



**FEE SURVEY ON THE  
NETWORK FIRM DEFINITIONS  
ACROSS EUROPE**

**September 2007**



## CONTENTS

1.	Introduction .....	4
1.1.	Background to the Survey .....	4
1.2.	Purpose of the Survey .....	5
1.3.	Survey.....	5
2.	Discussion of the Findings .....	6
2.1.	Existence of network firm definitions in national legislation or regulations .....	6
2.2.	Differences compared to EU Statutory Audit Directive definition of network and IFAC Code of Ethics definition of network firms.....	7
2.3.	Practical implementation issues .....	8
3.	Conclusions .....	12
	Appendix I - Summary of Responses.....	13
	Appendix II - Country Responses .....	14
	Appendix II.1 - Question 1: Is there a network firm definition determined in your national legislation or regulations? .....	14
	Appendix II.2 - Question 2: If yes, please provide the network firm definition, plus any possible guidance.....	19

## 1. INTRODUCTION

### 1.1. *Background to the Survey*

In June 2006, the Directive of the European Parliament and of the Council of 17 May 2006 on “Statutory Audit of Annual Accounts and Consolidated Accounts” (the Statutory Audit Directive or Directive) was published in the Official Journal of the European Union (2006/43/EC). The Directive includes in Article 2, item 7, the European Union definition of ‘Network’<sup>1 2</sup>. European Union Member States have two years, up to mid-2008, to implement the provisions of the Statutory Audit Directive.

It should also be noted that in 2002, the European Commission (EC) issued the European Union “Recommendation on Statutory Auditor’s Independence” (EC Recommendation on Independence or EC Recommendation) which also included in its glossary a network definition<sup>3 4</sup>. About half of the EU Member States have adopted the principles, but not necessarily directly the text of the EC Recommendation in their national laws and regulations (see FEE Survey on Implementation of the EC Recommendation on Independence, March 2006<sup>5</sup>).

In July 2006, the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) issued revisions to its Code of Ethics for Professional Accountants, Section 290 Independence – Assurance Engagements. The revisions introduced a new ‘Networks and Network Firms’ definition and guidance in Sections 290.14 to 290.26<sup>2 6</sup>. The effective date for compliance with the IFAC definition of ‘Networks and Network Firms’ by IFAC Member Bodies is for reports issued on or after 31 December 2008.

The definition of ‘Networks’ of the Statutory Audit Directive and the definition of ‘Networks’ together with the definition of ‘Network Firms’ of IFAC are very closely aligned. However, the European Commission has not issued any guidance to aid the consistent implementation of the network definition, whereas IFAC has issued guidance on ‘Networks and network firms’. For the remainder of this survey, the terms ‘Networks’ and ‘Network firms’ are used as substitutes.

<sup>1</sup> Statutory Audit Directive of 9 June 2006 (2006/43/EC), [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l\\_157/l\\_15720060609en00870107.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_157/l_15720060609en00870107.pdf).

<sup>2</sup> Statutory Audit Directive and IFAC Code of Ethics (July 2006) definition: ‘network’ means the larger structure:

- Which is aimed at cooperation and to which a statutory auditor or an audit firm belongs, and
- Which is clearly aimed at profit- or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources.

<sup>3</sup> [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2002/l\\_191/l\\_19120020719en00220057.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2002/l_191/l_19120020719en00220057.pdf)

<sup>4</sup> EC Recommendation on Independence definition: 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.

<sup>5</sup> [http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=553](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=553)

<sup>6</sup> [http://www.ifac.org/Members/Downloads/Network\\_Firm.pdf](http://www.ifac.org/Members/Downloads/Network_Firm.pdf)

## ***1.2. Purpose of the Survey***

As the Statutory Audit Directive definition of Networks and IFAC definition of Network Firms has to be implemented in European Union Member States and by IFAC Member Bodies, FEE undertook to investigate how consistent definitions of Networks and Network Firms currently are across Europe.

FEE has launched a survey with its Member Bodies to provide an insight into the existence, implementation and consistency of the network firm definition in the 27 European Union (EU) Member States and in Norway and Switzerland as at 1 July 2007. These insights into the existence and implementation of the network definition can contribute to the understanding within Europe of the similarities or differences applicable to audit firms within Europe.

## ***1.3. Survey***

The FEE survey consisted of questions regarding the current network firm definition used in EU Member States, Norway and Switzerland. The questions also focused on the differences compared with the EC Statutory Audit Directive and IFAC Code of Ethics network firm definition and the practical implementation issues encountered.

Set out below is a discussion about the main findings and results and some conclusions regarding the network firm definition within the EU.

Appendix I contains a summary of survey results for every country that responded.

Appendix II includes the detailed questionnaire and country responses.

## 2. DISCUSSION OF THE FINDINGS

### 2.1. Existence of network firm definitions in national legislation or regulations

The results show that ten of the countries (34%) have a network firm definition determined in their national legislation or regulations. In four countries, the Statutory Audit Directive definition has already been implemented, in one country on the EC Recommendation on Independence definition and in another one on the definition in the IFAC Code of Ethics (version prior to July 2006<sup>7</sup>). In the four other countries, the network firm definition is not based on any European or international definition.

