel with an Assurance Client**

46. Paragraphs 940.3 A3 (last bullet) and 940.3 A4 of the restructured Code use the phrase ‘individual [or individuals] who is/[are] the responsible party’ in the context of providing guidance on evaluating the level of familiarity or self-interest threats arising from relationships of members of the assurance team with certain individuals at the assurance client. The IESBA believes that this phrase could be confusing and proposes to define the relevant individuals as those ‘who are responsible for the underlying subject matter or, in an attestation engagement, the subject matter information.’ The IESBA believes that this more clearly reflects the intended meaning in the restructured Code. This would also cover situations where an assurance client is an individual because such an individual would be responsible for the underlying subject matter or subject matter information, or both, depending on the circumstances.

#### **IV. Project Timetable and Effective Date**

47. The following timetable is planned for this project:
  - June 26, 2019 – Closing date for responses to the Exposure Draft
  - September 2019 – Consideration of responses and first read of proposed revised Part 4B
  - December 2019 – Approval of revised Part 4B
48. Subject to meeting the above timetable, the IESBA proposes that the effective date of the revised Part 4B, in accordance with the Board’s position on revisions to the revised and restructured Code, should be as follows:

*Part 4B relating to independence for assurance engagements with respect to underlying subject matter covering periods will be effective for periods beginning on or after June 15, 2021; otherwise, it will be effective as of June 15, 2021. Early adoption will be permitted.*

#### **V. Guide for Respondents**

49. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.
50. The IESBA is not inviting comments on the terms and concepts included in ISAE 3000 (Revised) itself as these are the responsibility of IAASB and outside the scope of this Exposure Draft.

### Request for Specific Comments

51. The IESBA welcomes views from respondents on the following matters.

1. Do you believe that the changes in the key terminology used in the Exposure Draft, including the definition of 'assurance client', are clear and appropriate for use in Part 4B?
2. Do you have any comments on the application of the IESBA's proposals to the detailed independence requirements and application material as explained above and summarized in the appendix?
3. Do you have any comments on the other proposed changes, including on the consistency of terms and concepts in Part 4B in relation to the text of ISAE 3000 (Revised)? If so, please specify the area of inconsistency and suggest alternative wording.
4. Are there any other matters that you consider should be addressed with respect to the alignment with ISAE 3000 (Revised) in Part 4B or in other material, for example in an IESBA Staff publication? If so, please provide sufficient explanation, including practical examples of the matter where available.
5. Do you agree with the proposed effective date? If not, please indicate why not and explain your reasoning.

### Request for General Comments

52. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- (a) *Small and Medium Practices (SMPs)* – The IESBA invites comments regarding the impact of the proposed changes for SMPs.
- (b) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.
- (c) *Translations*—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

**Appendix****Summary of the IESBA's Proposals Regarding Certain Independence Requirements and Application Material Affecting the Responsible Party****Requirements of the Code Regarding Independence of the Assurance Client**

Under the IESBA's proposal, the following requirements and application material will apply additionally in an attestation engagement with respect to the party responsible for the underlying subject matter (as well as to the party responsible for the subject matter information), where different from the party responsible for the subject matter information:

<b>Part 4B Ref.</b>	<b>Topic</b>
R910.4	Financial interests held by the firm, assurance team members and immediate family
R910.5	Financial interests in an entity controlling an assurance client
R910.6	Financial interests held as trustee
R910.7	Financial interests received unintentionally
910.8 A1	Financial interests of close family
910.8 A5	Financial interests of other individuals
R911.4	Loans and guarantees with an assurance client
R911.5	Loans and guarantees with an assurance client that is a bank or similar institution
R911.6	Deposit or brokerage accounts
R911.7	Loans and guarantees with an assurance client that is not a bank or similar institution
R920.4	Firm, assurance team member or immediate family business relationships
920.5 A1	Buying goods or services

**Requirements of the Code Regarding Independence of Directors and Officers of the Assurance Client**

Under the IESBA's proposal, the following requirements and application material will apply additionally in an attestation engagement with respect to directors and officers of the party responsible for the underlying subject matter (as well as to the directors and officers of the party responsible for the subject matter information), where different from the directors and officers of the party responsible for the subject matter information:

