



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

October 2008

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1. INTRODUCTION

1.1. *Background to the Survey*

In June 2006, the Directive of the European Parliament and of the Council of 17 May 2006 on “Statutory Audit of Annual Accounts and Consolidated Accounts” (the Statutory Audit Directive) was published. The Directive includes in Article 2, item 7, the European Union definition of ‘Network’^{1 2}. European Union Member States had two years, up to mid-2008, to implement the provisions of the Statutory Audit Directive.

The European Commission (EC) had in 2002 issued the European Union “Recommendation on Statutory Auditor’s Independence” (EC Recommendation on Independence) which also included in its glossary a network definition^{3 4}. About half of the EU Member States have adopted the principles, but not necessarily directly the text of the EC Recommendation on Independence in their national laws and regulations (see FEE Survey on Implementation of the EC Recommendation on Independence, March 2006⁵).

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

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

In September 2007, FEE issued its FEE Survey on the network firm definitions across Europe. This Survey found that as at 1 July 2007, only ten European countries had a network firm definition of which four were in line with the network firm definition in the Statutory Audit Directive.

¹ Statutory Audit Directive of 9 June 2006 (2006/43/EC), http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_157/l_15720060609en00870107.pdf

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

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

³ http://eur-lex.europa.eu/LexUriServ/site/en/oj/2002/l_191/l_19120020719en00220057.pdf

⁴ EC Recommendation on Independence definition: Network: includes the Audit Firm which performs the Statutory Audit, together with its Affiliates and any other entity controlled by the Audit Firm or under common control, ownership or management or otherwise affiliated or associated with the Audit Firm through the use of a common name or through the sharing of significant common professional resources.

⁵ http://www.fee.be/publications/default.asp?library_ref=4&content_ref=553

⁶ http://www.ifac.org/Members/Downloads/Network_Firm.pdf

1.2. Purpose of the Survey

As the Statutory Audit Directive network definition and IFAC network firm definition have to be implemented in European Union Member States and by IFAC Member Bodies, FEE undertook to investigate how consistent definitions of networks and network firms currently are across Europe.

FEE has therefore launched a second survey with its Member Bodies to provide an updated insight into the existence, implementation and consistency of the network firm definition in the 27 European Union (EU) Member States and in Norway and Switzerland as at 1 July 2008. These insights into the existence and implementation of the network definition can contribute to the understanding within Europe of the similarities or differences applicable to audit firms within Europe.

1.3. Survey

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

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

Appendix I summarises the survey results for every country that responded.

Appendix II includes the detailed questionnaire and country responses.

2. DISCUSSION OF THE FINDINGS

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

The results show that fourteen of the countries that responded have a network firm definition determined in their national legislation or regulations. In seven of them, the Statutory Audit Directive definition has already been implemented, in one country a definition approximating to it, in another country the EC Recommendation on Independence definition and in a further one the definition in the IFAC Code of Ethics (version prior to July 2006⁷). In the four remaining countries, the network firm definition is not based on any European or international definition.

Eight of the countries that responded do not have a network firm definition in their national laws, but have some form of regulation on networks, mainly dealing with auditor independence issues. Three of these countries have based this regulation on the IFAC Code of Ethics version prior to July 2006.

Finally, seven of the countries that responded (24%) do not have a network firm definition either in their national laws or regulation as at 1 July 2008.

The table below shows the position in respect of a network firm definition in national legislation or regulation in the 29 countries surveyed as at 1 July 2008:

| | COUNTRIES | TOTAL NUMBER OF COUNTRIES |
|--|--|---------------------------|
| National network firm definition in law based on: | | 14 |
| • Implemented the Statutory Audit Directive | Belgium ⁸ , Hungary ⁹ , Latvia, the Netherlands ¹⁰ , Slovenia ¹¹ and Slovak Republic ¹² (Expected: Bulgaria, Malta, Portugal) | 6 |
| • Implemented the network firm definition of the Statutory Audit Directive | Italy ¹³ | 1 |
| • Implemented the Statutory Audit Directive approximately | Austria ¹⁴ (Expected: Germany ¹⁵) | 1 |
| • EC Recommendation on Independence | Portugal | 1 |

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

⁸ Royal Decree of 21 April 2007, entered into force on 31 August 2007.

⁹ Law of 11 June 2007, entered into force on 1 January 2008.

¹⁰ Article 1-j of the “*Wet toezicht accountantsorganisaties*” (Act on supervision of audit firms).

¹¹ Auditing Act of 30 June, entered into force on 15 July 2008.

¹² Act on Auditors N° 540/2007 par. 10, entered into force on 1 January 2008.

¹³ For audit firms auditing public interest entities but not for audit firms auditing entities other than public interest entities.

¹⁴ Sec 271 b (1) of the Austrian Company Code (legislation effective for fiscal periods from 1 January 2009).

