



## Professional Ethics and Competences - February 2013

### Promoting Further Harmonisation of European Auditor Independence Requirements

*In a new study, FEE compares Auditor Independence provisions in the EU Statutory Audit Directive - Recommendation on Statutory Auditor's Independence in the EU and the Independence Sections of the IESBA Code of Ethics for Professional Accountants.*

The European Parliament of the European Union (EU) is currently discussing the European Commission Proposal for a Regulation on specific requirements regarding Statutory Audit of Public Interest Entities (PIEs), including matters related to the Independence of Auditors and related issues such as the Provision of Non-Audit Services to Audit Clients that are PIEs.

In this Study, FEE provides a summary of key differences between the provisions of the EU frameworks on Auditor Independence (in the 2006 Statutory Audit Directive and the 2002 EC Recommendation on Statutory Auditor's Independence in the EU) and global independence standards of the Code of Ethics of the International Ethics Standard Board for Accountants (IESBA).

The Study reveals that the IESBA Code is more robust with respect to audits of PIEs (Public Interest Entities). It includes strict provisions for those non-audit services that are incompatible with the provision of audit services and tackles other matters that may be considered for inclusion in future EU audit legislation.

The FEE analysis shows that there are various differences that exist with respect to the definitions and terms used within the different sets of requirements. This significantly impacts those covered by these specific requirements.

For instance 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. As a result, the range of individuals to whom the cooling-off and rotation requirements apply is broader than in the EU provisions.

Furthermore, as far as the meaning of "listed entity" is concerned, this term is solely defined in the IESBA Code and comprises a broad range of entities. As a consequence, the entities covered by the definition of a PIE under the IESBA Code to which the restrictive provisions on PIEs are to be applied is much broader than under the EU provisions.

When comparing the requirements that apply in specific situations, the IESBA Code is more restrictive than the EU provisions with respect to holding financial interests in audit clients. The IESBA Code is also more restrictive than the EU provisions when it comes to prohibiting managerial or supervisory roles in audit clients.

For non-audit services, the IESBA Code is more restrictive by providing a clear prohibition on certain defined IT services with respect to audits of PIEs and it 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.

The IESBA Code provides extensive and detailed guidance on how to deal with taxation services and prohibitions on certain tax services.

These are some of the main differences identified between the IESBA Code and the EU provisions. The FEE Paper contains a high level summary of key differences in the Executive Summary, and it also includes a detailed analysis providing more explanation. For further detail, an overview of all differences that were identified is also presented.

It results from this Study that the adoption and application of the principles and requirements of the IESBA Code of Ethics in the EU would be a more robust outcome and a globally more practicable system.

To access the 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, see it at: [http://www.fee.be/index.php?option=com\\_content&view=article&id=1300&Itemid=212&lang=en](http://www.fee.be/index.php?option=com_content&view=article&id=1300&Itemid=212&lang=en)

On Independence requirements, FEE has also issued a Policy Statement on the Provision of Non-Audit Services to Audit Clients that are PIEs in July 2012, see it at: [http://www.fee.be/index.php?option=com\\_content&view=article&id=994:fee-publishes-four-policy-statements-on-audit-policy&catid=32:auditing](http://www.fee.be/index.php?option=com_content&view=article&id=994:fee-publishes-four-policy-statements-on-audit-policy&catid=32:auditing)

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FEE is a Regional Organisation of IFAC, the International Federation of Accountants

### About FEE

FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.