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Comparative study of the legislation transposing the articles of directive 2006/43/EC

governing statutory auditor independence requirements

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COMPARATIVE STUDY OF THE LEGISLATION TRANSPOSING THE ARTICLES OF DIRECTIVE 2006/43/EC GOVERNING STATUTORY AUDITOR INDEPENDENCE REQUIREMENTS

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1 Introduction

Auditor independence is essential to maintaining the confidence of all stakeholders in audit reports, as stated in Law 22/2015 on Auditing (hereinafter LAC): "*Independence is a fundamental pillar upon which the confidence placed in the audit report rests*".

The audit profession is characterised by its public relevance, as it does not merely provide a service to the audited entity, and which is of interest only to said entity, but is also of interest to third parties who have, or are interested in establishing, a relationship with the audited entity. Consequently, audits are a cornerstone of the functioning of financial markets and the economy as a whole, providing confidence in the financial statements of the audited entity so that investors, lenders, suppliers, customers, employees and other stakeholders in the audited entity can make informed decisions.

Auditors provide information to the general public, to the users of financial statements who are, consequently, also users of the audit report, however the auditors are engaged by the audited entity. In this context, the party that commissions the audit services (the audited entity) is distinct from the beneficiaries of the audit report, that is to say, its users. The Ethical Standard for Auditors of the *Irish Auditing & Accounting Supervisory Authority* (IAASA, 2025) highlights that such situations give rise to principal-agent relationships, with users and the management of the audited entity acting as the principals, and its auditors acting as the agents. These principal-agent relationships give rise to the potential for conflicts of interests that must be addressed if the principals (users) are to have trust and confidence in the audits.

Independence is the primary means of demonstrating to both the public and to regulatory bodies that auditors and audit firms perform their duties to a standard that complies with established ethical principles, especially those of integrity and objectivity (European Commission, 2002).

For an in-depth study on auditor independence within the context of European and Spanish standards and the regulatory environment up to the European Commission's 2011 reform proposal, see Fernández Rodríguez ***et al.*** (2013).

Returning to the European context, given the importance of auditor independence and the differences between Member States in this regard, the European Commission's 2002 Recommendation adopted a principles-based approach rather than a rules-based one, arguing that a principles-based approach creates a solid framework within which auditors must justify their actions, at the same time, providing the audit profession and its regulators with the flexibility needed to respond swiftly and effectively to trends in business practice and the audit environment (European Commission, 2002). Furthermore, by applying fundamental principles, each Member State should provide auditors, regulators and the interested public with a common understanding of the independence requirement. This would ensure greater consistency in interpreting and addressing situations and circumstances that pose a threat to auditors' independence within the EU.

In 2006, Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts was adopted, with the aim of harmonising, to a large extent, the requirements for statutory audits. It emphasises that statutory auditors must adhere to the highest ethical standards and are therefore subject to a code of professional ethics covering, at a minimum, their public interest role, their integrity and objectivity, as well as their professional competence and due care. It stipulates that statutory auditors and audit firms must be independent when performing statutory audits; while they may inform the audited entity of matters arising from the audit, they must refrain from participating in the internal decision-making processes of the audited entity.

It stipulates that auditors are responsible for identifying threats to independence and for implementing safeguards; however, if they find themselves in a situation where the significance of the threats to their independence – even after applying safeguards to mitigate them – is too great, they must resign from the audit engagement or refrain from performing it.

Directive 2006/43/EC had already laid down specific requirements for the audit of public-interest entities (PIEs) by making it mandatory to rotate the lead audit partners.

In 2014, a major reform of auditing took place in the EU: on the one hand, Directive 2014/56/EU amended Directive 2006/43/EC, and on the other, Regulation No 537/2014 specific requirements regarding statutory audit of public-interest entities was adopted.

The amendment to the 2006 Directive is justified by the need for greater harmonisation of the rules on access to the audit profession and independence at EU level, in order to ensure greater transparency and predictability in the requirements applicable to said persons and to increase their independence and objectivity in the performance of their duties.

Furthermore, given the significant importance of public-interest entities, which arises from the scale and complexity of their activities or the nature of said activities, it was considered necessary to enhance the trustworthiness of their audited financial statements. Consequently, the specific provisions related to statutory audits of such entities, as set out in Directive 2006/43/EC, were implemented by Regulation (EU) No 537/2014.

Although the 2014 amendment to Directive 2006/43/EC has led to greater harmonisation of independence requirements, this is not a complete harmonisation. Furthermore, although Regulation No 537/2014 is directly applicable to the audit of public interest entities, said Regulation grants Member States various options regarding the internal and external rotation of auditors, exceptions to the list of prohibited services subject to certain requirements, the introduction of stricter requirements regarding the list of prohibited services, and the introduction of stricter requirements regarding fees.

The aim of this document is to conduct a comparative study of the legislation transposing the provisions of Directive 2006/43/EC governing the independence requirements for auditors and, in the case of PIE audits, the options permitted by Regulation No 537/2014 in the following countries: Germany, Austria, Belgium, Spain, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands and Portugal.

The countries have been selected according to various criteria, such as gross domestic product, geographical origin and corporation tax rate.

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2 Germany

Glossary

APAReG	Audit Oversight Reform Act. *Gesetz zur Umsetzung der aufsichts- und berufsrechtlichen Regelungen der Richtlinie 2014/56/EU sowie zur Ausführung der entsprechenden Vorgaben der Verordnung (EU) Nr. 537/2014 im Hinblick auf die Abschlussprüfung bei Unternehmen von öffentlichem Interesse (Abschlussprüferaufsichtsreformgesetz - APAReG). Bundesgesetzblatt Jahrgang 2016 Teil I Nr. 14, S. 518.*
APAS	German abbreviation of the Auditor Oversight Body (*Abschlussprüferaufsichtsstelle)*
AOB	English abbreviation of the Auditor Oversight Body *Abschlussprüferaufsichtsstelle*
AReG	Audit Reform Act (*Gesetz zur Umsetzung der prüfungsbezogenen Regelungen der Richtlinie 2014/56/EU sowie zur Ausführung der entsprechenden Vorgaben der Verordnung (EU) Nr. 537/2014 im Hinblick auf die Abschlussprüfung bei Unternehmen von offentlichem Interesse (Abschlussprüfungsreformgesetz* - AReG)).
BS WP/vBP	Code of Professional Conduct for Public Auditors and Chartered Accountants (*Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer*)
CEAOB	Committee of European Auditing Oversight Bodies
HGB	Chamber of Commerce (*Handelsgesetzbuch*)
IDW	Institute of Public Auditors (*Institut der Wirtschaftsprüfer*)
vereidigte Buchprüfer	Chartered accountant or sworn accountant
Wirtschaftsprüfer	(Public) auditor (translation by García Osma, ICAC)
WPK	Chamber of Public Accountants (*Wirtschaftsprüferkammer*)
WPO	Public Auditors Act (*Wirtschaftsprüferordnung*)

Introduction

Institutional framework

In Germany, the auditor oversight is carried out by the Auditor Oversight Body(*Abschlussprüferaufsichtsstelle*[1], hereinafter AOB). The AOB is part of the Federal Office for Economic Affairs and Export Control (BAFA) and is a member of the Committee of European Auditing Oversight Bodies (CEAOB). The AOB is responsible for the direct supervision of PIE auditors and it also plays an important role in upholding professional and quality standards for statutory audits in Germany. It is responsible for the public oversight of the Chamber of Public Accountants (*Wirtschaftsprüferkammer*[2], hereinafter

1 Website: https://www.apasbafa.bund.de/APAS/DE/Home/home_node.html

2 Website: https://www.wpk.de/

WPK). The WPK is a member of the IFAC. Consequently, the AOB is indirectly responsible for the quality of statutory audits.

The WPK was established by the *Wirtschaftsprüferordnung* (Public Auditors Act, WPO) of 1961 and its subsequent amendments). Membership of the Chamber is compulsory for all auditors (*Wirtschaftsprüfer*). The WPK is part of the Federal Ministry for Economic Affairs and Climate Protection and is supervised by the Auditor Oversight Body (AOB). The Chamber is especially responsible, for (i) the licensing of auditors and audit firms (*Wirtschaftsprüfungsgesellschaften*); (ii) the revocation of licences; (iii) the registration of public accountants and audit firms; (iv) the holding of examinations for the appointment of auditors; (v) setting ethical requirements; (vi) setting continuous professional training requirements; (vii) conducting quality control reviews; and (viii) disciplinary procedures for auditors of non-public interest entities (PIE) (IFAC, n.d.).

We also have the Institute of Public Auditors (*Institut der Wirtschaftsprüfer, e.V.*[3], IDW), a private organisation whose purpose is to serve its members (sole practitioners and audit firms). It is established on a voluntary basis, operates as a non-profit organisation and plays an important role in the German regulatory framework for auditors.

Legal framework

In brief, the German legal framework for auditing is set out in the Public Auditors Act (*Wirtschaftsprüferordnung*, WPO), which is a federal law, and the German Commercial Code (*Handelsgesetzbuch*, HGB). On the legal basis of the WPO, the Chamber of Auditors (*Wirtschaftsprüferkammer,* WPK), has enacted the Code of Professional Conduct for Public Auditors and Chartered Accountants (*Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer*, BS WP/vBP), as well as the Regulations on Quality Control (*Satzung für Qualitätskontrolle*).

With regard to self-regulation (*soft-law*) it is worth highlighting the publications of the Institute of Public Auditors (*Institut der Wirtschaftsprüfer,* IDW), including, amongst others, the IDW's technical opinions (IDW *Fachgutachten*), the IDW's pronouncements on accounting (IDW *Stellungnahmen zur Rechnungslegung*), as well as the IDW's Auditing Standards (IDW *Prüfungsstandards*). Although these Auditing Standards are not statutory, they are regarded as having de facto binding force (Westermark *et al.*, 2016) and of these, the Code of Conduct for Auditors (IDW, 2022) is especially noteworthy (IDW, 2022).

Since the EU is in the process of adopting the International Standards on Auditing, the auditing standards are drawn up by the IDW (Accountancy Europe, 2021). The IDW's Auditing Standards contain the Auditing Standards Generally Accepted in Germany, issued by the IDW, which govern the audits of financial statements and set out the procedures to be implemented (IDW, n.d.). The IDW transposes the International Standards on Auditing, but since 2018 it has changed its approach and now directly adopts the German translation of the ISAs produced by IFAC, adding a number of paragraphs marked with the letter 'D' to refer to Germany or *Deutschland* (IDW, 2018).

Directive 2006/43/EU was transposed by means of the Act on the Strengthening of Professional Oversight and the Reform of Professional Standards in the Public Auditors Act (*Gesetz zur Stärkung der Berufsaufsicht und zur Reform berufsrechtlicher Regelungen in der Wirtschaftsprüferordnung* (*Berufsaufsichtsreformgesetz* – BARefG)) in 2007. Amongst other regulations, the BARefG amended the Public Auditors Act **(**Wirtschaftsprüferordnung, WPO).

In March 2016, the Law to implement the regulatory and professional provisions of Directive 2014/56/EU, as well as to implement the relevant requirements of Regulation (EU) No 537/2014 on the audit of the annual accounts of public-interest entities (Audit Oversight Reform Act, APAReG[4]). This regula-

3 Website: https://www.idw.de/idw/

4 *Gesetz zur Umsetzung der aufsichts- und berufsrechtlichen Regelungen der Richtlinie 2014/56/EU sowie zur Ausführung der entsprechenden Vorgaben der Verordnung (EU) Nr. 537/2014 im Hinblick auf die Abschlussprüfung bei Unternehmen von öffentlichem Interesse (Abschlussprüferaufsichtsreformgesetz - APAReG*

tion reorganised the public oversight of auditors. It established the current AOB and separated the oversight of PIE auditors from that of other auditors. The AOB is responsible for the direct oversight of PIE auditors, and the WPK of other auditors.

In May 2016, the Law for the implementation the provisions related to audits of Directive 2014/56/EU and the implementation of the relevant requirements of Regulation (EU) No 537/2014 on the audit of the annual accounts of public-interest entities was adopted (Audit Reform Act – AReG[5]), which implements Directive 2014/56/EU (amending Directive 2006/43/EC) and Regulation (EU) No 537/2014 into German legislation by amending the WPO and the HGB (amongst others), introducing new rules on independence and internal quality control.

Following the Wirecard scandal, the Act to Strengthen Financial Market Integrity was passed in 2021 (*Finanzmarktintegritätsstärkungsgesetz* (FISG, 2021), Bundesgesetzblatt Jahrgang 2021 Teil I Nr. 30, ausgegeben zu Bonn am 10. Juni 2021 which introduced significant changes as regards auditor independence and accountability.

Independence

Regulations, general duty of independence and definition

The regulations on independence are set out in the Public Auditors Act (*Wirtschaftsprüferordnung*, WPO), and supplemented by the German Commercial Code *Handelsgesetzbuch*, HGB) and the Code of Professional Conduct for Public Auditors and Chartered Accountants (*Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer*, BS WP/vBP). It is also worth mentioning the IDW Code of Conduct (2022).

Article 43.1 of the WPO sets out the general duty of independence, stating that "*auditors must practise their profession independently, conscientiously, discreetly and on their own responsibility. They must especially act impartially when drawing up audit reports...*".

Section 2.3 of the IDW Code of Conduct (2022) states that auditors must continuously reassess their independence before accepting audit engagements, throughout the term of the engagement and until the audit report is issued.

There is no explicit definition of independence. However, Article 2, "Independence", of the Code of Professional Conduct for Public Auditors and Chartered Accountants (BS WP/vBP) stipulates that auditors must not enter into any relationships that impair or are likely to impair their freedom of individual judgement. Independence is therefore regarded as the absence of ties that impair, or are likely to impair, one's freedom of individual judgement.

Although no specific period is specified during which the auditor is required to be independent, Article 319.2 of the HGB stipulates that "*an auditor or a chartered accountant shall be disqualified from acting as an auditor if, during the fiscal year for which the annual accounts to be audited are being prepared, or during the audit of the accounts, there are grounds, especially with regard to commercial, financial or personal relationships, which may give rise to suspicions of bias*". We understand that the previously established period for incompatibilities (exclusion under German legislation) serves as a reference for the required period of auditor independence, in line with the provisions of Article 22.1 of Directive 2006/43/EC on statutory audits, without prejudice to the provisions of Art. 5.1.b of Regulation (EU) No 537/2014 for PIE audits.

With regard to the duty to be and appear to be independent – that is, independence in fact (or actual or mental independence) and independence in appearance – while there is no explicit mention, it is implicit in the BS WP/vBP.

5 *Gesetz zur Umsetzung der prüfungsbezogenen Regelungen der Richtlinie 2014/56/EU sowie zur Ausführung der entsprechenden Vorgaben der Verordnung (EU) Nr. 537/2014 im Hinblick auf die Abschlussprüfung bei Unternehmen von offentlichem Interesse (Abschlussprüfungsreformgesetz* - AReG)

Article 29 of the BS WP/vBP on impartiality and concerns regarding bias (*Unbefangenheit und Besorgnis der Befangenheit*) implicitly covers both actual and mental independence by stating that the auditor shall refuse to act if he or she is not impartial. It indicates that a person is impartial if their judgement is not influenced by inappropriate considerations. Additionally, paragraph 29.3 of the BS WP/vBP implicitly recognises the principle of appearance of independence by stating that "*bias shall be deemed to exist where circumstances exist which, from the perspective of a reasonable third party, may unduly influence judgement*".

Threats and safeguards. Incompatibilities and prohibitions

The concept of impartiality is linked to independence. Article 29.2 of the aforesaid Code (BS WP/vBP) states that a person is impartial if their judgement is not influenced by inappropriate considerations. It goes on to point out that impartiality may be compromised, specifically, by self-interest, self-review, representation of interests, personal familiarity and intimidation. These circumstances, which may undermine impartiality, correspond directly to the various factors that may threaten independence, as set out in Article 22 of Directive 2006/46/EU.

Additionally, Article 319 of the HGB sets out the grounds for exclusion, that is to say, incompatibilities. Firstly, indicated above, Section 2 sets out the period during which exclusions apply, stating that "*an auditor or a chartered accountant shall be disqualified from acting as an auditor if, during the fiscal year for which the annual accounts to be audited are being prepared, or during the audit of the accounts, there are grounds, especially with regard to commercial, financial or personal relationships, which may give rise to suspicions of bias*".

Subsequently, Section 3 of Article 319 of the HGB lists the grounds for exclusion (incompatibility), stipulating that an auditor is excluded from auditing annual accounts, especially when he or she, or a person with whom he or she practises jointly:

1. Holds significant (not merely insignificant) shareholdings or financial interests in the public limited company to be audited, or in a company that is associated with said company or holds more than 20 percent of its shares;
2. Is the legal representative, a member of the supervisory board or an employee of the company to be audited or of an undertaking that is associated with it or holds more than 20 percent of its shares;
3. Has, in addition to auditing, performed any of the following functions for or on behalf of the audited company during the fiscal year to be audited or up to the date of issue of the audit report:
    a) has been involved in the accounting or in the preparation of the annual accounts being audited;
    b) has been involved in internal auditing in a position of responsibility;
    c) has provided business management or financial services;
    d) has provided independent actuarial or valuation services that have a significant impact on the audited annual accounts, provided that these activities are not of secondary significance. This also applies if any of these activities have been carried out by an audit firm for the audited entity, in which the auditor is a legal representative, an employee, a member of the supervisory board or a partner holding more than 20 per cent of the voting rights;
4. Appoints a person to the audit who, in accordance with points 1 to 3 above, is not eligible to act as an auditor;
5. Has obtained more than 30 percent of his/her annual earnings over the last five years from the company to be audited and from companies in which the latter holds more than 20 percent of

the shares, and this situation is expected to continue during the current fiscal year. To avoid unfair situations, the Chamber of Auditors (WPK) may grant temporary exemptions.

The exclusions set out in points 1, 2 and 3 of Section 3 of Article 319 of the HGB extend to a spouse or civil partner.

The exclusions set out in Sections 2 and 3 of Article 319 of the HGB extend to audit firms (*Wirtschaftsprüfungsgesellschaften*) and accounting firms (*Buchprüfungsgesellschaften*) when said firms themselves, any of their legal representatives, a partner holding more than 20 percent of the voting rights attributable to the partners, a related undertaking, a partner with responsibility for the audit, or any other person employed by the audit firm, are in a position to influence the outcome of the audit.

Furthermore, audit and accountancy firms shall also be excluded when a member of the supervisory board is excluded pursuant to Article 319.3 Section 2, or where several partners who jointly hold more than 20 per cent of the voting rights are excluded, either individually or jointly, pursuant to Sections 2 and 3 of Article 319.

Sections 2 to 4 of Article 319.3 of the HGB shall equally apply to the auditor of consolidated accounts.

Article 319b of the HGB sets out the exclusions (incompatibilities) arising from membership of a network. Specifically, an auditor shall be excluded from auditing if a member of his/her network falls under any of the grounds for exclusion set out in Article 319 Sections 2, 3, numbers 1, 2 or 4 or Section 4, unless the network member is unable to exert any influence on the audit outcome. Likewise, an auditor shall be excluded if a member of his/her network falls under any of the grounds for exclusion set out in Article 319, Section 3, Number 3.

The HGB considers a network to exist when several persons collaborate over a certain period of time in the course of their professional practice, with the goal of pursuing common economic interests (Article 319b).

The grounds for exclusion referred to above in relation to the network shall apply *mutatis mutandis* to auditors of consolidated accounts.

Table 1. Exclusions (incompatibilities) provides an overview of the exclusions set out by the HGB.

//// TABLE 1 Exclusions (incompatibilities) Germany

Grounds for exclusion	Legal basis	Applicable to:
Significant financial interests in the audited entity or related entities.	Art. 319.3.1	Sole practitioner / Audit firm / Network member (unless the network member is unable to influence the outcome of the audit (Art. 319b.1)). Also extend to auditor's spouse or civil partner (Art. 319.3 HGB). Also extend to an employee who, under this section, would not be eligible to act as an auditor (Art. 31.9.3.4)
Holding office as director, supervisory board member or employee at the audited entity or related entities.	Art. 319.3.2	Sole practitioner / Audit firm / Network member (unless the network member is unable to influence the outcome of the audit (Art. 319B.1)). Also extend to auditor's spouse or civil partner (Art. 319.3 HGB). Also extend to an employee who, under this section, would not be eligible to act as an auditor (Art. 31.9.3.4)
Provision of prohibited additional services: accounting, internal audit, management, financial, actuarial or valuation services with a material impact.	Art. 319.3.3	Sole practitioner / Audit firm / Network member (automatic exclusion, Art. 319b.1 Sentence 2). Also extend to auditor's spouse or civil partner (Art. 319.3 HGB). Also extend to an employee who, under this section, would not be eligible to act as an auditor (Art. 31.9.3.4)
Inclusion of a person affected by grounds of incompatibility in the audit team.	Art. 319.3.4	Sole practitioner / Audit firm / Network member (unless the network member is unable to influence the outcome of the audit (Art. 319b.1)).

Excessive financial dependence: more than 30 percent of annual revenue over the last 5 years is derived from the audited entity or its related parties (unless exempted by the WPK).	Art. 319.3.5	Sole practitioner/ Audit firm
Exclusion derived from audit firms where the firms themselves, a partner holding more than 20 percent of the voting rights, a director or a key employee fall under any of the grounds set out in Articles 319.2 and 319.3 of the HGC.	Art. 319.4	Audit firm/Network member
Applicable to auditor of consolidated accounts (*Konzernabschlussprüfer*).	Art. 319.5 and Art. 319b.2	Auditor of the group (and, by extension, their firm and network)

The Code of Professional Conduct for Public Auditors and Chartered Accountants (BS WP/vBP) in turn sets out the threats to independence (or impartiality, as defined by the BS WP/vBP).

Firstly, the BS WP/vBP stipulates that the auditor shall decline to act if he/she is not unbiased when performing audits or if there are suspicions of bias (Article 29.1). It also states that bias exists when there are circumstances which, from the perspective of a reasonable third party, may unduly influence judgement; however, no bias is deemed to exist if the threat to impartiality is insignificant (Article 29.3).

In the face of threats to independence (bias), a threats and safeguards approach is followed. Firstly, Article 29.5 of the BS WP/vBP sets out the obligation to identify and document threats prior to accepting the audit engagement and during the course of its execution.

Article 30.2 of the BS WP/vBP states that safeguards are those measures or procedures appropriate to mitigate a threat to the impartiality of the German public auditor or statutory auditor to such an extent that, from the perspective of a reasonable third party, the overall threat is considered immaterial.

There are also incompatibilities (exclusions), as stated in Article 31 of the BS WP/vBP: "*If /vBP auditors have knowledge of facts within the meaning given in Article 319, Section 3, 319b, Section 1, Sentence 2 of the HGB, he /she shall refuse to perform any statutory audits pursuant to Article 49, Alternate 2, of the WPO*[6]".

Article 32 of the BS WP/vBP explains various cases of self-interest, distinguishing between those of a financial nature and those of a non-financial nature.

Thus, financial self-interests include:

1. Shareholdings or other financial links with the company to be audited, the company to be evaluated, or the company awarding the audit engagement;
2. Shareholdings or other financial links with a company in which the company to be audited, the company to be evaluated or the company awarding the audit engagement, one of its legal representatives, a shareholder with controlling influence or a member of the supervisory board, also has a significant financial interest;
3. Excessive dependence on turnover earned from said company;
4. Service relationships with third parties that extend beyond normal business and supply transactions;
5. Claims against the client or the company to be audited arising from a credit or guarantee relationship;

6 The auditor shall decline to act if the lodging of a complaint against him/her is pending due to an act contrary to his/her duties, or if there are concerns regarding bias in the performance of an audit engagement.

6. Claims for fees not paid if they remain outstanding for a prolonged period of time and amount to a significant sum.

Non-financial self-interests may include:

1. Failure to comply with obligations arising from previous audits, where there is a risk of concealment;

2. Pending litigation related to appeals or guarantee claims arising from previous contracts.

Article 33 of the BS WP/vBP addresses the threat of self-review. According to this article, self-review consists:

1. Self-audit, which occurs when the auditor has to evaluate a matter in whose creation they have been directly involved and when their involvement has been significant. There is one exception: self-audit does not apply where the auditor has already dealt with the matter in the past, but has had to audit or otherwise evaluate the same matter without having been involved in its creation in the sense described above.

2. Involvement in bookkeeping or in preparing the annual financial statements to be audited will inevitably give rise to doubts as to bias, unless the activity is of little importance. This only applies to direct investments, but initially not to consultancy or other services that have only an indirect effect on the financial statements. Involvement in audit tasks, for example through the preliminary assessment of the facts, does not usually constitute bias. If other acts of cooperation of minor importance are detrimental, they must be assessed in accordance with the general principles of bias, taking into account all circumstances, including safeguards.

3. The auditor's involvement in the internal audit gives rise to concerns regarding bias if the auditor takes on a position of responsibility. However, involvement in specific areas or tasks is permitted, and, in particular, the undertaking of audit activities.

4. If the auditor has assumed management functions within the company, there will always be doubts about bias, regardless of whether these also extend to the field of accounting. The same applies to the provision of financial services related to the investment of the audited company's assets or the acquisition or brokerage of shares or other financial instruments of the audited company.

5. Actuarial and valuation services that have more than a negligible impact on the contents of the annual financial statements to be audited may give rise to doubts as to impartiality if they are independent services and the activity is significant. Services where the auditor's involvement is limited to technical and administrative assistance and the essential requirements regarding assumptions and methodology are provided by the client are not considered independent.

6. Legal services, according to the meaning given by Article 2, Section 1 of the RDG[7], which are provided by the auditor or professional auditor to an audit client outside the scope of Regulation (EU) No 537/2014 may give rise to doubts as to impartiality if they have a direct and significant impact on the presentation of assets, financial position and results of transactions in the annual financial statements to be audited. Advisory services that provide information on the existing legal situation or which are related to the assessment of events that have already occurred do not compromise impartiality.

Another threat to independence (impartiality) is the representation of interests, which occurs when the auditor has been engaged in another matter to represent interests for or against the audited, assessed or engaging entity (Article 34 of the BS WP/vBP). A representation of interests in favour of a company is deemed to exist, specifically, where the auditor unilaterally and consistently acts in favour of said company, advertises on its behalf, or markets its products; this is not considered to be

7 RDG refers to the "*Rechtsdienstleistungsgesetz*", the Legal Services Act. Article 2(1) of the RDG defines what is meant by a legal service ("*Rechtsdienstleistung*"), basically, any activity in matters concerning third parties that requires a legal assessment of the specific case.

the case cases of legal or tax representation do not fall under representation of interests. Similarly, a representation of interests against an company is deemed to exist, specifically, where the auditor unilaterally and consistently defends the interests of third parties that run counter to the company, or performs fiduciary duties on behalf of individual partners of said company.

Furthermore, Article 35 of the BS WP/vBP concerning threats arising from personal trust states that such trust exists when the auditor has close personal relationships with the audited, evaluated or client company, with members of the company's management, or with persons with influence over the subject matter of the audit. It does not provide any guidance regarding personal trust arising from long-standing relationships during the course of the audit engagement.

Intimidation is addressed by the BS WP/vBP in Article 36, which states that impartiality may be compromised by intimidation, where the auditor (WP/vBP) is exposed to actual or perceived pressure, including attempts at undue influence, which are likely to prevent them from forming an objective judgement[8].

With regard to the acceptance of gifts (Article 22.5 of Directive 2006/43/EC) Article 14.3 of the BS WP/vBP stipulates that auditors may only accept gifts from a client or from third parties acting on their behalf if such gifts are clearly insignificant and, from the perspective of a reasonable third party with access to all relevant information, do not influence decision-making or the outcome of the audit engagement. It also stipulates that this restriction shall apply mutatis mutandis to gratuities paid by the auditor to the client, its employees or third parties in connection with an audit engagement.

With regard to commissions, Article 55 Section 2 of the WPO shall apply, which stipulates that the payment and acceptance of part of the remuneration or other advances for the brokering of engagements is not permitted, regardless of whether the parties involved are members of the profession or third parties. Auditors must ensure that their employees also adhere to these principles and must adequately monitor their compliance.

With regard to the restrictions applicable to former auditors of audited entities, Article 43.3 of the WPO sets a period of one year (two years for PIE audits) for:

i. performing key management functions within that entity;

ii. Becoming a member of the supervisory board, the audit committee of the supervisory board or the board of directors, or undertake to perform any of the above-mentioned functions.

Fees and limits on fees

Article 55 of the WPO on fees stipulates that auditors may not enter into agreements for other services in which the remuneration for such services depends on the outcome of their work as auditors. Remuneration for the audit must not be linked to any other condition, nor must it be influenced or determined by the provision of additional services to the audited entity. If there is a significant disproportion between the service provided and the agreed remuneration, it must be possible to demonstrate to the Chamber of Public Accountants or the supervisory body for statutory auditors, upon request, that an appropriate amount of time was devoted to the audit and that qualified staff were employed.

Regarding fee limits for any services provided to a single client, Article 319.3.5 establishes as grounds for exclusion, the fact of having derived, over the last five years, more than 30 percent of total income from professional activities from the company being audited and from companies in which the audited company holds more than 20 percent of the shares as grounds for exclusion, and it is expected that this will also be the case in the current fiscal year. The 30 per cent threshold must be exceeded

8 This is not deemed applicable, specifically, where legal provisions such as Article 318 Section 1, Sentence 5 or Section 6), Sentence 2 of the German Commercial Code *(HGB*) ensure that a situation of pressure within the meaning of Sentence 1 cannot arise.

on a continuous basis (WPK, 2024: 424). To avoid especially serious situations, the Chamber of Auditors may grant temporary exemptions.

Public Interest Entities

Following the 2021 reform (FISG), the new Article 316a of the HGB defines public interest entities (listed companies, CRR financial institutions (as defined in Article 1 Section Section 3d of the Banking Act (KWG[9])), with exceptions (e.g. the Bundesbank, KfW) (IDW, 2021a)), insurance companies (as defined in Art. 2 Section 1 of Directive 91/674/EEC)). Savings banks (*Sparkasse*) and associations of savings banks are partially exempt in Germany (Article 340k Section 4 HGB[10]).

In the insurance sector, the Solvency II Directive (2009/138/EC) shall be applicable. Certain mutual insurance associations and pension funds are excluded, except as provided for in the FISG (Section 36 of the Insurance Supervision Act (VAG)).

ETFs (*Exchange-Traded Funds*) are generally not PIEs, except for certain self-managed investment companies that are officially listed (Section 108 of the Capital Investment Code (KAGB[11])).

Additionally, Article 316a provides that the rules of EU Regulation 537/2014 apply to PIEs, with Part 3 of the HGB, which governs auditing, applying on a supplementary basis[12].

Article 43.6.3 of the WPO stipulates that the audit partners responsible for the statutory audit of the financial statements of a public-interest entity, pursuant to Article 316a, Sentence 2 of the HGB, shall cease their involvement in the audit of the audited entity no later than five years following the date of their appointment, thereby reducing the maximum period permitted under EU Regulation 537/2014 from 7 to 5 years.

With regard to external rotation, German regulations, since the amendment by the FISG, do not make use of the extension options permitted by EU Regulation 537/2014 once the 10-year duration of the engagement has elapsed. The FISG repealed these options, which were previously set out in Art. 318.1a of the HGB (IDW, 2021a).

With regard to fees, as established by the EU Regulation, the total fees received for non-audit services over a period of three or more consecutive fiscal years, may not exceed 70 percent of the average of the audit fees paid over the last three consecutive fiscal years.

Previously, it was possible to apply to the supervisory authority (AOB) for an exemption to increase the limit from 70% to 140% for a maximum of one fiscal year. However, this option is no longer available for statutory audits from the 2022 fiscal year onwards (IDW, 2021b). Services related to sustainability reporting assurance and non-audit services other than those included in the list of prohibited services (Article 5 Section 1 of Regulation (EU) No 537/2014) required by EU or national legislation are excluded from the calculation of the percentage.

Furthermore, the limit of 15 percent of the total fees paid by a public-interest entity in each of the last three consecutive fiscal years must complied with in relation to the total fees received by the statutory auditor or the audit firm. German legislation has not introduced any stricter regulations.

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9 *Kreditwesengesetz in der Fassung der Bekanntmachung vom 9. September 1998 (BGBl. I S. 2776), das zuletzt durch Artikel 9 des Gesetzes vom 28. Februar 2025 (BGBl. 2025 I Nr. 69) geändert worden ist*

10 Article 340k.4: "*Where the credit institution is a savings bank, Article 4, Section 3 Paragraph Two or Articles 16, 17 and 19 of Regulation (EU) No 537/2014, shall not apply. Article 4 Section 3 Paragraph One and Article 10 Section 2, Letter g) of Regulation (EU) No 537/2014 shall apply mutatis mutandis to all persons employed by the association of savings banks that may influence the outcome of the audit. Article 4 Section 2 and Article 4, Section 3, Paragraph One, as well as Article 10, Section 2 Letter g) of Regulation (EU) No 537/2014, shall not apply to supervisory bodies*".

11 KAG: *Kapitalanlagegesetzbuch vom 4. Juli 2013 (BGBl. I S. 1981), das zuletzt durch Artikel 6 des Gesetzes vom 27. Dezember 2024 (BGBl. 2024 I Nr. 438) geändert worden ist*

12 "*The provisions of this subsection shall apply only to the audit of the accounts of companies that are public-interest entities, insofar as this is not covered by Regulation (EU) No 537/2014* "

With regard to prohibited services, the FISG has tightened enforcement in Germany. It repealed the previous version of Article 319a of the HGB, which contained national exceptions to the list of prohibited services set out in EU Regulation 537/2024. German legislation has also not made use of the option provided for in Section 4 of Article 5 of EU Regulation 2024/537, which allows Member States to apply stricter requirements than those laid down in Article 5 of the Regulation itself.

//// TABLE 2 Summary - Germany

Item	
Is there a definition of independence?	Not explicitly, but it may be inferred from Article 2 of the BS WP/vBP that there must be no links which impair or are likely to impair their freedom of freedom of individual judgement.
Is there an explicit reference to independence in fact and independence in appearance?	Although it is not explicitly stated that the auditor must be (actual or mental independence) and appear to be independent (appearance of independence), this is implicit in the BS WP/vBP. Actual and mental independence is covered by Article 29 of the BS WP/vBP on impartiality and concerns regarding bias (*Unbefangenheit und Besorgnis der Befangenheit*) by stating that the auditor shall refuse to act if he or she is not impartial. It indicates that a person is impartial if their judgement is not influenced by inappropriate considerations. Independence of appearance is included in the statement that "bias shall be deemed to exist where circumstances exist which, from the perspective of a reasonable third party, may unduly influence judgement" (Article 29.3 of BS WP/vBP)
Period during which the auditor must be independent	Article 319.2 HGB: "*an auditor or a chartered accountant shall be disqualified from acting as an auditor if, during the fiscal year for which the annual accounts to be audited are being prepared, or during the audit of the accounts, there are grounds, especially with regard to commercial, financial or personal relationships, which may give rise to suspicions of bias*". Without prejudice to the provisions of Art. 5.1.b of Regulation (EU) No 537/2014 concerning PIE audits.
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	Yes, Article 29.2 of the BS WP/vBP and the incompatibilities set out in Article 319.3 of the HGB. It does not include advocacy; however, Article 33.7 of the BS WP/vBP includes the provision of legal services as a threat to independence (giving rise to doubts regarding impartiality) if they have a direct and significant impact on the presentation of assets, the financial position and the results of transactions in the annual financial statements being audited.
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Yes. Article 29.5 of the BS WP/vBP states the obligation to identify and document threats accepting the audit engagement and during the course of its execution. Article 30.2 of the BS WP/vBP sets out the obligation to also document safeguards. Article 30.1 defines safeguards as "*those measures or procedures appropriate to mitigate a threat to the impartiality of the German public auditor or statutory auditor to such an extent that, from the perspective of a reasonable third party, the overall threat is considered insignificant*".
Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	Yes, Article 29.1 of the BS WP/vBP and the incompatibilities set out in Article 319.2 of the HGB.