¹⁵ As soon as the Draft Accounting Modernisation Act has been approved (probably early 2009).

| | COUNTRIES | TOTAL NUMBER OF COUNTRIES |
|---|---|---------------------------------|
| • IFAC Code of Ethics (prior to July 2006) | Malta | 1 |
| • IFAC Code of Ethics (July 2006) | - | - |
| • National legislation | Ireland, Norway, Sweden and United Kingdom | 4 |
| Some national regulation on network firms based on: | | 8 |
| • IFAC Code of Ethics (prior to July 2006) | Bulgaria, Finland, Luxembourg. | 3 |
| • IFAC Code of Ethics (July 2006) | Denmark, Cyprus, Czech Republic | 3 |
| • Some national regulation | France, Lithuania | 2 |
| No network firm definition in national law or regulation | Estonia ¹⁶ , Germany, Greece ¹⁷ , Poland, Romania, Spain, Switzerland | 7 |
| Total: | | 29 |

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

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

Findings

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

Seven countries have so far implemented the network definition in the Statutory Audit Directive: Belgium (Royal Decree of 21 April 2007, entered into force on 31 August 2007); Hungary (law of 11 June 2007, entered into force on 1 January 2008); Italy (for audit firms auditing public interest entities but not for audit firms auditing entities other than public interest entities); Latvia (law of 12 June 2008, entered into force on 29 June 2008); the Netherlands (entered into force on 1 October 2006); Slovenia (Auditing Act of 30 June, entered into force on 15 July 2008); and the Slovak Republic (Act on Auditors N° 540/2007 par. 10 entered into force on 1 January 2008).

Austria (as from 1 January 2009) will implement a network definition which approximates to the one in the Statutory Audit Directive and which is not intended to create differences in comparison with the Directive.

Two other countries (Ireland and the UK) have implemented the UK Auditing Practices Board (APB) Ethical Standards definition of a network firm, which is slightly differently worded but consistent with the Statutory Audit Directive and July 2006 IFAC definition.

¹⁶ No updated information was received from Estonia since 1 July 2007. It was assumed no changes occurred.

¹⁷ No updated information was received from Greece since 1 July 2007. It was assumed no changes occurred.

Again, different wording but with a consistent meaning, as well as a reference to cooperation, amount to the differences between the EU and IFAC definition and the EC Recommendation on Independence network definition, which is what has been implemented in Portugal.

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

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

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

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

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

France has specific regulation on networks but also does not refer to a larger structure, common control or ownership, common quality control policies or procedures, common business strategy or common professional resources. However, facilitating referral work between auditors in France can result in firms being considered to be a network, as well as knowledge sharing in addition to one or more of the features of the Statutory Audit Directive and July 2006 IFAC network firm definition.

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

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

2.3. Practical implementation issues¹⁸

The analysis included in this section on Practical Implementation issues derives from the September 2007 FEE Survey on the network firm definitions across Europe and remains substantially unchanged as the issues raised then remain valid.

European Union Member States had up to 29 June 2008 to implement the Statutory Audit Directive. International Federation of Accountants (IFAC) Member Bodies have up to the end of December 2008 to implement the July 2006 IFAC network firm definition. In this context, it should be noted that in three countries the IFAC network firm definition of July 2006 has been implemented in the local Code of Ethics, which might or might not be referred to in law. In addition, as only a few countries have so far implemented the network firm definition of the EU Statutory Audit Directive by law, no major practical implementation issues in relation to this definition have arisen.

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

Anticipated consequences of the implementation of the Statutory Audit Directive

European Union Member States were required to adopt a network definition by mid-2008 which, as a minimum, includes the definition in Article 2.7 of the Statutory Audit Directive as follows:

Article 2.7. of the Statutory Audit Directive

‘Network’ means the larger structure:

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

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

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

¹⁸ The analysis included in Section 2.3 on Practical Implementation issues originates from the September 2007 FEE Survey on the network firm definitions across Europe and remains unchanged.

Registration of audit firms

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

1. As regards audit firms, the public register shall contain at least the following information:

[...]

(h) If applicable, the membership of a *network* and a list of the names and addresses of member firms and affiliates or an indication of the place where such information is publicly available.

[...]

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

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

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

Transparency reports

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

Article 40.1 (b) on the transparency report requires that

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

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

Independence

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

2. Member States shall ensure that a statutory auditor or an audit firm shall not carry out a statutory audit if there is any direct or indirect financial, business employment or other relationship – including the provision of additional non-audit services – between the statutory auditor, audit firm or *network* and the audited entity from which an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised.
[...]

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

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

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

3. CONCLUSIONS: ENSURING CONSISTENT APPLICABILITY OF THE NETWORK DEFINITION WITHIN THE EUROPEAN INTERNAL MARKET IS VITAL

The first FEE Survey on the Network Firm Definitions Across Europe (September 2007) indicated that as at 1 July 2007, ten European countries had a national network firm definition in their law, of which four European Union Member States had implemented the definition of the Statutory Audit Directive.

The current Updated FEE Survey on the Network Firm Definition Across Europe demonstrates that as at 1 July 2008, fourteen European countries have a national network firm definition in their law. On the 29 June 2008 deadline for implementation of the Statutory Audit Directive by the European Union Member States, only seven of these countries have implemented the network firm definition of the Statutory Audit Directive and three European Union Member States (and Norway) have implemented or will implement a definition which approximates to the one in the Directive.

It is unfortunate that during the last year, minimal progress has been made and that on the due date for implementation of the Directive, only one third of all European Union Member States had implemented the network firm definition of the Statutory Audit Directive, including three Member States having implemented their own interpretation of the definition.

Therefore, and in order to avoid the practical implementation issues referred to earlier, FEE continues to strongly encourage European Union Member States to urgently and consistently implement the definition of networks as included in Article 2.7. of the Statutory Audit Directive without going beyond it.