Eleven of the countries (38%) do not have a network firm definition in their national laws, but have some form of regulation on networks, mainly dealing with auditor's independence issues. The vast majority of such countries, nine out of eleven, have based this regulation on the IFAC Code of Ethics version prior to July 2006.

Finally, eight of the countries (28%) do not have a network firm definition either in their national laws or regulation as at 1 July 2007.

The table below shows the position in respect of a network firm definition in national legislation or regulation in the 29 countries surveyed as at 1 July 2007:

	COUNTRIES	TOTAL NUMBER OF COUNTRIES
<b>National network firm definition in law based on:</b>		10
• Implemented the Statutory Audit Directive	Belgium <sup>8</sup> , Hungary <sup>9</sup> , Italy <sup>10</sup> and the Netherlands (expected: Austria).	4
• EC Recommendation on Independence	Portugal	1
• IFAC Code of Ethics (prior to July 2006)	Malta	1
• IFAC Code of Ethics (July 2006)	-	-
• National legislation	Ireland, Norway, Sweden and United Kingdom	4

<sup>7</sup> IFAC Code of Ethics (prior to July 2006) definition: Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.

<sup>8</sup> Royal Decree of 21 April 2007, entering into force on 31 August 2007.

<sup>9</sup> Law of 11 June 2007, entering into force on 1 January 2008.

<sup>10</sup> For audit firms auditing public interest entities and not for audit firms auditing entities other than public interest entities.

	COUNTRIES	TOTAL NUMBER OF COUNTRIES
<b>Some national regulation on network firms based on:</b>		11
• IFAC Code of Ethics (prior to July 2006)	Austria, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, Latvia, Luxembourg, Slovak Republic	9
• IFAC Code of Ethics (July 2006)	(Expected: Denmark)	-
• Some national regulation	France, Lithuania	2
<b>No network firm definition in national law or regulation</b>	Estonia, Germany, Greece, Poland, Romania, Slovenia, Spain, Switzerland	8
Total:		29

The network firm definitions in the different countries are detailed in Appendices II.1 and II.2.

## 2.2. *Differences compared to EU Statutory Audit Directive definition of network and IFAC Code of Ethics definition of network firms*

### *Findings*

The differences, if any, between the network firm definition of the ten countries with a definition in their national legislation or regulations and the EU or July 2006 IFAC definition vary.

Only four countries (Belgium (Royal Decree of 21 April 2007, entering into force on 31 August 2007), Hungary (law of 11 June 2007, entering into force on 1 January 2008) Italy (for audit firms auditing public interest entities and not for audit firms auditing entities other than public interest entities) and the Netherlands) have so far implemented the network firm definition in the Statutory Audit Directive.

Two other countries (Ireland and the UK) have implemented the UK Auditing Practices Board (APB) Ethical Standards definition, which is substantially the same as the EC Recommendation definition, of networks which does not refer to a larger structure and profit- or cost-sharing, common quality control policies and procedures or the use of a common business strategy: concepts included in the EU Directive and July 2006 IFAC definition.

These differences as well as a reference to cooperation are also the differences between the EU and IFAC definition and the EC Recommendation on Independence network firm definition, which has been implemented in another country (Portugal).

One country (Malta) still applies the IFAC network firm definition prior to July 2006 which does not refer to a larger structure and aiming at cooperation and profit- or cost-sharing or common quality control policies and procedures, common business strategy, common brand name or sharing professional resources.

Another country (Norway) has a prescriptive network definition which does not make reference to a larger structure and profit- or cost-sharing, common control or management, common quality control policies and procedures or common business strategy.

The last country with a definition in their national legislation or regulations (Sweden) has a high-level general network firm definition.

The nine countries having some form of regulation on networks based on the IFAC Code of Ethics prior to July 2006 make no reference to concepts such as a larger structure and aiming at cooperation and profit- or cost-sharing or common quality control policies and procedures, common business strategy, common brand-name or sharing professional resources.

Of the other two countries with some form of regulation on networks, one (Lithuania) makes no reference to the concepts in the EU Directive and July 2006 IFAC definition as they were not included in the IFAC Code of Ethics prior to July 2006.

The other country (France) having specific regulation on networks does not refer to a larger structure, common control or ownership, common quality control policies or procedures, common business strategy or common professional resources. However facilitating referral work between auditors in this country can already result in their being considered to be a network, as well as knowledge sharing together with just one other feature of the EU Directive and July 2006 IFAC network firm definition.

The analysis of the differences between the more prescriptive network firm definition in the EU Statutory Audit Directive and July 2006 IFAC Code of Ethics and the definitions currently implemented in European countries shows that for the vast majority of countries the concepts of a larger structure and aiming at cooperation and profit- or cost-sharing, sharing common quality-control policies and procedures or common business strategy do not currently feature in the definition of a network. Upon implementation of the Statutory Audit Directive or the July 2006 IFAC Code of Ethics such concepts, and a few others in certain countries, will need to be included in these countries' national network firm definition.

In this respect, it should be noted that FEE Member Bodies, as members of IFAC, will, following the IFAC Statements of Membership Obligations (SMOs), be required to use their best endeavours to implement the IESBA network firm definition, including its guidance.

