



Professional Ethics and Competences

FEE Paper - A Comparison of EC Recommendation on Statutory Auditor's Independence in the EU and Statutory Audit Directive with the Independence Sections of the IESBA Code of Ethics for Professional Accountants

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Federation of European Accountants
Fédération des Experts comptables Européens

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Professional Accountants**

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FEE Professional Ethics and Competences Working Party



About FEE

FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 45 institutes of professional accountants and auditors from 33 European countries, including all of the 27 EU Member States.

FEE has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education, who all contribute to a more efficient, transparent and sustainable European economy.



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EXECUTIVE SUMMARY

In assessing the independence of a statutory auditor, an audit firm or both, the EC Recommendation on statutory auditor's independence (ECR) and the IESBA Code use essentially the same conceptual approach. This approach requires the identification of threats to auditor independence and the application of safeguards to mitigate those threats. Thereby the ECR and the IESBA Code both apply the test of whether a reasonable and informed third party would conclude that the statutory auditor is exercising objective and impartial judgment. This approach is also endorsed by the Statutory Audit Directive (SAD) in its Article 22 (2) where also the importance of self-interest and self-review threats are highlighted with regard to statutory audits of Public Interest Entities (PIEs).

The analysis of the key differences between the frameworks provided by the EU provisions and the IESBA Code shows that in substance the outcomes of their respective application by statutory auditors within the European Union are not significantly different. Nevertheless, there are various differences that exist with respect to the definitions and terms used within the different sets of requirements. Although they are designed to achieve the same objective, there are some differences that significantly impact the scope of those covered by the specific requirements. For example:

- **Key audit partner:** According to the IESBA Code the term "key audit partner", besides the partner being primarily responsible for the audit engagement, also includes the partner providing quality control for that audit engagement. Compared to the respective SAD definition this, in effect, results in broadening the range of individuals to whom the cooling-off and rotation requirements apply;
- **Listed entity:** This term is solely defined in the IESBA Code, and comprises a broad range of quoted and listed entities, including those entities listed on local stock exchanges that do not meet the criteria of an EU regulated market. As a consequence the scope of entities covered by the definition of a PIE also differs between the SAD and the IESBA Code, so that under the IESBA Code the range of entities to which the restrictive provisions on PIEs are to be applied is much broader than under the provisions of the SAD.

When comparing the requirements that apply in specific situations it is to be noted that the SAD is regulating only two particular situations with respect to the statutory audits of PIEs, namely where a key audit partner is to join an audit client in a key management position (cooling-off), and the instance where a key audit partner has to rotate off the statutory audit engagement (partner rotation). Therefore, the following summary of key differences focuses primarily on the differences between the ECR and the IESBA Code.

- **Financial Interests:** The IESBA Code is more restrictive than the ECR; e.g. it does not allow the holding of immaterial direct financial interests, and extends the prohibition on holding financial interests to partners and managers who provide (permissible) non-audit services to an audit client.
- **Business Relationships:** The ECR is far more restrictive than the IESBA Code; e.g. unlike the Code, it does not permit the statutory auditor to obtain a material loan or guarantee from a bank that is an audit client.
- **Cooling-off:** The SAD requires a two-year cooling-off period for key audit partners joining the client in a key management position, whereas the IESBA Code requires a period of at least 12 months after the PIE has issued its audited financial statements.
- **Managerial or supervisory role in audit clients:** The IESBA Code prohibits all partners and employees from taking on such a role at any audit client of the audit firm, and is therefore more restrictive than the ECR, which applies this prohibition solely to those in a position to influence the outcome of the audit.

- **Non-audit services:**
 - **Design and implementation of financial information technology systems:** With respect to audits of PIEs, the IESBA Code is more restrictive than the ECR by providing a clear prohibition on certain defined IT services.
 - **Valuation Services:** With respect to audits of PIEs, the IESBA Code is more restrictive than the ECR as it prohibits valuation services that have a material effect on the financial statements.
 - **Participation in the audit client's internal audit:** Concerning audits of PIEs, the IESBA Code is more restrictive than the ECR as it provides a catalogue of prohibited internal audit services.
 - **Acting for the audit client in the resolution of litigation:** The IESBA Code is more restrictive than the ECR as it prohibits the auditor from acting in an advocacy role for all audit clients where the amounts involved are material to the financial statements of such clients.
 - **Recruiting senior management:** With respect to audits of PIEs, the IESBA Code provides for a broader range of prohibited activities than does the ECR.
 - **Taxation services:** Unlike the ECR, the IESBA Code provides extensive and detailed guidance on how to deal with taxation services and prohibitions on certain tax services that would also meet the criteria for other prohibited services (e.g. tax calculations for preparing accounting entries).
 - **Legal services:** Legal services are not covered by the ECR whereas the IESBA Code refers to these types of services.
 - **Corporate finance services:** Similarly as for taxation and for legal services, the IESBA Code provides guidance and the prohibition of services that would also meet the criteria of other prohibited services, whereas the ECR does not provide any guidance in this respect.
- **Compensation and evaluation policies:** The IESBA Code includes a prohibition on evaluating or compensating a key audit partner based on his success for selling non-assurance services to his audit client; this matter is not addressed by the EU provisions.
- **Partner rotation:** The SAD is more restrictive with regard to key audit partners in group audit situations, but, unlike the IESBA Code, neither the SAD nor the ECR requires the partner responsible for the engagement quality control to rotate.
- **Relative Size of Fees:** With respect to statutory audits of PIEs, the IESBA Code requires restrictive safeguards where the total of audit and non-audit fees that an audit firm receives from its audit client exceeds the threshold of 15% of the firm's total revenues. Neither the SAD nor the ECR provides for such a threshold, although the ECR requires the auditor to consider unduly high percentages for any statutory audit.

In summary, it can be concluded that the overall approaches to statutory auditor independence, as applied by the EU provisions and the IESBA Code, are equivalent. The differences in scope are mainly the results of different concepts with regard to definitions and descriptions. However, the most significant differences relate to the fact that the IESBA Code provides more detailed guidance with regard to specific situations, for example, in respect of mergers of audit and non-audit clients, and on the application of the overall framework in connection with certain non-audit services. Finally, being more robust with respect to audits of PIEs than the ECR, the IESBA Code makes strict provisions for those non-audit services that are incompatible with the audit as well as for other matters that may be considered for inclusion in future EU audit legislation.

1. INTRODUCTION

The purpose of this paper is to provide an overview of the auditor independence provisions that are required by the extant Statutory Audit Directive of 17 May 2006¹ (Statutory Audit Directive; SAD) and have been recommended by the European Commission (EC) in their Recommendation of 16 May 2002 “Statutory Auditor’s Independence in the European Union (EU): A Set of Fundamental Principles” (EC Recommendation; ECR) in comparison to the international independence standards for audit and review engagements as set out in Section 290 of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants² (IESBA Code). It also provides a follow up on the comparison between the ECR and the independence section of the former IFAC Code that FEE published in October 2004.

An individual’s objectivity must be beyond question when conducting and reporting on a statutory audit³, either on his own as a statutory auditor or on behalf of an audit firm. To provide the public with confidence that objectivity is maintained it is important that the relevant individual is, and is regarded as being independent, and that audit firms maintain a system of quality controls to guard the independence of both the firm and the individuals within the firm. In order to achieve this objective, the SAD and the ECR (collectively referred to as the EU provisions), as well as the IESBA Code, provide requirements and guidance for a statutory auditor or audit firm to comply with.

This paper summarises the general concepts used in the respective legal or regulatory framework, and identifies the key differences in respect of each area. Based on some background information (Chapter 2) this paper describes broadly the conceptual framework approach and the main differences that exist between the EU provisions and the IESBA Code as to the application of that approach (Chapter 3). Furthermore, it also analyses whether there are key differences with regard to those specific independence issues that are separately addressed in the EU provisions and/or the IESBA Code (Chapter 4). The Appendix provides a detailed comparison setting out an overview of all differences that were identified.

2. BACKGROUND

In May 2002, the EC published its Recommendation “Statutory Auditor’s Independence in the European Union (EU): A Set of Fundamental Principles” that addressed issues dealing with auditor independence in a manner similar to that of the Code of Ethics for Professional Accountants published in November 2001 by the International Federation of Accountants (IFAC).

In order, firstly, to promote the rationale of the “conceptual framework approach” (also referred to as the “threats and safeguards approach”) and, secondly, to inform about the differences in both sets of standards, FEE issued a Study: “EC Recommendation on Statutory Auditor’s Independence in the EU and Comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants – Considerations on the Implementation of the Framework Approach” in October 2004. Furthermore, in November 2004, and as a reaction to the EC’s proposals to replace the Audit Directive from 1984 (Council Directive 84/253/EEC), FEE called for a European approach to deal with auditor independence by using the comitology procedure foreseen in the EC’s proposal to adopt the ECR.⁴

¹ DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/ 660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

² International Ethics Standards Board for Accountants: Handbook of the Code of Ethics for Professional Accountants, 2012 Edition. The Code has been effective since 1 January 2011.

³ For the purpose of this paper the terms “statutory audit” and “statutory auditor” are used when reference is made to EU provisions while the terms “audit” and “auditor” are used in the context of the IESBA Code.

⁴ FEE Briefing Paper: FEE Position on the Proposed Audit Directive, 17 November 2004.



Following the EC's 2010 Green Paper on "Audit Policy: Lessons from the Crises"⁵, FEE issued a Briefing Paper on the Provision of Non-Audit Services to Audit Clients in June 2011 and supplemented it by issuing a Policy Paper in July 2012 "The Provision of Non-Audit Services to Audit Clients that are Public Interest Entities (PIEs)" as a response to the publication of the EC's "Proposal for a Regulation on specific requirements regarding Statutory Audit of Public-Interest Entities"⁶.

In the meantime, since the issuance of the IFAC Code in 2001, international independence standard setting has evolved by means of (a) the transformation of the former IFAC Ethics Committee into the International Ethics Standards Board for Accountants (IESBA), an independent standard setter with (amongst others) involvement of public interest members, a due process and public interest oversight, and (b) a complete revision of the former IFAC Code, in particular with respect to Section 290, which deals with independence requirements for audit and review engagements.⁷ Based on broad public consultation, the result of this process was the extant IESBA Code, which was issued in the aftermath of the financial crises in 2009, and became effective on 1 January 2011. Today, the IESBA Code can be regarded as a generally accepted standard as it is already used by 23 audit firm networks for their transnational audits. Similarly, some regulators, such as the UK's Financial Reporting Council, accept for group audit situations that independence requirements are met by a foreign (non-UK) component auditor if that auditor complies with the IESBA Code.

FEE has always been a strong supporter of these developments, and also acknowledges that, although the "threats and safeguards approach" should still be the basis for all auditor independence considerations with respect to any type of audit, there is a public interest need for clarified guidance, and even prohibitions, in connection with the statutory audit of PIEs. The existing IESBA Code meets this need by the continuing application of the "threats and safeguards approach" complemented by robust provisions that are to be applied in connection with audits of PIEs.

The purpose of this paper is to highlight the major differences between the EU provisions, as provided in the SAD and the ECR, and the IESBA Code, to allow stakeholders, and in particular people involved in the legislative process, to evaluate if, and to what extent, current EU provisions, regardless of the legal instruments being used, would need to be changed in order to create a consistent European or even global understanding of what statutory auditor independence would mean and a level playing field for auditors, audit firms and audited companies with regard to auditor independence requirements. In other words, it will be difficult to explain to the wider public, and in particular international investors, why independence requirements, and thus auditor independence, are dealt with differently from country to country or from one Economic Area to the other, when the overall objective of all these requirements is to preserve the statutory auditor's objectivity.

⁵ European Commission 13.10.2010 /* COM/2010/0561 final.

⁶ European Commission 30.11.2011 /* COM/2011/0779 final.

⁷ It should be noted that the revision of the Code by IESBA also covered the independence requirements that apply to the undertaking of those assurance engagements that are neither audit nor review engagements. These independence requirements for other assurance engagements are set out in Section 291 of the IESBA Code.

3. CONCEPTUAL FRAMEWORK APPROACH TO AUDITOR INDEPENDENCE

In broad terms, the conceptual framework approach to auditor independence works as follows⁸:

- Fundamental principles are set out, which must always be observed by a professional accountant. In the case of a statutory audit, the most relevant fundamental principle is objectivity. In order to demonstrate, to the general public, regulators and users of audit opinions in particular, compliance with the principle of objectivity, the statutory auditor is required to be independent;
- Before taking on an engagement, irrespective of whether it is an audit, other assurance or non-assurance engagement, or before entering into another type of relationships with a client, as well as during the conduct of a statutory audit engagement, the auditor must conscientiously consider whether there are threats to his independence that may compromise the fundamental principle of objectivity;
- Where such a threat exists, the auditor must consider the application of appropriate safeguards to eliminate the threat or reduce it to an acceptable level (i.e. a level at which a reasonable and informed third party would be likely to conclude that compliance with the principle of objectivity is not compromised);
- If such safeguards are not available, the auditor must eliminate the circumstance or terminate the relationship creating the threat or decline or terminate the audit engagement.

It should be noted that the IESBA Code uses the conceptual framework approach throughout the Code for all professional accountants and all fundamental principles. A detailed explanation of the approach can be found in Section 100 of the Code (paragraphs 100.6 to 100.16). Section 290 of the Code then extends the conceptual framework approach by introducing the concept of (auditor) independence, and provides further guidance on how this approach is to be applied to audit and review engagements (par. 290.4 to 290.12).

FEE has repeatedly expressed the view that clear principles duly and consistently applied and, where needed, supplemented by some rules have several benefits. Principles-based standards, together with other standards provided by the IESBA Code and the EC Recommendation:

- contain guidance, restrictions and, where needed, prohibitions that apply in certain circumstances where no other safeguards are available to mitigate the respective independence threat;
- are intellectually robust and can be applied to any set of circumstances that may arise in practice, as excessive and detailed rules cannot address every circumstance that will arise in practice, and may easily become outdated;
- are the most demanding in the sense that they prohibit statutory auditors from providing any service or entering into any relationship that compromise their independence;
- require statutory auditors to discuss their independence regularly with their clients' audit committees or equivalent bodies;
- may also require a detailed disclosure of fees and services provided to their audit clients;
- reinforce the importance of independence as a constant imperative for individual audit partners and engagement teams, as those individuals are required to document and take responsibility for judgment about independence when considering the acceptance of both audit and non-audit engagements, the establishment of financial or business relationships and during the performance of audit engagements; and finally;
- offer the best opportunities for European and globally consistent independence arrangements for statutory auditors, thereby avoiding an increasingly complex "patchwork quilt" of national regulations and codes, which are frequently applied on an extra-territorial basis.

⁸ For more detailed explanation reference is made to FEE 2004 paper.

The ethical guidance of bodies that use the conceptual framework approach includes examples of threats that might arise and appropriate safeguards to deal with them. But these are clearly illustrative and not comprehensive. If an auditor were to appear before a disciplinary tribunal charged with a breach of ethical requirements, it would not be a sufficient defense to demonstrate that particular examples of threats and safeguards in the ethical code had been addressed. He would need to be able to demonstrate that, in the particular circumstances under consideration, the fundamental principles had in fact been observed – a far more rigorous test of compliance.

3.1. Threats to Independence

In order to avoid or resolve certain situations, facts or circumstances that might compromise the independence of the statutory auditor or audit firm, it is crucial to properly identify and evaluate the various threats to independence which may arise in specific circumstances.

Although slightly different wording is used to describe them, both the ECR and the IESBA Code describe the same types of threats, being threats from:

- self-interest;
- self-review;
- advocacy;
- familiarity or trust; and
- intimidation.

When evaluating a threat, the statutory auditor also has to consider that different kinds of threats may arise in one set of circumstances and that quantitative and qualitative factors need to be taken into account.

When the auditor is confronted with a threat to independence, he should consider the use of appropriate procedures and safeguards which may eliminate the threat or reduce it to an acceptable level.

The ECR uses the term “independence risk”. Although it does not define this term, the ECR provides implicitly that the independence risk is considered to be the risk that remains to independence after threats have been assessed and safeguards applied. This independence risk must be brought to an “acceptable” or “appropriate” level. In comparison, the IESBA Code applies the concept of threats in a way whereby the threats to independence themselves can be reduced to an “acceptable level” through the application of safeguards. In substance, both concepts use the same test of “whether a reasonable and informed third party, knowing all the relevant facts and circumstances about a particular audit engagement, will conclude that the statutory auditor is exercising objective and impartial judgment on all issues brought to his attention” (ECR Annex, A Framework).⁹

3.2. Overall Safeguards

Although each circumstance posing a threat to independence would require a specific safeguard to mitigate the threat or eliminate it to an acceptable level, both the ECR and the IESBA Code refer to broad categories or types of safeguard.

⁹ This is equivalent to the IESBA Code’s definition of “acceptable level“ which is “[a] level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.”

The ECR provides a system of safeguards consisting of:

- safeguards within the audited entity, such as its governance structure, and involvement of a governance body like the audit committee in the independence assessment;
- (external) quality controls as recommended by the EC in its Recommendation on external quality assurance for statutory auditors and audit firms auditing public interest entities¹⁰; and
- the statutory auditor's own system of safeguards, including independence quality control policies and procedures, training, compliance monitoring and documentation of independence assessments.

The IESBA Code, instead, refers to safeguards which fall into two broad categories:

- safeguards created by the profession, legislation or regulation, including education, training and admission to practice, continuing professional education requirements, corporate governance regulations, professional standards, professional or regulatory monitoring and disciplinary procedures, and external reviews; and
- safeguards in the working environment, which are not further specified.

Although the ECR is more detailed concerning the system of safeguards, there is quite an overlap with the categories of safeguards suggested in the IESBA Code. Certain elements included in the ECR's overall system of safeguards, such as the role of corporate governance and the documentation of independence assessments, are addressed separately in the IESBA Code. Also, whereas the ECR explicitly addresses the possibility of the statutory auditor or audit firm maintaining his or its own system of safeguards, the IESBA Code refers the auditor to compliance with ISQCs (290.12) and the establishment of policies and procedures designed to provide reasonable assurance that independence is maintained.

3.3. Statutory Audit Directive and the Conceptual Framework Approach

In Article 22 (2), the SAD explicitly refers to the application of the conceptual framework approach for all statutory audits by stating that "If the statutory auditor's or audit firm's independence is affected by threats, such as self-review, self-interest, advocacy, familiarity or trust or intimidation, the statutory auditor or audit firm must apply safeguards in order to mitigate those threats. If the significance of the threats compared to the safeguards applied is such that his, her or its independence is compromised, the statutory auditor or audit firm shall not carry out the statutory audit."

Furthermore, with regard to the audit of Public Interest Entities (PIEs), and in contrast to the general concept foreseen in the ECR and the IESBA Code, the SAD underlines the particular risk that results from self-review and self-interest in requiring "that a statutory auditor or an audit firm shall not carry out a statutory audit in cases of self-review or self-interest" (Article 22 (2) subparagraph 2).

Overall, the EU provisions and the IESBA Code are consistent in their requirement to use the conceptual framework approach to auditor independence, as broadly described in this chapter, as the basic concept to deal with auditor independence. The following chapter analyses whether there are key differences in the structure of the respective frameworks and how their requirements apply to specific situations.

¹⁰ European Commission 6.5.2008, notified under document number C(2008) 1721, OJ L 120, 7.5.2008, p. 20–24.

4. ANALYSIS OF KEY DIFFERENCES

4.1 Overall Differences

4.1.1 Within the Relevant Frameworks

4.1.1.1 Inadvertent Violations – General Clause

Neither the SAD nor the ECR provides a general clause dealing with “inadvertent violations” of a provision whereas, in its general description of the conceptual framework approach, the IESBA Code states that, depending on the nature and significance of the matter, an inadvertent violation of a provision of the Code “may be deemed not to compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied” (100.10). With respect to auditor independence, the Code further addresses the issue of inadvertent violations in 290.39 by stating that an inadvertent violation of the auditor independence requirements in Section 290 would not be deemed to compromise independence “provided the firm has appropriate quality control policies and procedures in place, equivalent to those required by ISQCs.”

In this respect, it is important to note that IESBA has launched a project “Breach of a requirement of the Code” reviewing all paragraphs of the Code addressing inadvertent violations, including the general clause in 100.10 and its application for auditor independence in 290.39. This may also impact specific provisions for inadvertent violations that, as in the ECR, exist with regard to financial interests and family and other relationships.

4.1.1.2 Unusual Circumstances – Consultation with Member Body or Relevant Regulator

Neither the SAD nor the ECR provides for a clause recommending the auditor to consult with a member body or relevant regulator in case of “unusual circumstances”. The IESBA Code provides such recommendation in 100.11 for professional accountants encountering circumstances in which the application of a specific requirement would result in “a disproportionate outcome or outcome that may not be in the public interest”.

Because the EU provisions are primarily addressed to EU Member States, and considering their different legal environments, one can conclude that a provision like the one provided in the IESBA Code may not be necessary, as each legal system may have its own measures for dealing with this sort of *force majeure*.

4.1.1.3 Responsibility and Scope

While the SAD is addressed to Member States and, therefore, requires the Member States to ensure that statutory auditors and audit firms are independent from their respective audit clients, without prescribing the means by which this should be achieved, the ECR explicitly states that it is the statutory auditor’s responsibility to ensure that the auditor independence requirements are complied with (ECR A.2.1). Furthermore, the ECR clarifies that the independence requirements apply to the “statutory auditor himself, and all those individuals (as specified) in a position to influence the outcome of the statutory audit” (ECR A.2.2).

The IESBA Code does not, in most cases, prescribe the specific responsibilities of individuals within the firm as “responsibility may differ depending on the size, structure and organization of a firm” (290.12). Instead, the IESBA Code refers to ISQCs, which require the audit firm to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained, and to the responsibility of the engagement partner to conclude on compliance with independence requirements for audits conducted under ISAs.

In substance, there will be no significant difference with respect to responsibilities for independence, provided the relevant audits are conducted in accordance with ISAs and ISQCs.

4.1.1.4 Ownership and Control of Audit Firms

In order for competent authorities to be able to approve audit firms, Art 3 (4) of the SAD solely requires that a majority of the voting rights must be held by EU approved audit firms or EU statutory auditors. Therefore, from an EU perspective, it would be possible for audit firms to have non-auditors and companies other than audit firms as minority shareholders. In cases of such non-auditor ownership, the ECR provides a safeguard to avoid non-auditor owners gaining control over the audit firm.

The IESBA Code does not address ownership structures of audit firms. Please refer also to section 4.2.2 (Business Relationships).

4.1.1.5 Disclosure of Fees

Disclosure, in the audit client's financial statements, of fees that the audit firm has received from the audit client in respect of audit and non-audit services, as provided in A.5 of the ECR, is regulated in the Accounting Directives (4th and 7th Company Law Directives). The fee disclosure is the responsibility of the audit client's management, and not of the auditor.

Being a Code for professional accountants that cannot bind companies and their management, such a provision is not included in the IESBA Code.

4.1.2 Glossary and Definitions

4.1.2.1 Affiliate of an Audit client - Related Entity

The SAD does not explicitly address independence requirements that apply with respect to "affiliates" or "related entities" of the audit client, and thus does not provide respective definitions. The definition of an "affiliate of an audit client", as provided in the ECR, appears to be equivalent to the more detailed definition of a "related entity" in the IESBA Code. However, it is unclear whether the scope of "affiliates" in the ECR would (similar to the IESBA Code) include entities that directly or indirectly control, or can otherwise significantly influence, the audit client ("upstream" affiliates), where the interest in the audit client is material.

This apparent difference may be relevant to the range of entities the statutory auditor or audit firm has to consider when assessing his or its independence (see 4.1.5).

4.1.2.2 Audit Firm and Affiliate of an Audit Firm – Firm and Network Firm

Article 2 No. 3 of the SAD defines an "audit firm" as "a legal person or any other entity, regardless of its legal form, that is approved by the competent authorities of a Member State to carry out statutory audits" whereas a similar entity performing audits outside the EU, i.e. in third countries, is defined as a "third-country audit entity". The ECR refers to the organisational entity that performs the audit. In order to consider independence issues with regard to entities that, although they are not audit firms themselves and regardless of their legal form, are connected to an audit firm by means of common ownership, control or management, both the SAD and the ECR use the concept of an "affiliate of the audit firm".

The IESBA Code uses a different concept by referring to “firm”. The defined scope of such firm does not only include a professional accountant (a member of an IFAC member body) and a partnership or corporation of professional accountants, but also all other entities that control or are controlled by such firms, and irrespective of whether these entities carry out audit engagements or not. With respect to auditor independence the term “firm” also includes all other firms or entities within the auditor’s or audit firm’s respective network (see IESBA Code 290.3 and its definition of “network firm”).

Consequently, the IESBA Code requires that auditor independence is needed not only for the entity conducting the audit, but also for all other entities within the network of an auditor or audit firm. Although the ECR clarifies this matter through the definition of network (see 4.1.3), the SAD is not sufficiently clear in this respect.

4.1.2.3 Audit Team

The SAD does not address the “audit team”. The definitions of “audit team” differ significantly between the ECR and the IESBA Code. Whereas the ECR definition refers to those individuals that have been assigned to the audit engagement in order to perform the audit task, the definition in the IESBA Code includes within its scope all others within the audit firm and any network firm who can directly influence the outcome of the audit engagement, including those who recommend compensation of the engagement partner, or who exercise direct supervision of or oversight over the engagement partner with respect to the audit, those who provide technical or industry specific advice, and those who provide the quality control for the engagement.

Although there is a significant difference regarding the range of individuals coming within the scope of each definition, the consequences for applying the respective frameworks are marginal, as the ECR provides that the independence requirements apply to all those in a position to influence the outcome of the statutory audit (see 4.1.1.3).

4.1.2.4 Immediate and Close Family Members

Independence requirements that apply to family members of the auditor or others who can influence the outcome of the audit are not addressed in the SAD. The ECR considers only the term “close family member”.

The IESBA Code, instead, distinguishes between “immediate family members” and “close family members” in order to provide different requirements for the respective categories of family members. Both definitions within the Code are exclusive. The “close family” consists of parents, children or siblings who are not dependent upon the individual in question. The individual’s spouse, or spousal equivalent, and his dependents are members of that individual’s “immediate family”.

Although the ECR does not apply different requirements for different groups of family members, as does the IESBA Code, the scope of family members addressed goes beyond the one defined in the IESBA Code. Under the ECR, the scope of “close family members” may extend to members of the statutory auditor’s wider family. To identify such family members the ECR requires the statutory auditor to consider the different cultural and social environments in which statutory audits take place and to assess the “closeness” of the relationships that may exist between himself and the members of his wider family in each context.

This difference is of particular relevance for the comparison of the specific requirements that apply in connection with financial interests (see 4.2.1) and family relationships (see 4.2.6).

4.1.2.5 Key Audit Partner

According to Article 2 No. 16 of the SAD, “key audit partners” are the statutory auditors designated as being primarily responsible for carrying out the audit on behalf of the audit firm, and those who sign the audit report. In the case of a group audit, the statutory auditor designated as being primarily responsible for the statutory audit at group level and those designated as being primarily responsible at the level of material subsidiaries are among those considered to be key audit partners.

Besides the engagement partner (the equivalent to the individual responsible for the audit) the IESBA Code explicitly refers to the individual responsible for the engagement quality control review as a key audit partner, and thus requires at least one additional individual to comply with the requirements applicable for key audit partners.

Regarding group audit situations, the IESBA Code also addresses in its definition of key audit partners those other audit partners on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the group financial statements. However, in stating that “depending upon the circumstances and the role of the individual on the audit, “other audit partners” may include, for example, audit partners responsible for significant subsidiaries or divisions”, the definition leaves room for judgment as to who needs to be considered as key audit partner.

These differences between the SAD and the IESBA Code play a role when comparing the requirements on cooling-off-periods (see 4.2.3) and partner rotation (see 4.2.12).

4.1.2.6 Listed Entities

Although the ECR, in its definition of PIEs, refers to “listed entities” as an example for PIEs, it does not provide a definition of a listed entity. The SAD does not use the term “listed entities”, but refers to “entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC” (hereinafter referred to as “entities listed on EU regulated markets”) as one group of entities to be considered as PIEs. This group of entities does not include certain entities that have issued securities for trading on alternative or “open” markets at various local stock exchanges within the EU, because these markets do not meet the requirements of an EU regulated market. However, these markets may well be governed by regulations of a recognized, often locally regulated, stock exchange or equivalent body.

The IESBA Code defines as “listed entity” “an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.” According to this definition, it can be concluded that those entities whose securities are not traded on an EU regulated market, but on local alternative or open markets of certain EU Member States, are likely to fall into the scope of a listed entity under the IESBA Code.

This difference also has an impact on the range of entities that would be considered PIEs (see 4.1.4).

4.1.3 Networks and Network Definition

The definition of a “network” provided in Article 2 No. 7 of the SAD is basically the same as provided by the IESBA Code in its glossary. In addition, the IESBA Code provides detailed guidance on how the criteria provided by the definition should be interpreted (IESBA Code 290.13 to 290.24).

With respect to the independence provisions that apply to a network or network firm, the SAD refers to networks only in the context of the conceptual framework approach in Art 22 (2) (refer to chapter 3.3). The ECR, however, using a slightly different definition of “network” by also referring to the audit firm together with its affiliates (see 4.1.2.2), consistently applies its independence requirements to “network members” or “network member firms”.

Therefore, it can be concluded that both the EU provisions and the IESBA Code actually achieve the same objective by providing that independence requirements that apply to a network firm also apply to any other entity within the network (unless explicitly exempted), regardless of whether those entities are audit firms or not, for example a consulting practice or professional law practice within the network.

4.1.4 Public Interest Entities (and Application of Respective Independence Requirements)

The SAD, the ECR and the IESBA Code all provide specific independence provisions that apply to audits of financial statements of PIEs. These specific provisions are often more prescriptive than the overall provisions applicable to any other type of audit. Therefore, it is of particular importance to understand the concepts and the different scopes of entities that fall into this category.

The SAD definition of PIEs in Article 2 No. 13 incorporates:

- entities whose transferable securities are admitted to trading on a (EU) regulated market of any EU Member State;
- credit institutions; and
- insurance undertakings,

whereby each category is specified by certain criteria of a respective EU Directive.

Furthermore, the SAD provides for a member state option to also designate other entities as PIEs that are of significant public relevance, for example because of the nature of their business, their size or the number of their employees. However, with respect to the application of those provisions that deal with the statutory audits of PIEs, article 39 of the SAD provides an additional member state option. This option allows member states to exempt those entities that have not issued transferable securities admitted to trading on a (EU) regulated market from the application of the respective provisions. Consequently, the SAD provides de facto a minimum requirement to apply the independence provisions designed for statutory audits of PIEs at least to the entities listed on EU regulated markets (see 4.1.2.6).

The IESBA Code defines a PIE as

- 1) a listed entity; and
- 2) an entity:
 - a) defined by regulation or legislation as a PIE; or
 - b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

With regard to listed entities (see 4.1.2.6) one can argue that the SAD requirements for PIE-audits would not apply to an entity listed on a local securities market which does not meet the criteria of a (EU) regulated market, as such an entity is not considered a PIE under the SAD. Provided that the local securities are marketed under the regulations of a recognised stock exchange, however, such entity would be considered a listed entity, and thus a PIE, under the IESBA Code. As a consequence all independence requirements of the Code that apply to PIE-audits have to be considered.