<b>Part 4B Ref.</b>	<b>Topic</b>
R921.5(a)	Immediate family of an assurance team member
921.6 A1	Close family of an assurance team member
R921.7(a)	Other close relationships of an assurance team member
921.8 A1(a)	Relationships of partners and employees of the firm

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Part 4B Ref.	Topic
R922.3(a)	Recent service with an assurance client during the period covered by the assurance report
922.4 A1	Recent service with an assurance client prior to the period covered by the assurance report
R923.3	Service as director or officer
R923.4	Service as company secretary
924.3 A1	Employment with an assurance client – general
R924.4(a)	Employment with an assurance client – former partner or assurance team member
R924.5	Assurance team members entering employment negotiations with an assurance client

# EXPOSURE DRAFT: PROPOSED REVISIONS TO PART 4B OF THE CODE TO REFLECT TERMS AND CONCEPTS USED IN INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS 3000 (REVISED)

## (MARK-UP VERSION SHOWING ALL PROPOSED REVISIONS)

### SECTION 900

#### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

##### Introduction

##### General

900.1 This Part applies to assurance engagements other than audit and review engagements ~~(referred to as “assurance engagements” in this Part)~~. Examples of such engagements include:

- ~~Performance a~~Assurance on a company's key performance indicators.
- Assurance on a company's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of a company's system of internal control.
- Assurance on a company's greenhouse gas statement.
- An audit of specific elements, accounts or items of a financial statement.

900.2 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

900.3 ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards. In addition, ISAEs and ISAs establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an assurance team) in accordance with ISQC 1. ~~In addition~~ Additionally, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships.

900.4 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby



allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an assurance team member’s integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing ~~such assurance~~ engagements other than audit or review engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

900.6 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

### Description of ~~Other~~ Assurance Engagements

900.7 ~~Assurance engagements are designed to enhance intended users’ degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. In an assurance engagement, the firm expresses aims to obtain sufficient appropriate evidence in order to express~~ a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the ~~outcome of the evaluation or measurement of a subject matter information against criteria. The Assurance Framework~~ IASB 3000 describes the elements and objectives of an assurance engagement ~~and identifies engagements to which ISAEs apply. For a conducted under that Standard, and the Assurance Framework provides a general~~ description of ~~the elements and objectives of an~~ assurance engagements, ~~refer to the Assurance Framework.~~

900.8 ~~The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of a subject matter. For example, the Assurance Framework states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO or CoCo (criteria), to internal control, a process (subject matter).~~

900.9 ~~Assurance engagements might be assertion-based or direct reporting. In either case, they involve three separate parties: a firm, a responsible party and intended users.~~

~~900.10 In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party. The subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.~~

~~900.11 In a direct reporting assurance engagement, the firm:~~

~~(a) Directly performs the evaluation or measurement of the subject matter; or~~

~~(b) Obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.~~

~~900.8 In this Part, the term 'assurance engagement' refers to assurance engagements that are not audit or review engagements.~~

### **Reports that Include a Restriction on Use and Distribution**

900.12 An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 are met, then the independence requirements in this Part may be modified as provided in Section 990.

### **Audit and Review Engagements**

900.13 Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

## **Requirements and Application Material**

### **General**

**R900.14** A firm performing an assurance engagement shall be independent of the assurance client.

900.14 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

900.14 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and the party responsible for the subject matter information are both assurance clients for the purposes of this Part.

**R900.15** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

### **Types of Assurance Engagements**

*Assertion-based Assurance Engagements*

~~R900.18~~—When performing an assertion-based assurance engagement:

- ~~(a)~~—The assurance team members and the firm shall be independent of the assurance client (the party responsible for the subject matter information, and which might be responsible for the subject matter) as set out in this Part. The independence requirements set out in this Part prohibit certain relationships between assurance team members and (i) directors or officers, and (ii) individuals at the client in a position to exert significant influence over the subject matter information;
- ~~(b)~~—The firm shall apply the conceptual framework set out in Section 120 to relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement; and
- ~~(c)~~—The firm shall evaluate and address any threats that the firm has reason to believe are created by network firm interests and relationships.