### **2.3. *Practical implementation issues***

European Union Member States have up to mid-June 2008 to implement the Statutory Audit Directive. International Federation of Accountants (IFAC) Member Bodies have up to the end of December 2008 to implement the July 2006 IFAC network firm definition. As only four countries have so far implemented the network firm definition of the EU Statutory Audit Directive or July 2006 IFAC Code of Ethics, practical implementation issues in relation to this definition have not yet arisen.

However, even the currently implemented, less prescriptive network firm definitions have already resulted in practical implementation issues in a few countries. These issues range from incompatibilities arising from conflicting definitions over lack of clarity and uncertainty of interpretation to a perceived negative impact on the development of small and medium-sized practitioners through networks.

### ***Anticipated consequences of the implementation of the Statutory Audit Directive***

European Member States are required to adopt a network definition within the coming year which, as a minimum, includes the definition in Article 2.7 of the Statutory Audit Directive as follows:

Article 2.7. of the Statutory Audit Directive

‘Network’ means the larger structure:

- Which is aimed at cooperation and to which a statutory auditor or an audit firm belongs, and
- Which is clearly aimed at profit- or cost-sharing or shares common ownership, control or management, common quality-control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources.

Since the network definition is included in an article of the Directive (Article 2 – Definitions) which does not allow for comitology or implementing measures by the European Commission, opportunities to strive for a consistent application of this definition throughout the European Union are limited. European Member States could go beyond the Directive’s definition and add further requirements or interpretative guidance to the network definition provided in Article 2.7. of the Directive.

However, it is important for European Member States to bear in mind that, by its very nature, a network definition is first and foremost a response to cross-border issues in relation to international associations of audit firms. If European Member States were to implement the Directive’s definition of the network differently in their national laws and regulations by adding additional national requirements or guidance, this might result in unintended consequences jeopardizing the overall objective of the definition and of the provisions related thereto.

### ***Registration of audit firms***

Article 17.1 (h) on the registration of audit firms provides that:

1. As regards audit firms, the public register shall contain at least the following information:
  - [...]
  - (h) If applicable, the membership of a *network* and a list of the names and addresses of member firms and affiliates or an indication of the place where such information is publicly available.
  - [...]

In order to comply with this provision an audit firm that is a member of a network (network firm) has to identify all other firms that are also member firms of the network as defined by relevant national law and regulation. This is needed irrespective of whether these firms are located in the same country, within the European Union or elsewhere in the world. Such an identification process requires a close cooperation within the network and, where applicable, on a global basis because a single network firm might not be in a position to obtain all relevant information and keep it updated regularly (some larger networks maintain global offices for such purposes). Also, in order to allow a proper assessment of which entity has to be considered a network firm, the coordination would require the registered audit firm (or ideally, if there is any, the global office of the network) to educate and train other network members on the applicable provisions. Furthermore, practical problems with regard to the completeness of the information may arise in situations where the IFAC Code of Ethics does not apply and/or a (third country) entity that would be considered a network firm under the local laws of the registered audit firm does not consider itself as part of such network.

Whilst the identification of potential network members and the continuous maintenance of the relevant information is already a challenge for some networks, inconsistencies between national network definitions caused by a different application of the Directive's definition in different countries would result not only in an unnecessarily excessive administrative burden for the networks, but may also bear the inherent risk for the registered audit firms of inadvertently not being compliant with the relevant provisions in all countries. This may in particular apply to those third country audit firms that have to register in one or more EU Member States as required by Article 17 of the Directive.

In addition to the practical implications that inconsistent network definitions within the EU may bring about for EU and third country audit firms that have to be registered in one or more EU Member States, such inconsistencies may also bring about an unnecessary administrative burden for the competent authorities or regulators dealing with the registration of audit firms and cause confusion to the users of the public register, i.e. the interested public. Different definitions of the network may result in a situation where a firm is considered a network firm in one country whilst it is not seen as part of that network in another country. Whilst a consistent application of the definition throughout the EU would allow the use of a central database (e.g. reference to the network's website) in the registration process and coordination amongst national regulators within the EU in terms of the assessment of the appropriateness of the provided data, different definitions would require each national regulator to perform its own assessment of the data provided in view of the applicable national laws and regulations.

### ***Transparency reports***

The interested public may be confused if confronted with different entities being presented as belonging to the same network where this varies from country to country and is also at variance with the global website of the relevant network. This problem becomes even more apparent when considering the transparency reports to be published by audit firms that audit public interest entities.

Article 40.1 (b) on the transparency report requires that

1. Member States shall ensure that statutory auditors and audit firms that carry out statutory audit(s) of public-interest entities publish on their websites, within three months of the end of each financial year, annual transparency reports that include at least the following:  
[...]
  - (b) Where the audit firm belongs to a *network*, a description of the *network* and the legal and structural arrangements in the *network*.  
[...]

Differences, even immaterial ones, in national network firm definitions would result in the need for each national network firm to individually analyse and assess, based on its national definition, which audit firms from around the globe qualify as members of its network to be described as such in its transparency report. This burden could be aggravated by difficulties in understanding the sometimes subtle differences between national network firm definitions, resulting in significant communication issues. Inconsistent national descriptions of the network, as required in the transparency report, may thus create further administrative work for each network on a national basis by providing for each country a specific scope of network member firms. This would also confuse the addressees of such transparency reports.

