



**SURVEY ON IMPLEMENTATION  
OF THE EU RECOMMENDATION  
ON INDEPENDENCE**

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## 1. INTRODUCTION

### *Background*

In 2002, the European Commission (EC) issued the European Union (EU) “Recommendation on Statutory Auditor’s Independence” (EU Recommendation on Independence or Recommendation). With the publication of the EU Recommendation in 2002, the EC also announced that it would evaluate the implementation of the EU Recommendation in the different EU member states (Member States) in 2004.

In the meantime the European Commission has prepared and the European Parliament and ECOFIN have adopted the new Statutory Audit Directive, which embraces a principles-based threats and safeguards approach to independence issues, supplemented by some requirements. The new Directive legislates the key elements of the EU Recommendation on Independence which was issued in 2002, some time after the Enron collapse. The EU Recommendation is a substantial document and continues to be a very useful source of reference.

The key independence points in the Statutory Audit Directive are:

- That the auditor cannot be involved in any way in decision taking of the company being audited;
- There is increased emphasis on some of the threats to auditor independence such as self interest and self review in the case of public interest entities, including listed companies;
- If the auditor’s independence is compromised, the auditor is prohibited from carrying out the audit if there are no available satisfactory safeguards;
- Disclosure of fees as between fees for audit and other services is required in the annual accounts of companies.

However, the recitals to the Directive make clear that “this should not lead to a situation where member states have a general duty to prevent statutory auditors from providing non audit services to their audit clients”. This reassurance is a key element of the balanced approach to independence which emerged in the Directive.

Correctly, the Directive aims to make sure that there is sufficient emphasis on auditor independence and careful consideration of it, but clearly is not intended to bring about a general prohibition on non audit services.

### *Purpose*

FEE has launched a survey with its Member Bodies to provide an insight into the status of implementation of the EU Recommendation on Independence in the 25 EU Member States and in Norway as at 1 January 2006. The insight into the status of implementation can contribute to the understanding within Europe about the independence regulations applicable to the audit profession within Europe.

## *Survey*

The FEE survey consisted of nine questions regarding the current stage of implementation of the EU Recommendation in the system of regulation of the audit profession. The questions focused not only on the formal way of implementation but also if the EU Recommendation had been directly or indirectly included in national Member States' laws and regulations.

Appendix I includes a summary of the survey and its findings and Appendices II to XXVII contain the detailed questionnaire and the results for every country. Hereafter follows a discussion about the main findings and results and some conclusions regarding the implementation of the EU Recommendation within the EU.

## 2. DISCUSSION OF THE FINDINGS

### *Principles-based approach*

The results show that the vast majority of the countries (85%) have a principles-based approach to independence. Only a minority of some countries<sup>1</sup> have an entirely rules-based approach. It should be noted that nowadays, even rules-based systems generally have some reference to principles or attempt to do so in devising rules.

A principles-based approach to independence always involves the all embracing principles but then also guidance on commonly encountered situations. A principles-based approach usually also includes restrictions flowing from application of the principles in some frequently encountered cases and rules, usually in relation to prohibitions where application of the principles necessarily implies a rule or prohibition, but also in areas such as documentation.

The advantages of a principles-based approach to independence are as follows:

- Combines responsiveness with rigour in a way unattainable with a rules-based approach;
- Allows for the almost infinite variations in circumstances that arise in practice;
- Can cope with the rapid changes of the modern business environment;
- Prevents the use of legalistic devices to avoid compliance;
- Requires auditors to consider actively, and to be ready to demonstrate, the efficacy of, arrangements for safeguarding independence.

### *Adoption of EU Recommendation on Independence*

Overall, the main principles and many other features of the EU Recommendation will soon be implemented in twenty or over three quarters of all EU Member States.

Half of the countries (50%) have already adopted the EU Recommendation. Most of them have adopted the principles but have not directly included the text of the EU Recommendation in their national laws and regulations. Another 12 % of the countries (three) indicate that they are in the process of implementing the EU Recommendation. Within a short timeframe, this will mean that the EU Recommendation will have been adopted in the majority or fourteen of the European Member States.

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<sup>1</sup> The European Union Recommendation on Statutory Auditor's Independence is addressed to but not legally binding for Member States. The European Commission recommends that Member States of the European Union should implement the set of fundamental principles of the EU Recommendation. In practice, an EU Recommendation is implemented by rules or enactments in national law, incorporated in decrees or regulations of public bodies or by standards of authorised professional bodies. Since the possibilities of implementation of the EU Recommendation are varied, taking into account national arrangements, we have used the term "countries" to include implementation of the EU Recommendation by any of the above means. More specific details are provided in the Appendices II to XXVII.

Five other countries, or 19%, have adopted the IFAC Code of Ethics in professional regulations. It should be noted that both the EU Recommendation and the International Federation of Accountants (IFAC) Code of Ethics adopt the same approach to safeguarding auditor independence, i.e. both use the same or at least similar terms and fundamental concepts. Both documents set out the principles-based or conceptual framework approach and identify situations or relationships, which may create a threat to independence, and suggest the possible safeguards which can be put in place to mitigate the threats.

The remainder of countries have their own local regulations and, as with all other EU Member States, have the intention to implement the newly proposed Statutory Audit Directive.

### ***Which instrument of Law***

The system of audit regulation within Europe currently varies substantially<sup>2</sup>. In some countries the professional body of accountants has responsibility for promulgation of standards in the area of ethics and independence and in others it is the government or a public body. The system of audit regulation has also an impact on the legal form of the regulation.

In the countries where the professional body of accountants is the standard setter, the independence regulation has been issued as a professional standard, based on the IFAC Code of Ethics and other applicable material such as the EU Recommendation. Where the professional body issued the independence standards, such standards will have a relationship with the IFAC Code of Ethics as the professional body, as member body of IFAC, is committed to apply the IFAC Code of Ethics.

In countries however where the government or a public body is the regulator the independence rules have been laid down in law or regulation.

### ***Definition of Public Interest Entity***

The EU Recommendation defines a Public Interest Entity (PIE) as follows: “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, UCTIS (Undertakings for Collective Investment in Transferable Securities), pension firms and limited companies”.

Of the countries that have implemented the EU Recommendation, 35% have the concept of a PIE defined in their own regulations, although some countries have limited the definition to listed entities. It is noticeable that two countries that have said that they have not implemented the EU Recommendation, nevertheless have defined a PIE. It is also interesting to notice that some countries that have not defined a PIE as such, still have additional rules for some kind of entities, for example financial institutions or large listed companies.

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<sup>2</sup> Audit and independence regulation can be implemented by rules or enactments in national law, incorporated in decrees or regulations of the government or public bodies, or by professional standards of authorised professional bodies.

The countries that have defined a PIE have imposed additional rules for the audit of these entities, such as partner rotation, disclosure of fees and the prohibition of some non-audit services. It is worth mentioning that between the countries the additional requirements vary.

### ***Anticipated changes following the new Statutory Audit Directive***

Currently, it is not entirely clear for most countries which changes have to be expected in their jurisdiction following the approval of the new Statutory Audit Directive. 27% of the countries do not expect there will be a specific need to change their national independence regulation when the new Statutory Audit Directive will come into force in their jurisdiction. They are of the opinion that their current legislation already complies with the proposed independence requirements in the new Statutory Audit Directive.

However, they will analyse the final independence principles and rules in the Statutory Audit Directive when approved and will take into consideration adjustments if necessary. Other countries plan to include the final independence principles and rules of the Statutory Audit Directive into their national legislation to ensure full compliance.

It should be noted that with the adoption of the new Statutory Audit Directive, the principles contained in the EU Recommendation on Independence have also been recognised in law.



### 3. CONCLUSIONS

Based on the results of the survey on the implementation of the EU Recommendation on Independence, it is clear that the principles-based approach has been widely used in Europe. Only a few countries have an entirely rules-based independence approach.

There is however diversity in systems of independence regulations between the EU Member States. The majority have adopted the principles of the EU Recommendation on Independence, even three countries have implemented the EU Recommendation text directly. The other countries have implemented the Recommendation or the IFAC Code of Ethics, but done so while keeping their own existing system of regulation in place or they have, or will develop, their own local code.

Harmonisation of independence regulations within the European Union has successfully started. In so far as further harmonisation within the EU is concerned, we call for this to be market driven relying on experience of the new regulations, thereby allowing convergence in practice to take place through increased shareholder rights and audit committees rather than as a result of further regulation. In this respect an area which merits particular attention and debate is independence benchmarks for group audits where varying extra-territorial requirements of national independence regulation are a cause of concern for audit quality.