Specific regulation in case of a threat arising from a financial interest (e.g. Directive, Art. 22.4.a) and b))	Article 32 of the BS WP/vBP: self-interest, both financial and non-financial. Incompatibilities: Article 319.3.1 of the HGB: "holding significant (not merely insignificant) shareholdings or financial interests in the public limited company to be audited, or in a company that is associated with said company or holds more than 20 percent of its shares".
The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	Article 33 of the BS WP/vBP on self-review. Article 34 of the BS WP/vBP on representation of interests on behalf of or against the audited entity in another matter. Article 35 of the BS WP/vBP on personal trust (close relationships). Incompatibilities: Article 319.3. 2 to 3 of the HGB: ✓ Is the legal representative, a member of the supervisory board or an employee of the company to be audited or of an undertaking that is associated with it or holds more than 20 percent of its shares; ✓ Has, in addition to auditing, performed any of the following functions for or on behalf of the audited company during the fiscal year to be audited or up to the date of issue of the audit report: ▪ has been involved in the accounting or in the preparation of the annual accounts being audited; ▪ has been involved in internal auditing in a position of responsibility; ▪ has provided business management or financial services; ▪ has provided independent actuarial or valuation services that have a significant impact on the audited annual accounts, provided that these activities are not of secondary significance. This also applies if any of these activities have been carried out by an audit firm for the audited entity, in which the auditor is a legal representative, an employee, a member of the supervisory board or a partner holding more than 20 per cent of the voting rights; ✓ Appoint as an auditor a person who, in accordance with the above points, is not eligible to act as an auditor.
Advocacy	It is not mentioned amongst the incompatibilities (exclusions) listed in Art. 319.3 of the HGB, but the provision of legal services is expressly included as a threat to independence if they have a direct and significant impact on the presentation of assets, the financial position and the results of transactions in the annual financial statements being audited (Article 33.7 BS WP/vBP).
Regulations regarding gifts	Art. 14.3 of the BS WP/vBP stipulates that auditors may only accept gifts from a client or from third parties acting on their behalf if such gifts are clearly negligible and, from the perspective of a reasonable third party with access to all relevant information, do not influence decision-making or the outcome of the audit engagement. This obligation applies not only to the performance of audits, where special requirements of impartiality and independence are required, but to all professional activities.
Regulations on the provision of non-audit services	Art. 43.2 of the WPO – general principle: "*shall refrain from any activity that is incompatible with their profession or with the reputation of said profession*"
Extension of threats (or incompatibilities) to persons or entities linked to the auditor (Directive, Art. 22.1 (Paragraph Three))	Extension of incompatibilities to the spouse or civil partner where they fall under one of the grounds of financial interest, legal representation, or services considered to be self-review (Art. 319.1, Sections 1, 2 and 3 of the HGB), and to the auditor's network (Art. 319b HGB) Extension of threats: Persons with whom the auditor jointly practises their profession (Art. 29.4.1 BS WP/vBP) The auditor's network (Art. 29.4.2 BS WP/vBP) Spouses, long-term civil partners or direct relatives of the auditor; other family members who have lived in the same household as the auditor for at least one year; or representatives acting on behalf of any of these persons (Art. 29.4.4 BS WP/vBP) Entities in which the auditor exercises a significant influence (Art. 29.4.5 BS WP/vBP) Persons with whom the auditor works in an office (Art. 29.4.6 BS WP/vBP)

Recusal (prohibitions) due to a concentration of fees received from the same audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	Yes, in non-PIEs, where, over the last 5 years, more than 30 percent of total income from professional activities from the company being audited and from companies in which the audited company holds more than 20 percent of the shares and it is expected that this will also be the case in the current fiscal year (Section 319.3.5 HGB). For PIEs, the limit on the concentration of fees is that set down in EU Regulation 537/2014 (15%).
Prohibition: period during which the former auditor of the audited entity is prohibited from: i) taking up management positions, ii) being appointed to the audit committee or a body performing equivalent functions, and iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (e.g. Directive, Art. 22 bis, 1 year, 2 years for PIEs)	Art. 43.3 WPO: 2 years for PIEs, 1 year for non-PIEs; prohibitions regarding: i. performing key management functions within said entity; ii. Becoming a member of the supervisory board, the audit committee of the supervisory board or the board of directors, or undertake to perform any of the above-mentioned functions.
Regulations transposing and implementing Article 24bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	This is set out in Article 55b of the WPO, introduced by the APAReG.
For Public Interest Entities, indicate the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation	Internal rotation: after 5 years, Article 43.6.3 WPO, following the 2021 FISG reform. External rotation: Article 316a of the HGB refers to Regulation (EU) No 537/2014. It does not make use of the extension options.
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	No, since 2021.
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	No
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	No

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3 Austria

Glossary

APAB	Austrian Audit Oversight Authority (*Abschlussprüfer-Aufsichtsbehörde)*
APAG	Austrian Auditor Oversight Act (*Abschlussprüfer-Aufsichtsbehörde)*
APRÄG 2016	Audit Amendment Act 2016 (*Abschlussprüfungsrechts-Änderungsgesetz 2016*)
BGBl	Official Federal Gazette(*Bundesgesetzblatt)*
IWP	Institute of Certified Public Auditors (*Institut der Wirtschaftsprüfer*)
KFS/PE 19	*KFS/PE 19: Grundsätze und Einzelfragen im Zusammenhang mit den für Abschlussprüfungen geltenden Unabhängigkeitsvorschriften* (Principles and specific issues related to rules on independence applicable to audits)
KFS/PE 19a	*KFS/PE 19a: Fragen im Zusammenhang mit der Honorarbegrenzung für Nichtprüfungsleistungen bei PIEs ("Fee Cap") gemäß Art. 4 Abs. 2 der Verordnung (EU) Nr. 537/2014* (Issues related to the fee limit for non-audit services pursuant to Article 4(2) of Regulation (EU) No 537/2014)
KFS/PG 1	*KFS/PG 1: Durchführung von Abschlussprüfungen* (Performing final audits)
KFS/PG 3	*KFS/PG 3: Erteilung von Bestätigungsvermerken nach den Vorschriften des UGB bei Abschlussprüfungen von Jahres- und Konzernabschlüssen* (Issuing confirmation certificates pursuant to the provisions of the UGB in the audit of annual and consolidated financial statements)
KFS/PG 4	*KFS/PG 4: Grundsätze und Einzelfragen zum zusätzlichen Bericht an den Prüfungsausschuss gemäß Art. 11 der Verordnung (EU) Nr. 537/2014* (Principles and specific issues related to the supplementary report to the audit committee pursuant to Art. 11 of Regulation (EU) No 537/2014)
KSW	Chamber of Tax Advisors and Auditors (*Kammer der Steuerberater und Wirtschaftsprüfer*)
UGB	Austrian Business Code (*Unternehmensgesetzbuch)*
WTBG 2017	Federal Act on Auditing/Financial Supervision 2017 (*Wirtschaftstreuhandberufsgesetz 2017*)

Introduction

Institutional framework

In Austria, public oversight of auditors is carried out by the Austrian Audit Oversight Authority (*Abschlussprüfer-Aufsichtsbehörde - APAB*), under the authority of the Ministry of Finance. This organisation is divided into two main bodies:

- The Executive Board, which consists of two independent members from the auditing sector, appointed by the government for a five-year term. They must have sound knowledge in areas such as auditing, accountancy or law, and at least one must be a certified public auditor.

- The Supervisory Board, which consists of seven members appointed by various government authorities, also for a five-year term.

The APAB has a Quality Control Committee (QCC), which acts as an advisory body. It consists of members who are nominated by professional associations of auditors, such as the Chamber of Tax Advisors and Auditors (*Kammer der Steuerberater und Wirtschaftsprüfer - KSW*), the Austrian Federation of Co-operative Associations and the Austrian Association of Auditors of Savings Banks. This committee is involved in key decisions such as the selection of quality assurance auditors and the revocation of certifications.

Statutory auditors and audit firms contribute to the funding of the APAB based on the number of audits of public-interest entities (PIEs) performed within in a year and the fees generated by those audits.

Additionally, national professional associations of auditors and the Republic of Austria contribute a fixed annual sum, as defined in the Austrian Auditor Oversight Act (APAG).

The APAB's duties include:

- Registration of statutory auditors and audit firms
- Approval of professional standards and guidelines, internal quality assurance standards and auditing standards
- Oversight of the continuing professional development of statutory auditors
- Quality assurance reviews for statutory auditors and audit firms that do not audit PIEs
- Inspections of statutory auditors and audit firms that audit PIEs
- Investigations of statutory auditors, audit firms or PIEs
- Handing down penalties in the event of breaches of audit legislation or other related obligations
- Oversight of market quality and competition in the PIE audit market

Furthermore, there are two important professional bodies. The Institute of Certified Public Auditors (*Institut Österreichischer Wirtschaftsprüfer* - IWP), which operates on a voluntary membership basis, represents and provides guidance to auditors, and drafts certain standards. The Chamber of Tax Advisors and Auditors (*Kammer der Steuerberater und Wirtschaftsprüfer - KSW*) which officially represents all auditors and tax advisers. Its remit covers administrative procedures, examinations, oversight, disciplinary matters and the issuing of standards.

The functions of the KSW include:

- Approval and registration of statutory auditors and audit firms All statutory auditors must be qualified as Certified Public Auditors pursuant to the Code of Professional Practice for Public Auditors, and they must be publicly appointed by the KSW. Furthermore, statutory auditors and audit firms must be authorised by the APAB.
- Adoption of relevant standards. The KSW is the body responsible for setting professional standards. Auditing standards must be approved by the APAB.
- Continuing education. All statutory auditors must comply with the requirements of continuing professional development pursuant to with the Code of Professional Practice for Public Auditors, under the supervision of the KSW, and with the requirements for continuing professional development laid down by the APAG, under the supervision of the APAB.
- Verification of quality. Following a quality assurance review, the APAB issues a certificate of quality based on its independent assessment of the facts and circumstances. Certified statutory

auditors are included in the public register of statutory auditors and audit firms. All statutory auditors and audit firms are subject to the quality assurance standards issued by the KSW, which is supervised by the APAB.

- Investigative and administrative disciplinary system. All statutory auditors are subject to both the investigative and administrative disciplinary systems, which are governed by the KSW and the APAB.

Legal framework

Auditing in Austria is governed by a set of legal provisions that make up a legal framework aligned with both the requirements of national law and European regulations. The main objective of this framework is to ensure the quality, transparency and independence of financial audit processes, especially in public-interest entities (PIEs), thereby boosting confidence in financial reporting and the proper functioning of the market.

The Austrian Business Code (*Unternehmensgesetzbuch - UGB*) is the basis of commercial law in Austria and regulates, amongst other matters, the obligation to audit the financial statements of certain companies. In particular, Articles 268 to 276 contain provisions on the selection of auditors, their appointment, rights and duties, and the requirements regarding independence and rotation, as amended by the 2016 Audit Amendment Act (*Abschlussprüfungsrechts-Änderungsgesetz 2016 - APRÄG 2016*), bringing national legislation in line with the European framework.

The Auditor Oversight Act (*Abschlussprüfer-Aufsichtsgesetz - APAG*), enacted in 2016, regulates the public oversight of auditors and audit firms. This Act establishes the supervisory authority (the *APAB*) and sets out specific rules on independence and professional ethics, a quality control system, investigations and sanctions, and standards applicable to PIEs.

The Federal Act on Auditing/Financial Supervision (*Wirtschaftstreuhandberufsgesetz 2017 - WTBG 2017*) regulates access to and the practice of the profession of auditor (*Abschlussprüfer*), accountant (*Wirtschaftsprüfer*) and other related professions. This Act sets out the training and professional qualifications requirements, the standards of professional conduct, and the organisation of the KWS.

Austria has amended its national legislation to comply with European audit requirements, in particular through the 2016 Audit Amendment Act (*Abschlussprüfungsrechts-Änderungsgesetz 2016 – APRÄG 2016*), a law that made substantial changes to the regulation of the statutory audit of financial statements, bringing national legislation into line with Directive 2014/56/EU, which amends Directive 2006/43/EC on statutory audits, and Regulation (EU) No 537/2014 on specific requirements for the audit of PIEs.

The APRÄG 2016 brought about a structural reform of the statutory audit system in Austria, raising quality standards, strengthening auditor independence, and bringing legislation into line with the European framework. Specifically, it provided a clear legal basis for the public oversight of auditors through an independent body (the APAB), and adapted auditing practices to the context of systemic risks and financial crises.

The APRÄG 2016, published in the Official Federal Gazette (*Bundesgesetzblatt - BGBl*) I Nr. 43/2016 of 13 June 2016, made far-reaching amendments to numerous Austrian laws related to audits, including:

- UGB (the Austrian Business Code)
- AktG (the Public Limited Companies Act)
- GmbHG (the Private Limited Companies Act)

- Bankwesengesetz (the Banking Act)
- Versicherungsaufsichtsgesetz 2016 (the Insurance Supervision Act)
- Insolvenzordnung (the Insolvency Act)
- Other corporate and financial laws

The objectives of the 2016 APRÄG were: to transpose European audit legislation, to boost the independence and quality of auditors, to improve public oversight of the audit sector, to establish stricter requirements for the audit of public-interest entities (PIEs), and to regulate aspects such as prohibited services to audited clients, mandatory rotation of auditors, audit fees and transparency, and the evaluation of the audit committee in PIEs.

Furthermore, and in accordance with Article 57 of the APAG, the APAB is responsible for approving professional principles and auditing standards, which include the technical opinions of the KWS's specialist committee (KFS - *Fachgutachten des Fachsenats*and the professional pronouncements or recommendations of the IWP (IWP/PE - *Berufsrechtliche Empfehlungen des Instituts Österreichischer Wirtschaftsprüfer*).

The KFS are professional opinions that elaborate on and clarify the application of Austrian legislation (such as the UGB and APAG) and international standards (ISA, ISQM, etc.) in specific areas:

- KFS/PG: Standards on the audit of financial statements.
- KFS/PE: Standards on professional ethics and independence.
- KFS/PRL: Standards on quality control.

To sum up, these are official interpretations and technical guidelines that supplement the law and are binding on auditors and tax advisors in Austria.

The IWP/PE are technical recommendations and practical guidelines for specific situations in auditing, supplementing the mandatory provisions of the Austrian legal framework (such as the UGB) and the professional standards of the KSW. They are intended to provide guidance and set out best practice, especially on complex issues or those not regulated in detail by law.

Independence

Auditor independence is one of the fundamental pillars of the legal framework governing financial auditing in Austria. This principle, intended to ensure the objectivity, impartiality and credibility of the audit report, has been further strengthened following the transposition of European reforms through the 2016 Audit Amendment Act (APRÄG 2016). This Act substantially amended numerous pieces of legislation, including the Austrian Business Code (*Unternehmensgesetzbuch – UGB*), and introduced new regulatory instruments such as the Auditor Oversight Act (*Abschlussprüfer-Aufsichtsgesetz – APAG*).

It is also worth noting that auditor independence and the proper performance of audits are governed by various professional standards issued by the KSW. A key element is the *KFS/PE 19: Grundsätze und Einzelfragen im Zusammenhang mit den für Abschlussprüfungen geltenden Unabhängigkeitsvorschriften* (Principles and specific issues relating to rules on independence applicable to audits), adopted at the meeting of the former Committee on Business Law and Auditing on 22 March 2017 as a technical opinion, last revised in November 2023; and adopted by the APAB. This framework is supplemented by *KFS/PE 19a: Fragen im Zusammenhang mit der Honorarbegrenzung für Nichtprüfungsleistungen bei PIEs ("Fee Cap") gemäß Art. 4 Abs. 2 der Verordnung (EU) Nr. 537/2014* (Issues related to the fee limit for non-audit services pursuant to Article 4(2) of Regulation (EU) No 537/2014) Furthermore, *KFS/PG 1: Durchführung von Abschlussprüfungen* (Performing final audits) regulates

the performance of audits, ensuring compliance with international standards (ISA) in Austria and the additional requirements of the UGB, including the obligation to declare independence in the report. This declaration is strengthened in *KFS/PG 3: Erteilung von Bestätigungsvermerken nach den Vorschriften des UGB bei Abschlussprüfungen von Jahres- und Konzernabschlüssen* (Issuing confirmation certificates pursuant to the provisions of the UGB in the audit of annual and consolidated financial statements), which sets out the structure of the audit report and requires an explicit statement regarding the auditor's independence. Finally, *KFS/PG 4: Grundsätze und Einzelfragen zum zusätzlichen Bericht an den Prüfungsausschuss gemäß Art. 11 der Verordnung (EU) Nr. 537/2014* (Principles and specific issues related to the supplementary report to the audit committee pursuant to Art. 11 of Regulation (EU) No 537/2014) dictates the contents of the additional report to the audit committee in PIE, which must cover independence, audit fees and additional services, thus ensuring transparency and oversight.

General duty of independence and its definition

The auditor or audit firm is obliged to maintain its independence throughout the fiscal year under audit and until the audit report is issued; there shall be no commercial, financial or personal relationship, employment relationship or any other type of relationship between the auditor, the audit firm, their network and any individual who may influence the outcome of the audit, and the audited entity, such that an independent, reasonable and informed third party, taking into account the safeguards applied, would conclude that the independence of the auditor or the audit firm is compromised. This is known as "fear of bias" (Art. 271(1) UGB; KFS/PE 19 (Rz 19)).

Threats and safeguards. Incompatibilities and prohibitions

With regard to the "fear of bias" (Art. 271(1) UGB), KFS/PE 19 (Rz 20) identifies five key factors (threats): self-review, self-interest, advocacy, familiarity and intimidation. If there are grounds for fear of bias, this may be remedied by adopting safeguards (KFS/PE 19 (Rz 21).

Among the safeguards included in the *IESBA Code of Ethics 2023 edition* with regard to non-audit services, the following are especially suitable, under the Austrian regulatory framework, for dispelling any fear of auditor bias (KFS/PE 19, Rz 44):

a) Define separate responsibilities for the performance audit and non-audit engagements.

b) Exclude the employees concerned from the audit team so they do not participate in the audit engagement.

c) Independent review of the results of a non-audit engagement, or a repeat of said service by another person not involved in the audit, so that the latter assumes responsibility for the work performed.

Any safeguards adopted to mitigate a threat to independence must be properly documented in the working papers (KFS/PE 19, Rz 45).

Furthermore, Article 271(2) of the UGB sets out the specific grounds for exclusion. Where the grounds for exclusion apply, safeguard measures cannot be adopted (KFS/PE 19, Rz 21). An auditor is excluded if he/she:

- Holds shares in the audited company or in an affiliated company, or in a company holding at least 20 percent of the shares in the audited company, or if he/she exercises significant influence over the acquisition, management or disposal of such shares;

- Is a legal representative, a member of the supervisory board or an employee of the audited company or of an affiliated company, or of a company holding at least 20 percent of its shares, or has held any of these positions within the 24 months prior to the start of the fiscal year to be audited;
- Is not registered in accordance with Article 52 of the APAG;
- Has been involved, within the audited company or on its behalf, in any of the following activities beyond the role of an auditor:

  a) bookkeeping or preparing the annual accounts to be audited;

  b) participating in the internal audit;

  c) taking on management duties or participating in management decisions, especially regarding the selection of legal representatives or senior management in the accounting department;

  d) providing valuation or actuarial services that have a significant impact on the annual accounts to be audited;

- Is a legal representative, a member of the supervisory board or a partner in a legal person or partnership, or the employee of a natural person, legal person or partnership, provided that such person or partnership is not eligible to act as an auditor for any of the reasons set out in Point 4;
- Employs in the audit a person who is excluded for having fallen under any of the aforementioned incompatibilities (shareholdings in the company, an employment relationship or other prohibited functions, such as involvement in accounting, internal audit, valuation, etc.);
- Has derived, in each of the last five years, at least 30 percent of his/her total professional income from audit or advisory services provided to the audited company, to affiliated companies, or to companies in which the audited company holds at least a 20 percent stake, if this is expected to continue in the current fiscal year.

He/she shall also be excluded if practising as auditor jointly with another person who is excluded under the above circumstances (Article 271(3) of the UGB).

With regard to audit firms, they are excluded when the firm itself, one of its legal representatives, one of its partners, an affiliated company, or a person employed by the firm is excluded under the circumstances set out above. They shall also be excluded when one of their partners holds an interest in an excluded entity, or when a person with a stake, even if indirect, in the firm also holds an indirect stake of more than 5 percent in an excluded entity. Furthermore, audit firms shall be excluded if they do not hold the registration required under Article 52 of the APAG (Article 271(4) of the UGB).

If auditors are aware that they are excluded or lack independence, they are not entitled to any remuneration, even if they have provided services. This is also applicable when they ought to have been aware of their exclusion, or if, through gross negligence, they have failed to recognise their lack of independence (Article 271(6) of the UGB).

Article 271a of the UGB introduces further exclusions for large companies. In such cases, auditors are barred from auditing a very large company (those exceeding the thresholds for a large company by a factor of 5), in addition to the reasons set out above, where:

- In each of the last five years, they have derived 15 percent or more of their total revenue from audit or consultancy work for the audited company, its affiliated companies or companies in which the company holds a stake of 20 percent or more, if this is likely to continue.
- Have provided legal or tax services during the fiscal year that go beyond general advice and have had a significant impact on the annual accounts.

- Have been involved in the development, installation or implementation of the company's accounting information systems during the fiscal year under audit.
- Have signed the company's audit report in seven different fiscal years. This restriction is lifted if the auditor has not acted as auditor for at least three consecutive fiscal years.

Auditors are also excluded if they are in joint practice with an excluded person, or if, jointly, they meet the 15% threshold of revenue concentration.

An audit firm is excluded if the firm itself, one of its legal representatives, a partner, an affiliated company, or a person involved in the audit is excluded in accordance with the above circumstances; or if a partner holds an interest in an excluded entity, or if anyone with a stake, even an indirect one, in the firm, holds more than a 5 percent indirect stake in an excluded company.

With regard to the limit of seven consecutive fiscal years, this applies to the signing auditor and any person holding a relevant management role in the audit.

The above circumstances of lack of independence and exclusion also extend to the auditor's or audit firm's network (Art. 271b UGB).

However, as noted in KFS/PE 19 (Rz 53–57), there are certain non-audit services that are compatible with the requirement of auditor independence. Payroll processing is permitted when auditors confines themselves to technical tasks, such as calculations and data processing, and substantive responsibility remains with the company. However, if the service involves accounting decisions or affects significant balance sheet items, it is considered incompatible. With regard to legal and tax advice, auditors may not provide services that go beyond presenting alternatives and that do not have a significant impact on the financial statements. Activities such as the preparation of tax returns, representation during tax audits or legal proceedings, and the provision of opinions on regulations are acceptable, provided that the final decision rests with the client. Other services, such as consultancy regarding accounting processes, training in internal control, risk management or *due diligence* not involving a valuation affecting the balance sheet, are generally permitted. However, participating in the implementation of accounting systems and in internal audit functions is prohibited, as these activities compromise auditor independence.

Furthermore, Article 271c of the UGB prohibits the assumption of positions after the audit. The statutory auditor, the group auditor, the auditor of a significant related company and the signing auditor may not take up any role on a governing body (for example, as a member of the board of directors or the supervisory board) or any management position in the audited company for a period of one year from the signing of the audit report, or two years in case of a large company or a public interest entity.

Similarly, employees, partners and any other person whose services are utilised or supervised by the auditor, if they are authorised auditors, may also not take up a role on a governing body or a management position within the audited company for one year following their direct involvement in the audit.

Otherwise, the person is deemed not to have been validly appointed and is not entitled to any remuneration, even if they have provided services; this applies to both board roles and management positions.

//// TABLE 3 Exclusions (incompatibilities) Austria

Grounds for exclusion / incompatibility	Legal basis (Austria)	Applicable to
Shareholding in the audited company or affiliated companies (>20%) or significant influence	Art. 271(2) UGB	Sole practitioner
Be a legal representative, a member of the supervisory board or employee (currently or in the last 24 months)	Art. 271(2) UGB	Sole practitioner

Not registered in accordance with Art. 52 of the APAG;	Art. 271(2) UGB / Art. 271(4) UGB	Sole practitioner and Audit firm
Has performed prohibited functions (accounting, internal audit, management, significant valuations)	Art. 271(2) UGB	Sole practitioner
Relationship with excluded person or company (legal representative, partner, employee)	Art. 271(2) UGB	Sole practitioner
Employ an excluded person in the audit	Art. 271(2) UGB	Sole practitioner
Revenue concentration ≥30% in the last 5 years (audit/consultancy for the audited company)	Art. 271(2) UGB	Sole practitioner
Joint practice with an excluded person	Art. 271(3) UGB	Sole practitioner
Exclusion on the grounds of links to partners, employees or indirect shareholdings (>5%)	Art. 271(4) UGB	Audit firm
Additional exclusion for large companies (≥15% of turnover, significant legal/tax services, etc.)	Art. 271a UGB	Sole practitioner and Audit firm
Limit of 7 consecutive audit engagements as a signing auditor	Art. 271a UGB	Signing auditor
Lack of independence within the auditor's network or firm	Art. 271b UGB	Sole practitioner and Audit firm
Prohibition on taking up management positions following an audit (1 year / 2 years for large companies or PIEs)	Art. 271c UGB	Sole practitioner, partners and employees

Fees and limits on fees

Pursuant to Article 270(1) of the UGB, auditor's fees must be commensurate with the tasks and scope of the audit. The contract and fees must not be contingent on the auditor providing additional services, nor shall they be subject to external conditions.

The standards set limits exclusively for PIEs, pursuant to the provisions of Regulation (EU) No 537/2014, which is directly applicable in Austria, as described in the following section.

Public Interest Entities (PIE)

PIEs, as defined in Article 189a of the UGB, in accordance with EU Regulation 537/2014, include:

a. Companies whose transferable securities are admitted to trading on a regulated market in a Member State of the European Union or in a State party to the Agreement on the European Economic Area, within the meaning of Art. 4, Paragraph 1 No. 21 of Directive 2014/65/EU on markets in financial instrsuments, and amending Directives 2002/92/EC and 2011/61/EU.

b. Capital companies that are credit institutions pursuant to Art. 4, Paragraph 1 No. 1 of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) No 646/2012, with the exception of the banks referred to in Art. 2 Paragraph 5 of Directive 2013/36/EU on access to the business of credit institutions and the supervision of credit institutions and investment firms.

b. Capital companies that are insurance institutions pursuant to Art. 2, Paragraph 1 of Directive 91/674/EEC on annual accounts and consolidated accounts of insurance companies.

d. Companies that, regardless of their legal form, are designated as such in federal law with reference to this provision

For this type of entity, Article 269(1a) of the UGB stipulates that the audit must be carried out in accordance with the provisions of Title I, Section IV of the UGB, except where Regulation (EU) No 537/2014 applies.

With regard to the maximum term of the auditor's continuous appointment in PIEs, Article 270a of the UGB provides that, if this appointment was first made for a fiscal year commencing between 17 June 2003 and 15 June 2014, the maximum term of the engagement may be extended in accordance with the provisions of Article 17, Section 1, Paragraph Two of Regulation (EU) No 537/2014, which stipulates that neither the initial audit engagement, nor the engagement and its renewals together may exceed a maximum of ten years. This period may be extended as follows:

- up to 20 years, if a public tender is called for the first fiscal year commencing after 16 June 2016 and which would exceed the maximum period of ten years, pursuant to Article 16, Sections to 2 to 5 of Regulation (EU) No 537/2014;
- up to 24 years, if several auditors are appointed jointly (joint audit), for the first fiscal year commencing after 16 June 2016 and which would also exceed the maximum period of ten years.

By virtue of direct application of Regulation (EU) No 537/2014, the key audit partner may not participate in the statutory audit of the same PIE for more than seven consecutive years from the date of his/her appointment. After this period, the partner must cease his/her involvement and may not audit the same entity again for the three years following their rotation.

For PIEs, the regime of exclusions is determined primarily by Article 271(2) of the UGB, whose categories and circumstances have already been mentioned above, and by the provisions of Regulation (EU) No 537/2014. However, Sections (6) and (7) of Article 271a of the UGB provide for exceptions related to non-audit services and fee limits, respectively.

Under Article 271a(6) of the UGB, the auditor may provide tax advisory or valuation services to PIEs, provided that the following conditions are fulfilled:

- That such services have no direct effect or only an insignificant effect on the financial statements to be audited for the fiscal year in question, either individually or collectively.
- These services must be approved by the audit committee, taking into account the auditor's independence and the safeguards in place.
- The auditor must explain and document the effects of these services on the audited financial statements in a supplementary report to the audit committee.

As stated in KFS/PE 19 (Rz 58–87), the auditor must ensure that any permitted service has been previously authorised by the audit committee. This authorisation must specify the type, scope and duration of the service. Absolute prohibitions include services that involve participating in management or decision-making processes of the audited entity, the design and implementation of accounting or internal control systems, the provision of legal services, collaboration in internal audits, and advice on financing, capital structure and investment strategy. These activities are considered incompatible as they compromise the auditor's objectivity and cannot be mitigated by safeguards. With regard to tax and valuation services, the regulations allow for certain exceptions under the conditions set out in Article 271a(6) of the UGB (as mentioned in the previous paragraph). In any case, services related to aggressive tax planning and those that directly and significantly influence the balance sheet are prohibited. Finally, the auditor must document all authorisations and continuously assess whether the provision of non-audit services creates risks to independence. In case of doubt, the principle of avoiding any threat that cannot be eliminated by safeguards must prevail.

With regard to fees (271a(7) of the UGB; KFS/PE 19a), and pursuant to Article 4.2 of the Regulation, fees received for non-audit services may not exceed 70 percent of the average audit fees received over the last three fiscal years. When requested by the auditor, the APAB may, grant a temporary exemption for a maximum of two fiscal years. The additional period referred to in Art. 4.3.2 of the Regulations may not exceed one year.

With regard to the prohibition on taking up roles on the governing body or executive positions in a PIE following the signing of the audit report, Article 271c of the UGB stipulates that the PIE auditor, the group auditor, the auditor of a significant related company and the auditor signing the audit report may not hold such roles during the year following the signing of the audit report. Additionally, the auditor's employees and partners, as well as any other person whose services may be supervised or utilised by the auditor, and who is an authorised auditor, may not take up roles on the governing body or management positions within the PIE for the same period, to be counted from their direct involvement in the audit. Should any of these persons take on roles on the governing body or management positions in breach of this rule, they shall be deemed to not have been appointed and shall not be entitled to remuneration for services rendered during the period of incompatibility (Art. 271c UGB).

//// TABLE 4 Summary - Austria

Item / criterion	Austria
Is there a definition of independence?	UGB Art. 271(1): The auditor may not perform the audit if there are circumstances that give rise to concerns regarding bias. KFS/PE 19: It emphasises that independence is a fundamental principle and that it must be maintained throughout the audit engagement.
Is there an explicit reference to independence in fact and independence in appearance?	UGB Art. 271 (1): It refers to the fear of bias (in appearance) and objective causes (in fact). KFS/PE 19: The difference between actual independence and public perception.
Period during which the auditor must be independent	From the start of the fiscal year under audit until the report is issued (Art. 271 UGB).
Are the types of threats (self-review, self-interest, advocacy, familiarity, intimidation) listed?	Not in the UGB, but they are listed in the KFS/PE 19 in accordance with European regulations (self-review, self-interest, advocacy, familiarity and intimidation).
Is there an obligation to identify/assess threats to independence and safeguards?	KFS/PE 19 Section 5: It requires threats to be assessed and documented safeguards to be implemented. UGB Art. 270(1a): The auditor must inform the supervisory body regarding the circumstances and measures taken.
General principle of declining an audit engagement if there is an unmitigable threat (self-review, self-interest, bias, familiarity, intimidation)	UGB Art. 271(1): If there is an irremediable bias, the auditor shall not accept the engagement. KFS/PE 19 (Rz 25): If there are no effective safeguards, the engagement must be declined.
Specific regulation – threat due to financial interests (Art. 22.4.a and b Directive)	Direct or indirect stake in the audited company is prohibited (Art. 271 UGB).
Specific regulation — threats arising from an employment, commercial or other relationship (Art. 22.4.c)	It is prohibited to be a member of the body, an employee or to be involved in accounting (Art. 271 UGB).
Advocacy	Not expressly.
Regulations regarding gifts /business courtesies	Not included in UGB or in KFS/PE 19a. Governed by ethical standards (IESBA), not by national legislation.
Regulations on the provision of non-audit services	Prohibited services (UGB art. 271(2)) and exceptions for PIEs (UGB art. 271a(6)): tax advisory services or valuation services. KFS/PE 19 (Section 7): Set outs permitted/prohibited services for non-PIEs and PIEs. For non-PIEs, it also includes legal or tax advisory services that go beyond simply suggesting structuring alternatives and which have a significant effect on the annual accounts (KFS/PE 19 (Rz 54)).
Extension of threats/incompatibilities to persons or linked entities (network affiliates, related persons)	UGB Art. 271b: Extends prohibitions to network members. KFS/PE 19 Rz 38–39: Establishes safeguards against risks derived from the network.

Recusal / prohibition due to concentration of audit fees	Auditor's fees must be commensurate with the tasks and scope of the audit. The contract and fees must not be contingent on the auditor providing additional services, nor shall they be subject to external conditions (Article 270(1) of the UGB). Auditors shall be excluded if they have obtained, in each of the last five years, at least 30 percent (15% in case of large companies and PIEs) of their total professional income from audit or advisory services provided to the audited company, to affiliated companies, or to companies in which the audited company holds at least a 20 percent stake, if this is expected to continue in the current fiscal year. The regulations set limits on fees for non-audit services exclusively for PIEs, pursuant to Article 4.2 of the Regulations, which is directly applicable. These fees may not exceed 70 per cent of the average audit fees received over the last three fiscal years. When requested by the auditor, the APAB may, grant a temporary exemption for a maximum of two fiscal years.
Prohibitions regarding former auditors: period during which they may not hold executive positions, serve on the audit committee or an equivalent body, or act as non-executive director (post-audit)	Prohibition on taking up positions following the audit for one year, or two years in case of a large company or a public interest entity (Art. 271c UGB).
Regulations transposing/implementing Art. 24bis of the Directive (Independence and objectivity of auditors acting on behalf of audit firms)	UGB Art. 271a: Extends incompatibilities to the network. KFS/PE 19: Strengthens safeguards.
For public-interest entities: options provided for by national legislation regarding external/ internal rotation (as permitted by Regulation 537/2014)	Mandatory rotation every 10 years (Austria applies the EU standard). This may be extended to 20 years following a public tender or 24 years with joint audit. The key audit partner may not participate in the statutory audit of the same PIE for more than 7 consecutive years from the date of his/ her appointment. After this period, the partner must cease his/her involvement and may not audit the same entity again for the three years following their rotation.
For PIEs: Exceptions to the list of prohibited services set out in Article 5 of EU Regulation 537/2014?	UGB Art. 271a(6): Permits certain tax and valuation services provided they are of negligible significance and have been approved by the audit committee.
For PIEs: Were stricter requirements introduced under Article 5.4 of the Regulation (a more extensive list of prohibited services)?	No. Austria follows the standard list set out in the Regulation, without extending it.
For PIEs: Have stricter requirements regarding fees been introduced under Article 4.4 of EU Regulation 537/2014?	No. Austria applies the 70 percent limit without tightening it.

