

Federation of European Accountants
Fédération des Experts comptables Européens

Workshop 8: Ethics and the network definition

Friday, 5 September 2008, 10:45 - 12:00

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Federation of European Accountants
Fédération des Experts Comptables Européens
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Program

- > Finn L. Meyer: Introduction (10 min.)
- Michael Niehues: Setting the scene from IFAC and FEE side (20 min.)
- > Martin Manuzi:

FEE study on <u>Transnational Organisations and Practices</u> within the Accountancy Profession (20 min.)

- > Andrew Nicholl:
 - Experience of a transnational organisation (20 min.)
- > Finn L. Meyer: Final remarks (5 min.)

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Independence – Assurance Engagements

- Statutory auditors and audit firms should be independent when carrying out statutory audits (EU 8th Directive (preamble 11))
- ➤ In case of an assurance engagement it is required that members of:
 - ♦ Assurance teams
 - ♥ Firms and
 - ♦ Network firms (when applicable)

be independent of assurance clients.

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> (IFAC Code of Ethics 290.15): If a firm is:

\$considered to be a **network** firm,

the firm is required to be **independent** of the financial statement audit clients of the other firms within the **network**.

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EU 8th Directive - preamble

- ➤ In order to determine the independence of auditors, the concept of a "network" in which auditors operate needs to be clear.
- Various circumstances have to be taken into account, such as instances where a structure could be defined as a network because it is aimed at profit- or costsharing.
- ➤ The criteria for demonstrating that there is a network should be judged and weighed on the basis of all factual circumstances available,

1) Same definition as in Code of Ethics

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- ➤ "Network"¹): The larger structure:
 - which is aimed at cooperation and to which a statutory auditor or an audit firm belongs, **and**
 - ♦ which is clearly aimed at:
 - · profit- or cost-sharing or
 - · shares:
 - common ownership, control or management
 - common quality-control policies and procedures
 - common business strategy
 - common brand-name or
 - a significant part of professional resources.
- 1) Definition in line with Code of Ethics

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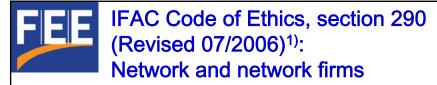
IFAC Code of Ethics, section 290 (Revised 07/2006)¹⁾: Network and network firms

- > A firm is classified as **belonging to an international network** if it were part of a structure of cooperation that involves:
 - ♦ Profit or significant cost-sharing (290.18) or
 - ♥ Common ownership, control or management (290.19)
 - ♦ Common quality control policies and procedures (290.20)
 - ♦ Common business strategy (290.21)
 - ♥ Common brand name (290.22)
 - ♦ Share a significant part of professional resources (290.25)
- > It is **not a network** if:
 - The purpose of an association of firms is only to refer work between its members (290.16)
 - The firms only share immaterial costs, for example the cost of audit methodologies, manuals, training courses (290.18)

1) Applies for annual reports dated on or after 31 December 2008.

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- Judgment as to whether a firm belongs to an international network should be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists (290.17).
- > Reference to the **judgment** of a third party means:

The definition of a network or a network firm is not exact.

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The distrinction between an "international network" and "an association" - what that means in practice?

➤ A general rule of thumb:

Sif it looks like a network,

Speels like a network and,

Quacks like a network,

it is a **network**.



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