## *Independence*

The administrative burden and compliance costs that networks would have to bear if there are differences in the application of the Directive's network definition becomes even more evident when considered in the context of the provisions on auditor independence. Article 22 on independence and objectivity imposes that:

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.  
[...]

Audit firms that have to comply with the independence requirements for listed entities under the extant IFAC Code and its old network definition, already have to maintain independence monitoring systems, compliance infrastructures and departments to ensure that their independence is not compromised. Whilst the complexity of these systems and the administrative work is currently already high, increasing as a result of different independence regulations that go beyond the IFAC Code (such as, for example, the SEC independence rules and the French Code of Ethics), the complexity of regulations and thus those of the systems and related costs will inevitably increase even further if different definitions of network are applied in different countries. The related costs will not contribute to enhancing audit quality or auditor independence, the risk for an audit firm that is a network firm to fail to comply with the regulation in one or the other country may increase un-proportionately.

Additionally, the inclusion of the network definition in the Statutory Audit Directive clearly has repercussions beyond the European Union. Consequently, in the interests of avoiding disruption to the provision of audit services or a negative impact on competition for the audit services across the world, it is important that there is a common policy approach between the EU and, at least, major third country jurisdictions. Overlapping network definitions, differing interpretations of scope of application of the definitions and of the associated international independence and transparency requirements must be avoided.

Finally, there are currently significant concerns within the professional accountancy and auditing community regarding the potential trans-national impact of the application of the network definition in terms of professional liability arrangements and litigation. These concerns are of a magnitude that a number of international accounting and auditing associations are giving serious consideration to their existing structures, with a view to ensuring that they will not fall under the network definition under the Statutory Audit Directive, even if this might restrict their ability to service trans-national clients.

### 3. CONCLUSIONS

In order to avoid the practical implementation issues referred to earlier, FEE recommends that European Member States should not go beyond the definition of networks as included in Article 2.7. of the Directive in order to ensure its consistent applicability within the European internal market.

As, in July 2006, the IESBA issued a network firm definition which is very closely aligned to the network definition in Article 2.7. of the Statutory Audit Directive but which also includes further guidance, for instance on the meaning of 'larger structure', to help its consistent application, the use of this guidance in European Member States is highly recommended.

The use of this guidance in European Member States would promote consistent application of the network firm definition internationally as a network definition is first and foremost a response to cross-border issues in relation to international associations of audit firms.

Therefore, FEE Member Bodies should discourage their national legislators or regulators from adding additional national requirements or guidance to the Directive's network definition and seek to persuade them to consider the IESBA guidance on the network definition for use in their jurisdiction.

It is also suggested that the IFAC definition and the related explanatory paragraphs should be used as a basis to achieve a coherent policy on a *global* basis, or at least to begin a discussion on how to achieve such a policy.

It should be noted that FEE Member Bodies, as members of IFAC, will, following the IFAC Statements of Membership Obligations (SMOs), be required to use their best endeavours to implement the IESBA network firm definition, including its guidance.

There is also a need for clarification, by means of further guidance, of some currently unclear terms which are included in the network and network firm definitions. There is currently no legal certainty on the meaning of terms like 'larger structure', 'cooperation' and 'belonging to'. Therefore, the EC is encouraged, with advice from the European Group of Auditor's Oversight Bodies (EAOB), to contribute to the provision of further legal certainty by initiating a process to prepare and provide additional guidance to the EU Member States to implement and apply the network definition as included in the Statutory Audit Directive consistently across EU Member States.

## APPENDIX I - SUMMARY OF RESPONSES

COUNTRY	NETWORK FIRM DEFINITION IN NATIONAL LEGISLATION OR REGULATIONS?	IF YES, PROVIDE NETWORK FIRM DEFINITION PLUS GUIDANCE
Austria	Current legislation: NO, only 'principles' of networks; draft legislation: YES.	Current legislation: Principles of Directive <sup>11</sup> and IFAC Code of Ethics; draft legislation: EC Statutory Audit Directive definition (possibly with amendments for clarification in the wording (not yet determined)).
Belgium	YES	EC Statutory Audit Directive definition, please also refer to Appendix II.2
Bulgaria	NO, IFAC Code of Ethics	IFAC Code of Ethics
Cyprus	NO, IFAC Code of Ethics	IFAC Code of Ethics
Czech Republic	By reference to the IFAC Code of Ethics	IFAC Code of Ethics (will be as revised)
Denmark	NO, IFAC Code of Ethics	IFAC Code of Ethics (will be as revised)
Estonia	NO	N/A
Finland	NO, IFAC Code of Ethics	IFAC Code of Ethics
France	NO, only 'features' of networks	Please refer to Appendix II.2
Germany	NO	N/A
Greece	NO	N/A
Hungary	YES	EC Statutory Audit Directive definition, please also refer to Appendix II.2
Ireland	YES	Will be introduced. Please refer to Appendix II.2
Italy	YES	EC Statutory Audit Directive definition
Latvia	NO, IFAC Code of Ethics	IFAC Code of Ethics
Lithuania	Audit network definition	Please refer to Appendix II.2
Luxembourg	NO, IFAC Code of Ethics	IFAC Code of Ethics
Malta	YES, based on IFAC Code of Ethics	IFAC Code of Ethics
Netherlands	YES	EC Statutory Audit Directive definition
Norway	YES	Please refer to Appendix II.2
Poland	NO	N/A
Portugal	YES	EC Recommendation on Independence definition
Romania	NO	N/A
Slovak Republic	NO, IFAC Code of Ethics.	IFAC Code of Ethics
Slovenia	NO	N/A
Spain	NO	N/A
Sweden	YES	Please refer to Appendix II.2
Switzerland	NO	N/A
United Kingdom	YES	Please refer to Appendix II.2