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4 Belgium

Glossary

CSA	*Code des Sociétés et des Associations*
CSRE-CTBR	*Collège de Supervision des Réviseurs d'Entreprises / College van toezicht op de bedrijfsrevisoren*
FSMA	*Financial Services and Markets Authority*
HCEP	*Conseil Supérieur des Professions Économiques*
IBR-IRE	*Institut des Réviseurs d'Entreprises / Instituut voor bedrijfsrevisors*
AR	*Arrêté Royal*

Introduction

Institutional framework

Article 32 of the *Auditor Organisation and Oversight Act*, of 7 December 2016, stipulates that public oversight of auditors is the responsibility of the *Collège de Supervision des Réviseurs d'Entreprises / College van toezicht op de bedrijfsrevisoren* (CSRE-CTBR), established as an independent authority attached to the FSMA (the Belgian Financial Services and Markets Authority) (IFAC, 2025). The CSRE-CTBR is responsible for the overall supervision of compliance with auditing regulations: it oversees the granting of auditor status, the updating of the official register, the continuing professional development of auditors, the internal quality control systems of audit firms, and compliance with the applicable laws and standards (CSRE, 2025). In practice, the management of the official register (determining who may act as an auditor) and training is delegated to the *Institut des Réviseurs d'Entreprises* (IBR-IRE), under the supervision of the CSRE-CTBR (Article 10 of the Belgian Audit Act). The CSRE-CTBR subjects company auditors to quality assurance reviews and adopts the conclusions of said reviews, ensures supervision, takes the measures provided for in Article 57 of the Act, and takes decisions on whether to refer matters to the sanctions committee (Article 32 of the Act). The CSRE-CTBR may also make public its decision to report criminal offences to the judicial authorities (Art. 45). In case of serious offences, the CSRE may refer cases to the FSMA Sanctions Committee, which is responsible for imposing formal sanctions (fines, suspensions, expulsions), pursuant to Article 59 (CSRE-CTBR, 2025; IFAC, 2025).

Article 64 of the Belgian Audit Act stipulates that the Belgian Institute of Company Auditors (IBR-IRE) is the professional body to which all practising auditors must belong. The IBR-IRE seeks to ensure the permanent organisation of a body of specialists capable of acting as company auditors, with all necessary guarantees regarding competence, independence and professional integrity. It also has powers to register auditors and audit firms, as delegated by law (Articles 78 and 79), and to organise their continuing professional development. It also draws up auditing standards and codes of professional ethics, which are subsequently approved by the Higher Council of Economic Professions and the Ministry of the Economy. The IBR-IRE brings together all auditors in Belgium and plays an active role in international forums, being a member of IFAC, Accountancy Europe, the European Federation of Accountants and Auditors (EFAA) and other global associations. Additionally, major global audit networks operate in Belgium, providing audit services under Belgian regulations. These firms are

registered as audit firms with the CSRE-CTBR and the IBR-IRE and collaborate with the institution's auditors who are sole practitioners (IBR-IRE, 2025; IFAC, 2025).

Legal framework

The *Auditor Organisation and Oversight Act* of 7 December 2016 transposes Directive 2014/56/EU on the audit of annual and consolidated accounts and implements Regulation (EU) No 537/2014 on specific requirements regarding the audit of Public Interest Entities (PIEs). Article 32 of the Act also stipulates that the *Collège de Supervision des Réviseurs d'Entreprises / College van toezicht op de bedrijfsrevisoren* shall be responsible for the engagement quality control of statutory auditors and for the supervision of the profession (IFAC, 2025).

The Act introduced a number of changes to the structure and content of the audit report. The main change concerns the obligation to include 'Key Audit Matters' in all reports related to PIEs.

The 2016 Act was implemented through various royal decrees, including AR (*Arrêté Royal*) of 21 July 2017 on registration in the public register of auditors, and the AR of 17 August 2018 on the conditions for entry into the profession, amongst others. There are also related regulations, such as the Act of 29 April 2019 implementing the new Companies and Associations Code (CSA), with articles on the appointment and duties of auditors (IBR-IRE, 2025).

All audits must be performed in accordance with the auditing standards drawn up by the Belgian Institute of Registered Auditors (IBR-IRE) and approved by the Higher Council for Economic Professions (HCEP) and the Ministry of the Economy, as required by the 2016 Audit Act (Article 31 of the Act). The ISAs have been applicable in Belgium since 2009, and ISQM 1 and ISQM 2 have been applicable to all audit firms in Belgium since 15 December 2023 (IFAC, 2025).

The *Institut des Réviseurs d'Entreprises / Instituut voor bedrijfsrevisors* (IBR-IRE) has not been eliminated, but it will no longer have the power to supervise auditors. However, the IBR-IRE retains the power to propose new standards and recommendations applicable to statutory auditors and to issue opinions and communications (Article 59 of the Act). The IBR-IRE also retains its powers with regard to continuing professional development of auditors and the organisation of entry into the profession (Articles 78 and 79 of the Act). In relation to the subject matter of this paper, in 2004, they published a report on the independence of statutory auditors as part of their 'Studies' series (Szafran, 2004).

Independence

Regulations, general duty of independence and definition

The Belgian Audit Act of 2016 (Art. 12) states that company auditors shall perform their duties with complete independence and in adherence to ethical principles. These refer, at least, to the company auditor's public interest role, their integrity and objectivity, as well as their competence and professional diligence. The IBR-IRE states that the ethical requirements for auditors are in line with the 2009 IFAC Code of Ethics following the implementation of the EU audit reform, and that the Belgian Companies and Associations Code includes additional ethical provisions applicable to auditors (IFAC, 2025). It expressly stipulates that auditors must perform audit engagements with complete independence, both mental and in appearance. Mental independence is defined as a moral attitude whose goal is to ensure that only those considerations that are related to the task entrusted are taken into account in decisions made in the course of an audit engagement. Independence in appearance refers to the need to avoid situations and material events that, due to their significance, would lead a reasonable and informed third party to question the company auditor's ability to act objectively. The Belgian Companies and Associations Code (CSA) supplements these rules by establishing independence obligations in the auditor's relations with the Board of Directors, the General Meeting of Shareholders and the Audit Committee (IBR-IRE, 2025).

Threats and safeguards

The method to be applied by the auditor to ensure compliance with the principle of independence is the "threats and safeguards approach" (Article 12). The Act does not set out this principle in a single article but incorporates it across a range of provisions.

In practice, auditors must identify threats that may compromise their independence (such as self-interest, self-review, familiarity, advocacy or intimidation), assess their significance and put in place the necessary safeguards to eliminate them or reduce them to an acceptable level.

"Incompatibilities" refer to situations in which the law presumes that threats to independence are so significant that no safeguards are sufficient. In such cases, the regulation directly prohibits the provision of the service or the acceptance of the engagement.

Pursuant to Article 12 of the Audit Act, the auditor must take all reasonable measures to ensure that, when performing an audit engagement, their independence is not compromised by potential conflicts of interest or by any relationship –commercial, family, personal or of any other kind– that affects them, the audit firm, or the individuals who are part of their professional network or are involved in the audit engagement, either directly or indirectly.

The Act also stipulates that a company auditor may not accept or continue an engagement with a direct or indirect financial, personal, family, commercial, employment or any other relationship that may undermine their objectivity.

Finally, the auditor must document all relevant risks that may affect their independence in their working papers, as well as the safeguards applied to mitigate those risks.

Incompatibilities and prohibitions

To safeguard this independence, the regulations have established a rigorous system of incompatibilities. Articles 29 and 30 of the Belgian Audit Act illustrate how the legislator structures this protection. The text sets out this protection through a two-pronged approach: firstly, a general clause on ethical behaviour (Art. 29.1) and, secondly, a series of specific prohibitions based on the auditor's professional or political status (holding the office of minister or secretary of state) (Art. 29.2), supplemented by an administrative "suspension" mechanism (Art. 30) to manage these conflicts.

Thus, the law stipulates, in general and ethical terms, that auditors "may not engage in activities or perform acts incompatible with the dignity, integrity or diligence, or with the independence of their role". This clause imposes a permanent standard of conduct focused on professional integrity, and which requires a level of personal integrity that goes beyond mere technical compliance with audit engagements.

Article 30.3 then reinforces this rule by stipulating that the auditor, even when not actively practising, remains subject to these ethical obligations.

Article 29.2 of the Act sets out the specific circumstances in which an auditor is prohibited from carrying out audit engagements. These incompatibilities are based on the individual's status, not on a specific conflict of interest.

1. Employment relationship: which seeks to avoid the fundamental conflict between the auditor's independence and the subordination inherent in an employment relationship (except within another audit firm).

2. Commercial activity. It is prohibited to "carry out a commercial activity" (either directly or indirectly, including acting as a director of a trading company), in order to separate the auditor from business risk and the commercial decision-making of third parties. The auditor must be an objective observer, not an active participant in the area that they are auditing. Taking on a management position in trading companies operating under civil law is excluded from this prohibition.

3. High-level political office: it is prohibited to "hold the office of minister or secretary of state" in order to prevent the merging of economic supervisory power (auditing) with the executive power of the State (with the exception of teaching activities).

Article 30 of the Belgian Audit Act addresses the consequences of breaching one of the specific incompatibilities set out in Art. 29.2. The framework is pragmatic: rather than revoking registration, a status of "temporarily suspended auditor" is created.

Moreover, in accordance with Article 16 of the Belgian Audit Act, an auditor may not hold any financial interest in the entity whose accounts they audit or in which they perform any review or assurance tasks (which may give rise to a conflict of interest). This prohibition is in line with the principle of independence and seeks to prevent any situation in which the auditor might benefit – or suffer – financially as a result of the decisions or results of the audited entity. Holdings in collective investment schemes are excluded.

Furthermore, it is stipulated that the auditor may not acquire or dispose of, either on their own behalf or on behalf of their minor children, financial instruments issued, guaranteed or backed by the audited entity. The auditor may also not be involved, whether directly or indirectly, in operations or transactions related to such financial instruments. These restrictions are intended to prevent auditors from finding themselves in a position that may compromise their objectivity, either through a direct stake in the capital or through their involvement in the audited company's financial transactions.

The above prohibitions do not apply to holdings through collective investment undertakings, such as investment funds, pension funds or life insurance policies, provided that such holdings are diversified in nature and do not confer significant influence over the audited entity. In other words, indirect investment is permitted provided that it does not result in specific exposure to the risk or performance of the audited entity.

The auditor may also not accept money, gifts, benefits or favours from the audited entity or any related entity. The only permitted exception is gifts of symbolic or negligible value, which an objective, reasonable and informed third party would consider irrelevant or insignificant. This rule is consistent with the criteria set out in the IESBA's International Standards on Ethics, which recognise the possibility of accepting courtesies provided they are unlikely to influence professional judgement.

The above provisions shall also apply to audit firms, as well as to their partners, shareholders, directors and employees, to the extent that they are directly or indirectly involved in the audit engagements performed. They also apply to all other persons or professionals to whom the auditor delegates tasks or who are directly involved in the audit procedures, and to persons closely associated with the auditor, including relatives up to the second degree of kinship or affinity, cohabiting partners or those with whom the auditor has significant financial or personal ties, as well as any entity linked through a common control structure that may compromise the independence of the report.

The auditor must verify and record in writing that neither they nor any related persons or entities have any interests, relationships or holdings that could influence, either in fact or in appearance, the outcome of the audit engagement. This obligation extends to all situations in which the auditor's independence or objectivity may be compromised. It especially covers cases in which the auditor or "persons closely associated" with them hold financial instruments issued by the audited entity, other than those held indirectly through diversified collective investment undertakings; it also covers cases where the auditor or their associates hold financial interests in a related entity, whose ownership may give rise to a conflict of interest; and, finally, cases where the auditor or their associates have had, during the two years prior to the audit, an employment, commercial or any other relationship with the audited entity or any of its related entities. In all these cases, auditors must adequately document the verifications made and the measures taken to maintain their independence and safeguard the appearance of objectivity in the performance of their duties.

The Belgian Audit Act of 2016 retains the blacklist of seven non-audit services that statutory auditors may not provide to the entities they audit: 1) accounting or bookkeeping, 2) design and implementation of internal control or risk management systems, 3) valuation or appraisal where the results of

the work could significantly influence the audited financial statements, 4) actuarial services related to the valuation of pension, insurance or other long-term benefit obligations, 5) internal audits, 6) management or decision-making, and 7) human resources. Prohibited services (e.g. valuations or tax advice) are permitted only in very exceptional cases where their effect on the financial statements is insignificnat and is documented and approved by the audit committee. However, due diligence services associated with acquisitions are permitted (Deloitte, 2025).

For non- public interest entities, there is no legal obligation to rotate auditors or their permanent representative on a regular basis. These measures, together with the IBR-IRE's professional rules, ensure that Belgian statutory auditors carry out their engagement with both independence in fact and in appearance (Deloitte, 2025).

Table 5. Exclusions (incompatibilities) provides an overview of the exclusions set out by the Belgian Audit Act of 2016.

//// TABLE 5 Exclusions (incompatibilities) Belgium

Grounds for exclusion	Legal basis	Applicable to:
Performing duties as an employee (other than as an employee of another auditor)	Art. 29.2.1	Sole practitioners and persons closely associated with them who hold a position that may exert significant influence over the financial statements
Carrying out a commercial activity, either directly or indirectly, including acting as a director of a trading company (with the exception of trading companies operating under civil law)	Art. 29.2.2	Sole practitioner and persons closely associated with the auditor.
Holding the office of minister or secretary of state	Art. 29.2.3	Sole practitioner
Holding a financial interest in the audited entity (except through collective investment schemes)	Art. 16.1; Art. 16.3; Art. 16.5.	Sole practitioner. Audit firm, including its partners, shareholders and members of the governing body. Employees directly involved in the audit. Persons closely associated with the auditor.
Purchasing or sell financial instruments issued/guaranteed by the audited entity (for own self or minor children)	Art. 16.2; Art. 16.5.	Sole practitioner. Audit firm, including its partners, shareholders and members of the governing body. Employees directly involved in the audit. Persons closely associated with the auditor.
Participating in any transaction involving those financial instruments	Art. 16.2; Art. 16.5.	Sole practitioner. Audit firm, including its partners, shareholders and members of the governing body. Employees directly involved in the audit. Persons closely associated with the auditor.
Accepting money, gifts or favours from the audited entity or related entities (except for negligible benefits)	Art. 16.4; Art. 16.5.	Sole practitioner. Audit firm, including its partners, shareholders and members of the governing body. Employees directly involved in the audit. Persons closely associated with the auditor.

Fees

In Belgium, there is a cap on the non-audit service fees that may be charged by an auditor in relation to audit fees. Generally speaking, for companies that prepare consolidated accounts, the auditor may not charge more than 100 per cent of the audit fees for permitted non-audit services provided to the same client (the "1:1 rule") (CMS-Lawnow). This 100% limit does not apply to smaller companies that do not consolidate accounts and are not PIEs (these are not subject to any specific limit, except for the prohibition on certain services) (CMS-Lawnow). To sum up:

- Companies with consolidated accounts (non-PIE): 1:1 limit (100% of the audit fees) for non-audit services.
- Companies without consolidated accounts (non-PIE): There is no specific quantitative limit in relation to the audit (only prohibitions on certain services and the general assessment of independence are applicable).

It should be noted that, certain services are strictly prohibited to auditors by law in all cases (the 'blacklist' of incompatible services), regardless of fee limits.

However, Belgian regulations provide for three exceptions under which the 100 per cent limit on non-audit service fees may be exceeded on an ad hoc basis (i.e. exceptions to the 1:1 rule for companies subject to it (Deloitte, n.d.)):

- Joint audit: If the company's audit is performed jointly by two independent audit firms (from different networks), then each auditor may potentially exceed the 1:1 limit. This exception only applies to entities that are not legally required to have an audit committee.
- Pre-approval by the Audit Committee: If the audited Belgian company or its parent company has a formally established audit committee, said committee may pre-approve an exemption from the 100 per cent limit.
- Authorisation of the Oversight Body: The auditor may apply to the auditor oversight body (the CSRE) for prior approval to exceed the limit. If granted, this authorisation allows non-audit fees to temporarily exceed 100 percent. This regulatory approval is valid for a maximum of 2 fiscal years.

These exceptions are intended for atypical situations (for example, very specific projects or transactions that require additional services from the auditor) and cannot be extended indefinitely. As a matter of fact, the application of any of these exceptions is limited to a maximum of three consecutive fiscal years, provided that the exceptional circumstances are justified.

In Belgium, it is mandatory to disclose fees for all companies and groups, which must report audit fees in the notes to their annual accounts, whether individual or consolidated. Similarly, all Belgian companies subject to an audit, including small companies that undergo an audit on a voluntary basis, must disclose the nature and amount of fees for non-audit services provided by the auditor and their global network. The scope of this disclosure varies according to the type of annual accounts. For individual accounts, information on non-audit fees is limited to services provided to the audited entity itself. However, in the case of consolidated annual accounts, the requirement is broader, covering fees for services provided by the auditor and their network not only to the parent company, but also to all its Belgian and foreign subsidiaries. There are specific rules for certain group structures. Belgian parent companies that do not publish consolidated accounts, as well as small groups and sub-groups exempt from consolidation, must report the group's total fees (including the audited Belgian company and all its domestic and foreign subsidiaries) for both audit and non-audit services in the notes to their annual accounts (Deloitte, n.d.).

Public Interest Entities

Audits of Public-Interest Entities (PIE) in Belgium are governed by the Audit Act of 7 December 2016, which transposes Directive 2014/56/EU and implements Regulation (EU) No 537/2014, and is based on a dual institutional system comprising the *Collège de Supervision des Réviseurs d'Entreprises* (CSRE-CTBR) and the *Institut des Réviseurs d'Entreprises* (IBR-IRE). The CSRE-CTBR, an independent authority attached to the FSMA, is responsible for the public oversight of auditors: it supervises the quality of work in Public Interest Entities (PIEs), administers the disciplinary regime, takes measures and imposes sanctions, as well as maintaining the official register; whilst the IBR-IRE retains technical functions such as continuing professional development, the drafting of auditing and ethical standards, and the maintenance of the professional register. Article 3.7 of the 2016 Act defines Public Interest Entities (PIE) as those referred to in Article 3.1.12 of the Companies and Associations Code – including listed companies, credit institutions, insurers, reinsurers and winding-up bodies – which are subject to the enhanced requirements of the European Regulation.

With regard to independence, Belgium applies the threats and safeguards approach required by Article 12 of the Audit Act and the IFAC Code of Ethics adopted by the IBR-IRE, which requires auditors to identify and document threats arising from self-interest, self-review, familiarity, advocacy and intimidation, and to put safeguards in place, whilst prohibiting the acceptance or continuation of an audit engagement where such threats cannot be mitigated. The Belgian system includes specific incompatibilities (Articles 29 and 30): prohibition on engaging in commercial activities, holding political office (minister or secretary of state), holding incompatible employment or management roles, as well as restrictions on holding significant financial interests, and on accepting gifts or favours unless they are of negligible value.

For PIEs, the list of prohibited additional services is extended by five further items: certain tax services, general legal advice, payment services, the promotion, intermediation or underwriting of shares subject to statutory control, and certain services related to financing.

The current Belgian Audit Act also sets out, in Article 22, conditions for boosting independence through the mandatory rotation of the auditor (or the audit firm). Thus, in case of audits of public-interest entities (PIEs), the audit firm shall replace the signing partner within a maximum of six years from the date of their appointment (if the audit engagement is performed by a sole practitioner, they must transfer the mandate to another qualified professional within the same maximum period) (Art. 22.3). Auditors who have been replaced may not participate in the audit of the same entity until at least three years have elapsed (Art. 22.3). Additionally, and pursuant to Article 17.7 of Regulation (EU) No 537/2014, the auditor must establish a system of progressive internal rotation applicable to the seniormost members involved in the statutory audit, including at least the signatory or lead auditors participating in the engagement.

Likewise, in the case of Public Interest Entities (PIE) and large groups, the application of any exemption from the fee limits is subject to prior approval by the Audit Committee. This requirement constitutes an essential mechanism of good corporate governance, whereby the audit committee must assess and approve the appropriateness of exceeding the established fee thresholds. The ultimate purpose of this oversight is to ensure that the invoicing of additional services does not compromise the external auditor's objectivity or independence towards the audited entity.

Furthermore, Article 526bis of the CSA reinforces the role of the audit committee as a supervisory body, entrusting it not only with the overall assessment of the independence of the auditor and the consolidated auditor, but also with a specific assessment of the appropriateness of any additional services that may be provided to the audited entity. This oversight is activated especially when the thresholds set by the European Regulation are exceeded, which requires a detailed review and documentary justification of the safeguards applied.

In case of Belgian public-interest entities –for example, listed companies, banks or insurance companies– the rule caps the proportion of fees for non-audit services at 70 percent of the average audit fees over the last three years ("70 percent rule") (Deloitte, n.d.). However, an exception to this cap is provided for under the Companies and Associations Code (CSA), as the auditor may request the CSRE for an exemption for a maximum of three fiscal years (Deloitte, 2025). Every time the auditor or

audit firm intends to provide permitted non-audit services, the applicable fee limit must be assessed. The fee limit must be assessed over the course of the three-year audit engagement, on an accrual basis, by comparing audit and non-audit fees paid by the audited Belgian entity, as well as by its parent companies and subsidiaries, to the auditor or audit firm (not to the network). All non-audit services provided by the auditor or the audit firm, except for non-audit services required by law, must be taken into account for both fee limits.

In this regard, where the total fees invoiced by the auditor to a public-interest entity exceed 15 percent of the auditor's total annual revenue for three consecutive fiscal years, it creates an explicit obligation to: (i) report this circumstance to the audit committee of the audited entity; and (ii) conduct an analysis, together with the committee, of the risks to independence, as well as the safeguards applied.

//// TABLE 6 Summary - Belgium

Item	Belgium
Is there a definition of independence?	Not explicitly, but Article 12 of the Audit Act stipulates that auditors shall perform the audit tasks entrusted to them with complete independence and adhering to ethical principles (including, at least, public interest, their integrity and objectivity, as well as their professional competence and diligence).
Is there an explicit reference to independence in fact and independence in appearance?	The independence of the company auditor is assessed at two levels: independence of judgement (a moral stance aimed at ensuring that only considerations that are related to the task entrusted to the auditor are taken into account in decisions to be made in the course of an audit engagement), and independence of appearance (the need to avoid situations and material events which, due to their significance, would lead a reasonable and informed third party to question the company auditor's ability to act objectively) (Art. 13 of the Audit Act).
Period during which the auditor must be independent	Belgian legislation requires independence during the period covered by the audited information and the period in which the audit is performed (Art. 13.2 of the Audit Act).
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	The Audit Act lists the types of relationships that give rise to threats. For example, Article 12.4 prohibits an audit engagement where there is a financial, personal, business, employment or similar relationship between the auditor (or their firm or network) and the audited entity. Although it does not use the exact terms "self-review", "self-interest", "advocacy", "familiarity" or "intimidation", it identifies relationships – including financial, employment, business or personal relationships – that may compromise objectivity.
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Yes. Auditors must identify significant threats to their independence and apply safeguards. Article 12.5 requires them to record all significant risks of harm to their independence as well as the safeguards applied, in their working papers.
Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	This is set out verbatim in Article 12.4 of the Audit Act, which states that an auditor may not accept or continue an audit engagement if there is a relationship (financial, personal, business, employment or other) such that an objective and reasonable third party would conclude that independence is compromised.

Specific regulation in case of a threat arising from a financial interest (e.g. Directive, Art. 22.4.a) and b))	The Audit Act prohibits having a financial interest in the audit client. Thus, Article 16.1 stipulates that the auditor must not have a financial interest in the entity which they are auditing, and Article 16.2 prohibits the purchase or sale of the client's financial instruments, the only exception being collective investment schemes.
The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	Article 29.2 of the Act prohibits the performance of incompatible duties, for example: 1.º being an employee of the audited entity, 2.º engaging in commercial activities with said entity (e.g. being a company director), 3.º holding political office as minister of secretary of state. These prohibitions prevent employment or management relationships from compromising independence.
Advocacy	Advocacy (*défense d'intérêts*) is not explicitly mentioned in either the Audit Act or in the Companies and Associations Code. However, it directly prohibits behaviour that would entail the auditor acting in the client's interests, through rules on incompatibility and functional independence.
Regulations regarding gifts	Art. 16.4 prohibits accepting money, gifts or favours from the audited entity or related entities (except for insignificant benefits)
Regulations on the provision of non-audit services	Auditors and their networks may not provide certain prohibited non-audit services to the audited entity, its parent company or subsidiaries within the EU during the audit (and in the preceding year only in the case of tax services, valuation services having a significant effect on the financial statements, and other services related to financing, capital structure or investment strategy). Non-audit services that are prohibited in Belgium are set out in two blacklists: a general one, applicable to all audited entities, and a specific one for Public Interest Entities (PIE). The *common list* prohibits services that compromise the auditor's independence, such as management or decision-making, accounting or the preparation of financial statements, the design of internal controls or financial IT systems, valuations or internal audit, as well as legal and tax representation or defence of the audited entity, and human resources services linked to financial management. The *PIE-specific list* imposes restrictions on tax and legal services, including the preparation of tax returns, payroll and customs duties, assistance with tax audits, tax advice, payroll services, general legal advice, and services related to financing, capital structure or investment strategy, with the exception of financial underwriting. In exceptional cases, certain valuation or tax services (not related to payroll or customs) may be provided to a PIE if their impact on the financial statements is insignificant, is adequately documented in the supplementary report to the audit committee (Art. 11 of EU Regulation 537/2014), and the independence required by Directive 2006/43/EC is maintained. All permitted non-audit services to be provided to PIEs and their EEA subsidiaries require prior approval from the audit committee.
Extension of threats (or incompatibilities) to persons or entities linked to the auditor (Directive, Art. 22.1 (Paragraph Three))	Yes. Article 16.5 extends the established prohibitions to a wider range of parties associated with the auditor. Specifically, these restrictions apply to the audit firm, its partners, directors and employees involved in the audit engagement, as well as to any person who may influence the outcome of the audit or on whom the auditor relies for its performance. They also include individuals closely related to the auditor –such as family members, colleagues or members of their professional network– thus ensuring that independence is fully safeguarded.

Recusal (prohibitions) due to a concentration of fees received from the same audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	The Belgian Companies and Associations Code (CSA) contains a specific provision regarding the concentration of fees received from a single audited entity. Specifically, Article 3:65 stipulates that, if the total fees received from a public-interest entity exceed 15 percent of the auditor's total fees in each of the last three consecutive fiscal years, this gives rise to a significant risk to the auditor's independence. In such cases, pursuant to Article 4(3) of Regulation (EU) No 537/2014, auditors must inform the audit committee and jointly analyse the risks posed by such financial dependence to their independence, as well as the safeguards designed to mitigate said risks.
Prohibition: a period during which the former auditor of the audited entity is prohibited from: (i) taking up management positions; (ii) being appointed to the audit committee or a body performing equivalent functions; and (iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (Directive, Art. 22.bis)	Belgian legislation does not contain a specific provision that reproduces Article 22 bis of Directive 2006/43/EC verbatim. The prohibitions on the taking on of certain positions by the former auditor of a public-interest entity are directly applicable in Belgium by virtue of EU law and are incorporated into domestic law through the general regime governing auditor independence and the system of public oversight provided for in the 2016 Audit Act.
Regulations transposing and implementing Article 24bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	No specific article that refers to Art. 24bis of Directive 2006/43 has been identified. However, the independence and objectivity of auditors performing statutory audits on behalf of audit firms are primarily governed by Articles 12 and 16 of the 2016 Audit Act 2016. Article 12 lays down the general principles of both independence in fact and independence in appearance, the prohibition on participation in the client's decision-making processes, the management of conflicts of interest, and the obligation to document risks and safeguards. Subsequently, Article 16 extends these requirements to the wider environment of the auditor and audit firm, including partners, directors, employees and any persons who may influence the outcome of the engagement, thereby ensuring that auditor independence is not compromised by the audit firm's organisational structure.
For Public Interest Entities, indicate the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation	With regard to the external and internal rotation of auditors of public-interest entities, Belgian legislation is characterised by a strict and orderly application of the framework set out in Regulation (EU) No 537/2014. The Companies and Associations Code establishes external rotation through renewable three-year terms, incorporating the extension options provided for in EU law –public tender procedure and joint audit– without reducing the European maximum limits, while strengthening the formal control of renewals. As regards internal rotation, Belgium has not exercised the modulation options provided for in the Regulation and fully maintains the rotation and cooling-off periods applicable to the signing partner and key personnel involved in the audit engagement. This regime is supplemented by the 2016 Audit Act, which boosts independence with additional documentation requirements, expansion of the scope of application and public oversight, thus establishing a coherent, prudent model that is aligned with EU law.
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	With regard to public-interest entities, Belgian legislation does not introduce any national exceptions to the list of non-audit services prohibited by Article 5 of Regulation (EU) No 537/2014. Neither the 2016 Audit Act nor the Companies and Associations Code amend, extend or relax this list; they merely apply the European regime directly and strengthen the safeguards on independence, control and supervision.
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	No.
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	No.

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5 Spain

Glossary

CGEE-REA	Consejo General de Economistas de España-Registro de Economistas Auditores
ICJCE	Instituto de Censores Jurados de Cuentas de España
ICAC	Accounting and Auditing Institute
LAC	Law 22/2015, of 20 July, on Auditing.
RAC	Royal Decree 2/2021, of 12 January, approving the Implementing Regulation of Law 22/2015, of 20 July, on Auditing.
ROAC	Official Register of Auditors

Introduction

Institutional framework

Auditor oversight in Spain is the responsibility of the Accounting and Auditing Institute (ICAC), an autonomous body attached to the Ministry of Economy, Trade and Business. In the field of auditing, it is specifically assigned the following duties:

- The approval and registration of auditors and audit firms in the Official Register of Auditors (ROAC). This registration is compulsory for all auditors and audit firms in Spain, and the ROAC is under the ICAC.
- The adoption of ethical standards, internal quality control standards in the audit activity and technical auditing standards under the terms of this Act, as well as overseeing their proper compliance.
- The continuous training of auditors.
- Regular monitoring of the evolution of the market for audit services in the case of public interest entities
- The disciplinary regime of the Institute.
- The system of inspections and investigations.

The professional bodies of auditors recognised as public-law corporations representing auditors are the *Consejo General de Economistas de España-Registro de Economistas Auditores* (CGEE-REA) and the *Instituto de Censores Jurados de Cuentas de España* (ICJCE)[13].

Article 140 of the Audit Regulations (RAC) sets out the duties of public-law corporations, of which we highlight the following due to their bearing on the auditor's independence:

13 Third Final Provision of the Audit Regulations (RAC).

- To adapt and review the technical standards relating to auditing, ethics and internal quality control, either at their own initiative or at the request of the Accounting and Auditing Institute
- To draw up the ethical standards and codes of conduct to be followed by members
- To verify compliance with the internal practices and procedures governing the behaviour of members when conducting audits, where non-compliance entails disciplinary measures under their respective Articles of Association
- To collaborate with the ICAC, especially in conducting inspections of auditors who do not audit public-interest entities, when the ICAC so decides

Legal framework

The legal framework for auditing in Spain consists of Law 22/2015 on Auditing (LAC), the Audit Regulations (RAC), the International Standards on Auditing adopted by resolution of the ICAC (ISA-ES), the Technical Auditing Standards approved by resolution of the ICAC for those aspects not covered by the ISA-ES, the Internal Quality Control Standards approved by resolution of the ICAC, and the ethical standards.

In addition to Spanish legislation, there is also directly applicable European legislation: Regulation (EU) No 537/2014 on audits.

The main objective of the current Law on Auditing has been to bring Spanish domestic legislation into line with the changes introduced by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014, amending Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, and integrating it with Regulation (EU) No 537/2014.

With regard to self-regulation (*soft-law*), the public-law corporations representing auditors have issued guidelines, technical circulars, technical papers, etc. For example, on the topic of independence, the ICJCE has issued Guide 37R on the application of the threats and safeguards framework in assessing auditor independence (ICJCE, 2025).

Independence

Regulations, general duty of independence and definition

The regulations governing auditor independence are set out in the LAC and RAC.

The LAC sets out a general framework for independence applicable to all audit engagements, for both PIEs and non-PIEs, as well as a more restrictive framework applicable to PIE audits (Chapter IV, Section 3: Independence, Articles 39–41).

Article 14 of the LAC establishes the general principle of independence, stipulating that when performing their duties, auditors and audit firms must be independent from the audited entities, and they must refrain from engagements where their independence with regard to the review and assurance of annual accounts, financial statements or other accounting documents is compromised. Furthermore, auditors and audit firms, as well as any person in a position to directly or indirectly influence the outcome of the audit, must refrain from participating in any way in the management or decision-making of the audited entity.

The ICAC is responsible for ensuring proper compliance with the duty of independence, as well as for assessing, in each specific engagement, any potential lack of independence of an auditor or audit firm.

As regards the meaning of "independence", the Regulations define it as follows: " *the absence of any interests or influences that may compromise the auditor's objectivity when performing their audit engagements*" (RAC Art. 37.1).

Auditors must refrain from performing out an audit if there is any financial, economic, employment, family or other relationship –including the provision of non-audit services to the audited entity– between the auditor and the audited entity such that it may be concluded that their independence is compromised. This impact need not actually be realised, but may be merely potential (Rubio Herrera, 2022).

The regulations refer to the "principle of being and appearing independent". The preamble of the LAC states: "*there are two key elements to the independence requirement, independence in fact and the appearance of independence. This means that auditors must be independent as well as appear to be independent*". This principle of being and appearing independent is set out in the provisions governing the general principle of independence, specifically in Article 14.4 of the LAC, which states: "*Specifically, persons who have an employment, commercial or other relationship with the audited entity which could give rise to a conflict of interest or generally* ***be perceived*** *as giving rise to a conflict of interest, shall neither participate in, nor influence in any way, the outcome of the audit of said entity's accounts*". In other words, the perception or appearance of a conflict of interest renders participation in an audit impossible.

Furthermore, in its preamble, the RAC establishes the grounds for incompatibility, the restrictions on fees, the duration of contracts and post-termination restrictions, stating that these situations are "*manifestations of the principle of* being and appearing independent *which is enshrined in EU legislation, in that it is an intangible quality that cannot be measured, and in order to specify those situations that must be avoided insofar as it may be concluded that due objectivity would not be observed were they to arise"*.