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

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

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

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

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

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

APPENDIX I - SUMMARY OF RESPONSES

| COUNTRY | NETWORK FIRM DEFINITION IN NATIONAL LEGISLATION OR REGULATIONS AS AT 1 JULY 2008? | IF YES, PROVIDE NETWORK FIRM DEFINITION PLUS GUIDANCE |
|-----------------|---|---|
| Austria | Approximately YES (as from 1 January 2009) | Direct reference to the Statutory Audit Directive definition is made in the additional material to the law. Please refer to Appendix II.2 |
| Belgium | YES | Statutory Audit Directive definition, please also refer to Appendix II.2 |
| Bulgaria | NO, IFAC Code of Ethics (but expected) | IFAC Code of Ethics. Please also refer to Appendix II.1 and II.2 |
| Cyprus | YES, IFAC Code of Ethics | IFAC Code of Ethics |
| Czech Republic | YES, by reference to the IFAC Code of Ethics | IFAC Code of Ethics |
| Denmark | YES, IFAC Code of Ethics | IFAC Code of Ethics |
| Estonia | NO | N/A |
| Finland | NO | IFAC Code of Ethics prior to July 2006 |
| France | NO, only 'features' of networks | Please refer to Appendix II.2 |
| Germany | NOT YET | Please refer to Appendix II.2 |
| Greece | NO | N/A |
| Hungary | YES | Statutory Audit Directive definition, please also refer to Appendix II.2 |
| Ireland | YES | Please refer to Appendix II.2 |
| Italy | YES | Statutory Audit Directive definition. Please also refer to Appendix II.1 and II.2 |
| Latvia | YES | Statutory Audit Directive definition |
| Lithuania | Audit network definition | Please refer to Appendix II.2 |
| Luxembourg | NO, IFAC Code of Ethics prior to July 2006 | IFAC Code of Ethics prior to July 2006 |
| Malta | YES, based on IFAC Code of Ethics prior to July 2006 | IFAC Code of Ethics. Please also refer to Appendix II.1 and II.2 |
| Netherlands | YES | Statutory Audit Directive definition |
| Norway | YES | Please refer to Appendix II.2 |
| Poland | NO | N/A |
| Portugal | YES | EC Recommendation on Independence definition. Please also refer to Appendix II.1 and II.2 |
| Romania | NO | N/A |
| Slovak Republic | YES | Statutory Audit Directive definition |
| Slovenia | YES | Statutory Audit Directive definition. Please also refer to Appendix II.2. |
| Spain | NO | N/A |
| Sweden | YES | Please refer to Appendix II.2 |
| Switzerland | NO | N/A |
| United Kingdom | YES | Please refer to Appendix II.2 |

APPENDIX II - COUNTRY RESPONSES

Appendix II.1 - Question 1: Is there a network firm definition determined in your national legislation or regulations (as at 1 July 2008)?

| COUNTRY | ANSWER |
|----------------|---|
| Austria | <p>Current legislation: No definition, only 'principles' of networks.</p> <p>Legislation effective for fiscal periods beginning on or after 1 January 2009: (passed by Austrian Parliament in April 2008 through the "Unternehmensrechtsänderungsgesetz 2008" ("URÄG 2008"): Yes.</p> |
| Belgium | <p>The definition of network, in line with the definition referred to in Article 2.7. of the Statutory Audit Directive was introduced in the law of 22 July 1953 which created the Institute of Registered Auditors (IBR-IRE) as amended by a royal decree of 21 April 2007, published in the Belgian Official Gazette of 27 April 2007. The new legal provision came into force on 31 August 2007.</p> |
| Bulgaria | <p>Yes, the draft amendments to the Independent Financial Audit Law as at 1 July 2008 were approved and in force at 29 July 2008 and include a network firm definition.</p> |
| Cyprus | <p>On 22 May 2008, the Council of the Institute of Certified Public Accountants of Cyprus adopted the revisions to the IFAC Code of Ethics Section 290, Independence – Assurance Engagements, which include a network firm definition. A draft bill for the implementation of the Statutory Audit Directive in the Cyprus legislation, including the network definition, has been prepared by the Ministry of Commerce. The draft bill is expected to be approved in December 2008.</p> |
| Czech Republic | <ul style="list-style-type: none"> ▪ Only by reference to the IFAC Code of Ethics – July 2006 version (approved by General Meeting of Czech Chamber of Auditors in November 2007); ▪ The New Act on Auditors (expected to be approved by Parliament with effect from the end of 2008 or beginning of 2009) defines the network and uses exactly the same text as defined by IFAC Code of Ethics – July 2006. |
| Denmark | <p>Yes, indirectly. The explanatory remarks to article 24 of Act. No. 468 of 17 June 2008 implementing the Statutory Audit Directive refer to the Directive.</p> |
| Estonia | <p>No. Currently there is no network firm definition in auditing related regulations. The ministry of Finance is currently preparing a new draft of the Estonian Auditing Act. It is intended to introduce the IFAC Code of Ethics in Estonia.</p> |
| Finland | <p>No, there is no network firm definition in the Finnish legislation or regulations.</p> <p>However, the Institute (KHT yhdistys) translated the IFAC Code of Ethics prior to July 2006 into Finnish and the translated Code of Ethics applies to all members of the Institute.</p> |