Furthermore, it may also be debatable whether, based on the SAD definition of a PIE, the independence restrictions for PIE-audits as provided in the IESBA Code would apply to non-listed banks and insurance companies that fulfill the respective EU criteria for a PIE if a Member State has opted not to apply the respective requirements of the SAD. On the other hand, all independence requirements of the IESBA Code that apply to PIE-audits have to be complied with if a member state designates an entity as a PIE that would otherwise not fall under the SAD definition of PIE.

4.1.5 Related Entities

As described above, the ECR uses the concept of “affiliate of an audit client” while the IESBA Code applies the concept of “related entities”. Both concepts appear to be equivalent with the exception of a lack of clarity whether the ECR concept would also include “upstream” entities that control or can influence the audit client if material to the audit client (see 4.1.2.1).

Besides this uncertainty, it is to be noted that the ECR generally requires that its independence requirements are to be applied by the audit firm and its affiliates.

In this respect, the IESBA Code uses a different approach as set out in par. 290.27. Where the audit client is a listed entity (see 4.1.2.6) the independence requirements of the IESBA Code apply to the audit client and its related entities, unless otherwise (explicitly) stated. For all other audit clients independence requirements apply only to the audit client and those related entities over which the client has direct or indirect control (downstream entities). An additional independence evaluation is required where the audit team knows or has reason to believe that a relationship or circumstance involving another related entity of that non-listed audit client is relevant.

Consequently, apart from the uncertainty described above, the range of related entities that has to be considered in an independence evaluation for a listed audit client is similarly dealt with in the ECR and the IESBA Code. With respect to non-listed audit clients the approach of the IESBA Code appears to have a narrower scope and is thus more practical to apply.

4.1.6 Those Charged with Governance

Due to the fact that the provisions of the SAD have been, or have to be, transformed into national legislation of the Member States, it does not only provide provisions that apply directly to the statutory auditor or audit firm, but also to other parties in the audit process. In this respect, within the section that applies to statutory audits of PIEs (see 4.1.4), Article 41 (2) requires audit committees’ of PIEs, amongst others

- to monitor the statutory audit of the annual and consolidated accounts; and
- to review and monitor the independence of the statutory auditor and audit firm, and in particular the provision of additional services to the audited entity.

Furthermore, the proposal of the administrative or supervisory body for the appointment of the statutory auditor or audit firm shall be based on a recommendation by the audit committee, the composition of which the SAD also regulates.

In addition, the ECR is complementing this approach by recognising in A. 4.1.2 that the governance body (e.g. supervisory body or audit committee) of a PIE is an important safeguard to auditor independence (see 3.2). The ECR requires the statutory auditor to disclose in writing to the governance body the fees charged during the reporting period, details of all relationships between the audit firm and its network members and the audit client and its affiliates, and the safeguards being applied. Furthermore, it requires the

statutory auditor to confirm his independence in writing and to seek to discuss independence issues with the governance body of the PIE client.

For audit clients other than PIEs that also may have a governance body, the ECR requires the auditor to consider whether similar measures are appropriate.

Without being as specific as the ECR, the IESBA Code (par 290.28) merely encourages the auditor to take similar actions as provided for in the ECR. The approach that the IESBA Code has taken applies to PIEs as well as to non-PIEs.

In conclusion, one can argue that the SAD and the ECR together provide for a more stringent and consistent corporate governance regime (further enhancing auditor independence) than does the IESBA Code.

4.1.7 Documentation

Both the EU provisions and the IESBA Code require documentation of the assessment of the significant threats to auditor independence and the safeguards applied to mitigate such threats.

4.1.8 Engagement Period

Neither the SAD nor the ECR defines explicitly the period during which the statutory auditor needs to be independent from the audit client. However, the ECR requires the statutory auditor, when performing his independence risk assessment, to consider the services provided to and the relationships that existed with the audit client before his appointment as statutory auditor as well as the services provided and the relationships that exist during the course of the statutory audit.

The IESBA Code is more precise by requiring the auditor to be independent from the audit client both during the engagement period and the period covered by the financial statements. According to the IESBA Code (par. 290.30) the engagement period starts when the audit team begins to perform audit services, and ends when the audit report is issued. Furthermore, the IESBA Code addresses those situations where an auditor is appointed during or after the period covered by the financial statements to be audited.

Although, in substance, there is no significant difference between the ECR and the IESBA Code, the IESBA Code provides more clarity and guidance with respect to the period during which a statutory auditor must comply with the independence requirements.

4.1.9 Mergers and Acquisitions

Particularly in group audit situations, mergers and/or acquisitions of companies may result in situations in which a company that is not an audit client becomes an affiliate of or related entity to an audit client. This would make it difficult for the statutory auditor to meet the independence requirements that usually apply.

While neither the SAD nor the ECR deals with this specific circumstance, the IESBA Code provides detailed guidance on how auditors should deal with such situations in order not to compromise their independence.

4.1.10 Other Considerations

Under this heading, the IESBA Code specifies its general provision regarding inadvertent violations for audit engagements. Please refer to section 4.1.1.1.

4.2 Differences on Specific Requirements

4.2.1 Financial Interests

Except for the general provision in Art. 22 (2), which requires Member States to ensure “that a statutory auditor or an audit firm shall not carry out a statutory audit if there is any direct or indirect financial [...] relationship [...] between the statutory auditor, audit firm or network and the audited entity from which an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised”, the SAD does not include provisions dealing with financial interests. Direct and indirect financial interests are mentioned as examples of threats to independence in Recital. 11.

4.2.1.1 Scope and Types of Financial Interests

The ECR addresses actual and impending financial interests (B.1.1), whereas the IESBA Code only refers to financial interests as defined in its glossary, i.e. “actual” financial interests.

While the ECR provides a description of a financial interest, the IESBA Code includes a definition which is broadly equivalent with the description in the ECR. Regarding the distinction between “direct” and “indirect” financial interests, however, the descriptions in the ECR vary from their respective definitions in the IESBA Code.

The ECR lists shares, bonds, notes, options, and other securities in an audit client as examples of “direct financial interests”, and considers as “indirect financial interests” those situations where, for example, investments are held in non-client entities that have an investment in the audit client, or in companies in which an audit client also has invested. The scope of “direct financial interests” as defined in the IESBA Code is broader than that covered by the ECR as it also considers a financial interest to be direct when it is beneficially owned through a collective investment vehicle, estate, trust or other intermediary, and the individual or entity holding the investment has control over the investment vehicle, or the ability to influence the investment decisions of that investment vehicle. The latter would be regarded as an “indirect” financial interest in the ECR.

4.2.1.2 Different Requirements

Like the IESBA Code, the ECR does not allow certain individuals or the audit firm to hold direct financial interests in an audit client. However, the ECR would permit the holding of a direct financial interest in an affiliate of the audit client, provided the interest is not significant to either party. The IESBA Code does not provide for a materiality or significance threshold that would allow certain direct investments in a related entity of an audit client.

The restrictions on financial interests as provided in the ECR apply to the statutory auditor, the audit firm, any member of the audit engagement team and in the chain of command, as well as to any partner of the firm or its network who is working in an ‘office’ that participates in a significant proportion of the audit engagement. The IESBA Code extends the range of individuals to whom this prohibition applies to those partners and managers who provide non-audit services to the audit client.

With respect to family members, the ECR requires that a statutory auditor should not accept an audit engagement if a member of his close family has a financial interest in the audit client, unless the interest is insignificant. Also, a member of the audit firm or network shall not be assigned to the audit engagement team, if one of his close family members has such a financial interest.

For family members of other individuals within the audit firm, such as those within the chain of command or partners within the office, the ECR requires the establishment of appropriate safeguards where the respective family members knowingly hold a financial interest in the audit client. The IESBA Code extends the prohibition of direct and material indirect financial interests that applies to individuals within the audit firm or network to all immediate family members of those individuals. With respect to close family members, the IESBA Code addresses the self-interest threat that may exist if a member of the audit team knows of one of his close family members having a direct or material indirect financial interest in the audit client. Consequently, although the scope of family members covered by the requirements of the ECR may be much broader than that covered by the IESBA Code, the ECR can be considered as less restrictive in so far as immediate family members would be permitted to hold insignificant financial interests. Under the IESBA Code, for example, even a single security in the audit client held by an immediate family member of an engagement team member would constitute a violation of the Code. On the other hand, it appears that the ECR would require a more in depth analysis of financial interests held by close family members.

When a prohibited financial interest is acquired as the result of an external event (inheritance, gift or merger), the ECR provides that the individual should dispose of the holding as soon as practical but within a month after having both the knowledge of the acquisition and the right to sell the financial interest. In such a situation, the IESBA Code requires the individual to dispose of the direct or indirect financial interest immediately, or to reduce the indirect financial interest to an immaterial amount.

4.2.2 Business Relationships (Including Loans and Guarantees)

Except for the general provision in Art. 22 (2), which requires Member States to ensure “that a statutory auditor or an audit firm shall not carry out a statutory audit if there is any [...] business [...] relationship [...] between the statutory auditor, audit firm or network and the audited entity from which an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised”, the SAD does not include provisions dealing with business relationships.

4.2.2.1 The General Concept

The ECR addresses actual business relationships and commitments to establish such relationships. The IESBA Code only refers to (existing) business relationships.

Both, the ECR and the IESBA Code build on equivalent concepts regarding business relationships with audit clients. According to the ECR, a business relationship with an audit client should be prohibited, unless it is in the normal course of business and insignificant in terms of the independence threat. Similarly, in the case of a purchase of goods and services from an audit client, the IESBA Code requires such a business relationship to be insignificant, that any related financial interest is immaterial to the firm and the client or its management, and that the relationship is in the normal course of business and at arm's length.

The IESBA Code applies the same general concept for loans and guarantees, which are dealt with under a separate heading where more explicit guidance is provided, in particular to distinguish between acceptable and prohibited finance-related business relationships with audit clients that are banks or similar institutions, and to assess whether such relationships would be in the normal course of business or insignificant when established with audit clients that are not banks or similar institutions. In this respect the IESBA Code considers a material loan or guarantee obtained by the audit firm or a member of the audit team from a bank that is an audit client as permissible, if it is obtained under normal terms and conditions and safeguards are applied to reduce the independence threat to an acceptable level. As the ECR does not distinguish between a loan (or a guarantee) obtained from a bank or an audit client that is not a bank, the ECR applies more restrictive criteria than the IESBA Code in these circumstances.

4.2.2.2 Major Differences

Similar to the requirements concerning financial interests, the requirements in respect of business relationship in the ECR differ from those of the IESBA Code in that they apply not only to the statutory auditor, the audit firm and any other person that can influence the audit, but also to the close family members of those persons. In this respect, the IESBA Code extends its requirements only to members of the immediate family.

The ECR also includes requirements with respect to the provision of audit services to owners of the audit firm, to affiliates of the owner that may influence any decision making of the audit firm, or to entities in which an individual who has a supervisory or managerial role may be in a position to influence the decision-making of the audit firm. This type of business relationship is not addressed in the IESBA Code.

4.2.3 Employment with Audit Clients

The SAD addresses employment relationships twice. Firstly, there is the general provision in Art. 22 (2) that requires Member States to ensure “that a statutory auditor or an audit firm shall not carry out a statutory audit if there is any [...] employment [...] relationship [...] between the statutory auditor, audit firm or network and the audited entity from which an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised”. Secondly, a “cooling-off period” is addressed in the special provisions that apply to the statutory audits of PIEs (see 4.2.3.2).

4.2.3.1 Cooling-off – all audit clients

Both the ECR and the IESBA Code incorporate equivalent provisions, based on threats and safeguards, with respect to members of the audit team or partners of the firm joining an audit client. However, in the case of a key audit partner (see 4.1.2.5) joining an audit client in a key management position, the ECR requires such an audit partner not to take on the key management position before a period of at least two years (a so called “cooling-off period”) has elapsed. This restrictive aspect of the ECR is not reflected in the IESBA Code, nor has it been maintained in the SAD issued four years after the ECR.

4.2.3.2 Cooling-off for Key Audit Partners – Public Interest Entities

Art 42 (3) of the SAD provides that the statutory auditor, or the key audit partner who carries out a statutory audit on behalf of an audit firm, shall not be allowed to take up a key management position in the audited entity before a period of at least two years has elapsed since he resigned as statutory auditor, or key audit partner, from the audit engagement.

The IESBA Code is less restrictive in this respect, as it requires only a cooling-off period of not less than twelve months after the PIE had issued its audited financial statements.

4.2.4 Managerial or Supervisory Role in Audit Clients

Except for the taking-up of a key management position by a statutory auditor or a key audit partner at the audit client (see 4.2.3), the SAD does not explicitly address the issue of individuals within the audit firm accepting managerial or supervisory roles in the audit client.

The ECR does not permit individuals being in a position to influence the outcome of a statutory audit to be a member of any management body (e.g. board of directors) or supervisory body (e.g. audit committee or supervisory board) of the respective audit client. This prohibition also applies with respect to entities that hold, directly or indirectly, more than 20 % of the voting rights in the client, or in which the client holds directly or indirectly more than 20 % of the voting rights.

The IESBA Code applies the prohibition on serving as a director or officer of an audit client to all partners and employees of the firm.

The IESBA Code is therefore more restrictive than the ECR with regard to the range of individuals within a firm that are covered by the prohibition on taking up a managerial or supervisory role in an audit client whereas, on the other hand, the range of entities that are affected by the prohibition is broader in the ECR than in the IESBA Code.

4.2.5 Establishing Employment with Audit Firm

The SAD does not explicitly address situations in which individuals have left the audit client to join the audit firm. The ECR in this respect provides that former directors and managers, as well as other former employees who performed other than insignificant tasks in relation to the audit function, cannot become members of the audit team at any time in the two year period after leaving the audit client. Where they become members of the audit firm's chain of command, they must abstain from substantive decisions concerning the audit of their previous employer.

The IESBA Code contains a similar requirement but, unlike the ECR, it does not provide for a two year "cooling-off" from the client. Instead it provides that, during the period covered by the audit report, the members of the audit team must not have held an officer or director position at the audit client nor have been employees in a position to exert significant influence over the preparation of the client's accounting records or financial statements. With respect to services provided prior to the period covered by the audit report, the IESBA Code provides further guidance on the usage of the threats and safeguards approach.

4.2.6 Family and Other Personal Relationships

The SAD does not explicitly address family or other personal relationships.

With regard to family and other personal relationships, the difference between the ECR and the IESBA Code results primarily from the different categories of family member covered by the respective frameworks (see 4.1.2.4). While the ECR does not allow an individual to be assigned to the audit team where a close family member of that individual has certain defined employment, financial or business relationships with the audit client, the IESBA Code applies this restriction solely to individuals who have an immediate family member with such a relationship. Where family members other than spouses or dependents of the potential audit team member have such relationships with the audit client, the IESBA Code provides guidance on how to use the threats and safeguards approach.

4.2.7 Non-Audit Services

4.2.7.1 General

Except for the general provision in Art. 22 (2) that requires Member States to ensure "that a statutory auditor or an audit firm shall not carry out a statutory audit if there is any [...] business [...] relationship or other relationship — including the provision of additional non-audit services — between the statutory auditor, audit firm or network and the audited entity from which an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised", and the requirement to disclose non-audit services to the audit committee of a PIE audit client (Art. 42 (1)), the SAD does not include independence provisions dealing with non-audit services.

Both the ECR and the IESBA Code provide that the statutory auditor should not take or take part in decisions on behalf of the audit client, its affiliates or its management, or assume management responsibilities. A difference between the ECR and the IESBA Code exists in so far as the latter provides for additional clarity with respect to certain non-audit services that may be permissible if provided to an audit client's related entity that is not subject to audit. Furthermore, the IESBA Code provides for guidance on how to consider situations where an audit client becomes a PIE, for which more restrictive provisions on non-audit services apply.

It should also be noted that, unlike the EU provisions, the IESBA Code provides in its Section 291 independence requirements that are applicable for all professional accountants in public practice who provide assurance services other than audit and review engagements to their clients.

4.2.7.2 Preparing accounting records and financial statements

The ECR and the IESBA Code incorporate equivalent provisions to prohibit the provision of accounting and bookkeeping services, to audit clients in general and – in a more restrictive way – to audit clients that are PIEs. However, there are minor differences with regard to emergency situations. While the ECR would permit the statutory auditor or members of the audit team to perform such services in case of an emergency, the IESBA Code requires the work to be performed by individuals that are not members of the audit team, the services to be provided only for a short time and not expected to recur.

4.2.7.3 Design and implementation of financial information technology systems

The ECR prohibits the provision of services involving the design or implementation of financial technology systems for all audit engagement clients, except where certain conditions are met and adequate safeguards are applied. The IESBA Code includes an equivalent provision with respect to audits of entities that are not PIEs.

However, in the case of an audit client that is a PIE, the IESBA Code provides for a clearer and more restrictive approach than the ECR as it prohibits “services involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements”, without any exception.

4.2.7.4 Valuation Services

Unlike the ECR, with regard to valuation services, the IESBA Code differentiates between audit clients that are not PIEs and audit clients that are PIEs.

Whereas both the ECR and the IESBA Code generally prohibit the audit firm from providing valuation services if the service has a material effect on the financial statements and the valuation involves a significant degree of subjectivity, the IESBA Code prohibits the provision of any valuation service to an audit client that is a PIE if the valuation has a material effect on the financial statements to be audited. Furthermore, this prohibition also applies in the case of multiple valuations if, in aggregate, the effect is material to such financial statements.

4.2.7.5 Participation in the Audit Client's internal audit

With regard to internal audit services, the ECR and the IESBA Code use a similar approach by requiring the audit firm to apply adequate safeguards when providing such services to an audit client. But, as with other non-audit services, the IESBA Code, unlike the ECR, provides a precise catalogue of internal audit services that may not be provided to audit clients that are PIEs.

These services comprise internal audit services that relate to:

- “a significant part of the internal controls over financial reporting;
- financial accounting systems that generate information that is, separately or in the aggregate, significant to the client’s accounting records or financial statements on which the firm will express an opinion; or
- amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.”

4.2.7.6 Acting for the Audit Client in the resolution of litigation

The ECR prohibits the statutory auditor from acting for an audit client in the resolution of litigation, if this involves matters that would reasonably be expected to have a material impact on the client’s financial statements and there is a significant degree of subjectivity inherent to the case concerned.

The IESBA Code already prohibits the auditor from acting in an advocacy role for an audit client in resolving a dispute or litigation if the amounts involved are material to the financial statements. Unlike the ECR, the IESBA Code does not consider the degree of subjectivity, and the prohibition is therefore more stringent.

Concerning the representation of an audit client in respect of a tax dispute before the tax authorities or the court, please refer to 4.2.7.8.

4.2.7.7 Recruiting Senior Management

The ECR and the IESBA Code differ with regard to the provision of recruiting services to audit clients that are PIEs.

While the ECR only prohibits the statutory auditor from providing a short-list of candidates for key financial and administrative posts, the IESBA Code is far more restrictive, as it also prohibits searching for or seeking out candidates, and undertaking reference checks of prospective candidates, for the position of director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client’s accounting records or financial statements.

4.2.7.8 Taxation Services

Except for the annex, in which representation of an audit client in a tax dispute is addressed, the ECR does not explicitly refer to taxation services.

The IESBA Code, however, provides extensive guidance in relation to taxation services, under the categories of:

- tax return preparation;
- tax calculations for the purpose of preparing the accounting entries;
- tax planning and other tax advisory services; and
- assistance in the resolution of tax disputes.

Following a description of the nature of tax return preparation, the IESBA Code concludes that “providing such services does not generally create a threat to independence if management takes responsibility for the returns including any significant judgments made”.

In relation to tax calculations for the purpose of preparing the accounting entries, the IESBA Code includes different provisions for audit clients that are not PIEs and audit clients that are PIEs. In substance, these provisions reflect, in a more specific manner, the principles and provisions that apply for the preparation of accounting records and financial statements (see 4.2.7.2). Consequently, for audit clients that are PIEs, the IESBA Code explicitly prohibits a firm from preparing tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements. It also provides an exemption for emergency situations similar to that included in the section on the preparation of accounting records.

With regard to tax planning and other tax advisory services, which comprise a broad range of different services, the IESBA Code provides detailed guidance based on the threats and safeguard approach. It also prohibits advisory services to audit clients where “the effectiveness of that tax advice depends on a particular accounting treatment or presentation in the financial statements and: (a) the audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and (b) the outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion.” In the same sub-section of the IESBA Code, valuation services for tax purposes are also addressed. Where such valuations have a direct effect on the financial statements, the IESBA Code refers to its provisions in respect of valuation services in general (see 4.2.7.4). Where such valuations are solely prepared for tax purposes, and do not have a direct effect on the financial statements to be audited, the IESBA Code clarifies that such services would generally be permissible.

Concerning assistance in the resolution of tax disputes, the IESBA Code follows, in substance, the same principles as applied where the auditor is acting for the audit client in the resolution of litigation (see 4.2.7.6). Consequently, and in contrast to some extent from the ECR, the IESBA Code prohibits the auditor from acting as advocate for an audit client before a public tribunal or court in the resolution of a tax matter where the amounts involved are material to the financial statements to be audited. However, the guidance also clarifies that the auditor “is not precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analyzing the tax issues) for the audit client in relation to the matter that is being heard before a public tribunal or court”.

In conclusion, it may be argued that, compared to the ECR, the IESBA Code provides extensive guidance on how to apply the conceptual framework with regard to taxation services.

4.2.7.9 Legal Services

The ECR does not provide for legal services other than acting for the audit client in the resolution of litigation (see 4.2.7.6).

The IESBA Code provides additional guidance on how to apply the framework in relation to the provision of legal services. Unlike the ECR, it also provides for a clear prohibition on the auditor acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements to be audited. Furthermore, the IESBA Code clarifies that the position of a General Counsel of the audit client is to be considered a senior management function which therefore may not be provided by the audit firm.

4.2.7.10 Corporate Finance Services

Corporate Finance Services are not dealt with by the ECR, whereas the IESBA Code includes further guidance on how the conceptual approach is to be applied in the case of such services.

As for tax services where the effectiveness of the advice depends on a particular accounting treatment, the IESBA Code also prohibits corporate finance services that comprise advice the effectiveness of which depends on a particular accounting treatment or presentation in the financial statements and: “(a) the audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and (b) the outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion”. Furthermore, the IESBA Code prohibits the provision of corporate finance services involving “promoting, dealing in, or underwriting an audit client’s shares”.

4.2.8 Audit and Non-audit Fees

4.2.8.1 Contingent Fees

In Article 25, the SAD requires Member States to ensure that fees for statutory audits are not based on any form of contingency. Fee arrangements for services other than audit services are not addressed.

The ECR and the IESBA Code both prohibit contingent fee arrangements for statutory audit services. The ECR additionally requires the statutory auditor and the client to agree upon the basis of the fee calculation annually in advance, in order to avoid any appearance of contingency. In this respect, the ECR provides for an additional safeguard to avoid audit fees appearing to be contingent.

With regard to contingent fee arrangements for the provision of non-audit services¹¹ provided to audit clients, the ECR and the IESBA Code both generally apply the threats- and safeguards approach. As regards the application of this approach, the ECR clarifies in its annex that the statutory auditor is required to disclose any contingent fee arrangement to the governance body of the audit client which, for PIEs, is usually the audit committee. The IESBA Code does not include such a disclosure requirement.

Unlike the ECR, the IESBA Code addresses specific situations in which contingent fee arrangements for non-audit services are not permissible. A contingent fee arrangement is prohibited if the fee is to be charged by an audit firm to its audit client, or by a member of that audit firm’s network who participated in the audit, and the amount of the fee is or is expected to be material to the firm or the network firm. Also, the IESBA Code prohibits a contingent fee arrangement for a non-audit service where the amount of the fee is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.

In summary, it may be concluded that, compared to the ECR and the IESBA Code, the SAD falls short in addressing those contingent fee arrangements that relate to services other than statutory audit services. With respect to those fee arrangements, the IESBA Code is more prescriptive than the ECR with respect to specific situations that would impair the auditor’s independence, while the ECR provides for a more robust system of safeguards as it requires the disclosure of any such arrangement to the governing body.

¹¹ Note that the IESBA Code in Section 290 only addresses non-assurance services as the Code in Section 291 also prohibits contingent fee arrangements in connection with the provision of assurance services other than audit services anyway.

4.2.8.2 Relationship between total Fees and total Revenue

In Article 25, the SAD requires Member States to ensure that fees are not influenced or determined by the provision of additional services to the audited entity, but does not explicitly address the issue of the relative size of fees or the so called appearance of “financial dependency”.

However, both the ECR and the IESBA Code recognize the independence issue arising in a situation where the total amount of (audit and non-audit) fees that an audit firm and its network members receive from an audit client represent a large portion of that audit firm’s or network’s total revenue, and require the statutory auditor to apply the threats and safeguards approach.

Furthermore, and unlike the ECR, with respect to audits of PIEs, the IESBA Code includes a requirement for the audit firm to disclose to those charged with governance the independence threat it faces with respect to an apparent financial dependency, and to apply additional safeguards in situations where, for two consecutive years, the total fees from the PIE audit client and its related entities represent more than 15% of the total fees the audit firm has received. The safeguards to be applied in such a situation include a “pre-issuance review” or a “post-issuance review” that has to be performed by a professional accountant who is not a member of the audit firm or by a professional regulatory body.

4.2.8.3 Overdue Fees

While the SAD does not address the issue of overdue fees, both the ECR and the IESBA Code do so in a similar way.

4.2.8.4 Pricing

The SAD does not address the pricing of audit services, whereas the ECR covers this matter in so far as it requires a statutory auditor to be able to demonstrate that the fee for an audit engagement is adequate to cover the assignment of appropriate time and resources, as well as compliance with all auditing standards, guidelines and quality control procedures.

The IESBA Code does not explicitly address this issue in connection with audit services, but provides in section 240 for a general standard which, if applied to audit services, may be considered equivalent to the one included in the ECR.

4.2.9 Litigation

The SAD does not address situations where there is, or is likely to arise, litigation between the statutory auditor, the audit firm or any other person being in a position to influence the outcome of the statutory audit and an audit client or its affiliates. The ECR and the IESBA Code include similar guidance relevant to such circumstance. Additionally, the ECR requires the statutory auditor to consult with the audit client’s governance body (audit committee) or, if such a body does not exist, with his professional regulatory body.

4.2.10 Compensation and Evaluation Policies

The EU provisions do not include provisions on compensation and evaluation of audit team members.

The IESBA Code, however, addresses the issue where a member of an audit team is evaluated or compensated on the basis of selling non-assurance services to the audit client. It does so by providing guidance based on threats and safeguards. With respect to a key audit partner, the IESBA Code clearly prohibits evaluation or compensation based on that partner’s success in selling non-assurance services to the partner’s audit client.

4.2.11 Gifts and Hospitality

Neither the SAD nor the ECR includes provisions on gifts and hospitality.

The IESBA Code prohibits a firm or member of the audit team from accepting gifts or hospitality, unless the value is trivial and inconsequential.

4.2.12 Senior Personnel acting for a long period of time

Art 42 (2) of the SAD requires a key audit partner to rotate from an audit engagement of a PIE within a maximum period of seven years from the date of appointment and not to participate in the audit of that PIE until a period of at least two years has elapsed. In view of the definition of key audit partner provided in the SAD (see 4.1.2.5), in a group audit situation, the rotation requirement applies to the statutory auditor primarily responsible for the group audit and to the statutory auditor being primarily responsible for the audit of the parent company, the PIE itself, as well as to those statutory auditors designated as being primarily responsible at the level of material subsidiaries.

For statutory audits of PIEs and respective group audits, the requirement of the ECR to rotate key audit partners is equivalent to that of the SAD. In addition, the ECR explicitly applies the threats and safeguards approach to consider situations in which there is a prolonged involvement of other members of the audit team in the audit of a PIE. Furthermore, the ECR states that the application of the requirements above is considered to be the preferable safeguard with regard to statutory audits of entities that are not PIEs, but it also allows alternative safeguards where the audit firm is unable to accommodate the rotation of key audit partners.

With respect to audits of entities that are PIEs the IESBA Code includes a similar requirement to that of the SAD. However, given that the “key audit partner” is defined differently in the IESBA Code, the Code also requires the partner performing the engagement quality control to rotate off the engagement. Consequently, the prohibited activities of such a partner during the two-year cooling-off phase also include the provision of quality control for the engagement. In this respect the scope of the rotation requirement of the IESBA Code is broader than that of the SAD. Unlike the EU provisions, the IESBA Code provides for exemptions with regard to unforeseen events, where the period before which rotation is required may be extended by an additional year or, for firms lacking sufficient personnel resources, where an independent regulator may allow a departure from the restrictive rotation requirement by requiring alternative safeguards.

Regarding the audits of entities that are not PIEs, the IESBA Code also addresses the independence threats resulting from others serving on the audit engagement for long periods of time. However, unlike the ECR, the IESBA Code does not indicate a preference for a rotation of key audit partners in these circumstances.