Threats and safeguards. Incompatibilities and prohibitions

To safeguard independence, the LAC establishes a hybrid system based on two pillars: on one hand, the threats and safeguards system, which operates as a self-assessment system in which the auditor must establish the necessary procedures to identify situations, relationships or services, including those defined as grounds for incompatibility, which may give rise to threats to independence, assess them and, where appropriate, apply safeguards. Additionally, it lists a set of specific circumstances, situations or relationships which, if they arise, are understood to mean that the auditors lack independence in relation to a specific entity, the only possible solution or safeguard being to not perform the audit engagement.

Article 37.1 of the RAC stipulates that auditors must refrain from performing out an audit if there is any financial, economic, employment, family or other relationship –including the provision of non-audit services to the audited entity– between the auditor and the audited entity such that it may be concluded that their independence is compromised. It further stipulates that independence is compromised where grounds for incompatibility arise (Articles 14 and 16 to 20 of the LAC), when the situations set out in Articles 23 (prohibitions), 24.1 (fees) and 25 (fee concentration) of the LAC arise, when there are financial, commercial or other interests in the audited entity, or influences or relationships that may compromise or effectively compromise the auditor's objectivity, and when situations arise that pose threats to independence, and the significance of the factors behind such threats, with regard to the safeguards applied or which may be applied, is such that it does not reduce the threat posed by those factors to an acceptably low level.

The LAC sets a validity period for incompatibilities arising from services provided, which extends from the start of the corresponding fiscal year of the audited accounts, until the auditor has completed the audit engagement. In case of incompatibilities arising from personal circumstances, the period begins earlier, from the start of the first year prior to the corresponding fiscal year of the audited accounts (Article 21 of the LAC).

Apart from cases of incompatibility, the LAC does not specify the period of independence of the auditor, but Art. 37.3 of the RAC stipulates that "*Auditors shall assess their independence both before accepting the audit engagement and while performing it, right up to its completion*",consequently, it sets a period for the duty of independence pursuant to Art. 22 of Directive 2006/43/EU.

The LAC (Art. 15) and the RAC (Art. 39) identify the following sources of threats to independence: self-review, self-interest, advocacy, familiarity or trust, or intimidation, arising from the existence of conflicts of interest or any commercial, financial, employment, family or other relationship, whether direct or indirect, actual or potential.

Regarding incompatibilities or situations where the regulations stipulate that no safeguard is possible except to withdraw from the audit engagement, these are governed by Article 16 of the LAC and Articles 43–51 of the RAC. A distinction is made between circumstances arising from personal situations and those arising from services provided.

Incompatibilities arising from personal circumstances are:

1. Being a member of the governing body, a director or an authorised representative to whom the audited entity has granted general power of attorney, or being an employee of the audited entity. This shall also apply to the head of the economic and financial departments and to any person performing supervisory or internal control functions within the audited entity, regardless of their relationship with said entity.
2. Having a significant direct interest in the audited entity arising from a contract, ownership of an asset or the holding of a right. In any event, such an interest shall be deemed to exist where the audited entity or a related entity holds financial instruments, provided that, in the latter case, these are significant to either party. This does not apply to interests held indirectly through diversified collective investment undertakings.
3. Carrying out any transaction related to financial instruments issued, guaranteed or otherwise backed by the audited entity. Similarly, this does not apply to financial instruments held indirectly through diversified collective investment undertakings.
4. Requesting or accepting gifts or favours from the audited entity, unless their value is negligible or insignificant.

The circumstances arising from services provided are:

1. Providing accounting services to the audited entity, or the drafting of its accounting records or financial statements.
2. Providing valuation services to the audited entity, unless the following requirements are met:
    i. They do not have a direct effect, or have a relatively minor effect, either individually or on an aggregate basis, on the audited financial statements;
    ii. The estimation of the effect on the audited financial statements is thoroughly documented in the working papers related to the audit engagement.
3. The provision of internal audit services to the audited entity, except when the governing body of the audited entity is responsible for the overall internal control system, for determining the scope, risk and frequency of internal audit procedures, and for considering and acting on the findings and recommendations of the internal audit.
4. The provision of advocacy services simultaneously to the audited entity, unless such services are provided by separate legal entities with different boards of directors, and provided that they are not related to the resolution of disputes concerning matters that may have a significant impact, measured in terms of materiality, on the financial statements for the period or fiscal year under audit.

5. The provision to the audited entity of services related to the design and implementation of internal control or risk management procedures concerning the preparation or control of financial information, or the design or implementation of IT systems for financial information used to generate the data that is part of the audited entity's financial statements, unless the audited entity assumes responsibility for the overall internal control system or the service is provided in accordance with specifications set by the entity, which must also assume responsibility for the design, implementation, evaluation and operation of the system.

The above incompatibilities apply in various circumstances, as set out below.

They include entities that are affiliated with or have a controlling interest in the audited entity in case of incompatibilities arising from personal circumstances, and entities with a controlling interest in the audited entity in case of incompatibilities arising from services provided (Art. 17 of the LAC).

They extend to the family members of the lead auditors in charge of the audit. They shall also apply when incompatibilities arising from personal circumstances or services rendered are identified in relation to entities that are affiliated with or controlled by the audited entity (Art. 18 of the LAC).

They extend to persons or entities directly related to the auditor or audit firm, specifically:

a. Persons, other than the lead auditors in charge of the audit, whether or not they are auditors and whether or not they form part of the auditor's or audit firm's organisation, who are involved in or have the capacity to influence the final outcome of the audit of the financial statements, or who have supervisory or managerial responsibility for the performance of the audit engagement and are able to directly influence its assessment and final outcome.

b. Persons other than those mentioned above, who are part of the audit engagement team, whether as employees or already providing services to the auditor or the audit firm.

c. Partners of the audit firm, as well as any auditors or audit firms with whom they are directly or indirectly linked, who are not covered by the preceding points.

d. Persons other than those mentioned in the preceding points, who are employees or provide services to or are under the control of the auditor or the audit firm, and who are directly involved in the audit activities.

They shall also apply when persons or entities directly related to the auditor or audit firm find themselves in a situation of incompatibility arising from personal circumstances or services provided, respectively, in relation to entities affiliated with or controlled by the audited entity.

Finally, the incompatibilities established in Article 16 of the LAC apply to any persons or entities who are part of the same network as the lead auditors in charge of the audit or the audit firm on whose behalf the audit is performed.

During the next year, following completion of an audit engagement, the lead auditors responsible for the audit engagement and the audit firms on whose behalf the audit is carried out may not serve on the administrative or management bodies of the audited entity or of any entities over which it exercises control, nor may they hold a position or have a direct or indirect financial interest in such entities if, in any of these cases, this is significant to any of the parties (Art. 23.1 of the LAC).

The prohibition applies to:

a. Auditors other than the lead auditors in charge of the audit engagement, whether partners or not, of the audit firm who have supervisory or managerial responsibility for the performance of the audit engagement and who may directly influence its assessment and final outcome

b. Those who are part of the audit engagement team, where they hold the status of auditors, solely in relation to the audited entity.

c. Partners of the audit firm and auditors appointed to carry out audits on its behalf who have not been involved in, or have had the capacity to influence, the audit work, provided that they cease to have any connection or interest with the audit firm before joining the aforementioned bodies, taking up a post at the audited entity or acquiring a financial interest, and provided that their objectivity cannot be compromised by the existence of any potential reciprocal influences between those partners and the signing auditor or the audit firm.

With regard to the threat arising from familiarity due to long-standing relationships, although non-PIE audits do not have a mandatory rotation policy in place – either for the firm or for the lead auditor of the engagement – the ICAC (2017) considers that, in any event, threats arising from situations where the engagement period exceeds 10 years should be classified as significant.

Fees and limits on fees

Fees for audit services shall, in all cases, be agreed before the auditor commences their duties and shall cover the entire period during which they are to perform those duties. Said fees may not be influenced or determined by the provision of additional services to the audited entity. They must not be contingent in nature nor be based on any condition other than changes in the circumstances on which the fees were originally based. Neither the auditors nor the audit firms may receive any other remuneration or benefit for performing this function (Art. 24 of the LAC).

Fee concentration from a single client constitutes grounds for abstaining from providing audit services when the fees for audit and non-audit services over the last three consecutive fiscal years represent more than 30 percent of the total annual revenue of the auditor or audit firm. It also constitutes grounds for recusal in the following fiscal year if the fees for audit and non-audit services provided over the last three consecutive fiscal years by the auditor or audit firm and by those who are a party to the network, to the audited entity and its related entities, exceed 30 percent of the total annual revenue of the auditor or audit firm and of the aforementioned network (Art. 25 of the LAC).

The ICJCE Guide 37R (2025) sets out the following safeguard measures for non-PIEs:

- Performing independent reviews, whether internal or external, which are equivalent to a quality control assurance of the engagement.
- The gradual rotation of members of the audit engagement team, as provided for in Regulation (EU) No 537/2014 in the case of public-interest entities.
- If the audit firm concludes that this threat of familiarity can only be addressed by rotating the audit firm, a period should be determined during which neither the audit firm nor any firm within its network may audit that entity again. The period must be long enough to tackle the threat of familiarity.

Public Interest Entities

The LAC stipulates that the following shall be regarded as PIEs (Art. 3.5):

a) Entities issuing securities admitted to trading on official secondary markets, credit institutions and insurance companies subject to the supervisory and control regime administered by *Banco de España*, the National Securities Market Commission and the Directorate-General for Insurance and Pension Funds, and the regional bodies with powers to regulate and supervise insurance companies, respectively, as well as issuers of securities admitted to trading on the alternative stock market within the segment of growth companies.

b) Entities designated by regulation on the basis of their significant public importance, due to the nature of their activities, their size or their number of employees.

c) Groups of companies in which the parent company is an entity as referred to in points (a) and (b) above.

The RAC clarifies the definition of PIEs in certain circumstances.

PIE auditors are subject to the general independence regime set out in the LAC with regard to the general principle of independence, the prohibition on participating in decision-making or management of the audited entity, the identification of threats and safeguards, personal circumstances and the duration of incompatibilities, and the rules on extensions applicable to personal circumstances.

Chapter IV of Title I of the LAC deals with PIE audits, and Section 3 of that chapter deals with independence.

With regard to audit contracts, the LAC (Art. 40) stipulates a minimum term of 3 years, which is the same as for non-PIE contracts. The maximum term, including extensions, is 10 years, which is also the maximum term permitted under Regulation (EU) No 537/2014. It does not introduce any (stricter) regulations with regard to the cooling-off period, therefore, the three-year period laid down in Art. 17 of Regulation (EU) No 537/2014 shall apply.

Once the maximum contract term of 10 years has expired, the LAC makes use of the options permitted by the Regulation to extend the contract for the maximum permitted term; therefore, this period may be further extended to a maximum of fourteen years, provided that the same auditor or audit firm has been engaged simultaneously with one or more other auditors or audit firms to act jointly during this additional period, or for up to ten years if a public call for tenders is issued for the audit (Art. 40 LAC).

With regard to internal rotation in the case of audit firms, it shall be mandatory to rotate lead auditors responsible for the audit engagement five years after the initial contract; in any event, a period of three years must elapse before the same individuals may once again participate in the audit of the audited entity (Art. 40 of the LAC). Consequently, the LAC sets a shorter rotation period than the maximum of 7 years permitted by the Regulation, at the same time, maintaining the 3-year "cooling-off" period.

With regard to the limit on fees for audit and non-audit services for the same client in each of the last three consecutive fiscal years, this remains at 15 percent; however, if this limit is exceeded, it results in a prohibition on performing the audit for the following fiscal year, rather than being limited to the safeguard measures set out in the Regulation (Art. 41 of the LAC). Furthermore, an additional ground for abstaining from performing the audit is established when the fees accrued from the provision of audit and non-audit services in each of the last three consecutive fiscal years to the audited entity and its related entities by the auditor or the audit firm and by those who are a party to the network, represent more than 15 percent of the total annual revenue of the auditor or audit firm and of the aforementioned network.

With regard to the limit on non-audit services over a period of three or more consecutive fiscal years, set at 70 percent of the average audit fees paid over the last three years, no stricter requirements are laid down.

Regarding incompatibilities and prohibited services, the LAC permits the provision of services pursuant to Article 5.3 of Regulation (EU) No 537/2014, provided that the requirements set out therein are met (Art. 39 LAC). That is to say, services related to the preparation of tax returns, the identification of public subsidies and tax incentives (unless the law requires that such services be provided by an auditor or audit firm), tax advice and valuation services, including valuations performed in connection with actuarial services or assistance in litigation matters. In compliance with the following requirements:

a) they do not have a direct effect, or have a relatively minor effect, either individually or on an aggregate basis, on the audited financial statements;

b) the estimation of the effect on the audited financial statements is thoroughly documented in the working papers related to the audit engagement; and

c) statutory auditors or audit firms shall comply with the principles of independence laid down in Directive 2006/43/EC.

//// TABLE 7 Summary - Spain

Item	Spain
Is there a definition of independence?	Yes (Art. 37.1 RAC), " *the absence of any interests or influences that may compromise the auditor's objectivity when performing their audit engagements*"
Is there an explicit reference to independence in fact and independence in appearance?	Yes, the preamble to the LAC, preamble to the RAC, and more implicitly, in Art. 14.4 LAC.
Period during which the auditor must be independent	Yes, Art. 37.3 RAC "*Auditors shall assess their independence both before accepting the audit engagement and while performing it, right up to its completion*"
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	Yes, Articles 15 LAC and 39 RAC identify the following types of factors: self-review, self-interest, advocacy, familiarity or trust, or intimidation.
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Yes, Art. 15 LAC and Art. 40 RAC.
Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	Yes, Art. 37.1 RAC
Specific regulation in case of a threat arising from a financial interest (e.g. Directive, Art. 22.4.a) and b))	LAC Art. 16.1 a) 2 and 3: 2. Having a significant direct interest in the audited entity arising from a contract, ownership of an asset or the holding of a right. In any event, such an interest shall be deemed to exist where the audited entity or a related entity holds financial instruments, provided that, in the latter case, these are significant to either party. For the purposes of this paragraph, interests held indirectly through diversified collective investment undertakings are excluded. 3. Carrying out any transaction related to financial instruments issued, guaranteed or otherwise backed by the audited entity. It is regulated in greater detail in Art. 44 and 45 RAC.

The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	LAC Art. 16.1 a) 1 Being a member of the governing body, a director or an authorised representative to whom the audited entity has granted general power of attorney, or being an employee of the audited entity. This shall also apply to the head of the economic and financial departments and to any person performing supervisory or internal control functions within the audited entity, regardless of their relationship with said entity. LAC Art. 16.1 b) Incompatibilities arising from services provided: accounting, valuation, internal audit, advocacy, and services relating to the design and implementation of internal control or risk management procedures linked to the preparation or control of financial information, or the design or implementation of IT systems for financial information. More detailed regulation in RAC Art. 47-51
Advocacy	Yes, LAC Art. 16.1 b) 4º and RAC Art. 50
Regulations regarding gifts	Yes, LAC Art. 16.1 a) 4º and RAC Art. 46
Regulations on the provision of non-audit services	Yes, Incompatibilities LAC Art. 16.1 b) 4º and RAC Art. 47-51 There are no limits on non-audit services in relation to audit services, for non-PIEs, subject to the threats and safeguards framework.
Extension of threats (or incompatibilities) to persons or entities linked to the auditor (Directive, Art. 22.1 (Paragraph Three))	Yes, LAC Art. 18 Incompatibilities arising from circumstances affecting relatives of the lead auditors in charge of the audit LAC Art. 19 Incompatibilities arising from circumstances affecting individuals or entities directly related to the auditor or audit firm, and LAC Art. 20: Incompatibilities arising from circumstances affecting other individuals or entities belonging to the auditor or audit firm's network.
Recusal (prohibitions) due to a concentration of fees received from the same audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	Non-PIEs Art. 25 LAC when audit and non-audit fees from a single client exceed 30 per cent of the auditor's revenue over the last 3 fiscal years. PIEs 15%.
Prohibition: period during which the former auditor of the audited entity is prohibited from: i) taking up management positions, ii) being appointed to the audit committee or a body performing equivalent functions, and iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (e.g. Directive, Art. 22 bis, 1 year, 2 years for PIEs)	One year for non-PIEs (Art. 23.1 LAC), two years for PIEs (Art. 39.2.c LAC)
Regulations transposing and implementing Article 24bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	Art. 28 LAC, Art. 66, 67, 68 Final Provision 2. RAC.
For Public Interest Entities, indicate the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation	External rotation: 10 years, extendable up to a further 10 years in case of a public call for tenders and up to a further 14 years in case of joint audits (Art. 40 of the LAC) Internal rotation 5 years, cooling period of 3 years (Art. 40 LAC)
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	Yes, those permitted at the discretion of the Member States as set out in Art. 5.3 of Regulation (EU) No 537/2014
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	No
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	The same limit on fees from a single client in each of the last three consecutive fiscal years for both audit and non-audit fees (15 percent) is maintained; however, if this limit is exceeded, this constitutes grounds for recusal. No stricter requirements are imposed with regard to non-audit services over a period of three or more consecutive fiscal years, limited to 70 percent of the average audit fees paid over the last three years.

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Spain, Law 22/2015, of 20 July, on Auditing

Spain, Royal Decree 2/2021, of 12 January, approving the Implementing Regulation of Law 22/2015, of 20 July, on Auditing.

6 Finland

Glossary

AOU	*Auditor Oversight Unit* (*Tilintarkastusvalvonta*)
CEAOB	Committee of European Auditing Oversight Bodies
FIN-FSA	Financial Supervisory Authority (*Finanssivalvonta*)
PRH	Finnish Patent and Registration Office (*Patentti- ja rekisterihallitus*)
ST	Finnish Association of Authorised Public Accountants (*Suomen Tilintarkastajat ry*)
TILA	Audit Board (Committee) (*Tilintarkastuslautakunta*)

Introduction

Institutional framework

In Finland, auditor oversight is carried out by the *Tilintarkastusvalvonta*, also known by its English translation as the Auditor Oversight Unit (AOU), which is a part of the Finnish Patent and Registration Office (PRH). This organisation approves auditors[14], maintains records, monitors compliance, conducts quality inspections and can impose disciplinary measures. It operates independently within the PRH, with its own decision-making body, the Audit Board (*Tilintarkastuslautakunta* (TILA)). Penalties are imposed on auditors by the AOU Audit Board (TILA).

Auditor oversight is performed by the AOU in collaboration with the Financial Supervisory Authority (FIN-FSA). Chapter 9, Section 2 of the Audit Act stipulates that the AOU and the FIN-FSA must engage in appropriate cooperation. Where required for the supervision of an entity, the FIN-FSA may investigate whether an auditor has acted in accordance with the Audit Act or Regulation (EU) No 537, where applicable. The FIN-FSA may refer a supervisory matter to the Audit Board for a decision.

With regard to professional bodies, since 2015, Finland has had a single body, the Finnish Association of Authorised Public Accountants (*Suomen Tilintarkastajat ry* (ST)), which was formed by the merger of the association of auditors and audit firms authorised by the former Central Chamber of Commerce (*Suomen Tilintarkastajainyhdistyksen KHT*) and the association of auditors and audit firms authorised by the Local Chamber of Commerce (*Tilintarkastajainyhdistys HTM*).

Membership is voluntary and covers around 90 percent of auditors in Finland (IFAC, 2025).

The activities of the supervisory body (AOU) and the Finnish Association of Authorised Public Accountants (ST) are summarised in Table 8. Key activities by institution in Finland.

14 In Finland, there are three types of auditors (IFAC, n.d.). HT auditors (*Kauppalamarin Hyväksymä Tilimies*), which may be translated as authorised auditor and is the basic qualification for eligibility to further qualify as other types of auditors. Their requirements are set out in Chapter 6, Section 2 of Act 1141/2015. They are authorised by the Chamber of Commerce. They may audit companies and organisations that are not PIEs. KHT auditors (*Keskuskaupparakamin Hyväksymä Tilintarkastaja*), authorised (public) auditors are HT auditors who meet the requirements set out in Chapter 6, Section 3 of Act 1141/2015, and have received the special qualification of auditors of public interest entities. They are authorised by the Central Chamber of Commerce. Finally, JHT auditors*Julkishallinnon Tilintarkastaja*), public sector auditors. They must fulfil the requirements set out in Chapter 6, Section 3 of Act 1141/2015.

//// **TABLE 8** **Key activities by institution in Finland**

Key activities	Institution in charge of the activity	
	For PIEs	For non-PIEs
Approval and registration of auditors and audit firms	AOU	AOU
Adoption of relevant standards	AOU/ST	AOU/ST
Continuing professional development	AOU/ST	AOU/ST
Quality control system	AOU/ST	AOU
Administrative disciplinary and investigations system	AOU	AOU

↑ Source Accountancy Europe (2021)

The adoption of auditing standards is not delegated to the ST by law, but the ST has been adopting the ISAs. The ST translates and publishes the IAASB's standards into Finnish.

Likewise, continuing professional development has not been delegated to the ST by law, but the ST does play a role in providing continuing professional development.

Legal framework

In summary, the legal framework for auditing in Finland is set out in the Audit Act (*Tilintarkastuslaki* 1141/2015), supplemented by the Government Decree on Auditing (*Valtioneuvoston asetus tilintarkastuksesta* 1377/2015), which lays down certain provisions for the AOU. Regulation (EU) No 537/2014 applies directly to PIEs.

It should be noted that the Audit Act applies to the assurance of corporate sustainability reports referred to in Directive (EU) 2022/2464, pursuant to Act 1250/2023 on amendments to the Audit Act.

The ST publishes guidelines and other documents, notably the ST Guide on the "Application of the PIE Regulation in Finland" (ST, 2020). It also issues opinions or statements (*lausunot*) on regulations.

Independence

Regulations, general duty of independence and definition

The provisions on independence are set out in Chapter 4 of the Finnish Audit Act, primarily in Article 6 of said chapter (independence) and in Article 7, which sets out the grounds for incompatibility. Chapter 5 of the Audit Act deals with special provisions related to the audit of public-interest entities.

Article 6 (*Tilintarkastajan riippumattomuus*) of Chapter 4 sets out the general duty of independence by stipulating that the auditor must be independent throughout the period covered by the audited financial statements, and must organise their operations in such a way as to ensure independence

Finnish regulations do not provide a definition of independence. There is also no reference to independence in fact or independence of appearance.

However, Article 3 of Chapter 4 stipulates that the auditor must comply with good auditing practice when performing the tasks referred to in the Audit Act.

As set out in ST (2025), the content of good practice is influenced by:

i. laws and regulations

ii. international auditing standards

iii. principles of professional ethics and the IFAC Code of Ethics

iv. decisions by the authorities and court rulings

v. guidelines and recommendations from organisations in the audit sector

vi. audit practices generally followed by diligent professionals.

Consequently, the IFAC Code of Ethics is a source of best practices for auditors who are members of the ST.

Threats and safeguards. Incompatibilities

The aforesaid Article 6 of Chapter 4 stipulates that, if the conditions for independent practice are not met, the auditor must refuse the engagement or withdraw from it. However, the auditor is not required to refuse the audit engagement or withdraw from it, if the threats to independence, considered as a whole, are deemed to be insignificant; or if the auditor has taken steps to safeguard his or her independence.

It establishes an obligation to adopt safeguard measures if:

1. The auditor has financial or other interests in the entity or foundation, or if the auditor has a relationship with the entity or foundation that extends beyond a normal business relationship;

2. The auditor's own activities are being audited;

3. The auditor is acting in legal proceedings or other matters in favour of or against the entity or foundation;

4. The auditor has a close relationship with a person who is a member of the management of the entity or foundation, or who has been involved in the matter covered by the audit engagement whilst working for the organisation or foundation; or

5. The auditor has been subjected to pressure.

The above circumstances that require safeguard measures extend to companies and foundations that are under the control of the audited entity, or to a company or foundation that controls the audited entity.

The assessment of independence will also take into account factors that threaten the auditor's independence, related to:

a) The audit firm where the auditor works;

b) A person who plays a significant role in carrying out the audit engagement under the auditor's supervision;

c) A person who directly manages or supervises the auditor's activities; or

d) The owner of an audit firm, or a member of its management who works in a unit of the audit firm that is significantly involved in carrying out the audit engagement.

If the threat to independence arises from a corporate restructuring affecting the audited entity or foundation, the auditor shall, within three months of becoming aware of the corporate restructuring, take steps to safeguard independence or withdraw from the engagement.

Article 7 of Chapter 4 regulates incompatibilities (*Tilintarkastajan esteellisyys*), stipulating that an auditor is not independent in the following circumstances:

1) The auditor is a partner, a member of the board of directors or the supervisory board, a managing director or a person in a similar position at an audited company or foundation, or at a company or foundation belonging to the same group, or at an associated company of the audited company or foundation[15];

2) The auditor's role consists of managing, or to supervising the management of the entity or foundation's accounts or assets;

3) The auditor works for a company, a foundation or a person referred to in points 1 or 2 above;

4) The auditor has a direct or indirect ownership interest or other right to a share or interest in an audited profit-making entity;

5) The auditor has been granted a loan, guarantee or other similar benefit from an audited company or foundation, or from a person belonging to its management, or the auditor has granted said benefit to the aforementioned entity;

6) The auditor, or a person belonging to a related party as referred to in Article 4 of Chapter 12 of the Securities Market Act (746/2012)[16], holds a financial instrument issued or guaranteed by the audited company or foundation, or derives a significant direct financial benefit from said financial instrument, or is involved in a transaction related to said financial instrument;

7) The person referred to in points 1 or 2 is the auditor's spouse, brother, sister or direct relative in the ascending or descending line of kinship; or

8) The auditor's spouse or a person who is a direct descendant of the auditor holds the ownership or other rights referred to in point 4 above, and this right is not insignificant.

The provisions of point 4 do not apply to an entity where membership is a prerequisite for using the essential services provided by said entity. An auditor may only hold a stake in that entity which entitles them to use its services, but such a stake must not exceed one hundredth.

If, after accepting the audit engagement, the auditor acquires a right that gives rise to the incompatibility referred to in point 4 above, he or she must waive that right or withdraw from the audit engagement within a reasonable period of time from when they became aware of the acquisition of the right and had the right to waive it. If the auditor does not waive this right within a reasonable period, he or she must withdraw from the engagement.

The above incompatibilities related to a company or foundation also apply to companies under its control in accordance with Chapter 1, Article 5 of the Accounting Act, as well as to any company or foundation that directly controls the company.

We have found no reference in the Audit Act to the scope of threats to the auditor's network, nor to the scope of incompatibilities; we therefore consider that these are addressed within the general principle of independence and the application of the IFAC Code of Ethics as good audit practice.

The table below provides a summary of the incompatibilities.

15 The definitions of 'group' and 'associated company' are set out in the Accounting Act (*kirjanpitolaki* 1336/1997)

16 Chapter 12, Section 4 of the Securities Market Act, referred to in the legal section, was repealed by the Securities Market Act on 1 January 2017, and we have been unable to find any up-to-date reference to it. As pointed out by Ruuska (2017), out-of-date references cause problems.

//// **TABLE 9** **Exclusions (incompatibilities) Finland**

Grounds for incompatibility	Legal basis	Applicable to:
The auditor is a partner, a member of the board of directors or the supervisory board, a managing director or a person in a similar position at a company or foundation, or at a company or foundation belonging to the same group, or at an associated company	Article 7, Chapter 4 of the Audit Act	Auditor. Extended to auditor's spouse, brother, sister or direct relative in the ascending or descending line of kinship
The auditor's role consists of managing or supervising the management of the entity or foundation's accounts or assets	Article 7, Chapter 4 of the Audit Act	Auditor. Extended to auditor's spouse, brother, sister or direct relative in the ascending or descending line of kinship
The auditor works for a company or a foundation	Article 7, Chapter 4 of the Audit Act	Auditor. Extended when the works for a member of the board of directors or the supervisory board, a managing director or a person in a similar position at an audited company or foundation, or at a company or foundation belonging to the same group, or at an associated company
The auditor has a direct or indirect ownership interest or other right to a share or interest in an audited profit-making entity	Article 7, Chapter 4 of the Audit Act	Auditor. Extended to the auditor's spouse or a person in a direct line of descent from the auditor, and the right they hold is not insignificant.
The auditor has been granted a loan, guarantee or other similar benefit from a company or foundation, or from a person belonging to its management, or the auditor has granted said benefit to the aforementioned entity	Article 7, Chapter 4 of the Audit Act	Auditor.
The auditor, or a person belonging to a related party as referred to in Article 4 of Chapter 12 of the Securities Market Act (746/2012), holds a financial instrument issued or guaranteed by the audited company or foundation, or derives a significant direct financial benefit from said financial instrument, or is involved in a transaction related to said financial instrument	Article 7, Chapter 4 of the Audit Act	Auditor

It is worth noting that incompatibilities do not, as a general rule, set out minimum requirements, such as a minimum direct or indirect stake in the audited entity, for an incompatibility to arise. For example, the Audit Board's decision of 7 December 2021, case file PRH/1163/10000/2021, sanctioned the auditor for holding an indirect stake of 0.906%, worth 45,000 euros, through a company in which the auditor held a 90% stake (Audit Board, 2021).

Fees and limits on fees

For non-public interest entities, there are no regulations governing fees or setting limits on them; they are therefore subject to the general principle of independence.

Article 8 of Chapter 3 sets out a general prohibition on setting audit fees (and fees for the assurance of sustainability reports) in a way that could compromise independence. Specifically, fees must not be determined by the contents of the audit report or the audit opinion, nor on the basis of the number of ancillary services provided.

Article 9 of Chapter 4 requires a client register to be maintained for 10 years from the completion of the audit engagement or the sustainability reporting assurance engagement, with the following information:

For each audit client:

1. Name, address and place of work;
2. The name of the lead auditor at the audit firm;
3. Audit fees and fees charged for other services during each client's fiscal period.

With regard to prohibitions, Article 11 of Chapter 4 sets out a period of 1 year for the auditor (natural person) or lead auditor in relation to the following functions or posts within the audited entity:

1. The roles of key management personnel within the audited entity;
2. Being a member of the audit committee of the audited entity or of a body performing functions equivalent to those of the audit committee;
3. Being a member of the audited entity's governing body as a non-executive member, or to be a member of the audited entity's supervisory body.

Where the audited entity is a public interest entity, the time limit is two years.

The above prohibitions related to the auditor shall also apply to employees of the auditor or the audit firm who perform the audit, and to partners of the audit firm other than the lead auditors, as well as to other natural persons whose services are at the disposal of or under the control of said auditor or audit firm and who are auditors that are natural persons. In such cases, the time limit shall be calculated from the time at which they have been directly involved in the audit engagement in question.

Public Interest Entities

As set out in Article 2.9 of Chapter 1 of the Audit Act, public interest entities are defined in Chapter 1, Article 9 of the Accounting Act (*Kirjanpitolaki* 1336/1997), which stipulates that public interest entities are listed companies; credit institutions (as defined in Chapter 1, Article 7 of the Credit Institutions Act (610/2014)) and insurance companies (as defined in Chapter 1, Article 1 of the Insurance Companies Act (521/2008)).

The Guide on the Application of the European Union's PIE Regulation in Finland (ST, 2020) also states that a company listed on the *First North*[17] market is not considered a PIE in Finland. Additionally, a branch in Finland of a PIE based within the EU is not regarded as an PIE in Finland.

The Finnish Audit Act does not contain any provisions regarding the internal rotation of the signing auditor in an audit engagement for a PIE, therefore, the provisions of Article 17.7 of Regulation (EU) No 537/2014 apply, requiring rotation after 7 years, with the three-year "cooling-off" period set out in said Article of the Regulation (EU).

Chapter 5 of the Audit Act deals with special provisions on the audit of public-interest entities.

It stipulates that the total duration of the appointment of an auditor or audit firm as auditor of a public-interest entity may not exceed ten years (Article 1, Chapter 4).

After the maximum term of 10 years, an auditor or an audit firm may only be appointed as auditor if the audit is put out to tender pursuant to Article 16 Sections 2 to 5 of Regulation (EU) No 537/2014 on Auditing of the European Union. Following the tender process, the auditor or audit firm may act as the entity's auditor, provided that the total duration of their term of office, both before and after the tender process, does not exceed twenty years.

An auditor's term of office may, in exceptional circumstances, be extended to up to twenty-four years if:

17 *First North* is an alternative stock market within *Nasdaq Nordic* designed for small and growing companies (https://www.nasdaq.com/solutions/listings/markets/nordic/first-north).

1. The maximum term of 10 years has been reached;
2. More than one auditor or audit firm is selected at the same time;
3. The auditors referred to in point 2 above shall issue a joint audit report (i.e. a joint audit is performed.

When calculating the maximum terms set out in the preceding paragraphs (i.e. 10, 20 or 24 years, as applicable), the periods during which a natural person working for an audit firm referred to in the preceding paragraphs has acted as an auditor shall also be taken into consideration.

Once the maximum term of 10 years has elapsed, an auditor may be appointed from among the auditors working at an audit firm referred to above (i.e. 10, 20 or 24 years, as the case may be) only on the same terms and conditions as those applicable to the audit firm in question.

To summarise, the external rotation adheres to the maximum periods permitted by Regulation (EU) No 537/2014, but adds that, for the purposes of both calculating the term of the contract and rotation, the requirement is extended to natural persons employed by the audit firm who have worked as auditors.

With regard to the minimum term of the initial audit contract for a public interest entity, the Finnish Audit Act does not specify anything in particular; therefore, the minimum term is one year (Article 17.1)of Regulation (EU) No 537/2014).

The Guide for the Implementation of the European Union's PIE Regulation (ST, 2020) sets out the implementation of Regulation (EU) No 537/2014 in Finland in various regards, including the maximum term of the audit contract.

Specifically, it deals with mergers, demergers and changes to the structure of a PIE. The length of the contract is calculated on the basis of the tax identification number (*y-tunnus*). Thus, in the case of a merger by formation of a new entity, upon being issued with a new tax identification number, the term of appointment starts from zero at the start of the fiscal year following the merger.

In a merger by absorption, if the absorbing entity was already a PIE prior to the merger, the calculation of the term of the audit engagement continues from the status prior to the merger. Conversely, if the absorbing entity was not a PIE prior to the merger but acquires PIE status after the merger, the term is calculated from the date on which PIE status is obtained, that is, from the start of the fiscal year following the acquisition of said status.

In the event of a total demerger of PIE, each entity created as a result of the demerger is assigned a new tax identification number. In accordance with the general principle, the calculation of the term of the audit engagement for each new PIE starts from zero, that is, from the start of the following fiscal year.

In case of partial demerger of a PIE (into one or more new entities), one or more entities are created which are assigned new tax identification numbers. If these entities created via a partial demerger are PIEs, the duration of the audit engagement is calculated from zero. For PIE that retains its previous tax identification number after a partial demerger, the situation remains unchanged and the calculation of the term of the mandate continues from the situation prior to the demerger.

The Guide (ST, 2020) also sets out other aspects. Specifically, the calculation of audit firm rotation does not take into account the period during which the auditor acted in that capacity prior to the entity becoming a PIE.