People with an interest in ethics and independence are aware that auditor independence rules and standards have been tightened and made more restrictive over recent years. The US Securities and Exchange Commission (SEC) has twice revised its independence rules since 2000 and additional rules have recently been introduced by the US Public Company Accountancy Oversight Board (PCAOB). In the European Union the EU Recommendation on the Independence was issued (after a further reflection following Enron) and more recently the new Statutory Audit Directive. The International Organisation of Securities Commissions (IOSCO) has issued guidance and is currently working on a further project involving auditor independence. The IFAC Code of Ethics is currently being updated, having itself been greatly strengthened in 2002. There has also been new legislation in most EU countries.

In addition to regulatory initiatives on auditor independence, there have been important market side reactions to the scandals. Boards of directors and audit committees are far more aware of and sensitive to, auditor independence issues than was always the case previously.

At some point it might therefore be useful to pause before contemplating further regulatory initiatives on auditors' independence and let a stable platform emerge and evaluate the results. During such a pause might it not be more profitable to concentrate on audit quality more broadly? It should also be recognised that other parts of the financial reporting chain deserve equal emphasis.

It should be noted that with the adoption of the new Statutory Audit Directive, the principles contained in the EU Recommendation on Independence have also been recognised in law. Therefore, Member States should be stimulated to implement the EU Recommendation on Independence when adopting the Statutory Audit Directive.

It should also be recalled that the new Statutory Audit Directive has a provision prohibiting the export within the EU of any country's independence rules to subsidiary auditors elsewhere in the EU, providing always that that auditor's national independence rules comply with the provisions of the new Statutory Audit Directive.

The following table shows a summary of the results of the survey.

### APPENDIX I: SUMMARY OF IMPLEMENTATION OF THE EU RECOMMENDATION ON INDEPENDENCE<sup>3</sup>

Country	Principles-based approach to independence issues?		EU Recommendation on independence adopted?		Implementation EU Recommendation			Extra territorial impact?	Which instrument of Law?	Public interest entities (PIE)		Anticipated changes following Statutory Audit Directive?
	↓	If not, why?	↓	When?	Directly?	Only principles?	Major differences?			Definition?	Different independence rules	
<b>Austria</b>	✓	Combination principles and rules-based approach	✓	2005	✗	✓	Rules-based Commercial Code	✗	Commercial code and Statute on Regulation	✓	✓	If additional requirements
<b>Belgium</b>	✓	N/A	✓	2003	✓ but stricter	N/A	<ul style="list-style-type: none"> <li>- Internal rotation</li> <li>- Non-audit services</li> <li>- Network definition</li> </ul>	✓	Corporate governance Law and Royal Decree	In draft Recommendation	✗	Internal rotation
<b>Cyprus</b>	✓	N/A	Based on IFAC Ethics Code	2002	✗	Based on IFAC Ethics Code	See <sup>4</sup>	✓	Code of Ethics	✗	Based on IFAC Ethics Code	Not expected

<sup>3</sup> All data included in the summary is based on information made available to FEE as at 1 January 2006 which is likely to evolve over time and which can deviate from the detailed information due to the processes which have produced these summaries and the uniformity necessary to presentation. For further details of the data included in the summary, reference should be made to the Appendices.

<sup>4</sup> The major differences between the EC Recommendation and the IFAC Code of Ethics respectively are: applicable to audit versus assurance engagements; principles cover certain services versus explicit coverage of taxation, legal and corporate finance services; certain additional requirements for public interest entities versus listed entities.

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	↓	If not, why?	↓	When?	Directly?	Only principles?	Major differences?			Definition?	Different independence rules	
<b>Czech Republic</b>	✓	N/A	Based on IFAC Ethics Code	2003	✗	Based on IFAC Ethics Code	See <sup>4</sup>	N/A	Act on Auditors	N/A	Full and stricter compliance	Not expected
<b>Denmark</b>	✓	N/A	✓	2003	✓	N/A	More restrictions - Definition of PIE - Self-review threat	✗	Act on Public Accountants, Guidelines & Standards, Code of Ethics	✓	More rigorous and demanding: - Rotation - Self-review threat	Will comply
<b>Estonia</b>	✓	N/A	✗	With new Statutory Audit Directive	Expected ✓	Expected ✓	N/A	✗	Auditing Guidelines by Regulation of Minister of Finance	✗	✗	Will comply
<b>Finland</b>	✗	Rules-based approach	✗	Expected 2006	N/A	N/A	Rules-based	N/A	Expected Auditing Act	N/A	✗	Not expected

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	↓	If not, why?	↓	When?	Directly?	Only principles?	Major differences?			Definition?	Different independence rules	
<b>France</b>	✗	Rules-based approach	✗	N/A	N/A	N/A	Rules-based although some of the EU Recommendation language is used	✓ In certain circumstances	Code of Ethics	✗	Internal rotation	Not expected
<b>Germany</b>	✓	N/A	✓	2004	✗	✓	Prohibition certain non-audit services	✗	Accounting Reform Act	✓	<ul style="list-style-type: none"> <li>- Disclosure fees</li> <li>- Prohibition non-audit services</li> <li>- Revenue restrictions</li> <li>- Internal Rotation</li> </ul>	Included in Accounting Reform Act
<b>Greece</b>	✓	N/A	✓	2004	✗	✓	Additional rules	✗	Standards of Auditing and Standing Legislation for Accountants	✗	✗	Will comply

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	↓	If not, why?	↓	When?	Directly?	Only principles?	Major differences?			Definition?	Different independence rules	
<b>Hungary</b>	✓	Combination principles and rules-based approach	✗	N/A	✗	Expected ✓	Additional rules	✗	Auditing Act Ethical Statutes of the Chamber of Auditors	✗	Stricter rules	If need for additional requirements
<b>Ireland</b>	✓	Combination principles and rules-based approach	✓ <sup>5</sup>	2002: current Standards apply from 2005	✗	✓	Combination principles and rules-based approach	✓ <sup>6</sup>	APB Ethical Standards, which effectively have force of law through Companies Act	✗	Additional requirements and prohibitions	Not yet determined.
<b>Italy</b>	✓	Combination principles and rules-based approach	✗	2005 by Institute	✗	Institute only ✓	Some limitations on audit firms are extended to professional partnerships	✗	Circular letter by Institute	✓	Stricter rules	No information

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<sup>5</sup> Some detailed differences, most notably in respect of unlisted Public Interest Entities, where the APB ESs adopt the IFAC approach.

<sup>6</sup> Outside Ireland, compliance with IFAC required.

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	↓	If not, why?	↓	When?	Directly?	Only principles?	Major differences?			Definition?	Different independence rules	
<b>Latvia</b>	✓	Combination principles and rules-based approach	✓	2001	✗	✓	Combination principles and rules-based approach	✗	Law on certified auditors	✗	✓	No information
<b>Lithuania</b>	✓	Combination principles and rules-based approach	✓	2004	✗	✓	Combination principles and rules-based approach	✗	Revised Law on Audit	✓	Stricter	Stricter rules may be set
<b>Luxembourg</b>	✓	N/A	✓	2003	✗	✓	N/A	✗	National Standards issued by IRE	✓	Additional requirements	Not expected
<b>Malta</b>	✓	N/A	Based on IFAC Ethics Code	N/A	✗	Based on IFAC Code of Ethics	See <sup>4</sup>	✗	Directive issued by Accountancy Board	✓	Based on IFAC Ethics Code	Not expected

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	↓	If not, why?	↓	When?	Directly?	Only principles?	Major differences?			Definition?	Different independence rules	
<b>Netherlands</b>	✓	Combination principles and rules-based approach	✓	2003	✓	N/A	Expanded scope to assurance services	✗	Royal NIVRA Independence rules	✓	Stricter	Additional requirements
<b>Norway</b>	✓	Combination principles and rules-based approach	✗	N/A	✗	✗	N/A	✗	Act on Auditing and Auditors	✗	✗	No information
<b>Poland</b>	✗	Rules-based approach	✗	N/A	✗	✗	N/A	✗	Accounting Act and Law on Statutory Auditors	✗	✗	Stricter rules
<b>Portugal</b>	✓	N/A	✓ Partially	With Statutory Audit Directive	✗	✓	Internal Rotation for example	✗	Decree-Law and Code of Ethics	✗	✗	Additional requirements

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	↓	If not, why?	↓	When?	Directly?	Only principles?	Major differences?			Definition?	Different independence rules	
<b>Slovak Republic</b>	✓	N/A	Based on IFAC Ethics Code	N/A	✗	Based on IFAC Ethics Code	See <sup>4</sup>	✗	Act on Auditors and Code of Ethics	✗	Based on IFAC Ethics Code	Yes, update of the Act on Auditors is expected
<b>Slovenia</b>	✓	Combination principles and rules-based approach	Based on IFAC Ethics Code	2002	✗	Based on IFAC Ethics Code	See <sup>4</sup>	✗	Auditing Act and Code of Ethics	✓	✗	No information
<b>Spain</b>	✗	Rules-based approach	✗	N/A	✗	✗	Rules-based approach	✗	Audit Law, Audit Standards and Audit Regulation	✗	Internal rotation	No information
<b>Sweden</b>	✓	N/A	✓	2002	✗	✓	Presumption of dependence	✗	Auditing Act	✗	✗	Not expected

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	↓	If not, why?	↓	When?	Directly?	Only principles?	Major differences?			Definition?	Different independence rules	
<b>United Kingdom</b>	✓	Combination principles and rules-based approach	✓ <sup>5</sup>	2002: current Standards apply from 2005	✗	✓	Combination principles and rules-based approach	✓ <sup>7</sup>	APB Ethical Standards, which effectively have force of law through Companies Act	✗	Additional requirements and prohibitions	Not yet determined
<b>Total 26 countries (%)</b>	85%		50%		12%	38%		19%		35%	54%	

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<sup>5</sup> Some detailed differences, most notably in respect of unlisted Public Interest Entities, where the APB ESs adopt the IFAC approach.