ANNEX: STATUTORY AUDIT DIRECTIVE AND EC RECOMMENDATION ON STATUTORY AUDITOR’S INDEPENDENCE IN THE EU AND COMPARISON WITH THE INDEPENDENCE SECTIONS OF THE INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

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	<p>Acceptable level</p> <p>A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.</p>	<p>The Statutory Audit Directive and the EC Recommendation do not have an equivalent to the definition of the IESBA Code.</p> <p>The EC Recommendation uses the terms “acceptable level”, “appropriate level” or “unacceptable level” in connection with the evaluation of “independence risk”.</p>
	<p>Advertising (term is not used in Section 290)</p> <p>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.</p>	<p>Not applicable for the purpose of this comparison.</p>
<p>Affiliate (of an Audit Firm)</p> <p><u>Statutory Audit Directive</u></p> <p>‘Affiliate of an audit firm’ means any undertaking, regardless of its legal form, which is connected to an audit firm by means of</p>		<p>Although there is no equivalent term in the IESBA Code, the issue is addressed in the definition of “Network” and “Network Firm”. See also the definition of Firm and Audit Firm below.</p>

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<p>common ownership, control or management;</p> <p><u>EC Recommendation</u></p> <p>Affiliate of an Audit Firm: an undertaking within the meaning of Article 41 (1), (2) and (3) of the 7th Company Law Directive (38/349/EEC):</p> <p>[...] the term ‘Affiliate’ will include any undertaking regardless of its legal form, which is connected to another by means of common ownership, control or management.</p>		
<p>Affiliate (of an Audit Client)</p> <p><u>EC Recommendation</u></p> <p>Affiliate of an Audit Client: an undertaking within the meaning of Article 41 (1),(2) and (3) of the 7th Company Law Directive (83/349/EEC) that together with the Audit Client is required to be included by the consolidation in consolidated accounts prepared in accordance with the 7th Directive, or – in those cases where the 7th Company Law Directive does not apply – would be required to be included by consolidation were requirements of that Directive to apply.</p>	<p>Related entity</p> <p>An entity that has any of the following relationships with the client:</p> <p>(a) An entity that has direct or indirect control over the client if the client is material to such entity;</p> <p>(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;</p> <p>(c) An entity over which the client has direct or</p>	<p>The definition of “Affiliate of an Audit Client” in the EC Recommendation can be considered equivalent to the definition of “Related Entity” in the IESBA Code. However, it is unclear whether - similarly to the IESBA Code - the EC Recommendation definition would also include “upstream” entities when the Audit Client is material to such entities.</p>

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<p>[...] the term ‘Affiliate’ will include any undertaking regardless of its legal form, which is connected to another by means of common ownership, control or management.</p>	<p>indirect control;</p> <p>(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</p> <p>(e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.</p>	
	<p>Assurance Client (term is not used in Section 290)</p> <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>Not applicable for this comparison (The IESBA Code uses this term in the Sections dealing with independence provisions for assurance engagements that are not audit and review engagements).</p>

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<p>Assurance Service</p> <p><u>EC Recommendation</u></p> <p>Engagement of a statutory auditor to evaluate or measure a subject matter that is the responsibility of another party against identified suitable criteria, and to express a conclusion that provides the audit client with a level of assurance about that subject matter.</p>	<p>Assurance engagement</p> <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.)</p>	<p>The meaning of the two definitions is equivalent. Whereas the EC Recommendation uses this term only for the provisions on fee disclosures, the use within Section 290 of the IESBA Code is more extensive:</p> <p>It is referred to in the definition of “Assurance Team”, “Audit Engagement” and “Review Engagement” and is used in connection with the provisions of “non-assurance services”.</p>
	<p>Assurance team</p> <p>(a) All members of the engagement team for the assurance engagement;</p>	<p>Not applicable for this comparison (The IESBA Code uses this term in the Sections dealing with independence provisions for assurance engagements that are not audit and review</p>

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	<p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <ul style="list-style-type: none"> (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; (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement. 	<p>engagements (see also “assurance client” above)).</p>
<p>Audit Client</p> <p><u>EC Recommendation</u></p> <p>The company or firm whose annual accounts are subject to Statutory Audit, or the parent undertaking in the meaning of Article 1 of the 7th</p>	<p>Audit client</p> <p>An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities</p>	<p>The EC Recommendation definition refers to the EU law governing the mandatory preparation of financial statements (Accounting Directives) and addresses those entities that have to have their annual and/or group financial statements</p>

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Company Law Directive (83/349/EEC) whose consolidated accounts are subject to Statutory Audit.	over which the client has direct or indirect control.	audited. Depending on whether the audit client is a listed or non-listed entity, the IESBA Code definition of audit client includes different elements of “Related Entities”. The provisions of the EC Recommendation generally apply in connection with the audit client and/or its “affiliates” (see definition of “Affiliate (of an Audit Client)”).
<p>Audit Firm</p> <p><u>Statutory Audit Directive</u></p> <p>‘Audit firm’ means a legal person or any other entity, regardless of its legal form, that is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits;</p> <p>‘Third-country audit entity’ means an entity, regardless of its legal form, which carries out audits of the annual or consolidated accounts of a company incorporated in a third country.</p>	<p>Firm</p> <p>(a) A sole practitioner, partnership or corporation of professional accountants;</p> <p>(b) An entity that controls such parties, through ownership, management or other means; and</p> <p>(c) An entity controlled by such parties, through ownership, management or other means.</p> <p>(For the purpose of Section 290 the term “firm” includes network firm, except where otherwise stated [290.3])</p>	<p>The concepts are different.</p> <p>The Statutory Audit Directive addresses the organisation (legal person or entity) that is approved in accordance with the Statutory Audit Directive to carry out statutory audits within the EU and EEA. For similar organisations in countries outside the EU and EEA the term “third-country audit entity” is used. The EC Recommendation definition covers both the EU/EEA and third-country organisations that carry out audits of financial statements.</p> <p>The definition set out in the IESBA Code refers to a professional accountant, member of an IFAC member body, a partnership or corporation</p>

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<p><u>EC Recommendation</u></p> <p>The organisational – generally legal – entity that performs a Statutory Audit (e.g., a sole practitioner’s practice, a partnership or a company of professional accountants). The Audit Firm and the Statutory Auditor who is appointed for the Statutory Audit might be identical legal persons, but need not be, (e.g., where an individual who is a member of a partnership practice is appointed as the Statutory Auditor, the partnership as such forms the Audit Firm).</p>		<p>of professional accountants and all other entities that control or are controlled by such professional accountant, irrespective of whether these entities carry out audit engagements or not. With respect to the provisions on auditor independence the term “firm” also includes all other firms or entities of the respective firm’s network (see definition of “Network Firm”).</p>
<p>Audit Partner</p> <p><u>EC Recommendation</u></p> <p>An audit professional within an Audit Firm or Network who himself is an approved person in the meaning of Article 2(1) of the Eighth Company Law Directive (=statutory auditor) and, as an individual, takes on ultimate responsibilities for the audit work performed during a Statutory Audit; he, generally, is authorised to sign audit reports on behalf of the Audit Firm which is the Statutory Auditor. He</p>		<p>Although used in the definition of “Key Audit Partner”, the term “Audit Partner” is not defined in the IESBA Code.</p>

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may also be a shareholder/owner or principal of the Audit Firm.		
<p>Audit Report</p> <p><u>Statutory Audit Directive</u></p> <p>'Audit report' means the report referred to in Article 51a of Directive 78/660/EEC and Article 37 of Directive 83/349/EEC issued by the statutory auditor or audit firm;</p>		Although used in Section 290 of the IESBA Code the term "Audit Report" is not defined (cfr. ISA 700).
<p>Audit Team</p> <p><u>EC Recommendation</u></p> <p>All audit professionals who, regardless of their legal relationship with the Statutory Auditor or Audit Firm, are assigned to a particular Statutory Audit engagement in order to perform the audit task, such as Audit Partner(s), manager(s) and audit staff.</p>	<p>Audit Team</p> <p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the audit engagement, including:</p> <p>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement</p>	<p>The IESBA Code's definition of "Audit Team" is equivalent to the EC Recommendation's definition of "Engagement Team" (see below).</p> <p>The scope of individuals forming the "Audit Team" under the IESBA Code is much broader than the scope defined in the EC Recommendation. Whilst under the EC Recommendation the "Audit Team" only includes those individuals that have been assigned to the audit in order to perform the audit work, the IESBA Code also includes the</p>

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	<p>including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</p> <p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p>	<p>chain of command up to the firm's leadership (see EC Recommendation definition below), those who provide technical or industry specific advice, those who provide the quality control for the engagement, and all others within the network who can directly influence the outcome of the engagement.</p>

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<p>Chain of Command</p> <p><u>EC Recommendation</u></p> <p>Comprises all those persons who have a direct supervisory, management, compensation or other oversight responsibility over either any Audit Partner of the Audit Team or over the conduct of the Statutory Audit at office, country, regional or global levels. This includes all Partners, principals and shareholders who may prepare, review or directly influence the performance appraisal of any Audit Partner of the Audit Team or otherwise determine their compensation as a result of their involvement with the audit engagement.</p>		<p>The IESBA Code does not define the “Chain of Command”, but the respective individuals that are addressed in the EC Recommendation definition are included in the IESBA Code’s definition of “Audit Team” under (b): All others within a firm who can directly influence the outcome of the audit engagement... including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (see above).</p>
<p>Close Family Member</p> <p><u>EC Recommendation</u></p> <p><i>ANNEX (NOT GLOSSARY)</i></p> <p>B.6 The term “close family member” normally refers to parents, siblings, spouses or cohabitants, children and other dependants.</p>	<p>Close family</p> <p>A parent, child or sibling who is not an immediate family member.</p> <p>Immediate family</p> <p>A spouse (or equivalent) or dependent.</p>	<p>The Annex to the EC Recommendation only deals with the term “Close Family Member” which goes beyond the scope of the IESBA Code’s definitions of “Close” and “Immediate Family” members by also addressing the consideration of relationships with members of the broader family.</p>

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Depending on the different cultural and social environments in which the audit takes place, the term may extend to other family members who may have less immediate but not necessarily less close relationships with the relevant individual. These could include former spouses or cohabitants and the spouses and children of family members.		
<p>Competent Authorities</p> <p><u>Statutory Audit Directive</u></p> <p>‘Competent authorities’ means the authorities or bodies designated by law that are in charge of the regulation and/or oversight of statutory auditors and audit firms or of specific aspects thereof; the reference to ‘competent authority’ in a specific article means a reference to the authority or body(ies) responsible for the functions referred to in that Article;</p>		The IESBA Code does not have an equivalent term, but refers to an audit regulator in its definition of “Public Interest Entity”.
	<p>Contingent Fee</p> <p>A fee calculated on a predetermined basis relating to the outcome of a transaction or the</p>	The definitions are broadly the same. The IESBA Code, however, is more specific (“calculated on a predetermined basis”) and also recognizes that besides being dependent upon

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<p>Contingent Fees</p> <p><u>EC Recommendation</u></p> <p>Section B 8.1.1.: Fee arrangements for audit engagements in which the amount of the remuneration is contingent upon the results of the service provided [...]</p> <p>ANNEX, Section 8.1 Audit Fee arrangements: Audit fees that are fixed by any court or governmental body do not constitute contingent fees.</p>	<p>result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.</p>	<p>the results of the service provided, fees may also be contingent upon the outcome of a transaction.</p>
<p>Cooperative</p> <p><u>Statutory Audit Directive</u></p> <p>'Cooperative' means a European Cooperative Society as defined in Article 1 of Council Regulation (EC) No 1435/ 2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE) (2), or any other cooperative for which a statutory audit is required under Community law, such as credit institutions as</p>		<p>The term "Cooperative" is not defined, nor used in the IESBA Code.</p>

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defined in point 1 of Article 1 of Directive 2000/12/EC and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC;		
<p>Direct Financial Interest</p> <p><u>EC Recommendation</u></p> <p><i>ANNEX (NOT GLOSSARY)</i></p> <p>B.1 [...] such as shares, bonds, notes, options, or other securities,[...]</p>	<p>Direct Financial Interest</p> <p>A financial interest:</p> <ul style="list-style-type: none"> • Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or • Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions. 	<p>Neither the Statutory Audit Directive nor the EC Recommendation provides a definition. The Annex to the EC Recommendation only gives a few examples of “direct financial interests”. These examples do not indicate that financial interests beneficially owned through a collective investment vehicle, estate, trust or other intermediary may also constitute a direct financial interest.</p>
	<p>Director or officer</p> <p>Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which may vary from jurisdiction to jurisdiction.</p>	<p>The Statutory Audit Directive and the EC Recommendation do not have a definition for “Director or Officer”, but reference to a director is made in the definition of “governance body” below.</p>

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<p>Engagement Partner</p> <p><u>EC Recommendation</u></p> <p>The audit partner who has ultimate responsibilities for the statutory audit of a particular audit client, who co-ordinates the work of the audit team and that of professional personnel from other disciplines involved, ensures that this work is subject to quality control, and, if applicable, co-ordinates all statutory audit activities of a network which relate to a statutory audit, particularly on consolidated accounts where different audit partners have different responsibilities for the audits of the entities to be consolidated.</p>	<p>Engagement Partner</p> <p>The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p>	<p>The function covered in the EC Recommendation and the IESBA Code is the same although the EU language is limited to statutory audit engagements.</p>
	<p>Engagement quality control review</p> <p>A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.</p>	<p>The term is not defined in the Statutory Audit Directive or in the EC Recommendation. Note: The IESBA Code uses this definition primarily in connection with the definition of “audit team” (see above) where individuals performing this review are part of the audit team, whereas the EC Recommendation includes these individuals in the definition of “Engagement Team”.</p>

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<p>Engagement Team</p> <p><u>EC Recommendation</u></p> <p>All persons who, regardless of their legal relationship with the Statutory Auditor or Audit Firm, are directly involved in the acceptance and performance of a particular Statutory Audit. This includes the Audit Team, employed or subcontracted professional personnel from other disciplines involved in the audit engagement (e.g. lawyers, actuaries, taxation specialists, IT specialists, treasury management specialists), and those who provide quality control or direct oversight of the audit engagement.</p>	<p>Engagement Team</p> <p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or a network firm.</p>	<p>The EC Recommendation’s definition relates to statutory audit engagements only, and is equivalent to the IESBA Code’s definition of “Audit Team”.</p> <p>The IESBA Code’s definition primarily relates to other assurance engagements. With respect to audits its scope is equivalent to the definition of an “Audit Team” under the EC Recommendation. In addition, it specifically excludes external experts.</p>
	<p>Existing accountant</p> <p>A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.</p>	<p>There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation. Note: the term is not used in Section 290 of the IESBA Code.</p>

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	<p>External expert</p> <p>An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.</p>	<p>There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation.</p>
<p>Financial Interests</p> <p><u>EC Recommendation</u></p> <p><i>ANNEX (NOT GLOSSARY)</i></p> <p>B.1 The term “financial interest” would usually comprise the whole variety of financial interests that the Statutory Auditor himself, his Audit Firm or any other person within the scope of the section A. 2 [Framework, Responsibility and Scope] may have in an Audit Client or in any Affiliate of the client. The term includes ‘direct’ and ‘indirect’ financial interests such as:</p>	<p>Financial Interest</p> <p>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.</p>	<p>Although the EC Recommendation does not provide a definition of financial interest in the glossary, the description provided in the Annex to the EC Recommendation has a meaning equivalent to the IESBA Code’s definition.</p>

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<ul style="list-style-type: none"> • Direct or indirect shareholding in the Audit Client or its Affiliates; • Holding or dealing in securities of the Audit Client or its Affiliates; • Accepting pension rights or other benefits from the Audit Client or its Affiliates. <p>Commitments to hold financial interests (e.g. contractual agreements to acquire a financial interest) and derivatives which are directly related to financial interests (e.g. stock options, futures, etc.) should be dealt with in the same way as would an already existing financial interest.</p>		
	<p>Financial Statements</p> <p>A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete</p>	<p>The Statutory Audit Directive and the EC Recommendation both refer to the EU Accounting Directives (4th and 7th Company Law Directives). Note: For the purpose of this comparison financial statements as governed under the Accounting Directives meet the criteria of "financial statements" as defined in the IESBA Code.</p>

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	set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.	
	<p>Financial Statements on which the firm will express an opinion</p> <p>In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.</p>	There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation.
	<p>Historical financial information</p> <p>Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.</p>	This term is used by the IESBA Code solely in connection with the definition of "financial statements" (see above).

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<p>Governance Body</p> <p><u>EC Recommendation</u></p> <p>A body or a group of persons which is embedded in the Audit Client's corporate governance structure to exercise oversight over management as a fiduciary for investors and, if required by national law, for other stakeholders such as employees, and which consists of or, at least, includes individuals other than management, such as a supervisory board, an audit committee, or a group of non-executive directors or external board members.</p>	<p>Those charged with governance</p> <p>The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.</p>	<p>The EC Recommendation's definition of "Governance Body" focuses on those individuals exercising oversight over management whereas the IESBA Code's definition of "Those Charged With Governance" includes individuals with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.</p>
<p>Independence</p> <p><u>EC Recommendation</u></p> <p><i>ANNEX (NOT GLOSSARY)</i></p> <p>A.1 The requirement that a Statutory Auditor should be independent addresses both:</p> <ul style="list-style-type: none"> • Independence of mind, i.e. the state of mind 	<p>Independence</p> <p>Independence is:</p> <p>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism;</p>	<p>Although there is no specific definition of "independence" in the glossary of the EC Recommendation, it is described in its Annex and the meaning is equivalent to the definition in the IESBA Code.</p>

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<p>which has regard to all considerations relevant to the task in hand, but no others; and</p> <ul style="list-style-type: none"> Independence in appearance, i.e. the avoidance of facts and circumstances which are so significant that a reasonable and informed third party would question the Statutory Auditor's ability to act objectively. 	<p>Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional skepticism has been compromised.</p>	
<p>Indirect Financial Interests</p> <p><u>EC Recommendation</u></p> <p><i>ANNEX (NOT GLOSSARY)</i></p> <p>B.1 The term 'indirect financial interest' refers to a situation where, for example, a person within the scope of A. (Framework) 2 (Responsibility and Scope) has investments in non-client entities that have an investment in the Audit Client, or in companies in which an Audit Client also has invested.</p>	<p>Indirect Financial Interest</p> <p>A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.</p>	<p>Neither the Statutory Audit Directive nor the EC Recommendation provides a definition. The Annex to the EC Recommendation describes what constitutes an "indirect financial interest" in the meaning of the EC Recommendation.</p> <p>The EC Recommendation focuses on financial interests in Audit Clients that are held through non-client entities only. Compared to the IESBA Code, all investments through non-client entities are considered to be indirect whereas the IESBA Code distinguishes between having no control over or no ability to influence investment decisions of an intermediary ("indirect financial interests") and the exercise of control over or the ability to influence the investment of the intermediary. The latter constitutes "direct financial interests" under the IESBA Code.</p>

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<p>International Accounting Standards</p> <p><u>Statutory Audit Directive</u></p> <p>'International accounting standards' means International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, and future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB);</p>		<p>The term is not defined in the IESBA Code.</p>
<p>International Auditing Standards</p> <p><u>Statutory Audit Directive</u></p> <p>'International auditing standards' means International Standards on Auditing (ISA) and related Statements and Standards, insofar as relevant to the statutory audit;</p>		<p>There is no definition of "International Auditing Standards" in the IESBA Code. However, reference to International Standards on Auditing (ISAs) is made in 290.12 (responsibility of engagement partner for independence), and in 290.199 (use of internal audit function).</p>

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<p>Key Audit Partner</p> <p><u>Statutory Audit Directive</u></p> <p>'Key audit partner(s)' mean(s):</p> <p>(a) The statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm; or</p> <p>(b) In the case of a group audit, at least the statutory auditor(s) designated by an audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries; or</p> <p>(c) The statutory auditor(s) who sign(s) the audit report.</p> <p><u>EC Recommendation</u></p> <p>An Audit Partner of the Engagement team (including the Engagement Partner) who is at group level responsible for reporting on</p>	<p>Key Audit Partner</p> <p>The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions.</p>	<p>The scope of these provisions is quite similar but it should be noted that the IESBA Code explicitly considers the individual responsible for the engagement quality control review as a key audit partner whereas the Statutory Audit Directive does not. In a group audit situation, the Statutory Audit Directive considers key audit partners as those individuals that are primarily responsible at the level of material subsidiaries whereas under the IESBA Code such individuals would be considered key audit partners if they make key decisions (entitling a degree of judgement).</p>

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significant matters, such as on significant subsidiaries or divisions of the Audit Client, or on significant risk factors that relate to the Statutory Audit of that client.		
<p>Key Management Position</p> <p><u>EC Recommendation</u></p> <p>Any position at the Audit Client which involves the responsibility for fundamental management decisions at the Audit Client, e.g. a CEO or CFO. This management responsibility should also provide influence on the accounting policies and the preparation of the financial statements of the Audit Client. A Key Management Position also comprises contractual and factual arrangements which by substance allow an individual to participate in exercising this management function in a different way, e.g. via a consulting contract.</p>		The term is not defined in the IESBA Code.
	<p>Listed entity</p> <p>An entity whose shares, stock or debt are</p>	The Statutory Audit Directive and the EC Recommendation do not provide a definition.

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	<p>quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.</p>	<p>However, it is important to note that the Statutory Audit Directive’s definition of “Public Interest Entity” (see below) solely includes “entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC”.</p> <p>This means that compared to the definition of the IESBA Code the scope covered by the Statutory Audit Directive is limited to entities listed on “regulated markets” within the EU, whereas the scope of the IESBA Code is broader by also covering any entity listed on a recognized stock exchange, regardless whether or not the securities on that exchange are traded in a market segment that is regulated by government or an equivalent authority, and regardless of the geographical location of such exchange.</p>

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<p>Network</p> <p><u>Statutory Audit Directive</u></p> <p>'network' means the larger structure:</p> <ul style="list-style-type: none"> - 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, a common business strategy, the use of a common brand-name or a significant part of professional resources. <p><u>EC Recommendation</u></p> <p>Network includes the Audit Firm which performs the Statutory Audit, together with its Affiliates and any other entity controlled by the Audit Firm or under common control, ownership or management or otherwise affiliated or associated with the Audit Firm through the use of a common name or through the sharing of significant common professional resources.</p>	<p>Network</p> <p>A larger structure:</p> <ul style="list-style-type: none"> (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brandname, or a significant part of professional resources. 	<p>The definitions of the Statutory Audit Directive and the IESBA Code show differences in wording, but the meaning is similar. The definition of the EC Recommendation is also equivalent in meaning.</p> <p>In addition to its definition, the IESBA Code provides comprehensive guidance on the criteria of a network in paragraphs 290.16 to 290.24. (see chapter 3)</p>

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	<p>Network Firm</p> <p>A firm or entity that belongs to a network.</p>	<p>Neither the Statutory Audit Directive nor the EC Recommendation provides a similar definition. However, it should be noted that the EC Recommendation uses the terms “network member” or “network member firm”.</p>
<p>Non-practitioner</p> <p><u>Statutory Audit Directive</u></p> <p>‘Non-practitioner’ means any natural person who, for at least three years before his or her involvement in the governance of the public oversight system, has not carried out statutory audits, has not held voting rights in an audit firm, has not been a member of the administrative or management body of an audit firm and has not been employed by, or otherwise associated with, an audit firm.</p>		<p>There is no definition of “non-practitioner” in the IESBA Code. Note: this definition of the Statutory Audit Directive relates to audit oversight mechanisms; it does not apply to any auditor independence provisions.</p>
<p>Office</p> <p><u>EC Recommendation</u></p> <p>The term ‘Office’ means a distinct sub-group of</p>	<p>Office</p> <p>A distinct sub-group, whether organized on geographical or practice lines.</p>	<p>The EC Recommendation and the IESBA Code use similar wording. However, the EC Recommendation definition considers a distinct-subgroup in which the Key Audit Partner primarily practices as an office, whereas the</p>

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<p>an Audit Firm or Network, whether distinguished along geographical or practice lines, in which a Key Audit Partner primarily practices.</p> <p>A main criterion for identifying this sub-group should be the close working relationship between its members (e.g. working on the same kind of subjects or clients). In particular, it should be taken into account, that such working relationships are more and more evolving by means of a 'virtual' office, due to technical developments and the increasing multinational activities of Audit Clients.</p> <p>In the case of smaller partnerships, the 'Office' may encompass the whole firm, in which case all of the Partners and employees will be subject to the relevant requirements.</p>		<p>IESBA Code does not link the existence of an "office" to the practice of an individual.</p> <p>The EC Recommendation provides a definition for "Office". In the IESBA Code the definition of office is included in paragraphs 290.108 and 291.09.</p>
<p>Partner</p> <p><u>EC Recommendation</u></p> <p>A professional within an Audit Firm or Network who, as an individual, takes on ultimate responsibilities for the work performed during an (audit or non-audit) engagement; he, generally,</p>		<p>The term is not defined in the IESBA Code.</p>

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is authorised to sign on behalf of the Audit Firm, and may also be a shareholder/owner or principal of the Audit Firm.		
	<p>Professional Accountant</p> <p>An individual who is a member of an IFAC member body.</p>	There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation.
	<p>Professional accountant in business</p> <p>A professional accountant employed or engaged in an executive or nonexecutive 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.</p>	There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation. This term does not apply to Section 290 of the IESBA Code, and is therefore not relevant for the purpose of this comparison.

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<p>Public Interest Entity</p> <p><u>Statutory Audit Directive</u></p> <p>'Public-interest entities' means entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions as defined in point 1 of Article 1 of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions (1) and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC. Member States may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees;</p>	<p>Public Interest Entity</p> <p>(a) A listed entity; and (b) An entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.</p>	<p>Regarding the term "listed entity" under the IESBA Code and the scope covered by the Statutory Audit Directive refer to the comments above on the definition of "Listed Entity" set out in the IESBA Code.</p> <p>According to the IESBA Code it is depending on local legislation or regulation whether entities other than listed entities are to be considered as public interest entities. The Statutory Audit Directive's definition follows a similar approach, however defines credit institutions and insurance undertakings governed by EU legislation as public interest entities.</p> <p>It is important to note that according to Art 39 of the Statutory Audit Directive, Member States may exempt public-interest entities which have not issued transferable securities admitted to trading on a regulated market within the meaning of point 14 of Article 4(1) of Directive</p>

¹² Undertakings for Collective Investment in Transferable Securities

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<p><u>EC Recommendation</u></p> <p>Entities which are of significant public interest because of their business, their size, their number of employees or their corporate status is such that they have a wide range of stakeholders. Examples of such entities might include credit institutions, insurance companies, investment firms, UCTIS¹², pension firms and limited companies.</p> <p>Note: The recitals of the EC Recommendation also refer to listed companies [Recital no. 1: “public interest entities (e.g., listed companies, credit institutions, insurance companies, UCITS and investment firms)].</p>		<p>2004/39/EC and their statutory auditor(s) or audit firm(s) from the special independence provisions that apply to public interest entities as defined.</p> <p>For the purpose of this comparison it can be concluded that the scope of entities that has to be considered public interest entities with respect to auditor independence is broader under the IESBA Code than under the Statutory Audit Directive (see “listed entities”). Both, the Statutory Audit Directive and the IESBA Code are leaving the decision on whether more restrictive provisions on auditor independence are to be applied to other entities than listed entities or entities whose securities are admitted to trading on EU regulated markets, to local legislation or regulation.</p>
<p>Statutory Audit</p> <p><u>Statutory Audit Directive</u></p> <p>‘Statutory audit’ means an audit of annual accounts or consolidated accounts insofar as required by Community law</p>	<p>Audit engagement</p> <p>A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects.), in accordance with an applicable financial reporting framework,</p>	<p>The definitions provided by the Statutory Audit Directive and the EC Recommendation are to be seen within the framework of EU legislation. Although there is no equivalent definition in the IESBA Code, the concept of “audit engagement” as defined in the IESBA Code encompasses the Statutory Audit Directive’s definition of “Statutory Audit”.</p>

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<p><u>EC Recommendation</u></p> <p>The audit service which is provided by an approved person in the meaning of Article 2(1) of the 8th Company Law Directive (=statutory auditor) when</p> <p>(a) Carrying out an audit of the annual accounts of a company or firm and verifying that the annual report is consistent with those annual accounts in so far as such an audit and such a verification is required by community law; or</p> <p>(b) Carrying out an audit of the consolidated accounts of a body of undertakings and verifying that the consolidated annual report is consistent with those consolidated accounts in so far as such an audit and such a verification is required by Community law.</p> <p>For the purpose of this Recommendation, the term ‘statutory audit’ would also include an attest service which, dependent on national law, is provided by a statutory auditor when companies are required to have financial reporting information other than the above (e.g. companies’ interim financial accounts and reports) reviewed by a Statutory Auditor who has to give an opinion on this information.</p>	<p>such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation.</p>	

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<p>Statutory Auditor</p> <p><u>Statutory Audit Directive</u></p> <p>‘Statutory auditor’ means a natural person who is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits;</p> <p>‘Third-country auditor’ means a natural person who carries out audits of the annual or consolidated accounts of a company incorporated in a third country;</p> <p>‘Group auditor’ means the statutory auditor(s) or audit firm(s) carrying out the statutory audit of consolidated accounts;</p> <p><u>EC Recommendation</u></p> <p>The approved person in the meaning of Article 2(1) of the 8th Company Directive (= statutory auditor) who, either being a natural or legal person, is appointed for a certain Statutory Audit engagement by means of national law and – as a consequence – in whose name the audit report is signed.</p>	<p>Professional accountant in public practice</p> <p>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.</p>	<p>The definitions of “Statutory Auditor” as provided by the Statutory Audit Directive and the EC Recommendation are to be seen within the framework of the EU legislation.</p> <p>The IESBA Code’s definition of “Professional Accountant in Public Practice” is broader as it also includes professionals other than auditors, provided they are members of an IFAC member body.</p> <p>For the purpose of this comparison, reference is made to the terms “audit firm” and “firm”.</p> <p>There is no definition of “Third Country Auditor” in the IESBA Code. The definition of professional account in public practice covers all auditors, also those outside the EU.</p> <p>The term “Group auditor” is not provided by the IESBA Code.</p>

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	<p>Professional services</p> <p>Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.</p>	<p>There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation.</p>
	<p>Review client</p> <p>An entity in respect of which a firm conducts a review engagement.</p>	<p>There is no equivalent term in Statutory Audit Directive or in the EC Recommendation.</p>
	<p>Review engagement</p> <p>An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all</p>	<p>There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation.</p>

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	material respects, in accordance with an applicable financial reporting framework.	
	<p>Review team</p> <p>(a) All members of the engagement team for the review engagement; and</p> <p>(b) All others within a firm who can directly influence the outcome of the review engagement, including:</p> <p>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</p> <p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who provide quality control for the engagement, including those who perform</p>	There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation.

Chapter 1: Glossary and Definitions		
Definitions of the Statutory Audit Directive (Art. 2) and the Glossary of the EC Recommendation	Definitions of the IESBA Code of Ethics	Comments on the differences
	<p>the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the review engagement.</p>	
	<p>Special purpose financial statements</p> <p>Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.</p>	<p>There is no equivalent term in the Statutory Audit Directive or in the EC Recommendation.</p>

Chapter 2: Networks and Network Definitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>(See Chapter 1: definition of “<u>network</u>”)</p> <p><u>Statutory Audit Directive</u></p> <p><u>Recital 11 (part)</u></p> <p>In order to determine the independence of auditors, the concept of a “network” in which auditors operate needs to be clear. In this regard, 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, such as whether there are common usual clients.</p>	<p>(See Chapter 1: definition of “<u>network</u>”)</p> <p><u>Networks and Networks Firms</u></p> <p>290.13 If a firm is deemed to be a network firm, the firm shall be independent of the audit clients of the other firms within the network (unless otherwise stated in this Code). The independence requirements in this section that apply to a network firm apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm.</p> <p>290.14 To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed</p>	<p>The definitions in the IESBA Code and the Statutory Audit Directive are similar.</p> <p>Both recital 11 of the Statutory Audit Directive and the explanations in the IESBA Code imply that the decision whether a structure creates a network should be taken on the basis of all facts and circumstances available. The IESBA Code provides additional guidance and examples of larger structures deemed to be a network.</p>

Chapter 2: Networks and Network Definitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network.</p> <p>290.15 The judgment as to whether the larger structure is a network shall 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. This judgment shall be applied consistently throughout the network.</p> <p>290.16 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.</p>	

Chapter 2: Networks and Network Definitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>290.17 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.</p> <p>290.18 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.</p> <p>290.19 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.</p> <p>290.20 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is</p>	

Chapter 2: Networks and Network Definitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.</p> <p>290.21 Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network.</p> <p>290.22 If a firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm, or an element of the name, even though it is no longer connected to the firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not network firms.</p>	

Chapter 2: Networks and Network Definitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>Those entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.</p> <p>290.23 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a network. Professional resources include:</p> <ul style="list-style-type: none"> • Common systems that enable firms to exchange information such as client data, billing and time records; • Partners and staff; • Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements; • Audit methodology or audit manuals; and • Training courses and facilities. <p>290.24 The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the</p>	

<i>Chapter 2: Networks and Network Definitions</i>		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>shared resources would be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.</p>	

Chapter 3: Public Interest Entities		
Text of the Statutory Audit Directive and the EC Recommendation	Text of IESBA Code of Ethics	Comments on the differences
<p>(See Chapter 1: definition of “<u>Public Interest Entity</u>”)</p>	<p>(See Chapter 1: definition of “<u>Public Interest Entity</u>”)</p> <p><u>Public Interest Entities</u></p> <p>290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:</p> <p>(a) All listed entities; and (b) Any entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.</p> <p>290.26 Firms and member bodies are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:</p>	<p>The text of the IESBA Code is similar to the last sentence of the definition of public interest entity (Art. 2 (13)) set out in the Statutory Audit Directive (see Chapter 1).</p>

<i>Chapter 3: Public Interest Entities</i>		
Text of the Statutory Audit Directive and the EC Recommendation	Text of IESBA Code of Ethics	Comments on the differences
	<ul style="list-style-type: none"> • The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds; • Size; and • Number of employees. 	

