



Federation of European Accountants
Fédération des Experts comptables Européens

Ethics and Network Definition

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Ethics and Network Definition Issues for SMPs

- Relevance of the IFAC Code of Ethics
- Capacity to implement and comply
- Lokal laws/regulations and the Code
- The challenge: Network Definition

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IFAC Code of Ethics Relevance

- commitment of IFAC member bodies
- high quality ethical standards for professional accountants
- SME vs. PIE audits (independence)
- compare Code with Statutory Audit Directive and EU Recommendation
- SMPs and the global dimension

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IFAC Code of Ethics The case for convergence (1)

- **Trends**
 - ↻ Globalization: Companies to comply with multiple sets of regulations and requirements
 - ↻ Substantial progress made in convergence of accounting and auditing standards
 - ↻ Convergence of independence standards less advanced – even within the Internal Market
- **Situation**
 - ↻ Inconsistent understanding of independence among preparers, auditors, investors and regulators
 - ↻ Reputation at risk: differences and complexity of detail may lead to minor violations that don't impact independence in substance
 - ↻ Higher cost to preparers, auditors and regulators
 - ↻ Somewhat reduced auditor choice

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IFAC Code of Ethics The case for convergence (2)

- **Benefits of convergence:**
 - ↪ Clearer understanding of independence
 - ↪ Facilitates more efficient operation by preparers, auditors and regulators
 - ↪ Reduces duplication in compliance processes
- **How to achieve convergence:**
 - ↪ Recognize: difficult and time consuming to change national requirements of law and regulation globally and in short term
 - ↪ Short term objectives
 - Profession to take into account IESBA Code when considering independence matters
 - Regulators to accept independence requirements in the IESBA Code for extraterritorial application
 - ↪ from an Internal Market perspective the EU should take the lead

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IFAC Network Definition IFAC Code of Ethics

Definition

“A larger structure:

- 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, [or]
 - [shares] common quality control policies and procedures, [or]
 - [shares a] common business strategy, [or]
 - [shares] the use of a common brand name, [or]
 - [shares] a significant part of professional resources.”

+ Guidance (290.14 – 290.26)

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IFAC Network Definition Consequences

- The Code's auditor independence provisions apply to all member firms of the auditor's network
- Statutory Audit Directive
 - Auditor independence (Art. 22.2)
 - Registration of audit firms (Art. 17.1 (h))
 - For auditors of PIEs: Transparency Reports (Art. 40.1 (b))
- **Consequences for your Practice**

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Questions & Answers

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