~~R900.19~~—When performing an assertion-based assurance engagement where the responsible party is responsible for the subject matter information but not the subject matter:

- ~~(a)~~—The assurance team members and the firm shall be independent of the party responsible for the subject matter information (the assurance client); and
- ~~(b)~~—The firm shall evaluate and address any threats the firm has reason to believe are created by interests and relationships between an assurance team member, the firm, a network firm and the party responsible for the subject matter.

~~900.19 A1~~—In the majority of assertion-based assurance engagements, the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements, the responsible party might not be responsible for the subject matter. An example might be when a firm is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices for distribution to intended users. In this case, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

*Direct Reporting Assurance Engagements*

~~R900.20~~—When performing a direct reporting assurance engagement:

- ~~(a)~~—The assurance team members and the firm shall be independent of the assurance client (the party responsible for the subject matter); and
- ~~(b)~~—The firm shall evaluate and address any threats to independence the firm has reason to believe are created by network firm interests and relationships.

*Multiple Responsible Parties*

900.1624 A1            In some assurance engagements, whether ~~assertion-based~~ attestation or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this Part to each responsible individual party in such engagements, the firm may take into account certain matters. These matters include whether an interest or

relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

- (a) The ~~materiality significance~~ of the underlying subject matter ~~information (or of the subject matter)~~ for which the particular ~~responsible~~ party is responsible in the context of the overall assurance engagement.
- (b) The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that party.

### Network Firms

**R900.176** When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

900.176 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

### Related Entities

**R900.187** When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

**[Paragraphs 900.2219 to 900.29 are intentionally left blank]**

### Period During which Independence is Required

**R900.30** Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

**R900.31** If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
- (b) Previous services provided to the assurance client.

**R900.32** Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance and non-assurance work as appropriate.

**R900.33** If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

- (a) The firm is satisfied that:
  - (i) The non-assurance service will be completed within a short period of time; or
  - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with those charged with governance.

**[Paragraphs 900.34 to 900.39 are intentionally left blank]**

### **General Documentation of Independence for Assurance Engagements ~~Other than Audit and Review Engagements~~**

**R900.40** A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

900.40 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

**[Paragraphs 900.41 to 900.49 are intentionally left blank]**

## Breach of an Independence Provision for Assurance Engagements ~~Other than Audit and Review Engagements~~

### *When a Firm Identifies a Breach*

**R900.50** If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach;
- (b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and
- (c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an assurance report.

**R900.51** If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

**R900.52** If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

**R900.53** If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

### *Documentation*

**R900.54** In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made; and
- (d) All the matters discussed with the party that engaged the firm or those charged with governance.

**R900.55** If the firm continues with the assurance engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and

- (b)** The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

## SECTION 905

### FEES

#### Introduction

- 905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 905.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### Fees—Relative Size

- 905.3 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.
- 905.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The operating structure of the firm.
  - Whether the firm is well established or new.
  - The significance of the client qualitatively and/or quantitatively to the firm.
- 905.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.
- 905.3 A4 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.
- 905.3 A5 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- Increasing the client base of the partner to reduce dependence on the assurance client.
  - Having an appropriate reviewer who was not an assurance team member review the work.

##### Fees—Overdue

- 905.4 A1 A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally expected that the firm will require payment of such fees before any such report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.
- 905.4 A2 Examples of actions that might be safeguards to address such a self-interest threat include:



- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

**R905.5** When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

### **Contingent Fees**

905.6 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

**R905.7** A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

**R905.8** A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

905.9 A1 Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.

905.9 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.9 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

## **SECTION 906**

### **GIFTS AND HOSPITALITY**

- 906.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 906.2 Accepting gifts and hospitality from an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances

#### **Requirement and Application Material**

- R906.3** A firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.
- 906.3 A1 Where a firm or assurance team member is offering or accepting an inducement to or from an assurance client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 906.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm or assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

## **SECTION 907**

### **ACTUAL OR THREATENED LITIGATION**

#### **Introduction**

- 907.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 907.2 When litigation with an assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

#### **Application Material**

##### **General**

- 907.3 A1 The relationship between client management and assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an assurance client and the firm or an assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 907.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.

- Whether the litigation relates to a prior assurance engagement.