Chapter 4: Related Entities		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p><u>Related Entities</u></p> <p>290.27 In the case of an audit client that is a listed entity, references to an audit client in this section include related entities of the client (unless otherwise stated). For all other audit clients, references to an audit client in this section include related entities over which the client has direct or indirect control. When the audit team knows or has reason to believe that a relationship or circumstance involving another related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.</p>	<p>See Chapter 1: definition of "Affiliate of an Audit Client" in the EC Recommendation.</p>

Chapter 5: Those Charged with Governance		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>(See Chapter 1: definition of “<u>Governance Body</u>”)</p> <p><u>Statutory Audit Directive</u></p> <p>Art. 41 2.d) Without prejudice to the responsibility of the members of the administrative, management or supervisory bodies, or of other members who are appointed by the general meeting of shareholders of the audited entity, the audit committee shall, inter alia: (part)</p> <p>d) Review and monitor the independence of the statutory auditor or audit firm, and in particular the provision of additional services to the audited entity.</p> <p><u>EC Recommendation</u></p> <p>4.1.2 Involvement of the Governance Body</p> <p>1. Where a Public Interest Entity has a Governance Body, the Statutory Auditor should at least annually:</p>	<p>(See Chapter 1: definition of “<u>Those charged with governance</u>”)</p> <p><u>Those Charged with Governance</u></p> <p>290.28 Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm’s opinion, reasonably bear on independence. Such communication enables those charged with governance to (a) consider the firm’s judgments in identifying and evaluating threats to independence, (b) consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level, and (c) take appropriate action. Such an approach can be particularly helpful with respect to intimidation and familiarity threats.</p>	<p>Whereas Art. 41 of the Statutory Audit Directive includes a monitoring and review requirement for the audit committee of a Public Interest Entities (PIE) and 4.1.2 of the EC Recommendation includes a disclosure and communication requirement for the auditor of the PIE the IESBA Code only encourages regular communication between the auditor and those charged with governance with respect to both PIE and Non-PIE.</p>

<i>Chapter 5: Those Charged with Governance</i>		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>a) Disclose to the Governance body, in writing:</p> <p>(i) The total amount of fees that he, the Audit Firm and its Network members have charged to the Audit Client and its Affiliates for the provision of services during the reporting period. This total amount should be broken down into four broad categories of services: Statutory audit services; further assistance services; tax advisory services; and other non-audit services. The category of other non-audit services should be further broken down into subcategories so far as items in them differ substantially from one another. This break-down into subcategories should at least provide information on fees for the provision of financial information technology, internal audit, valuation, litigation and recruitment services. For each (sub-)category of service, the amounts charged and contracted for, as well as existing proposals for bids for future services contracts should be separately analysed;</p> <p>(ii) Details of all relationships between himself, the Audit Firm and its Network member firms, and the Audit Client and its Affiliates that he believes may reasonably be thought to bear on his independence</p>		

<i>Chapter 5: Those Charged with Governance</i>		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>and objectivity; and (iii) The related safeguards that are in place; b) Confirm in writing that, in his professional judgement, The Statutory Auditor is independent within the meaning of regulatory and professional requirements and the objectivity of the Statutory Auditor is not compromised; or otherwise declare that he has concerns that his independence and objectivity may be compromised; and c) Seek to discuss these matters with the Governance Body of the Audit Client.</p> <p>Where Audit Clients other than Public Interest Entities have a Governance Body, the Statutory Auditor should consider whether similar measures are appropriate.</p> <p>B.7.1.3. Where applicable, and especially with regard to Public Interest Entity clients, the Statutory Auditor should seek to discuss the provision of non-audit services to an Audit Client or to one of its Affiliates with the client's Governance Body (see A. 4.1.2.) EC Recommendation is more general, also includes e.g. financial interests and business relationships.</p>		

Chapter 6: Documentation		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><u>Statutory Audit Directive</u></p> <p>Article 22.3. Member States shall ensure that a statutory auditor or audit firm documents in the audit working papers all significant threats to his, her or its independence as well as the safeguards applied to mitigate those threats.</p> <p>Article 42.1. Member States shall ensure that statutory auditors or audit firms that carry out the statutory audit of a public-interest entity: (c) discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats as documented by them pursuant to Article 22(3).</p> <p><u>EC Recommendation</u></p> <p><u>Art. 4.3.2.3:</u> Generally, the safeguarding system of an Audit Firm would include: (part)</p> <p>(e) Documentation for each Audit Client that summarises the conclusions that have been drawn from the assessment of threats to the</p>	<p><u>Documentation</u></p> <p>290.29 Documentation provides evidence of the professional accountant’s judgments in forming conclusions regarding compliance with independence requirements. The absence of documentation is not a determinant of whether a firm considered a particular matter nor whether it is independent.</p> <p>The professional accountant shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:</p> <p>(a) When safeguards are required to reduce a threat to an acceptable level, the professional accountant shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and</p> <p>(b) When a threat required significant analysis to determine whether safeguards were necessary and the professional accountant concluded that they were not because the threat was already at an acceptable level, the</p>	<p>The description of the statutory auditor’s documentation requirements regarding threats to independence and application of safeguards are similar in the EU texts and the IESBA Code. The IESBA Code also requires the professional accountant to document the nature of the threat and the rationale for the conclusion whenever it was concluded that safeguards were not required because the threat was already at an acceptable level based on significant analysis. In addition, the EC Recommendation explains the purpose of the statutory auditor’s documentation of his independence assessment (see page 46). Furthermore the EC Recommendation provides guidance concerning documentation of independence policies and of independence from audit client’s decision making.</p>

<i>Chapter 6: Documentation</i>		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>Statutory Auditor's independence and the related evaluation of the independence risk. This should include the reasoning for these conclusions. If significant threats are noted, the documentation should include a summary of the steps that were, or are to be, taken to avoid or negate the independence risk, or at least reduce it to an appropriate level;</p> <p><i>ANNEX A.4.3.2</i></p> <p>Audit Firm's independence policies (part)</p> <p>The design and documentation of the Audit Firm's independence policies should reflect the immediate practice environment (e.g., size and organisational structure of the Audit Firm). It should also reflect the audit environment (e.g., client and business portfolio of the Audit Firm and others outside the Audit Firm who are involved in Audit Firm's assignments).</p> <p>Documentation of independence assessment</p> <p>The main purpose of the Statutory Auditor's documentation of his independence assessment on a certain Audit Client is to provide evidence</p>	<p>professional accountant shall document the nature of the threat and the rationale for the conclusion.</p>	

<i>Chapter 6: Documentation</i>		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>that he performed his assessment properly. It is appropriate for such documentation to be included in the audit files.</p> <p><i>ANNEX</i></p> <p>7.1 Independence from audit client's decision-making</p> <p>(part) If the Audit Client is seeking advice where, due to legal or regulatory provisions, only one solution is available, the Statutory Auditor should ensure that his documentation refers to these provisions (e.g. quotes the relevant law, includes advice from external professional).</p>		

Chapter 7: Engagement Period		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p><u>Engagement Period</u></p> <p>290.30 Independence from the audit client is required both during the engagement period and the period covered by the financial statements. The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.</p> <p>290.31 When an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:</p> <ul style="list-style-type: none"> • Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or • Previous services provided to the audit client. 	<p>The term “engagement period” is not described in the Statutory Audit Directive or in the EC Recommendation although it could be relevant in the context of the assessment of the auditor’s independence. However, the Framework in A.3.3 of the EC Recommendation requires to look at engagements before the date of appointment as statutory auditor and during the course of the statutory audit.</p>

Chapter 7: Engagement Period		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>290.32 If a non-assurance service was provided to the audit client during or after the period covered by the financial statements but before the audit team begins to perform audit services and the service would not be permitted during the period of the audit engagement, the firm shall evaluate any threat to independence created by the service. If a threat is not at an acceptable level, the audit engagement shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Not including personnel who provided the non-assurance service as members of the audit team; • Having a professional accountant review the audit and non-assurance work as appropriate; or • Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service. 	

Chapter 8: Mergers and Acquisitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p><u>Mergers and Acquisitions</u></p> <p>290.33 When, as a result of a merger or acquisition, an entity becomes a related entity of an audit client, the firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account available safeguards, could affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition.</p> <p>290.34 The firm shall take steps necessary to terminate, by the effective date of the merger or acquisition, any current interests or relationships that are not permitted under this Code. However, if such a current interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition, for example, because the related entity is unable by the effective date to effect an orderly transition to another service provider of a non-assurance service provided by the firm, the firm shall evaluate the threat that is created by such interest or relationship. The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to</p>	<p>The IESBA code provides for transitional measures in situations where as a result of a merger or acquisition, an entity becomes a related entity of an audit client. The EC Recommendation does not cover such situation.</p>

Chapter 8: Mergers and Acquisitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>continue as auditor. The significance of the threat will depend upon factors such as:</p> <ul style="list-style-type: none"> • The nature and significance of the interest or relationship; • The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent); and • The length of time until the interest or relationship can reasonably be terminated. <p>The firm shall discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition and the evaluation of the significance of the threat.</p> <p>290.35 If those charged with governance request the firm to continue as auditor, the firm shall do so only if:</p> <p>(a) The interest or relationship will be terminated as soon as reasonably possible and in all cases within six months of the effective date of the merger or acquisition;</p> <p>(b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service</p>	

Chapter 8: Mergers and Acquisitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>that would not be permitted under this section, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality control review; and</p> <p>(c) Appropriate transitional measures will be applied, as necessary, and discussed with those charged with governance. Examples of transitional measures include:</p> <ul style="list-style-type: none"> • Having a professional accountant review the audit or non-assurance work as appropriate; • Having a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, perform a review that is equivalent to an engagement quality control review; or • Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service. <p>290.36 The firm may have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and may be able to complete the remaining audit procedures within a short period of time. In</p>	

Chapter 8: Mergers and Acquisitions		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>such circumstances, if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in 290.33, the firm shall do so only if it:</p> <ul style="list-style-type: none"> (a) Has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with those charged with governance; (b) Complies with the requirements of paragraph 290.35(ii)–(iii); and (c) Ceases to be the auditor no later than the issuance of the audit report. <p>290.37 When addressing previous and current interests and relationships covered by paragraphs 290.33 to 290.36, the firm shall determine whether, even if all the requirements could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised and, if so, the firm shall cease to be the auditor.</p> <p>290.38 The professional accountant shall document any interests or relationships covered by paragraphs 290.34 and 36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be</p>	

<i>Chapter 8: Mergers and Acquisitions</i>		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>terminated, the transitional measures applied, the results of the discussion with those charged with governance, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.</p>	

Chapter 9: Other Considerations		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
-	<p><u>Other Considerations</u></p> <p>290.39 There may be occasions when there is a violation of this section. If such an inadvertent violation occurs, it generally will be deemed not to compromise independence provided the firm has appropriate quality control policies and procedures in place, equivalent to those required by International Standards on Quality Control, to maintain independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate any threat or reduce it to an acceptable level. The firm shall determine whether to discuss the matter with those charged with governance.</p>	<p>Unlike the EC Recommendation, the IESBA Code includes a general inadvertent violation clause.</p>

Chapter 10: Financial Interests		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><u>EC Recommendation</u></p> <p>Financial interests</p> <p>B.1.1. An actual or impending, direct or indirect financial interest in the Audit Client or its Affiliates, including any derivative directly related thereto, may threaten the Statutory Auditor's independence, if it is held by the Statutory Auditor or any other person being in a position to influence the outcome of the Statutory Audit (any person within the scope of A. 2).</p> <p>The Statutory Auditor has to assess the significance of any such threat, identify whether any safeguards would mitigate the independence risk it presents, and take any action necessary. This may include refusal of, or resignation from, the audit engagement or exclusion of the relevant person from the Audit Team. Where applicable, and especially with regard to Public Interest Entity clients, the Statutory Auditor should seek to involve the Governance Body in this process.</p>	<p>290.102 Holding a financial interest in an audit client may create a self-interest threat. The existence and significance of any threat created depends on:</p> <p>(a) The role of the person holding the financial interest;</p> <p>(b) Whether the financial interest is direct or indirect; and</p> <p>(c) The materiality of the financial interest.</p> <p>290.107 The holding by a firm's retirement benefit plan of a direct or material indirect financial interest in an audit client creates a self-interest threat. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</p> <p>290.103 Financial interests may be held through an intermediary (for example a collective investment vehicle, estate or trust). The</p>	<p>The provision in the EC Recommendation includes an actual or impending financial interest in an audit client or its affiliates whereas an impending financial interest is not considered by the IESBA Code.</p> <p>There is a distinction in the discussion about pension plan investments. According to the IESBA Code the holding by a firm's retirement plan of a direct or material indirect financial interest in an audit client creates a self interest threat, whereas the EC Recommendation only makes reference to pension rights or other benefits obtained from an Audit Client or its Affiliates.</p>

Chapter 10: Financial Interests		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><i>ANNEX</i></p> <p>Financial interest</p> <p>B.1. The term “financial interest” would usually comprise the whole variety of financial interests that the Statutory Auditor himself, his Audit Firm or any other person within the scope of section A. 2 may have in an Audit Client or in any Affiliate of the client. The term includes “direct” and “indirect” financial interests such as:</p> <ul style="list-style-type: none"> - Direct or indirect shareholding in the Audit Client or its Affiliates; - Holding or dealing in securities of the Audit Client or its Affiliates; - Accepting pension rights or other benefits from the Audit Client or its Affiliates. <p>Commitments to hold financial interests (e.g. contractual agreements to acquire a financial interest) and derivatives which are directly related to financial interests (e.g., stock options, futures, etc.) should be dealt with in the same way as would an already existing financial interest.</p>	<p>determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest to be a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest to be an indirect financial interest.</p>	<p>The Annex of the EC Recommendation provides a definition of a financial interest. In essence it is the same as the definition included in the IESBA Code’s glossary (see Chapter 1).</p> <p>A difference is to be noted in what is considered a direct and indirect financial interest: According to the EC Recommendation an investment is considered direct if the holding is held directly in the client and indirect if held in a non client having an investment in the audit client. In the IESBA Code the difference is whether or not the beneficial owner has control over the investment vehicle or has the ability to influence investment decisions. As such a financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary and controlled by the owner, will also constitute a direct financial interest according to the IESBA Code.</p>

Chapter 10: Financial Interests		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>Direct Financial Interests</p> <p>B.1. When a person who is directly involved in the conduct of the statutory audit (the Statutory Auditor, the Audit Firm, an individual of the Engagement Team or within the Chain of Command) holds a direct financial interest in the Audit Client, such as shares, bonds notes, options, or other securities, the significance of the self-interest threat is considered to be too high to enable any safeguards to reduce the Statutory Auditor's independence risk to an acceptable level.</p> <p>In such a case the Statutory Auditor either has to withdraw from the engagement or, if an individual of the Audit Firm holds the direct financial interest, has to exclude this individual from the engagement.</p> <p>Where a direct financial interest in the Audit Client is held by a Partner of the Audit Firm or its Network who works in an "Office" the perception of self-interest is considered as being too high to allow this situation to be maintained.</p>		

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<p>Indirect Financial Interests</p> <p>B.1. The term “indirect financial interest” refers to situations where, for example, a person within the scope of A. 2 has investments in non-client entities that have an investment in the Audit Client, or in companies in which an Audit Client also has invested.</p> <p>A person within the scope of A. 2. should not hold such an indirect financial interest where the self-interest threat resulting from this financial involvement is significant. This is particularly the case when an indirect shareholding in the Audit Client allows or appears to allow that person to influence management decisions of the Audit Client (e.g., by significant indirect voting rights), or when the direct shareholder due to any circumstance could or appears to be able to influence the outcome of the Statutory Audit. In addition, an unacceptable level of independence risk can also arise in situations where the Statutory Auditor or any other person within the scope of A. 2. serves as a voting trustee of a trust or executor of an estate containing securities of an Audit Client. However, this will only be the case when there are no appropriate safeguards to mitigate this risk such as supervision and control by beneficiaries,</p>	<p>290.114 The holding by a firm, or a member of the audit team, or a member of that individual’s immediate family, of a direct financial interest or a material indirect financial interest in the audit client as a trustee creates a self-interest threat. Similarly, a self-interest threat is created when (a) A partner in the office in which the engagement partner practices in connection with the audit, (b) Other partners and managerial employees who provide non-assurance services to the audit client, except those whose involvement is minimal, or (c) Their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client as trustee.</p> <p>Such an interest shall not be held unless:</p> <p>(a) Neither the trustee, nor an immediate family member of the trustee, nor the firm are</p>	<p>Both the EC Recommendation and IESBA Code deal with the situation of a trust containing financial interests in an audit client and a member of the audit team serving as trustee. There is no major difference between the EC Recommendation and the IESBA Code. The IESBA Code provides just a more detailed description of the safeguards required to allow the individual to serve as trustee.</p>

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<p>governmental authorities or courts.</p> <p>On the other hand, the potential self-interest threat to the Statutory auditor’s independence may be regarded as insignificant to the independence risk if, for example, when holding indirect financial interests in the Audit Client</p> <p>the financial interest is directly held by an investment fund, pension fund, UCITS or an equivalent investment vehicle, and the person holding the indirect interest is not directly involved in the audit of the fund manager, nor able to influence the individual investment decisions of the fund manager.</p>	<p>beneficiaries of the trust;</p> <p>(b) The interest in the audit client held by the trust is not material to the trust;</p> <p>(c) The trust is not able to exercise significant influence over the audit client; and</p> <p>(d) The trustee, an immediate family member of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the audit client.</p>	
<p><u>EC Recommendation</u></p> <p>B.1.2. (part) Financial interest in the Audit Client or its Affiliates will be incompatible with the Statutory Auditor’s independence, if</p> <p>(a) The Statutory Auditor, the Audit Firm, or any member of the Engagement Team or the Chain of Command, or any Partner of the firm or its Network who is working in an “Office”¹³</p>	<p>290.104 If a member of the audit team, a member of that individual’s immediate family or a firm has a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have a direct financial interest or a material indirect financial interest in the client: a member of the audit team; a member of</p>	<p>The use by the IESBA Code of two tiers of family leads to a different emphasis on the threat posed by holdings of certain family members: The IESBA Code extends the prohibition to immediate family members and points out the existence of a self-interest threat if a member of the audit team knows that a close family member has a direct or material indirect financial interest in the audit client.</p>

¹³ Defined in the Glossary and Definitions in Appendix 1.

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<p>which participates in a significant proportion of an audit engagement, holds</p> <p>(i) Any direct financial interest in the Audit Client; or</p> <p>(ii) Any indirect financial interest in the Audit Client which is significant to either party; or</p> <p>(iii) Any (direct or indirect) financial interest in the client's Affiliates which is significant to either party;</p> <p>(b) Any other person within the scope of A. 2, holds any (direct or indirect) financial interest in the Audit Client or its Affiliates which is significant to either party.</p> <p>Accordingly, the persons concerned should not hold any such financial interests.</p>	<p>that individual's immediate family; or the firm.</p> <p>290.105 When a member of the audit team has a close family member who the audit team member knows has a direct financial interest or a material indirect financial interest in the audit client, a self-interest threat is created. The significance of the threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the relationship between the member of the audit team and the close family member; and • The materiality of the financial interest to the close family member. <p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • The close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material; • Having a professional accountant review the work of the member of the audit team; or • Removing the individual from the audit team. 	<p>The EC Recommendation prohibits a significant direct and indirect interest in an affiliate of the audit client, whereas the IESBA Code does not allow an immaterial direct financial interest in an affiliate of the audit client.</p>

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	<p>290.106 If a member of the audit team, a member of that individual's immediate family, or a firm has a direct or material indirect financial interest in an entity that has a controlling interest in the audit client, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have such a financial interest: a member of the audit team; a member of that individual's immediate family; and the firm.</p> <p>290.108 If other partners in the office in which the engagement partner practices in connection with the audit engagement, or their immediate family members, hold a direct financial interest or a material indirect financial interest in that audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, neither such partners nor their immediate family members shall hold any such financial interests in such an audit client.</p> <p>290.109 The office in which the engagement partner practices in connection with the audit engagement is not necessarily the office to</p>	<p>Other partners and managers providing non-audit services to the audit client are prohibited by the IESBA Code from holding a direct financial interest or a material indirect financial interest in an audit client. The EC Recommendation does not include such prohibition.</p>

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	<p>which that partner is assigned. Accordingly, when the engagement partner is located in a different office from that of the other members of the audit team, professional judgment shall be used to determine in which office the partner practices in connection with that engagement.</p> <p>290.110 If other partners and managerial employees who provide non-audit services to the audit client, except those whose involvement is minimal, or their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither such personnel nor their immediate family members shall hold any such financial interests in such an audit client.</p> <p>290.111 Despite paragraphs 290.108 and 290.110, the holding of a financial interest in an audit client by an immediate family member of (a) a partner located in the office in which the engagement partner practices in connection with the audit engagement, or (b) a partner or managerial employee who provides non-audit services to the audit client, is deemed not to compromise independence if the financial</p>	<p>The IESBA Code specifically discusses financial interests obtained by the spouse of a partner in the office or a partner or manager providing non-audit services to the audit client as the result of the immediate family member's employment rights (e.g., through pension or share option plans) and the requirement to dispose of such interests as soon as practical. The EC Recommendation does not include such provision as it does not refer to immediate family members in this chapter.</p> <p>More examples of financial interests including references to threats and safeguards are included in the IESBA Code.</p>

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	<p>interest is received as a result of the immediate family member's employment rights (e.g., through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to independence or reduce it to an acceptable level.</p> <p>However, when the immediate family member has or obtains the right to dispose of the financial interest or, in the case of a stock option, the right to exercise the option, the financial interest shall be disposed of or forfeited as soon as practicable.</p> <p>290.112 A self-interest threat may be created if the firm or a member of the audit team, or a member of that individual's immediate family, has a financial interest in an entity and an audit client also has a financial interest in that entity. However, independence is deemed not to be compromised if these interests are immaterial and the audit client cannot exercise significant influence over the entity. If such interest is material to any party, and the audit client can exercise significant influence over the other entity, no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such an interest and any individual with such an interest shall, before becoming a</p>	

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	<p>member of the audit team, either:</p> <p>(a) Dispose of the interest; or (b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material.</p> <p>290.113 A self-interest, familiarity or intimidation threat may be created if a member of the audit team, or a member of that individual's immediate family, or the firm, has a financial interest in an entity when a director, officer or controlling owner of the audit client is also known to have a financial interest in that entity. The existence and significance of any threat will depend upon factors such as:</p> <ul style="list-style-type: none"> • The role of the professional on the audit team; • Whether ownership of the entity is closely or widely held; • Whether the interest gives the investor the ability to control or significantly influence the entity; and • The materiality of the financial interest. <p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p>	

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	<ul style="list-style-type: none"> • Removing the member of the audit team with the financial interest from the audit team; or • Having a professional accountant review the work of the member of the audit team. <p>290.115 Members of the audit team shall determine whether a self interest threat is created by any known financial interests in the audit client held by other individuals including:</p> <p>(a) Partners and professional employees of the firm, other than those referred to above, or their immediate family members; and</p> <p>(b) Individuals with a close personal relationship with a member of the audit team.</p> <p>Whether these interests create a self-interest threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The firm’s organizational, operating and reporting structure; and • The nature of the relationship between the individual and the member of the audit team. <p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable</p>	

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	<p>level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Removing the member of the audit team with the personal relationship from the audit team; • Excluding the member of the audit team from any significant decision-making concerning the audit engagement; or • Having a professional accountant review the work of the member of the audit team. 	
<p><u>EC Recommendation</u></p> <p>B.1.2. (part) Where such an interest is acquired as a result of an external event (e.g. inheritance, gift, merger of firms or companies) it must be disposed of as soon as practicable, but no later than one month after the person has knowledge of, and the right to dispose of, the financial interest. In the mean time, additional safeguards are needed to preserve the Statutory auditor's independence. These could include a secondary review of the relevant person's audit work or exclusion of the relevant person from any substantive decision making concerning the Statutory Audit of the client.</p>		

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<p><i>ANNEX</i></p> <p>External Events</p> <p>B.1. If a financial interest is acquired as a result of an external event (e.g. inheritance, gift, merger of firms or companies) and a further holding of that interest would create a significant threat to the Statutory Auditor's independence, it must be disposed of as soon as practicable, but no later than one month after the person has knowledge of and the right to dispose of the financial interest. Where the interest is in a listed company and has been acquired by way of inheritance, for example, the shares should be sold within a month after having both the knowledge of the inheritance and the right to sell the shares in accordance with applicable stock exchange regulations that govern the disposal or sale of shares by those with insider knowledge.</p> <p>Until the financial interest is disposed of, additional safeguards are needed to preserve the Statutory auditor's independence. For example, where a Statutory Auditor becomes aware that a member of the Engagement Team has acquired shares in a client as the result of inheritance, that individual should not continue to be a member of the Engagement Team until</p>	<p>290.116 If a firm or a partner or employee of the firm, or a member of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client, for example, by way of an inheritance, gift or as a result of a merger and such interest would not be permitted to be held under this section, then:</p> <p>(a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material;</p> <p>(b) If the interest is received by a member of the audit team, or a member of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material; or</p> <p>(c) If the interest is received by an individual who is not a member of the audit team, or by</p>	<p>When a prohibited financial interest is acquired as the result of an external event (inheritance, gift or merger) the EC Recommendation provides that the individual should dispose of the holding as soon as practical but within a month after having both the knowledge of the inheritance and the right to sell the shares. The IESBA Code requires that the direct financial interest be disposed off immediately or in case of an indirect financial interest, be reduced to an immaterial amount if it is received by the firm or a member of the audit team or his/her immediate family. If the interest is received by an individual who is not a member of the audit team, or his/her immediate family, the interest is to be disposed or reduced to an immaterial amount as soon as possible.</p>

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<p>the shares have been sold. He should also be excluded from any substantive decision making concerning the Statutory Audit of the client until the shares have been sold.</p> <p><u>EC Recommendation</u></p> <p>B.1.3 The Statutory Auditor's independence may also be threatened by an apparently insignificant financial interest in an Audit Client or its Affiliates. The level of threat will be higher, and likely to be unacceptable, if the interest is neither acquired or held on standard commercial terms nor negotiated on an arm's length basis. It is the responsibility of the Statutory Auditor to assess the level of risk that such an interest presents and to ensure that any necessary mitigating action is taken.</p>	<p>an immediate family member of the individual, the financial interest shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material.</p> <p>Pending the disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary.</p>	<p>The IESBA Code does not specifically address the situation of insignificant financial interests. Immaterial indirect financial interests are covered through the conceptual framework. However, according to the IESBA Code immaterial direct financial interests in the audit client held by the audit team are not permitted in any case.</p>

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<p><i>ANNEX</i></p> <p>Inadvertent Violations</p> <p>B.1. There will be occasions where the Statutory Auditor becomes aware that an individual in his Audit Firm inadvertently holds a financial interest in an Audit Client or in one of its Affiliates which, in general, would be regarded as a violation of independence requirements. Such inadvertent violations will not compromise the Statutory Auditor's independence with respect to an Audit Client, provided that the Statutory Auditor:</p> <ul style="list-style-type: none"> - has established procedures that require all professional personnel to report promptly any breaches of the independence rules resulting from the purchase, inheritance or other acquisition of a financial interest in an Audit Client by such individuals (see also A. 4.3.2); - promptly notifies the individual to dispose of the financial interest at the earliest opportunity after the inadvertent violation is identified; and - takes particular care when reviewing the relevant audit work of this individual. <p>Where it proves impossible to compel the individual to dispose of the financial interest, the individual should be removed from the</p>	<p>290.117 When an inadvertent violation of this section as it relates to a financial interest in an audit client occurs, it is deemed not to compromise independence if:</p> <ul style="list-style-type: none"> (a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the audit client; (b) The actions in paragraph 290.116 (a)–(c) are taken as applicable; and (c) The firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include: <ul style="list-style-type: none"> • Having a professional accountant review the work of the member of the audit team; or • Excluding the individual from any significant decision-making concerning the audit engagement. <p>The firm shall determine whether to discuss the matter with those charged with governance.</p>	<p>The action steps proposed by the EC Recommendation and IESBA Code regarding inadvertent violations are similar.</p>

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<p>Engagement Team. Where an individual other than a member of the Engagement Team inadvertently holds a financial interest that may compromise the Statutory Auditor's independence, this individual should be excluded from any substantive decision making concerning the Statutory Audit of the client.</p> <p>Whatever financial involvement exists, it is primarily the Statutory auditor's safeguarding system (see A. 4.3) which should provide evidence that the threats to independence have been identified and investigated. Where appropriate, the evidence should also refer to the involvement of the client's Governance Body in this process. In addition, wherever a decision has been taken about whether or not the threats are significant, the reasons behind that decision should be recorded.</p>		

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<p><u>Statutory Audit Directive</u></p> <p>Article 22 (2) Member States shall ensure that a statutory auditor or an audit firm shall not carry out a statutory audit if there is any direct or indirect financial, business, employment or other relationship — including the provision of additional non-audit services — between the statutory auditor, audit firm or network and the audited entity from which an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised.</p>		
<p><u>EC Recommendation</u></p> <p>Business relationship</p> <p>B.2.1. Business relationships between the Statutory Auditor, the Audit Firm or any other person being in a position to influence the outcome of the Statutory Audit (any person within the scope of A. 2) on the one hand, and the Audit Client, its Affiliates, or its management on the other hand, may cause self-interest, advocacy or</p>	<p>Business Relationships</p> <p>290.124 A close business relationship between a firm, or a member of the audit team, or a member of that individual's immediate family, and the audit client or its management, arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Examples of such relationships include:</p>	<p>Both the EC Recommendation and the IESBA Code provide a list of examples of what constitutes a business relationship; however the examples are different. The main difference is that the EC Recommendation includes granting or receiving loans as an example of a business relationship whereas in the IESBA Code loans and guarantees are dealt with in a separate section.</p> <p>In addition to self-interest and intimidation threat</p>

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<p>intimidation threats to the Statutory Auditor's independence.</p> <p><i>ANNEX</i></p> <p>Business relationships</p> <p>B.2. Business relationships are relationships that involve a commercial or financial common interest between the Statutory Auditor, the Audit Firm or any other person being in a position to influence the outcome of the Statutory Audit (any person within the scope of A. 2) on the one hand and the Audit Client, an Affiliate of the client, or the management thereof on the other. The following are examples of such relationships that would, if significant to the auditor or conducted outside the normal course of business, cause a self-interest, advocacy or intimidation threat:</p> <ul style="list-style-type: none"> - Having a financial interest in a joint venture with the Audit Client, or with an owner, managing director or other individual who performs senior management functions of that client; - Having a financial interest in a non-audit client 	<ul style="list-style-type: none"> • Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client; • Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties; • Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services. (...) 	<p>mentioned in the IESBA Code, the EC Recommendation also refers to advocacy threat in the context of a business relationship. The IESBA code extends the risk for threats to business relationships between immediate family members of the audit team and the audit client.</p> <p>The Annex of the EC Recommendation provides two more examples of business relationships which are not dealt with in the IESBA Code: Services provided by the audit firm to senior management of the audit client and services received from the audit client regarding securities issued by the audit firm or a network firm.</p>

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<p>that has an investor or investee relationship with the Audit Client;</p> <ul style="list-style-type: none"> - Giving a loan to the Audit Client or guarantees for the Audit Client's risks; - Accepting a loan from an Audit Client or having borrowings guaranteed by the Audit Client; - Providing services to a managing director or another individual performing a senior management function of the Audit Client in respect of the personal interest of such individual; - Receiving services from the Audit Client or its Affiliates which concern underwriting, offering, marketing or selling of securities issued by the audit firm or one of its group member firms. <p>Commitments to establish such relationships should be dealt with in the same way as an already established relationship.</p> <p><u>EC Recommendation</u></p> <p>B.2.2. Business relationships, or commitments to establish such relationships, should be prohibited unless the relationship is in the normal course of business and insignificant in terms of the threat it poses to the independence of the Statutory Auditor.</p>	<p>290.124 (...) Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless</p>	<p>The EC Recommendation includes commitments to establish business relationships. The IESBA Code only refers to existing business relationships.</p> <p>According to the IESBA Code a business relationship with an audit client is prohibited unless it is immaterial to the firm and the audit client or its management. In addition, the EC Recommendation provides that to be permissible the business relationship should also be in the</p>

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<p>Where applicable, and especially with regard to Public Interest Entity clients, the Statutory Auditor should seek to discuss with the Governance Body of the Audit Client any cases where doubt arises whether or not a business relationship is in the normal course of business and insignificant in relation to his independence.</p> <p><i>ANNEX</i></p> <p>In the Normal Course of Business</p> <p>B.2. In the normal course of its business, a Statutory Auditor may not only provide audit or non-audit services to the Audit Client or to its Affiliates, but may also purchase goods or services from these entities. Examples could include insurance and bank services, commercial loan agreements, the purchase of office equipment, EDP software, or company cars. If these transactions are performed at arm's length (as between third parties), they generally do not threaten the Statutory Auditor's independence (e.g. purchase of goods which are offered under normal wholesale discount terms, and are available to the whole of the client's other customers). However, the Statutory Auditor should</p>	<p>the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.</p> <p>In the case of a member of the audit team, unless any such financial interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the audit team.</p> <p>If the business relationship is between an immediate family member of a member of the audit team and the audit client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</p> <p>290.125 A business relationship involving the holding of an interest by the firm, or a member of the audit team, or a member of that individual's immediate family, in a closely-held entity when the audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity does not create threats to independence if:</p>	<p>normal course of business.</p> <p>Both the EC Recommendation and the IESBA Code provide an exception for purchases of goods and services from an audit client if the transaction is in the normal course of business and at arm's length. However, these transactions should not be of such a nature or magnitude that they create a self-interest threat.</p>

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<p>carefully consider the risk that even an arm's length transaction could reach a magnitude which threatens his independence by creating financial dependencies, either in fact or at least in appearance.</p> <p>Accepting any goods or services on favourable terms from an Audit Client is not considered to be within the normal course of business, unless the value of any benefit is insignificant.</p> <p>Significance of Independence Risk</p> <p>B.2. Whether a business relationship should be regarded as a significant threat to the Statutory Auditor's independence depends on whether a reasonable and informed third party would assume that such a relationship could have an influence on the outcome of the Statutory Audit. Objective criteria are therefore needed in order to evaluate the significance of a relationship to the Statutory Auditor, as well as to the Audit Client. With regard to the financial statements and the audit task, the relationship should not result in the Statutory Auditor, the Audit Firm or one of its Network members being able to influence management decisions of the Audit Client. Conversely, the relationship should not enable the Audit Client, or one of its Affiliates to influence the</p>	<p>(a) The business relationship is insignificant to the firm, the member of the audit team and the immediate family member, and the client;</p> <p>(b) The financial interest is immaterial to the investor or group of investors; and</p> <p>(c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.</p> <p>290.126 The purchase of goods and services from an audit client by the firm, or a member of the audit team, or a member of that individual's immediate family, does not generally create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Eliminating or reducing the magnitude of the transaction; or • Removing the individual from the audit team. 	