| COUNTRY | ANSWER |
|---------|--|
| | In Finland, the audit law came into force on 1 July 2007. A specific definition of a network does not exist in the audit law. However, the definitions regarding networks in the IFAC Code of Ethics and the Statutory Audit Directive have been implemented in the audit law's sections concerning Auditor's Independence and Disqualification of an auditor. |
| France | There is no French definition of a network firm but "features" of a network firm are identified (see below). The French oversight board (<i>Haut Conseil du Commissariat aux Comptes</i> (H3C)) is to be consulted as necessary when it is unclear whether a network exists or not among firms or associations of firms. |
| Germany | Not yet, but it will when the Draft Accounting Modernisation Act is approved (probably in early 2009). |
| Greece | No. |
| Hungary | Hungary adopted a new Bill on the Chamber of Hungarian Auditors, on 11 June 2007, addressing auditing activities and public oversight. This new law (75/2007) came into force on 1 January 2008 and defines (in paragraph 2, point 17) a network firm in the same way as in the Statutory Audit Directive. |
| Ireland | Yes. Please refer to the response for the UK. The position for Ireland is exactly the same as that for the UK. The Irish professional bodies require their members where appropriate to adopt the Auditing Practices Board (APB) Ethical Standards for Auditors. |
| Italy | Yes. For audit firms auditing public interest entities, a broad definition was introduced by law nr. 262/2005 (law on savings). This amended the financial markets legal discipline (Delegated decree nr. 58/98), specifically with regard to art. 160 dealing with incompatibilities and independence of audit firms which are registered in a Consob role for providing external statutory audit services to listed companies. According to the law, a network is the broader structure to which the audit firm belongs, which uses the same denomination or through which resources are shared. It would comprise companies which are controlled by or control each other, which are linked or which are subject to common control. The law provided for the enactment of a Consob Regulation, to identify criteria for networks and to define audit assignments in order to assure auditors' independence. The Consob regulation was published in June 2007 (after public consultation). |

| COUNTRY | ANSWER |
|-------------|--|
| | <p>In addition to the legal definition provided by art. 160 of the revised Delegated Decree 58/98, art. 149-bis of the Regulation defines additional criteria referring to the definition provided in the Statutory Audit Directive (see question 2).</p> <p>This definition applies only within the scope of audit firms for audits of public interest entities.</p> <p>For audit firms auditing other entities, the definition is provided by the national auditing standard nr. 100 related to auditor's independence, issued in July 2005. This auditing standard contains a network definition based on the EC Recommendation on Independence.</p> |
| Latvia | Yes. The law implementing the Statutory Audit Directive was adopted on 12 June 2008 and came into force on 29 June 2008. |
| Lithuania | No, but there is an audit network definition in the current Law on Audit. The new Law on Audit, implementing the Statutory Audit Directive, has not yet been adopted. |
| Luxembourg | No. However, the Luxembourg Ethics Code uses the IFAC network firm definition prior to July 2006: "Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally". |
| Malta | <p>Yes. A definition of a network firm is found in the local Code of Ethics, which is based on the previous version of the IFAC Code of Ethics. Apart from being applicable to all members of the Malta Institute of Accountants, the local Code of Ethics is also given legal strength by being enacted by Directive Number 2 issued in terms of the Accountancy Profession Act (Chapter 281 of the Laws of Malta). All holders of a warrant to practice the profession of an accountant in Malta must comply with the provisions of this code.</p> <p>The definition of network firm was amended by article 47(d) of Act No. IX of 2008, to implement the Statutory Audit Directive, which was published in August 2008. The definition of network firm in the Code of Ethics currently remains unchanged.</p> |
| Netherlands | Yes in Article 1 – j of the Act on the supervision of audit firms " <i>Wet toezicht accountantsorganisaties (Wta)</i> ". |
| Norway | Yes, in the Act on Auditing and Auditors (Auditors Act 1999) section 4-7, and in the Regulation on Auditing and Auditors (Auditors Regulation 1999) section 4-2. |
| Poland | No. A draft of the new law on auditors, incorporating the Statutory Audit Directive, is not yet publicly available in Poland. |

| COUNTRY | ANSWER |
|-----------------|---|
| Portugal | Yes. At this stage, the network firm definition in Portugal is the same as the one stated in the EC Recommendation on Independence. Regarding the incorporation of the Statutory Audit Directive into national law, the adoption of the network definition as set out in the Statutory Audit Directive was adopted by the Portuguese Government in July 2008. |
| Romania | No network firm definition is included in the Romanian legislation. However, groups of companies, and companies with secondary business places are defined. The only definition of a group of interests exists from an economic and tax evasion point of view. |
| Slovak Republic | Yes. |
| Slovenia | Yes. The Auditing Act of 30 June which came into force on 15 July 2008, implemented the network definition from the Statutory Audit Directive. |
| Spain | No. The Spanish legislation does not provide for a definition of Network. Although no draft legislation incorporating the Statutory Audit Directive has been issued so far, it is anticipated that when the Directive is implemented, a network definition will be included. The definition is expected to approximate the one included in the Statutory Audit Directive. |
| Sweden | Yes, there is a definition in the Auditors Act, section 2. |
| Switzerland | No. |
| United Kingdom | Yes. Statutory audits must be carried out in accordance with the Auditing Practices Board Ethical Standards (APB ES), which includes a definition. In addition, the accountancy bodies include a definition in their own codes of ethics which is relevant to non-statutory audit work. |