<sup>11</sup> Directive on the Statutory Audits of Annual Accounts and Consolidated Accounts (2006/43/EC)

## APPENDIX II - COUNTRY RESPONSES

### *Appendix II.1 - Question 1: Is there a network firm definition determined in your national legislation or regulations?*

COUNTRY	ANSWER
Austria	<p>Current legislation: Not explicitly.</p> <p>However, regarding the independence requirements for auditors which are members of networks it should be mentioned that, in the Austrian Commercial Code (as amended by the Austrian Parliament in 2005 with the EU-Gesellschaftsrechtsänderungsgesetz), appropriate regulations have been introduced which meet the principles intended by the common network definition of the Statutory Audit Directive and IFAC Code of Ethics.</p> <p>Draft legislation: Yes.</p>
Belgium	<p>There are currently three network firm descriptions in our national legislation and regulation. In addition, a definition of network, in line with the definition referred to in article 2.7. of the Statutory Audit Directive has been introduced in the law of 22 July 1953 which creates the Institute of Registered Auditors (IBR-IRE) as amended by a royal decree of 21 April 2007, published in the Belgian Official Gazette of 27 April 2007. The new legal provision is expected to enter into force at the latest on 31 August 2007.</p>
Bulgaria	<p>No, there is no network firm definition in the Bulgarian national legislation. The definition as set by IFAC in the Code of Ethics for Professional Accountants is applied.</p>
Cyprus	<p>No national network definition exists. The definition of the IFAC Code of Ethics is applied.</p>
Czech Republic	<p>There is no network firm definition determined directly in the Czech national legislation or regulation. The local law – Act on Auditors – however, requires all accountants to be compliant with the Code of Ethics. The Annual Meeting of the Czech Auditors approved (in November 2006) the IFAC Code of Ethics (version with non revised section 290 on independence for networks and network firms) – Czech translation to be effective commencing 1 January 2007. Revised section 290 related to networks and network firms will be recommended to be approved at the next Annual Meeting (November 07) to be valid for reports dated on or after 31 December 2008.</p>
Denmark	<p>The Danish act does not contain any definition on “network firm”. However in some respects the current Danish act on state authorized and registered public accountants dictates a wide definition of the term “audit firm”. E.g., the official</p>

COUNTRY	ANSWER
	<p>remarks from the Ministry of Economics and Business to section 11 of the act (independence rules) mentions that the term “audit firm” must be interpreted in the widest possible way.</p> <p>The present definition in the FSR Code of Ethics is a Danish translation of – and therefore similar to – the 2005 version of the IFAC Code of Ethics.</p> <p>FSR is in the process of translating and implementing the section 290.14 to 290.26 from the IFAC Code of Ethics, July 2006, into the Danish Code of Ethics issued by FSR.</p>
Estonia	<p>No.</p> <p>Currently there is no network firm definition in auditing related regulations. The ministry of Finance is currently preparing the new draft of the Estonian Auditing Act. There is an intention to introduce the IFAC Code of Ethics in Estonia.</p>
Finland	<p>No, there is no network firm definition in the Finnish legislation or regulations. However, the Institute (KHT-yhdistys) has translated the IFAC Code of Ethics into Finnish and the translated Code of Ethics applies to all members of the Institute.</p>
France	<p>There is no French definition of a network firm but “features” of a firm being a network firm (see below).</p> <p>The French oversight board (Haut Conseil du Commissariat aux Comptes (H3C)) is to be consulted as necessary when it is unclear whether a network exists or not among firms or associations of firms.</p>
Germany	<p>There is no German network firm definition.</p> <p>However, paragraph 319 of the German Commercial Code (HGB) on Selection of the auditors and grounds for exclusion, includes in subsection (4) on incompatibilities in relation to independence of audit firms some rules for affiliated companies.</p>
Greece	<p>No.</p>
Hungary	<p>Up to 11 June 2007 no law defined network firms in Hungary. Hungary has adopted a new Bill on the Chamber of Hungarian Auditors, on auditing activities and public oversight on 11 June 2007. This new law (75/2007) will enter into force on 1 January 2008 and defines in paragraph 2, point 17) a network firm in the same way as in the Statutory Audit Directive.</p>
Ireland	<p>Yes, please refer to the response for the UK.</p>