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<p>outcome of the Statutory Audit, either in fact or in appearance.</p> <p>Whatever business relationship exists, it is primarily the Statutory auditor's safeguarding system (see A. 4.3) which should provide evidence that the threats to independence have been identified and investigated. Where appropriate, the evidence should also refer to the involvement of the client's Governance Body in this process. In addition, wherever a decision has been taken about whether or not the threats are significant, the reasons behind that decision should be recorded.</p>	<p>Loans and guarantees</p> <p>290.118 A loan, or a guarantee of a loan, to a member of the audit team, or a member of that individual's immediate family, or the firm from an audit client that is a bank or a similar institution may create a threat to independence. If the loan or guarantee is not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither a member of the audit team, a member of that individual's immediate family, nor a firm shall accept such a loan or guarantee.</p> <p>290.119 If a loan to a firm from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client or firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. An example of such a safeguard is having the work reviewed by a professional accountant from a network firm that is neither involved with the audit nor received the loan.</p>	<p>The IESBA Code provides that a material loan or guarantee under normal terms and conditions obtained by the audit firm from an audit client that is a bank, creates a threat to independence. Nevertheless if safeguards are applied to reduce the threat to an acceptable level, such loan or guarantee is permitted. Similarly loans or guarantees obtained by the audit firm or the audit team from an audit client that is not a bank are not prohibited if they are immaterial to both parties. The EC Recommendation does not allow business relationships that include receipt or granting of loans or guarantees, if they are significant or obtained or conducted outside the normal course of business.</p>

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	<p>290.120 A loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution to a member of the audit team, or a member of that individual's immediate family, does not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.</p> <p>290.121 If the firm or a member of the audit team, or a member of that individual's immediate family, accepts a loan from, or has a borrowing guaranteed by, an audit client that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both (a) the firm or the member of the audit team and the immediate family member, and (b) the client.</p> <p>290.122 Similarly, if the firm or a member of the audit team, or a member of that individual's immediate family, makes or guarantees a loan to an audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level,</p>	

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	<p>unless the loan or guarantee is immaterial to both (a) the firm or the member of the audit team and the immediate family member, and (b) the client.</p> <p>290.123 If a firm or a member of the audit team, or a member of that individual's immediate family, has deposits or a brokerage account with an audit client that is a bank, broker or similar institution, a threat to independence is not created if the deposit or account is held under normal commercial terms.</p>	
<p><u>EC Recommendation</u></p> <p>B.2.3. Paragraphs 2.1 and 2.2 above do not apply to the provision of statutory audit services. However, neither the Audit Firm nor any of its Network member firms should provide statutory audit services to</p> <p>(a) any owner of the Audit Firm; or (b) an Affiliate of such an owner where the owner may be in a position to influence any decision-making of the Audit Firm which affects its statutory audit function; or (c) an entity where any individual who has a supervisory or managerial role in that entity</p>		<p>The EC Recommendation prohibits the audit firm to provide audit services to an owner of the audit firm, to an affiliate of such an owner, or to an entity where someone in a managerial role can influence the decision-making of the audit firm. The IESBA Code does not impose similar limitations on the audit firm.</p>

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<p>may be in a position to influence any decision-making of the Audit Firm which affects its statutory audit function.</p> <p><i>ANNEX</i></p> <p>B.2. The threat to independence is considered too high to permit a Statutory Auditor, an Audit Firm or any member of its Network to provide statutory audit services to an owner of the Audit Firm. The provision of audit services to an Affiliate of such an owner is also considered incompatible with the independence requirement when that owner is, or appears to be, in a position to influence any decision-making of the Audit Firm that impacts on its statutory audit function. Such an influence may arise, for example, due to the percentage of the voting rights that the owner holds in the Audit Firm. It could also arise due to the nature of the position held by the owner or one of the owner's representatives in the Audit Firm. A position of potential concern might include a director or senior manager of the owner being a member of the Audit Firm's supervisory board. Furthermore, the Statutory Auditor should also consider whether the provision of audit services to those clients could compromise his independence where the client's officers, directors or shareholders either</p>		



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hold a significant amount of voting rights of the Audit Firm or, otherwise, are, or appear to be, in a position to influence the firm's decision-making with regard to its statutory audit function.		

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<p><u>Statutory Audit Directive</u></p> <p>Article 22 .2. Member States shall in addition ensure that a statutory auditor or an audit firm shall not carry out a statutory audit if there is any direct or indirect financial, business, employment or other relationship - including the provision of additional non-audit services - between the statutory auditor, audit firm or network and the audited entity from which an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised.</p>		
<p><u>EC Recommendation</u></p> <p>B.3.4. A Key Audit Partner leaving the audit firm to join the audit client for a Key Management Position, would be perceived to cause an unacceptably high level of independence risk. Therefore, a period of at least two years should have elapsed before a Key Audit Partner can take up a Key Management Position.</p>	<p>290.134 Familiarity or intimidation threats may be created if a director or officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, has been a member of the audit team or partner of the firm.</p> <p>290.135 If a former member of the audit team or partner of the firm has joined the audit client in such a position and a significant connection</p>	<p>The EC Recommendation provides in its article B.3.4 relating to all audit clients for a two-year cooling-off period for a key audit partner compared to the IESBA Code which provides for a period of not less than twelve months in relation to audit clients that are public interest entities (only after the public interest entity issued audited financial statements covering a period of not less than twelve months and the partner was not a member of the audit team with respect to the</p>

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	<p>remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, independence would be deemed to be compromised if a former member of the audit team or partner joins the audit client as a director or officer, or as an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, unless:</p> <p>(a) The individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements, and any amount owed to the individual is not material to the firm; and</p> <p>(b) The individual does not continue to participate or appear to participate in the firm's business or professional activities.</p> <p>290.136 If a former member of the audit team or partner of the firm has joined the audit client in such a position, and no significant connection remains between the firm and the individual, the existence and significance of any familiarity or intimidation threats will depend on factors such as:</p>	<p>audit of those financial statements).</p>

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	<ul style="list-style-type: none"> • The position the individual has taken at the client; • Any involvement the individual will have with the audit team; • The length of time since the individual was a member of the audit team or partner of the firm; and • The former position of the individual within the audit team or firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance. <p>The significance of any threats created shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Modifying the audit plan; • Assigning individuals to the audit team who have sufficient experience in relation to the individual who has joined the client; or • Having a professional accountant review the work of the former member of the audit team. <p>290.137 If a former partner of the firm has previously joined an entity in such a position and the entity subsequently becomes an audit client</p>	

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<p><u>Statutory Audit Directive</u></p> <p>Article 42 .3. – Relates only to audits of public interest entities</p> <p>The statutory auditor or the key audit partner who carries out a statutory audit on behalf of an audit firm shall not be allowed to take up a key management position in the audited entity before a period of at least two years has elapsed since he or she resigned as a statutory auditor or key audit partner from the audit engagement.</p>	<p>of the firm, the significance of any threat to independence shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</p> <p>290.139 Familiarity or intimidation threats are created when a key audit partner joins the audit client that is a public interest entity as:</p> <p>(a) A director or officer of the entity; or (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.</p> <p>Independence would be deemed to be compromised unless, subsequent to the partner ceasing to be a key audit partner, the public interest entity had issued audited financial statements covering a period of not less than twelve months and the partner was not a member of the audit team with respect to the audit of those financial statements.</p> <p>290.140 An intimidation threat is created when the individual who was the firm's Senior or Managing Partner (Chief Executive or equivalent) joins an audit client that is a public interest entity as (a) an employee in a position to exert</p>	<p>The scope of article 42.3 of the Statutory Audit Directive and paragraph 290.139 of the IESBA Code only include public interest entities. Article B.3.4. of the EC Recommendation is different as it does not exclusively deal with public interest entities (see also chapter 13 on page 90). The description of the position to be taken up in the public interest entity used in the IESBA Code is different from terms used in the Statutory Audit Directive Article 42.3. (Statutory Auditor, Key Audit Partner, Key Management Position)</p> <p>The Statutory Audit Directive requires a two years cooling-off period in its chapter X "Special provisions for the statutory audits of public interest entities" under Article 42.3. whilst the IESBA Code only sets a cooling-off period of not less than twelve months in relation to audit clients that are public interest</p>

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	<p>significant influence over the preparation of the entity's accounting records or its financial statements or (b) a director or officer of the entity. Independence would be deemed to be compromised unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.</p> <p>290.141 Independence is deemed not to be compromised if, as a result of a business combination, a former key audit partner or the individual who was the firm's former Senior or Managing Partner is in a position as described in paragraphs 290.139 and 290.140, and:</p> <p>(a) The position was not taken in contemplation of the business combination;</p> <p>(b) Any benefits or payments due to the former partner from the firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm;</p> <p>(c) The former partner does not continue to participate or appear to participate in the firm's business or professional activities; and</p> <p>(d) The position held by the former partner with the audit client is discussed with those charged with governance.</p>	<p>entities.</p> <p>The restrictions in the Statutory Audit Directive are only applicable to the statutory auditor or key audit partner whereas the IESBA Code's definition is broader by referring to a member of the audit team, a partner of the firm and the firm's Senior or Managing Partner.</p> <p>The EC Recommendation does not provide for such an exception.</p>

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<p><u>EC Recommendation</u></p> <p>B.3.1 (part) Dual employment of any individual who is in a position to influence the outcome of the Statutory Audit both in the Audit Firm (a person within the scope of A. 2.) and in the Audit Client or its Affiliates should be prohibited.</p> <p><i>ANNEX</i></p> <p>Dual employment</p> <p>B.3. The risk to the Statutory Auditor's independence is considered too high to permit a person within the scope of A.2. who is employed by the Audit Firm and/or its Network member firm to also be employed by the Audit Client and/or one of its Affiliates. The Statutory Auditor's policies and procedures (see A. 4.3.2) should provide for adequate measures to identify any instance of such dual employment.</p>	<p>290.146 If a partner or employee of the firm serves as a director or officer of an audit client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of an audit client.</p>	<p>Both provisions are similar but the description of the scope of the dual employment differs. The IESBA Code mentions a "director or officer of an audit client" on the one hand and "a partner or employee of the firm" on the other hand whilst the EC Recommendation mentions "any individual who is in a position to influence the outcome of the Statutory Audit both in the Audit Firm and in the Audit Client or its affiliates."</p>

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<p><u>EC Recommendation</u></p> <p>B.3.1 (part) Loan staff assignments to an Audit Client or any of its Affiliates are also regarded as dual employment relationships. Where an Audit Firm's employee has worked with an Audit Client under a loan staff assignment and is to be assigned to the audit Engagement Team of that client's Statutory Audit, this individual should not be given audit responsibility for any function or activity that he was required to perform or supervise during the former loan staff assignment (see also B. 5 below).</p> <p><i>ANNEX</i></p> <p>Loan staff assignments</p> <p>B.3. The Statutory Auditor should also carefully consider those situations where an individual employed by the Audit Firm or a Network member firm works under any loan staff agreement with the Audit Client or one of its Affiliates. A loan staff agreement means an engagement where an employee of the Audit Firm or Network works under the direct supervision of the client and does not originate any accounting transaction or prepare original</p>	<p>290.142 The lending of staff by a firm to an audit client may create a self-review threat. Such assistance may be given, but only for a short period of time and the firm's personnel shall not be involved in:</p> <ul style="list-style-type: none"> • Providing non-assurance services that would not be permitted under this section; or • Assuming management responsibilities. <p>In all circumstances, the audit client shall be responsible for directing and supervising the activities of the loaned staff.</p> <p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Conducting an additional review of the work performed by the loaned staff; • Not giving the loaned staff audit responsibility for any function or activity that the staff performed during the temporary staff assignment; or • Not including the loaned staff as a member of the audit team. 	<p>There are no significant differences in the provisions relating to temporary staff assignments.</p>

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<p>data that is not subject to review and approval by the client. Such an assignment may be acceptable, provided that the individual is to be assigned to the Engagement Team having completed such a loan staff engagement, he should not be given audit responsibility for any function or activity that he was required to perform or supervise during the former loan staff assignment (see also B.5).</p> <p><u>EC Recommendation</u></p> <p>B.3.2. Where a member of the Engagement Team is to leave the Audit Firm and join an Audit Client, policies and procedures of the Audit Firm (see A 4.3) should provide:</p> <p>(a) A requirement that members of any Engagement Team immediately notify the Audit Firm of any situation involving their potential employment with the Audit Client;</p> <p>(b) The immediate removal of any such Engagement Team member from the audit engagement; and</p> <p>(c) An immediate review of the audit work performed by the resigning or former Engagement Team member in the current and/or (where appropriate) the most recent</p>	<p>290.138 A self-interest threat is created when a member of the audit team participates in the audit engagement while knowing that the member of the audit team will, or may, join the client some time in the future. Firm policies and procedures shall require members of an audit team to notify the firm when entering employment negotiations with the client. On receiving such notification, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Removing the individual from the audit team; or • A review of any significant judgments made by that individual while on the team. 	<p>The trigger point for creating the threat arising from persons considering joining the client seems to be different. The IESBA Code suggests it is when someone is seriously considering employment with the client whilst the EC Recommendation explicitly refers to the fact that the person “is to” leave the audit firm.</p>

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<p>audit. This review should be performed by a more senior audit professional. If the individual joining the client is an Audit Partner or the Engagement Partner, the review should be performed by an Audit Partner who was not involved in the audit engagement. (Where, due to its size, the Audit Firm does not have a Partner who was not involved in the audit engagement, it may seek either a review by another statutory auditor or advice from its professional regulatory body.)</p> <p><i>ANNEX</i></p> <p>Engagement team member joining the Audit Client</p> <p>B.3. The overall safeguarding system of the Audit Firm (see A. 4.3) should include policies and procedures that can be adapted to suit the specific circumstances. These will, for example, depend upon a number of factors such as:</p> <ul style="list-style-type: none"> - The position of the departing individual at the Audit Firm (e.g. Partner vs. senior or other professional); - The circumstances which lead to the departure (e.g. retirement, termination, voluntary 		

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<p>withdrawal);</p> <ul style="list-style-type: none"> - The position the departing individual is taking at the client (e.g. managerial position vs. position with insignificant influence on the financial statements); - The length of time that has passed since the individual left the Audit Firm; and - The length of time that has elapsed since the departing individual performed services related to the audit engagement. <p>Second Partner's Review</p> <p>In cases, where the individual leaving the Audit Firm was an Engagement or Audit Partner, the required review by another Audit Partner should also consider the risk that the former partner might have been influenced by the client during the previous audit. In addition, the former partner may have established close relationships with other Audit Team members which might threaten the independence of those staying on the Audit Team. Finally, the former partner could use his knowledge of the current audit approach and testing strategy to circumvent the audit designs.</p> <p>It might be appropriate for a small Audit Firm which is not able to perform a second Partner's</p>		

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<p>review either to have a similar review performed by another statutory auditor or, at least, to seek advice from its professional regulatory authority.</p> <p><u>EC Recommendation</u></p> <p>B.3.3. Where a former Engagement Team member or an individual within the Chain of Command has joined an Audit Client, policies and procedures of the Audit Firm should ensure that there remain no significant connections between itself and the individual. This includes:</p> <p>B.3.3(a) Regardless of whether the individual was previously involved in the audit engagement, that all capital balances and similar financial interests must be fully settled (including retirement benefits) unless these are made in accordance with pre-determined arrangements that cannot be influenced by any remaining connections between the individual and the Audit Firm;</p> <p>B.3.3(b) That the individual does not participate or appear to participate further in the Audit Firm's business or professional activities.</p>	<p>290.135 If a former member of the audit team or partner of the firm has joined the audit client in such a position and a significant connection remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, independence would be deemed to be compromised if a former member of the audit team or partner joins the audit client as a director or officer, or as an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, unless:</p> <p>(a) The individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements, and any amount owed to the individual is not material to the firm; and</p> <p>(b) The individual does not continue to participate or appear to participate in the firm's business or professional activities.</p>	<p>The requirements of the EC Recommendation and the IESBA Code are similar.</p>

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<p><u>EC Recommendation</u></p> <p>B.3.4. A Key Audit Partner leaving the audit firm to join the audit client for a Key Management Position, would be perceived to cause an unacceptably high level of independence risk. Therefore, a period of at least two years should have elapsed before a Key Audit Partner can take up a Key Management Position.</p> <p><u>Statutory Audit Directive</u></p> <p>Article 42.3. The statutory auditor or the key audit partner who carries out a statutory audit on behalf of an audit firm shall not be allowed to take up a key management position in the audited entity before a period of at least two years has elapsed since he or she resigned as a statutory auditor or key audit partner from the audit engagement.</p>	<p>290.139 Familiarity or intimidation threats are created when a key audit partner joins the audit client that is a public interest entity as:</p> <p>(a) A director or officer of the entity; or (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.</p> <p>Independence would be deemed to be compromised unless, subsequent to the partner ceasing to be a key audit partner, the public interest entity had issued audited financial</p>	<p>Reference is made to the comments on the differences in Chapter 12 related to article B.3.4. of the EC Recommendation. (See page 82)</p>

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<p><u>EC Recommendation</u></p> <p>B.4.1. An individual who is in a position to influence the outcome of the Statutory Audit (a person within the scope of A.2.) should not be a member of any management body (e.g. board of directors) or supervisory body (e.g. audit committee or supervisory board) of an Audit Client. Also, he should not be a member of such a body in an entity which holds directly or indirectly more than 20 % of the voting rights in the client, or in which the client holds directly or indirectly more than 20 % of the voting rights.</p> <p>B.4.2. When a former member of the Engagement Team takes a managerial or supervisory role in an Audit Client, B.3(3) and (4) - Employment will apply.</p>	<p>statements covering a period of not less than twelve months and the partner was not a member of the audit team with respect to the audit of those financial statements.</p> <p>290.146 If a partner or employee of the firm serves as a director or officer of an audit client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of an audit client.</p>	<p>The EC Recommendation extends the prohibition on taking on a managerial or supervisory role at the audit client to those entities that hold more than 20% of the voting rights in the client or vice versa.</p> <p>The EC Recommendation addresses "... should not be a member of any management body (e.g. board of directors) or supervisory body (e.g. audit committee or supervisory board). The equivalent language in the IESBA Code is "serve as a director or officer of an audit client". These differences of terminology are not considered to lead to different interpretation.</p> <p>The IESBA Code applies the prohibition to all partners and employees of the firm whereas the EC Recommendation solely applies to all persons who may influence the outcome of the audit.</p>

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<p><i>ANNEX</i></p> <p>B.4. The acceptance of a managerial or supervisory role in an Audit Client is not the only potential concern with regard to intimidation and self-review threats. Such threats can also arise when an individual within the scope of (A. 2.) becomes a member of a managerial or supervisory body of an entity that is not an Audit Client (non-client entity), but is either in a position to influence the Audit Client or to be influenced by the Audit Client. In these cases, the level of independence risk is unacceptably high. The acceptance of such positions should therefore be prohibited.</p> <p>Where national law requires members of the audit profession to undertake supervisory roles in certain companies, safeguards must ensure that such professionals do not have any responsibility with regard to the Engagement Team.</p> <p>B.4. (2) recognises that a former member of an Engagement Team who leaves the Audit Firm, whether to retire or to take up a post with a non-client entity, might be invited to take a non-executive post on a management or supervisory body of the Audit Client. In such cases, the Audit</p>		<p>The IESBA Code does not deal with the issue of national law requirements on members of the audit profession to undertake supervisory roles in certain companies.</p>

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<p>Firm will need to ensure that the requirements of B. 3 (3) and (4). are met.</p>	<p>290.147 The position of Company Secretary has different implications in different jurisdictions.</p> <p>Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.</p> <p>290.148 If a partner or employee of the firm serves as Company Secretary for an audit client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level.</p> <p>Despite paragraph 290.146, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory</p>	<p>The role of a company secretary is not dealt with in the Statutory Audit Directive or in the EC Recommendation.</p>

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	<p>returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.</p> <p>290.149 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to independence, as long as client management makes all relevant decisions.</p>	

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<p><u>EC Recommendation</u></p> <p>B.5. (part) Where a director or manager of the Audit Client has joined the Audit Firm, this person should not become a member of the Engagement Team at any time in the two-year period after leaving the Audit Client.</p> <p><i>ANNEX</i></p> <p>B.5. (part) When a director or manager of an Audit Client joins the Audit Firm, the self-review threat is considered as too high to be mitigated by any safeguard other than the prohibition of such a person from becoming a member of the Engagement Team or from taking part in any substantive decisions concerning the client's audit for a two year period.</p> <p>B.5. (part) If the person is a member of the Chain of Command, he should not take part in any substantive decisions concerning an audit engagement with this client or with one of its Affiliates at any time in the two-year period after leaving the Audit Client. This requirement also</p>	<p>290.143 Self-interest, self-review or familiarity threats may be created if a member of the audit team has recently served as a director, officer, or employee of the audit client. This would be the case when, for example, a member of the audit team has to evaluate elements of the financial statements for which the member of the audit team had prepared the accounting records while with the client.</p> <p>290.144 If, during the period covered by the audit report, a member of the audit team had served as a director or officer of the audit client, or was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Consequently, such individuals shall not be assigned to the audit team.</p> <p>290.145 Self-interest, self-review or familiarity threats may be created if, before the period covered by the audit report, a member of the audit team had served as a director or officer of the audit client, or was an employee in a position</p>	<p>The IESBA Code makes a distinction between a service provided during the period covered by the audit report and a service provided before the period covered by the audit report. The EC Recommendation does not make this distinction and does not consider any safeguards which could eliminate threats relating to services provided before the period covered by the audit report. Accordingly, in the IESBA Code, in many cases the threats and safeguards approach will lead to similar conclusions during the period covered by the audit report but not necessarily before the period covered by the audit report.</p> <p>The EC Recommendation imposes a prohibition on joining the audit firm within two years after leaving the audit client. In the IESBA Code, the equivalent is the period covered by the assurance report.</p> <p>The EC Recommendation also relates to former employees of the audit client. The IESBA Code applies only to employees who were "in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the</p>

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<p>applies to a former employee of the Audit Client unless the responsibilities he held and the tasks he performed at the Audit Client were insignificant in relation to the statutory audit function.</p> <p><i>ANNEX</i></p> <p>B.5. (part) Where a former employee of the Audit Client joins the Audit Firm, the significance of the self-review threat will relate to the responsibilities and tasks this employee had at the Audit Client and those he is going to take at the Audit Firm. For example, if the former employee prepared accounts or valued elements of the financial statements, the same safeguards would apply as for a director or manager; on the other hand, when the former employee held, for example, a non-management position in a branch of the Audit Client, the self review threat may be mitigated if his activities as a member of the Engagement Team do not relate to that branch.</p>	<p>to exert significant influence over the preparation of the client’s accounting records or financial statements on which the firm will express an opinion. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement. The existence and significance of any threats will depend on factors such as:</p> <ul style="list-style-type: none"> • The position the individual held with the client; • The length of time since the individual left the client; and • The role of the professional on the audit team. <p>The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an acceptable level. An example of such a safeguard is conducting a review of the work performed by the individual as a member of the audit team.</p>	<p>firm will express an opinion”.</p>

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<p><u>EC Recommendation</u></p> <p>B.6.1 An individual who is a Statutory Auditor should not accept an audit engagement if one of his close family members:</p> <p>6.1(a) holds a senior management position with the Audit Client;</p> <p>6.1(b) is in a position to exert direct influence on the preparation of the Audit Client's accounting records or financial statements;</p> <p>6.1(c) has a financial interest in the Audit Client (see Chapter 1 – Financial Interests) unless it is insignificant; or</p> <p>6.1(d) has a business relationship with the Audit Client (see Chapter 2 – Business Relationships) unless it is in the normal course of business and insignificant in terms of the threat it poses to the independence of the Statutory Auditor.</p>	<p>Family and Personal Relationships</p> <p>290.127 Family and personal relationships between a member of the audit team and a director or officer or certain employees (depending on their role) of the audit client may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual's responsibilities on the audit team, the role of the family member or other individual within the client and the closeness of the relationship.</p> <p>290.128 When an immediate family member of a member of the audit team is:</p> <p>(a) A director or officer of the audit client; or</p> <p>(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, or was in such a position during any period covered by the engagement or the financial statements, the threats to</p>	<p>The threats, safeguards and persons covered by the EC Recommendation and the IESBA Code insofar as statutory audits are concerned are comparable with no significant differences.</p> <p>The IESBA Code takes a more detailed approach to the different personal and family relationships that an accountant may face, proposing different safeguards or action from the professional accountant depending on the size of the threat.</p> <p>The use in the IESBA Code of “two tiers” of “family” <i>i.e.</i> “immediate family” and “close family” results in a slightly different emphasis on the threat posed by certain family members. The EC Recommendation just uses the term close family members which has a much broader sense than in the IESBA Code and includes the immediate family members referred to in the IESBA Code. This implies that the IESBA Code provides different approaches depending on the relationship (<i>i.e.</i> more restrictive when the relationship is closer) while the EC Recommendation just restricts all individuals having a close family member in an entity in certain circumstances to participate in the audit</p>

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<p>member of the Chain of Command does not participate in any decisions that directly relate to the audit engagement if one of his close family members meets any of the criteria under 6.1a to 6.1d above, or if he is working in an “Office” where any of the Partners in it has a close family member who meets these criteria.</p>	<p>team so that the professional does not deal with matters that are within the responsibility of the immediate family member.</p> <p>290.130 Threats to independence are created when a close family member of a member of the audit team is:</p> <p>(a) A director or officer of the audit client; or (b) An employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion.</p> <p>The significance of the threats will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the relationship between the member of the audit team and the close family member; • The position held by the close family member; and • The role of the professional on the audit team. <p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p>	<p>application of safeguards when the close family relationship is held by a member of the Chain of Command. The IESBA Code, however, does not differentiate the treatment given to all members of the audit team (as defined in the IESBA Code).</p>

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	<ul style="list-style-type: none"> • Removing the individual from the audit team; or • Structuring the responsibilities of the audit team so that the professional does not deal with matters that are within the responsibility of the close family member. 	
<p><u>EC Recommendation</u></p> <p>B.6.3. The Statutory Auditor should consider whether he or any other individual in the Engagement Team or Chain of Command, or any person working in an “Office” which includes himself or such an individual, has any other close personal relationships where similar safeguards would be needed.</p> <p><i>ANNEX</i></p> <p>B.6.The Statutory Auditor must be able to assess the risk to his independence when he or any member of the audit Engagement Team or the Chain of Command, or any Partner in an “Office” which includes himself or such an individual, has any close family member or any other close personal relationship with anyone</p>	<p>290.131 Threats to independence are created when a member of the audit team has a close relationship with a person who is not an immediate or close family member, but who is a director or officer or an employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion. A member of the audit team who has such a relationship shall consult in accordance with firm policies and procedures. The significance of the threats will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the relationship between the individual and the member of the audit team; • The position the individual holds with the client; and • The role of the professional on the audit team. <p>290.132 Self-interest, familiarity or intimidation</p>	<p>Both the EC Recommendation and the IESBA Code require the auditor to pay due regard to other “non-family” relationships (“close non-family” under the EC Recommendation and “person who is other than an immediate or close family member” under the IESBA Code) in assessing the threats posed by such relationships.</p>