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

| COUNTRY | ANSWER |
|---------|--|
| Austria | <p>Legislation effective for fiscal periods beginning on or after 1 January 2009:</p> <p>Sec 271b (1) of the Austrian Company Code (“<i>Unternehmensgesetzbuch</i>”, “ACC”) provides the following definition of networks: “<i>Ein Netzwerk liegt vor, wenn Personen bei ihrer Berufsausübung zur Verfolgung gemeinsamer wirtschaftlicher Interessen für eine gewisse Dauer zusammenwirken.</i>”</p> <p>The specific wording of the definition of networks has been derived from the German draft legislation (“<i>Bilanzrechtsmodernisierungsgesetz</i>”, “BilMoG”) for the implementation of Art 2, item 7. This was evaluated and considered to be adequate for incorporation into Austrian law.</p> <p>Reference is made to the German response to Question 2 on Page 22.</p> <p>Additional Guidance is given in the additional material (“<i>Materialien</i>”), including a direct reference to the definition of Art 2, item 7 of the Statutory Audit Directive and to its purpose, i.e. to fully implement this provision in Austrian law.</p> |
| Belgium | <p>[Approximate translation: for information purpose only]</p> <p>The definition of network in article 2, 8° of the amended law of 22 July 1953 is as follows:</p> <p>The larger structure which is aimed at cooperation and to which a registered auditor belongs, and which is clearly aimed at profit- or cost-sharing or shares common ownership, control or management, common quality-control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources.</p> <p>Specific rules are applicable to persons who have a professional relationship with the registered auditor as defined in previous legislative and regulatory provisions such as:</p> <p><i>a) Royal Decree of 10 January 1994, article 1,5</i></p> <p>A person who has a professional relationship with the <i>registered auditor</i>: any individual with whom the registered auditor has entered into an organised professional cooperation; is anyhow presumed to be part of this definition, any company having as purpose performing the profession, any contract which contains the right to use and to refer to a common name or which contains a compulsory or mutual recommendation.</p> <p>Such a definition does not only relate to the mandate carried out by the statutory auditor but also covers all services carried out by the registered auditor.</p> |

| COUNTRY | ANSWER |
|----------|---|
| | <p><i>b) Belgian Company Code, article 133, al. 4</i></p> <p>As far as the provisions relating to the independence of the <i>statutory auditor</i>, and in particular to non audit services, are concerned, article 133, § 4, of the Company Code has extended their scope to persons with whom the statutory auditor has entered into a labour agreement, to persons with whom he is in a professional network or to companies or persons related to the statutory auditor referred to in article 11 of the Company Code.</p> <p><i>c) Royal Decree of 30 January 2001, article 183quinquies</i></p> <p>The Royal Decree of 30 January 2001, introduced by the Royal Decree of 4 April 2003, provides an exhaustive list of non-audit services deemed to be incompatible with the independence of the statutory auditor. Article 183 <i>quinquies</i> of this Royal Decree defines a professional network, in order to determine the persons, including the statutory auditor, subject to the scope.</p> <p>The definition only relates to the rendering of non-audit services, in relation with the independence rules of the statutory auditor (art. 133 C. Soc.).</p> <p>Is considered as a professional network, the following cooperation organised by a statutory auditor with a legal entity or an individual:</p> <ol style="list-style-type: none"> 1. Any company willing to practice the profession of registered auditor and in which the statutory auditor is shareholder, partner, director or manager; 2. Any association or company referred to in article 8 §4 of the law of 22 July 1953 composed of one or several registered auditors, one of whom at least is a statutory auditor, and of other persons who do not possess this professional qualification or an equivalent one; 3. Any company or individual with whom the company or the association referred to in 1 or 2 is connected in the sense of article 11 of the Belgian Company Code; 4. Any position of partner, shareholder, director, manager or member of a company, of an association or an individual referred to in 1 to 3, who is part of the team in charge of the audit engagement; 5. Any labour agreement entered into by the statutory auditor with a registered auditor; 6. Any registered auditor with whom the company, the association or the person, referred to in 1, 2 and 3 has entered into a labour agreement; 7. Any contract containing the right to use a common corporate name or to refer to one; 8. Any contract containing an undertaking of mutual recommendation; 9. Any contract or company aiming at sharing professional resources. |
| Bulgaria | <p>A network is a cooperation of registered auditors which is aimed at cooperation, profit or cost sharing or shares common ownership, control or management, common quality control policies or procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources.</p> |

| COUNTRY | ANSWER |
|----------------|--|
| Cyprus | The July 2006 IFAC network firm definition has been adopted by the Council of the Institute. |
| Czech Republic | See answer to question 1. |
| Denmark | The reference to the Directive includes an exact quotation of Article 2.7. |
| Estonia | N/A |
| Finland | <p>The network firm definition of the IFAC Code of Ethics prior to July 2006 applies to the members of KHT – yhdistys, <i>i.e.</i> “Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.”</p> <p>In Finland, the audit law came into force on 1 July 2007. A specific definition of a network does not exist in the audit law. However, the definitions regarding networks in the IFAC Code of Ethics and the Statutory Audit Directive have been implemented in the audit law’s sections concerning Auditor’s Independence and Disqualification of an auditor.</p> |
| France | <p>[Approximate translation: for information purposes only]</p> <p>According to the French Code of Ethics for statutory auditors : “[...]The following features may qualify firms as a network:</p> <ul style="list-style-type: none"> - Joint management or coordination on a national or international level; - Any mechanism leading to shared revenues or net income, or to transferred remuneration or costs within/to France or other countries; - The existence of referral fees; - A common corporate name or distinctive logo; - A common recurring client base; - The publication or use of documents for public purposes, that present the network or each of its members and refer to multidisciplinary skills; - The design or development of common technical tools. <p>Technical associations established solely for the purpose of knowledge sharing do not constitute a network.</p> <p>Where the statutory auditor has a doubt regarding his membership of a network, he shall consult with the Haut Conseil du Commissariat aux Comptes.”</p> <p>It should be noted that a recent amendment was made to article 22 of the French Code of Ethics which now states that the design and the development of shared technical tools do not qualify for a network when it is done by a technical organisation whose sole purpose is the design and the development of such tools as well as knowledge or experience sharing.</p> |