907.3 A3 If the litigation involves an assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the assurance team.

907.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is having an appropriate reviewer review the work performed.

## **SECTION 910**

### **FINANCIAL INTERESTS**

#### **Introduction**

910.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

910.2 Holding a financial interest in an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

910.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

910.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

910.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an assurance client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

##### **Financial Interests Held by the Firm, Assurance Team Members and Immediate Family**

**R910.4** A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:

- (a) The firm; or
- (b) An assurance team member or any of that individual's immediate family.

### **Financial Interests in an Entity Controlling an Assurance Client**

**R910.5** When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

### **Financial Interests Held as Trustee**

**R910.6** Paragraph R910.4 shall also apply to a financial interest in an assurance client held in a trust for which the firm or individual acts as trustee unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the assurance team member or any of that individual's immediate family, or the firm;
- (b) The interest in the assurance client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the assurance client: the trustee, the assurance team member or any of that individual's immediate family, or the firm.

### **Financial Interests Received Unintentionally**

**R910.7** If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance client by way of an inheritance, gift, as a result of a merger, or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

- (a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- (b) If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

### **Financial Interests – Other Circumstances**

#### *Close Family*

910.8 A1 A self-interest threat might be created if an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client.

910.8 A2 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the assurance team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

910.8 A3 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the assurance team.

910.8 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the assurance team member.

*Other Individuals*

910.8 A5 A self-interest threat might be created if an assurance team member knows that a financial interest is held in the assurance client by individuals such as:

- Partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R910.4, or their immediate family members.
- Individuals with a close personal relationship with an assurance team member.

910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the assurance team member with the personal relationship from the assurance team.

910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
- Having an appropriate reviewer review the work of the assurance team member.

## **SECTION 911**

### **LOANS AND GUARANTEES**

#### **Introduction**

- 911.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 911.2 A loan or a guarantee of a loan with an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 911.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

##### **Loans and Guarantees with an Assurance Client**

- R911.4** A firm, an assurance team member, or any of that individual’s immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:
- (a)** The firm or the individual making the loan or guarantee, as applicable; and
  - (b)** The client.

##### **Loans and Guarantees with an Assurance Client that is a Bank or Similar Institution**

- R911.5** A firm, an assurance team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.
- 911.5 A2 Even if a firm receives a loan from an assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the assurance client or firm receiving the loan.
- 911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an assurance team member, from a network firm that is not a beneficiary of the loan.

##### *Deposit or Brokerage Accounts*

- R911.6** A firm, an assurance team member, or any of that individual’s immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

**Loans and Guarantees with an Assurance Client that is not a Bank or Similar Institution**

**R911.7** A firm or an assurance team member, or any of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

- (a) The firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

## SECTION 920

### BUSINESS RELATIONSHIPS

#### Introduction

- 920.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 920.2 A close business relationship with an assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- 920.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the [assurance](#) client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
  - Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
  - Distribution or marketing arrangements under which the firm distributes or markets the client’s products or services, or the client distributes or markets the firm’s products or services.

##### Firm, Assurance Team Member or Immediate Family Business Relationships

- R920.4** A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.
- 920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

##### Buying Goods or Services

- 920.5 A1 The purchase of goods and services from an assurance client by a firm, or an assurance team member, or any of that individual’s immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm’s length.



However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the assurance team.

## SECTION 921

### FAMILY AND PERSONAL RELATIONSHIPS

#### Introduction

- 921.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 921.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- 921.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client.
- 921.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the assurance team.
  - The role of the family member or other individual within the [assurance](#) client, and the closeness of the relationship.

##### Immediate Family of an Assurance Team Member

- 921.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the [underlying](#) subject matter of the engagement.
- 921.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
  - The role of the assurance team member.
- 921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the immediate family member.
- R921.5** An individual shall not participate as an assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the assurance client;
  - (b) ~~Is~~ [In an attestation engagement, is](#) an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or

- (c) Was in such a position during any period covered by the engagement or the subject matter information.