Furthermore, if an entity becomes an PIE during a fiscal year, the term of the audit engagement is calculated from the start of the fiscal year following its conversion to a PIE.

In accordance with Article 17.6 of Regulation (EU) No 537/2014, it also specifies that a PIE may, in exceptional cases, apply to the Finnish Patent and Registration Office (PRH) for authorisation to reappoint the auditor for a maximum of two years after the maximum term (20 or 24 years) has been

reached. Examples of exceptional cases may include a situation in which the entity is carrying out a significant transaction, such as a merger or demerger, or a situation in which the outcome of the tender process (after 20 or 24 years, not in the case of the tender required to extend the contract to 10 years) indicates that there are no available candidates who meet the independence requirements.

A request for an exemption for a two-year extension may only be made to extend the maximum term of 20 years (or 24 years in the case of a joint audit). Under the Regulation, an extension may not be requested in situations where the PIE is obliged to conduct a mandatory tender procedure after ten (10) years of the audit engagement.

Additionally, the aforesaid Guide (ST, 2020) specifies that a tender is mandatory not only after 10 years of the contract's term when the PIE considers extending it, but also when it is required to change auditors because the contract term exceeds 20 years (or 24 years in the case of a joint audit engagement).

With regard to fees, Article 4 of Chapter 4 of the Audit Act adds further provisions on how Article 4 of Regulation (EU) No 537/2014 is to be applied.

It states that, when applying Article 4 of the aforementioned Regulation to calculate the total audit fees, the total fees paid by the audited entity to the auditor shall also include the fees paid to the audit firm if the auditor is employed by an audit firm.

It also provides for exemptions from the maximum limit on non-audit fees (70 percent). It states that the provisions of Article 4.2 of Regulation (EU) No 537/2014 on the maximum amount of non-audit fees do not apply if, at the auditor's request, the Finnish Audit Oversight Authority has granted an exemption from the maximum. Said authority may grant an exemption if there are special reasons for doing so as a result of the operations of the audited entity. The exemption may be granted for a maximum of two consecutive fiscal years.

The ST Guide for the Implementation of the (EU) Regulation (2020) adds that, when determining statutory audit fees, the audits performed by the statutory auditor of the Finnish PIE and of which the auditor issues an audit report in Finland, are taken as the basis. This includes 1) the audit of the financial statements of the Finnish PIE, including the consolidated financial statements, if any; 2) the audit of the companies controlled by the Finnish PIE; and 3) the audit of the parent company (or parent companies) of the Finnish PIE.

Pursuant to Article 4.2 of the EU Regulation, statutory audit fees may include all audit work that forms the basis for the auditor to issue the audit report of the Finnish PIE in Finland in the cases described in points 1) to 3). Therefore, statutory audit fees may include both the fees for audit work performed directly by the PIE auditor and the fees for audit work performed by another audit firm or by third parties, provided that they are directly related to the cases described in points 1) to 3) and serve those purposes (ST, 2020).

If there are several PIEs within the same group in the EU, the fee cap is calculated separately for each PIE (ST, 2020).

In case of a joint audit, each statutory auditor calculates the 70 percent limit on the basis of their own audit fees, not on the combined total of all auditors (ST, 2020).

The ST (2020) interpretation is based on a letter from the PRH's audit oversight department dated 11 December 2019, in response to an enquiry by five firms that audit PIEs on the application of Article 4.2 of Regulation (EU) No 537/2014 in Finland.

The ST (2020) Guide on the Implementation of the (EU) Regulation further specifies that the limit does not apply to permitted non-audit services provided by entities in the statutory auditor's network. The limit applies to the statutory auditor or audit firm of the PIE. The Guide (ST, 2020) further specifies that the cross-border location of certain group companies is irrelevant.

It also specifies that the calculation period for a new PIE, i.e., one that becomes a PIE, begins in the fiscal year in which the entity acquires PIE status.

Regarding the situation arising in the calculation of the limit when no non-audit services are provided in a given year, the ST (2020) refers to an interpretation by the CEAOB, which specifies that a single "year with zero fees" with regard to permitted non-audit services results in the calculation being reset.

To sum up, Finland has not introduced stricter rules regarding the limit on non-audit services (70%) nor the total fees paid by a PIE over the last three fiscal years (exceeding 15%), which require notification to the audit committee and the application of the additional safeguards set out in Article 41 of Regulation (EU) No 537/2014.

Finnish legislation has not introduced stricter requirements regarding the list of prohibited services. However, pursuant to the option granted to Member States under Article 5.3 of Regulation (EU) No 537/2014 regarding six specific prohibited services, it permits an auditor, an audit firm employing the auditor, and a member of the network to which the auditor or the audit firm employing the auditor belongs, to nevertheless, provide valuation and tax services to the audited entity and its group company, when these are related to:

1. Filling in tax forms;
2. Identifying public grants or tax incentives;
3. Assistance with tax audits;
4. Calculation of direct, indirect or deferred taxes;
5. Tax advice.

In accordance with Regulation (EU) No 537/2014, the auditor may only provide the aforementioned services if they have no direct effect, either individually or collectively, or have only a minimal effect on the audited financial statements. The assessment of these effects must be documented and explained in the audit committee's supplementary report.

In any case, the provisions related to independence (Article 6, Chapter 4 of the Audit Act), incompatibilities (Article 7, Chapter 4 of the Audit Act) and the principles of professional ethics (Article 1, Chapter 4 of the Audit Act) must be complied with.

The above provisions concerning auditors also apply to the audit firm for which the auditor works and to any member of the network to which it belongs.

With regard to post-audit engagement restrictions, as noted, in the case of an audit of a public interest entity (PIE), there is a two-year restriction (Article 11 of Chapter 4 of the Audit Act) on holding the following functions or positions within the audited entity:

1. The roles of key management personnel within the audited entity;
2. Being a member of the audit committee of the audited entity or of a body performing functions equivalent to those of the audit committee;
3. Being a member of the audited entity's governing body as a non-executive member, or to be a member of the audited entity's supervisory body.

//// **TABLE 10** Summary - Finland

Item	Finland
Is there a definition of independence?	No.
Is there an explicit reference to independence in fact and independence in appearance?	No.
Period during which the auditor must be independent	During the period covered by the audited financial statements (Article 6, Chapter 4 of the Audit Act 1141/2015)
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	The Act lays down an obligation to put in place safeguard measures in certain circumstances; although it does not explicitly mention the names of these types of factors, they may be identified in the circumstances set out (Article 6, Chapter 4 of the Audit Act 1141/2015).
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Yes (Article 6, Chapter 4 of the Audit Act No. 1141/2015)
Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	Yes, Article 6 of Chapter 4 stipulates that, if the conditions for independent practice are not met, the auditor must refuse the audit engagement or withdraw from it. Although it does not refer to an informed third party.
Specific regulation in case of a threat arising from a financial interest (e.g. Directive, Art. 22.4.a) and b))	The auditor is a partner, a member of the board of directors or the supervisory board, a managing director or a person in a similar position at a company or foundation, or at a company or foundation belonging to the same group, or at an associated company. The auditor has a loan, guarantee or other similar benefit from a company or foundation, or from a person belonging to its management, or the auditor has granted such a benefit to the aforementioned entity. The auditor, or a person belonging to a related party as referred to in Article 4 of Chapter 12 of the Securities Market Act (746/2012), holds a financial instrument issued or guaranteed by the audited company or foundation, or derives a significant direct financial benefit from said financial instrument, or is involved in a transaction related to said financial instrument (Article 7, Chapter 4 of the Audit Act No. 1141/2015) No minimum participation rate is specified.
The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	The auditor is a partner, a member of the board of directors or the supervisory board, a managing director or a person in a similar position at a company or foundation, or at a company or foundation belonging to the same group, or at an associated company. The auditor's role is to manage, or supervise the management of the entity or foundation's accounts or assets (Article 7, Chapter 4 of the Audit Act 1141/2015).
Advocacy	No incompatibility indicated. The auditor's involvement in legal proceedings or other matters in favour of or against the entity or foundation constitutes a threat. It does not state that such activities are limited to advocacy services.
Regulations regarding gifts	Not specified.
Regulations on the provision of non-audit services	There is no explicit mention of the provision of non-audit services in non-PIEs. Included within the good practices set out in the IFAC Code of Ethics.

Extension of threats (or incompatibilities) to persons or entities linked to the auditor (Directive, Art. 22.1 (Paragraph Three))	Incompatibility arising from being a member of the board of directors or the supervisory board, a managing director or a person in a similar position at a company or foundation, or at a company or foundation belonging to the same group, or at an associated company of the audited entity, and the management or supervision of the accounts or assets of the entity or foundation extends to the auditor's spouse, brother, sister or direct relative in the ascending or descending line of kinship. The holding of a direct or indirect ownership interest or other right in a share or interest in a for-profit entity extends to the auditor's spouse or a person in a direct descending line of kinship to the auditor.
Recusal (prohibitions) due to a concentration of fees received from the same audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	Not specified for non-PIEs. There are no stricter criteria for PIEs.
Prohibition: period during which the former auditor of the audited entity is prohibited from: i) taking up management positions, ii) being appointed to the audit committee or a body performing equivalent functions, and iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (e.g. Directive, Art. 22 bis, 1 year, 2 years for PIEs)	One year for non-PIEs, two years for PIEs (Article 11 of Chapter 4 of the Audit Act 1141/2015)
Regulations transposing and implementing Article 24bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	Audit Act No. 1141/2015, Article 6, Chapter 4, and Article 5, Chapter 4, on quality control
For Public Interest Entities, indicate the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation	Internal rotation: none. External rotation: the permitted options and the maximum term permitted under Regulation (EU) No 537/2014.
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	Yes, pursuant to Article 5.3 of Regulation (EU) No 537/2014, valuation services and tax services have been authorised.
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	No.
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	No.

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7 France

Glossary

H3C	High Council of the Audit Office (*Haut Conseil du Commissariat aux Comptes*)
H2A	High Audit Authority (*Haute Autorité de l'Audit*)
CNCC	National Association of Auditors (*Compagnie Nationale des Commissaires aux Comptes*)

Introduction

Institutional framework

Auditor oversight body.

Ordinance No. 2023-1142 of 6 December 2023 renamed the Haut Conseil du Commissariat aux Comptes (H3C) as the Haute Autorité de l'Audit (H2A), bringing the oversight of financial auditors and sustainability assurance providers under a single authority. This reform came into force on 1 January 2024. The English translation of Haute Autorité de l'Audit is "High Audit Authority" (H2A, n.d.).

The High Audit Authority is an independent public authority. The French Commercial Code (Article L820-1) sets out its functions, which include the registration of statutory auditors and the adoption of standards related to professional ethics, internal quality control and the professional practice of statutory auditors. The same Article L820-1 also states that the High Audit Authority may delegate certain functions to the National Association of Auditors. This delegation is effected by means of an agreement approved by decree of the Minister of Justice.

Private auditors' organisations (the profession).

The French equivalent of Spanish public-law corporations for auditors is the Compagnie Nationale des Commissaires aux Comptes (CNCC). The English translation of Compagnie Nationale des Commissaires aux Comptes is the "National Association of Auditors". This body represents the 11,200 auditors registered in France. In 2022, these professionals audited the accounts of more than 240,000 entities across the country, which employ more than 13.5 million people and form the driving force behind the French economy. Of these, 13 percent are non-profit organisations (associations, foundations, endowment funds, etc.) (CNCC_a, n.d.).

Within the National Association, there is a department that brings together firms that audit, or seek to audit, PIEs. It is also responsible for the details of mandates for companies whose securities are admitted to trading on a regulated market. Its work is of benefit to all audit firms (CNCC_b, n.d.).

It is worth noting that the CNCC has a section on its website entitled 'Institutional Publications' (CNCC_c, n.d.). Among other documents, it includes an annual activity report for 2024, which summarises the Association's activities in 2024 and the current challenges facing the profession.

Legal framework

As regards European regulatory framework, the starting point is Directive 2006/43/EC of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

Order No. 2008-1278 of 8 December 2008, transposing Directive 2006/43/EC, was followed by several implementing texts:

- Décret no 2007-179 du 9 février 2007 modifiant le décret no 69-810 du 12 août 1969 relatif à l'organisation de la profession et au statut professionnel des commissaires aux comptes.
- LOI no 2008-649 du 3 juillet 2008 portant diverses dispositions d'adaptation du droit des sociétés au droit communautaire (1).
- Décret no 2008-1487 du 30 décembre 2008 relatif aux commissaires aux comptes.

Subsequently, the European audit reform provides for:

Directive 2014/56/EU of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

In France, the transposition was completed with the Ordonnance n.º 2016-315 du 17 mars 2016 on statutory audits, its implementing decree being Décret d'application n.º 2016-1026 du 26 juillet 2016 and Articles 30 and 32 of LOI no 2014-1662 du 30 décembre 2014 portant diverses dispositions d'adaptation de la législation au droit de l'Union européenne en matière économique et financière(1).

It also led to a review of the code of ethics for the auditing profession, following Decree No. 2017-540 of 12 April 2017. The "Code de déontologie de la profession de commissaire aux comptes" (Code of Ethics for Statutory Auditors) is set out in Annex 8-1 of the French Commercial Code, Book VIII, Regulatory Part.

Independence

Regulations, general duty of independence and definition

The regulations on independence are set out in the French Commercial Code and the Code of Ethics for Statutory Auditors (Annex 8-1 of the Commercial Code).

The auditor's independence "is characterised by the exercise, with full objectivity, of the powers and responsibilities conferred by law. It ensures that the auditor's conclusions are free from any bias, conflict of interest or influence arising from direct or indirect personal, financial or professional ties, including those between the auditor's partners, employees, members of their network and the person or entity to whom the engagement or service is provided. It also ensures the absence of any risk of self-review that might lead the auditor to express an opinion or make an assessment on matters arising from engagements or services provided by the auditor themselves, by the firm to which they belong, by a member of their network, or by any other person who might influence the outcome of the engagement or service." (Code de déontologie de la profession de commissaire aux comptes, TITRE Ier, Section 1: Principes fondamentaux de comportement, article 5(II)). Furthermore, the same Article 5(II) also refers explicitly to independence in fact and appearance of independence: "The auditor's independence must be assessed both in reality and in appearance." Article 5(I) stipulates that the requirements regarding independence and the prevention of conflicts of interest shall apply throughout the duration of the audit engagement or service, both during its performance and outside it.

Threats and safeguards. Incompatibilities and prohibitions

The Code of Ethics sets out several of the threats to independence. The Code explicitly refers to the threat of self-review in Articles 5, 19 and 22. As regards the threat of self-interest, this is manifested through factors such as financial ties (Articles 5 and 33). In the case of familiarity, this takes the form of personal ties (Articles 5 and 32). As regards intimidation, this concept is implied in the reference to influences that may compromise the auditor's impartiality (Article 4). There is no explicit mention of the threat arising from advocacy.

Article 19 of the Code of Ethics, "Identification and Management of Risks", focuses on the obligation to identify and assess threats to independence and to put safeguards in place.

When exposed to situations of risk, the auditor shall immediately adopt appropriate safeguards in order to eliminate the cause or reduce its effects to a level low enough that their independence is not compromised, thereby enabling them to accept or continue with the engagement or service in accordance with legal and regulatory requirements and those of this Code. Where safeguard measures are insufficient to ensure their independence, they shall terminate the engagement or service (Code de déontologie de la profession de commissaire aux comptes, TITRE Ier, Section 1: Principes fondamentaux de comportement, article 5(III)).

Furthermore, Article 33 of the Code of Ethics for Statutory Auditors stipulates that:

I. – Financial links between the person or entity whose accounts are being audited or a person or entity that controls or is controlled by it, within the meaning of paragraphs I and II of Article L. 233-3 of the French Commercial Code on the one hand, and on the other, the statutory auditor, the audit firm to which the statutory auditor belongs, the partners and employees of the statutory auditor involved in the audit, or any other person involved in the audit, as well as persons associated with them, within the meaning of Article 25 Section I Point 3 of this Code and within the meaning of Article 3, Section 26 of Regulation (EU) No 596/2014 of 16 April 2014, and in relation to the following transactions:

1. The direct or indirect acquisition or holding of shares or any other securities which confer or may confer, direct or indirect access to the capital or voting rights of the person or entity whose accounts are being audited.

2. The direct or indirect acquisition or holding of financial instruments, as defined in Article L. 211-1 of the French Monetary and Financial Code.

It should be noted that, pursuant to Article 3 of Regulation (EU) No 596/2014 of 16 April 2014, which deals with definitions, a person closely associated is defined as: (a) a spouse, or a partner considered to be equivalent to a spouse in accordance with national law; (b) a dependent child, in accordance with national law; (c) a relative who has shared the same household for at least one year on the date of the transaction concerned; or d) a legal person, trust or partnership, the managerial responsibilities of which are discharged by a person discharging managerial responsibilities or by a person referred to in point (a), (b) or (c), which is directly or indirectly controlled by such a person, which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

Notwithstanding the provisions of the first paragraph, the holding of shares, securities or financial instruments through diversified collective investment undertakings, including funds managed in the same way as pension or life-assurance funds, in which the holder has no power to influence the management of the investments, is not incompatible with the performance of the statutory audit.

II. - Financial relations between the same persons referred to in Section I are incompatible with the performance of a statutory audit where the transactions have not been carried out or entered into under normal market conditions and relate to:

1. Any fixed-term deposit;

2. The granting or maintenance of any loan or advance;

3. Taking out a life insurance policy;

4. The granting or obtaining of security interests.

These relations are also incompatible with the performance of a statutory audit where they are established between the audited person or entity and the auditor, following the latter's appointment or designation.

III. - The financial ties referred to in Points 1 and 2 of Section I and in Points 1 to 4 of Section II, and established between the audited person or entity on one hand, and the members of the network to which the auditor belongs, or persons who control the audit firm or are controlled by it on the other hand, within the meaning of Sections I and II of Article L. 233-3 of the Commercial Code, are incompatible with the performance of the statutory audit if the existence of such relations could lead an objective, reasonable and informed third party to conclude that, despite the safeguards put in place, the auditor's independence is compromised.

(Code de déontologie de la profession de commissaire aux comptes, TITRE II, Section 4: Liens personnels, financiers et professionnels, article 33).

With regard to incompatibilities arising from professional relations, Article 34 of the Code of Ethics for Statutory Auditors states that:

I. A professional relationship exists between two persons when they are linked by an employment contract or a commercial relationship that is not a routine transaction carried out under normal market conditions.

II. Any professional relationship between the audited person or entity or its directors, on one hand, and the auditor or a member of the management of the audit firm, as well as persons closely associated with them within the meaning of Article 3(26) of Regulation (EU) No 596/2014 of 16 April 2014 on the other hand, is incompatible with the performance of a statutory audit.

III. Any professional relationship between the audited person or entity or its directors, on one hand, and the partners and employees of the auditor involved in the audit engagement, any other person involved in the assurance engagement, as well as persons closely associated with them within the meaning of Article 3(26) of Regulation (EU) No 596/2014 of 16 April 2014 on the other hand, is incompatible if the existence of such a relationship would lead an objective, reasonable and informed third party to conclude that, despite the safeguards applied, the auditor's independence is compromised.

(Code de déontologie de la profession de commissaire aux comptes, TITRE II, Section 4: Liens personnels, financiers et professionnels, article 34).

As regards the risk of advocacy, although not explicitly mentioned, the concept of preventing the risk of acting as a "lawyer" or advocate is governed by fundamental principles and prohibitions set out in the Code of Ethics (Impartiality, Article 4; Independence and prevention of conflicts of interest, Article 5). Furthermore, Article 17 of the Code of Ethics, which deals with "Monopolies of other professions – Legal advice and the drafting of legal documents", refers to the prohibition on the auditor providing legal advice, except under certain conditions.

The statutory auditor, the audit firm to which he or she belongs (where applicable), the members of that firm's management and the persons referred to in Section II of Article L. 822-11-3 are prohibited from soliciting or accepting gifts, whether monetary or otherwise, or favours, from the audited person or entity, or from any person or entity that controls it or is controlled by it, within the meaning of Sections I and II of Article L. 233-3 of the French Commercial Code, unless their value does not exceed a maximum limit set by order of the Minister of Justice (Code de déontologie de la profession de commissaire aux comptes, TITRE Ier, Section 3: Honoraires, article 14).

As regards regulations on the provision of non-audit services, no specific activities are set out in the context of the audit of non-public interest entities.

With regard to the extension of threats (or incompatibilities) to entities linked to the audited entity in relation to financial instruments, Article 33 of the Code of Ethics for Statutory Auditors, which deals with incompatibilities arising from financial ties, refers to the audited person or entity or a person or entity that controls it or is controlled by it, within the meaning of paragraphs I and II of Article L. 233-3 of the French Commercial Code.

The Code of Ethics refers to the extension of threats (or incompatibilities) to persons or entities linked to the auditor. Article 5 refers to partners, employees, members of the network, the firm to which the auditor belongs, or any person who might influence the outcome of the engagement or service. Article 33 refers to Regulation (EU) No 596/2014 (Article 3), which permits the identification of further extensions (spouse, partner, child, etc.) based on the definition of a person closely associated. Article 33 also identifies any persons who control the audit firm or who are controlled by it as extensions (Article L. 233-3 of the Commercial Code). Article 34 refers to the members of the audit firm's management. Article D821-82 of the Commercial Code refers to shareholders or directors of the audit firm and, where applicable, of the network.

//// TABLE 11 Exclusions (incompatibilities) France

Grounds for exclusion	Legal basis	Applicable to:
Financial links.	Art. 33 of the Code of Ethics	Statutory auditor / Audit firm to which the statutory auditor belongs / Partners and employees of the statutory auditor involved in the audit, or any other person involved in the audit, as well as persons associated with them (Regulation (EU) No 596/2014). Members of the network to which the auditor belongs, or persons who control the audit firm or are controlled by it on the other hand, within the meaning of Sections I and II of Article L. 233-3 of the Commercial Code, are incompatible with the performance of the statutory audit if the existence of such relations could lead an objective, reasonable and informed third party to conclude that, despite the safeguards put in place, the auditor's independence is compromised.
Professional ties.	Article 34 of the Code of Ethics	An auditor or a member of the management of the audit firm, as well as persons closely associated with them (Regulation (EU) No 596/2014). Partners and employees of the auditor involved in the audit engagement, any other person involved in the assurance engagement, as well as persons closely associated with them (Regulation (EU) No 596/2014), if the existence of such a relationship would lead an objective, reasonable and informed third party to conclude that, despite the safeguards applied, the auditor's independence is compromised.
Requesting or accepting gifts, whether monetary or otherwise, or favours, unless their value does not exceed a maximum limit set by order of the Minister of Justice.	Article 14 of the Code of Ethics	Statutory auditor, the audit firm to which they belong (if applicable), the members of said firm's management and the persons referred to in Section II of Article L. 822-11-3.
Financial dependence on a person or entity whose financial statements are audited, and, where applicable, any person or entity that controls it or is controlled by it (Article L. 233-3 of the Commercial Code).	Art. 36 of the Code of Ethics	Statutory auditor.

Appointment as directors, managers, members of the supervisory board or holding senior management positions.	Art. L821-32 of the Commercial Code	Statutory auditors and, within audit firms, those persons who perform the duties of a statutory auditor as referred to in the first paragraph of Article L. 821-25 and Article L. 821-26. Persons other than those listed above who are included in the lists referred to in Article L. 821-13(I) and (II).
Any intervention that may compromise the independence and objectivity of the person referred to in the first paragraph of Article L. 821-25 and in Article L. 821-26.	Art. D821-82 of the Commercial Code	Shareholders or directors of the audit firm and, where applicable, of the network.

Fees and limits on fees

The total fees received from a person or entity whose financial statements are audited and, where applicable, from a person or entity that controls that person or entity or is controlled by it, within the meaning of Sections I and II of Article L. 233-3 of the Commercial Code, must not give rise to financial dependence on the part of the auditor in relation to the person or entity whose financial statements are audited.

There is a risk of financial dependence if the total fees received during the audit engagement for the financial statements represent a significant proportion of the auditor's total professional earnings, in case of a natural person, or of total turnover, in case of a legal person. Where there is a risk of financial dependence, the auditor shall put appropriate safeguards in place. In the event of a serious difficulty, the auditor seeks the opinion of the High Audit Authority.

When an auditor performs statutory audit engagement for a PIE, they shall also comply with the provisions of Section 3, Article 4 of Regulation (EU) No 537/2014 (Code de déontologie de la profession de commissaire aux comptes, TITRE II, Section 5: Honoraires, article 36).

Statutory auditors and, within audit firms, persons performing the duties of a statutory auditor as referred to in the first paragraph of Article L. 821-25 and Article L. 821-26, may not be appointed as directors, board members, members of the supervisory board or hold management positions in the persons or entities for which they have carried out an audit, for a period of three years from the completion of said audit. During this period, they may not perform the same duties for a person or entity which is controlled by, or which controls, within the meaning of paragraphs I and II of Article L. 233-3, the person or entity for which they have performed the audit. This prohibition also applies to all persons other than those mentioned in the first paragraph of this article who are included on the lists referred to in paragraphs I and II of Article L. 821-13, for a period of one year from the date of their involvement in the audit. (Code de commerce, article L821-32).

Article D821-82 also refers to procedures designed to ensure that there is no interference by shareholders or directors of the audit firm, and, where applicable, of the network, which could compromise the independence and objectivity of the person referred to in the first paragraph of Article L. 821-25 and in Article L. 821-26 (Code de commerce, article D821-82, 2ºb).

With regard to Article 24 bis of Directive 2006/43/EC, which deals with the internal organisation of statutory auditors and audit firms, the legislation that transposes and implements it is the Commercial Code, in Articles R821-81 and D821-82.

Public Interest Entities

Pursuant to Article L821-2 of the Commercial Code, the term "public-interest entity" encompasses:

1. Credit institutions referred to in Section I of Article L. 511-1 of the Monetary and Financial Code with registered offices in France;

2. Insurance and reinsurance undertakings referred to in Articles L. 310-1 and L. 310-1-1 of the Insurance Code, with the exception of mutual insurance companies exempt from administrative authorisation pursuant to Article R. 322-117-1 of the Insurance Code.

3. Provident fund institutions and their associations governed by Title III of Book IX of the Social Security Code, with the exception of those referred to in Section 3 of Article L. 931-6-1 of the Social Security Code.

4. Mutual societies and associations of mutual societies governed by Book II of the Mutual Societies Code, with the exception of those referred to in Article L. 211-11(3) of the Mutual Societies Code.

5. Individuals and entities whose financial securities are admitted to trading on a regulated market.

6. Where the total of their consolidated or combined balance sheet exceeds a threshold set by decree:

(a) Financial holding companies within the meaning of Article L. 517-1 of the Monetary and Financial Code, one of whose subsidiaries is a credit institution;

(b) Mixed financial holding companies within the meaning of Article L. 517-4 of the Monetary and Financial Code, one of whose subsidiaries is a public interest entity within the meaning of this Article;

(c) Insurance group companies within the meaning of Article L. 322-1-2 of the Insurance Code;

(d) Mutual insurance group companies within the meaning of Article L. 322-1-3 of the Insurance Code;

(e) Group mutual societies within the meaning of Article L. 111-4-2 of the Mutual Societies Code;

(f) Social protection insurance group companies within the meaning of Article L. 931-2-2 of the Social Security Code;

7. Supplementary occupational pension funds referred to in Article L. 381-1 of the Insurance Code;

8. Supplementary occupational pension mutuals or associations referred to in Article L. 214-1 of the Mutual Societies Code;

9. Supplementary occupational pension institutions referred to in Article L. 942-1 of the Social Security Code.

For PIEs, the national regulations provide for external and internal rotation as follows. Regarding external rotation, the statutory auditor, who must be a natural person, and in the case of audit firms, the persons referred to in the first paragraph of Article L. 821-25, may not certify for more than six consecutive fiscal years within a period of seven years, the accounts of PIEs, of the persons and entities referred to in Article L. 612-1, and of the associations referred to in Article L. 612-4, provided that they rely on public generosity within the meaning of Article 3 of Law No. 91-772 of 7 August 1991. They may once again be appointed to audit the accounts of such persons or entities at the end of three years from the closing date of the sixth fiscal year for which they have issued a certificate. The above applies to engagements involving significant subsidiaries of aPIE where the PIE and its subsidiary have appointed the same auditor. (Code de commerce, article L821-34). Regarding internal rotation, Decree 2016-1026 of 26 July 2016 refers to Paragraph 7 of Article 17 of Regulation (EU) No 537/2014.

With regard to prohibited services, the Code de déontologie de la profession de commissaire aux comptes, TITRE II, Section 2: Acceptation, conduite et maintien de la mission de contrôle légal du commissaire aux comptes, Article 22(II), stipulates that the auditor may not accept an engagement to certify the accounts of a PIE where, during the fiscal year preceding that for which the accounts are to be certified, he/she or any member of his/her network has provided, directly or indirectly, to the PIE, to the persons or entities that control or are controlled by it within the European Union, within the meaning of paragraphs I and II of Article L. 233-3 of the Commercial Code, the services referred to in Article 5(e) of Regulation (EU) No 537/2014. This means that French legislation does not include any exceptions to the prohibited services set out in the Regulation, nor does it lay down requirements that are stricter than those provided for in the aforementioned Regulation.

Finally, although Article 4.4 of EU Regulation 537/2014 allows Member States to apply stricter requirements than those set out in Article 4 on audit fees, it cannot be said that France applies stricter requirements. The section entitled "Fees and limits on fees" of this chapter refers to the auditor's financial independence and to the fact that, when the auditor conducts statutory audit of a public interest entity, he or she must also comply with the provisions of Section 3 of Article 4 of Regulation (EU) No 537/2014. The reference to the direct implementation of the Regulation indicates that France has not opted to impose stricter requirements regarding fees (Code de déontologie de la profession de commissaire aux comptes, TITRE II, Section 5: Honoraires, article 36).

//// TABLE 12 Summary - France

Item	France
Is there a definition of independence?	Yes, auditor independence is defined as: "characterised by the exercise, with full objectivity, of the powers and responsibilities conferred by law. It ensures that the auditor's conclusions are free from any bias, conflict of interest or influence arising from direct or indirect personal, financial or professional ties, including those between the auditor's partners, employees, members of their network and the person or entity to whom the engagement or service is provided. It also ensures the absence of any risk of self-review that might lead the auditor to express an opinion or make an assessment on matters arising from engagements or services provided by the auditor themselves, by the firm to which they belong, by a member of their network, or by any other person who might influence the outcome of the engagement or service."
Is there an explicit reference to independence in fact and independence in appearance?	Yes, there is an explicit reference to independence in fact and independence in appearance: "The auditor's independence must be assessed both in reality and in appearance."
Period during which the auditor must be independent	The requirements regarding independence and the prevention of conflicts of interest shall apply throughout the duration of the audit engagement or service, both during its performance and outside it.
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	The Code of Ethics sets out several of the threats to independence. It refers explicitly to the threat of self-review. The threat of self-interest is manifested through factors such as financial ties. Familiarity takes the form of personal relations. The term intimidation is implied in the reference to influences that may compromise the auditor's impartiality. There is no explicit mention of the threat arising from advocacy.
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Yes, in Article 19 of the Code of Ethics, "Identification and management of risks".
Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	When exposed to situations of risk, auditors shall immediately adopt the appropriate safeguards. Where safeguard measures are insufficient to ensure their independence, they shall terminate the engagement or service (Code de déontologie de la profession de commissaire aux comptes, TITRE Ier, Section 1: Principes fondamentaux de comportement, article 5(III)).

Specific regulation in case of a threat arising from a financial interest (e.g. Directive, Art. 22.4.a) and b))	I. – Financial links related to the following transactions are incompatible with the performance of a statutory audit: 1. Direct or indirect acquisition or holding of shares or any other securities which confer or may confer, direct or indirect access to the capital or voting rights of the person or entity whose accounts are being audited. 2. Direct or indirect acquisition or holding of financial instruments, as defined in Article L. 211-1 of the French Monetary and Financial Code. The holding of shares, securities or financial instruments through diversified collective investment undertakings, including funds managed in the same way as pension or life-assurance funds, in which the holder has no power to influence the management of the investments, is not incompatible with the performance of the statutory audit. II. - Financial links are incompatible with the performance of a statutory audit where the transactions have not been carried out or entered into under normal market conditions and relate to: 1. Any fixed-term deposit; 2. The granting or maintenance of any loan or advance; 3. Taking out a life insurance policy; 4. The granting or obtaining of security interests. These links are also incompatible with the performance of a statutory audit where they are established between the audited person or entity and the auditor, following the latter's appointment or designation. III. Incompatibilities arising from financial links may be extended to other parties if the existence of such links could lead an objective, reasonable and informed third party to conclude that, despite the safeguards put in place, the auditor's independence is compromised. (Code de déontologie de la profession de commissaire aux comptes, TITRE II, Section 4: Liens personnels, financiers et professionnels, article 33).
The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	I. A professional relationship exists between two persons when they are linked by an employment contract or a commercial relationship that is not a routine transaction carried out under normal market conditions. II. Any professional relationship between the audited person or entity or its directors, on one hand, and the auditor or a member of the management of the audit firm, as well as persons closely associated with them within the meaning of Article 3(26) of Regulation (EU) No 596/2014 of 16 April 2014 on the other hand, is incompatible with the performance of a statutory audit. III. Any professional relationship between the audited person or entity or its directors, on one hand, and the partners and employees of the auditor involved in the audit engagement, any other person involved in the assurance engagement, as well as persons closely associated with them within the meaning of Article 3(26) of Regulation (EU) No 596/2014 of 16 April 2014 on the other hand, is incompatible if the existence of such a relationship would lead an objective, reasonable and informed third party to conclude that, despite the safeguards applied, the auditor's independence is compromised. (Code de déontologie de la profession de commissaire aux comptes, TITRE II, Section 4: Liens personnels, financiers et professionnels, article 34).
Advocacy	As regards the risk of advocacy, although not explicitly mentioned, the concept of preventing the risk of acting as a "lawyer" or advocate is governed by fundamental principles and prohibitions set out in the Code of Ethics (Impartiality, Article 4; Independence and prevention of conflicts of interest, Article 5). Furthermore, Article 17 of the Code of Ethics, which deals with "Monopolies of other professions – Legal advice and the drafting of legal documents", refers to the prohibition on the auditor providing legal advice, except under certain conditions.