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<p>who meets the criteria under 6.1a to 6.1d. His consideration of the facts should be based on his knowledge of the circumstances of all relevant individuals within the Audit Firm or its Network. Policies and procedures should be in place that requires such individuals to disclose to the best of their knowledge, on which the Statutory Auditor would then rely, any fact or circumstance which need to be taken into account. The Statutory Auditor should evaluate all such information, determine whether any of the criteria are met and take any necessary mitigating action within a reasonable period of time. This might include refusal of the engagement, or exclusion of an individual from the Engagement Team or the “Office”.</p> <p>The Audit Firm’s policies and procedures should make it clear that it is the responsibility of individuals in the Engagement Team or Chain of Command or “Office” to assess to the best of their knowledge who are, or might appear to be, their close family members and close non-family contacts. They should disclose any relevant facts or circumstances in respect of a particular Audit Client to the Audit Partner in charge of the engagement.</p>	<p>threats may be created by a personal or family relationship between (a) a partner or employee of the firm who is not a member of the audit team and (b) a director or officer of the audit client or an employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion. Partners and employees of the firm who are aware of such relationships shall consult in accordance with firm policies and procedures. The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client; • The interaction of the partner or employee of the firm with the audit team; • The position of the partner or employee within the firm; and • The position the individual holds with the client. <p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p>	

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<p>Close non-family relationships</p> <p>Close relationships other than family ones are hard to define, but could include a relationship with any person other than a family member which entails frequent or regular social contact.</p> <p><u>EC Recommendation</u></p> <p>B.6.4. Assessment of the facts of a relevant individual's close personal relationship should be based upon the knowledge of the Statutory Auditor and the individual concerned. The individual should be responsible for disclosing to the Statutory Auditor any fact and circumstance which might require safeguards to mitigate an unacceptable level of independence risk.</p>	<ul style="list-style-type: none"> • Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement; or • Having a professional accountant review the relevant audit work performed. 	
<p><i>ANNEX</i></p> <p>Inadvertent violations</p> <p>B.6. There will be occasions where the Statutory Auditor becomes aware that an individual in his Audit Firm inadvertently has not reported to the firm a family or other personal relationship with an Audit Client which, in general, would be regarded as a violation of independence</p>	<p>290.133 When an inadvertent violation of this section as it relates to family and personal relationships occurs, it is deemed not to compromise independence if:</p> <p>(a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from changes in the employment status of their</p>	<p>With respect to inadvertent violations both texts have a similar approach although drafted in a slightly different way. It is worth noting that the IESBA Code indicates that the firm shall determine whether it should discuss the inadvertent violation with those charged with governance.</p>

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<p>requirements. Such inadvertent violations will not compromise the Statutory Auditor's independence with respect to an Audit Client, provided that the Statutory Auditor:</p> <ul style="list-style-type: none"> - has established procedures that require all professional personnel to report promptly any breaches of the independence rules resulting from changes in their family or other personal relationships, the acceptance of an audit sensitive position by their close family members or other close persons (i.e., those falling within the scope of (1)(a) and (1)(b) above), or the purchase, inheritance or other acquisition of a significant financial interest in an Audit Client by such family members or persons; - promptly removes the individual from the Engagement Team, or if the individual is not a member of the Engagement Team, excludes him from substantive decisions concerning the Statutory Audit of the relevant client. In the case of a significant financial interest, he should notify the individual to ensure that the financial interest is disposed of at the earliest opportunity after the inadvertent violation is identified; and - takes particular care when reviewing the relevant audit work of this individual. 	<p>immediate or close family members or other personal relationships that create threats to independence;</p> <p>(b) The inadvertent violation relates to an immediate family member of a member of the audit team becoming a director or officer of the audit client or being in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, and the relevant professional is removed from the audit team; and</p> <p>(c) The firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> (i) Having a professional accountant review the work of the member of the audit team; or (ii) Excluding the relevant professional from any significant decision-making concerning the engagement. <p>The firm shall determine whether to discuss the matter with those charged with governance.</p>	

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<p><u>EC Recommendation</u></p> <p>Non-Audit Services</p> <p><i>B 7.1. General</i></p> <p>B.7.1.1. Where a Statutory Auditor, an Audit Firm or one of its Network member firms provides services other than statutory audit work (non-audit services) to an Audit Client or to one of its Affiliates, the overall safeguarding system (A 4.3) of the Statutory Auditor has to ensure that:</p> <p>7.1.1. (a) the individuals employed by either the Audit Firm or its Network member firm neither take any decision nor take part in any decision-making on behalf of the Audit Client or one of its Affiliates, or its management while providing a non-audit service; and</p> <p>7.1.1. (b) where an independence risk remains due to specific threats which may result from the nature of a non-audit service, this risk is reduced to an acceptable level.</p>	<p><i>Management Responsibilities</i></p> <p>290.162 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.</p> <p>290.163 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:</p> <ul style="list-style-type: none"> • Setting policies and strategic direction; • Directing and taking responsibility for the actions of the entity's employees; • Authorizing transactions; 	<p>While the IESBA Code refers to 'management responsibilities', the EC Recommendation uses the concept of 'decision-making'. In substance there is no difference as both concepts have the same objective.</p>

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<p><i>ANNEX</i></p> <p>Non-Audit Services</p> <p><i>B 7.1 General</i></p> <p>Independence from Audit Client's decision-making</p> <p>B.7.1. The self-review threat is always considered too high to allow the provision of any services other than statutory audit work that involves the Statutory Auditor in any</p>	<ul style="list-style-type: none"> • Deciding which recommendations of the firm or other third parties to implement; • Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and • Taking responsibility for designing, implementing and maintaining internal control. <p>290.164 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit client of those dates is deemed not to be a management responsibility.</p> <p>Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.</p> <p>290.165 If a firm were to assume a management responsibility for an audit client, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level.</p>	

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<p>decision-making of either the Audit Client, any of its Affiliates, or the management of such an entity. Therefore, if the Statutory Auditor or a member within his Network intends to provide non-audit services to an Audit Client or to one of its Affiliates, the Statutory Auditor has to ensure that any individual acting for or on behalf of the Audit Firm or its Network member does not take any decision for, nor take part in any decision-making on behalf of, the Audit Client, any of its Affiliates or the management of such an entity.</p> <p>Any advice or assistance related to any service provided by the Statutory Auditor or the Audit Firm should give the Audit Client, a client's Affiliate or the management of such an entity the opportunity to decide between reasonable alternatives. This does not prevent the Statutory Auditor, Audit Firm or one of its Network members from making recommendations to the Audit Client. However, such advice should be justified by objective and transparent analyses in the expectation that the Audit Client will review the recommendations before reaching any decision. If the Audit Client is seeking advice where, due to legal or regulatory provisions, only one solution is available, the Statutory Auditor should ensure</p>	<p>For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Therefore, the firm shall not assume a management responsibility for an audit client.</p> <p>290.166 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm inadvertently making any significant judgments or decisions on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.</p>	<p>The IESBA Code includes a requirement for the firm providing non-audit services to satisfy itself that a member of the audit client's management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service.</p> <p>The Annex to the EC Recommendation requires that any advice or assistance related to any service provided by the statutory auditor or the audit firm should give the audit client, a client's affiliate or the management of such an entity the opportunity to decide between reasonable alternatives, unless due to legal or regulatory provisions only one solution is available (and in the latter case the statutory auditor should ensure that his documentation</p>

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that his documentation refers to these provisions (e.g. quotes the relevant law, includes advice from external professionals).		refers to these provisions). The IESBA Code does not have such specific requirements.
<p><u>EC Recommendation</u></p> <p>B 7.1.2. Even if not involved in the decision-making of the Audit Client or any of its Affiliates, the Statutory Auditor should consider, amongst others, which of the following safeguards in particular may mitigate a remaining independence threat:</p> <p>7.1.2.(a) arrangements to reduce the risk of self-review by compartmentalising responsibilities and knowledge in specific non-audit engagements;</p> <p>7.1.2.(b) routine notification of any audit and non-audit engagement to those in the Audit Firm or Network who are responsible for safeguarding independence, including oversight of ongoing activities;</p> <p>7.1.2 (c) secondary reviews of the Statutory Audit by an Audit Partner who is not involved in the provision of any services to the Audit Client or to one of its Affiliates; or</p> <p>7.1.2.(d) external review by another statutory</p>		<p>The IESBA Code deals with safeguards like those addressed in the EC Recommendation under B 7.1.2. for each different category of non-audit services separately (see respective sections of the Code below). This does not create a difference in substance.</p>

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auditor or advice by the professional regulatory body.		
<p><u>Statutory Audit Directive</u></p> <p>Article 42.1. In addition to the provisions laid down in Articles 22 and 24, Member States shall ensure that statutory auditors or audit firms that carry out the statutory audit of a public-interest entity:</p> <p>(a) Confirm annually in writing to the audit committee their independence from the audited public-interest entity;</p> <p>(b) Disclose annually to the audit committee any additional services provided to the audited entity;</p> <p>(c) Discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats as documented by them pursuant to Article 22(3).</p>		<p>Compared to the Statutory Audit Directive and the EC Recommendation, the IESBA Code does not provide for a general provision that solely relates to the disclosure and discussion of non-audit services with those charged with governance. However in certain circumstances the Code provides for provisions on disclosure and discussions with respect to specific non-audit services. Additionally the IESBA Code provides for disclosure to those charged with governance as an example of an engagement specific safeguard relating to all clients. The Statutory Audit Directive's requirement regarding disclosure to audit committee only relates to public interest entities, which goes beyond the EC Recommendation which highlights the necessity to seek discussions with the client's governance body especially with respect to public interest entities.</p>

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<p><u>EC Recommendation</u></p> <p>B.7.1.3 Where applicable, and especially with regard to Public Interest Entity clients, the Statutory Auditor should seek to discuss the provision of non-audit services to an Audit Client or to one of its Affiliates with the client's Governance Body (see A. 4.1.2).</p>		
<p><i>ANNEX</i></p> <p><i>B.7.2. Examples — analysis of specific situations</i></p> <p>Business and financial markets are evolving continuously and information technologies are changing rapidly. These developments have significant consequences for management and control. With this state of change, it is not possible to draw up a comprehensive list of all those situations where the provision of non-audit services to an Audit Client would create a significant threat to statutory auditors' independence. Neither is it possible to list the different safeguards which may exist to mitigate such threats. The examples which follow describe specific situations that could</p>	<p>290.156 Firms have traditionally provided to their audit clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the audit team. The threats created are most often self-review, self-interest and advocacy threats.</p> <p>290.157 New developments in business, the evolution of financial markets and changes in information technology make it impossible to draw up an all-inclusive list of non-assurance services</p>	<p>The IESBA Code defines specifically how the framework shall be applied before a firm can accept an engagement to provide a non-assurance service to an audit client.</p>

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<p>compromise a Statutory Auditor's independence. They also discuss the safeguards which may be appropriate to reduce the independence risk to an acceptable level in each circumstance. In practice, the Statutory Auditor will need to assess the implications of similar, but different circumstances, and to consider what safeguards would satisfactorily address the independence risk in the judgement of an informed third party.</p>	<p>that might be provided to an audit client. When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.</p> <p>290.158 Before the firm accepts an engagement to provide a non-assurance service to an audit client, a determination shall be made as to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the audit team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards, the non-assurance service shall not be provided.</p>	
	<p>290.159 Providing certain non-assurance services to an audit client may create a threat to independence so significant that no safeguards could reduce the threat to an acceptable level. However, the inadvertent provision of such a service to a related entity, division or in respect of a discrete financial statement item of such a client will be deemed not to compromise independence</p>	<p>The Statutory Audit Directive and EC Recommendation do not provide for a provision on how to deal with an "inadvertent" provision of a non-assurance service to a related entity, division or in respect of a discrete financial statement item of an audit client that otherwise would be prohibited (unlike for financial interest and for close non-family relationships).</p>

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	<p>if any threats have been reduced to an acceptable level by arrangements for that related entity, division or discrete financial statement item to be audited by another firm or when another firm re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.</p>	
	<p>290.160 A firm may provide non-assurance services that would otherwise be restricted under this section to the following related entities of the audit client:</p> <ul style="list-style-type: none"> (a) An entity, which is not an audit client, that has direct or indirect control over the audit client; (b) An entity, which is not an audit client, with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or (c) An entity, which is not an audit client, that is under common control with the audit client. <p>If it is reasonable to conclude that (a) the services do not create a self-review threat because the results of the services will not be subject to audit procedures and (b) any threats that are created by the provision of such services are eliminated or</p>	<p>In the IESBA Code, the provision of non-assurance services to related entities of the audit client is permitted as long as the related entity is not an audit client, the results of the service are not subject to audit procedures and any threats are reduced to an acceptable level. The EC Recommendation does not cover this aspect specifically. Therefore, it is unclear whether under the EC Recommendation the provision of non-audit services to non-audit parent entities or sister entities would also be permissible if conditions such as provided in the IESBA Code are met.</p>

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	reduced to an acceptable level by the application of safeguards.	
	<p>290.161 A non-assurance service provided to an audit client does not compromise the firm's independence when the client becomes a public interest entity if:</p> <p>(a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;</p> <p>(b) Services that are not permitted under this section for audit clients that are public interest entities are terminated before or as soon as practicable after the client becomes a public interest entity; and</p> <p>(c) The firm applies safeguards when necessary to eliminate or reduce to an acceptable level any threats to independence arising from the service.</p>	<p>The IESBA Code addresses the situation where an audit client becomes a public interest entity, and provides grandfathering conditions for those non-assurance services that were permitted when the audit client was not a public interest entity.</p> <p>Neither the Statutory Audit Directive nor the EC Recommendation deal with this type of situation.</p>

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<p>preparation of the Audit Client's accounting records or financial statements. The significance of the threat depends upon the spectrum of these persons' involvement in the preparation process and upon the level of public interest.</p> <p>B. 7.2.1.2. The significance of the self-review threat is always considered too high to allow a participation in the preparation process unless the assistance provided is solely of a technical or mechanical nature or the advice given is only of an informative nature.</p>	<p>subsequently audits the financial statements.</p> <p><u>Audit clients that are not public interest entities</u></p> <p>290.171 The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. Examples of such services include:</p> <ul style="list-style-type: none"> • Providing payroll services based on client-originated data; • Recording transactions for which the client has determined or approved the appropriate account classification; • Posting transactions coded by the client to the general ledger; • Posting client-approved entries to the trial balance; and 	<p>spectrum of involvement in the preparation process (see below), and b) the level of public interest concerned (see below). This is similar to the concept in the IESBA Code, which is based on a) services of a routine or mechanical nature and b) differentiating between PIE and non-PIE audit clients.</p>

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	<ul style="list-style-type: none"> • Preparing financial statements based on information in the trial balance. 	
<p><i>ANNEX</i></p> <p><i>B.7.2.1 Preparing accounting records and financial statements</i></p> <p>Spectrum of Involvement in the Preparation Process</p> <p>B.7.2.1. There is a spectrum of involvement by the Statutory Auditor (including his Audit Firm, Network member firms, or any employees thereof) in the preparation of accounting records and financial statements. At one end of the spectrum, the Statutory Auditor may prepare prime accounting records, do the bookkeeping and prepare the financial statements, as well as performing the Statutory Audit of these financial statements. In other cases, the Statutory Auditor helps his Audit Client in the preparation of the financial statements on the basis of the trial balance, assisting his Audit Client in the calculation of the closing entries (calculation of accruals, bad debts, depreciation, etc.). At the other end of the spectrum, the Statutory Auditor does not</p>		<p>There is no equivalent description of the 'spectrum of involvement' in the IESBA Code. This is due to a difference in approach, but not in principle. See e.g. the common use of the expression 'services of a routine or mechanical nature'.</p>

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<p>participate in any part of the preparation process. Even in the latter case, the Statutory Auditor who detects shortcomings in the Audit Client's proposed disclosures will normally suggest and draft the amendments required. This is part of the Statutory Audit mandate and should not be considered as the provision of a non-audit service. While management always has responsibility for the presentation of the financial statements, the end result is that it is uncommon for a set of financial statements to appear where the Statutory Auditor has had no hand whatsoever in the presentation or drafting.</p> <p>Nature of Assistance and Advice</p> <p>B.7.2.1 The Audit Client and its management must be responsible for the financial statements and for maintaining accounting records. The Statutory Auditor's safeguards must at least ensure that, when providing bookkeeping-related assistance, the accounting entries and any underlying assumptions (e.g. for valuation purposes) are originated by the client. In addition, the Statutory Auditor should not be involved in the decision-making of the Audit Client or its management in respect of the</p>	<p>290.169 The audit process, however, necessitates dialogue between the firm and management of the audit client, which may involve (a) the application of accounting standards or policies and financial statement disclosure requirements, (b) the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities, or (c) proposing adjusting journal entries. These activities are considered to be a normal part of the audit process and do not, generally, create threats</p>	<p>Whereas the Annex of the EC Recommendation looks at what nature of assistance would not be considered permissible, the IESBA Code provides general examples of permissible activities as part of the audit process or examples of permissible advice.</p>

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<p>entries or assumptions.</p> <p>The Statutory Auditor's assistance should therefore be limited to carrying out technical or mechanical tasks and to providing advisory information on alternative standards and methodologies which the Audit Client might wish to apply.</p> <p>Examples of assistance which compromise independence include the following:</p> <ul style="list-style-type: none"> - Determining or changing journal entries, or the classifications for accounts or transactions, or other accounting records without obtaining the client's approval; - Authorising or approving transactions; or - Preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data. 	<p>to independence.</p> <p>290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.</p>	
<p><u>EC Recommendation</u></p> <p>B.7.2.1.3. However, where Statutory Audits of Public Interest Entity clients are concerned, the provision of any such assistance other than that which is within the statutory audit mandate</p>	<p><u>Audit clients that are public interest entities</u></p> <p>290.172 Except in emergency situations, a firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare</p>	<p>Both provisions in the EC Recommendation and in the IESBA Code have a similar meaning and prohibit accounting and bookkeeping services to a public interest entity.</p>

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<p>would be perceived to cause an unacceptably high level of independence risk, and should therefore be prohibited.</p> <p><i>ANNEX</i></p> <p>Level of Public Interest</p> <p>B.7.2.1. The self-review threat that arises when a Statutory Auditor assists in the preparation of the accounting records or financial statements of a Public Interest Entity is perceived to be so high that it cannot be mitigated by safeguards other than the prohibition of any such assistance that goes beyond the statutory audit mandate (i.e., any assistance other than the suggestion and drafting of amendments during the due course of the Statutory Audit, after having detected shortcomings in the Audit Client's proposed disclosures).</p> <p>In any case, where the Statutory Auditor is asked to participate in the preparation of an Audit Client's accounting records or financial statements, he should carefully consider the</p>	<p>financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.</p>	<p>The EC Recommendation explicitly requires the Statutory Auditor to consider carefully the public perception in relation to his task. The IESBA Code does not directly make reference to the level of public interest. However, the application of the IESBA Code's conceptual framework contains a similar concept by reference to a 'reasonable and informed party' and to 'qualitative and quantitative factors' in i.e. 100.2, 100.7 and 100.9.</p>

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<p>public perception in relation to his task. This may depend on the size and structure of the Audit Client as well as on the business environment in which this client operates at either a local, regional or national level. Where the threat is perceived to reach a level that would cause the public to question his independence, the Statutory Auditor should not accept the engagement.</p>		
<p><u>EC Recommendation</u></p> <p><i>ANNEX</i></p> <p>Emergency Situations</p> <p>B.7.2.1. In emergency cases, a Statutory Auditor may participate in the preparation process to an extent which would not be acceptable under normal circumstances (see 7.2.1.2 and 7.2.1.3 above). This might arise when, due to external and unforeseeable events, the Statutory Auditor is the only person with the resources and necessary knowledge of the Audit Client's systems and procedures to assist the client in the timely preparation of its accounts and financial statements. A situation could be considered an emergency where the</p>	<p>290.174 Accounting and bookkeeping services, which would otherwise not be permitted under this section, may be provided to audit clients in emergency or other unusual situations when it is impractical for the audit client to make other arrangements. This may be the case when (a) only the firm has the resources and necessary knowledge of the client's systems and procedures to assist the client in the timely preparation of its accounting records and financial statements, and (b) a restriction on the firm's ability to provide the services would result in significant difficulties for</p>	<p>The IESBA Code in regard to emergency situations requires the work to be performed by individuals that are not members of the audit team and the services are provided for a short time and are not expected to recur whereas the EC Recommendation is less specific. The IESBA Code also requires discussion with those charged with governance whereas the EC Recommendation only encourages such discussion where appropriate.</p> <p>The EC Recommendation requires disclosure</p>

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<p>Statutory Auditor's refusal to provide these services would result in a severe burden for the Audit Client (e.g., withdrawal of credit lines), or would even threaten its going concern status.</p> <p>In such an emergency situation, however, the Statutory Auditor should take no part in any final decisions and should seek the client's approvals wherever possible. He should also consider additional safeguards that would allow him to minimise the level of risk to his independence. Where appropriate, he should seek to discuss the situation with the Audit Client's Governance Body and ensure that the services he provided and the reasons for this are summarised in the financial statements.</p>	<p>the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:</p> <p>(a) Those who provide the services are not members of the audit team;</p> <p>(b) The services are provided for only a short period of time and are not expected to recur; and</p> <p>(c) The situation is discussed with those charged with governance.</p>	<p>of the services and the reasons in the financial statements, a requirement that is not included in the IESBA Code.</p>
<p><u>EC Recommendation</u></p> <p><i>ANNEX</i></p> <p>Statutory Audits on Consolidated Financial Statements of Public Interest Entities</p> <p>B.7.2.1. When the consolidated financial statements of a Public Interest Entity client are subject to a Statutory Audit, there might be situations where it is impractical for a subsidiary</p>	<p>290.173 Despite paragraph 290.172, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information,</p>	<p>Whereas the EC Recommendation does not require separate teams, the IESBA Code does not make a particular reference to the fact that the fees that the audit firm and its network</p>

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<p>of such an Audit Client to make arrangements in accordance with (3) above. As a result, it is possible that its local auditor will have to participate in the preparation of financial statements that are to be included in the Audit Client's consolidated financial statements. Under such circumstances, the self-review threat from the perspective of the Statutory Auditor of the Public Interest Entity client, is generally not considered to be significant, provided that the bookkeeping-related assistance is solely of a technical or mechanical nature or the advice is only of an informative nature (see (2) above), that the financial statements of such subsidiaries are not material to the Audit Client's consolidated financial statements (neither separately nor in total), and that the fees the Audit Firm and its Network members receive for all such services collectively are insignificant in relation to the consolidated audit fee.</p>	<p>of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not members of the audit team and:</p> <p>(a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or</p> <p>(b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity. (Also see paragraph 290.172)</p>	<p>members receive for all such services collectively shall be insignificant in relation to the consolidated audit fee.</p>

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<p><u>EC Recommendation</u></p> <p><i>B.7.2.2. Design and Implementation of Financial Information Technology Systems</i></p> <p>B 7.2.2.1. The provision of services by the Statutory Auditor, the Audit Firm or an entity within its Network to an Audit Client that involve the design and implementation of financial information technology systems (FITS) used to generate information forming part of the Audit Client’s financial statements may give rise to a self-review threat.</p> <p><i>ANNEX</i></p> <p><i>B.7.2.2. Design and Implementation of Financial Information Technology Systems</i></p> <p>Financial Information</p> <p>B.7.2.2. Statutory audit work includes the testing of those hardware and software systems that are used by the Audit Client to generate the financial information which is to be disclosed in its financial statements. Where a</p>	<p><i>IT Systems Services</i></p> <p><u>General Provisions</u></p> <p>290.201 Services related to information technology (“IT”) systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal control over financial reporting or generate information that affects the accounting records or financial statements, or the systems may be unrelated to the audit client’s accounting records, the internal control over financial reporting or financial statements. Providing systems services may create a self-review threat depending on the nature of the services and the IT systems.</p>	<p>The EC Recommendation explains explicitly which information is included in the definition of Financial Information. The IESBA Code does not cover this aspect.</p> <p>Although the EC Recommendation and the IESBA Code use slightly different terminology both refer to financial information technology systems.</p> <p>The EC Recommendation refers to the provision of services which involves design “and” implementation whereas the IESBA code refers to design “or” implementation.</p>

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<p>Statutory Auditor (including his Audit Firm, Network member firms, or any employees thereof) is involved in the design and implementation of such a financial information technology system (FITS), a self-review threat may arise. In this respect, financial information does not only include those figures which are directly disclosed in the financial statements, but also comprises any other valuation or physical data to which the financial statements' disclosures relate. Such information is generated by either integrated IT-systems or a variety of stand-alone systems (e.g., systems for bookkeeping, cost-accounting, payroll, or cash management as well as those systems which may only provide physical numbers, such as some warehousing and production control systems, etc.).</p>		
<p><u>EC Recommendation</u></p> <p>B.7.2.2.2. The significance of the self-review threat is considered too high to permit a Statutory Auditor, an Audit Firm or one of its group member firms to provide such FITS services unless:</p>	<p><u>Audit Clients that are not Public Interest Entities</u></p> <p>290.203 Providing services to an audit client that is not a public interest entity involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements on which the firm will express</p>	<p>With respect to audit clients that are not public interest entities, both the EC Recommendation and the IESBA Code prohibit design and/or implementation of financial information technology systems to audit clients, unless certain safeguards are applied.</p>

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<p>B.7.2.2.2.(a)The Audit Client’s management acknowledges in writing that they take responsibility for the overall system of internal control;</p> <p>B.7.2.2.2 (b)The Statutory Auditor has satisfied himself that the Audit Client’s management is not relying on the FITS work as the primary basis for determining the adequacy of its internal controls and financial reporting systems;</p> <p>B.7.2.2.2 (c)In the case of an FITS design project, the service provided involves design to specifications set by the Audit Client’s management; and</p> <p>B.7.2.2.2 (d) The FITS services do not constitute a “turn key” project (i.e., a project that consists of software design, hardware configuration and the implementation of both), unless the Audit Client or its management explicitly confirms in the written acknowledgement required under (a) that they take responsibility for</p> <p style="padding-left: 20px;">7.2.2.2 (i) The design, implementation and evaluation process, including any decision thereon; and</p> <p style="padding-left: 20px;">7.2.2.2 (ii) The operation of the system, including the data used or generated by the system.</p>	<p>an opinion creates a self-review threat.</p> <p>290.204 The self-review threat is too significant to permit such services unless appropriate safeguards are put in place ensuring that:</p> <p>(a)The client acknowledges its responsibility for establishing and monitoring a system of internal controls;</p> <p>(b)The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;</p> <p>(c)The client makes all management decisions with respect to the design and implementation process;</p> <p>(d)The client evaluates the adequacy and results of the design and implementation of the system; and</p> <p>(e)The client is responsible for operating the system (hardware or software) and for the data it uses or generates.</p>	

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<p><u>EC Recommendation</u></p> <p>B.7.2.2.2. These provisions shall not limit the services a Statutory Auditor, an Audit Firm or a member of its Network performs in connection with the assessment, design, and implementation of internal accounting controls and risk management controls, provided these persons do not act as an employee or perform management functions.</p> <p><i>ANNEX</i></p> <p><u>Spectrum of Involvement</u></p> <p>B.7.2.2. There is a spectrum of involvement by the Statutory Auditor in the design and implementation of FIT-systems:</p> <p>At one end of the spectrum, there are engagements where the Statutory Auditor takes on a management role or responsibilities for the FIT-systems design and implementation project as a whole, or for the operation of the FIT-</p>	<p><u>General Provisions</u></p> <p>290.202 The following IT systems services are deemed not to create a threat to independence as long as the firm's personnel do not assume a management responsibility:</p> <p>(a) Design or implementation of IT systems that are unrelated to internal control over financial reporting;</p> <p>(b) Design or implementation of IT systems that do not generate information forming a significant part of the accounting records or financial statements;</p>	<p>According to the IESBA Code the implementation of "off-the-shelf" accounting or financial reporting software systems is permitted, provided the software is not developed by the audit firm and that the customization required to meet the client's needs is not significant. In the EC Recommendation similar conditions are not specifically mentioned.</p> <p>The IESBA Code permits to evaluate and make recommendations with respect to systems</p>

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<p>system and the data it uses or generates. Such an engagement would clearly result in an unacceptable level of independence risk.</p> <p>In other cases, the Statutory Auditor must carefully assess the independence risk which might arise from his involvement in systems design and implementation for the Audit Client, particularly if there are public interest implications. In all cases he should consider whether there are appropriate safeguards to reduce the independence risk to an acceptable level. For example, the level of risk may be acceptable where the Statutory Auditor's role is to provide advice to a consortium retained by the Audit Client to design and/or implement a project. Similarly, there is little risk in the case of a smaller company client, where the Statutory Auditor is asked to tailor a standard, off-the-shelf accounting system to meet the needs of that client's business. However, independence risk may be perceived to be unacceptably high in the case of a design project for a large company or Public Interest Entity client.</p> <p>At the other end of the spectrum, the Statutory Auditor might be engaged to provide his Audit Client with a review of alternative systems.</p>	<p>(c) Implementation of "off-the-shelf" accounting or financial reporting software that was not developed by the firm if the customization required to meet the client's needs is not significant; and</p> <p>(d) Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.</p> <p><u>Audit Clients that are Public Interest Entities</u></p> <p>290.206 In the case of an audit client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.</p>	<p>designed, implemented or operated by another service provider of the client. The EC Recommendation also allows the Auditor to review alternative systems provided the client decides which system to install.</p> <p>With respect to audit clients that are public interest entities, the IESBA Code is more stringent than the EC Recommendation. The IESBA Code includes a clear prohibition with no possibilities of exception whatsoever, whereas the EC Recommendation prohibits design and implementation of financial information technology systems to audit clients, unless certain safeguards are applied.</p>

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<p>Based on this review the client himself decides which system to install. The provision of such a service would generally not compromise the Statutory Auditor's independence, provided that cost and benefits of the systems reviewed are properly documented and discussed with the Audit Client. However, his independence will be compromised if the Statutory Auditor has a significant financial interest (see Chapter 1 – Financial Interests) or a significant business relationship (see Chapter 2 – Business Relationships) with any of the systems' suppliers.</p>		
<p><u>EC Recommendation</u></p> <p>B.7.2.2.3. In cases not prohibited under 7.2.2.2 the Statutory Auditor should consider whether additional safeguards are needed to mitigate a remaining self-review threat. In particular whether services that involve the design and implementation of financial information technology systems should only be provided by an expert team with different personnel (including engagement partner) and different reporting lines to those of the audit Engagement Team.</p>	<p><u>Audit Clients that are not Public Interest Entities</u></p> <p>290.205 Depending on the degree of reliance that will be placed on the particular IT systems as part of the audit, a determination shall be made as to whether to provide such non-assurance services only with personnel who are not members of the audit team and who have different reporting lines within the firm. The significance of any remaining threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having a professional accountant review the audit or non-assurance work.</p>	<p>The provisions laid down in the EC Recommendation and in the IESBA Code are similar although the wording used is different.</p>