### **Close Family of an Assurance Team Member**

- 921.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an assurance team member is:
- (a) A director or officer of the assurance client; or
  - (b) ~~An~~[In an attestation engagement, an](#) employee in a position to exert significant influence over the subject matter information of the assurance engagement.
- 921.6 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the relationship between the assurance team member and the close family member.
  - The position held by the close family member.
  - The role of the assurance team member.
- 921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the close family member.

### **Other Close Relationships of an Assurance Team Member**

- R921.7** An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:
- (a) A director or officer of the assurance client; or
  - (b) ~~An~~[In an attestation engagement, an](#) employee in a position to exert significant influence over the subject matter information of the assurance engagement.
- 921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:
- The nature of the relationship between the individual and the assurance team member.
  - The position the individual holds with the client.
  - The role of the assurance team member.
- 921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.
- 921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.

**Relationships of Partners and Employees of the Firm**

921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

- (a) A partner or employee of the firm who is not an assurance team member; and
- (b) A director or officer of the assurance client or, [in an attestation engagement](#), an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.8 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the assurance team.
- The position of the partner or employee within the firm.
- The role of the individual within the client.

921.8 A3 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement.
- Having an appropriate reviewer review the relevant assurance work performed.

## SECTION 922

### RECENT SERVICE WITH AN ASSURANCE CLIENT

#### Introduction

- 922.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 922.2 If an assurance team member has recently served as a director or officer or employee of the assurance client, a self-interest, self-review or familiarity threat might be created . This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### Service During the Period Covered by the Assurance Report

- R922.3** The assurance team shall not include an individual who, during the period covered by the assurance report:
- (a) Had served as a director or officer of the assurance client; or
  - (b) ~~Was~~In an attestation engagement, was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

##### Service Prior to the Period Covered by the Assurance Report

- 922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an assurance team member:
- (a) Had served as a director or officer of the assurance client; or
  - (b) ~~Was~~In an attestation engagement, was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement.

- 922.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the assurance team member.

- 922.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the assurance team member.

## SECTION 923

### SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT

#### Introduction

- 923.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 923.2 Serving as a director or officer of an assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### Service as Director or Officer

- R923.3** A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

##### Service as Company Secretary

- R923.4** A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
  - (b) Management makes all decisions; and
  - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 923.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950, *Provision of Non-assurances Services to an Assurance Client*.)

## SECTION 924

### EMPLOYMENT WITH AN ASSURANCE CLIENT

#### Introduction

- 924.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 924.2 Employment relationships with an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- 924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:
- A director or officer of the assurance client.
  - ~~An~~[In an attestation engagement, an](#) employee who is in a position to exert significant influence over the subject matter information of the assurance engagement.

##### *Former Partner or Assurance Team Member Restrictions*

- R924.4** If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:
- (a) A director or officer; or
- (b) ~~An~~[In an attestation engagement, an](#)-employee in a position to exert significant influence over the subject matter information of the assurance engagement,
- the individual shall not continue to participate in the firm's business or professional activities.
- 924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.
- 924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an assurance client of the firm.
- 924.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.
  - Any involvement the individual will have with the assurance team.
  - The length of time since the individual was an assurance team member or partner of the firm.

- The former position of the individual within the assurance team or firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm.
- Modifying the plan for the assurance engagement.
- Assigning to the assurance team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former assurance team member.

*Assurance Team Members Entering Employment Negotiations with a Client*

**R924.5** A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.

924.5 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client sometime in the future.

924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.

924.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that assurance team member while on the team.



## SECTION 940

### LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

#### Introduction

- 940.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 940.2 When an individual is involved in an assurance engagement of a recurring nature over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- 940.3 A1 A familiarity threat might be created as a result of an individual's long association with:
- (a) The assurance client;
  - (b) The assurance client's senior management; or
  - (c) The [underlying](#) subject matter and subject matter information of the assurance engagement.
- 940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- The nature of the assurance engagement.
  - How long the individual has been an assurance team member, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
  - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
  - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other engagement team members.
  - The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
  - The nature, frequency and extent of interaction between the individual and the assurance client.
  - Whether the nature or complexity of the [underlying](#) subject matter or subject matter information has changed.