<sup>7</sup> Outside UK, compliance with IFAC required.

## APPENDIX II – AUSTRIA

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>Section 271 of Austria's Commercial Code (Handelsgesetzbuch) follows a rules-based approach and identifies the most important threats to the auditor's independence.</p> <p>In addition, Section 88 of the Statute on the Regulation of the Auditing, Tax Advising and Related Professions (Wirtschaftstreuhandberufsgesetz) follows a combined principles-based and rules-based approach.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>Yes, according to the Company Law Amendments (Gesellschaftsrechtsänderungsgesetz) of 2005, Austria has amended section 271 of Austria's Commercial Code. The explicit intention of the amendment is to implement the EU Recommendation as well as expected regulations of the new Statutory Audit Directive. Section 271 continues to follow a rules-based approach.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>The Company Law Amendments (Gesellschaftsrechtsänderungsgesetz) were passed by the Austrian parliament on 8 June 2005.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>See Questions 1 and 2.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>No.</p>
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<p>The regulations form part of the Austrian Commercial Code and the Statute on the Regulation of the Auditing, Tax Advising and Related Professions; both laws are issued by the Austrian Parliament.</p>
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
<p>Yes, according to the Company Law Amendments (Gesellschaftsrechtsänderungsgesetz), public interest entities have been defined. According to Section 271a, public interest entities are:</p> <ul style="list-style-type: none"> <li>• Listed entities, and</li> <li>• Entities with either total assets &gt; €36,5 Mio. or revenues &gt; €146 Mio.</li> </ul>

<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>Yes, according to the Company Law Amendments (Gesellschaftsrechtsänderungsgesetz) more restrictive regulations on independence will be imposed on auditors of public interest entities including an internal rotation after five years with a cooling off period of two years.</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>Austria will not change any stipulations except for requirements depending on the final wording of the Statutory Audit Directive</p>

## APPENDIX III – BELGIUM

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
Belgium has a principles-based framework in place to deal with independence issues.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
The corporate governance law of 2 August 2002 modifying the Company Code (the “Law”) and the Royal Decree of 4 April 2003 (the “Royal Decree”) implement almost all provisions of the EU Recommendation. These provisions all entered into force on 1 October 2003.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
All provisions of the Law and Royal Decree, which implement the EU Recommendation, came into force on 1 October 2003.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>The Recommendation is used subject to the provisions of the Law and the Royal Decree. Some provisions go beyond the EU Recommendation on independence, for example by:</p> <ul style="list-style-type: none"> <li>a) Additional restrictions to compatible non-audit services,</li> <li>b) Declaring some non-audit services incompatible with the auditor’s independence without possible safeguards, or</li> <li>c) Having a broader definition of the auditor’s network, compared with the EU Recommendation.</li> </ul>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
There are extraterritorial effects. The new rules on non-audit services that are not compatible with independence also apply to foreign subsidiaries. In certain circumstances, the rules restricting the fees for non-audit services that are compatible with independence apply to foreign subsidiaries of listed companies and of companies that are part of a consolidating group.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<p>As set out under question 2 above, the EU Recommendation is partly implemented by the Corporate Governance Law and by the Royal Decree.</p> <p>The principles-based approach has been followed.</p>

<b>7. Did your country define public interest entity, and if so what is the definition?</b>
<p>The Board of the Institute will probably wait for the new Statutory Audit Directive to come into force.</p>
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
<p>The Law defines the scope of the “one to one” rule for listed companies and companies that are part of a group that must prepare and publish consolidated accounts, which can be considered as “public interest entities” in this context.</p> <p>However, as a general rule, the Board of the Institute is of the opinion that the same rules should apply to all entities: “an audit is an audit”.</p>
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
<p>At this stage, it is not expected that Belgium will set additional conditions on the scope of activities/services an auditor or audit firm may perform in light of the new Statutory Audit Directive. It will wait for the new Statutory Audit Directive to enter into force in order to introduce the internal rotation.</p>

## APPENDIX IV – CYPRUS

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
The Institute of Certified Public Accountants of Cyprus (ICPAC) has adopted the IFAC Code of Ethics for Professional Accountants as the ethical requirements in Cyprus. This Code is mandatory for all members of ICPAC to observe in respect of professional services performed in Cyprus after 30 September 2002. The revised IFAC Code of Ethics, which is effective on 30 June 2006, has been distributed to our members in December 2005.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
ICPAC believes that the IFAC Code of Ethics that has been adopted in Cyprus covers substantially all the provisions of the EU Recommendation on Independence. ICPAC has already commenced audit monitoring visits to practising audit firms and accountants as from January 2005.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
See question 2 above. Public oversight of the audit profession will be introduced when the provisions of the new Statutory Audit Directive come into force.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
Not applicable.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
Yes, but based on the IFAC Code of Ethics.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
ICPAC was approved by the Council of Ministers in February 2002 under the provisions of the Companies Law, Cap.113, as the regulatory body of the accounting profession in Cyprus. As stated in question 1 above, the Code is mandatory for all members of ICPAC. The Code is principles-based.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
No. It is proposed to adopt the definition contained in the new Statutory Audit Directive when its provisions enter into force.

<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
<p>Yes, to the extent referred to in the IFAC Code of Ethics for listed entities. Certain additional requirements are applied to listed entities, mainly related to matters of perception.</p>
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
<p>No additional conditions are expected. Cyprus will ensure compliance with the provisions of the new Statutory Audit Directive as finally determined.</p>

## APPENDIX V – CZECH REPUBLIC

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
The new Code of Ethics was approved by the Czech Chamber of Auditors in November 2003. This Code of Ethics is based on the IFAC Code of Ethics and the same principles-based framework (similar to the IFAC Code of Ethics) was applied. Therefore, the principles-based framework is always used when independence issues are considered.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
The EU Recommendation on Independence is not currently expected to be adopted in the Czech Republic. It is currently planned to adopt the new EU Statutory Audit Directive once approved.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
See question 2.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
No major departures are expected when implementing the new Statutory Audit Directive.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
Not applicable.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
The Act on Auditors is the major norm which governs key activities of the Czech Audit Profession. This Act is predominantly rules-based. However, it requires auditors to be fully compliant with ethical requirements, which are principles-based – see question 1.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
The public interest entity has not yet been defined in the Czech Republic.
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
The differences in relation to independence rules are driven by the Code of Ethics – auditors of publicly traded companies are expected to be compliant with all (in the case of public entities – stricter) relevant principles of the Code of Ethics.



**9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.**

No major departures are expected from the scope of activities and services an auditor or audit firm may perform once the new Statutory Audit Directive is approved.

## APPENDIX VI – DENMARK

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
Independence issues are basically dealt with following the principles-based approach.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
Denmark has implemented most of the detailed requirements of the EU Recommendations on independence through the Danish Act on Registered and State-Authorised Public Accountants.  The Institute of State Authorized Public Accountants has also adopted the IFAC Code of Ethics with few Danish amendments.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
The Danish Act on Registered and State-Authorised Public Accountants took effect on 1 July 2003.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
The text has been amended for national circumstances but is very close to the Recommendation. Major differences are more specific and restrictive requirements in Denmark, e.g. the definition of public interest entities and the self-review threat.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
Danish legislation does not include general independence requirements related to foreign auditors. Concerning the audit of consolidated financial statements, the auditor of the parent is responsible for ensuring that relevant independence requirements are followed.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
The Danish Act on Registered and State-Authorised Public Accountants and national guidelines, standards and the Code of Ethics for Danish auditors, which are basically principles-based.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
Denmark has defined public interest entities as listed companies, investments funds, state-owned companies, financial institutions under the supervision of the Danish Financial Supervisory Authority and other large companies which two years in a row exceed two or more of the following criteria: a net turnover of DKK 5 billion, 2,500 employees, and/or total assets of DKK 5 billion.  In Denmark, special public interest entities as a group are described as (directly translated) ‘particularly significant companies’.