Regulations regarding gifts	The maximum limit on gifts, whether monetary or otherwise, or favours that may be requested or accepted is established by order of the Minister for Justice (Code de déontologie de la profession de commissaire aux comptes, TITRE Ier, Section 3: Honoraires, article 14).
Regulations on the provision of non-audit services	No specific activities are set out in the context of the audit of non-public interest entities.
Extensions of threats (or incompatibilities) to entities associated with the audited entity with regard to financial instruments	A person or entity whose accounts are audited, or a person or entity that controls or is controlled by it, within the meaning of Sections I and II of Article L. 233-3 of the French Commercial Code (Article 33 of the Code of Ethics for Statutory Auditors).
Extension of threats (or incompatibilities) to persons or entities associated with the auditor (Directive, Art. 22.1 (Paragraph Three), LAC Arts 18,19 and 20)	-Partners, employees, members of the network, the firm to which the auditor belongs, or any person who might influence the outcome of the engagement or service (Article 5 of the Code of Ethics). -A closely associated person (Article 33 of the Code of Ethics). - Person who control the audit firm or are controlled by it (Article 33 of the Code of Ethics). - Members of the audit firm's management (Article 34 of the Code of Ethics). - Shareholders or directors of the audit firm and, where applicable, of the network (Article D821-82 of the Commercial Code).
Recusal (prohibitions) due to a concentration of fees received from the same audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	The total fees received from a person or entity whose financial statements are audited and, where applicable, from a person or entity that controls that person or entity or is controlled by it, within the meaning of Sections I and II of Article L. 233-3 of the Commercial Code, must not give rise to financial dependence on the part of the auditor in relation to the person or entity whose financial statements are audited.
Prohibition: period during which the former auditor of the audited entity is prohibited from: i) taking up management positions, ii) being appointed to the audit committee or a body performing equivalent functions, and iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (e.g. Directive, Art. 22 bis, 1 year, 2 years for PIEs)	Statutory auditors and, within audit firms, persons performing the duties of a statutory auditor as referred to in the first paragraph of Article L. 821-25 and Article L. 821-26, may not be appointed as directors, board members, members of the supervisory board or hold management positions in the persons or entities for which they have carried out an audit, for a period of three years from the completion of said audit. During this period, they may not perform the same duties for a person or entity which is controlled by, or which controls, within the meaning of paragraphs I and II of Article L. 233-3, the person or entity for which they have performed the audit. This prohibition also applies to all persons other than those mentioned in the first paragraph of this article who are included on the lists referred to in paragraphs I and II of Article L. 821-13, for a period of one year from the date of their involvement in the audit. (Code de commerce, article L821-32).
Regulations concerning the non-involvement of the owners or shareholders of an audit firm, as well as the members of the administrative, management and supervisory bodies of said firm or of a subsidiary, in the performance of a statutory audit that might compromise the auditor's independence and objectivity in any way (Art. 24 Directive).	Article D821-82 of the French Commercial Code also refers to procedures designed to ensure that there is no interference by shareholders or directors of the audit firm, and, where applicable, of the network, which could compromise the independence and objectivity of the person referred to in the first paragraph of Article L. 821-25 and in Article L. 821-26.
Regulations transposing and implementing Article 24 bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	Commercial Code, in Articles R821-81 and D821-82.

For Public Interest Entities, indicate the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation	Regarding external rotation, the statutory auditor, who must be a natural person, and in the case of audit firms, the persons referred to in the first paragraph of Article L. 821-25, may not certify for more than six consecutive fiscal years within a period of seven years, the accounts of public interest entities, of the persons and entities referred to in Article L. 612-1, and of the associations referred to in Article L. 612-4, provided that they rely on public generosity within the meaning of Article 3 of Law No. 91-772 of 7 August 1991. They may once again be appointed to audit the accounts of such persons or entities at the end of three years from the closing date of the sixth fiscal year for which they have issued a certificate. The above applies to engagements involving significant subsidiaries of a PIE where the PIE and its subsidiary have appointed the same auditor. (Code de commerce, article L821-34). Regarding internal rotation, Decree 2016-1026 of 26 July 2016 refers to Paragraph 7 of Article 17 of Regulation (EU) No 537/2014.
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	There are no exceptions.
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	Not introduced.
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	France has not opted to impose stricter requirements regarding fees (Code de déontologie de la profession de commissaire aux comptes, TITRE II, Section 5: Honoraires, article 36).

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8 Greece

Glossary

HAASOB	Hellenic Accounting and Auditing Standards Oversight Board
SOEL	Institute of Certified Public Accountants

Introduction

Institutional framework

The supervisory body for auditors in Greece is the Hellenic Accounting and Auditing Standards Oversight Board (HAASOB or ELTE, according to its Greek acronym, "Επιτροπή Λογιστικής τυποποίησης και Ελέγχων" (Ε.Λ.Τ.Ε.)). It is under the authority of the Ministry of Finance and is a member of the*International Forum of Independent Audit Regulators* (IFAC, n.d.). Its main functions are:

- To grant and revoke auditors' licences.
- To maintain the Public Register of auditors and audit firms.
- To establish and implement the quality control review system for audits.
- To set the regulations and oversee the correct and effective application of accounting and auditing standards.

Within HAASOB, the Quality Control Board (QCB) is responsible for supervising auditors and ensuring the quality of audit services provided by auditors and audit firms, while the Disciplinary Board (DB) is responsible for determining breaches of the law and the regulatory framework governing the work of auditors (Accountancy Europe, 2021).

As a professional body, auditors are represented by the Institute of Certified Public Accountants (SOEL, from its Greek acronym (Σώμα Ορκωτών Ελεγκτών Λογιστών (Σ.Ο.Ε.Λ.))). Established in 1992 as a legal entity, prior to the creation of HAASOB, SOEL acted as the supervisory body for the auditing profession. The Institute's current remit, under the supervision of HAASOB, includes: (i) maintaining a register of certified public auditors and audit firms; (ii) holding the professional examination for certified public auditors; (iii) establishing and enforcing requirements for initial training and continuing professional development; and (iv) carrying out quality control inspections of certified public auditors of non-public interest entities (IFAC, n.d.).

Legal framework

The auditing profession is regulated at both national and professional levels by two laws. Firstly, Act 3148/2003, as amended by Act 4449/2017, which established HAASOB. Secondly, Presidential Decree No. 226/1992, as amended by Presidential Decree No. 341/1997, which established the SOEL. Only certified public accountants (CPAs) are authorised to perform audits, and all CPAs must be employed by an audit firm (IFAC, n.d.).

The purpose of Audit Act 4449/2017 is: a) to establish a uniform legislative framework in accordance with the provisions of Directive 2006/43/EC, as amended by Directive 2014/56/EU; b) to harmonise legislation with the latter Directive; and c) to lay down rules for cases where the option provided for in Regulation (EU) No 537/2014 applies.

Auditors and audit firms perform statutory audits in accordance with the international auditing standards adopted by the Commission. Until the Commission adopts the ISAs, the term "international auditing standards" is understood to refer to the International Standards on Auditing (ISAs), the International Standards on Quality Control 1 (ISQC 1) and any other relevant standard issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB), provided that it is relevant to statutory auditing, has been translated into Greek, has been approved by HAASOB, and has been published in the Official Gazette.

Independence

Regulations, general duty of independence and definition

Chapter D of the Audit Act (Articles 20 to 29C) governs professional ethics, independence, objectivity, confidentiality and professional secrecy.

Article 20.1 stipulates that certified public accountants (auditors) and audit firms are subject to the principles of professional ethics set out in Section 2, which cover at least their role as guardians of the public interest, their integrity and objectivity, as well as their professional competence and due diligence.

Article 20.2 states that, a Code of Professional Ethics is issued by decision of the HAASOB Board of Directors, which incorporates these principles and takes into account the provisions of the Code of Professional Ethics of the International Federation of Accountants. This code is the IFAC Code of Ethics, the Greek translation of which was approved by HAASOB Decision No. 2210 of 2017. Consequently, the IFAC Code is applicable in Greece.

Article 21.1 of the Act stipulates the general duty of independence; specifically, it stipulates that auditors, audit firms and any natural person in a position to directly or indirectly influence the outcome of the statutory audit must be independent of the entity they are auditing, and are not permitted to participate in any way, directly or indirectly, in the decision-making process of the audited entity. The period during which they must remain independent covers the period covered by the financial statements under audit, as well as the period during which the statutory audit is carried out. It also places the burden of proof regarding independence on the auditors.

The Audit Act does not provide a definition of independence; therefore, within the Greek context, reference must be made to the definition in the IFAC Code, as translated into Greek by HAASOB Decision 2210 of 2017, which distinguishes between actual or independence in fact and mental independence or independence in appearance[18].

The principle of independence in appearance is implicit in Art. 21.2 of the Act, which states that "*The statutory auditor or audit firm shall not carry out a statutory audit where there is a risk of self-review, self-interest, advocacy, familiarity or intimidation arising from a financial, personal, commercial, employment or other relationship between the statutory auditor, the audit firm, its network, as well as any individual in a position to influence the outcome of the statutory audit, and the audited entity,* ***with the result that an objective, prudent and informed third party****, taking into account the safe-*

18 Article 290.2 of the Greek translation of the Code states that: "Independence is necessary for issuing an assurance opinion." It includes:
(i) Independence in Mind: the state of mind that enables a person to express an opinion without being swayed by influences that may compromise professional judgement, thereby allowing them to act with integrity, objectivity and professional scepticism.
(ii) Independence in Appearance: avoiding facts and circumstances of such significance that a reasonable and informed third party, having weighed up all the relevant facts and circumstances, would conclude that the integrity, objectivity or professional scepticism of the Certified Public Accountant (CPA) [ΟΕΛ], or of a member of the assurance team, has been compromised."

guards applied, would conclude that the independence of the statutory auditor or the audit firm is compromised", due to the reference to an objective, prudent and informed third party.

Threats and safeguards. Incompatibilities and prohibitions

Article 21.2 sets out the system of threats and safeguards and identifies the following factors that may threaten independence: self-review, self-interest, advocacy, familiarity or intimidation.

With regard to incompatibilities, Article 21.3 sets out incompatibilities arising from personal interest, specifically: "*The statutory auditor, the audit firm, key audit partners, employees, as well as any other natural person whose services are made available to or are under the control of said statutory auditor or audit firm and who is directly involved in statutory audit activities, as well as* ***persons closely associated with them****, shall not hold or maintain a significant and direct interest in, nor participate in, any transaction involving any financial instrument issued, guaranteed or otherwise backed by the audited entity within the scope of the statutory audit activities they perform, with the exception of interests held indirectly through diversified collective investment schemes, including funds under management, such as pension funds and life insurance policies*".

The concept of "persons closely associated" has not been found in the Act or in any other legislation (πρόσωπα που συνδέονται στενά με τα ανωτέρω).

Regarding statutory auditors and audit firms, their network, their directors, auditors or employees, any other natural person whose services are made available to or are under the control of the statutory auditor or the audit firm, or any person directly or indirectly linked to them through the performance of the audit, are subject to a series of incompatibilities, which are set out below.

(a) holding financial instruments issued by the audited entity, with the exception of interests held indirectly through diversified collective investment undertakings (Art. 21.5).

(b) holding financial instruments in any entity associated with the audited entity, the ownership of which may give rise to, or be generally perceived as giving rise to, a conflict of interest, with the exception of interests held indirectly through diversified collective investment undertakings (Art. 21.5).

c) having an employment, commercial or other relationship with the audited entity during the period in which independence is required, that is, from the start of the fiscal year under audit until the completion of the audit (Art. 21.5).

Receiving or accepting gifts or financial or non-financial benefits from the audited entity or any entity associated with it, unless their value is considered small or insignificant by an objective, prudent and informed third party (Art. 21.6).

The Act also regulates the situation where the audited entity is merged with or acquired by another entity during the period covered by the audited financial statements. The auditor must identify and assess any threats arising from such transactions, consider the existing safeguards, and assess their ability to continue the statutory audit after the effective date of the merger or acquisition. The Act stipulates that the auditor must, as soon as practicable but in any event within three months, take the necessary steps to terminate any existing interest or relationship that may compromise their independence and, wherever possible, put in place safeguards to minimise any threat to their independence arising from past and present interests and relationships (Art. 21.7).

When the auditor performs audits on behalf of an audit firm, the shareholders or owners, as well as the members of the management and administrative bodies of the audit firm or of an affiliated entity, shall not interfere with the performance of the statutory audit in any way that compromises the auditor's independence and objectivity. Any interference constitutes a disciplinary offence and entails sanctions (Art. 25).

With regard to the prohibition on the statutory auditor or key audit partner of the engagement regarding employment with entities previously audited by them, a period of one year is established, or

two years in the case of PIEs, from the date on which they ceased to act as auditor (Art. 22.1). The prohibition applies to: i) key management positions; ii) serving as a member of the audited entity's audit committee or a body performing equivalent functions; iii) serving as a non-executive director.

The prohibitions on the above positions also apply to employees, shareholders or partners other than the key partners of the statutory auditor or the audit firm carrying out the statutory audit, as well as any other natural persons whose services are made available to or are under the control of that statutory auditor or audit firm; in the event that such employees, shareholders, partners or other natural persons have personally obtained a licence as statutory auditors, they may not hold such positions for a period of one year (Art. 22.1).

//// TABLE 13 Exclusions (incompatibilities) Greece

Grounds for exclusion	Legal basis	Applicable to:
Self-interest.	Art. 21.3 of the Audit Act	Statutory auditor / Audit firm / Key audit partners / Employees / Any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm and who is directly involved in statutory audit activities / Persons closely associated with the above.
Holding of financial instruments.	Art. 21.5 of the Audit Act	Statutory auditor / Audit firm / Key audit partners / Employees / Any other natural person whose services are made available to or are under the control of the statutory auditor or the audit firm, or any person directly or indirectly linked to them through the performance of the audit.
Employment, commercial or other relationship.	Art. 21.5 of the Audit Act	Statutory auditor / Audit firm / Key audit partners / Employees / Any other natural person whose services are made available to or are under the control of the statutory auditor or the audit firm, or any person directly or indirectly linked to them through the performance of the audit.
Receiving or accepting gifts or financial or non-financial benefits.	Art. 21.6 of the Audit Act	Statutory auditor / Audit firm / Key audit partners / Employees / Any other natural person whose services are made available to or are under the control of the statutory auditor or the audit firm, or any person directly or indirectly linked to them through the performance of the audit.
Interests or links in the event of a merger or acquisition.	Art. 21.7 of the Audit Act	Statutory auditor.
Performance of the statutory audit.	Art. 25 of the Audit Act	Shareholders or owners, as well as members of the management and administrative bodies of the audit firm or of an affiliated entity.
Key management positions, members of the audited entity's audit committee or a body performing equivalent functions, non-executive directors.	Art. 22.1 of the Audit Act	Statutory auditor or key audit partner on the engagement; employees, shareholders or partners other than the key partners of the statutory auditor or the audit firm carrying out the statutory audit; or any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm.
Fees.	Art. 29 of the Audit Act	Auditor, audit firm, a related party of the audit firm, or an auditor or audit firm belonging to the same network.

Fees and limits on fees

Fees for services provided by an auditor or an audit firm must not be subject to any conditions. Contingent fees are defined as fees for audit work calculated on a predetermined basis in relation to the outcome of a transaction or the result of the work performed. They are therefore not permitted, as they imply a condition.

Furthermore, fees for performing an audit which are influenced by the provision of additional services to the audited entity, its subsidiary, an associated or jointly controlled entity, by the auditor or the audit firm, by a related party of the audit firm, or by an auditor or audit firm belonging to the same network as them, are not permitted (Art. 29).

No limits are set on fees for non-PIEs, therefore they are subjectto the general framework of threats and safeguards.

Public Interest Entities

Art. 2.12 of the Audit Act defines PIEs in Greece as consisting of: (i) entities governed by Greek law or by the law of another Member State of the European Union, whose securities are admitted to trading on a regulated market in Greece, or on a regulated market in any other Member State; ii) credit institutions, as defined in Section 1 of Article 3 of Act 4261/2014 (A 107), with the exception of those referred to in Article 2 Section 5 of said Act; iii) insurance undertakings with their head office in Greece, excluding mutual insurance cooperatives as referred to in the first paragraph, Section 1 of Article 7 of Act 4364/2016, reinsurance undertakings with their head office in Greece, branches of third-country insurance undertakings and branches of third-country reinsurance undertakings; and iv) entities defined by decision of the Minister of National Economy and Finance as public interest entities in accordance with Paragraph 6 of Article 44; (e) investment firms (as defined in Paragraph 1 of Article 2 of Act 4548/2018).

Article 48 of the Audit Act (as amended by Act 5000/2022) stipulates that key partners responsible for the audit must step down no later than 7 years, that is, the maximum permitted under Regulation (EU) No 537/2014.

With regard to external rotation, no use is made of the option available to Member States to extend the maximum term of the contract, whether through a public tender or a joint audit; consequently, the maximum term of the contract is 10 years. Similarly, no minimum term is specified, therefore it is one year.

With regard to fees, no stricter requirements than those laid down in Regulation (EU) No 537/2014 have been stipulated, therefore, the requirements of that Regulation shall apply.

As regards prohibited services, no use has been made of the option available to Member States to authorise the services referred to in Article 5.3 of Regulation (EU) No 537/2014, subject to the conditions set out therein.

//// TABLE 14 Summary - Greece

Item	Greece
Is there a definition of independence?	No. Within the Greek context, the definition given in the IFAC Code of Ethics must be referred to.
Is there an explicit reference to independence in fact and independence in appearance?	No, within the Greek context, the distinction made in the IFAC Code of Ethics must be referred to.
Period during which the auditor must be independent	The period covered by the financial statements under audit and the period during which the statutory audit was performed (Audit Act, Art. 21.1).
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	Yes (Audit Act, Art. 21.2).
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Implied in the Audit Act, Art. 21.2

Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	Yes (Audit Act, Art. 21.2).
Specific regulation in case of a threat arising from a financial interest (e.g. Directive Article 22.4.a) and b))	Audit Act, Art. 21.5.
The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	Audit Act, Art. 21.5.
Advocacy	No specific incompatibilities are set out in this regard.
Regulations regarding gifts	No gifts or financial or non-financial benefits may be received or accepted from the audited entity or any entity associated with it, unless their value is considered small or insignificant by an objective, prudent and informed third party (Audit Act, Art. 21.6).
Regulations on the provision of non-audit services	Fees for performing an audit which are influenced by the provision of additional services are not permitted (Audit Act, Art. 29).
Extensions of threats (or incompatibilities) to entities associated with the audited entity with regard to financial instruments	Entities associated with the audited entity (Audit Act, Art. 21.5).
Extensions of threats (or incompatibilities) to persons or entities associated with the auditor (Directive, Art. 22.1 (Paragraph Three), LAC Arts 18,19 and 20)	- Any natural person in a position to influence, directly or indirectly, the outcome of the statutory audit. - Key audit partners, employees, as well as any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm and who is directly involved in statutory audit activities, and persons closely associated with them. - The network, directors, auditors or employees, and any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, or any person directly or indirectly associated with them through the performance of the audit. - Shareholders or owners, as well as members of the management and administrative bodies of the audit firm or of an affiliated entity. - Partners other than the key partners of the statutory auditor or the audit firm carrying out the statutory audit. - Related party of the audit firm or of an auditor.
Recusal (prohibitions) due to a concentration of fees received from the same audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	No limits are set on fees for non-PIEs, therefore they are subject to the general framework of threats and safeguards.
Prohibition: period during which the former auditor of the audited entity is prohibited from: i) taking up management positions, ii) being appointed to the audit committee or a body performing equivalent functions, and iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (e.g. Directive, Art. 22 bis, 1 year, 2 years for PIEs)	A period of 1 year, 2 in case of PIEs, from the date on which they ceased to act as auditor (Audit Act, Art. 22.1)

Regulations concerning the non-involvement of the owners or shareholders of an audit firm, as well as the members of the administrative, management and supervisory bodies of said firm or of a subsidiary, in the performance of a statutory audit that might compromise the auditor's independence and objectivity in any way (Art. 24 Directive).	Audit Act, Art. 25.
Regulations transposing and implementing Article 24 bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	Audit Act, Art. 26.
For PIEs, it sets out the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation.	Internal rotation: 7 years; External rotation: 10 years, the extension options permitted under the EU Regulation have not been used (Audit Act, Art. 48).
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	No.
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	No.
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	No.

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9 Ireland

Glossary

ACCA	Association of Chartered Certified Accountants
AIA	Association of International Accountants
CEAOB	Committee of European Auditing Oversight Bodies
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
Companies (Accounting) Act 2017	
Companies (Auditing and Accounting) Act 2003	
Companies (Statutory Audits) Act 2018	
Companies Act 2014	
IAASA	Irish Auditing and Accounting Supervisory Authority
ICAI	Institute of Chartered Accountants in Ireland
PAB	Prescribed Accountancy Body
RAB	Recognised Accountancy Body
Statutory Instrument (S.I.) 220/2010 – *European Communities (Statutory Audits) Regulations 2010*	
Statutory Instrument (S.I.) 312/2016 – *European Union (Statutory Audits) Regulations 2016*	

Introduction

Institutional framework

The institutional framework for auditing in Ireland is designed to ensure the integrity, independence and quality of audit services. This regulatory framework consists of a number of interrelated bodies that perform distinct but complementary roles in the supervision of audit professionals and audit firms. The institutional framework is based both on the national requirements set out in the Companies Act 2014, as well as on the European Union's directives and regulations on statutory audits.

The Irish Auditing and Accounting Supervisory Authority (IAASA) is the designated national authority on auditing in Ireland. It was initially established by the Companies (Auditing and Accounting) Act 2003, and its powers have been strengthened by the Companies Act 2014 and, more recently, by the Companies (Statutory Audits) Act 2018. The IAASA is an independent public body whose mission is

to boost public confidence in the accuracy and transparency of the financial information published by companies.

The Authority is governed by a Board of Directors consisting of nine members, including the Chief Executive. Under the Companies Act 2014, up to four Board members may be members of a PAB.

The members are nominated by the following state agencies:

- Head of Corporate Operations
- Central Bank of Ireland
- Euronext (Irish Stock Exchange)
- Revenue Commissioners

In addition to the representatives of these state agencies, two Board members are nominated by professional accounting bodies, and a maximum of three Board members, excluding the Chief Executive, may be members of prescribed accountancy bodies at any one time.

Its functions include the following (IAASA, 2024):

- To adopt standards on auditing, ethics, internal quality control and sustainability assurance for statutory auditors.
- To monitor compliance with EU financial reporting standards and legal requirements by certain listed companies in their annual and half-yearly corporate reports.
- To oversee how Authorised Accounting Bodies (PABs) regulate and monitor their members, and how Recognised Accountancy Bodies (RABs) supervise statutory auditors and sustainability assurance service providers.
- To review the quality of the audit engagements performed by auditors of public-interest entities.
- To conduct investigations into alleged irregularities in the audits of public-interest entities, as well as inquiries into breaches of procedures by PABs and RABs.

IAASA also cooperates with European bodies, such as the Committee of European Auditing Oversight Bodies(CEAOB), and participates in cross-border initiatives to ensure regulatory consistency within the European Union.

Prescribed Accountancy Bodies (PABs) and Recognised Accountancy Bodies (RABs) form the second pillar of the audit regulatory system in Ireland. Recognised under the 2014 Companies Act, these bodies bring together and regulate professional auditors and accountants.

PABs are accounting bodies authorised by the relevant Ministry (currently the Department for Enterprise, Trade and Employment) and supervised by IAASA. Their functions include the following (IAASA, 2024):

- The training, certification and registration of auditors and chartered accountants.
- Regulating its members' professional practice, including the implementation of codes of conduct and professional discipline
- The authorisation of audit firms that meet the technical and ethical requirements necessary to perform statutory audits.

There are five PABs in Ireland (IAASA, 2024):

- *Institute of Chartered Accountants in Ireland (ICAI)*
- *Association of Chartered Certified Accountants (ACCA)*
- *Chartered Institute of Management Accountants (CIMA)*

- *Association of International Accountants (AIA)*
- *Chartered Institute of Public Finance and Accountancy (CIPFA)*

Two of these bodies, the ICAI and ACCA, are also RABs, which means they can authorise their members to practise as statutory auditors.

The IAASA monitors how Prescribed Accountancy Bodies (PABs) regulate and supervise their members. It also monitors how Recognised Accountancy Bodies (RABs) perform their duties in relation to statutory auditors and sustainability assurance service providers, including (IAASA, 2024):

- Approval and registration
- Quality assurance
- Continuous professional development
- Investigations and disciplinary proceedings

It should be noted that the IAASA directly manages quality assurance, investigation and disciplinary proceedings in the case of statutory auditors working with Public Interest Entities (PIEs).

The IAASA receives 60 percent of its funding from compulsory contributions levied on PABs and RABs, with the remaining 40 percent funded by the government. The 60 percent contribution is distributed amongst the organisations according to the number of members of each in Ireland. There is a separate funding system for IAASA's quality control activities related to PIE audits, whereby a fee is levied directly on the relevant audit firms that audit these entities (Accountancy Europe, 2021).

Legal framework

The legal framework for auditing in Ireland combines national legislation, European regulations, international technical standards and institutional oversight. This system aims to ensure transparency, confidence in financial reporting and the quality of auditors' work, especially in an economic environment that is becoming increasingly integrated at European level.

The Companies (Auditing and Accounting) Act 2003 marked a key starting point for the modern auditing system in Ireland. Its main achievement was the establishment of the Irish Auditing and Accounting Supervisory Authority (IAASA), responsible for overseeing compliance with accounting and auditing standards (Parliament of the Republic of Ireland, 2003).

Although this law does not directly regulate statutory audits, it does establish a key institutional framework, enabling the recognition and supervision of accounting bodies. Furthermore, it served as a transitional instrument for the incorporation of the first European requirements in this area, prior to the reform of Directive 2006/43/EC and Regulation (EU) No 537/2014.

The Companies Act 2014 is the principal codification of Irish company law, consolidating numerous previous Acts (Parliament of the Republic of Ireland, 2014). In Part 6, it sets out the general standards for the audit of financial statements:

- It defines the companies whose accounts must be audited.
- It sets out the process for the appointment, eligibility, resignation and termination of auditors.
- It sets out the auditor's responsibilities in relation to the annual financial statements.

While it provides a basic legal framework, it does not regulate the technical or ethical aspects of auditing, which are set out in specific instruments.

The Companies (Accounting) Act 2017 amends the Companies Act 2014 with the aim of partially transposing Directive 2013/34/EU on annual and consolidated financial statements and other reports (Parliament of the Republic of Ireland, 2017). This Act introduces new categories of companies,

such as micro-enterprises, which directly affect the thresholds for statutory audits; it affects the content and scope of audit reports; it amends accounting obligations that have a direct impact on audits (such as consolidation, notes, etc.); and it aligns them with European accounting requirements, thereby strengthening regulatory consistency within the EU.

In line with its membership of the European Union, Ireland has transposed into national law the provisions contained in Directive 2006/43/EC on the statutory audit of annual accounts, as subsequently amended by Directive 2014/56/EU, and directly applies Regulation (EU) No 537/2014.

The Statutory Instrument (S.I.) 220/2010 – European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 transposed Directive 2006/43/EC on statutory audits for the first time, supplementing the Companies Acts in force at that time (Companies Acts 1963–2009).

This was subsequently repealed upon the entry into force of the Statutory Instrument (S.I.) 312/2016 – European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016, which updates the transposition of Directive 2014/56/EU and implements Regulation (EU) No 537/2014. S.I. 312/2016 sets out key elements such as auditor independence, mandatory auditor rotation, quality assurance reviews and the code of ethics for auditors. This instrument is applied jointly with the Companies Act 2014 and is supported by the Companies (Statutory Audits) Act 2018.

The Companies (Statutory Audits) Act 2018, which amends the Companies Act 2014, was enacted to implement the provisions of Regulation (EU) No 537/2014 at national level, especially with regard to supervision, sanctions and inspection (Parliament of the Republic of Ireland, 2018). This Act inserts a new Part 27, Sections 1461 to 1584, entitled 'Statutory Audits' into the Companies Act 2014. The Companies (Statutory Audits) Act 2018 boosts the role of the IAASA as the competent authority for statutory audits of public interest entities. The Act lays down a clear disciplinary framework, powers of inspection, quality reviews and mandatory ethical standards, acting as a regulatory complement to S.I. 312/2016 and providing legislative backing at national level.

Finally, it is worth noting that in 2025, the IAASA published the Ethical Standard for Auditors (Ireland) 2025. This standard will come into force on 15 December 2026, although early adoption is already permitted.

In conclusion, each standard fulfils a different yet complementary function. While the Companies Act lays down the legal framework, the Statutory Instruments and European standards define the technical content and ethical principles of audit tasks. Auditor independence, as a fundamental principle, is based primarily on European legislation and its transposition into national law through regulations such as S.I. 312/2016, while institutional structure and oversight rest mainly with the IAASA, which was initially established by the 2003 Act and strengthened in subsequent years.

Independence

Regulations, general duty of independence and definition

In Ireland, auditor independence is primarily regulated by the Companies (Statutory Audits) Act 2018, which amends the Companies Act 2014; by S.I. 312/2016, which transposes Directive 2014/56/EU and Regulation (EU) No 537/2014; and by the IAASA Ethical Standard for Auditors 2025.

Section 1491 of the Companies (Statutory Audits) Act 2018 (Parliament of the Republic of Ireland, 2018) requires auditors and audit firms to comply with the requirements of independence, objectivity and professional scepticism set out in Articles 1533 to 1544 and 1547. Article 1533 stipulates that, during the period in which an audit is being carried out, the auditor, the audit firm and any person with the power to influence the outcome of the engagement must maintain their independence and refrain from participating in decisions taken by the audited entity. Reasonable measures must therefore be taken to avoid conflicts of interest or commercial, personal or employment relationships

that may compromise independence; this requirement also extends to auditors' networks, their employees and any person under their control. Article 1534 reinforces this obligation by requiring the maintenance of an attitude of professional scepticism throughout the audit, critically evaluating the information received and challenging the evidence where necessary.

Article 91(1) of S.I. 312/2016 (Department for Jobs, Enterprise and Innovation, 2016), establishes the fundamental principle that the statutory auditor, whether a natural person or an audit firm, must maintain their independence throughout the period covered by the financial statements and during the actual performance of the audit. Section 91(2) requires measures to be taken to prevent conflicts of interest or relationships that may affect this independence, and Article 91(3) extends these obligations to the auditor's network, employees and associated persons or entities. Article 92 formally introduces the concept of professional scepticism, defined as a critical and questioning attitude that must be maintained throughout the audit, particularly in relation to complex matters such as accounting estimates or the assessment of a going concern.

For its part, the IAASA Ethical Standard 2025 (IAASA, 2025) defines independence as freedom from conditions and relationships which, in the context of an engagement, would compromise the integrity or objectivity of the firm or covered persons. In its assessment, it uses the criteria of both independence in fact and independence in appearance, applying the *third-party test*, according to which it must be considered whether an informed and objective third party would conclude that independence is compromised. The standard requires the assessment of independence to be documented prior to accepting or continuing an engagement, and it should be maintained throughout the period covered by the financial statements and until the audit is completed.

Threats and safeguards. Incompatibilities and prohibitions

Both the Companies Act 2018 (Art.1535(1)) and S.I. 312/2016 (Art. 93(1)) establish a framework of threats, incompatibilities and prohibitions designed to safeguard the independence of the statutory auditor. Both standards are based on the same principle: no auditor, firm or person involved in the engagement may carry out an audit if a reasonable third party might conclude that their independence is compromised, whether due to threats of self-review, self-interest, familiarity, advocacy or intimidation. The IAASA Ethical Standard 2025 (IAASA, 2025) additionally recognises six main types of threats: self-interest, self-review, management, advocacy, familiarity and intimidation (Paragraph 1.33).

The Companies Act 2018 (Art. 1535(2)-(3)) and the S.I. 312/2016 (Art. 93(2)) prohibit acting as an auditor where there are employment, financial or family ties with the audited entity. Specifically, the following persons may not act as auditors: anyone who is or has been an employee or director during the period under audit; the immediate family members of a director; the partners or employees of a director; the registered holders of shares in the entity, even if they are not the beneficial owners; or anyone who is disqualified from acting as an auditor in the entity or in any related entity (subsidiary, parent company or company within the same group). These incompatibilities apply to both individuals and audit firms, meaning that no firm may accept the audit engagement if any of its key partners falls into any of the above categories. Furthermore, when the audit is performed by an individual on behalf of a firm, said individual must also meet the same independence requirements (Companies Act 2018, Art. 1535(4); S.I. 312/2016, Art. 93(2)). The IAASA Ethical Standard 2025 reinforces these incompatibilities by prohibiting any personal or professional relationship that could affect objectivity or create the appearance of a lack of independence, even if it does not fall within the strict categories set out in the Companies Act 2018 (e.g. close non-family relationships, recent business ties, managerial or strategic advisory roles).

Both the Companies Act 2018 (Art. 1536) and the S.I. 312/2016 (Art. 94) prohibit the auditor, the firm, key partners, relevant staff or persons closely associated with them from: (i) holding direct or significant financial interests in the audited entity or in related entities; (ii) carrying out transactions involving financial instruments issued, guaranteed or backed by the entity; (iii) having business, employ-

ment or commercial relationships with the entity during the period under audit, when these may give rise to an actual or apparent conflict of interest. The only exception permitted under both frameworks is the holding of indirect shareholdings through diversified collective investment undertakings, provided that these do not give rise to significant influence or exposure. Similarly, none of these persons may accept gifts or favours from the audited entity or its related parties, unless their value is clearly negligible in the view of an objective and reasonable third party (Companies Act 18, Art. 1536(3); S.I. 312/2016, Art. 94(3)). The IAASA Ethical Standard 2025 also requires the monitoring of the financial interests of persons closely associated and mandates internal reporting and monitoring systems.

In the context of mergers or acquisitions, both Article 1537 of the Companies Act 2018 and Article 95 of S.I. 312/2016 require the auditor to identify and assess any pre-existing relationships that may affect their independence. If any incompatibilities are detected, these must be resolved within a maximum of three months of the operation. The IAASA Ethical Standard 2025 also sets out criteria on how to assess the materiality of past relationships and to document the removal of incompatibilities

Articles 1538 and 1539 of the Companies Act 2018, together with Articles 96 and 97 of the S.I. 312/2016, stipulate that, prior to accepting or continuing an audit, the auditor shall identify and document all significant threats to independence, record the safeguards applied and their effectiveness, and assess the available resources, the necessary expertise and full compliance with the independence requirements. The IAASA Ethical Standard 2025 (Paragraphs. 1.68-1.72) sets out the same requirements and adds that working papers must include the nature of the threat, the extent of the risk to independence, and the safeguards applied. The recommended safeguards include (IAASA Ethical Standard 2025, Paragraph 3.4):

- Appointing a partner who has no previous involvement with the entity as the engagement partner;
- Rotating the partners and the other senior members of the audit engagement team after a predetermined number of years;
- Involving an additional partner, who is not and has not recently been a member of the engagement team, to review the work done by the partners and the other senior members of the engagement team and to advise as necessary;
- Arranging an engagement quality review of the engagement in question.

Although the standard does not require automatic rotation, it does stipulate that, from the tenth year onwards, additional safeguards must be put in place to protect independence.

In situations where it is not possible to mitigate the threat to an acceptable level, the auditor must decline or withdraw from the engagement.

Both the Companies Act 2018 (Art. 1547) and the S.I. 312/2016 (Art. 103) also establish a mandatory cooling-offperiod. The auditor, key audit partner or any persons who have been directly involved in the engagement are prohibited from taking up senior positions within the audited entity (senior management roles, membership of the audit committee or the governing body) until at least one year has elapsed since the end of their involvement in the audit. The *IAASA Ethical Standard 2025* also sets out this prohibition, further specifying that the period must begin on the day following direct involvement in the assignment and that the firm must put in place internal mechanisms to prevent breaches.