COUNTRY	ANSWER
	<p>The position for Ireland is exactly the same as that recorded in the UK response as the Irish professional bodies require their members where appropriate to adopt the Auditing Practices Board (APB) Ethical Standards for Auditors.</p>
Italy	<p>Yes.</p> <p>For audit firms auditing public interest entities, a broad definition has been introduced with law nr. 262/2005 (law on savings) which has amended the financial markets legal discipline (Delegated decree nr. 58/98), and specifically with regard to article 160 dealing with incompatibilities and independence of audit firms (registered in Consob role - for providing external statutory audit services to listed companies).</p> <p>Therefore this definition applies only within the scope of audit firms for audits of public interest entities.</p> <p>According to the law provision, the network is the broader structure to which the audit firm belongs, using the same denomination and through which resources are shared. In any case it would comprise companies which are controlled or controlling, linked or subject to common control.</p> <p>The law provides for the enactment of a Consob Regulation, to identify criteria for networks and for defining audit assignments in order to ensure auditors independence. The Consob Regulation was published in June 2007 (after public consultation of February 2007). In addition to the legal definition provided by article 160 of the revised Delegated Decree 58/98, article 149 bis of the Regulation defines additional criteria referring to the definition provided in the audit directive (article 2.7).</p> <p>For audit firms auditing other than public interest entities, the definition is provided by the national auditing standard nr. 100 related to auditor's independence, issued on July 2005. This auditing standard contains a network definition based on the European Commission Recommendation of 16 May 2002 "Statutory Auditors' Independence in the EU: A Set of Fundamental Principles".</p>
Latvia	<p>No, Latvia has adopted the IFAC Code of Ethics network firm definition.</p>
Lithuania	<p>No, but there is an audit network definition in the Law on Audit.</p>
Luxembourg	<p>No, However, the Luxembourg Ethics Code uses the IFAC definition: "Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally."</p>

COUNTRY	ANSWER
Malta	<p>Yes, a definition of Network Firm is found in the local Code of Ethics, which is based on the previous version of the IFAC Code of Ethics. Apart from being applicable on all Members of the Malta Institute of Accountants, the local Code of Ethics is also given legal strength as it was enacted by Directive Number 2 issued in terms of the Accountancy Profession Act (Chapter 281 of the Laws of Malta). All holders of a warrant to practice the profession of an accountant in Malta must therefore comply with the provisions of the aforementioned code.</p>
Netherlands	<p>Yes, in Article 1 – c of the public oversight law “Wet toezicht accountantsorganisaties (Wta)”.</p>
Norway	<p>Yes, in the Act on auditing and auditors (Auditors Act 1999) section 4-7, and in the Regulation on auditing and auditors (Auditors Regulation 1999) section 4-2.</p>
Poland	<p>No, the Polish legislation is in the process of being adjusted to the EU regulations, i.e. the 2006/43/EC Directive, by Polish government. KIBR has not been informed on any amendments so far.</p>
Portugal	<p>Yes, the network firm definition in Portugal is the same as the one stated in the Commission Recommendation of 16 May 2002 “Statutory Auditors' Independence in the EU: A Set of Fundamental Principles”.</p>
Romania	<p>No network firm definition is included in the Romanian legislation. However, groups of companies and companies with secondary business places are defined. The only definition of a group of interests exists from an economic and tax evasion point of view.</p>
Slovak Republic	<p>The definition is not determined in the national legislation. However, Slovak auditors follow the IFAC International Auditing, Assurance and Ethics Pronouncements (which are binding for them) where the definition is provided. In addition, the new Act on Auditors and Oversight Body is currently under preparation which includes the same definition as in the Directive.</p>
Slovenia	<p>No.</p>
Spain	<p>No. The Spanish legislation does not provide for a definition of Network.</p>

COUNTRY	ANSWER
Sweden	Yes, there is a definition in the Auditors Act, section 2.
Switzerland	No.
United Kingdom	<p>Yes, legislation has required the Institute of Chartered Accountants in England and Wales (ICAEW), the Association of Chartered Certified Accountants (ACCA) and other UK professional bodies to adopt, as regards auditor independence requirements, the Ethical Standards for Auditors issued by the Auditing Practices Board (APB) (<a href="http://www.frc.org.uk/apb/publications/ethical.cfm">www.frc.org.uk/apb/publications/ethical.cfm</a>), which apply to all audits in the UK.</p> <p>The ACCA Code of Conduct, ICAEW Code of Ethics and others also contain a definition of network firm as included in the IFAC Code of Ethics prior to July 2006.</p>