| COUNTRY | ANSWER |
|---------|---|
| Germany | <p>The wording of the network definition in the draft accounting modernisation act (See question 1) is as follows:</p> <p>“A network exists when persons whilst exercising their profession collaborate for a certain period in pursuing common business interests.”</p> <p>[Approximate translation: for information purpose only]</p> |
| Greece | N/A |
| Hungary | <p>“Audit network” means the larger structure</p> <ul style="list-style-type: none"> - Which is aimed at cooperation and to which a registered statutory auditor or an audit firm belongs, and - Which is clearly aimed at profit- or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, a common business strategy, the use of a common brand-name or significant part of professional resources. <p>[Approximate translation: for information purpose only]</p> |
| Ireland | Please refer to the response for the UK. |
| Italy | <p>For the audit firms auditing public interest entities, the general criteria provided in the law are the following:</p> <ul style="list-style-type: none"> - Consisting of the broader structure; - Inclusion of all the firms that control an audit firm, subsidiaries of an audit firm, firms that are associated to an audit firm or under common control with another audit firm (controlled in fact or by virtue of rights); - Use of a common denomination; - Sharing common professional resources. <p>The additional criteria identified by Consob Regulation are the following:</p> <ul style="list-style-type: none"> - A network can be a national or an international structure; - A structure which is aimed at cooperation; - Sharing of profit or costs; or - Sharing directives and common procedures of quality control; - Sharing common ownership or management; or - Sharing common business strategies; or - Using the same trade marks; or - Sharing a significant part of professional or organisational resources. <p>For audit firms auditing entities other than public interest entities, the definition contained in the auditing standard nr. 100 is the following:</p> <p>A network includes the auditor which performs the statutory audit, together with its affiliates and any other entity or subject associated with the auditor through the use of a common name or through the sharing of significant common professional resources.</p> |

| COUNTRY | ANSWER |
|-------------|--|
| Latvia | <p>The law provides as follows:</p> <p>Clause 1.13: auditors company network - <i>cooperation of certified auditors, certified auditors' companies, member state and third country auditors and auditor companies which is aimed at profit- or cost-sharing, common management or common ownership, common quality-control policies and procedures, a common business strategy, common use of brand-name or a significant part of certified auditors or certified auditors' company participating in this cooperation.</i></p> |
| Lithuania | <p>“Audit network” means a system embracing the audit firm and related firms, in which the same brand name is used or professional resources are shared.</p> |
| Luxembourg | <p>“Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.”</p> |
| Malta | <p>“Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.”</p> <p>Following the implementation of the Statutory Audit Directive on 14 August 2008, the definition of network will be:</p> <p>“‘network’ means the larger structure which is:</p> <ul style="list-style-type: none"> (a) Aimed at cooperation and to which an auditor belongs; and (b) Clearly aimed at profit – or cost-sharing or shares common ownership, control or management, common quality-control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources.” |
| Netherlands | <p>The definition is literally taken from the Statutory Audit Directive:</p> <p>‘Network’ means the larger structure:</p> <ul style="list-style-type: none"> - Which is aimed at cooperation and to which a statutory auditor or an audit firm belongs, and - Which is clearly aimed at profit- or cost-sharing or shares common ownership, control or management, common quality-control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources. |
| Norway | <p>Auditors Act section 4-7. Cooperation agreements, ownership shares, etc:</p> <p>In the case of cooperating auditors who from the outside appear to be a joint operation, provisions laid down in or pursuant to this chapter [chapter 4 Ethics and Independence chapter of the Auditors Act] shall apply as if they were an audit firm.</p> |