<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
The rules for public interest entities are more rigorous and demanding. Examples are rotation requirements in connection with assurance assignments and rules on which non-assurance services can be provided by the auditor to assurance clients. ("Self-review threat")
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
Demark expects to adapt to the new Statutory Audit Directive.

## APPENDIX VII – ESTONIA

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>Independence issues are dealt with in the Ethical Principles of Auditing which are regulated in Estonia by Auditing Guidelines.</p> <p>Independence issues are dealt with following a principles-based framework. It is stipulated that the auditor should maintain complete independence in a client relationship. There are prohibitions on certain financial interests and involvement in an audit client, on employment with an audit client, on managerial or supervisory roles in an audit client, on family and other personal relationships and business relationships with an audit client and on the performance of non-audit services for an audit client, including bookkeeping services.</p> <p>In addition, the IFAC Code of Ethics is translated into Estonian and available to all auditors.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>Estonia will adopt and publish the provisions necessary to comply with EU Directives, including the Statutory Audit (new Eighth) Directive, considering also EU Recommendations, including the EU Recommendation on Independence.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>The new Statutory Audit Directive and thus also the EU Recommendation would be expected to be adopted within 24 months after the entry into force of the Directive.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>Most probably the principles will be implemented, to ensure a sufficiently clear, but flexible approach, also fitting in to national legislation.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>Estonian independence requirements apply to Estonian audit opinions.</p>
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<p>Independence issues are regulated in Estonia by Auditing Guidelines, more specifically by Regulation 50 of 15 June 2000 by the Minister of Finance. The Regulation is issued based on Section 2 Subsection 5 of the Authorized Public Accountants Act whereby Chapter 1 deals with Ethical Principles of Auditing and paragraph 7 with Independence. It is principles-based.</p>

<b>7. Did your country define public interest entity, and if so what is the definition?</b>
There is no written definition.
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
There are no different independence rules for public interest entities.
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
Currently there is no intention either to strengthen or to soften the Statutory Audit Directive independence rules.

## APPENDIX VIII – FINLAND

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
The Auditing Act includes two sections related to independence issues; Section 23 on Auditors' Independence provides for certain principles related to independence and Section 24 on Disqualification of an auditor provides for prohibitions on certain financial interests, employment with the audit client, managerial or supervisory roles with the audit client, family and other personal relationships. The current framework to deal with independence issues is therefore a combination of the principles-based and rules-based approach.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
The Ministry of Trade and Industry has established the Auditing Act Working Group in 2002. According to its assignment, the Auditing Act Working Group examined the needs for amending the Auditing Act and the way to develop statutory auditing. Analysing the regulation on independence, taking the EU Recommendation of 2002 concerning statutory auditor's independence into account, played a central role in the Working Group's assignment. The Working Group proposes revisions to the provisions concerning auditors' independence and disqualification to make them compliant with the Recommendation. The Working Group further suggests specification of the disqualification grounds and inclusion of ownership in the disqualification criteria. Exemplary cases in which the independence of the auditor is compromised and where measures are required for the auditor to ensure his independence should be added to the provisions on independence.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
We expect the proposal for the new Auditing Act within the current year.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
The basic principles of the Recommendation as well as certain prohibitions are expected to be implemented following the amendments to the Auditing Act.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
Not defined.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
Most probably the Auditing Act.

<b>7. Did your country define public interest entity, and if so what is the definition?</b>
Not defined.
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
No
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
Not expected.

## APPENDIX IX – FRANCE

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>The new code of Ethics, applicable to the auditing profession has been recently published by the Ministry of Justice. The code has been issued by means of a regulation (décret n° 2005 – 14 12 of 16 November 2005). The code provides interpretation of principles and rules related to independence which are already enshrined in existing legislation. Therefore one cannot assume that the code contains an explicit framework dealing with a principle-based approach to cope with independence issues. It should be noted that although this new code contains a number of concepts including the recognition of threats and safeguards, those concepts are not really related to a principle-based approach and a framework.</p> <p>In practical terms, some of the concepts of the framework of the EU recommendation are introduced or mentioned in the code together with a significant set of rules, which are mainly prohibitions not inspired by a framework but belonging to existing legislation.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>Although some of the principles enshrined in the EU Recommendation are effectively mentioned in the Code, the Code represents a far more restrictive approach which is essentially rules-based.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>The new code was published in November 16, 2005. It was enforced on the publication date.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>The intention of the French government and our oversight body is clearly not to directly implement the structure and content of the EU recommendation. Please refer to question 2.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>Some provisions of the Code will apply, particularly in the case of a group of companies. According to the new rules, the auditor of the parent company has to evaluate to what extent foreign auditors of a subsidiary do or do not comply with the French regulation. This should apply upstream and downstream within a group. In the case of incompatibility with national rules, the French auditor will have to resign.</p>
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<p>The new code has been issued by the Minister of Justice (regulation). It applies to all statutory auditors, firms and network firms and it is rules-based.</p>



<b>7. Did your country define public interest entity, and if so what is the definition?</b>
<p>The provisions of the Statutory Audit Directive will need to be considered further. At the present time there is no definition in place provided either by public authorities or by the profession.</p>
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
<p>Yes, regarding internal rotation; this applies to large companies (including listed entities), banks and assurance undertakings plus some entities relevant to the not for profit sector.</p>
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
<p>The French government will definitely consider all the provisions related to independence as a minimum requirement. Currently our legislation prevents the auditor from providing non-audit services to an audit client. The new Code should in principle slightly relax this rule, in recognising the principle of direct related services to the audit assignment.</p>

## APPENDIX X – GERMANY

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>In Germany, a principles-based framework and additional rules are in place to deal with independence issues.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>Germany has implemented the EU Recommendation on Auditor Independence as part of new legislation to improve investor protection and corporate integrity (“The Federal Government’s catalogue of measures on Strengthening the Integrity of Enterprises and the Protection of Shareholders”, the so-called “10 point-paper”).</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>In 2003, the German government submitted draft legislation that, among other issues, was designed to strengthen the independence of auditors. In December 2004, the Accounting Reform Act (“Bilanzrechtsreformgesetz”) became effective.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>In the Accounting Reform Act the Federal Ministry of Justice has expressed its intention to ensure the independence of the statutory auditor and to avoid auditor conflicts of interest by the selective prohibition of certain non-audit services. These prohibited non-audit services comprise:</p> <ul style="list-style-type: none"> <li>• Participation in the preparation of the financial statements or the accounting records;</li> <li>• Taking over the internal audit function;</li> <li>• Taking over management responsibilities;</li> <li>• Provision of separate actuarial or valuation services with material impact on the financial statements.</li> </ul> <p>The prohibition of these non-audit services is supplemented by an overriding obligation on statutory auditors to make an assessment of their ability to be and be seen to be independent, whenever non-audit services or other relationships to the audit client create a self interest, self-review or familiarity threat. This principles-based requirement indicates that, if the statutory auditor has reasons to believe that a reasonably informed third party may conclude that the auditor would be unable to maintain independence during an audit, the auditor may not accept the statutory audit engagement (“Besorgnis der Befangenheit”).</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>There are no provisions on extraterritoriality at present.</p>

<p><b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b></p>
<p>The Accounting Reform Act issued by the Federal Ministry of Justice.</p>
<p><b>7. Did your country define public interest entity, and if so what is the definition?</b></p>
<p>Yes. A public interest entity is defined as an enterprise that makes use of an organised capital market for the purposes of art. 2 par. 5 Securities Trading Law.</p>
<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>The Accounting Reform Act promotes transparency by requiring the disclosure of all fees paid for audit and non-audit services for companies listed on an established securities exchange. In cases where the fees received for non-audit services exceed the audit fees, the auditor will carefully assess the significance of the self-interest threat to his independence in appearance.</p> <p>The auditor is not allowed to provide the following services for companies listed on an established securities exchange as well as other companies of significant public importance:</p> <ul style="list-style-type: none"> <li>• Legal and tax advisory services which have an influence on the presentation of the financial position, financial performance and cash flows of an enterprise in the financial statements;</li> <li>• Design and implementation of financial information technology systems.</li> </ul> <p>To ensure independence, the auditor of a public interest company is precluded from performing the audit if more than 15% of his total revenue over the previous five years stems from that company.</p> <p>Finally, the key auditor partner of a public interest company has to rotate from the audit engagement after having signed the auditor's report on the annual financial statements seven or more times. This audit partner is allowed to participate in the audit of the public interest company again after a minimum period of three years.</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>The independence rules proposed by the Statutory Audit Directive have already been anticipated by the Accounting Reform Act.</p>