**Appendix II.2 - Question 2: If yes, please provide the network firm definition, plus any possible guidance.**

COUNTRY	ANSWER
Austria	<p>Current legislation: The principles of the common network definition of the Statutory Audit Directive and IFAC Code of Ethics are included in the Austrian independence requirements.</p> <p>Draft legislation: The network firm definition of the Statutory Audit Directive would be applied, possibly with amendments for clarification in the wording (not yet determined).</p>
Belgium	<p>[Approximate translation: for information purpose only]</p> <p>1. <i>Royal Decree of 10 January 1994, article 1,5</i></p> <p>A person who has a professional relationship with the <i>registered auditor</i> (professional network): any individual with whom the registered auditor has entered into an organised professional cooperation; is anyhow presumed to be part of this definition, any company having as purpose performing the profession, any contract which contains the right to use and to refer to a common name or which contains a compulsory of mutual recommendation.</p> <p>Such a definition does not only relate to the mandate carried out by the statutory auditor but also covers all services carried out by the registered auditor.</p> <p>2. <i>Belgian Company Code, article 133, al. 4</i></p> <p>“As far as the provisions relating to the independence of the <i>statutory auditor</i>, and in particular to non audit services, are concerned, article 133, § 4, of the Company Code has extended their scope to persons with whom the statutory auditor has entered into a labour agreement, to persons with whom he is in a professional network or to companies or persons related to the statutory auditor referred to in article 11 of the Company Code.”</p> <p>3. <i>Royal Decree of 30 January 2001, article 183quinquies</i></p> <p>The Royal Decree of 30 January 2001, introduced by the Royal Decree of 4 April 2003, provides an exhaustive list of non-audit services deemed to be incompatible with the independence of the statutory auditor. Article 183 <i>quinquies</i> of this Royal Decree defines a professional network, in order to determine the persons, including the statutory auditor, subject to the scope.</p> <p>The definition only relates to the rendering of non-audit services, in relation with the independence rules of the statutory auditor (art. 133 C. Soc.).</p> <p>Is considered as a professional network, the following cooperation organised by a statutory auditor with a legal entity or an individual:</p>

COUNTRY	ANSWER
	<ol style="list-style-type: none"> <li>1. Any company willing to practice the profession of registered auditor and in which the statutory auditor is shareholder, partner, director or manager;</li> <li>2. Any association or company referred to in article 8 §4 of the law of 22 July 1953 composed of one or several registered auditors, one of whom at least is a statutory auditor, and of other persons who do not possess this professional qualification or an equivalent one;</li> <li>3. Any company or individual with whom the company or the association referred to in 1 or 2 is connected in the sense of article 11 of the Belgian Company Code;</li> <li>4. Any position of partner, shareholder, director, manager or member of a company, of an association or an individual referred to in 1 to 3, who is part of the team in charge of the audit engagement;</li> <li>5. Any labour agreement entered into by the statutory auditor with a registered auditor;</li> <li>6. Any registered auditor with whom the company, the association or the person, referred to in 1, 2 and 3 has entered into a labour agreement;</li> <li>7. Any contract containing the right to use a common corporate name or to refer to one;</li> <li>8. Any contract containing an undertaking of mutual recommendation;</li> <li>9. Any contract or company aiming at sharing professional resources.</li> </ol> <p><i>4. Law of 22 July 1953 which creates the Institute of Registered Auditors (IBR-IRE) as amended by a royal decree of 21 April 2007, article 1.8 (entering into force on 31 August 2007 and which is literally taken from the Statutory Audit Directive):</i></p> <p>“Network: the larger structure which is aimed at cooperation and to which a <i>registered auditor</i> 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>
Bulgaria	The network firm definition of the IFAC Code of Ethics is applied.
Cyprus	It is the definition that is contained in the IFAC Code of Ethics for Professional Accountants which the Institute of Certified Public Accountants of Cyprus has adopted since September 2002.
Czech Republic	The network firm definition of the IFAC Code of Ethics is applied.
Denmark	The definition in the FSR Code of Ethics will be similar to the IFAC definition.
Estonia	N/A
Finland	The network firm definition of the IFAC Code of Ethics is applied.

COUNTRY	ANSWER
France	<p>[Approximate translation: for information purposes only]</p> <p>According to the French Code of Ethics for statutory auditors :  “[...]The following features may qualify firms as a network:</p> <ul style="list-style-type: none"> <li>- Joint management or coordination on a national or international level;</li> <li>- Any mechanism leading to shared revenues or net income, or to transferred remuneration or costs within/to France or other countries;</li> <li>- The existence of referral fees;</li> <li>- A common corporate name or distinctive logo;</li> <li>- A common recurring client base;</li> <li>- The publication or use of documents for public purpose, that present the network or each of its members and refer to multidisciplinary skills;</li> <li>- The design or development of common technical tools.</li> </ul> <p>Technical associations established solely for the purpose of knowledge sharing do not constitute a network.</p> <p>Where the statutory auditor has a doubt regarding his membership of a network, he shall consult with the Haut Conseil du Commissariat aux Comptes.”</p>
Germany	<p>Affiliated company rule of paragraph 319 of the German Commercial Code:</p> <p>German public auditing firms and sworn auditing firms may not audit financial statements if they, one of their legal representatives, a shareholder owning more than twenty per cent of the voting power attributable to the shareholders, an affiliated company, a shareholder involved in the audit in a responsible position or another person employed by it who can influence the results of the audit are excluded under subsections (2) or (3) of paragraph 319.</p>
Greece	N/A
Hungary	<p>The definition of a network firm is taken from the Statutory Audit Directive:</p> <ul style="list-style-type: none"> <li>- A larger structure, which is aimed at cooperation and to which a statutory auditor or an audit firm belongs, and</li> <li>- 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 significant part of professional resources.</li> </ul> <p>[Approximate translation: for information purpose only]</p>
Ireland	<p>APB definition – Network firm means any entity:</p> <ul style="list-style-type: none"> <li>(i) Controlled by the audit firm or</li> <li>(ii) Under common control, ownership or management or</li> </ul> <p>Otherwise affiliated or associated with the audit firm through the use of a common name or through the sharing of common professional resources.</p>