- Whether there have been any recent changes in the individual or individuals at the assurance client who are the responsible party for the underlying subject matter or, in an attestation engagement, the subject matter information or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an assurance team member and an individual ~~and~~ at the assurance client who is responsible for the underlying subject matter or, in an attestation engagement, the subject matter information, would be reduced by the departure of ~~the~~ that individual ~~who is from~~ the responsible party client.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an assurance team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

**R940.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) Provide quality control for the assurance engagement; or
- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

## SECTION 950

### PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS ~~OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS~~

#### Introduction

- 950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

- R950.3** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service might create a threat to independence.
- 950.3 A1 The requirements and application material in this section assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.
- 950.3 A2 New business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.

##### *Evaluating Threats*

- 950.4 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:
- The nature, scope and purpose of the service.
  - The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
  - The legal and regulatory environment in which the service is provided.
  - Whether the outcome of the service will affect [the underlying subject matter and, in an attestation engagement, matters reflected in the ~~subject matter or~~ subject matter information of the assurance engagement](#), and, if so:
    - The extent to which the outcome of the service will have a material or significant effect on the [underlying subject matter and, in an attestation engagement, the subject matter information](#) of the assurance engagement.
    - The extent of the assurance client's involvement in determining significant matters

of judgment.

- The level of expertise of the client's management and employees with respect to the type of service provided.

#### Materiality in Relation to an Assurance Client's Information

950.4 A2 The concept of materiality in relation to an assurance client's information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

#### Multiple Non-assurance Services Provided to the Same Assurance Client

950.4 A3 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

#### *Addressing Threats*

950.5 A1 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to assurance clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a service to an assurance client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the assurance engagement.

#### *Prohibition on Assuming Management Responsibilities*

**R950.6** A firm shall not assume a management responsibility related to the underlying subject matter ~~or and, in an attestation engagement, the~~ subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter ~~or and, in an attestation engagement, the~~ subject matter information of the assurance engagement provided by the firm.

950.6 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

950.6 A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the underlying subject matter ~~or and, in an attestation engagement, the~~ subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

950.6 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

950.6 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (Ref: Paras. R950.6 to 950.6 A3).

**R950.7** To avoid assuming a management responsibility when providing non-assurance services to an assurance client that are related to the [underlying](#) subject matter ~~or~~ [and, in an attestation engagement, the](#) subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:
  - (i) The objectives, nature and results of the services; and
  - (ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

- (b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

*Other Considerations Related to Providing Specific Non-Assurance Services*

950.8 A1 A self-review threat might be created if, [in an attestation engagement](#), the firm is involved in the preparation of subject matter information which ~~is~~ subsequently [becomes](#) the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

- (a) Developing and preparing prospective information and subsequently ~~providing~~issuing an assurance report on this information.
- (b) ~~Performing~~In an attestation engagement, performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

## SECTION 990

### REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

#### Introduction

- 990.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 990.2 This section sets out certain modifications to Part 4B which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 is referred to as an “eligible assurance engagement.”

#### Requirements and Application Material

##### General

- R990.3** When a firm intends to issue a report on an assurance engagement which includes a restriction on use and distribution, the independence requirements set out in Part 4B shall be eligible for the modifications that are permitted by this section, but only if:
- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
  - (b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.
- 990.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.
- R990.4** Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.
- 990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm’s engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.
- R990.5** When the firm performs an eligible assurance engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

**R990.6** If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B to that assurance engagement.

**Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships**

**R990.7** When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

**R990.8** When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.



## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

In the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Acceptable level	A level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
Appropriate reviewer	<i>An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant.</i>  <i>This term is described in paragraph 300.8 A4.</i>
Assurance client	<del>The responsible party that is the person (or persons) who:</del> <del>(a) — In a direct reporting engagement, is responsible for the subject matter; or</del> <del>(b) — In an assertion-based engagement, is responsible for the subject matter information and might be responsible for the subject matter.</del>  <u>The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).</u>
Assurance engagement	An engagement in which a professional accountant in public practice <del>expresses</del> <u>aims to obtain sufficient appropriate evidence in order to express</u> a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the <del>outcome of the evaluation or measurement of a subject matter</del> <u>against criteria information</u> .  <del>(For guidance on assurance engagements, see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board. The International Framework for Assurance Engagements (ISAE 3000 (Revised)) describes the elements and objectives of an assurance engagement and identifies conducted under that Standard, and the Assurance Framework provides a general description of assurance engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)</del>