## APPENDIX XI – GREECE

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
In Greece, a principles-based framework and additional rules are in place to deal with independence issues.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>The Greek Auditing Standards are in accordance with the International Standards of Auditing, which include the IFAC Code of Ethics and include most of the EU Recommendation 2002/590/L 191/19.7.2002, p. 22 on Auditors' Independence</p> <p>The Greek Standards of Auditing have been published in the Government Gazette number 1589/B/22.10.2004, and apply to all Certified Public Accountants - members of SOEL (Institute of Certified Public Accountants of Greece).</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
Since the publication of the Greek Standards of Auditing in the Government Gazette in 2004.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>The Greek Auditing Standards include most of the EU Recommendation on Auditors' Independence.</p> <p>The standing legislation for CPAs includes issues regarding independence such as the description of commissions not compatible with the auditing profession, auditors' rotation, ownership of a firm, quality assurance, public oversight, relationship with clients, non-auditing tasks, auditing fee, etc.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
Not applicable.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
The Greek Standards of Auditing (Government Gazette 1589/22.20.2004) and standing legislation for Certified Public Accountants (Presidential Degree 226/1992 as well as the Law 3148/2003).
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
No

<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>No</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>The Government's intentions regarding changes in the aforementioned standards are not known, however the Government and SOEL are aware of the forthcoming modernisation of the Statutory Audit Directive. It is expected that the Greek State as well as SOEL will abide by the provisions of the Statutory Audit Directive for the Greek Auditing Standards.</p>

## APPENDIX XII – HUNGARY

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>The general stipulations regarding auditor's independence are regulated by several Acts.</p> <p>The Act regarding Auditing and the Chamber of Auditors was created in 1997, but its conceptual regulations are not contradictory to the EU Recommendation of 2002. The Act is complemented by the frequently updated Ethical Statutes of the Chamber, in which the principles-based framework and detailed Hungarian regulations can be found regarding independence and incompatibility.</p> <p>Beside the Act on Auditing there are other Acts referring to auditors, on for example business organisations, the capital market, banks, insurance companies, pension funds, etc... In these Acts there are also prohibitive rules (financial interest, business relations, auditors' internal rotation, etc...) related to independence.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>In general the Hungarian legislation considers the EU Recommendation on independence, supplemented by several laws including detailed prohibitions and rules.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>Currently the preparation of the new Law on Auditing, based on the acceptance of the EU Statutory Audit Directive, is in progress. At the same time the Act on Business Organisations is being re-codified including the consideration of the special requirements of public interest entities. The new laws will also take the EU Directive stipulations on independence into consideration. The new laws will probably be accepted in 2006.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>The planned Acts will not only contain the principles of the EU Recommendation but also some additional detailed prohibitive rules.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>The Hungarian auditors' legislation does not include independence requirements regarding foreign auditors. Also, no requirements related to independence for the auditors of foreign subsidiaries exist in the Hungarian legislation.</p> <p>As regards the audit of consolidated financial statements, the auditor of the parent company is responsible for performing the audit of the consolidated financial statements which implies that the auditor of the parent company has to ensure that the independence requirements are complied with by the whole audit team.</p>

<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<p>See question 1.</p>
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
<p>Currently there is no such definition in the law. The concept of “public interest” is defined only by the Quality Assurance Rules of the Chamber. It includes, besides the listed companies, banks, insurance companies, investment funds, broker firms, pension funds, etc.</p> <p>During the codification work currently being carried out it is expected that this definition will be regulated and it is possible that the term will be enlarged to include some state-owned companies.</p>
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
<p>Yes. As also pointed out in question 1, the banks and capital market laws provide for tighter independence stipulations on the auditors of public interest companies.</p>
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
<p>If the new Statutory Audit Directive creates further restrictions on activities that can be carried out by auditors, Hungary will apply them. The Hungarian legislation does not wish to be either stricter or more lenient than the Statutory Audit Directive.</p>

## APPENDIX XIII – IRELAND

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>In Ireland the professional accountancy bodies as part of their recognition under the Companies Act adopt the Standards relating to audit issued by the Auditing Practices Boards (APB). This is discussed further in question 6 hereafter.</p> <p>Following a UK government review of independence requirements in January 2003, standard setting relating to auditor independence was transferred to the independent Auditing Practices Board (APB). The APB issued revised standards in the Autumn of 2004, these standards were adopted by all professional accountancy bodies in Ireland.</p> <p>The APB's independence standards are grounded on a principles-based framework that is compatible with the IFAC / EC Recommendation framework. They also introduce a number of additional absolute rules.</p> <p>The professional accountancy bodies have ethical requirements for all members (including auditors) and which adopt a principles-based approach compatible with the IFAC Framework. The professional accountancy bodies require their members to follow both the APB and their own general ethical requirements.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>The APB's Ethical Standards (ESs) comply with the same overall framework as the EU Recommendation although they do not adopt the EC Recommendation text. The substance of the requirements complies with the Recommendation<sup>8</sup>.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>The professional accountancy bodies adopted the EU Recommendation from Late 2002. The APB Ethical Standards that replace the accountancy body independence requirements for statutory audit apply for audits of accounting periods commencing after 15 December 2004.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>See question 2 above.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>The APB ESs apply to all auditors of Irish and UK entities. However, as regards non-Irish and non-UK subsidiaries, the APB requires that at least the IFAC code be followed.</p>

<sup>8</sup> There are a small number of detailed differences, most notably in respect of unlisted Public Interest Entities where the APB ESs adopt the IFAC approach – see question 8 below.



<p><b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b></p>
<p>In the Republic of Ireland, audit registration is granted by accountancy bodies recognised under the Companies Act 1990. In furtherance of this recognition the accountancy bodies require registered auditors to comply with the Auditing Standards (including the Ethical Standards for Auditors) issued by the APB. The APB Standards thus effectively have the force of the law.</p> <p>Accordingly, all audits of historical financial information for accounting periods beginning on or after 15 December 2004, to which the APB ESs apply, need to comply with their requirements.</p>
<p><b>7. Did your country define public interest entity, and if so what is the definition?</b></p>
<p>There is no specific definition of public interest entity in legislation. The APB Standards include a discussion indicating the type of entities that should be considered as warranting extra attention.</p> <p>See also question 8 below.</p>
<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>A number of detailed prohibitions and other requirements are in place for the audits of listed entities, within the APB's ESs. They state that auditors of other entities of public interest (because of the "nature of the entity's business, its size, the number of its employees and the range of its stakeholders) should consider whether the additional requirements should be applied."</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>The APB ESs already include additional requirements. It has not yet been decided whether the discussions on public interest entities will need to be amended following implementation of the new Statutory Audit Directive.</p>

## APPENDIX XIV – ITALY

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>Italy has a principles-based framework as a general legislative technique. With specific regard to auditing requirements, the existing legislation (significant reform of 1998) includes some general provisions on independence and specific situations of incompatibilities and quantitative limitations (which apply to auditors, audit firms, members of internal audit committees and boards of directors).</p> <p>For listed companies in particular the requirements are also assessed by the regulator on a continuous basis. The audited entity has to communicate to the regulator the audit firm that will carry out the assignment, and the regulator can disapprove it within 20 days. If the regulator states that there is a deficiency in meeting the independence requirements, the assignment is revoked.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>Regarding audit activity Italy has national legislative and regulatory requirements, including independence safeguards applied by auditors that are stricter than the EC Recommendation. Independence rules apply to the audit firm, to the single auditor, to controlling companies and controlled companies.</p> <p>As the Italian legislation does not provide a definition of independence as the framework approach adopted by the EU Recommendation, CNDC (the Italian Institute) decided to adopt the main principles of the Recommendation by issuing a circular letter to all the local branches and professionals on 1 January 2005.</p> <p>The main aspects to highlight are the following: the definition of independence in mind and in appearance is provided in the document;</p> <ul style="list-style-type: none"> <li>• The position is extended to also apply to audit committee members;</li> <li>• The limit of 15% is introduced with regard to the total allowed revenues from a single client.</li> </ul> <p>It is also planned to include a discussion on the Recommendation in a commentary to the ethics code, which is currently being drafted, including an extension of the scope of the Recommendation to non-audit services provided by “Dottori Commercialisti”.</p> <p>A recent reform of financial markets (December 2005) has introduced some significant changes to the independence regulation:</p> <ul style="list-style-type: none"> <li>• Rotation of audit committee members and rotation of audit firms for external audit assignments: for listed entities the audit firm’s maximum engagement period is six plus six years, with possible renewal after three years without involvement of the same responsible auditor.</li> <li>• The scope of activities of the audit committee and audit firms is limited and the provision of other services to an audit client is restricted, the law provides details on the prohibited services.</li> <li>• Limitations on employment and professional assignments of members of the audit firm with the audit client and vice versa within a certain time frame after termination of the audit engagement.</li> </ul>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>For the moment it is not possible to indicate a time frame for adoption on a legislative level. However, since the 1998 law provides for the enactment of a regulation of the Ministry of Justice, not yet issued, there might be opportunity to consider both the content and structure of the Recommendation. The reform of financial market of December 2005 has not adopted the framework.</p>

