

Section 8 – Mark-up Alternative Option

SECTION 8

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 in respect of an assurance engagement of assurance clients.*
- 8.2 Assurance engagements are intended to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria.~~the credibility of information about a subject matter by evaluating whether the subject matter conforms in all material respects with suitable criteria~~. The International ~~Standard on Framework for~~ Assurance Engagements issued by the International Auditing and Assurance Standards Board describes the ~~objectives and 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. s to provide either a high or a moderate level of assurance. The International Auditing and Assurance Standards Board has also issued specific standards for certain assurance engagements. For example, International Standards on Auditing provide specific standards for audit (high level assurance) and review (moderate level assurance) of financial statements.
- Paragraphs 8.3 through 8.611 are ~~taken derived~~ from the International ~~Standard Framework on for~~ Assurance Engagements and ~~describe the nature of an assurance engagement~~. These paragraphs are presented here only to describe provide an overview of the nature of an assurance engagement. To obtain a full understanding of the ~~objectives and elements~~ and objectives of an assurance engagement it is necessary to refer to the full text contained in the International ~~Standard on Framework for~~ Assurance Engagements.
- 8.3 ~~Whether a particular engagement is an assurance engagement will depend upon whether it exhibits all the following elements~~ The International Framework for Assurance Engagements explains that a professional accountant accepts an assurance engagement only when the professional accountant in public practice's preliminary knowledge of the engagement circumstances indicates that:
- (a) Relevant ethical requirements, such as independence and professional competence will be satisfied, and
 - (b) The engagement exhibits all of the following characteristics:
 - (i) The subject matter is appropriate;
 - (ii) The criteria to be used are suitable and are available to the intended users;
 - (iii) The professional accountant in public practice has access to sufficient appropriate evidence to support the professional accountant in public practice's conclusion;

* See Definitions.

(iv) The conclusion of the professional accountant in public practice, in the form appropriate to either a reasonable assurance engagement or a limited assurance, is to be contained in a written report; and

(v) The professional accountant in public practice is satisfied that there is a rational purpose for the engagement.

8.3x Assurance engagements involve three separate parties: a professional accountant in professional practice, a responsible party and intended users.

(a) A three party relationship involving:

(i) A professional accountant;

(i) A responsible party; and

(ii) An intended user;

(b) A subject matter;

(c) Suitable criteria;

(d) An engagement process; and

(e) A conclusion.

The responsible party and the intended user will often be from separate organizations but need not be. A responsible party and an intended user may both be within the same organization. For example, a governing body may seek assurance about information provided by a component of that organization. The relationship between the responsible party and the intended user needs to be viewed within the context of a specific engagement.

8.4 The outcome of the evaluation or measurement of a subject matter is the information that results from applying criteria to the subject matter. For example:

- The recognition, measurement, presentation and disclosure represented in the financial statements (outcome) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as the 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 (outcome) 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).

In the remainder of this section of the Code of Ethics (this section), the term "subject matter information" will be used to mean the outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the professional accountant in public practice gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.

There is a broad range of engagements to provide a high or moderate level of assurance. Such engagements may include:

- Engagements to report on a broad range of subject matters covering financial and non-financial information;
- Attest and direct reporting engagements;

- ~~Engagements to report internally and externally; and~~
- ~~Engagements in the private and public sector.~~

~~8.5~~ 8.6 In some assurance engagements, 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 the responsible party that is made available to the intended users. These engagements are called “assertion-based engagements”. In other assurance engagements, the practitioner 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 subject matter information is provided to the intended users in the assurance report. These engagements are called “direct reporting engagements”.

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

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

The responsible party may or may not be the party who engages the professional accountant in public practice.

~~The subject matter of an assurance engagement may take many forms, such as the following:~~

- ~~Data (for example, historical or prospective financial information, statistical information, performance indicators).~~
- ~~Systems and processes (for example, internal controls).~~
- ~~Behavior (for example, corporate governance, compliance with regulation, human resource practices).~~

~~8.9~~ 8.96 Not all engagements performed by professional accountants in public practice are assurance engagements. Other ~~engagements~~ frequently performed engagements ~~by professional accountants that do not meet the definition of an~~ are not assurance engagements include:

- Engagements covered by International Standards for Related Services, such as agreed-upon procedures engagements and compilations of financial or other information. ~~Agreed-upon procedures;~~
- ~~Compilation of financial or other information;~~
- Preparation of tax returns when no conclusion conveying assurance is expressed, ~~and tax consulting;~~
- Consulting (or advisory) engagements, such as ~~m~~Management and tax consulting, ~~and~~
- ~~Other advisory services.~~

8.10 An assurance engagement may be part of a larger engagement, e.g., when a business acquisition consulting engagement includes a requirement to convey assurance regarding historical or prospective financial information. In such circumstances, the International Framework for Assurance Engagements and therefore this section are relevant only to the assurance portion of the engagement.

8.11 The following engagements, which may meet the definition of an assurance engagement, need not be performed in accordance with the International Framework for Assurance Engagements:

- (a) Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and
- (b) Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply:
 - (i) Those opinions, views or wording are merely incidental to the overall engagement;
 - (ii) Any written report issued is expressly restricted for use by only the intended users specified in the report;
 - (iii) Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement; and
 - (iv) The engagement is not represented as an assurance engagement in the professional accountant's report.

When such an engagement is not performed in accordance with the International Framework for Assurance Engagements the requirements of this section do not apply.

A Conceptual Approach to Independence

8.127 This section ~~of the Code of Ethics (this section)~~ provides a framework, built on principles, for identifying, evaluating and responding to threats to independence. The framework establishes principles that members of assurance teams, firms and network firms should use 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 principles to the particular circumstances under consideration. The examples presented are intended to illustrate the application of the principles in this section 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 principles in this section to the particular circumstances they face.