*In Part 4B, the term ‘assurance engagement’ addresses assurance engagements that are not audit or review engagements.*

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
  - (b) All others within a firm who can directly influence the outcome of the assurance engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
    - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
    - (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

Attestation engagement *An assurance engagement in which a party other than the professional accountant in public practice measures or evaluates the underlying subject matter against the criteria.*

*A party other than the accountant also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the accountant in the assurance report. In an attestation engagement, the accountant’s conclusion addresses whether the subject matter information is free from material misstatement.*

The accountant’s conclusion may be phrased in terms of:

- (i) The underlying subject matter and the applicable criteria;
- (ii) The subject matter information and the applicable criteria; or
- (iii) A statement made by the appropriate party.

Audit *In Part 4A, the term “audit” applies equally to “review.”*

Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. *(See also paragraph R400.20.)*

*In Part 4A, the term “audit client” applies equally to “review client.”*

Audit engagement A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as

an engagement conducted in accordance with *International Standards on Auditing*. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

*In Part 4A, the term “audit engagement” applies equally to “review engagement.”*

Audit report

*In Part 4A, the term “audit report” applies equally to “review report.”*

Audit team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
  - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term “audit team” applies equally to “review team.”*

Close family

A parent, child or sibling who is not an immediate family member.

Conceptual framework

*This term is described in Section 120.*

Contingent fee

A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

Cooling-off period

This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to R540.19.

Criteria

[In an assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.](#)

Direct engagement

[An assurance engagement in which the professional accountant in public practice measures or evaluates the underlying subject matter against the applicable criteria and the accountant presents the resulting subject matter](#)

[information as part of, or accompanying, the assurance report. In a direct engagement, the accountant’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.](#)

Direct financial interest	<p>A financial interest:</p> <ul style="list-style-type: none"> <li>(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</li> <li>(b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.</li> </ul>
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit engagement	<i>This term is described in paragraph 800.2 for the purposes of Section 800.</i>
Eligible assurance engagement	<i>This term is described in paragraph 990.2 for the purposes of Section 990.</i>
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement period (Audit and Review Engagements)	The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.
Engagement period (Assurance Engagements Other than Audit and Review Engagements)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.
Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.
Engagement team	<p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p>

Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, tax, consulting or similar professional services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	<p>A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.</p> <p><u><a href="#">The term does not refer to specific elements, accounts or items of a financial statement.</a></u></p>
Financial statements on which the firm will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	<p>(a) A sole practitioner, partnership or corporation of professional accountants;</p> <p>(b) An entity that controls such parties, through ownership, management or other means; and</p> <p>(c) An entity controlled by such parties, through ownership, management or other means.</p> <p><i>Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.</i></p>
Fundamental principles	<p><i>This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:</i></p> <p><i>Integrity</i> <span style="float: right;"><i>R111.1</i></span></p> <p><i>Objectivity</i> <span style="float: right;"><i>R112.1</i></span></p> <p><i>Professional competence and due care</i> <span style="float: right;"><i>R113.1</i></span></p>

*Confidentiality* R114.1

*Professional behavior* R115.1

Historical financial information Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family A spouse (or equivalent) or dependent.

Independence Independence comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit or assurance team member's, integrity, objectivity or professional skepticism has been compromised.

*As set out in paragraphs 400.5 and 900.4, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A and 4B, as applicable.*

Indirect financial interest A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Inducement A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

An object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior.

*Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business), or between professional accountants and existing or prospective clients (for professional accountants in public practice), to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:*

- *Gifts.*
- *Hospitality.*
- *Entertainment.*
- *Political or charitable donations.*

- *Appeals to friendship and loyalty.*
- *Employment or other commercial opportunities.*
- *Preferential treatment, rights or privileges.*

Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
May	<i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</i>
Might	<i>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.</i>
Network	A larger structure: <ul style="list-style-type: none"> <li>(a) That is aimed at co-operation; and</li> <li>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li> </ul>
Network firm	A firm or entity that belongs to a network.  <i>For further information, see paragraphs 400.50 A1 to 400.54 A1.</i>
Non-compliance with laws and regulations  <i>(Professional Accountants in Business)</i>	<i>Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i> <ul style="list-style-type: none"> <li>(a) <i>The professional accountant’s employing organization;</i></li> <li>(b) <i>Those charged with governance of the employing organization;</i></li> <li>(c) <i>Management of the employing organization; or</i></li> </ul>

- (d) *Other individuals working for or under the direction of the employing organization.*

*This term is described in paragraph 260.5 A1.*

Non-compliance with laws and regulations  
*(Professional Accountants in Public Practice)*

*Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

- (a) *A client;*  
 (b) *Those charged with governance of a client;*  
 (c) *Management of a client; or*  
 (d) *Other individuals working for or under the direction of a client.*

*This term is described in paragraph 360.5 A1.*

Office

A distinct sub-group, whether organized on geographical or practice lines.

Predecessor accountant

A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.

Professional accountant

An individual who is a member of an IFAC member body.

*In Part 1, the term “professional accountant” refers to individual professional accountants in business and to professional accountants in public practice and their firms.*

*In Part 2, the term “professional accountant” refers to professional accountants in business.*

*In Parts 3, 4A and 4B, the term “professional accountant” refers to professional accountants in public practice and their firms.*

Professional accountant in business

A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.

Professional accountant in public practice

A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.

*The term “professional accountant in public practice” is also used to refer to a firm of professional accountants in public practice.*

Professional activity

An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, tax, management consulting, and financial management.

Professional services

Professional activities performed for clients.



- Proposed accountant A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).
- Public interest entity (a) A listed entity; or  
 (b) An entity:  
 (i) Defined by regulation or legislation as a public interest entity; or  
 (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.
- Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.*
- Reasonable and informed third party *The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.*
- Reasonable and informed third party test *These terms are described in paragraph R120.5 A4.*
- Related entity An entity that has any of the following relationships with the client:  
 (a) An entity that has direct or indirect control over the client if the client is material to such entity;  
 (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;  
 (c) An entity over which the client has direct or indirect control;  
 (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and  
 (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.

<u>Responsible party</u>	<u>In an attestation engagement or a direct engagement, the party responsible for the underlying subject matter.</u>
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with <i>International Standards on Review Engagements</i> or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review team	<p>(a) All members of the engagement team for the review engagement; and</p> <p>(b) All others within a firm who can directly influence the outcome of the review engagement, including:</p> <p style="padding-left: 40px;">(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</p> <p style="padding-left: 40px;">(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</p> <p style="padding-left: 40px;">(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the review engagement.</p>
Safeguards	<p><i>Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i></p> <p><i>This term is described in paragraph 120.10 A2.</i></p>
Senior professional accountant in business	<p><i>Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.</i></p> <p><i>This term is described in paragraph 260.11 A1.</i></p>
Substantial harm	<i>This term is described in paragraphs 260.5 A3 and 360.5 A3.</i>

Special purpose financial statements      Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.

Subject matter information      The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.

Those charged with governance      The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats      *This term is described in paragraph 120.6 A3 and includes the following categories:*

- Self interest*      120.6 A3(a)
- Self-review*      120.6 A3(b)
- Advocacy*      120.6 A3(c)
- Familiarity*      120.6 A3(d)
- Intimidation*      120.6 A3(e)

Time-on period      *This term is described in paragraph R540.5.*

Underlying subject matter      The phenomenon that is measured or evaluated by applying criteria.

## LISTS OF ABBREVIATIONS AND STANDARDS REFERRED TO IN THE CODE

### LIST OF ABBREVIATIONS

Abbreviation	Explanation
Assurance Framework	International Framework for Assurance Engagements
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoCo	Chartered Professional Accountants of Canada Criteria of Control
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
ISAEs	International Standards on Assurance Engagements
ISQCs	International Standards on Quality Control
ISREs	International Standards on Review Engagements

### LIST OF STANDARDS REFERRED TO IN THE CODE

Standard	Full Title
ISA 320	Materiality In Planning and Performing an Audit
ISA 610 (Revised 2013)	Using the Work of Internal Auditors
ISAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
ISQC 1	Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
ISRE 2400 (Revised)	Engagements to Review Historical Financial Statements

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