

Ethical Standards and Auditor Independence

Current Status:

- FEE led the debate on auditor independence by publishing, in July 1998, a paper on "Statutory Audit -Independence and Objectivity". The paper adopted a principles based 'threats and safeguards' approach. This conceptual approach idea was further explained in a FEE paper of 2001.
- The European Commission's Recommendation on Statutory Auditors' Independence was issued in May 2002. It also uses the principles based 'threats and safeguards' approach to independence.
- The principles based approach, as reflected in the Recommendation, includes guidance, restrictions and prohibitions. Such detailed guidance when fully implemented in national regulations and codes, is a major step forward in providing strong enforceable arrangements for auditor independence.
- FEE supports the Recommendation and believes that it is a major step forward as it prohibits auditors from providing services that compromise their independence.
- In addition the Recommendation included some further requirements:
 - o Full disclosure of audit and non-audit fees
 - o Documentation for each audit client to show how circumstances that might have threatened the auditor's objectivity have been eliminated or reduced to an acceptable level of clear insignificance.
 - o Introduction of internal rotation of key audit partners within firms in public interest entities.

Next Steps:

- The Recommendation was launched a year ago and is being implemented.
- FEE supports the European Commission proposal, in the Communication of 21 May 2003, to incorporate some key elements of the Recommendation into European legislation on the grounds that this will clearly demonstrate the protection of the public interest.
- In order to address any remaining concern, FEE believes that it is possible to make the implementation of the Recommendation more transparent by explaining more clearly the activities that it prohibits and restricts.
- FEE does not support adjusting the Recommendation in a fundamental way, as the principles based approach it utilizes is the most demanding standard and avoids the risk that non-audit services which are not specifically prohibited, could be provided without full consideration of any threats to independence and available safeguards.
- The policy of FEE is to support global standards in all areas. The European profession is committed to respecting the fundamental principles established by the Code of Ethics of the International Federation of Accountants. Hence FEE is glad to see that the European Commission Communication refers to the IFAC Code of Ethics.

FEE Reference:**FEE Position on Auditor Independence (2003)**

<http://www.fee.be/secretariat/Positionpaper.htm>

The Conceptual Approach to Protecting Auditor Independence (2001)

<http://www.fee.be/publications/main.htm>

Statutory Audit Independence and Objectivity (1998)

<http://www.fee.be/publications/main.htm>

European Reference:**Reinforcing the Statutory Audit in the European Union**

European Commission Communication of 21 May 2003

http://europa.eu.int/comm/internal_market/en/company/audit/official/index.htm

Statutory Auditors' Independence in the EU: A Set of Fundamental Principles

European Commission Recommendation 2002/590/EC of 16 May 2002

http://europa.eu.int/comm/internal_market/en/company/audit/official/index.htm

Directive on the approval of persons responsible for carrying out the statutory audits of accounting documents

8th Council Directive 84/253/EEC of 10 April 1984

http://europa.eu.int/comm/internal_market/en/company/audit/official/index.htm

Other Reference:**IFAC Code of Ethics**

International Federation of Accountants, (IFAC)

<http://www.ifac.org/Ethics/>

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About FEE:

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 41 professional bodies from 29 countries. Between them, these bodies have a combined membership of 500,000 individuals.