

## *Definitions for Parts A, B and C*

In this Code the following expressions have the following meanings assigned to them:

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.
Assurance client	<p>The responsible party that is the person (or persons) who:</p> <p>(a) in a direct reporting engagement, is responsible for the subject matter; or</p> <p>(b) in an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.</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 (www.ifac.org/IAASB/).)</p>

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\* See elsewhere within Definitions

Note on assurance engagements

*To assist the professional accountant\* in determining what engagements fall to be considered as assurance engagements, and thus fall within the scope of Section 290, a number of paragraphs from the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board, are included in an Appendix to these Definitions.*

Assurance team	<ul style="list-style-type: none"> <li>(a) all members of the engagement team* for the assurance engagement*;</li> <li>(b) all others within a firm* who can directly influence the outcome of the assurance engagement*, including:             <ul style="list-style-type: none"> <li>(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*. 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;</li> <li>(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement*; and</li> <li>(iii) those who provide quality control for the assurance engagement*, including those who perform the engagement quality control review for the assurance engagement*; and</li> </ul> </li> <li>(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*.</li> </ul>
<i>Audit committee</i>	<i>Those charged with governance. This may be a separate committee or the full Board.</i>
<i>Audit engagement</i>	<i>An engagement to perform an audit of financial statements*, that requires to be performed in accordance with auditing standards issued by the Auditing Practices Board.</i>

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\* See elsewhere within Definitions

*Note on the definition of Audit engagement*

*The Auditing Practices Board (APB) auditing standards apply to audits of financial statements. Paragraphs 2 and 2-1 of ISA (UK and Ireland) 200, issued by the APB, state:*

*'2. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The phrases used to express the auditor's opinion are "give a true and fair view" or "present fairly, in all material respects," which are equivalent terms.*

*2-1. The "applicable financial reporting framework" comprises those requirements of accounting standards, law and regulations applicable to the entity that determine the form and content of its financial statements.'*

Clearly insignificant	A matter that is deemed to be both trivial and inconsequential.
Close family	A parent, child or sibling, who is not an immediate family* member.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.
Direct financial interest	A financial interest*: <ul style="list-style-type: none"> <li>● Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</li> <li>● Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.</li> </ul>
Director or officer	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.

*Whether or not a person is an officer within the meanings of the Companies Acts is not relevant for the purposes of this Code.*

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\* See elsewhere within Definitions

<i>Due diligence</i>	<i>A term used to describe a wide range of services with or without the inclusion of an expression of professional opinion. It is work commissioned by a client involving enquiries into specified aspects of the accounts, organisation and activities of an undertaking.</i>
Engagement team	All personnel performing an engagement, including any experts contracted by the firm* in connection with that engagement.
Existing accountant	A professional accountant in public practice* currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services* for a client.
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.
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.

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\* See elsewhere within Definitions

*Note that 'reasonable assurance' is a term used by the International Auditing and Assurance Standards Board to denote an assurance opinion which, while giving less than absolute assurance, is expressed in a positive form.*

Firm	(a) A member firm*; (b) An entity that controls such parties; and (c) An entity controlled by such parties.
Immediate family	A spouse (or equivalent) or dependant.
Independence	Independence is:  (a) Independence of mind – the states of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional judgement.  (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 professionals scepticism had been compromised.
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.
Listed entity	An entity whose shares*, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.
Loan	<i>A loan is a sum of money lent, whether direct or through a third party, with the intention that it will be repaid with or without interest.</i>
Member	<i>A member of the Institute, an affiliate, an employee of a member firm* or affiliate, or a provisional member.</i>
Member firm	<i>This means, for the purposes of this Code:</i>

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\* See elsewhere within Definitions

- (a) *A member\* engaged in public practice as a sole practitioner; or*
- (b) *A partnership engaged in public practice of which more than 50 per cent of the rights to vote on all, or substantially all, matters of substance at meetings of the partnership are held by members\*; or*
- (c) *A limited liability partnership engaged in public practice of which more than 50 per cent of the rights to vote on all, or substantially all, matters of substance at meetings of the partnership are held by members\*; or*
- (d) *Any body corporate (other than a limited liability partnership) engaged in public practice of which:*
  - (i) *50 per cent or more of the directors are members\*; and*
  - (ii) *More than 50 per cent of the nominal value of the voting shares\* is held by members\*; and*
  - (iii) *More than 50 per cent of the aggregate in nominal value of the voting and non-voting shares\* is held by members\*.*

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.

*Partner or Principal*

*References to a partner or principal of a firm\* include the following:*

- *A partner/principal;*
- *A sole-practitioner;*
- *A director of a corporate firm;*
- *A member of a limited liability partnership;*
- *An employee of a corporate firm who is:*
  - *A responsible individual within the meaning of the Audit Regulations;*
  - *A licensed insolvency practitioner; or*
  - *Defined as such in circumstances determined by Council.*

Professional Accountant *A member\* or where appropriate, member firm\*.*

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\* See elsewhere within Definitions

**Professional accountant in business** A professional accountant\* employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant\* contracted by such entities.