<p><b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b></p>
<p>At the moment it is not possible to provide a specific answer to this question. As mentioned above, CNDC has adopted the main principles and not the text directly.</p>
<p><b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b></p>
<p>Yes, to some extent. According to national rules, foreign auditors have to be registered in the Italian role in order to be able to sign the audit opinion and therefore they must respect the overriding Italian independence rules.</p>
<p><b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b></p>
<p>As an initial step the Recommendation will be introduced in the commentary to the ethics code or in the “merged” code of the two Italian institutes. At the moment the Recommendation is being considered by the joint committee on behavioural rules for members of audit committees (collegio sindacale) and by the regulator. As mentioned above, adoption by the Italian profession will presumably consider a larger scope, including not only audit activity but also other professional engagements. It is also probable that consideration of the Recommendation will be at a rule level rather than descending into detailed situations.</p> <p>The main independence rules will continue to be issued by law, accompanied by a regulation including quantitative limitations by the regulator and a regulation by the Ministry of Justice together with Ministry of Economy will define professional and ethical requirements.</p>
<p><b>7. Did your country define public interest entity, and if so what is the definition?</b></p>
<p>Besides listed companies, which are considered as public interest companies, the law (Delegated Decree No. 58/98) provides in art. 116 for a category of financial instruments, which are defined as “diffused among the public”. The CONSOB regulation that disciplines this aspect provides for a detailed definition of the exact significance according to different situations.</p>
<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>Yes. There are three levels: ordinary companies subject to mandatory audit; public companies and listed companies; with a differentiated level of supervision and requirements.</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>As mentioned above, the Italian requirements are overriding the present EU requirements. Italy has adopted new rules in the last reform (December 2005), as listed above. Probably the implementation of the Statutory Audit Directive will innovate as to mandatory continuous learning, the ethics code, quality assurance and the oversight system.</p>

## APPENDIX XV – LATVIA

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
There is a combination of principles-based and rules-based legal independence requirements. The Latvian Association of Certified Auditors has adopted the principles-based IFAC Code of Ethics for Professional Accountants as its Code of Ethics.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>The main principles of the EU recommendation on Independence are incorporated in the Law on Certified Auditors adopted in May 2001.</p> <p>The Ethics Committee and the Board of the Latvian Association of Certified Auditors are responsible for updating the Code of Ethics. They are resolving all complaints concerning ethical issues.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
See question 2. The main principles of the EU recommendation on Independence were already incorporated in the Law on Certified Auditors adopted in May 2001.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
The main principles of the Recommendation text are implemented in the Law on Certified Auditors. There are no material differences between the Law on Certified Auditors and the Recommendation text.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
No.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
The Law on Certified Auditors was adopted by the Parliament. The Code of Ethics adopted by the Latvian Association of Certified Auditors is compulsory for all auditors.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
No definition, but there are specific regulations for listed companies, financial institutions, investment funds and pension funds.

<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
<p>A certified auditor, including the certified auditor in charge, is not permitted to carry out the audit of the financial statements of the same financial institution and also commercial company with shares listed on the stock exchange for more than five consecutive years.</p>
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
<p>No information available.</p>

## APPENDIX XVI – LITHUANIA

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>The independence requirements of auditors and audit companies are set in the Law on Audit and the Code of Auditors' Professional Ethics and follow a principles-based framework combined with prohibitions and rules.</p> <p>The revised Law on Audit has been prepared in compliance with the Eight Council Directive 84/253/EEC, Seventh Council Directive 83/349/EEC, Fourth Council Directive 78/660/EEC and European Commission Recommendation of 15 November 2000 on quality assurance for statutory audit in the European Union: minimum requirements and Commission Recommendation of 16 May 2002 – Statutory Auditors' Independence in the EU: A set of Fundamental Principles.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>Lithuania adopted the EU Recommendation on Independence when the revised Law on Audit came into force.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>The revised Law on Audit came into force on 1 May 2004.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>Only the main principles of the Recommendation are implemented in the Law on Audit, in Articles 28 and 35.</p> <p>These Articles stipulate that the auditor may only perform an audit if he is independent from the client and the enterprise which is being audited. There are prohibitions on certain financial interests, employment with the audit client, managerial or supervisory roles in the audit client, family and other personal relationships, non-audit services, audit and non-audit fees and also senior personnel acting for a long period of time. The auditor also has to identify all threats to his independence and safeguards available to eliminate these threats and document them in his working papers. Supervisory bodies, implementing supervision of public interest entities, may set other additional requirements to auditors. The audit company has to inform the management body of the enterprise which is being audited about threats to independence and services provided, and also to confirm whether or not independence and objectivity could have been affected.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>No.</p>

<p><b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b></p>
<p>The main instrument is the Law on Audit. The Parliament of the Republic of Lithuania issued this legislation.</p>
<p><b>7. Did your country define public interest entity, and if so what is the definition?</b></p>
<p>Such definition is given in the Law on Audit: Public interest entities are entities of significant public relevance because of the size of the business, clients, participants, number of employees or nature of the business (credit institutions, insurance companies, financial brokerage firms, management companies, collective investment undertakings, companies listed on the Stock Exchange).</p>
<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>The independence rules for public interest entities as compared to other entities are stricter. These requirements are implemented in the Resolution of the Securities Commission of the Republic of Lithuania. The Law on Financial institutions stipulates that an auditor has to rotate from the audit engagement within a maximum period of three years after the date of appointment.</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>It is expected that Lithuania may set additional conditions on scope of activities/services of auditors or audit companies and these conditions will probably make the independence rules stricter.</p>

## APPENDIX XVII - LUXEMBOURG

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
Luxembourg deals with its independence issues following a principles-based framework which is adjusted for local legal requirements.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
Luxembourg has enacted into its national standards the IFAC Code of Ethics adjusted for local legal requirements and the EU recommendation if the latter is more stringent.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
The national standards incorporated the Recommendation in 2003.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
Only the principles of the Recommendation have been implemented into the national standards.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
No.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
The national standards are issued by the Institute of Registered Auditors (IRE), the Luxembourg auditing and ethics standard-setter, which is overseen by the Ministry of Justice.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
As per the EU Recommendation, public interest entities are entities which are of significant public interest because their business, their size, their number of employees or their corporate status is such that they have a wide range of stakeholders.
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
Certain additional requirements are applied to public interest entities, mainly related to matters of perception.



**9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.**

It is expected that the Ministry of Justice will consider the IFAC Code of Ethics sufficient. There has been no debate on this issue among politicians so far.

## APPENDIX XVIII – MALTA

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
Malta has adopted a Code of Ethics based on the IFAC Code of Ethics, which is principles-based, with changes for the EU Recommendation on Independence of the statutory auditor.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
The EU Recommendation on Independence has been adopted in all material respects.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
Already adopted.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
The text of the Code of Ethics of Malta is mainly based on the IFAC Code of Ethics. Material differences with the EU Recommendation were identified and the stricter text adopted. Therefore the local independence code is compliant in all material respects with the Recommendation.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
No.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<p>The national independence Code is a Directive issued by the Accountancy Board to all accountants with a Warrant issued under the Accountancy Profession Act. The Directive therefore has the full force of law (subsidiary legislation).</p> <p>Principles-based but includes more detailed guidance on certain issues in line with the IFAC Code of Ethics.</p>
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
Yes, the definition of public interest entities is as follows: Entities whose shares, stock or debt are quoted or listed on a recognised Stock Exchange (and entities which may be guaranteeing such shares, stock or debt), credit institutions, insurance companies and investment firms. The Accountancy Board may from time to time 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 their number of employees.