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<p><u>EC Recommendation</u></p> <p><i>B. 7.2.3. Valuation Services</i></p> <p>B. 7.2.3.1. A self-review threat exists whenever a Statutory Auditor, an Audit Firm, an entity within a Network or a Partner, manager or employee thereof provides the Audit Client with valuation services that result in the preparation of a valuation that is to be incorporated into the client's financial statements.</p> <p><i>ANNEX</i></p> <p><i>B. 7.2.3. Valuation Services</i></p> <p>Valuation Services</p> <p>B.7.2.3. A valuation comprises the making of assumptions with regard to future developments, the application of certain methodologies and techniques, and the combination of both in order to compute a certain value, or a range of values, for an asset,</p>	<p><i>Valuation Services</i></p> <p><u>General Provisions</u></p> <p>290.176 (Part) Performing valuation services for an audit client may create a self-review threat. The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • Whether the valuation will have a material effect on the financial statements; • The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment; • The availability of established methodologies and professional guidelines; • For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item; • The reliability and extent of the underlying data; • The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved; • The extent and clarity of the disclosures in the 	<p>The EC Recommendation and the IESBA Code note that a self-review threat is created by the provision of valuation services to an audit client.</p> <p>The EC Recommendation is detailed in its description of what is a valuation service. For example, collecting and verifying data to be used by others such as that undertaken in regard to the sale or purchase of a business (i.e. due diligence work) is not regarded as</p>

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<p>a liability or for a business as a whole. The underlying assumptions of such a valuation may relate to interpretations of the present or expectations of the future, including both general developments and the consequences of certain actions taken or planned by the Audit Client or anybody within its close business environment.</p> <p>Engagements to review or to issue an opinion on the valuation work performed by others (e.g. engagements under Articles 10 and 27 of the 2nd Company Law Directive [77/91/EEC], Articles 10 and 23 of the 3rd Company Law Directive [78/855/EEC], or under Article 8 of the 6th Company Law Directive [82/891/EEC]), or to collect and verify data to be used in a valuation performed by others (e.g., typical “due diligence” work in connection with the sale or purchase of a business), are not regarded as valuation services under this principle.</p>	<p>financial statements.</p> <p>290.175 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.</p>	<p>valuation services by the EC Recommendation.</p>
<p><u>EC Recommendation</u></p> <p>B.7.2.3.2. The significance of the self-review threat is considered too high to allow the provision of valuation services which lead to the valuation of amounts that are material in</p>	<p><u>Audit Clients that are not Public Interest Entities</u></p> <p>290.179 In the case of an audit client that is not a public interest entity, if the valuation service has a material effect on the financial statements on which the firm will express an opinion and the</p>	<p>The IESBA Code differentiates between audit clients that are public interest entities and audit clients that are not public interest entities. For public interest entities if the valuations have a material effect, valuation services are prohibited. For non-public interest entities, both</p>

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<p>relation to the financial statements and where the valuation involves a significant degree of subjectivity inherent in the item concerned.</p> <p><i>ANNEX</i></p> <p>Materiality and Subjectivity</p> <p>B.7.2.3. Valuation services leading to the valuation of amounts which neither separately nor in the aggregate are material in relation to the financial statements are not considered to create a significant threat to independence.</p> <p>The underlying assumptions of a valuation and the methodologies to be applied are always the responsibility of the Audit Client or its management. Therefore, as part of its decision-</p>	<p>valuation involves a significant degree of subjectivity, no safeguards could reduce the self-review threat to an acceptable level. Accordingly a firm shall not provide such a valuation service to an audit client.</p> <p><u>Audit Clients that are Public Interest Entities</u></p> <p>290.180 A firm shall not provide valuation services to an audit client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.</p> <p><u>General Provisions</u></p> <p>290.177 Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different</p>	<p>materiality and subjectivity are to be considered. The EC Recommendation does not make that distinction and prohibits valuations which are material and involve a significant degree of subjectivity.</p> <p>The IESBA Code insofar as valuation for tax purposes is concerned needs to be read in conjunction with the requirements set out in paragraph 290.191.</p>

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<p>making process, the Audit Client or its management has generally to determine the underlying assumptions of the valuation, and to decide on the methodology to be applied for the computation of the value. This is of particular importance when the valuation to be performed requires a significant degree of subjectivity, either in relation to the underlying assumptions or regarding the differences in applicable methodologies.</p> <p>However, with regard to certain routine valuations, the degree of subjectivity inherent in the item concerned may be insignificant. This is the case when the underlying assumptions are determined by law (e.g., tax rates, depreciation rates for tax purposes), other regulations (e.g., provision to use certain interest rates), or are widely accepted within the Audit Client's business sector, and when the techniques and methodologies to be used are based on general accepted standards, or even prescribed by laws and regulations. In such circumstances, the result of a valuation performed by an informed third party, even if not identical, is unlikely to be materially different. The provision of such valuation services might therefore not compromise a statutory auditor's independence, even if the</p>	<p>290.178 If a firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the provisions included in paragraph 290.191 apply.</p> <p>290.191 (Part) In providing tax services to an audit client, a firm may be requested to perform a valuation to assist the client with its tax reporting obligations or for tax planning purposes. Where the result of the valuation will have a direct effect on the financial statements, the provisions included in paragraphs 290.175 to 290.180 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation will not have a direct effect on the financial statements (i.e. the financial statements are only affected through accounting entries related to tax), this would not generally create threats to independence if such effect on the financial statements is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. If the valuation is not subject to such an external review and the effect is material to the financial statements, the existence and significance of any threat created will depend upon factors such as:</p>	

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<p>value itself could be regarded as material to the financial statements, provided that the Audit Client or its management has at least approved all significant matters of judgement.</p>	<ul style="list-style-type: none"> • The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice and the degree of subjectivity inherent in the valuation; • The reliability and extent of the underlying data. 	
<p><u>EC Recommendation</u></p> <p>B. 7.2.3.3. In cases not prohibited under 7.2.3.2 the Statutory Auditor should consider whether additional safeguards are needed to mitigate a remaining self-review threat. In particular, where a valuation service should only be provided by an expert team with different personnel (including engagement partner) and different reporting lines to those of the audit Engagement Team.</p> <p><i>ANNEX</i></p> <p>Additional Safeguards</p> <p>B.7.2.3. Some valuation services involve an insignificant degree of subjectivity. These could</p>	<p>290.176 (Part) The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Having a professional who was not involved in providing the valuation service review the audit or valuation work performed; or • Making arrangements so that personnel providing such services do not participate in the audit engagement. <p>290.191 (Part) The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such</p>	<p>Additional safeguards and the possibility to mitigate the remaining self-review threat are addressed similarly in the IESBA Code and the EC Recommendation and its Annex.</p>

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include those requiring the application of standard techniques or methodologies or where the service is a review of the valuation methods used by a third party, but where the resulting valuation is material in relation to the financial statements. In these cases, the Statutory Auditor should consider whether there remains a self-review threat which should be mitigated by additional safeguards. It may be appropriate to address such a threat by setting up a valuation service team separate from the Engagement Team, with different reporting lines for both.	<p>safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; • Having a professional review the audit work or the result of the tax service; or • Obtaining pre-clearance or advice from the tax authorities. 	
<p><u>EC Recommendation</u></p> <p><i>B. 7.2.4. Participation in the Audit Client's Internal Audit</i></p> <p>B.7.2.4.1. Self-review threats may arise in certain circumstances where a Statutory Auditor, an Audit Firm or an entity within a Network provides internal audit services to an Audit Client.</p>	<p><i>Internal Audit Services</i></p> <p><u>General Provisions</u></p> <p>290.196 (Part) Internal audit services involve assisting the audit client in the performance of its internal audit activities. The provision of internal audit services to an audit client creates a self-review threat to independence if the firm uses the internal audit work in the course of a subsequent external audit.</p>	<p>Both the IESBA Code and EC Recommendation recognize that providing internal audit services to an audit client create a self-review threat if the firm uses the internal audit work in the course of a subsequent external audit.</p>

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<p><i>ANNEX</i></p> <p>B.7.4.2. Internal Audit is an important element of an entity's internal control system. In companies, particularly small and medium sized ones, which cannot afford an internal audit department or where such a department lacks certain facilities (e.g. access to specialists in information technology or treasury management), participation by the Statutory Auditor in the internal audit may strengthen management control capacities</p>	<p>290.195 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. Internal audit activities may include:</p> <ul style="list-style-type: none"> (a) Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements thereto; (b) Examination of financial and operating information – reviewing the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures; (c) Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and (d) Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements. 	<p>The IESBA Code summarizes the activities which internal audit activities may include. There is no similar description in the EC Recommendation. The EC Recommendation only defines that internal audit is part of the entity's internal control system.</p> <p>The EC Recommendation specifically mentions the small and medium sized companies who do not have their own internal audit function and the role the statutory auditor may play.</p>

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<p><u>EC Recommendation</u></p> <p>B. 7.2.4.2. To mitigate self-review threats when involved in an Audit Client's internal audit task, the Statutory Auditor should:</p> <p>B. 7.2.4.2. (a) Satisfy himself that the Audit Client's management or Governance Body is at all times responsible for</p> <p style="padding-left: 20px;">B. 7.2.4.2. (i) The overall system of internal control (i.e., the establishment and maintenance of internal controls, including the day to day controls and processes in relation to the authorisation, execution and recording of accounting transactions);</p> <p style="padding-left: 20px;">B. 7.2.4.2. (ii) Determining the scope, risk and frequency of the internal audit procedures to be performed; and</p> <p style="padding-left: 20px;">B. 7.2.4.2. (iii) Considering and acting on the findings and recommendations provided by internal audit or during the course of a Statutory Audit.</p> <p>B. 7.2.4.2. If the Statutory Auditor is not satisfied that this is the case, neither he, nor the Audit Firm nor any entity within its Network</p>	<p>290.196 (Part) Performing a significant part of the client's internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility. If the firm's personnel assume a management responsibility when providing internal audit services to an audit client, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm's personnel shall not assume a management responsibility when providing internal audit services to an audit client.</p> <p>290.197 Examples of internal audit services that involve assuming management responsibilities include:</p> <p>(a) Setting internal audit policies or the strategic direction of internal audit activities;</p> <p>(b) Directing and taking responsibility for the actions of the entity's internal audit employees;</p> <p>(c) Deciding which recommendations resulting from internal audit activities shall be implemented;</p> <p>(d) Reporting the results of the internal audit</p>	<p>Although the EC Recommendation and the IESBA Code use different terminology both recognize that providing internal audit services increases the possibility that firm personnel providing such services will assume a management responsibility. If that is the case both the IESBA Code and the EC Recommendation conclude that the threat created would be so significant that no safeguards could reduce the threat to an acceptable level.</p>

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<p>should participate in the Audit Client's internal audit.</p> <p>B. 7.2.4.2. (b) Not accept the outcomes of internal auditing processes for statutory audit purposes without adequate review. This will include a subsequent reassessment of the relevant statutory audit work by an Audit Partner who is involved neither in the Statutory Audit nor in the internal audit engagement</p> <p><i>ANNEX</i></p> <p>B.7.2.4. However, self-review threats can arise if, for example, there is not a clear separation between the management and control of the internal audit and the internal audit activities themselves, or if the Statutory Auditor's evaluation of his Audit Client's internal control system determines the kind and volume of his subsequent statutory audit procedures. To avoid such threats, the Statutory Auditor, the Audit Firm or its Network member must be able to show that it is not involved in management and control of the internal audit.</p>	<p>activities to those charged with governance on behalf of management;</p> <p>(e) Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;</p> <p>(f) Taking responsibility for designing, implementing and maintaining internal control; and</p> <p>(g) Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm is responsible for determining the scope of the internal audit work and may have responsibility for one or more of the matters noted in (a) – (f).</p> <p>290.198 To avoid assuming a management responsibility, the firm shall only provide internal audit services to an audit client if it is satisfied that:</p> <p>(a) The client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to acknowledge responsibility for designing, implementing, and maintaining internal control;</p> <p>(b) The client's management or those charged with governance reviews, assesses and</p>	

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<p>Furthermore, in his capacity as the statutory auditor of the client's financial statements the Statutory Auditor must be able to demonstrate that he has taken appropriate steps to have the results of the internal audit work reviewed and has not placed undue reliance on these results in establishing the nature, timing and extent of his statutory audit work. In order to ensure that the Audit Firm's statutory audit work meets required auditing standards and that the Statutory Auditor's independence is not compromised, an appropriate review of these matters should be performed by an Audit Partner who has not been involved in either the Statutory Audit or any of the internal audit</p>	<p>approves the scope, risk and frequency of the internal audit services;</p> <p>(c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;</p> <p>(d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and</p> <p>(e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.</p> <p>290.199 When a firm uses the work of an internal audit function, International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the external audit, a self-review threat is created because of the possibility that the audit team will use the results of the internal audit service without appropriately evaluating those results or exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The significance of the threat will depend</p>	<p>The language in both the IESBA Code and the EC Recommendation is equivalent. In both cases the auditor is required to evaluate the adequacy of the internal audit work before he can put any reliance on the results as part of the external audit work. The EC Recommendation requires that this review is performed by an Audit Partner who has not been involved in either the Statutory Audit or any of the internal audit engagements which may impact the financial statements. The IESBA Code provides that an appropriate safeguard is to use professionals who are not members of the audit team to perform the internal audit service. In substance, however,</p>

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	<p>records or financial statements on which the firm will express an opinion; or</p> <p>(c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.</p>	
<p><u>EC Recommendation</u></p> <p><i>B.7.2.5. Acting for the audit client in the resolution of litigation</i></p> <p>B.7.2.5.1. An advocacy threat exists whenever a Statutory Auditor, an Audit Firm, an entity within a Network or a Partner, manager or employee thereof acts for the Audit Client in the resolution of a dispute or litigation. A self-review threat may also arise where such a service includes the estimation of the Audit Client's chances in the resolution of litigation, and thereby affects the amounts to be reflected in the financial statements.</p> <p><i>ANNEX</i></p> <p>Advocacy and self-review threats</p> <p>B.7.2.5. (Part) In certain circumstances the</p>	<p><i>Litigation Support Services</i></p> <p>290.207 Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval. These services may create a self-review or advocacy threat.</p> <p><i>Legal Services</i></p> <p>290.209 For the purpose of this section, legal services are defined as any services for which the person providing the services must either be admitted to practice law before the courts of the jurisdiction in which such services are to be provided or have the required legal training to practice law. Such legal services may include, depending on the jurisdiction, a wide and</p>	<p>The EC Recommendation considers acting for the audit client in the resolution of a dispute or litigation to be a threat at all times (a threat "exists"), however not always significant, whereas the IESBA Code considers litigation support services and legal services in principle as a possible threat ("may create" a threat).</p> <p>The EC Recommendation covers only explicitly the situation in which is acted for the audit client in the resolution of a dispute or litigation, including some litigation support, whereas the IESBA Code distinguishes between litigation support services and other legal services.</p>

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<p>Statutory Auditor, the Audit Firm, an entity within a Network or a Partner, manager or employee thereof will assist the Audit Client in the resolution of a dispute or litigation.</p> <p>A Statutory Auditor who acts for the Audit Client in the resolution of a dispute or litigation is generally perceived to take on an advocacy role which is incompatible with the responsibility of a Statutory Auditor to give an objective opinion on the financial statements. This advocacy threat is accompanied by a self-review threat when the assistance in the resolution of litigation also requires the Statutory Auditor to estimate chances of his Audit Client succeeding in the action if this could affect amounts to be reflected in the financial statements. A Statutory Auditor who is involved in the resolution of litigation has therefore to consider the significance of both the advocacy threat and the self-review threat.</p> <p>The advocacy threat is increased when the Statutory Auditor, the Audit Firm or a Network member firm takes an active role on behalf of the Audit Client to resolve disputes or litigation. It is less likely that this threat will become significant, when the Statutory Auditor is only required to give evidence to a court or tribunal</p>	<p>diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition legal advice and support and assistance to clients' internal legal departments. Providing legal services to an entity that is an audit client may create both self-review and advocacy threats.</p>	

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in a case in which the client is involved.		
<p><u>EC Recommendation</u></p> <p>B.7.2.5.2. The significance of both the advocacy and the self-review threat is considered too high to allow a Statutory Auditor, an Audit Firm, an entity within a Network or a partner, manager or employee thereof to act for an Audit Client in the resolution of litigation which involves matters that would reasonably be expected to have a material impact on the client's financial statements and a significant degree of subjectivity inherent to the case concerned.</p> <p>B.7.2.5.3. In cases not prohibited under (7.2.5.2.) the Statutory Auditor should consider whether additional safeguards are needed to mitigate a remaining advocacy threat. This could include using personnel (including engagement Partner) who are not connected with the audit Engagement Team and who have different reporting lines.</p>	<p><i>Litigation Support Services</i></p> <p>290.208 If the firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the valuation service provisions included in paragraphs 290.175 to 290.180 shall be followed. In the case of other litigation support services, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</p> <p><i>Legal Services</i></p> <p>290.210 Legal services that support an audit client in executing a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create self-review threats. The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the service; • Whether the service is provided by a member of the audit team; and 	<p>The provisions on safeguards set out in the EC Recommendation and in the IESBA Code are similar.</p> <p>The EC Recommendation and its Annex prohibits acting for an audit client in the resolution of litigation which involves matters that would reasonably be expected to have a material impact on the client's financial statements "and" a significant degree of subjectivity inherent to the case concerned, whereas the IESBA Code prohibits acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion. Most important difference is the fact that the IESBA Code does not require the element of subjectivity and hence would be more restrictive.</p> <p>The IESBA Code declares the valuation service provisions applicable to litigation support services which involve estimating damages or</p>

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<p><i>ANNEX</i></p> <p>Materiality and subjectivity</p> <p>B.7.2.5. The provision of legal services to an Audit Client in connection with the resolution of a dispute or litigation does not usually create a significant threat to independence when these services involve matters that, either separately or in the aggregate, are not expected by a reasonable and informed third party to have any material impact on the financial statements.</p> <p>Acting as an advocate of the Audit Client is inherently subjective, but the degree of subjectivity varies depending upon the nature of the legal proceedings. During the course of an audit, the Statutory Auditor usually has the choice either to evaluate the outcome of a legal proceeding himself, or to rely on a confirmation provided by an external lawyer engaged by the client. The degree of subjectivity in both cases is governed by factors such as the competence of the lawyer, his compliance with ethical rules of the lawyers' profession, and the given</p>	<ul style="list-style-type: none"> • The materiality of any matter in relation to the client's financial statements. <p>The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; or • Having a professional who was not involved in providing the legal services provide advice to the audit team on the service and review any financial statement treatment. <p>290.211 Acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit client.</p> <p>290.212 When a firm is asked to act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved</p>	<p>other amounts that affect the financial statements on which the firm will express an opinion. The EC Recommendation does not explicitly do so.</p>

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<p>evidence, rather than whether or not the lawyer is an employee of the Audit Firm or of a third party law firm.</p> <p>With respect to legal situations where the outcome of legal proceedings can be reasonably estimated on given evidence, the estimation of amounts affected by litigation should not lead to material differences between services provided by the Audit Firm or a third party law firm (e.g. litigation regarding employment contracts with staff, or certain tax proceedings).</p> <p>On the other hand, there might be situations that involve significant inherent subjectivity. There may also be situations where it is impossible to evaluate evidence in an objective manner due to the nature of the business relationship between the Statutory Auditor and the Audit Client (e.g. personal involvement of former or present management, non-executive directors, or shareholders). In such cases, the Statutory Auditor should ensure that he is not involved in the Audit Client's actions in the resolution of litigation, except in minor cases where the matter concerned would not reasonably be expected to have a material impact on the financial statements.</p>	<p>are not material to the financial statements on which the firm will express an opinion, the firm shall evaluate the significance of any advocacy and self-review threats created and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; or • Having a professional who was not involved in providing the legal services advise the audit team on the service and review any financial statement treatment. <p>290.213 The appointment of a partner or an employee of the firm as General Counsel for legal affairs of an audit client would create self-review and advocacy threats that are so significant that no safeguards could reduce the threats to an acceptable level. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company, and consequently, no member of the firm shall accept such an appointment for an audit client.</p>	<p>The EC Recommendation does not cover legal services, including those that involve acting as a General Counsel for legal affairs (paragraph 290.213 of the IESBA Code).</p>

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<p>Additional Safeguards</p> <p>B.7.2.5. In circumstances not covered under 7.2.5.2, the Statutory Auditor should consider whether there remain threats to independence which have to be mitigated by additional safeguards. It might be appropriate to avoid the audit Engagement Team being involved in the litigation process by setting up different engagement teams with different reporting lines for the Statutory Audit and the legal services related to the litigation.</p>		
<p><i>ANNEX</i></p> <p>Advocacy and self-review threats</p> <p>B.7.2.5. (part) Even when taking a relatively active role on behalf of the client, there can be other specific situations which are generally not seen to compromise a Statutory Auditor's independence. Such situations could include, the representation of an Audit Client before the court or the tax administration in a case of tax litigation. They could also include advising the client and defending a particular accounting treatment in a situation where a Member</p>	<p><i>Assistance in the Resolution of Tax Disputes</i></p> <p>290.192 An advocacy or self-review threat may be created when the firm represents an audit client in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding, for example before a tribunal or court.</p>	<p>The IESBA Code is more stringent than the EC Recommendation:</p> <ul style="list-style-type: none"> - the IESBA Code considers the assistance in tax litigation as a possible threat whereas the EC Recommendation states it is generally not seen to compromise independence (however always apply threats and safeguards approach); - the IESBA Code prohibits acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax

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<p>State's authority, securities regulator or review panel, or any other similar European or international body investigates the Audit Client's financial statements. However, whatever the circumstances, the Statutory Auditor should analyse the specific situation and his particular involvement to carefully assess whether or not there is a significant risk to his independence.</p>	<p>The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • Whether the firm has provided the advice which is the subject of the tax dispute; • The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion; • The extent to which the matter is supported by tax law or regulation, other precedent, or established practice; • Whether the proceedings are conducted in public; and • The role management plays in the resolution of the dispute. <p>The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; • Having a tax professional, who was not involved in providing the tax service, advise the audit team on the services and review the financial statement treatment; or 	<p>matter, if the amounts involved are material to the financial statements on which the firm will express an opinion. The EC Recommendation does not know such specific prohibition.</p>

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	<ul style="list-style-type: none"> • Obtaining advice on the service from an external tax professional. <p>290.193 Where the taxation services involve acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements on which the firm will express an opinion, the advocacy threat created would be so significant that no safeguards could eliminate or reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit client. What constitutes a “public tribunal or court” shall be determined according to how tax proceedings are heard in the particular jurisdiction.</p> <p>290.194 The firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analyzing the tax issues) for the audit client in relation to the matter that is being heard before a public tribunal or court.</p>	

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<p><u>EC Recommendation</u></p> <p><i>Recruiting Senior Management</i></p> <p>B.7.2.6.1. Where a Statutory Auditor, an Audit Firm, an entity within a Network or a Partner, manager or employee thereof is involved in the recruitment of senior or key staff for the Audit Client, different kinds of threats to independence may arise. These can include self-interest, trust or intimidation threats.</p> <p>B.7.2.6.2. Before accepting any engagement to assist in the recruitment of senior or key staff, the Statutory Auditor should assess the current and future threats to his independence which may arise. He should then consider appropriate safeguards to mitigate such threats.</p>	<p><i>Recruiting Services</i></p> <p><u>General Provisions</u></p> <p>290.214 (Part) Providing recruiting services to an audit client may create self-interest, familiarity or intimidation threats. The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the requested assistance; and • The role of the person to be recruited. <p>The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</p>	<p>The threats referred to in the EC Recommendation and the IESBA Code differ but the meaning of the provisions is similar.</p>
<p>B.7.2.6.3. When recruiting staff to key financial and administrative posts, the significance of the threats to the Statutory Auditor's independence increases. As such, the Statutory Auditor should carefully consider whether there might be circumstances where even the provision of a</p>	<p><u>Audit Clients that are public interest entities</u></p> <p>290.215 A firm shall not provide the following recruiting services to an audit client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to</p>	<p>In relation to public interest entities, the EC Recommendation prohibits the provision of a short-list of candidates for key financial and administrative posts only, whereas the IESBA Code prohibits 1) searching for or seeking out candidates; and 2) undertaking reference</p>

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list of potential candidates for such posts may cause an unacceptable level of independence risk. Where Statutory Audits of Public Interest Entities are concerned the independence risk would be perceived too high to allow the provision of such a short-list.	<p>exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion:</p> <ul style="list-style-type: none"> • Searching for or seeking out candidates for such positions; and • Undertaking reference checks of prospective candidates for such positions. 	checks of prospective candidates for the position of director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client’s accounting records or financial statements. With respect to the recruiting services, the prohibition in the IESBA Code is therefore more stringent.
B.7.2.6.4. In any case, the decision as to who should be engaged should always be taken by the Audit Client.	<p><u>General Provisions</u></p> <p>290.214 (Part) In all cases, the firm shall not assume management responsibilities, including acting as a negotiator on the client’s behalf, and the hiring decision shall be left to the client.</p>	The EC Recommendation prohibits only the decision as to who should be engaged (in line with the general prohibition taking any decision or taking part in any decision-making on behalf of the audit client [B.7.1.1.a.]). The IESBA Code also prohibits acting as a negotiator on the client’s behalf and would be therefore a little more stringent.

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<p><u>EC Recommendation</u></p> <p><i>ANNEX</i></p> <p>B.7.2.6. A Statutory Auditor who is asked to assist an Audit Client to recruit senior or key staff should first assess the threats to his independence which might arise from, for example, the role of the person to be recruited and the nature of the assistance sought. The need for careful assessment is highest where the person recruited is likely to have a significant role in the client's financial management processes and hence to have regular contact with the Statutory Auditor. However, threats such as self-interest and familiarity may arise from other appointments too.</p> <p>With regard to the nature of the assistance sought, an example of an acceptable service might include reviewing the professional qualifications of a number of applicants and giving an objective opinion on their suitability for a post. Another acceptable service might include the provision of a short-list of</p>	<p><u>General Provisions</u></p> <p>290.214 (Part) The firm may generally provide such services as reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the post. In addition, the firm may interview candidates and advise on a candidate's competence for financial accounting, administrative or control positions.</p>	<p>The EC Recommendation considers threats in relation to senior and key staff only, whereas the IESBA Code considers threats in relation to all positions (however in certain cases may be limited to financial accounting, administrative and control positions)</p>

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<p>candidates for interview, provided that it has been drawn up using criteria specified by the client, rather than on the Statutory Auditor's own judgement. In both cases, care would be needed to ensure that any opinion given about the candidates did not pre-empt the Audit Client's decision. If the Statutory Auditor concludes that he cannot give the assistance requested without directly or indirectly participating in the Audit Client's decision as to who should be appointed, he should decline to provide it.</p>		
	<p><i>Taxation Services</i></p> <p>290.181 Taxation services comprise a broad range of services, including:</p> <ul style="list-style-type: none"> • Tax return preparation; • Tax calculations for the purpose of preparing the accounting entries; • Tax planning and other tax advisory services; and • Assistance in the resolution of tax disputes. <p>While taxation services provided by a firm to an audit client are addressed separately under each of these broad headings; in practice, these</p>	<p>The broad range of taxation services covered by the IESBA Code is not specifically covered by the EC Recommendation except for the provisions concerning assistance in the resolution of tax disputes and valuations for tax purposes. More general guidance is however available in the section 'Preparing accounting records and financial statements', the principles of which can be applied to determine the threats to independence, the nature of the safeguards required to mitigate such threats and whether such a service should be provided to the audit client.</p>

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	<p>activities are often interrelated.</p> <p>290.182 Performing certain tax services creates self-review and advocacy threats. The existence and significance of any threats will depend on factors such as (a) the system by which the tax authorities assess and administer the tax in question and the role of the firm in that process, (b) the complexity of the relevant tax regime and the degree of judgment necessary in applying it, (c) the particular characteristics of the engagement, and (d) the level of tax expertise of the client's employees.</p>	
	<p><u>Tax Return Preparation</u></p> <p>290.183 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and completing information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities. Such services also include advising on the tax return treatment of past transactions and responding on behalf of the audit client to the tax authorities' requests for additional information and analysis (including providing explanations of and technical support for the approach being taken). Tax return preparation</p>	<p>Tax return preparation services are not specifically covered by the EC Recommendation. More general guidance is however available in the section 'Preparing accounting records and financial statements', the principles of which can be applied to determine the threats to independence, the nature of the safeguards required to mitigate such threats and whether such a service should be provided to the audit client.</p>

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	<p>services are generally based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority deems appropriate. Accordingly, providing such services does not generally create a threat to independence if management takes responsibility for the returns including any significant judgments made.</p>	
	<p><u>Tax Calculations for the Purpose of Preparing Accounting Entries</u></p> <p><u>Audit clients that are not Public Interest Entities</u></p> <p>290.184 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat. The significance of the threat will depend on (a) the complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them, (b) the level of tax expertise of the client’s personnel, and (c) the materiality of the amounts to the financial statements. Safeguards shall be applied when</p>	<p>Tax calculations services for the purpose of preparing accounting entries are not covered specifically by the EC Recommendation. More general guidance is however available in the section ‘Preparing accounting records and financial statements’, the principles of which can be applied to determine the threats to independence, the nature of the safeguards required to mitigate such threats and whether such a service should be provided to the audit client.</p>

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	<p>necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; • If the service is performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the tax calculations; or • Obtaining advice on the service from an external tax professional. 	
	<p><u>Audit clients that are Public Interest Entities</u></p> <p>290.185 Except in emergency situations, in the case of an audit client that is a public interest entity, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.</p>	<p>While tax calculations services for audit clients that are public interest entities are prohibited by the IESBA Code (except in emergency situations), such services are not covered specifically by the EC Recommendation. The EC Recommendation provides for general guidance in the section 'Preparing accounting records and financial statements', the principles of which can be applied to determine the threats to independence, the nature of the safeguards required to mitigate such threats and whether such a service should be provided to the audit client.</p>

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	<p>290.186 The preparation of calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of the preparation of accounting entries, which would otherwise not be permitted under this section, may be provided to audit clients in emergency or other unusual situations when it is impractical for the audit client to make other arrangements. This may be the case when (a) only the firm has the resources and necessary knowledge of the client's business to assist the client in the timely preparation of its calculations of current and deferred tax liabilities (or assets), and (b) a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:</p> <p>(a) Those who provide the services are not members of the audit team;</p> <p>(b) The services are provided for only a short period of time and are not expected to recur; and</p> <p>(c) The situation is discussed with those charged with governance.</p>	<p>While the preparation of tax calculations for audit clients that are public interest entities are not covered specifically by the EC Recommendation, reference is made to the general guidance in section 'Preparing accounting records and financial statements', the principles of which can be applied to determine the threats to independence, the nature of the safeguards required to mitigate such threats and whether such a service should be provided to the audit client.</p>

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	<p><u>Tax Planning and Other Tax Advisory Services</u></p> <p>290.187 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.</p>	Not covered by the EC Recommendation.
	<p>290.188 A self-review threat may be created where the advice will affect matters to be reflected in the financial statements. The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements; • The extent to which the outcome of the tax advice will have a material effect on the financial statements; • Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework; 	Not covered by the EC Recommendation.

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	<ul style="list-style-type: none"> • The level of tax expertise of the client's employees; • The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and • Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements. For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, by established practice or has a basis in tax law that is likely to prevail does not generally create a threat to independence. 	
	<p>290.189 The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; • Having a tax professional, who was not involved in providing the tax service, advise the audit team on the service and review the financial statement treatment; 	Not covered by the EC Recommendation.