COUNTRY	ANSWER
Italy	<p>For the audit firms auditing public interest entities, the general criteria provided in the law are the following:</p> <ul style="list-style-type: none"> <li>- Consisting of the broader structure;</li> <li>- Inclusion of all the firms that control an audit firm, subsidiaries of an audit firm, firms that are associated to an audit firm or under common control with another audit firm (controlled in fact or by virtue or rights);</li> <li>- Use of a common denomination;</li> <li>- Sharing common professional resources;</li> </ul> <p>The additional criteria identified by the Consob Regulation are the following:</p> <ul style="list-style-type: none"> <li>- A network can be a national or an international structure;</li> <li>- A structure which is aimed at cooperation;</li> <li>- Sharing of profit or costs, or</li> <li>- Sharing directives and common procedures of quality control;</li> <li>- Sharing common ownership or management, or</li> <li>- Sharing common business strategies, or</li> <li>- Using the same trade marks, or</li> <li>- Sharing a significant part of professional or organisational resources.</li> </ul> <p>For audit firms auditing other than public interest entities, the definition contained in the auditing standard nr. 100 is the following:</p> <p>A network includes the auditor which performs the statutory audit, together with its affiliates and any other entity or subject associated with the auditor through the use of a common name or through the sharing of significant common professional resources.</p>
Latvia	The network firm definition of the IFAC Code of Ethics is applied.
Lithuania	“Audit network” means a system embracing the audit firm and related firms, in which the same brand name is used or professional resources are shared.
Luxembourg	The network firm definition of the IFAC Code of Ethics applies.
Malta	<p>Network firm means: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.</p> <p>The term firm used in the definition above is in turn defined as:</p> <ul style="list-style-type: none"> <li>(a) A sole practitioner or partnership of warrant holders;</li> <li>(b) An entity that controls such parties; and</li> <li>(c) An entity controlled by such parties.</li> </ul>
Netherlands	The definition is literally taken from de Statutory Audit Directive:

COUNTRY	ANSWER
	<p>'Network' means the larger structure:</p> <ul style="list-style-type: none"> <li>- Which is aimed at cooperation and to which a statutory auditor or an audit firm belongs, and</li> <li>- 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;</li> </ul>
Norway	<p>Auditors Act section 4-7. Cooperation agreements, ownership shares, etc:</p> <p>In the case of cooperating auditors who from the outside appear to be a joint operation, provisions laid down in or pursuant to this chapter [chapter 4 Ethics and independence chapter of the Auditors Act] shall apply as if they were an audit firm.</p> <p>Where an auditor or audit firm has ownership shares in an undertaking that provides consulting or other non-audit services, these shall be viewed as for the purpose of provisions laid down in or pursuant to this chapter.</p> <p>The annual accounts of an entity subject to the statutory audit obligation may not be audited by anyone who has a cooperation agreement with someone providing consulting or other non-audit services if this might influence or raise doubts about the auditor's independence and objectivity. The ministry may, in regulations, provide that rules laid down in or pursuant to this chapter shall apply where such a cooperation agreement exists.</p> <p>Auditors Regulation section 4-2:</p> <p>'Cooperation agreement' as mentioned in section 4-7 third paragraph of the Auditors Act shall mean an agreement on the use of identical names or the sharing of significant professional or business resources. The same shall apply to other cooperation agreements that may influence or raise doubts about the auditor's independence and objectivity.</p> <p>In cases where a cooperation agreement as mentioned in the first paragraph exists, the rules laid down in or pursuant to the Auditors Act section 4-1 first, second and fifth paragraphs [General requirements regarding independence and objectivity], section 4-2 second and fourth paragraphs [identification rules for audit firms], section 4-4 [Auditor's participation in other business activities], section 4-5 first to third paragraphs and fifth paragraph [Non-audit services etc.] and section 4-6 [Audit fee independence] shall apply to a corresponding extent to the cooperating undertaking, cf. also the fourth paragraph.</p> <p>Section 4-1 first paragraph first sentence shall not apply in relation to close associates of the cooperating undertaking or to persons as mentioned in the fourth paragraph. Ownership shares or outstanding accounts etc as mentioned in section 4-1 second paragraph nos. 2 and 3 shall not be of consequence for the auditor's independence unless they are substantial.</p> <p>The rules for undertakings shall apply to a corresponding extent to partners and</p>

COUNTRY	ANSWER
	senior employees of the undertaking and to members of the undertaking's governing bodies.
Poland	N/A
Portugal	"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.
Romania	N/A
Slovak Republic	N/A
Slovenia	N/A
Spain	N/A
Sweden	<i>Accounting firm group</i> : A group of enterprises in which at least one public accounting firm is included and which, due to ownership structure, agreement or administrative cooperation or other reasons may be regarded as part of the same commercial unity.
Switzerland	N/A
United Kingdom	<p>APB definition – Network firm means any entity:</p> <ul style="list-style-type: none"> <li>(i) Controlled by the audit firm or</li> <li>(ii) Under common control, ownership or management or</li> <li>(iii) Otherwise affiliated or associated with the audit firm through the use of a common name or through the sharing of common professional resources.</li> </ul> <p>Definition included in codes of the individual bodies- <i>network firm</i> means an entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude as being part of the network nationally or internationally.</p>