| COUNTRY | ANSWER |
|----------|--|
| | <p>Where an auditor or audit firm has ownership shares in an undertaking that provides consulting or other non-audit services, these shall be viewed as for the purpose of provisions laid down in or pursuant to this chapter.</p> <p>The annual accounts of an entity subject to the statutory audit obligation may not be audited by anyone who has a cooperation agreement with someone providing consulting or other non-audit services if this might influence or raise doubts about the auditor's independence and objectivity. The ministry may, in regulations, provide that rules laid down in or pursuant to this chapter shall apply where such a cooperation agreement exists.</p> <p>Auditors Regulation section 4-2:</p> <p>'Cooperation agreement' as mentioned in section 4-7 third paragraph of the Auditors Act shall mean an agreement on the use of identical names or the sharing of significant professional or business resources. The same shall apply to other cooperation agreements that may influence or raise doubts about the auditor's independence and objectivity.</p> <p>In cases where a cooperation agreement as mentioned in the first paragraph exists, the rules laid down in or pursuant to the Auditors Act section 4-1 first, second and fifth paragraphs [General requirements regarding independence and objectivity], section 4-2 second and fourth paragraphs [Identification rules for audit firms], section 4-4 [Auditor's participation in other business activities], section 4-5 first to third paragraphs and fifth paragraph [Non-audit services etc.] and section 4-6 [Audit fee independence] shall apply to a corresponding extent to the cooperating undertaking, cf. also the fourth paragraph.</p> <p>Section 4-1 first paragraph first sentence shall not apply in relation to close associates of the cooperating undertaking or to persons as mentioned in the fourth paragraph. Ownership shares or outstanding accounts etc as mentioned in section 4-1 second paragraph nos. 2 and 3 shall not be of consequence for the auditor's independence unless they are substantial.</p> <p>The rules for undertakings shall apply to a corresponding extent to partners and senior employees of the undertaking and to members of the undertaking's governing bodies.</p> |
| Poland | N/A |
| Portugal | <p>The adoption of the network definition as set out in the Statutory Audit Directive was approved by the Portuguese Government in July 2008. At this stage, however, the definition of "Network" remains the one referred to in the EC Recommendation on Independence:</p> <p>"Network" includes the Audit Firm which performs the Statutory Audit, together with its Affiliates and any other entity controlled by the Audit Firm or under common control, ownership or management or otherwise affiliated or associated with the Audit Firm through the use of a common name or through the sharing of significant common professional resources.</p> |

| COUNTRY | ANSWER |
|-----------------|---|
| Romania | N/A |
| Slovak Republic | <p>The Statutory Audit Directive was implemented into the national legislation through the Act on Auditors No.540/2007, par. 10, which came into force on 1 January 2008.</p> <p>The definition is as follows:</p> <p>Network means a group of auditors and audit firms aimed at cooperation and to which an auditor or an audit firm belongs, and</p> <p>a) Which is clearly aimed at profit- or cost-sharing; or</p> <p>b) Has common ownership, has control or management, common quality control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources.</p> |
| Slovenia | The network definition is the same as in the Statutory Audit Directive. |
| Spain | N/A |
| Sweden | <i>Accounting firm group</i> : A group of enterprises in which at least one public accounting firm is included and which, due to ownership structure, agreement or administrative cooperation or other reasons may be regarded as part of the same commercial unit. |
| Switzerland | N/A |
| United Kingdom | <p>The APB ES were revised with effect from 6 April 2008. They now define a network firm as:</p> <p>“Any entity which is part of a larger structure that is aimed at co-operation and which is:</p> <p>(i) Controlled by the audit firm; or</p> <p>(ii) Under common control, ownership or management; or</p> <p>(iii) Part of a larger structure that is clearly aimed at profit or cost sharing; or</p> <p>(iv) Otherwise affiliated or associated with the audit firm through common quality control policies and procedures, common business strategy, the use of a common name or through the sharing of significant common professional resources.”</p> <p>The definition in the ICAEW (and ICAS and ICAI) Codes of Ethics is currently based on the previous IFAC definition:</p> <p>“An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.” It will be aligned with the current IFAC definition in due course.</p> |

| COUNTRY | ANSWER |
|---------|--|
| | <p>In ACCA's case, its Code of Ethics and Conduct carries the previous definition of network firm as noted above. In addition, it also carries the revised definitions of firm, network firm and network and notes that these will be effective for assurance reports dated on or after 31 December 2008 when the existing definitions of firm and network firm will be withdrawn:</p> <p>'Firm' means: A sole practitioner, partnership or corporation of professional accountants; An entity that controls such parties through the ownership, management or other means; and An entity controlled by such parties through ownership, management or other means.</p> <p>'Network firm' means a firm or entity that belongs to a network.</p> <p>Network means a larger structure: That is aimed at co-operation; and That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.</p> |

Appendix II.3 - Question 3: If the answer to question 1 is yes, what are the differences compared to the EC Statutory Audit Directive/IFAC Code of Ethics network (firm) definition including the guidance provided in 290.14 to 290.26 of the IFAC Code?

| COUNTRY | ANSWER |
|----------------|---|
| Austria | Although the wording of the definition of networks is different in comparison to the definition of Article 2 of the Statutory Audit Directive, the additional guidance provided in the additional material (" <i>Materialien</i> "), is intended to effectively create no differences in comparison to the Directive. |
| Belgium | Any differences from the definition of the Statutory Audit Directive were removed by the introduction of the Belgian legislation set out above under question 1. In addition, the definition in the IFAC Code of Ethics of a network firm was brought into line with the definition of the EC Statutory Audit Directive, and therefore there are no major differences. |
| Bulgaria | No, there are no differences. |
| Cyprus | As stated in the answer to question 1 above the network firm definition was brought in line with the IFAC Code of Ethics (July 2006). In addition, the Statutory Audit Directive is expected to be implemented. Accordingly there will be no differences. |
| Czech Republic | The New Act on Auditors only assumes a network definition – guidance provided in 290.14 to 290.16 of IFAC Code is not included in the New Act on Auditors directly – however the New Act on Auditors stipulates the obligation to be compliant with the Code of Ethics issued by the Chamber. The Chamber uses the IFAC Code of Ethics (July 2006). |
| Denmark | No differences were identified compared to the Statutory Audit Directive, since the reference includes an exact quotation of the Directive. The IFAC Code of Ethics, section 290.14 to 290.26, has already been implemented in the FSR Code of Ethics. These sections will come into force at the end of 2008. |
| Estonia | N/A |
| Finland | N/A |
| France | The main differences are that: <ul style="list-style-type: none"> - Technical associations of firms that are not “only dedicated to knowledge sharing” may be captured by the French conception whereas it is clearly out with the scope of the IFAC definition (§ 290-13) as well as the Statutory Audit Directive network definition; - Where an organisation aimed at facilitating referral work is not considered as a network in the IFAC Code of Ethics (§ 291-11), such an organisation is likely to be considered as a network in France; |

