



Federation of European Accountants
Fédération des Experts comptables Européens

Workshop 8: Ethics and the network definition

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

Finn L. Meyer
(KPMG)

Federation of European Accountants
Fédération des Experts Comptables Européens

www.fee.be



Program

- **Finn L. Meyer:** Introduction (10 min.)
- **Michael Niehues:**
Setting the scene from IFAC and FEE side (20 min.)
- **Martin Manuzi:**
FEE study on International Organisations and Practices
within the Accountancy Profession (20 min.)
- **Andrew Nicholl:**
Experience of a transnational organisation (20 min.)
- **Finn L. Meyer:** Final remarks (5 min.)



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.

Federation of European Accountants – Fédération des Experts Comptables Européens

4



Independence – Assurance Engagements

- (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**.



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 cost-sharing**.
- 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



EU 8th Directive: The network definition (Art. 2, No. 7)

- **”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

Federation of European Accountants – Fédération des Experts Comptables Européens

7



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.

Federation of European Accountants – Fédération des Experts Comptables Européens

8



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

- **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.

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



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

- A general rule of thumb:
 - ↪ if it looks like a network,
 - ↪ feels like a network and,
 - ↪ quacks like a network,**it is a network.**





Program

- **Finn L. Meyer:** Introduction (10 min.)
- **Michael Niehues:**
Setting the scene from IFAC and FEE side (20 min.)
- **Martin Manuzi:**
FEE study on Transnational Organisations and Practices within the Accountancy Profession (20 min.)
- **Andrew Nicholl:**
Experience of a transnational organisation (20 min.)
- **Finn L. Meyer:** Final remarks (5 min.)

Federation of European Accountants – Fédération des Experts Comptables Européens

11



Federation of European Accountants
Fédération des Experts comptables Européens

Presenter's contact details

Finn L. Meyer

KPMG

+45 38 18 32 51

flmeyer@kpmg.dk

kpmg.dk

Federation of European Accountants
Fédération des Experts Comptables Européens

www.fee.be