<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>Yes, to the extent referred to in the IFAC Code of Ethics for listed entities.</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>The Code of Ethics of Malta should remain unchanged – Malta has worked at European Parliament Committee level to ensure that the Statutory Audit Directive retains the threats and safeguards approach as adopted in the IFAC Code of Ethics.</p>

## APPENDIX XIX – THE NETHERLANDS

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>The Board of Royal NIVRA has issued independence rules and declared them effective as of 1 January 2003. The independence rules of the NIVRA are a combination of a principles- and rules-based approach. All public auditors are obliged to implement and follow these rules.</p> <p>As of December 2004 (with effect from 1 January 2005) the independence rules of NIVRA have been amended and geared towards the IFAC Code of Ethics. The scope has been expanded to also include assurance engagements.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>The EU Recommendation on Independence has been adopted in the Netherlands effective 1 January 2003.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>The Recommendation has been adopted in the Netherlands effective 1 January 2003.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>The EU text has been used, slightly altered for specific Dutch circumstances (specific rules for interim management), and the scope has been expanded to assurance services in line with the IFAC Code of Ethics.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>There are no extraterritorial consequences identified at this moment.</p>
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<p>See also question 1. The independence rules of the NIVRA have been issued as “nadere voorschriften” and as such incorporated in our Code of Conduct, which has the status of a By-Law.</p>

<b>7. Did your country define public interest entity, and if so what is the definition?</b>
<p>Definition of public interest entity:</p> <ul style="list-style-type: none"> <li>• All quoted companies and institutions for which a legal audit is mandatory;</li> <li>• All companies and institutions for which a legal audit is mandatory and for which debt papers are quoted;</li> <li>• All other companies and institutions for which a legal audit is mandatory provided that these companies and institutions meet two of the following three criteria: <ul style="list-style-type: none"> <li>- Consolidated revenues exceed € 1,4 billion,</li> <li>- Consolidated balance sheet total exceeds € 700 million,</li> <li>- Consolidated number of employees exceeds 12.500.</li> </ul> </li> </ul>
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
<p>The independence rules for public interest entities are in general more stringent as compared to other entities. However, it is highly recommended applying the rules for public interest entities to other entities.</p>
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
<p>That could be a realistic possibility, because the draft law regarding the oversight on the profession (the so-called “wet toezicht accountantsberoep”) contains some additional requirements on independence, based on the requirements of the Statutory Audit Directive. The draft Statutory Audit Directive is one of the sources for the regulator.</p>

## APPENDIX XX - NORWAY

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
The Norwegian Act on Auditing and Auditors combines a principles-based and rule-based approach, also for independence issues.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>The EU Recommendation on Independence has not been formally implemented in Norwegian legislation. Kredittilsynet (the Financial Supervisory Authority of Norway), which is the Public Oversight Authority for all statutory auditors and audit firms, has pronounced that the EU Recommendation will be taken into account in cases where the Act on Auditing and Auditors does not give a sufficiently clear interpretation or answer concerning the matter in question.</p> <p>Den norske Revisorforening/The Norwegian Institute on Public Accountants (DnR) expects the EU Recommendation text, or at least its principles, to be implemented in the Norwegian legislation when implementing the new Statutory Audit Directive.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
Expected upon implementation of the new Statutory Audit Directive.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
Considering that the EU Recommendation text, or at least its principles, is expected to be implemented when implementing the new Statutory Audit Directive, it is difficult to assess whether the text will be directly used or only the principles will be implemented.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
Not applicable.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
Not applicable.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
The Norwegian legislation does not define public interest entities.

<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>The independence rules and requirements for statutory auditors and audit firms are the same regardless of the size, type or status of the audit client.</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>The Kredittilsynet and the Norwegian Ministry of Finance consider the provisions related to independence as minimum requirements. DnR has no reason to believe that the Government will set additional conditions on the scope of activities and services allowed for statutory auditors and audit firms. It is premature to assess whether the independence rules will be fully adapted to the new Statutory Audit Directive.</p>

## APPENDIX XXI - POLAND

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
Existing Polish regulations concerning auditor independence (in the Accounting Act and the Law on Statutory Auditors and their Self-regulatory Body) are based on rules. This is also the case for the Code of Ethics for Statutory Auditors. For cases not regulated by the Code of Ethics for Statutory Auditors, the IFAC Code of Ethics should be used.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
The Recommendation on Independence has not been implemented. The existing regulations, even though based on rules, are, however, in line with the EU Recommendation. Changes in the legislation are planned to be made in connection with the implementation of the new Statutory Audit Directive.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
There is no information available about plans for the Recommendation implementation.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
Not applicable.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
The same rules are applicable to all entities active in Poland.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
Changes to the Accounting Act as well as to the Law on Statutory Auditors and their Self-regulatory Body are planned. They are proposed by the Ministry of Finance and are to be approved by the Parliament. Changes to the Code of Ethics are also proposed by the National Council of Statutory Auditors (NCSA). The NCSA is prepared to cooperate with the Ministry of Finance on these changes.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
No, but there are plans to include such a definition in the amendments to the Accounting Act and the Law on Statutory Auditors.



<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
Existing regulations concerning independence are mandatory for all entities.
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
<p>Yes.</p> <p>As far as public interest entities are concerned, no changes are expected following the new Statutory Audit Directive.</p> <p>As for other entities, some rules could become stricter, for example the prohibition from taking on an audit where bookkeeping services have been offered to this client during the previous three years (as it is currently).</p>

## APPENDIX XXII – PORTUGAL

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>The independence issues are established in the Decree-Law of 16 November 1999, that regulates the audit profession and also in the Code of Ethics of the profession. The Decree-Law has an entire chapter referring to the incompatibilities and impediments of the exercise of the profession regarding independence issues. The Code of Ethics also has an extensive article about independence containing a list of safeguards that have to be maintained in order to be independent (Independence is one of the principles of the code). If it comes to the attention of the Ordem dos Revisores Oficiais de Contas (OROC) that the principle of independence has not been observed by a member of OROC the Disciplinary Committee have the powers to sanction the member.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>The EU Recommendation is partially implemented by the Decree-law of 16 November 1999 and by the Code of Ethics. At the moment the Government has a project of amendments to both the Decree-Law and Code of Ethics where the independence issue is expanded with further and more specific details which are in line with the EU Recommendation and the IFAC Code of Ethics. Further amendments were made with respect to the approval of the Statutory Audit (new Eighth) Directive. This project of amendments is still being analysed and has not yet been approved.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>As explained above, the Recommendation is already partially adopted and as a consequence of the approval of the Statutory Audit Directive some new requirements might need to be inserted, like for example the mandatory partner rotation.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>The EU Recommendation has been partially adapted for national circumstances, incorporating the major principles of the text. The Recommendation is more detailed in aspects like the type of non-audit services that can and cannot be provided to an audit client, the safeguards which need to be put in place and the relations with the audit client, although these are all included in the national prescriptions but in a more condensed manner. Major differences include:</p> <ul style="list-style-type: none"> <li>• The public disclosure of fees is not mandatory except for auditors of listed companies, and</li> <li>• The mandatory rotation of auditors is not included in the national prescriptions.</li> </ul>

<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>The Portuguese independence requirements apply to Portuguese audit opinions, so all foreign auditors who are to give an opinion on domestic audits have to be registered within OROC and for that matter have to follow all national prescriptions.</p>
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<p>The independence issues are regulated by the Decree-Law of the audit profession, DL 487/99 of 16 of November and by the Code of Ethics. The Decree-Law is issued by the Government (Minister of Finance) and the Code of Ethics is issued by the General Assembly of the Portuguese Audit Institute (OROC). The independence requirements are a combination of both principles and rules. The scope of the Decree-Law and Code of Ethics is overseeing all aspects pertaining to the statutory auditing profession.</p>
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
<p>“Public interest entity” has not yet been defined.</p>
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
<p>Portuguese independence requirements for statutory auditors are the same regardless of the status or size of the client.</p>
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
<p>The Government currently has a project of amendments to the Decree-Law where the independence issue is expanded to meet with the majority of requirements of the new Statutory Audit Directive. These amendments, if approved, will strengthen the current independence rules.</p>

## APPENDIX XXIII – SLOVAK REPUBLIC

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>The requirements for independence are set out in the Act on Auditors and in the IFAC Code of Ethics that has been adopted by the Slovak Chamber of Auditors (SKAU), both of which are primarily principles-based.</p> <p>The Ethics Committee within SKAU is responsible for issuing further guidance on independence. Control over compliance with independence requirements is performed by the SKAU Committee for Quality Control.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>The Act on Auditors number 466 requires compliance with the Code of Ethics and specifies factors impairing independence in paragraph 19. The auditor is not allowed to provide audit services if one of the factors mentioned in Section B of the Recommendation on specific circumstances applies (holding financial interest, employment, family and other relationship etc.). Audit services cannot be provided within five years of the termination of such circumstances impairing independence.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>It is expected that the Act on Auditors will be amended in light of the final approved Statutory Audit Directive, and accordingly will adopt articles from the Recommendation. The expected timing for these amendments is within two years.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>The main principles of the Recommendation are incorporated in the Act and will continue to be incorporated following any change of the law.</p> <p>The details are incorporated in the Code of Ethics. This Code of Ethics is continuously being reviewed and compared with updates to the IFAC Code of Ethics and any other documents regarding independence such as the EU Recommendations.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>Foreign auditors have to comply with the Slovak Act on Auditors and the Slovak legislation if they want to audit Slovak entities. If a Slovak auditor wants to audit entities outside Slovakia (in other countries) he has to comply with the local legislation applicable in the other country.</p>