//// **TABLE 15** **Exclusions (incompatibilities) Ireland**

Grounds for exclusion / incompatibility	Legal basis (Ireland)	Applicable to
Professional, financial or family ties with the audited entity (employee, director, immediate family member, partner or employee of a director)	Companies Act 2018 Art. 1535(2)-(3); S.I. 312/2016 Art. 93(2); IAASA Ethical Standard 2025	Sole practitioner and audit firm
Registered company shareholders, even if they are not the beneficial owners	Companies Act 2018 Art. 1535(2)-(3)	Sole practitioner
Disqualification from acting as auditor in the entity or at related entities (subsidiary, parent company, group)	Companies Act 2018 Art. 1535(2)-(3)	Sole practitioner and audit firm
Personal or professional relationships that affect objectivity or create the appearance of a lack of independence	IAASA Ethical Standard 2025	Sole practitioner and audit firm
Direct or significant financial interests in the audited entity or its related parties	Companies Act 2018 Art. 1536; S.I. 312/2016 Art. 94; IAASA Ethical Standard 2025	Auditor, firm, key partners, staff involved
Transactions involving financial instruments issued or backed by the entity	Companies Act 2018 Art. 1536; S.I. 312/2016 Art. 94	Auditor, firm, key partners, persons associated
Business, employment or commercial relationships that give rise to actual or apparent conflict	Companies Act 2018 Art. 1536; S.I. 312/2016 Art. 94	Auditor, firm, key partners, persons associated
Accepting gifts or favours (except those of negligible value)	Companies Act 2018 Art. 1536(3); S.I. 312/2016 Art. 94(3)	Auditor, firm, key partners, persons associated
Mergers or acquisitions: obligation to resolve incompatibilities within 3 months	Companies Act 2018 Art. 1537; S.I. 312/2016 Art. 95; IAASA Ethical Standard 2025	Sole practitioner and audit firm
Cooling-off period: prohibition on holding senior positions within the audited entity for one year following the audit	Companies Act 2018 Art. 1547; S.I. 312/2016 Art. 103; IAASA Ethical Standard 2025	Auditor, key partner and staff involved

Fees and limits on fees

The Companies Act 2018 (Article 1544) and the S.I. 312/2016 (Article 101) prohibit audit fees from being conditional upon the provision of other services or being based on contingencies.

With regard to documentation, Article 100(1)(c) of the S.I. 312/2016, requires the maintenance of a clear record of audit and non-audit fees charged, thereby enabling the assessment of any potential financial dependencies on the client. Furthermore, Article 98(1)(j) stipulates that internal remuneration policies within audit firms must be designed to ensure the quality of the work, preventing revenue from non-audit services from influencing the performance appraisal of staff involved in the audit.

The *IAASA Ethical Standard 2025* (IAASA, 2025) sets out clear principles to ensure that fees do not compromise the auditor's independence (Section 4). The standard prohibits audit fees from being contingent on the provision of non-audit services or on contingent outcomes. This applies to both the individual fees of the firm's partners and staff and to the organisation's overall remuneration policy. Furthermore, the firm is required to implement internal control procedures to assess the relationship between audit fees and fees for non-audit services, identify risks of financial dependence on a client, and ensure that partners and staff are not incentivised to secure non-audit services. Fees must be documented and disclosed, ensuring that the management and the audit committee are aware of their composition and magnitude. Where fees for non-audit services pose a significant risk to independence, safeguards must be applied, such as review by an independent partner or a cap on the proportion of the firm's revenue derived from the same entity.

Public Interest Entities (PIE)

Due to their special economic or social significance, PIEs are subject to stricter rules regarding auditor independence. According to the ICAC-ASEPUC (2023) study entitled "*Scope of the definition of Public Interest Entities (PIEs) in other countries. Advantages and disadvantages of a broader scope*", Ireland has not incorporated the option to extend the definition of PIEs beyond the three basic categories set out in European legislation (listed companies, banks and insurance companies) into its legislation.

The Irish regulations governing the PIE audits, consisting of the Companies Act 2018, the S.I. 312/2016 and the IAASA Ethical Standard 2025, establish a coherent and strengthened framework to ensure auditor independence via rules on rotation, caps on non-audit services and fees.

With regard to rotation, as set out in the Companies Act 2018 (Art. 1548) Ireland has adopted the requirement to rotate auditors/firms after a maximum of 10 years in accordance with the Regulation, without allowing for an extension through a public tender or a joint audit, as is the case in other countries which extend this period to 20 or 24 years. However, it does allow PIEs to request an additional period of up to two years in exceptional circumstances (mergers, acquisitions, special investigations) that justify retaining the existing auditor, thereby ensuring that the audit quality is not adversely affected. These applications are processed by the supervisory authority.

On the other hand, the Companies Act 2018 (Art. 1546) and the S.I. 312/2016 (Art. 102) confirm that the key partner responsible for the audit of a private limited company must step down from that role no later than five years after their initial appointment, and require the firm to maintain procedures to monitor compliance with this requirement. Irish law also provides for exceptional extensions of the term of office. Both the Companies Act (Art. 1548) and the S.I. 312/2016 (Art. 104) permit, subject to IAASA authorisation, extending a partner's membership or the firm's term of office for a maximum of two further years, up to a total of seven, in justified circumstances such as mergers, special investigations or other exceptional situations. In cases where it is not possible to clearly determine the start date of the engagement due to company mergers or structural changes, the regulations require that the IAASA be informed, which will then determine the applicable date (S.I. 312/2016, Art. 105).

The *IAASA Ethical Standard 2025* (Paragraph 3.22) sets out time limits depending on the role ("on" = years in the role; "off" = years of mandatory exclusion):

- for the Engagement Partner - EP): maximum of 5 years on, followed by 3 years off before 5 years on, before being able to participate again.
- for Key Audit Partners - KAP): 5 years on / 3 years off.
- For Key Partners Involved in the Engagement - KPIE): 7 years on / 2 years off.
- for the Engagement Quality Reviewer - EQR): 7 years on / 5 years off, given his or her role of independent review.
- Other partners and staff in senior positions– there is no fixed term; however, if they have been working on the same engagement for more than 7 years, the firm must adopt the threats and safeguards approach and take appropriate measures (rotation, additional EQR, independent reviewing partner, etc.).

Additionally, the Companies Act 2018 (Art. 1547) and the S.I. 312/2016 (Art. 103) stipulate that the key audit partner of a PIE may not hold key management positions, sit on the audit committee or act as a non-executive director in said entity until two years have elapsed since they have left the engagement.

With regard to restrictions on non-audit services, the Companies Act 2018 (Art. 1550) permits only certain tax and valuation services, provided they do not have a direct or significant effect on the audited financial statements, that their impact is duly documented, and that the principles of independence are complied with.

S.I. 312/2016 (Art. 106) adopts the same approach, requiring any service permitted to be assessed by the audit committee and documented in the required supplementary report.

For its part, the IAASA Ethical Standard 2025 expressly prohibits a wide range of non-audit services, including tax services, accountancy, the preparation of financial statements, payroll, design and implementation of internal control systems, valuation, legal services and human resources (Paragraph 5.39R) Only services other than those prohibited in paragraph 5.39R may be provided, subject to the approval of the audit committee, once the committee has properly assessed the threats to independence and the safeguards applied in accordance with the *IAASA Ethical Standard 2025* (Paragraph 5.42R).

In accordance with Regulation (EU) No 537/2014, the rules stipulate that fees for non-audit services may not exceed 70 percent of the average audit fees for the three preceding fiscal years. The Companies Act 2018 (Art. 1545) provides for the possibility of applying to the IAASA for a temporary exemption from this limit for up to two fiscal years in exceptional circumstances. The IAASA Ethical Standard 2025 reaffirms this restriction (Paragraph 5.34) and requires full transparency in the disclosure of fees, distinguishing between audit and non-audit services.

//// TABLE 16 Summary - Ireland

Item / criterion	Ireland
Is there a definition of independence?	The IAASA Ethical Standard 2025 defines independence as freedom from conditions and relationships which, in the context of an engagement, would compromise the integrity or objectivity of the firm or covered persons.
Is there an explicit reference to independence in fact and independence in appearance?	The Companies Act 2018 (Art. 1535) and the SI (Art. 91) set out prohibitions designed to ensure that a reasonable third party would not conclude that independence is compromised (i.e. the concept of independence in appearance comes into play). The IAASA Ethical Standard 2025 states that independence may be compromised both "in appearance" and "in fact", applying the "*third-party test*", whereby an assessment must be made as to whether an informed and objective third party would consider independence to be compromised.
Period during which the auditor must be independent	Under the Companies Act 2018, during the period in which the statutory audit is carried out. According to the S.I. 312/2016 and the IAASA Ethical Standard 2025, it must extend to the entire period covered by the financial statements and until the audit is completed.
Are the types of threats (self-review, self-interest, advocacy, familiarity, intimidation) listed?	Both the Companies Act 2018 (Art. 1535(1)), and the S.I. 312/2016 (Art. 93) identify the five threats. The IAASA Ethical Standard 2025 identifies six: self-interest, self-review, management, advocacy, familiarity and intimidation.
Is there an obligation to identify/assess threats to independence and safeguards?	Yes. The Companies Act 2018 (Arts. 1537–1539), the S.I. 312/2016 (Arts. 95–97) and the IAASA Ethical Standard 2025 require that all threats be documented and assessed, and that safeguards be implemented.
General principle of declining an audit engagement if there is an unmitigable threat (self-review, self-interest, bias, familiarity, intimidation)	Yes. The Companies Act 2018, the S.I. 312/2016 and the IAASA Ethical Standard 2025 stipulate that, if there are insufficient safeguards, the auditor must refuse or withdraw from the engagement.
Specific regulation – threat due to financial interests (Art. 22.4.a and b Directive)	Yes. Companies Act 2018 (Art. 1536), S.I. 312/2016 (Art. 94) and the IAASA Ethical Standard 2025 prohibit the auditor or persons involved in the audit from holding significant interests in, or carrying out transactions involving, financial instruments of the audited entity, with the exception of diversified collective investment undertakings.
Specific regulation — threats arising from an employment, commercial or other relationship (Art. 22.4.c)	Yes. Any employment, family or business relationships that may affect independence are prohibited (Companies Act 2018, Arts. 1535(2–4), 1536(2); S.I. 312/2016, Art. 93(2); IAASA Ethical Standard 2025).
Advocacy	Yes. The Companies Act 2018, the S.I. 312/2016 and the IAASA Ethical Standard 2025 prohibit the auditor from acting in the interests of the audited entity.

Regulations regarding gifts /business courtesies	Yes. The Companies Act 2018 (Art. 1536(3)), the S.I. 312/2016 (Art. 94(3)) and the IAASA Ethical Standard 2025 (Paragraph 4.59D)prohibit soliciting or accepting gifts or favours, unless an objective third party would consider them of negligible value.
Regulations on the provision of non-audit services	Yes. The Companies Act 2018 (Art. 1550) and the S.I. 312/2016 (Art. 106) permit only certain tax and valuation services, provided they do not have a direct or significant effect on the audited financial statements, that their impact is duly documented, and that the principles of independence are complied with. The IAASA Ethical Standard 2025 prohibits non-audit services, accountancy, the preparation of financial statements, payroll, design and implementation of internal control systems, valuation, legal services and human resources (Paragraph 5.39R)
Extension of threats/incompatibilities to persons or linked entities (network affiliates, related persons)	Yes. Independence extends to the auditor's network, employees, key partners and persons under their control, as well as to related entities (Companies Act 2018, Art. 1533; S.I. 312/2016, Art. 91; and the IAASA Ethical Standard 2025).
Recusal / prohibition due to concentration of audit fees	Yes. Audit fees must not be dependent on services other than the audit or on contingencies (Companies Act 2018, Art. 1544; S.I. 312/2016, Art. 100 and 101; IAASA Ethical Standard 2025, Section 4).
Prohibition regarding former auditors: period during which they may not hold executive positions, serve on the audit committee or an equivalent body, or act as non-executive director (post-audit)	Yes. A one-year ban is imposed on non-PIEs and a two-year ban on key audit partners of PIEs (Companies Act 2018, Art. 1547; S.I. 312/2016, Art. 103; IAASA Ethical Standard 2025, Section 3).
Regulations transposing/implementing Art. 24bis of the Directive (Independence and objectivity of auditors acting on behalf of audit firms)	Companies Act 2018 (Art. 1535(4), Art. 1536(1), Art. 1536(2), Art.1536(3)), S.I. 312/2016 (Art. 93-94), IAASA Ethical Standard 2025.
For public interest entities (PIEs): options provided for under national legislation regarding external/internal rotation (as permitted by Regulation 537/2014)	Under the Companies Act 2018 (Art. 1548) Ireland does not provide for the extension of the audit contract term beyond the maximum of 10 years as set out in the Regulation, nor for extension through a public tender or a joint audit. It does provide for an additional period of up to two years in exceptional circumstances (mergers, acquisitions, special investigations). The key audit partner must step down five years after their appointment (Companies Act 2018, Art. 1546; S.I. 312/2016, Art. 102). The IAASA may be requested for extensions of up to two years. The IAASA Ethical Standard 2025 sets time limits for *on* and*off* periods, depending on the role (Paragraph 3.22).
For PIEs: Exceptions to the list of prohibited services set out in Article 5 of EU Regulation 537/2014?	Yes, Ireland has introduced exceptions to the "prohibited" list in Article 5 for certain tax and valuation services, under highly specific conditions, provided that said services do not have a direct or significant effect on the audited financial statements; the threats to independence are assessed; and appropriate safeguards are applied (SI 312/2016).
For PIEs: Were stricter requirements introduced under Article 5.4 of the Regulation (a more extensive list of prohibited services)?	No. Ireland did not extend the list of prohibited non-audit services beyond the provisions of Article 5 of the Regulation. However, in the case of permitted services, the Audit Committee must grant prior approval for the provision of such services; properly assess the threats to independence and the applicable safeguards; and issue guidelines on the management of these services, in accordance with the Regulation and the national transposing legislation.
For PIEs: Have stricter requirements regarding fees been introduced under Article 4.4 of EU Regulation 537/2014?	Under Regulation (EU) No 537/2014, fees for non-audit services may not exceed 70 per cent of the average audit fees for the three preceding fiscal years (IAASA Ethical Standard 2025). However, under Article 1545 of the Companies Act 2018, the auditor or audit firm may apply to the Supervisory Authority (IAASA) for a temporary exemption, for up to two fiscal years, from the limits on total permitted fees in exceptional circumstances.

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10 Italy

Glossary

Assirevi	National Association of Audit Firms (*Associazione Italiana delle Società di Revisione Legale*)
CNDCEC	National Board of Chartered Accountants and Accounting Experts (*Consiglio Nazionale Dottori Commercialisti ed Esperti Contabili*)
Codice Civile Italiano	Italian Civil Code
Codice Italiano di Etica e Indipendenza	Italian Code of Ethics and Independence
CONSOB	National Commission for Companies and the Stock Exchange (*Commissione Nazionale per le Società e la Borsa*)
DL 135/2016	Legislative Decree 135/2016
DL 39/2010	Legislative Decree 39/2010
Gazzetta Ufficiale	Official Gazette
INRL	National Institute of Statutory Auditors (*Istituto Nazionale dei Revisori Legali*).
ISA Italia	International Standards on Auditing (Italy)
ISQC Italia 1	International Standard on Quality Control (Italy) 1 (*Principio internazionale sul controllo di qualità ISQC (Italia) 1*)
MET	Ministry of Economy and Finance (*Ministero dell'Economia e delle Finanze*)
RGS	General State Accounting Office (*Ragioneria Generale dello Stato)*

Introduction

Institutional framework

In Italy, the national public supervisory body for the auditing profession is made up of the General State Accounting Office (*Ragioneria Generale dello Stato, RGS*) and the National Commission for Companies and the Stock Exchange (*Commissione Nazionale per le Società e la Borsa, CONSOB*).

The RGS is a government department within the Ministry of Economy and Finance (MEF), which is responsible for compiling the national accounts and for assessing and analysing trends in public expenditure. It has an additional remit related to statutory audits and the supervision of non-PIE audits. All those who are involved in its operation are civil servants. No professionals from the sector are involved, except on the advisory committee.

Activities related to the public oversight of auditors are funded through contributions from statutory auditors and audit firms registered in the Register maintained by the RGS. Registration in the Register entitles auditors to use the official title of statutory auditor.

The RGS carries out quality control reviews of statutory auditors and audit firms that audit non-PIEs, approves and registers statutory auditors and audit firms, endorses relevant standards, provides continuing professional development, and imposes administrative sanctions.

CONSOB is an independent administrative authority, governed by a Board of three members, including the Chairperson. The Board is appointed by Decree of the President of the Republic, on the proposal of the Prime Minister and with the approval of the Council of Ministers. CONSOB is responsible for the regulation and oversight of the Italian securities markets, including the supervision of PIE audits. No professionals from the sector are involved in either the composition of the Board or in its regulatory or inspection activities.

CONSOB is funded by the central government budget and fees collected directly from the markets, market participants and supervised entities, including audit firms.

CONSOB supervises the organisation and activities of statutory auditors and audit firms of PIEs to monitor their independence and technical competence, carries out quality controls and imposes administrative sanctions.

In 2012, the MEF established the Central Commission of Statutory Auditors (*Commissione Centrale per i Revisori Contabili*) by Ministerial Decree. This is an advisory committee consisting of seven members whose role is to provide advice on the exercise of public oversight, specifically regarding the maintenance of the register of trainee auditors, statutory auditors and audit firms.

Furthermore, the development of standards on auditing, ethics and independence, continuing professional development, quality assurance reviews and inspections are activities delegated to the Standard Setting Committee (*Standard Setting Committee – SSC*). This committee is made up of three professional bodies that have signed a special agreement with the Italian Ministry of Economy and Finance: the National Association of Audit Firms (*Associazione Italiana delle Società di Revisione Legale - Assirevi*), the National Board of Chartered Accountants and Accounting Experts (*Consiglio Nazionale Dottori Commercialisti ed Esperti Contabili - CNDCEC*) and the National Institute of Statutory Auditors (*Istituto Nazionale dei Revisori Legali – INRL*).

Statutory audits are performed according to the standards drawn up by the Standards-Setting Committee, together with the MEF and CONSOB, with the MEF bearing ultimate responsibility for approving the standards after consulting CONSOB.

Stricter independence requirements apply solely to PIEs. CONSOB is tasked with defining, through regulation, the situations that may compromise the independence of the statutory auditor, audit firms and the lead auditor of a PIE, as well as the relevant safeguards and measures. Consequently, the independence standards drawn up by the SSC as general rules shall apply to statutory auditors of PIEs to the extent that they are compatible with the special standards established by CONSOB.

The delegation of functions related to quality assurance reviews and inspections is permitted by legislative decree, but to date this has not been implemented for either PIE or non-PIE audits (Accounting Europe, 2021).

Legal framework

The legal framework for auditing in Italy is based on the *Codice Civile Italiano* (the Italian Civil Code), Legislative Decree 39/2010 (amended by Legislative Decree 135/2016), Regulation (EU) 537/2014, and the International Standards on Auditing, all supplemented by the *Codice Italiano di Etica e Indipendenza* (Italian Code of Ethics and Independence).

The *Codice Civile Italiano* (Art. 2409 bis) stipulates that the statutory audit (*revisione legale dei conti*) of a company must be carried out by a statutory auditor (*revisore legale dei conti*) or by an audit firm registered in the relevant register. If the company is not required to prepare consolidated financial

statements, this audit may be performed by a *collegio sindacale* (internal control body), provided that its members are registered statutory auditors.

Legislative Decree 39/2010, published in the *Gazzetta Ufficiale* on 23 March 2010, which came into force on 7 April of the same year, is the key piece of legislation governing statutory audits in Italy and transposes Directive 2006/43/EC, establishing the framework for the statutory audit of annual and consolidated accounts. These regulations govern professional accreditation, the registration of auditors and audit firms, and continuing professional development; they define the requirements regarding independence, incompatibilities, threats and safeguards, as well as internal and external quality control systems; they set out the powers of the Ministry of Economy and Finance and CONSOB in relation to supervision and control, as well as a system of penalties for non-compliance.

This decree was amended by Legislative Decree 135/2016 of 17 July, published in the *Gazzetta Ufficiale* of 21 July 2016, which implements Directive 2014/56/EU, amending Directive 2006/43/EC and further aligning Italian legislation with Regulation (EU) No 537/2014. This new text boosts independence, transparency and the protection of the public interest in statutory audits.

One of the most important sources supplementing the Legislative Decrees is the *Codice Italiano di Etica e Indipendenza*, approved by the *Ragioneria Generale dello Stato* on 23 March 2023 and applicable from 1 January 2023 (with a six-month transitional period). The code aims to bring the ethical and independence principles of Italian auditors into line with international standards, especially using the IESBA Code as a reference.

Furthermore, the *ISA Italia* auditing standards have been officially adopted by the *Ragioniere Generale dello Stato* and drawn up in conjunction with Assirevi, CNDCEC, INRL and CONSOB, pursuant to Articles 11-12 of DL 39/2010. These include:

- The Italian version of *ISA Clarified 2009* (200-720), with specific Italian additions permitted by the IAASB.
- the *Standard di Revisione – Italia* (SA Italia), supplementary Italian standards designed to address legal requirements not covered by the ISAs, such as: verification of accounting records (SA 250B), consistency of the management report (SA 720B), and the audit of financial statements in ESEF format (SA 700B).

The ISQC Italia 1 quality control standard is also incorporated, and is mandatory for all registered auditors.

The ISA Italia and ISQC Italia 1 standards set down objectives, rules of conduct and guidelines for auditing, including specific guidance for smaller entities.

Auditor independence

Regulations, general duty of independence and definition

In Italy, the general duty of independence of the statutory auditor (*revisore legale dei conti*) is regulated by DL 135/2016, which amends DL 39/2010, transposing Directive 2014/56/EU. For Public Interest Entities (PIE), independence is reinforced by Regulation (EU) No 537/2014, which is directly applicable. In addition to these standards, there are the ISA Italia standards, which set out the mandatory technical principles for conducting audits, and the *Codice Italiano di Etica e Indipendenza*.

Article 10(1) of DL 39/2010, as amended by Article 12 of DL 135/2016, stipulates that the statutory auditor, the audit firm and any natural person capable of directly or indirectly influencing the outcome of the engagement must be independent of the audited company and must not participate in any way in its decision-making process.

The new Art. 10(1-bis) specifies that this duty must be fulfilled throughout the entire period covered by the audited financial statements and also during the performance of the engagement itself, reinforcing the notion of independence as an ongoing condition rather than merely an initial one.

Art. 10(1-ter) further explains this obligation, requiring the auditor or the audit firm to take all reasonable measures to ensure that their independence is not compromised by any conflict of interest, including potential conflicts, or by commercial, financial, personal or other relationships, whether direct or indirect, involving the auditor or the audit firm, their network, the members of their governing bodies, directors, auditors and employees, any natural person whose services are made available to or are under the control of the auditor, and any person directly or indirectly linked to them.

The *Italian Code of Ethics and Independence* (Section 120) defines independence as a combination of integrity, objectivity and independence of mind, complemented by the obligation to avoid any circumstances that might give rise to the appearance of a lack of independence. In this regard, it distinguishes between two complementary dimensions:

- Independence in fact: the auditor's ability to act with integrity, objectivity and professional scepticism, without being unduly influenced.
- Independence in appearance: that there are no circumstances that might lead an informed, objective and reasonable third party to conclude that the auditor's independence is compromised.

The ISA Italia, adopted by virtue of Article 11 of DL 39/2010 and updated by DL 135/2016, reinforce the duty of independence from a technical perspective, in accordance with international standards. Specifically, ISA Italia 200 (Overall Objectives of the Independent Auditor) stipulates that independence is an essential component of professional scepticism and the auditor's credibility, while ISA Italia 220 (Quality Management for an Audit of Financial Statements) requires the auditor to assess and document their independence for each engagement, establishing direct links with the quality control systems required by ISQC Italia 1.

Article 10-quater, introduced by DL 135/2016 (Art. 12), expressly imposes an obligation to document the independence assessment carried out prior to accepting the engagement in the working papers, and their continuous updating during the course of the audit.

Threats and safeguards. Incompatibilities and prohibitions

Italian law explicitly recognises that independence may be threatened by various circumstances, which must be identified and managed through appropriate safeguards.

The amended Article 10(2) stipulates that a statutory auditor or audit firm may not perform the statutory audit of a company where there are risks of self-review, self-interest, advocacy, familiarity or threats of intimidation arising from financial, personal, commercial, employment or any other kind of relationship between the audited entity and the auditor, the audit firm, its network or any person capable of influencing the outcome of the statutory audit. The auditor may not accept or continue with the engagement when, after considering the safeguards in place, an objective and reasonable informed third party would conclude that the auditor's independence is compromised.

These threats are fully set out in the *Codice Italiano di Etica e Indipendenza* which, in Sections 120 and 300, requires each threat to be identified, assessed and addressed appropriately. It clearly states that no threat may be disregarded on the grounds that it is "apparently insignificant" without a formal assessment. When such threats cannot be reduced to an acceptable level through safeguards, the auditor must refuse or withdraw from the engagement. It lists five categories of threats:

1. Self-review: it arises when an auditor reviews an engagement in which he or she, the firm or network to which he or she belongs, have been involved, thereby compromising professional scepticism. The *Codice Italiano di Etica e Indipendenza* specifies that this includes the prior provision of accounting, valuation or internal control assistance services that affect the audited figures.

2. Self-interest: it arises when there are financial interests, economic advantages, significant dependence on fees or personal incentives that may influence judgement. The *Codice Italiano di Etica e Indipendenza* emphasises that this threat must be assessed not only in relation to the auditor, but also in relation to their network, as well as in relation to relationships of economic dependence arising from the concentration of fees.

3. Advocacy: it occurs when the auditor acts in defence of the audited entity, by participating in disputes, promoting its interests or undertaking representative duties. The *Codice Italiano di Etica e Indipendenza* emphasises that this threat is incompatible with the auditor's role and rarely allows for sufficient safeguards.

4. Familiarity: it arises when there are excessively close and long-standing personal or professional relationships, or where the auditor may be overly sympathetic towards the organisation or its directors. The *Codice Italiano di Etica e Indipendenza* sets out typical cases: family relationships, close friendships, previous personal conflicts, or an excessively long period spent on the same assignment (justifying rotation).

5. Intimidation: it occurs when the auditor is subjected to pressure, threats, coercion, withholding of fees or undue influence from management. The *Codice Italiano di Etica e Indipendenza* specifies that this threat includes explicit pressure (the threat of replacement) and implicit pressure (hierarchical or financial relationships).

Article 10 (3), as amended, stipulates that the statutory auditor, the audit firm, its key personnel, its professional staff, and any person whose services are at its disposal or under its control and who is directly involved in the audit, may not hold financial instruments issued, guaranteed or backed by the audited entity, unless they are held indirectly through diversified collective investment undertakings, such as pension funds or life insurance policies. Furthermore, they must refrain from any transactions involving such instruments and may not hold any significant direct financial interests. The *Codice Italiano di Etica e Indipendenza* explores this issue in greater depth, pointing out that even insignificant indirect interests must be assessed from the perspective of an informed third party.

Under the amended Article 10 (5), these persons may not participate in or influence the audit if:

a) they hold financial instruments issued by the entity, unless such holdings are held indirectly through diversified collective investment undertakings;

b) they hold financial instruments issued by any entity linked to the audited entity, the ownership of which could give rise to a conflict of interest or may generally be perceived as such, unless such interests are held indirectly through diversified collective investment undertakings;

c) they have had employment, commercial or professional dealings with the audited entity during the period covered by the audit or during the audit itself, which could give rise to a conflict of interest or may generally be perceived as such.

The *Codice Italiano di Etica e Indipendenza* considers these scenarios to fall within the scope of threats arising from self-interest and familiarity, emphasising that prior relationships must be assessed not only on the basis of their nature, but also in terms of their temporal proximity.

When the audited entity is involved in a merger or acquisition, the auditor must immediately identify and assess all existing or recent financial or professional relationships with the acquiring, acquired or merging entity, including non-audit services. Furthermore, they must take the necessary steps to eliminate any incompatible relations within a maximum of three months, and where this is not possible, put in place appropriate safeguards; if independence cannot be ensured even then, they must resign from the appointment (amended Art. 10(6)). The *Codice Italiano di Etica e Indipendenza* emphasises that mergers and acquisitions pose a combined threat of self-interest, self-review and familiarity, and require a more rigorous assessment.

Article 10(7), as amended, introduces a one-year prohibition on the taking up of management positions or significant roles within the audited entity by the key auditor who has been involved in the en-

gagement. This prohibition extends to partners, employees and any professionally qualified person whose services are under the auditor's control, if they have been directly involved in the engagement. In line with Regulation (EU) No 537/2014, the *Codice Italiano di Etica e Indipendenza*, considers this period essential to avoid the risk of familiarity and the perception of collusion between the auditor and directors.

Partners and directors of the audit firm, or of affiliated entities (entities linked to the audit firm through common ownership, common management or a controlling relationship (Art. 1 (1) of DL 39/2010)), are also prohibited from participating in the audit in a manner that compromises the independence or objectivity of the lead auditor of the engagement (Article 10(8), as amended). The *Codice Italiano di Etica e Indipendenza* expands on this principle by emphasising the need for internal structures that ensure separation between the firm's corporate governance and the audit teams.

Article 10(13), as amended, prohibits the acceptance of pecuniary or non-pecuniary gifts or favours from the audited entity or any entity associated with it, except where an informed, objective and reasonable third party would consider their value to be negligible or insignificant. The *Codice Italiano di Etica e Indipendenza* further discusses this rule on this rule, linking it to the threat of familiarity (the proximity or reciprocity effect), the threat of intimidation (pressure through favours), and the need to maintain internal records and policies on the acceptance of gifts.

//// TABLE 17 Exclusions (incompatibilities) Italy

Grounds for exclusion / incompatibility	Legal basis (Italy)	Applicable to
Prohibition on holding financial instruments issued or backed by the audited entity or its affiliates (except for diversified investment schemes)	Art. 10(3)-(5), as amended; *Codice Italiano* Sections 120 and 300	Auditor, firm, key partners, staff involved
Employment, commercial or professional relations with the audited entity during the audit period	Art. 10(5), as amended; *Codice Italiano* Sections 120 and 300	Auditor, firm, key partners, persons associated
Mergers/acquisitions: obligation to resolve incompatibilities within 3 months or withdraw from the engagement	Art. 10(6), as amended; *Codice Italiano* Sections 120 and 300	Sole practitioner and audit firm
Cooling-off period: prohibition on holding senior positions within the audited entity for 1 year following the audit	Art. 10(7), as amended; *Codice Italiano* Sections 120 and 300	Lead auditor, partners and staff involved
Separation between the firm's corporate governance and audit teams (to avoid undue influence)	Art. 10(8), as amended; *Codice Italiano* Sections 120 and 300	Audit firm and affiliated entities
Prohibition on accepting gifts or favours (except those of negligible value)	Art. 10(13), as amended; *Codice Italiano* Sections 120 and 300	Auditor, firm, key partners, persons associated

Fees and limits on fees

Italian legislation sets out clear limits and specific conditions regarding statutory auditors' fees in order to safeguard their independence and objectivity, especially in the context of audits of listed companies or Public Interest Entities (PIEs).

Article 10(9), as amended, stipulates that remuneration for a statutory audit engagement may not be subject to any condition, nor may it be determined on the basis of the outcome of the audit; the provision of non-audit services to the same client, their subsidiaries or parent companies; or any economic or financial circumstances relating to the audited entity. The regulation explicitly prohibits any form of contingent or performance-related fee, as this is considered a significant self-interest threat, incompatible with professional independence.

Furthermore, the amended Art. 10(11) stipulates that the remuneration of staff involved in carrying out the audit at the audit firm must not be linked in any way to the outcome of the engagement, thereby

prohibiting incentives that may influence the team's professional judgement or create undue pressure.

These rules are reinforced by the *Codice Italiano di Etica e Indipendenza*, which regards performance-related pay structures as posing a risk of self-interest and intimidation.

Art. 10(10), as amended, requires fees to be set in such a way as to ensure the quality and reliability of the engagement. To this end, the auditor must identify the necessary resources, in terms of hours and professional profiles, taking into account:

a) The size, composition and risks of the balance sheet, income statement and financial statement items, as well as the risks associated with the group's consolidation process.

b) The technical preparation and experience required for the engagement.

c) The need for adequate supervision and management, in accordance with the principles of Art. 11 and ISA Italia 220.

ISA Italia 220 reinforces this requirement by stating that fees must never compromise the ability to allocate sufficient resources for the performance of the audit, a principle also set out in ISQC Italia 1.

Furthermore, Article 13, as amended, stipulates that fees must be set by the shareholders' meeting, cover the entire term of the engagement and be sufficient to enable "an audit carried out according to the requisite standard of quality".

Article 10-ter regulates non-audit services. Whilst it does not prohibit the provision of services to non-PIEs, it imposes three fundamental obligations:

1. A formal assessment of independence, applying the conceptual framework of the *Codice Italiano di Etica e Indipendenza*.

2. Detailed documentation in the working papers.

3. Prior notification to the supervisory body (audit committee or equivalent body).

The *Codice Italiano di Etica e Indipendenza* identifies economic dependence as a significant threat of self-interest when fees for non-audit services represent a significant proportion of the total fees invoiced to the client. In such cases, safeguards must be put in place or, if these are not effective, the engagement or service must be declined.

The audit committee (or equivalent body) of the audited entity must assess and monitor the level of fees and their allocation between audit and non-audit services, especially in PIEs. This assessment must be part of the overall supervision of the auditor's independence.

Furthermore, the regulations require full transparency as regards the fee structure in the supplementary report to the audit committee and in the transparency statement that must be prepared by audit firms auditing public interest entities.

Public Interest Entities

Italy does not extend the scope of the definition of public interest entities beyond that set out in Directive 2014/56/EU. However, through Legislative Decree 135/2016, which implements the Directive, it has established a new category of Entities Subject to an Intermediate Regime (ESRI), which were previously considered PIEs, and which are subject to a less stringent regulatory regime, as they are only subject to Articles 4.1 and 4.2 (audit fees), 5.1 and 5.5 (prohibition on non-audit services), 6.1 (preparation for the audit and assessment of threats to independence), 7 (irregularities), 8 (quality control), 12 (reporting to PIE supervisors) and 17 (duration of the audit engagement) of the Regulation. *"These ESRIs are unlisted companies that issue widely distributed financial instruments; operators of regulated markets or clearing and guarantee schemes; centralised financial instrument clearing houses; share brokerage firms; Italian asset management and fund management companies; Italian investment funds managed by EU management companies; alternative investment fund managers*

(AIFMs) from inside and outside the EU; open-ended and closed-ended investment companies; payment institutions as defined in Directive 2007/64/EC; e-money institutions; and financial intermediaries referred to in Article 106 of the TUB (Testo Unico Bancario)" (Condor and Brusca (eds.), 2023).

In this area, the applicable regulations are based on DL 39/2010, the amendments introduced by DL 135/2016 and Regulation (EU) No 537/2014, which is directly applicable in Italy, and compliance with its requirements is overseen by CONSOB.