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	<ul style="list-style-type: none"> • Obtaining advice on the service from an external tax professional; or • Obtaining pre-clearance or advice from the tax authorities. 	
	<p>290.190 Where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:</p> <p>(a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and</p> <p>(b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion.</p> <p>The self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not provide such tax advice to an audit client.</p>	Not covered by the EC Recommendation.
	<p><i>Corporate Finance Services</i></p> <p>290.216 Providing corporate finance services such as (a) assisting an audit client in developing</p>	Corporate Finance Services are not covered by the EC Recommendation.

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	<p>corporate strategies, (b) identifying possible targets for the audit client to acquire, (c) advising on disposal transactions, (d) assisting finance raising transactions, and (e) providing structuring advice may create advocacy and self-review threats. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to provide the services; or • Having a professional who was not involved in providing the corporate finance service advise the audit team on the service and review the accounting treatment and any financial statement treatment. <p>290.217 Providing a corporate finance service, for example advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will provide an opinion may create a self-review threat. The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The degree of subjectivity involved in 	

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	<p>determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements;</p> <ul style="list-style-type: none"> • The extent to which the outcome of the corporate finance advice will directly affect amounts recorded in the financial statements and the extent to which the amounts are material to the financial statements; and • Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework. <p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; or • Having a professional who was not involved in providing the corporate finance service to the client advise the audit team on the service and review the accounting treatment and any financial statement treatment. 	

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	<p>290.218 Where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:</p> <p>(a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and</p> <p>(b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion.</p> <p>The self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level, in which case the corporate finance advice shall not be provided.</p> <p>290.219 Providing corporate finance services involving promoting, dealing in, or underwriting an audit client's shares would create an advocacy or self-review threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not provide such services to an audit client.</p>	

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<p><u>Statutory Audit Directive</u></p> <p>Article 25 Member States shall ensure that adequate rules are in place which provide that fees for statutory audits: (...)</p> <p>(b) cannot be based on any form of contingency.</p> <p><u>EC Recommendation</u></p> <p>B.8.1 Contingent Fees</p> <p>B.8.1.1 Fee arrangements for audit engagements in which the amount of the remuneration is contingent upon the results of the service provided raise self-interest and advocacy threats which are considered to bear an unacceptable level of independence risk. It is therefore required that:</p> <p>(a) Audit engagements should never be accepted on a contingent fee basis; and (b) In order to avoid any appearance of contingency, the basis for the calculation of</p>	<p>Contingent Fees</p> <p>290.225 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of an audit engagement creates a self-interest threat that is so significant that no</p>	<p>The wording used in the Statutory Audit Directive is general and in line with what is set out in the EC Recommendation.</p> <p>The EC Recommendation identifies the threat to independence posed by contingent fees for audit engagements as being one of self-review and of advocacy. Under the IESBA Code the</p>

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<p><u>EC Recommendation</u></p> <p>B.8.1.2. Threats to independence may also arise from contingent fee arrangements for non-audit services which the Statutory Auditor, the Audit Firm or an entity within its Network provides to an Audit Client or to one of its Affiliates. The Statutory Auditor’s safeguarding system (see A. (Framework) (4.3.2 (The Audit Firm’s internal safeguarding system))) should therefore ensure that:</p> <p>(a) Such an arrangement is never concluded without first assessing the independence risk it might create and ensuring that appropriate safeguards are available to reduce this risk to an acceptable level; and</p> <p>(b) Unless the Statutory Auditor is satisfied that there are appropriate safeguards in place to overcome the independence threats, either the non-audit engagement must be refused or the Statutory Auditor must resign from the Statutory Audit to allow the acceptance of the non-audit work.</p>	<p>290.226 A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of a non-assurance service provided to an audit client may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an acceptable level if:</p> <p>(a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;</p> <p>(b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or</p> <p>(c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.</p> <p>Accordingly, such arrangements shall not be accepted.</p>	<p>The EC Recommendation provides, in particular, for a safeguarding system in case of contingent fee arrangements for non-audit services provided to an audit client ensuring that such an arrangement is never concluded without first assessing the independence risk that it might create. The non-audit engagement should be refused or the auditor should resign from the statutory audit unless the statutory auditor is satisfied that there are appropriate safeguards in place to overcome the independence threats.</p> <p>The IESBA Code provides that the threat created by a contingent fee charged by a firm in respect of a non-assurance service provided to an audit client would be so significant that no safeguards could reduce it to an acceptable level where any one of three listed conditions is present.</p>

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	<p>290.227 For other contingent fee arrangements charged by a firm for a non-assurance service to an audit client, the existence and significance of any threats will depend on factors such as:</p> <ul style="list-style-type: none"> • The range of possible fee amounts; • Whether an appropriate authority determines the outcome of the matter upon which the contingent fee will be determined; • The nature of the service; and • The effect of the event or transaction on the financial statements. <p>The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Having a professional accountant review the relevant audit work or otherwise advise as necessary; or • Using professionals who are not members of the audit team to perform the non-assurance service. 	<p>For other types of contingent fee arrangements, two examples of safeguards that may be implemented to reduce the threats to an acceptable level are mentioned.</p> <p>The EC Recommendation does not make such a distinction between different types of contingent fee arrangements for non-audit services.</p>

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<p><i>ANNEX</i></p> <p>Non-Audit Fee Arrangements</p> <p>Self-interest, self-review and advocacy threats to a Statutory Auditor’s independence also arise when the fee for a non-audit engagement is dependent upon a contingent event. This applies to all contingent arrangements between the Statutory Auditor, the Audit Firm or an entity within its Network, and the Audit Client or any of its Affiliates. Dependency on a contingent event means, for example, that the fee depends in some way on the progress or outcome of the project or the attainment of a particular performance figure by the Audit Client (or its Affiliate).</p> <p>In assessing the extent to which contingent fee arrangements pose a threat to statutory auditor independence, and the availability of suitable safeguards, the Statutory Auditor should consider amongst other factors: the relationship between the activity for which the contingent fee is to be paid, and the conduct of any current or future audit; the range of possible fee amounts; and the basis on which the fee is to be calculated.</p>		

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<p>In performing this assessment, the Statutory Auditor should consider, inter alia, whether the amount of the contingent fee is directly determined by reference to an asset or transaction value (e.g., percentage of acquisition price) or a financial condition (e.g., growth in market capitalisation) the measurement of which will be subsequently exposed to an audit examination and whether this increases the self-interest threat to unacceptable levels. On the other hand, independence threats will generally not arise in situations where there is no direct link between the basis of the contingent fee (e.g., the starting salary of a new employee when a recruitment service is provided) and a significant aspect of the audit engagement. Where a Governance Body exists, the Statutory Auditor should disclose contingent fee arrangements to that body in accordance with the principles set out under Section A. (Framework) 4.1.2. (Involvement of the Governance Body).</p>		<p>The Annex to the EC Recommendation also requires that the Statutory Auditor disclose any contingent fee arrangements to those charged with governance. Such requirement is not included in the IESBA Code.</p>

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<p><u>EC Recommendation</u></p> <p>B.8.2. Relationship between total fees and total revenue</p> <p>B.8.2.1. The rendering of any (audit and non-audit) services by a Statutory Auditor, an Audit Firm or a Network to one Audit Client or its Affiliates should not be allowed to create a financial dependency on that Audit Client or client group, either in fact or in appearance.</p>	<p>Fees – Relative Size</p> <p>290.220 When the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The operating structure of the firm; • Whether the firm is well established or new; and • The significance of the client qualitatively and/or quantitatively to the firm. <p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Reducing the dependency on the client; • External quality control reviews; or • Consulting a third party, such as a professional regulatory body or a professional accountant, on key audit judgments. <p>290.221 A self-interest or intimidation threat is also</p>	<p>The EC Recommendation provides that a financial dependency exists when the audit firm or a network receives from an audit client and its affiliates an unduly high percentage of the total revenues in each year over a five-year period. Although the IESBA Code does not provide for such a clear definition of financial dependency, it states that a threat is created by dependence on a client and concern about the possibility of losing the client when the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, a large portion of the revenue from an individual partner's client or a large portion of the revenue of an individual office of the firm.</p> <p>Both the IESBA Code and the EC Recommendation recognize the existence of a self-interest threat as the result of financial dependency on an audit client. According to the IESBA Code financial dependency also creates an intimidation threat.</p> <p>Both the IESBA Code and the EC Recommendation deal with fee dependence for audit clients. While the IESBA Code does</p>

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<p><i>ANNEX</i></p> <p>B.8.2. Relationship between total fees and total revenue</p> <p>Excessive dependence on audit and non-audit fees from one Audit Client or one client group clearly gives rise to a self-interest threat to the Statutory Auditor's independence. The Statutory Auditor or the Audit Firm has not only to avoid dependency but also has to consider carefully whether the appearance of such a dependency might create a significant threat to independence.</p> <p><u>EC Recommendation</u></p> <p>B.8.2.2. A financial dependency is considered to exist when the total (audit and non-audit) fees that an Audit Firm, or a Network receives or will receive from one Audit Client and its Affiliates make up an unduly high percentage of the total revenues in each year over a five-year period.</p>	<p>created when the fees generated from an audit client represent a large proportion of the revenue from an individual partner's clients or a large proportion of the revenue of an individual office of the firm. The significance of the threat will depend upon factors such as:</p> <ul style="list-style-type: none"> • The significance of the client qualitatively and/or quantitatively to the partner or office; and • The extent to which the remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client. <p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Reducing the dependency on the audit client; • Having a professional accountant review the work or otherwise advise as necessary; or • Regular independent internal or external quality reviews of the engagement. <p><u>Audit clients that are Public Interest Entities</u></p> <p>290.222 Where an audit client is a public interest</p>	<p>so more generally, the provisions would have equivalent results for audit clients not being public interest entities. However, the IESBA Code has additional requirements which apply specifically to public interest entities only (see below).</p> <p>The EC Recommendation and Annex to the EC Recommendation analyse specifically the appearance of financial dependency as well as certain other fee relationships that may cause self-interest threats and require that the auditor analyse whether there is need for any safeguards. The Annex to the EC Recommendation includes a specific example of such need for safeguards when the total non audit fees exceed the total of audit fees at an audit client.</p> <p>The IESBA Code provides safeguards to reduce the threat to an acceptable level including external quality control reviews, reducing the dependency on the client or consultation of a third party. The Annex to the EC Recommendation also provides a number of safeguards similar to those in the IESBA Code, although emphasizes in first instance for a quality review by another firm's audit partner who was not involved in the engagement</p>

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<p><i>ANNEX</i></p> <p>B.8.2. Appearance of financial dependency</p> <p>The Statutory Auditor, the Audit Firm or a Network might be perceived to be financially dependent on a single Audit Client or client group when the total audit and non-audit fee that it receives, or expects to receive, from that client or client group exceeds a critical percentage of its total income. The public perception of this critical percentage will depend upon different factors within the audit environment. For example, the level might be different depending on the size of the firm, whether it is well established or newly created, whether it operates locally, nationally or internationally, and on the general business situation in markets in which it is operating.</p> <p>These circumstances have to be carefully considered by the Statutory Auditor when he assesses the significance of the self-interest threat to his appearance of independence. An analysis should be performed of all fees</p>	<p>entity and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 290.27) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm, and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level, and apply the selected safeguard:</p> <ul style="list-style-type: none"> • Prior to the issuance of the audit opinion on the second year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, performs an engagement quality control review of that engagement or a professional regulatory body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or • After the audit opinion on the second year's financial statements has been issued, and before the issuance of the audit opinion on the third year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial 	<p>before.</p> <p>Paragraph 290.222 of the IESBA Code creates an additional requirement for public interest entities only, not mirrored specifically in EC Recommendation. This deals with the situation of financial dependency created where for two consecutive years the total fees from the audit client which is a public interest entity and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client. In this situation the firm shall disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm, and discuss which of a number of listed safeguards it will apply to reduce the threat to an acceptable level, and apply the selected safeguard: a "pre-issuance or post-issuance review" by a professional accountant who is not a member of the firm or network firm or by a professional regulatory body.</p>

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<p>received for audit and non-audit services from a particular client or client group compared to the firm's or Network's total income, as well as of the relevant amounts that are expected to be received during the current firm's or Network's reporting period. If this analysis indicates a level of dependency and a need for safeguards, an Audit Partner who has not been engaged in any of the audit or non-audit work for the client should carry out a review of the significant audit and non-audit work done for the client and advise as necessary. The review should also take into consideration any audit and non-audit work that has been contracted or is the subject of an outstanding proposal. Where doubts remain, or where, because of the size of the firm, no such partner is available, the Statutory Auditor should seek the advice of his professional regulatory body or a review by another statutory auditor.</p> <p><u>EC Recommendation</u></p> <p>B.8.2.3. The Statutory Auditor should also consider whether there are certain fee relationships with one Audit Client and its Affiliates which may appear to create a financial dependency in respect of a person</p>	<p>statements, or a professional regulatory body performs a review of the second year's audit that is equivalent to an engagement quality control review ("a post-issuance review").</p> <p>When the total fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p> <p>Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p>	

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<p>who is in a position to influence the outcome of the Statutory Audit (any person within the scope of A. (Framework) 2 (Responsibility and Scope)).</p> <p><i>ANNEX</i></p> <p>Certain other fee relationships</p> <p>B.8.2. (part) The Statutory Auditor should also consider whether there are, or appear to be, other types of fee relationships between a single Audit Client or client group and himself or the Audit Firm that may cause a self-interest threat. For example, an Audit Partner within an office or branch might be perceived to be dependent on fees from a certain Audit Client, if most of that office's services are provided to that Audit Client, or if the same individual is responsible for selling both audit and non-audit engagements to the Audit Client. To mitigate such self-interest threats, an Audit Firm may reconsider its organisational structures and the responsibilities of certain individuals, or, where applicable, discuss the way services are provided and charged with the Audit Client's Governance Body.</p>		

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<p><u>EC Recommendation</u></p> <p>B.8.2.4. In any case, the Statutory Auditor, the Audit Firm or the Network should be able to demonstrate that no financial dependency exists in relation to a particular Audit Client or its Affiliates</p> <p><i>ANNEX</i></p> <p>Certain other fee relationships</p> <p>B.8.2. (part) Independence may particularly be compromised when significant fees are generated from the provision of non-audit services to an Audit Client or its Affiliates. The Statutory Auditor should therefore assess this risk to his independence. In particular, he should consider the nature of the non-audit services provided, the different fees generated from the statutory audit engagement and the non-audit engagements, and their respective relationship to the total fees received by the Audit Firm or Network. If the analysis indicates the need for safeguards, particularly when the non-audit fees exceed the audit fees, an Audit Partner who is not involved in any of the audit</p>		

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and non-audit engagements should carry out a review of the work done for the client and advise as necessary.		
<p><u>EC Recommendation</u></p> <p>B.8.3. Overdue fees</p> <p>Where fees for audit or other work become significantly overdue and the sum outstanding, or that sum together with fees for current assignments could be regarded as a significant loan (see also B.2), the self-interest threat to independence is considered to be so significant that a Statutory Auditor should not accept reappointment or, where appropriate and practicable, should resign from the current audit engagement. The situation should be reviewed by a Partner not involved in the provision of any services to the client. Where such a review cannot be performed, the situation should be subjected to an external review by another statutory auditor. Alternatively, advice should be sought from a professional regulatory body.</p>	<p>Fees – Overdue</p> <p>290.223 A self-interest threat may be created if fees due from an audit client remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the firm is expected to require payment of such fees before such audit report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional professional accountant who did not take part in the audit engagement provide advice or review the work performed. The firm shall determine whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed or continue the audit engagement.</p>	<p>There is no material difference between the provisions set out in the EC Recommendation and in the IESBA Code.</p>

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<p><i>ANNEX</i></p> <p>B.8.3. Unpaid fees for audit or other work could appear to be in effect a loan from the Statutory Auditor to the Audit Client. This could threaten the Statutory Auditor's independence by creating a mutual financial interest with the Audit Client. In such circumstances, a Statutory Auditor must assess the level of the threat and take any action that may be necessary. This could include disclosing the extent of the potential mutual interest to all relevant third parties. Where the Statutory Auditor is an Audit Firm, the circumstances may be reviewed by another Audit Partner who has not been involved in the provision of any services to the Audit Client. In the case of a sole practitioner, or a small partnership where all the Audit Partners have been involved with the Audit Client, the Statutory Auditor should either seek advice from his professional regulatory body or ask for a review by another statutory auditor.</p>		

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<p><u>Statutory Audit Directive</u></p> <p>Article 25 Member States shall ensure that adequate rules are in place which provide that fees for statutory audits;</p> <p>(a) are not influenced or determined by the provision of additional services to the audited entity; (...)</p> <p><u>EC Recommendation</u></p> <p>B. 8.4. Pricing</p> <p>A Statutory Auditor must be able to demonstrate that the fee for an audit engagement is adequate to cover the assignment of appropriate time and qualified staff to the task and compliance with all auditing standards, guidelines and quality control procedures. He should also be able to demonstrate that the resources allocated are at least those which would be allocated to other work of a similar nature.</p>	<p>240.1. When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.</p>	<p>The Statutory Audit Directive and the EC Recommendation provide that an audit fee should not be determined by the (expected) provision of additional (non-audit) services. In addition, the EC Recommendation provides in the Annex to the EC Recommendation that where statutory audits of public interest entities are concerned, the statutory auditor should discuss the basis for calculating the audit fee with the governance body.</p> <p>Issues and guidance on pricing are not addressed by the IESBA Code in section 290. Instead pricing is dealt with in section 240 regarding fees where pricing is covered generally instead of audit engagement specific.</p>

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Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><i>ANNEX</i></p> <p>B.8.4. A Statutory Auditor must be able to demonstrate that the fee he charges for any audit engagement is reasonable, particularly if it is significantly lower than that charged by a predecessor or quoted by other firms bidding for the engagement. He must also be able to demonstrate that a quoted audit fee is not dependent on the expected provision of non-audit services, and that a client has not been misled as to the basis on which future audit and non-audit fees would be charged when negotiating the current audit fees. The Statutory Auditor should have policies and procedures in place to be able to demonstrate that his fees meet these requirements. Where Statutory Audits of Public Interest Entities are concerned, the Statutory Auditor should seek to discuss the basis for calculating the audit fee with the Governance Body.</p>		

Chapter 18: Litigation		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><u>EC Recommendation</u></p> <p>B.9.1. Both a self-interest and an advocacy threat may arise where litigation takes place, or appears likely to take place, between the Statutory Auditor, the Audit Firm or any other person being in a position to influence the outcome of the Statutory Audit (any person within the scope of A. Framework 2 Responsibility and Scope) and an Audit Client or its Affiliates. All of the audit and non-audit services provided to the client have to be considered in order to assess these threats.</p>	<p>Actual or Threatened Litigation</p> <p>290.231 When litigation takes place, or appears likely, between the firm or a member of the audit team and the audit client, self-interest and intimidation threats are created. The relationship between client management and the members of the audit team must be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. When the firm and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:</p> <ul style="list-style-type: none"> • The materiality of the litigation; and • Whether the litigation relates to a prior audit engagement. <p>The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such</p>	<p>The EC Recommendation addresses the problem referring to self-interest and advocacy threats whilst the IESBA Code refers to self-interest and intimidation threats.</p> <p>The EC Recommendation defines the parties of litigation such as "Statutory Auditor, the Audit Firm or any other person being in a position to influence the outcome of the Statutory Audit and an Audit Client or its Affiliates" whilst the IESBA Code defines the parties as "the firm or a member of the audit team and the audit client" and "client's management".</p> <p>The IESBA Code does not specify that all of the audit and non-audit services provided to the client have to be considered in order to assess these threats.</p>

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Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>B.9.2. Where the Statutory Auditor sees that such a threat may arise, he should discuss the case with the Audit Client's Governance Body or, where such a body does not exist, with his professional regulatory body. The threats to the Statutory Auditor's independence are likely to become significant where there is a serious likelihood of litigation which is material to any of the parties involved, or of litigation which calls into question a prior Statutory Audit, or where material litigation is in progress. The Statutory Auditor should cease to act as soon as such circumstances become evident, subject to the requirements of national law.</p>	<p>safeguards include:</p> <ul style="list-style-type: none"> • If the litigation involves a member of the audit team, removing that individual from the audit team; or • Having a professional review the work performed. <p>If such safeguards do not reduce the threats to an acceptable level, the only appropriate action is to withdraw from, or decline, the audit engagement.</p>	<p>According to the EC Recommendation, the statutory auditor should discuss the case [threat] with the governance body or with his professional regulatory body. The IESBA Code mentions other safeguards.</p>

Chapter 18: Litigation		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><i>ANNEX</i></p> <p>B.9. Whilst it is not possible to specify precisely for all cases the point at which it would become improper for a statutory auditor to continue as Statutory Auditor of an Audit Client, the following criteria should be considered:</p> <ul style="list-style-type: none"> - If an Audit Client alleges deficiencies in statutory audit work, and the Statutory Auditor concludes that it is probable that a claim will be filed, the Statutory Auditor should first discuss the basis of the allegations with the Governance Body of the Audit Client or, where such body does not exist, with his professional regulatory body. If this confirms the judgment that it is probable that a claim will be filed, then <ul style="list-style-type: none"> - subject to local legal requirements - the Statutory Auditor should resign; - If the Statutory Auditor alleges fraud or deceit by current management of an Audit Client, the level of independence risk and the decision as to whether or not he should resign also depends on safeguards such as discussion of all relevant aspects with the Governance Body of the client, or, where such a body does not exist, with the Statutory Auditor's professional 		<p>The Annex to the EC Recommendation provides examples of situations where it would become improper for a statutory auditor to continue the engagement with the audit client but also where independence of statutory auditor would not be compromised.</p>

Chapter 18: Litigation		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p>regulatory body. (In some countries, however, the national law safeguards the independence of the Statutory Auditor in cases of alleged fraud by requiring the Statutory Auditor to report the detected fraud to a national authority and to continue his audit work on behalf of that authority which represents the national public interest. In any case the Statutory Auditor should consider seeking legal advice, giving due consideration to his responsibility to the public interest.);</p> <ul style="list-style-type: none"> - Threatened or actual litigation relating to non-audit services for an amount not material to the Statutory Auditor or to the Audit Client (for example, claims out of disputes over billing for services, results of consultancy services) would not compromise the Statutory Auditors independence. 		

Chapter 19: Compensation and Evaluation Policies		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>Compensation and Evaluation Policies</p> <p>290.228 A self-interest threat is created when a member of the audit team is evaluated on or compensated for selling non-assurance services to that audit client. The significance of the threat will depend on:</p> <ul style="list-style-type: none"> • The proportion of the individual's compensation or performance evaluation that is based on the sale of such services; • The role of the individual on the audit team; and • Whether promotion decisions are influenced by the sale of such services. <p>The significance of the threat shall be evaluated and, if the threat is not at an acceptable level, the firm shall either revise the compensation plan or evaluation process for that individual or apply safeguards to eliminate the threat or reduce it to an acceptable level.</p> <p>Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Removing such members from the audit team; or 	<p>There are no equivalent provisions in the Statutory Audit Directive and EC Recommendation.</p>

Chapter 19: Compensation and Evaluation Policies		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<ul style="list-style-type: none"> • Having a professional accountant review the work of the member of the audit team. <p>290.229 A key audit partner shall not be evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's audit client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.</p>	

Chapter 20: Gifts and Hospitality		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
	<p>Gifts and Hospitality</p> <p>290.230 Accepting gifts or hospitality from an audit client may create self-interest and familiarity threats.</p> <p>If a firm or a member of the audit team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level.</p> <p>Consequently, a firm or a member of the audit team shall not accept such gifts or hospitality.</p>	<p>There are no equivalent provisions in the Statutory Audit Directive and EC Recommendation.</p>

Chapter 21: Senior Personnel acting for a long period of time		
Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><u>EC Recommendation</u></p> <p>B.10.1. Trust or familiarity threats may arise where certain members of the Engagement Team work regularly and for a long period of time on an Audit Client engagement, particularly where Public Interest Entity Audit Clients are concerned.</p> <p>B.10.3. Where Audit Clients other than Public Interest Entities are concerned, it is preferable that the procedures set out at 10.2 (...) should also apply. However, where the Audit Firm is unable to provide for rotation of Key Audit Partners, the Statutory Auditor should determine what other safeguards should be adopted to reduce the independence risk to an acceptable level.</p>	<p>Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client</p> <p><u>General Provisions</u></p> <p>290.150 Familiarity and self-interest threats are created by using the same senior personnel on an audit engagement over a long period of time.</p> <p>The significance of the threats will depend on factors such as:</p> <ul style="list-style-type: none"> • How long the individual has been a member of the audit team; • The role of the individual on the audit team; • The structure of the firm; • The nature of the audit engagement; • Whether the client’s management team has changed; and • Whether the nature or complexity of the client’s accounting and reporting issues has changed. <p>The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce</p>	<p>General meaning of both provisions is similar however the EC Recommendation addresses the problem of long involvement in audit engagement of “certain members of the Engagement Team” whilst the IESBA Code deals with “senior personnel on an audit engagement”. Both regulations differ also regarding the kind of threats which may arise: “Trust or familiarity threats” in the EC Recommendation and “Familiarity and self-interest threats” in the IESBA Code.</p> <p>The IESBA Code provides details regarding the factors upon which the significance of the threats will depend.</p> <p>Safeguards to eliminate the threats are similar in the EC Recommendation and the IESBA Code: rotation of the engagement partner and other key audit partners and quality review of the engagement (see Annex to the EC Recommendation).</p>

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	<p>them to an acceptable level.</p> <p>Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Rotating the senior personnel off the audit team; • Having a professional accountant who was not a member of the audit team review the work of the senior personnel; or • Regular independent internal or external quality reviews of the engagement. 	
<p><u>Statutory Audit Directive</u></p> <p>Recital 26 In order to reinforce the independence of auditors of public-interest entities, the key audit partner(s) auditing such entities should rotate. To organize such rotation, Member States should require a change of key audit partner(s) dealing with an audited entity, while allowing the audit firm with which the key audit partner(s) is/are associated to continue being statutory auditor of such entity. Where a Member State considers it appropriate in order to attain the objectives pursued, that Member State might, alternatively, require a change of audit firm, without prejudice to Art.42(2).</p>	<p><u>Audit Clients that are Public Interest Entities</u></p> <p>290.151 In respect of an audit of a public interest entity, an individual shall not be a key audit partner for more than seven years. After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for two years. During that period, the individual shall not participate in the audit of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.</p>	<p>Rotation and cooling off period for key audit partner are similarly regulated in the EU regulations and in the IESBA Code except for different definitions of “key audit partner” (see Chapter 1 – Glossary and Definitions - definition of key audit partner in the Statutory Audit Directive and in the IESBA Code) As a result, according to the IESBA Code also the individual responsible for the engagement quality control review is required to rotate after seven years with a two-year cooling off period whereas the EU regulations do not address this situation.</p>

¹⁴ Defined in the Glossary and Definitions in Appendix 1.

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<p>Article 24.2 Member States shall ensure that the key audit partner(s) responsible for carrying out a statutory audit rotate(s) from the audit engagement within a maximum period of seven years from the date of appointment and is/are allowed to participate in the audit of the audited entity again after a period of at least two years.</p> <p><u>EC Recommendation</u></p> <p>B.10.2. To mitigate these threats, where the audit of a Public Interest Entity is concerned, the Statutory Auditor is required:</p> <p>(a) As a minimum to replace the Key Audit Partners¹⁴ of the Engagement Team (including the Engagement Partner) within 7 years of appointment to the Engagement Team. The replaced Key Audit Partners should not be allowed to return to the Audit Client engagement until at least a two years period has elapsed since the date of their replacement; and</p>		<p>The IESBA Code provides details relating to the cooling-off period of a rotated person, with a precise list of prohibited activities.</p>

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Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><i>ANNEX</i></p> <p>B.10. (part) To mitigate a familiarity or trust threat to the independence of a Statutory Auditor who is engaged to audit an Audit Client of public interest, the requirement to replace the Engagement Partner and the other Key Audit Partners of the Engagement Team within a reasonable period of time cannot be replaced by other safeguards. (...)</p> <p>When any member of an Engagement Team is replaced because of time served on a particular audit, or because of a related familiarity or trust threat, that individual should not be re-assigned to the team until at least two years have elapsed since his replacement.</p> <p>B.10.2. (part) To mitigate these threats, where the audit of a Public Interest Entity is concerned, the Statutory Auditor is required: (...)</p> <p>(b) To consider the independence risk which may arise in relation to the prolonged involvement of other Engagement Team members, and to adopt appropriate safeguards to reduce it to an acceptable level.</p>	<p>290.152 Despite paragraph 290.151, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, be permitted an additional year on the audit team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.</p> <p>290.153 The long association of other partners with an audit client that is a public interest entity creates familiarity and self-interest threats.</p> <p>The significance of the threats will depend on factors such as:</p> <ul style="list-style-type: none"> • How long any such partner has been associated with the audit client; • The role, if any, of the individual on the audit team; and • The nature, frequency and extent of the individual's interactions with the client's 	<p>Whilst the EC Recommendation does not provide for exceptions or alternative safeguards, the IESBA Code provides an example where rotation of the key audit partners may be difficult. In such circumstances, an additional year on the audit team may be necessary provided safeguards are applied to eliminate or reduce the threat to an acceptable level.</p> <p>The provisions set out in the EC Recommendation are more stringent than the provisions in the IESBA Code in that the latter only relate to "other partners" whilst the former cover "other engagement team members".</p> <p>The IESBA Code provides details on factors influencing the significance of the threat.</p> <p>There is no material difference between the safeguards referred to in the EC Recommendation and the IESBA Code.</p>

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Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><i>ANNEX</i></p> <p>B.10. (part) The Statutory Auditor should also consider the independence risk arising from the prolonged involvement of other members of the Engagement Team, including the senior staff engaged on audits of entities which are consolidated into an Audit Client’s consolidated financial statements, and from the composition of the team itself. He should apply safeguards, such as rotation and measures under the Audit Firm’s quality assurance scheme, to seek to ensure that the engagement may be properly continued without compromising his independence.</p>	<p>management or those charged with governance.</p> <p>The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.</p> <p>Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Rotating the partner off the audit team or otherwise ending the partner’s association with the audit client; or • Regular independent internal or external quality reviews of the engagement. <p>290.154 When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for five years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual</p>	<p>Details are provided in the IESBA Code relating to the computation of the seven years when an audit client becomes a public interest entity. The EC Recommendation does not have similar language.</p>

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Text of the Statutory Audit Directive and the EC Recommendation	Text of the IESBA Code of Ethics	Comments on the differences
<p><i>ANNEX</i></p> <p>B.10. (part) There might be situations, where due to the size of the Audit Firm internal rotation of the Engagement Partner and other Key Audit Partners is not possible or may not constitute an appropriate safeguard. For example, in the case of a sole practitioner's practice, or where the day to day relationship between a limited number of Audit Partners is too close. In such situations, the Statutory Auditor should ensure that other safeguards are put in place within a reasonable period of time. Such safeguards could include having the relevant audit engagement covered by an external quality review, or, as a minimum, seeking the advice of his professional regulatory body. If no suitable safeguards can be identified, the Statutory Auditor should consider whether it is appropriate to continue the audit engagement.</p>	<p>has served the audit client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement.</p> <p>290.155 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.</p>	<p>The IESBA Code provides for an exemption to the mandatory rotation requirement after 7 years if the firm does not have sufficient resources with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity. This exemption can only be applied if an independent regulator in the relevant jurisdiction has provided the exemption and if alternative safeguards specified by the independent regulator are applied. The Statutory Audit Directive does not allow an exemption to the key audit partner(s) rotation requirement.</p>



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