<p><b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b></p>
<p>The Act on Auditors is issued and approved by the Slovak Parliament. The Code of Ethics is issued and endorsed by the Slovak Chamber of Auditors (SKAU). The Slovak Chamber of Auditors has also issued rules for auditors related to compliance with the Code of Ethics.</p>
<p><b>7. Did your country define public interest entity, and if so what is the definition?</b></p>
<p>Not specifically. The Slovak Act on Accounting specifies the following entities which could be considered as public interest entities: banks, trader with securities, Guarantee Investment Fund, asset management companies, insurance companies, pension management companies, supplementary pension insurance companies, Protection of Deposits Fund, Stock Exchange, Central Securities Depository and companies which meet at least 2 criteria (in 2 succeeding periods) out of the following: 1.Total assets &gt; SKK 5 billion, 2. Revenues &gt; SKK 5 billion, 3. average staff numbers &gt; 2000.</p>
<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>No.</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>No other conditions on scope of activities/services are expected.</p>

## APPENDIX XXIV - SLOVENIA

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
In Slovenia, the International Standards on Auditing (ISAs) are mandatory and through the ISAs, also the principles-based IFAC Code of Ethics for Professional Accountants. The Auditing Act, which is rules-based, also includes some independence rules. Additionally, Slovenia has its own Code of Professional Conduct.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
The EU Recommendation is adopted in all material respects in Slovenia.
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
Some additional principles will be adopted in the new Auditing Act based on the new Statutory Audit Directive.
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
According to the situation existing at the time, and our expectations, the Recommendation text will not be used directly, but the principles will be incorporated into the national legislation.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
Some extraterritorial impact following the adoption of the new Statutory Audit Directive is expected.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
<ul style="list-style-type: none"> <li>• The Auditing Act, which includes also articles about independence, is rules-based.</li> <li>• The Code of Ethics for Professional Accountants and the Slovenian Code of Professional Conduct are principles-based.</li> </ul>
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
In Slovenia a public interest entity is supposed to be a listed entity.
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
No.

**9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.**

As an EU Member State Slovenia will be obliged to comply with the requirements of the new Statutory Audit Directive. As far as independence is concerned it is difficult to say anything before the new Statutory Audit Directive is finalised.

## APPENDIX XXV – SPAIN

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>The Audit Law states the incompatibilities and the Audit Standards deal with the general principles (objectivity, integrity and independence) of independence.</p> <p>The detailed Audit Regulation of the Audit Law (which was amended in 2002 to include the provisions on independence) is still awaited in order to be able to determine whether the threats and safeguards approach will be applied. The Independence framework in the Audit Law is basically rules-based.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>Yes. However, in the adoption process there have been very significant modifications, also related to the framework, which make the outcome a rule-based approach.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>Based on the new Statutory Audit Directive the ICAC will amend the Audit Law and subsequently the Audit Regulation. The extent of such modification has not yet been defined.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>The text of the Recommendation is not directly used. The Audit Law deals with the incompatibilities and the Audit Standards with the general principles. The Audit Standards make no reference to the threats and safeguards that might affect the auditor's independence but deals with similar situations.</p> <p>These are the principles on which the rules are subsequently based, but a threats and safeguards approach is not followed:</p> <ul style="list-style-type: none"> <li>• The auditor should not have interests different from professional interests (self interest);</li> <li>• He should not have any influence that might compromise the objective solution of the problems or the freedom to express his professional opinion;</li> <li>• The auditor should be especially aware when his identification with the client or management of the client's business could compromise his independence.</li> </ul>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>Apparently not, however this is controversial and the Regulator has not expressed his view on this.</p>



<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
Amendments to the Audit Law are issued by the Spanish Parliament and the subsequent detailed Audit Regulation is issued by the Ministry of Finance. The current regulation is rules-based.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
Not explicitly. Article 8 of the Audit Law (independence requirements and incompatibilities) states specific requirements on internal partner rotation for entities under public supervision, listed companies and companies with a turnover higher than €30.000.000.
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
Article 8 of the Audit Law requires the rotation of the auditor responsible for the engagement and of the whole audit team after seven years for at least three years for the entities listed in question 7 above. The only other aspect in which the independence regulation differs for public interest entities is for Human Resources services which are more restricted than for listed companies.
<b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b>
The independence rules and incompatibilities are in some cases stricter in the Spanish legislation than in the Recommendation. We have no information to presume that changes will be made to toughen or soften the present rules.

## APPENDIX XXVI – SWEDEN

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
Yes, Sweden has a principles-based framework in place.
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
Yes, Sweden has adopted the EU Recommendation but to some extent on a more restrictive level (see the answer to question 4 below).
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
The implementation has been made mainly through legislation, i.e. the Auditors Act (effective from January 1, 2002).
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
The implementation has been made mainly through legislation, i.e. the Auditors Act (effective from January 1, 2002). The major difference is that the Auditors Act contains a presumption that an auditor is dependent if certain threats to his independence exist, unless the auditor proves different.
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
The Auditors Act does not comment on this matter.
<b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b>
The Auditors Act issued by the Swedish Parliament. It is principles-based. See also the answer to question 4 above.
<b>7. Did your country define public interest entity, and if so what is the definition?</b>
No.
<b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b>
No.

**9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.**

No additional conditions are expected. The matter however rests with the Swedish Ministry of Justice.

## APPENDIX XXVII – UNITED KINGDOM

### Implementation of the EU Recommendation on Independence

<b>1. To what extent does your country have a principles-based framework in place to deal with independence issues? If not, why not?</b>
<p>Following a UK government review of independence requirements in January 2003, standard setting relating to auditor independence was transferred to the independent Auditing Practices Board (APB). The APB issued revised standards in the Autumn of 2004</p> <p>The APB's independence standards are grounded on a principles-based framework that is compatible with the IFAC / EC Recommendation framework. They also introduce a number of additional absolute rules.</p> <p>The professional accountancy bodies have ethical requirements for all members (including auditors) and which adopt a principles-based approach compatible with the IFAC Framework. The professional accountancy bodies require their members to follow both the APB and their own general ethical requirements.</p>
<b>2. Has or will your country adopt the EU Recommendation on Independence?</b>
<p>The APB's Ethical Standards (ESs) comply with the same overall framework as the EU Recommendation although they do not adopt the EC Recommendation text. The substance of the requirements complies with the Recommendation<sup>8</sup>.</p>
<b>3. Within what time frame has or will the Recommendation be adopted?</b>
<p>The professional accountancy bodies adopted the EU Recommendation from Late 2002. The APB Ethical Standards that replace the accountancy body independence requirements for statutory audit apply for audits of accounting periods commencing after 15 December 2004.</p>
<b>4. If it has been adopted, has or will the Recommendation text be used directly or have or will only the principles be implemented into national prescriptions? If amended, please specify the major differences.</b>
<p>See question 2 above.</p>
<b>5. Is there extraterritorial impact (applicability to foreign subsidiaries, to foreign auditors, etc) of the implementation in your country of the EU Recommendation?</b>
<p>The APB ESs apply to all auditors of UK entities. However, as regards non-UK subsidiaries, the APB requires that at least the IFAC code be followed.</p>

<sup>8</sup> There are a small number of detailed differences, most notably in respect of unlisted Public Interest Entities where the APB ESs adopt the IFAC approach – see question 8 below.

<p><b>6. What instrument of law, or legislation (regulation or other) is used and by which authority is it issued? What is its status and scope? Is it principles or rules-based or a combination of both?</b></p>
<p>In the United Kingdom, the Companies (AICE) Act 2004 requires that the professional bodies (which continue to register auditors) adopt the APB ESs for auditor independence purposes. The APB Standards thus effectively have the force of law.</p> <p>Accordingly, all audits of historical financial information for accounting periods beginning on or after 15 December 2004, to which the APB ESs apply, need to comply with their requirements.</p>
<p><b>7. Did your country define public interest entity, and if so what is the definition?</b></p>
<p>The Public Interest Disclosure Act of 1998 makes no real attempt to define a public interest entity, though it is suggested that “this is a concept recognised by Courts” even though no definition has ever been given. There is no precise definition in the ethical requirements, though the APB Standards include a discussion indicating the type of entities that should be considered as warranting extra attention.</p> <p>See also question 8 below.</p>
<p><b>8. Are the independence rules for public interest entities as compared to other entities different in your country?</b></p>
<p>A number of detailed prohibitions and other requirements are in place for the audits of listed entities, within the APB’s ESs. They state that auditors of other entities of public interest (because of the “nature of the entity’s business, its size, the number of its employees and the range of its stakeholders) should consider whether the additional requirements should be applied.”</p>
<p><b>9. Should the approved Statutory Audit (new Eighth) Directive allow Member States to set additional conditions on scope of activities/services an auditor or audit firm may perform, do you expect your country to do so? Is your country considering strengthening or relaxing their independence rules in light of the Statutory Audit Directive? If so, please specify.</b></p>
<p>The APB ESs already include additional requirements. It has not yet been decided whether the discussions on public interest entities will need to be amended following implementation of the new Statutory Audit Directive.</p>