| COUNTRY | ANSWER |
|-------------|---|
| | <p>- The French Code of Ethics implicitly allows referral fees whereas they are considered to create a threat to objectivity, professional competence and due care by the IFAC Code (§ 240.6 and 240.7).</p> <p>A step towards convergence is a recent amendment made to article 25 of the French Code of Ethics which provides that the auditor shall implement appropriate procedures to allow him to get all information about any service rendered or proposed by any member of the network to the audit client, including the nature of the service and the fees. Previously, this article stated that the statutory auditor had to demonstrate that the procedures of the network were appropriate to enable him to know any service rendered or proposed by any member of the network to the audit client, including the nature of the service and the fees.</p> |
| Germany | Once the network definition in the Draft Accounting Modernisation Act is approved (probably in early 2009), it is intended that there will effectively be no differences in comparison to the Directive, even though the wording of the definition of networks is different in comparison to the definition of Article 2 of the Statutory Audit Directive. |
| Greece | N/A |
| Hungary | There are no differences. |
| Ireland | Please refer to the response for the UK. |
| Italy | There are no substantial differences. |
| Latvia | There are no substantial differences. |
| Lithuania | N/A |
| Luxembourg | N/A |
| Malta | <p>The definition adopted in Malta was taken from the IFAC Code of Ethics in force up to July 2006.</p> <p>The definition in the Statutory Audit Directive and revised IFAC Code of Ethics is more prescriptive and incorporates the concepts of a larger structure and aiming at cooperation and at profit – or cost-sharing or sharing of common quality-control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources.</p> |
| Netherlands | There are no differences. |
| Norway | In practice, there are no substantial differences. |
| Poland | N/A |

| COUNTRY | ANSWER |
|-----------------|---|
| Portugal | <p>We do not identify any minor differences between these definitions, except for the clear text reference in the Directive and IFAC Code of Ethics, <i>i.e.</i> “Which is clearly aimed at profit- or cost-sharing”.</p> <p>Nevertheless, we consider that this reference, although not written in the text, is included in the scope of our definition.</p> |
| Romania | N/A |
| Slovak Republic | There are no differences. |
| Slovenia | N/A |
| Spain | N/A |
| Sweden | <p>The wording of the Swedish definition is quite general. It is believed that it covers the same situations as the EC Statutory Audit Directive/IFAC Code of Ethics network (firm) definition including the guidance provided in 290.14 to 290.26 of the IFAC Code.</p> |
| Switzerland | N/A |
| United Kingdom | <p>The APB ES definition, though slightly differently worded and that of a network firm rather than a network, is consistent with the definition in the current IFAC Code and the Statutory Audit Directive.</p> |

Appendix II.4 - Question 4: Have you encountered any practical issues in implementing your national network firm definition? If yes, please explain or provide examples.

| COUNTRY | ANSWER |
|----------------|--|
| Austria | Since sec 271b ACC as amended by URÄG 2008 has not yet become effective, no practical issues have been observed as yet. |
| Belgium | Difficulties lie in the fact that as set out under question 2, apart from the definition of network introduced in the law of 22 July 1953, in line with the Statutory Audit Directive, specific rules are applicable to persons who have a professional relationship with the registered auditor depending on the assurance engagement carried out (statutory audit or other). |
| Bulgaria | N/A |
| Cyprus | No. |
| Czech Republic | No. |
| Denmark | FSR's Ethics Committee has discussed the IFAC definition with some of the Danish "networks" or "associations" of individual audit firms. Most of the "networks" using a common brand/name seem to consider that they fall into the network definitions. |
| Estonia | No. |
| Finland | N/A |
| France | The absence of a definition is in itself a difficulty; the lack of public answers of the H3C to questions of technical associations of firms does not clarify the matter. Services a network firm is not allowed to perform for an audit client – including the related entities – create serious uncertainties with regard to either the professional and criminal liability of statutory auditors. |
| Germany | No. |
| Greece | No. |
| Hungary | No. |
| Ireland | Please refer to the response for the UK. |
| Italy | No. |
| Latvia | No. |

| COUNTRY | ANSWER |
|-----------------|---|
| Lithuania | No. |
| Luxembourg | No. |
| Malta | None reported. |
| Netherlands | No. |
| Norway | No. |
| Poland | N/A |
| Portugal | No. |
| Romania | No. |
| Slovak Republic | As the new Act on Auditors came into force only a few months ago, no practical issues have been identified. |
| Slovenia | The problem of the network definition is in connection with the auditor's independence and the problems of performing different services for the same client inside of the network. |
| Spain | No. |
| Sweden | It is believed that audit firms in general have not had any problems with the network firm definition. Sweden has had such a definition for more than twenty years. |
| Switzerland | N/A |
| United Kingdom | The new APB ES definition has only just become effective so there have been no formal issues arising. There has anecdotally been some concern from smaller associations that, although they are loose associations existing for cross referral purposes, they will be treated as networks if they seek to ensure minimum quality standards. |