

IFAC CODE OF ETHICS SECTION 8 EXTRACT**Independence**

- 8.1 It is in the public interest and, therefore, required by this Code of Ethics, that members of **assurance teams**,* firms and, when applicable, **network firms*** be independent of **assurance clients**.*
- 8.2 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. The International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply. The Framework recognizes that not all engagements performed by professional accountants in public practice are assurance engagements and identifies frequently performed engagements that do not meet the definition of an assurance engagement.
- 8.3 Independence requires:
- Independence of Mind*
- The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- Independence in Appearance*
- The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.
- 8.4 The use of the word "independence" on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.
- 8.5 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms and members of assurance teams to identify, evaluate and address threats to

* See Definitions.

independence, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

A Conceptual Approach to Independence

- 8.6 This section provides a conceptual framework for identifying, evaluating and responding to threats to independence. The framework requires members of assurance teams, firms and network firms to identify threats to independence, evaluate the significance of those threats, and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level. Judgment is needed to determine which safeguards are to be applied. Some safeguards may eliminate the threat while others may reduce the threat to an acceptable level. This section requires members of assurance teams, firms and network firms to apply the framework to the particular circumstances under consideration. In addition to identifying relationships between the firm, network firms, members of the assurance team and the assurance client, consideration should be given to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence.
- 8.7 The examples presented in this section are intended to illustrate the application of the framework and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to independence. Consequently, it is not sufficient for a member of an assurance team, a firm or a network firm merely to comply with the examples presented, rather they should apply the framework to the particular circumstances they face.
- 8.8 The nature of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level differ depending on the characteristics of the individual assurance engagement: whether it is a **financial statement audit engagement*** or another type of engagement; and in the case of an assurance engagement that is not a financial statement audit engagement, the purpose, subject matter information, intended users of the report, and whether the engagement is an assertion-based engagement or a direct reporting engagement. A firm should, therefore, evaluate the relevant circumstances, the nature of the assurance engagement and the threats to independence in deciding whether it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and whether a particular individual should be a member of the assurance team.
- 8.9 In an assurance engagement, the professional accountant in public practice expresses 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 against criteria.
- 8.10 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 subject matter. For example:
- The recognition, measurement, presentation and disclosure represented in the financial statements (subject matter information) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as International Financial Reporting Standards, (criteria) to an entity’s financial position, financial performance and cash flows (subject matter).

- An assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such, for example, as applying COSO¹ or CoCo², (criteria) to internal control, a process (subject matter).
- 8.11 Assurance engagements involve three separate parties: a public accountant in public practice, a responsible party and intended users.
- 8.12 In an assertion-based engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by a responsible party that is made available to the intended users.
- 8.13 In a direct reporting engagement the professional accountant in public practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The responsible party may or may not be the party who engages the professional accountant in public practice. The subject matter information is provided to the intended users in the assurance report.
- 8.14 Direct reporting engagements are not commonly performed by professional accountants in public practice. Before accepting such an engagement the principles in this section should be applied, and the professional accountant in public practice should carefully consider whether there are adequate safeguards available to reduce threats to independence to an acceptable level. If the professional accountant in public practice directly performs the evaluation or measurement of the subject matter the threat to independence may be so significant no safeguard would be available to reduce the threat to independence to an acceptable level.
- 8.15 Subject to paragraph 8.14 the remainder of this section applies only to assertion-based engagements.

Definitions

[Please note only definitions relating to independence are presented below]

Financial statement audit client	An entity in respect of which a firm conducts a financial statement audit engagement. When the client is a listed entity, financial statement audit client will always include its related entities.
Financial statement 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 in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is a financial statement audit required by legislation or other regulation.

¹ “Internal Control – Integrated Framework” The Committee of Sponsoring Organizations of the Treadway Commission.

² “Guidance on Assessing Control – The CoCo Principles” Criteria of Control Board, The Canadian Institute of Chartered Accountants.

Assurance client	<p>In an assertion-based assurance engagement, the party responsible for the subject matter information.</p> <p>(For an assurance client that is a financial statement audit client see the definition of financial statement audit client.)</p>
Assurance engagement	<p>An engagement in which a professional accountant in public practice expresses 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 against criteria.</p> <p>(For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)</p>
Assurance team	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <ul style="list-style-type: none">• 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. For the purposes of a financial statement audit engagement this includes those at all successively senior levels above the engagement partner through the firm's chief executive;• those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and• those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement; <p>and</p> <p>(c) For the purposes of a financial statement audit client, all those within a network firm who can directly influence the outcome of the financial statement audit engagement.</p>
Close family	<p>A parent, non-dependent child or sibling.</p>
Direct financial interest	<p>A financial interest:</p> <ul style="list-style-type: none">• Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or

	<ul style="list-style-type: none"> Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.
Directors and officers	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.
Engagement quality control review	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement team	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
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	The balance sheets, income statements or profit and loss accounts, statements of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements.
Firm	<ul style="list-style-type: none"> A sole practitioner, partnership or other entity of professional accountants; An entity that controls such parties; and An entity controlled by such parties
Immediate family	A spouse (or equivalent) or dependent.
Independence	<p>Independence is:</p> <p>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.</p>
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.

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.
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.
Network firm	An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.[to be amended pending results of network firm TF]
Office	A distinct sub-group, whether organized on geographical or practice lines.
Practice	A sole practitioner, a partnership or a corporation of professional accountants which offers professional services to the public.
Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client provided the client is material to such entity; (b) An entity with a direct financial interest in the client provided that such 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 (hereinafter a “sister entity”) provided the sister entity and the client are both material to the entity that controls both the client and sister entity.