*A professional accountant in business\* may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, a volunteer, or another working for one or more employing organisation. The legal form of the relationship with the employing organisation, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business\*.*

**Professional accountant in public practice** A professional accountant\*, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services\*. This term is also used to refer to a firm\* of professional accountants in public practice.

**Professional services** Services requiring accountancy or related skills performed by a professional accountant\* including accounting, auditing, taxation, management consulting and financial management services.

**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 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

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\* See elsewhere within Definitions

- (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.

*In the above definition, ‘client’ refers to an assurance client\* or a financial statement audit client\* as appropriate to the engagement.*

#### *Shares*

*Reference to shares should be taken to include debentures, loan stocks, bonds, units, rights, warrants, options, partnership interests and the like. A person’s holdings include holdings by a nominee on behalf of that person or by a trust created by that person for his or her personal benefit.*

*Note on use of ‘should’ in this Code.*

*As noted in Section 1, professional accountants\* are expected to follow the guidance contained in the fundamental principles in all of their professional and business activities whether carried out with or without reward and in other circumstances where to fail to do so would bring discredit to the profession. A professional accountant should also follow the requirements in the illustrations, including prohibitions or mandatory actions, where circumstances are the same as, or analogous to, those addressed by those illustrations. Failure to follow such guidance may be justified in those rare circumstances where to follow a precise prohibition or mandated action would result in failure to adhere to the fundamental principles. See also Section 1, paragraphs 1.1 and 1.4.*

### ***Appendix to Definitions – Extracts from International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board***

**7** *‘Assurance engagement’ means an engagement in which a practitioner 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** *The outcome of the evaluation or measurement of a subject matter is the information that results from applying the 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 International Financial Reporting Standards, (criteria) to an entity’s financial position, financial performance and cash flows (subject matter).*

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\* See elsewhere within Definitions

- *An assertion about the effectiveness of internal control (outcome) results from applying a framework for evaluating the effectiveness of internal control, such as COSO<sup>8</sup> or CoCo<sup>9</sup> (criteria), to internal control, a process (subject matter).*

*In the remainder of this Framework, 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 practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.*

**9** *Subject matter information can fail to be properly expressed in the context of the subject matter and the criteria, and can therefore be misstated, potentially to a material extent. This occurs when the subject matter information does not properly reflect the application of the criteria to the subject matter, for example, when an entity’s financial statements do not give a true and fair view of (or present fairly, in all material respects) its financial position, financial performance and cash flows in accordance with International Financial Reporting Standards, or when an entity’s assertion that its internal control is effective is not fairly stated, in all material respects, based on COSO or CoCo.*

**10** *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’.*

**11** *Under this Framework, there are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement<sup>10</sup> as the basis for a positive form of expression of the practitioner’s conclusion. The objective of a limited assurance*

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<sup>8</sup> ‘Internal Control – Integrated Framework’, The Committee of Sponsoring Organizations of the Treadway Commission.

<sup>9</sup> ‘Guidance on Assessing Control – The CoCo Principles’, Criteria of Control Board, The Canadian Institute of Chartered Accountants.

<sup>10</sup> Engagement circumstances include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

*engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.*

**12** *Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that do not meet the above definition (and therefore are not covered by this Framework) include:*

- *Engagements covered by International Standards for Related Services, such as agreed-upon procedures engagements and compilations of financial or other information.*
- *The preparation of tax returns where no conclusion conveying assurance is expressed.*
- *Consulting (or advisory) engagements<sup>11</sup> such as management and tax consulting.*

**13** *An assurance engagement may be part of a larger engagement, for example, when a business acquisition consulting engagement includes a requirement to convey assurance regarding historical or prospective financial information. In such circumstances, this Framework is relevant only to the assurance portion of the engagement.*

**14** *The following engagements, which may meet the definition in paragraph 7, need not be performed in accordance with this Framework:*

- (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.*

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<sup>11</sup> Consulting engagements employ a professional accountant's technical skills, education, observations, experiences, and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to: objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results, and sometimes implementation and follow-up. Reports (if issued) are generally written in a narrative (or 'long form') style. Generally the work performed is only for the use and benefit of the client. The nature and scope of work is determined by agreement between the professional accountant and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement but an assurance engagement.

**15** *A practitioner reporting on an engagement that is not an assurance engagement within the scope of this Framework, clearly distinguishes that report from an assurance report. So as not to confuse users, a report that is not an assurance report avoids, for example:*

- *Implying compliance with this Framework, ISAs, ISREs or ISAEs.*
- *Inappropriately using the words 'assurance', 'audit' or 'review'.*
- *Including a statement that could reasonably be mistaken for a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of a subject matter against criteria.*