Italian legislation already provided for specific independence requirements for these entities, but the 2016 reform and the implementation of the European Regulation have considerably tightened the obligations of statutory auditors. One key area of reinforcement concerns the mandatory rotation requirements, both for the auditor and for the key engagement partner. In accordance with DL 135/2016 (Art. 17.1, as amended), the maximum term of an engagement is set at nine years when assigned to an audit firm and at seven years when entrusted to a sole practitioner. Furthermore, the engagement may not be renewed until at least four consecutive fiscal years have elapsed since its completion, a measure intended to prevent prolonged relationships that may undermine the auditor's objectivity. In accordance with these rules, the key audit partner – where the auditor is an audit firm – may not perform the same engagement for more than seven consecutive fiscal years, and must observe a cooling-off period of cooling-off period of three years before being able to resume responsibility for the engagement, even on behalf of another audit firm (Article 17.4). This dual rotation – of the firm and the key partner – constitutes one of the cornerstones of the European system of safeguards in PIE audits.

DL 135/2016 (Art. 17, as amended) also prohibits the auditor, the key audit partner or any person with significant influence over the audit from holding management, supervisory or control positions within the audited entity for at least two years following the conclusion of the engagement. The aim is to eliminate any appearance of collusion or familiarity that might compromise the public perception of independence.

Another key aspect concerns the provision of non-audit services. Article 5 of Regulation (EU) No 537/2014 sets out an exhaustive list of services prohibited for PIE auditors, which is applied by Italy in full, without any national exceptions (Art. 17,a s amended).

Furthermore, the Regulation imposes limits on fees for non-audit services, which may not exceed 70 percent of the average audit fees invoiced over the three preceding consecutive fiscal years. This rule, which has been fully adopted by the Italian regime, is closely linked to the monitoring of economic dependence, which the*Codice Etico e di Indipendenza* identifies as a serious threat of self-interest. When the audited entity accounts for a significant proportion of the auditor's revenue, the auditor must apply robust safeguards or withdraw from the engagement if these prove ineffective.

CONSOB plays a key role in this strengthened system, in accordance with amended Articles 18 and 26 of DL 135/2016, exercising expanded inspection, supervision and disciplinary powers over PIE auditors. Specifically, it monitors compliance with independence rules, reviews additional reports prepared by the auditor in accordance with Article 11 of Regulation (EU) No 537/2014, verifies the correct application of fee limits, and monitors incompatibilities and cooling-off periods.

Finally, ISA Italia contributes to consolidating this strengthened regime from a methodological perspective. ISA Italia 200 emphasises that independence is a prerequisite for professional scepticism, which is especially critical in PIE audits due to their impact on market confidence. Additionally, ISA Italia 220 requires audit firms to implement quality control procedures capable of ensuring the independence of the audit team and of adequately addressing threats arising from the context of public interest entities.

//// **TABLE 18** **Summary - Italy**

Item	Italy
Is there a definition of independence?	Amended Art. 10 of DL 135/2016 stipulates that the statutory auditor, the audit firm and any natural person who may directly or indirectly influence the outcome of the audit must be independent of the audited entity. The Code of Ethics (2023) provides a more detailed definition: independence in fact and independence in appearance.
Is there an explicit reference to independence in fact and independence in appearance?	DL 135/2016, by amending Art. 10, broadens the definition of independence compared to the previous regulations; however, the concept of appearance is better explained in the Code of Ethics, which distinguishes between mental independence (a state of mind that allows for impartial judgement) and independence 'in the eyes of third parties' (appearance).
Period during which the auditor must be independent	DL 135/2016 stipulates that the requirement of independence be maintained throughout the period to which the financial statements under audit are related, and during the performance of the audit itself (Art. 10, 1-bis). The Code of Ethics (R400.30 and comments) specifies that the period begins with the start of the audit activity and ends on the date of signing of the audit report (or the date on which the final audit report is issued, in case of a multi-year engagement).
Are the types of threats (self-review, self-interest, advocacy, familiarity, intimidation) listed?	The Code of Ethics and DL 135/2016 list the classic categories: self-review, self-interest, advocacy, familiarity and intimidation. The Code of Ethics explains how these threats arise and provides guidelines for their assessment.
Obligation to identify/assess threats and establish safeguards	Both the Code of Ethics (Sections 120 and 300) and Art. 10-bis of DL 135/2016 require the auditor to assess and document the presence of risks to independence before accepting or continuing an engagement, and, where appropriate, to establish safeguards or otherwise reject or withdraw from the engagement. There is also an obligation to document all relevant risks and the measures taken.
General principle of incompatibility (parallel to Art. 22.1 of the Directive)	DL 135/2016 establishes a general principle of incompatibility: persons who carry out or may influence the audit must not have relationships or interests that compromise independence (Art. 10 and implementing provisions).
Specific regulation on threats arising from financial interests (Art. 22.4.a and b of the Directive)	DL 135/2016 prohibits auditors, their key staff, related parties or persons closely associated from holding financial instruments issued, guaranteed or supported by the audited entity or its related parties (except for indirect holdings in diversified collective investment schemes). Furthermore, they are required to refrain from trading in such instruments and to document the situation. The Code of Ethics sets out criteria for assessing such relationships, when they are of significant importance, their effects on independence and the requirement for safeguards.
Threats arising from employment, commercial or other relationships (Art. 22.4.c of the Directive)	DL 135/2016 stipulates that auditors may not carry out the audit when there are risks arising from financial, personal, business or employment relationships between auditors (or their network) and the audited entity. Participation in the audit is also prohibited where there are recent employment or commercial relationships that would be perceived by a reasonable third party as constituting a conflict of interest. The Code of Ethics requires such relationships to be assessed.
Advocacy threat	The concept of advocacy is recognised as a threat and is expressly included amongst the situations that prevent the performance of an audit when there is a risk of compromising independence. DL 135/2016 and the Code of Ethics provide for both a prohibition and the need for measures to be taken where there is a significant risk.
Regulations on gifts / presents / hospitality	DL 135/2016 prohibits the auditor or related parties from accepting gifts or favours from the audited entity or related entities, unless they are of negligible value in the opinion of a reasonable, informed third party. The *Codice Italiano di Etica e Indipendenza* further discusses this rule on this rule, linking it to threats and the need to maintain internal records and policies on the acceptance of gifts.
Non-audit services	Rather than an exhaustive list of prohibited services, DL 135/2016 adopts a risk-based approach; however, it does require the provision of non-audit services to be assessed in terms of their impact upon independence, and prohibits audit fees from being dependent on results or conditional upon non-audit services. For Public Interest Entities, it refers to the EU Regulation.

Extension of threats/incompatibilities to related persons or entities (network, controlled entities, entities linked to the auditor)	Both DL 135/2016 and the Code of Ethics extend the assessment of independence to family members and close personal relationships; partners, key employees and the firm's network; and entities controlled by, linked to or associated with the auditor.
Recusal / prohibition due to concentration of fees (auditor–non-audit services ratio) / dependence on fees	DL 135/2016 stipulates that remuneration for the audit should not depend on the outcome of the audit nor be contingent upon other services provided to the audited entity, its subsidiaries or the network. In case of PIEs, EU Regulation 537/2014 sets limits on the concentration of fees from services other than auditing. Italian regulations comply with these limits, but do not impose stricter limits The Code of Ethics requires transparency regarding fees and services provided to the audited entity.
Prohibition: former auditor taking up management positions / membership of the audit committee / equivalent body (cooling-off period)	DL 135/2016 stipulates that the key audit partner and key personnel shall not take up management positions within the audited entity (minimum 1 year and 2 years in the case of PIEs).
Transposition / implementation of Article 24-bis of the Directive (independence of auditors acting on behalf of an audit firm).	DL 135/2016 amended DL 39/2010 to strengthen the independence rules applicable to those acting on behalf of audit firms (not just auditors who are sole practitioners). The Code of Ethics also applies principles of independence to those acting on behalf of the audit firm.
For PIEs: external/internal rotation (national options in accordance with EU Regulation 537/2014)	In accordance with DL 135/2016 (Article 17, as amended), the maximum term of an engagement is set at nine years when assigned to an audit firm and at seven years when entrusted to a sole practitioner. Furthermore, the engagement cannot be renewed until at least four consecutive fiscal years have elapsed since its completion. The key audit partner may not perform the same engagement for more than seven consecutive fiscal years and must observe a three-year cooling-off period. DL 135/2016 (Art. 17, as amended) also prohibits the auditor, the key audit partner or any person with significant influence over the audit from holding management, supervisory or control positions within the audited entity for at least two years following the conclusion of the engagement.
For PIEs: Exceptions to the list of prohibited services (Art. 5 of the Regulation)?	Italy has not introduced additional national exceptions to the prohibitions set out in Art. 5 of the Regulation on PIEs.
For PIEs: Stricter national requirements under Art. 5.4 (prohibited services)?	There are no stricter Italian regulations that extend the list of prohibited services beyond that set out in the Regulation.
For PIEs: Stricter requirements regarding fees (Art. 4.4 of the Regulations)?	There are no Italian provisions imposing stricter limits on fees than those already laid down in the Regulation.

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11 Luxembourg

Glossary

CSSF	*Commission de Surveillance du Secteur Financier*
IRE	*Institut des Réviseurs d'Entreprises*
CCAP	*Comité Consultatif de la Profession du Commissariat aux Comptes*

Institutional framework

As in most comparable countries, Luxembourg's institutional framework combines an independent public authority responsible for audit oversight with a professional body that contributes to the technical regulation and self-regulation of the profession.

In Luxembourg, public oversight of the audit profession is the responsibility of the *Commission de Surveillance du Secteur Financier* (CSSF). Law of 23 July 2016 concerning the audit profession ("Audit Law") transposed Directive 2014/56/EU and implemented Regulation (EU) No 537/2014, entrusting the CSSF with the task of public oversight of auditing (CSSF, n.d.).

Consequently, the CSSF has assumed extensive regulatory powers: it is responsible for the authorisation of prospective auditors (including supplementary training and passing the professional aptitude examination); for the accreditation of statutory auditors or audit firms; and for the registration of approved statutory auditors and audit firms (CSSF, n.d.).

Furthermore, the CSSF maintains the official public register (including third-country auditors), adopts the applicable international standards on auditing, professional ethics and internal quality control, verifies compliance with the requirements for auditors' continuing professional development, establishes an independent quality assurance system (involving periodic inspections of auditors) and manages the system of investigations, measures and administrative penalties related to auditing activities (CSSF, n.d.).

The CSSF actively cooperates with other national and international audit supervisory authorities, representing Luxembourg in European and international forums such as the CEAOB and IFIAR. It should be noted that the CSSF has a Consultative Committee for the Audit Profession (CCAP) in which representatives from the Ministry of Justice, the Ministry of Finance, the Ministry of Education, the *Institut des Réviseurs d'Entreprises* (IRE) and the financial sector participate alongside the CSSF, their role being to advise on audit regulations (Accountancy Europe, n.d.).

At the same time, the profession is organised within the *Institut des Réviseurs d'Entreprises* (IRE), a public-law corporation established in 1984, and to which all auditors and audit firms in Luxembourg must belong (IFAC, n.d.).

Although the IRE is not a government authority, it performs functions related to self-regulation and representation. Its key responsibilities include: defending the rights and interests of the profession; issuing technical standards for work other than statutory audits; ensuring compliance with professional standards and the duties of its members (except in relation to statutory audits, the supervision of which falls to the CSSF); ensuring that its members comply with anti-money laundering obliga-

tions; mediating disputes between auditors or with third parties (except those related to statutory audits); and proposing initiatives that are in the profession's interests to the CSSF (IFAC, n.d.).

The IRE also carries out delegated or complementary functions within the regulatory system: for example, it participates in CSSF technical committees, providing technical guidance, and administers a peer review quality control system on the professional work of its members other than statutory audits, and exercises disciplinary authority through its independent Disciplinary Board (IFAC, n.d.).

However, the CSSF retains ultimate responsibility for key statutory audit areas (approval of auditors, audit quality control, investigations and penalties) (Accountancy Europe, n.d.), thereby ensuring effective public oversight.

Legal framework

The Luxembourg legal framework governing audits is aligned with that of the EU, combining public regulation (the 2016 Audit Law and CSSF regulations) with professional self-regulation (the IRE's articles of association and technical standards).

The Law of 23 July 2016 regulates the auditing profession in Luxembourg and fully aligns the national framework with EU law. The Law transposes Directive 2014/56/EU, amending Directive 2006/43/EC on statutory audits, and implements Regulation (EU) No 537/2014, applicable to the audit of public interest entities. The Audit Law sets out the rules governing public oversight of auditing, the conditions for entry into and practice of the profession, and brings domestic legislation into line with the EU framework.

Furthermore, it amends the Law of 1915 on Commercial Companies to bring its provisions into line with the new audit requirements. More specifically, Article 1750.1.1 of the Commercial Companies Law expressly stipulates that any entity preparing consolidated accounts is required to have them audited by one or more auditors. Furthermore, Article 1750.2 sets out in detail how such an audit is to be performed, defining the content of the audit report, the scope of the work, the applicable auditing standards (including the ISAs adopted in Luxembourg), as well as the requirements regarding signature, date and, where applicable, the issuance of joint audit reports.

Under the 2016 Audit Law (Art. 33), in Luxembourg, the audit of financial statements must be carried out in accordance with the international standards adopted by the European Commission, although the CSSF retains the power to issue its own regulations to govern specific matters not covered by said European standards.

In Luxembourg, auditors are legally required to apply the International Standards on Auditing (ISA) adopted by the European Union, as well as the IESBA's International Code of Ethics for Professional Accountants. This application is governed by CSSF Regulation 24-02 of 2024, which makes the ISAs and the IFAC Code of Ethics mandatory under Luxembourg law and supplements them with specific national requirements. The aforesaid Regulation especially incorporates, via a mandatory Luxembourg supplement, the additional requirements arising from the Luxembourg Audit Law of 2016 and EU Regulation 537/2014, particularly regarding independence, professional ethics and the audit of public interest entities. This approach ensures a consistent and strengthened application of international standards within the European and national legal framework (CSSF, 2023).

The 2002 Law on accounting and annual accounts of companies requires a statutory audit only when a company exceeds, for two consecutive fiscal years, two of the three thresholds set out in Article 35. Thus, pursuant to Luxembourg regulations, a company must have its accounts audited by an external auditor if it exceeds two of the following three criteria for two consecutive fiscal years: (i) a balance sheet total of 4.4 million euros; (ii) net turnover of 8.8 million euros; (iii) an average of 50 employees (Guichet, 2016).

Additionally, when a company has more than 60 partners, it must establish a supervisory board consisting of one or more internal auditors (*commissaires*) (Art. 710-27 of the Law on Commercial

Companies), which constitutes a statutory internal control mechanism, not a statutory audit. Once the thresholds requiring an audit of the annual accounts have been exceeded, the company must appoint an independent auditor to audit its financial statements, replacing the internal auditor, if there is one. However, Luxembourg companies usually retain the role of the *commissaire* as an internal supervisory body, even when an external auditor is not required.

For their part, all public interest entities (PIEs) -such as listed companies, credit institutions, insurance companies and other entities designated by law- must undergo an annual audit performed by a registered auditor, in accordance with the additional requirements of Regulation (EU) No 537/2014. Luxembourg has adopted the European definition of a PIE and has even included certain financial vehicles within this scope, such as certain investment funds or companies issuing fixed-income securities, given the systemic importance of the local financial sector (CSSF, n.d.).

With regard to training and entry into the profession, Luxembourg has implemented the European requirements for Initial Professional Development (IPD) and Continuing Professional Development (CPD) through the Audit Law and national regulations. To obtain the title of statutory auditor, candidates must hold a master's degree (or equivalent) and be of good standing; undertake a professional placement of at least three years supervised by the CSSF (under the tutelage of a qualified auditor); complete supplementary training in Luxembourg law (taught by the University of Luxembourg) and pass a specific professional aptitude examination organised by the CSSF (CSSF, n.d.).

Once these requirements have been met, the CSSF awards the title of statutory auditor, after which the professional may apply for authorisation to sign audit reports. Recognition and exemption procedures are in place to simplify access for experienced or qualified professionals from abroad: for example, part of the training period or the examination may be recognised for auditors already qualified in other Member States, or candidates with extensive experience (7 or 15 years) in finance, law or accountancy may be exempted from certain requirements (CSSF, n.d.).

Practising auditors must undertake continuing professional development: the CSSF and the IRE set and monitor requirements to ensure that auditors complete at least 120 hours of training every three years (a minimum of 20 hours per year), in line with international standards (IFAC, n.d.)

Independence

Regulations, general duty of independence and definition

Luxembourg law imposes a strict duty of independence on the auditor, which is regarded as a fundamental pillar of the audit's credibility. The Audit Law expressly requires that, when carrying out an audit, the auditor and the audit firm, as well as any natural person who may directly or indirectly influence the outcome of the audit, must be independent of the audited entity and must not be involved in its decision-making (Art. 20 of the Audit Law).

Independence must be maintained throughout the period covered by the audited financial statements and the duration of the audit (CSSF, n.d.). Any activity or link that undermines the principles of professional independence is considered incompatible with the performance of the audit: the Law states that the auditor's work is "incompatible with any activity liable to detract from the principles of independence of the profession" (CSSF, n.d.).

The same Article 20 of the Law stipulates that the auditor or audit firm shall not carry out a statutory audit of the accounts if there is a risk of self-review, self-interest, advocacy, familiarity or intimidation arising from a financial, personal, commercial, employment or other relationship between the audited entity and the auditor (or the audit firm), its network and any natural person who may influence the outcome of the statutory audit of the accounts, in such a way that an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the auditor or the audit firm is compromised.

In practice, this means that the auditor may not simultaneously perform functions that give rise to a conflict of interest (for example, holding or having a substantial and direct interest in a controlled entity, or entering into any transaction involving a financial instrument issued, guaranteed or otherwise backed by a controlled entity, except in the case of interests held indirectly through diversified collective investment undertakings).

While Luxembourg law does not provide a detailed theoretical definition of independence (referring instead to European frameworks), it does explicitly incorporate the conceptual framework of threats and safeguards established by EU legislation. The Audit Law prohibits the acceptance or continuation of an audit engagement if there are threats to the auditor's independence arising from financial, personal, employment or other relationships with the client (CSSF, n.d.).

In particular, Article 20 of the Law stipulates that the auditor shall not perform the audit if an objective and reasonable third party, taking into account the safeguards applied, were to conclude that the auditor's independence is compromised (CSSF, n.d.).

This clause enshrines, in legal terms, the central principle of the Code of Ethics: in the event of an insurmountable threat to independence, the only acceptable response is to abstain from or withdraw from the audit engagement in order to protect the public interest. Furthermore, the law requires the auditor to refrain from becoming involved in the management or decision-making of the audited entity (CSSF, n.d.), thereby reinforcing the duty of impartiality and objectivity throughout the engagement.

The general duty of independence in Luxembourg is mandatory and entails specific obligations for the auditor. It requires a constant attitude of professional scepticism and a proactive assessment of potential conflicts of interest. The law and CSSF regulations (including the adopted Code of Ethics) require the auditor to identify, assess and document threats to their independence in each engagement, as well as the safeguards applied (CSSF, n.d.).

The auditor must record all significant threats to their independence and the safeguards implemented to mitigate them in the working papers (CSSF, n.d.). Failure to comply with these obligations (for example, failing to carry out the independence assessment, failing to document it, or failing to decline an engagement where appropriate) constitutes a punishable offence. In this regard, auditor independence is not merely an ethical principle in Luxembourg, but a legally enforceable requirement, the breach of which may result in professional and administrative sanctions.

Threats and safeguards

The 2016 Audit Law establishes a comprehensive framework for safeguarding auditor independence, based on the identification of threats and the mandatory implementation of safeguards. In particular, Article 20.1 requires auditors and any person capable of influencing the outcome of the engagement to be independent of the audited entity, both during the period covered by the financial statements and during the period of performance of the statutory audit. The same article expressly prohibits the existence of financial, personal, commercial, employment or other relationships that give rise to threats of self-review, self-interest, advocacy (representation), familiarity or intimidation, to the extent that a reasonable third party might conclude that independence is compromised (Art. 20.1.4).

Article 20.2 reinforces this prohibition by preventing the auditors, his or her team or persons closely associated from holding substantial or direct interests in the entity, or from carrying out transactions involving financial instruments issued or guaranteed by it. Article 20.3 requires all significant risks to independence and the safeguards applied to be documented in the working papers. Article 20.4 adds that no person subject to the provisions of Article 20.2 may participate in or influence an audit while maintaining current or recent relationships that could give rise to a conflict of interest. Furthermore, Article 20.5 prohibits the acceptance of gifts or favours, unless their value is objectively negligible.

In particular, the auditor, his or her team, the firm and any person who may influence the outcome of the audit must not have significant financial links or business relationships with the audited entity that could create a self-interest in the outcome (CSSF, n.d.). Thus, it is prohibited to hold shares or financial instruments in the audited client (or in entities linked to the client), except for indirect holdings via diversified funds (CSSF, n.d.). Similarly, no member of the audit team may have had any employment or other relationships with the client during the period under audit that could give rise to a conflict of interest (for example, having recently been a director or employee of the client) (CSSF, n.d.).

Article 21 introduces one of the essential safeguards against the threat of self-review arising from future personal ties, by establishing cooling-off periods. Consequently, the lead auditor may not hold any significant management positions within the entity until one year (two years in the case of public interest entities) has elapsed since ceasing to be involved in the audit (Art. 21.1); this restriction also applies to other members of the audit team (Art. 21.2).

Before accepting or renewing an engagement, the auditor must perform a prior, documented assessment of compliance with independence requirements, existing risks and applicable safeguards, as well as his or her resources and capabilities to perform the work properly (Art. 22).

If a new circumstance arises during the audit that gives rise to a new threat (for example, a merger linking the auditor to another entity), the regulations require the auditor to act with due diligence: within a maximum of three months, the auditor must eliminate any new interest or relationship that compromises their independence and apply safeguards in the meantime (CSSF, n.d.). These provisions demonstrate that independence requires continuous monitoring by the auditor, adjusting to changes in circumstances.

Article 23 reinforces independence by prohibiting the owners, directors or supervisors of the audit firm from interfering in the performance of the audit in a manner that compromises the auditor's objectivity.

Finally, Article 24 imposes organisational obligations aimed at protecting independence at a structural level: procedures to prevent interference by owners in the audit engagement (Art. 24.1.a); internal quality control and risk assessment mechanisms (Art. 24.1.b); appropriate training and competence policies (Art. 24.1.c); controls over the outsourcing of relevant functions (Art. 24.1.d); and specific systems to prevent, detect, eliminate or manage threats to independence (Art. 24.1.e). It also requires remuneration policies that do not incentivise the sale of non-audit services to the audited client (Art. 24.1.j), ensuring that there are no financial incentives that could undermine objectivity.

Incompatibilities and prohibitions

The Luxembourg audit regime establishes a comprehensive system to safeguard the auditor's independence. Through a combination of incompatibilities and prohibitions, incorporated international ethical standards and active oversight by the CSSF, the aim is to ensure that Luxembourg auditors carry out their duties with complete impartiality, objectivity and professional scepticism. Measures related to incompatibilities, rotation and fee control are aligned with European practices to boost public confidence in audit reports. Ultimately, the Luxembourg regulatory framework seeks to ensure that audit quality and integrity are protected by a robust institutional, legal and ethical framework.

In Luxembourg, the incompatibilities and prohibitions related to the independence of statutory auditors are not derived solely from EU Regulation 537/2014 and the IFAC Code of Ethics, which are binding, but are reinforced by a clearly identifiable set of supplementary rules: the 2016 Audit Law, which implements and extends the European regime; and CSSF Regulation 24-02, which makes international standards mandatory and incorporates national supplements. To this may be added the supervisory role of the CSSF, which contributes to the strict and consistent application of the principle of independence.

The main restrictions include:

- *Prohibited services*: Auditors and their firms are prohibited from providing a range of non-audit services deemed incompatible by European regulations in audits of public interest entities, such as tax advice, accounting services, management consultancy that influences the financial statements, and the design of financial risk control systems, amongst others. Luxembourg applies the "blacklist" of prohibited services set out in Regulation (EU) No 537/2014 without any further extensions. Pursuant to this Regulation, the auditor must state in their report that they have not provided any prohibited non-audit services to the client and must describe any additional permitted services that they have provided.

- *Duration of the engagement and rotation*: In order to prevent situations of excessive familiarity between the auditor and the audited entity, the European framework has established strict time limits on the duration of audit engagements, especially in the case of public interest entities (PIEs). In Luxembourg, and in accordance with Regulation (EU) No 537/2014, PIE audit engagements may be renewed annually, but their duration may not exceed ten consecutive years with the same auditor or audit firm, after which the entity must change auditors. However, the Regulation allows for this maximum period to be extended when certain measures aimed at strengthening independence are adopted: in particular, the mandate may be extended to a maximum of twenty years when, at the end of the initial period, a public tender procedure is organised, and to a maximum of twenty-four years when the audit is performed as a joint audit or co-audit, by appointing more than one auditor or audit firm to carry out the engagement simultaneously. Luxembourg regulations do not impose mandatory rotation of the audit firm or partner in non-PIE audits, although auditors are expected to apply the necessary safeguards against threats arising from familiarity (for example, voluntary rotation of partners or staff on long-term engagements). In any event, the auditor's "irremovability" during their term of office is also protected: an appointed auditor may not be dismissed arbitrarily before the end of their term (which, in public limited companies, is usually determined by the general meeting and is often renewable on an annual basis). The law stipulates that auditors may only be dismissed on justified grounds, and specifically excludes disagreements with management over accounting criteria or audit procedures from constituting, in themselves, just cause (CSSF, n.d.). Furthermore, any resignation or early dismissal of an auditor must be reported to the CSSF, together with the reasons therefore (CSSF, n.d.), so that the authority can assess whether there was undue pressure or a breach of independence. This principle of auditor stability ensures that professional can carry out their work without fear that the audit contract will be terminated for issuing unfavourable reports or for challenging the client's management.

- Revolving doors and personal relationships: Similarly, there are post-engagement restrictions in place to prevent conflicts of interest. An auditor or key partner who has audited an entity may not take up a position as a director, board member or member of the audit committee of that entity until a waiting period (one year for non-PIE entities) has elapsed from the time they ceased to be the auditor of said entity (CSSF, n.d.). For example, under the provisions of the 2016 Audit Law and CSSF Regulation 24-02, an audit partner of a bank may not accept a senior management position at that bank until (at least) two years have elapsed since the audit was completed, and the same also applies the other way around: key management personnel of the audited entity are prohibited from joining the audit firm in roles related to the audit of the same client within that period. This mandatory cooling-off period is intended to prevent the auditor from changing roles immediately and thereby casting doubt on the objectivity of their past or future audits. In addition to the above, the law and the code prohibit the auditor or his or her team from having close family ties with the client's management (e.g. auditing a company in which their spouse holds a financial position would be incompatible). In short, the goal is to eliminate any relationship – whether professional, financial, employment-related or personal – that may compromise the auditor's independence, even if only in appearance.

- *Other professional incompatibilities*: The laws of Luxembourg stipulate that the role of auditor may not be carried out in parallel with activities that could compromise independence or ethical

standards. For example, an auditor may not be involved in preparing the accounts or drafting the financial statements of the audited client, when this would compromise their independence. In case of public interest entities, such involvement is strictly prohibited under Article 5 of Regulation (EU) No 537/2014. For non-PIEs, Luxembourg legislation permits only occasional and ancillary accounting advice, provided that the auditor does not assume management functions, that responsibility remains entirely with the client's management, that no significant threat of self-review arises, and that such threats and safeguards are adequately documented. The recurring provision of accounting services or the preparation of financial statements by the auditor is considered incompatible even in non-PIEs, pursuant to the 2016 Audit Law and the IFAC Code of Ethics, which applies in Luxembourg under the supervision of the CSSF. These restrictions extend to the audit firm's network: no firm within the auditor's international network may undertake functions that the auditor is prohibited from performing for the client, and independence must be assessed by also taking into account any business or financial relationships between other companies in the auditor's group and the audited entity (CSSF, n.d.).

Compliance with these standards is subject to scrutiny both in the CSSF's quality inspections and in the firms' internal reviews.

Table 19. Exclusions (incompatibilities) provides an overview of the exclusions set out by the Audit Law of Luxembourg

//// **TABLE 19** **Exclusions (incompatibilities) Luxembourg**

Grounds for exclusion	Legal basis	Applicable to:
Being in paid employment, other than at an audit firm.	Art. 19.2 Art. 20.1 & 20.4.	Sole practitioner. This applies to family members and key personnel only where their relationships pose a threat to independence that is apparent to an objective third party.
Having financial, personal, commercial, professional or other relationships that compromise independence.	Art. 20,1 and 20.2	Sole practitioner and Audit firms. Also, any persons who may directly or indirectly influence the audit, the auditor's network and persons closely associated with them, provided that their financial, personal, commercial or employment relationships could compromise independence from the perspective of an objective third party.
Having substantial and direct financial interests in the audited entity or its financial instruments.	Art. 20.2	Sole practitioners, audit firms, partners, employees and persons closely associated.
Participating in audits if there has been a recent relationship with the audited entity (employment, business, etc.).	Art. 20.4	Auditor, audit firm, partners, audit team members, other persons involved in the engagement and persons closely associated, where there is an employment, commercial or similar relationship that could compromise the independence of the audit.
Accepting gifts or favours from the audited entity, unless their value is negligible.	Art. 20.5	Auditor, audit firm, partners, audit team members, other persons involved in the engagement and persons closely associated who accept gifts or favours from the audited entity or related entities, except where their value is objectively negligible or insignificant in the opinion of a reasonable and informed third party.

Fees

Luxembourg legislation also seeks to ensure that the financial relationship between the auditor and the client does not undermine independence. Firstly, fees contingent on the outcome of the audit are expressly prohibited: these may not depend on the provision of additional services to the client or on desired results, but must be set according to the scope of the engagement and the level of effort

required. This is set out in Article 20.3 of the Law, which states that this practice undermines the auditor's objectivity and independence and must be avoided.

Any form of payment or benefit that constitutes an undue incentive for the auditor is also prohibited. For example, an audit firm may not offer bonuses to a partner based on the sale of consultancy services to the same client who is being audited. In this regard, Article 24.1.j of the Law requires audit firms to establish internal remuneration policies that guarantee audit quality and are free from conflicts of interest: revenue derived from non-audit services provided to a client must not influence the performance appraisal or the remuneration of those who participate in or may influence the audit engagement.

This rule, introduced as part of the reform, aims to eliminate the perverse incentive to sell lucrative services to the client at the expense of audit objectivity. In the same vein, if fees derived from a single client account for a very high proportion of the auditor's total revenue -a situation reflecting financial dependence- the auditor must assess the risk it poses to their independence, document it and implement safeguards. If independence cannot be guaranteed, the auditor must decline the engagement. In the case of public-interest entities, Article 20.6 requires this situation to be reported to the entity's audit committee and to the supervisory authority if revenue from a client exceeds 15 percent of the auditor's total revenue for two consecutive fiscal years.

Furthermore, Article 27 reinforces this position by stipulating that the fees set for the statutory audit may not be contingent upon or influenced by other services provided to the audited client, and must under no circumstances be conditional.

Finally, gifts, hospitality or favours from the client to the auditor are strictly limited: neither the auditor, nor members of their team, nor related parties may solicit or accept gifts or benefits, unless their value is insignificant or clearly negligible, as required by Article 20(5). This prevents costly hospitality from creating obligations or affecting the auditor's objectivity.

It should also be noted that Luxembourg law does not incorporate any "1:1 rule", which limits fees for non-audit services to a maximum equivalent to the audit fees, as is the case in other regulatory frameworks. The omission of this restriction indicates that lawmakers have chosen to address financial risk from the perspective of transparency, safeguards and the involvement of the audit committee, without imposing an absolute quantitative cap.

Public Interest Entities

Financial auditing in Luxembourg, and especially that related to public interest entities (PIEs), is underpinned by a robust regulatory framework that combines European Union law with a particularly well-developed system of national and supervisory regulations. At the heart of the applicable regime is the Luxembourg Law of 23 July 2016 concerning the audit profession, which transposes Directive 2014/56/EU and directly implements Regulation (EU) No 537/2014; and is supplemented by the regulatory provisions and guidelines of the *Commission de Surveillance du Secteur Financier* (CSSF), the authority responsible for the full public oversight of statutory audits in Luxembourg.

In this context, all entities classified as public interest entities (PIEs) are required to have their annual accounts -and, where applicable, their consolidated accounts- subject to a statutory audit performed by a duly registered auditor or audit firm subject to public oversight. The European definition of a public interest entity (PIE) set out in Article 2.13 of Directive 2006/43/EC, as amended by Directive 2014/56/EU, is adopted by Luxembourg as its starting point. According to this definition, entities whose securities are admitted to trading on a regulated market in the European Union, credit institutions and insurance undertakings, as well as any other entities designated as such by national legislation in view of the nature of their business, their size or their systemic importance, are deemed PIEs. However, taking into account the specific characteristics of its financial system, Luxembourg legislation and its supervisory application have allowed certain relevant financial vehicles to be included within this scope, such as some investment funds or issuers of fixed-income securities, when

their activity or size justifies reinforced treatment. This functional extension of the concept of PIEs reflects the systemic importance of the Luxembourg financial sector and the need to ensure a high level of confidence in the financial information published (CSSF, n.d.).

PIE audits in Luxembourg are subject to additional and enhanced requirements arising from Regulation (EU) No 537/2014, especially with regard to independence, auditor rotation, restrictions on non-audit services, fee control and intensified public oversight. These requirements are incorporated into Luxembourg law under the authority of the CSSF, forming a regime consistent with EU law and tailored to the structural significance of the national financial sector.

As regards independence, the regime applicable to public interest entities is underpinned by an especially strict legal and ethical framework. Section 20 of the 2016 Audit Law requires the auditor, the audit firm and any person who may influence the engagement to maintain full independence during the period under audit and throughout the audit process, expressly prohibiting threats arising from self-review, self-interest, advocacy, familiarity and intimidation. This general principle is reinforced by specific rules applicable to PIEs. Thus, Article 21 introduces cooling-off periods, according to which former key audit partners may not take up management positions at the audited entity until after two years, in the case of PIEs. Similarly, management personnel from the client company may not join the audit team without observing these periods. Moreover, audit team staff -other than partners- who participate in a PIE audit and who subsequently become qualified auditors may not take up management positions within the audited entity until at least one year has elapsed since their participation in the audit (CSSF, n.d.).

Regarding rotation and the term of the engagement, Luxembourg strictly follows the regime set out in Regulation (EU) No 537/2014. The auditor or audit firm may be reappointed annually, although the maximum duration of the engagement may not exceed ten years, pursuant to Regulation (EU) No 537/2014. This period may be extended to twenty years by a public invitation to tender, or to twenty-four years when the audit is conducted jointly by more than one auditor or audit firm; Luxembourg legislation has not introduced any additional or specific provisions beyond those laid down in the European Regulation itself. With regard to internal rotation, key partners involved in the audit of a public interest entity must rotate after seven consecutive years and are subject to a three-year cooling-off period before they may again participate in the audit of the same entity. This regime, established directly by Regulation (EU) No 537/2014, is stricter than that set out in the IFAC Code of Ethics, although Luxembourg legislation has not introduced any additional restrictions beyond those provided for in the European Regulation itself (KPMG, n.d.).

With regard to non-audit services, Luxembourg fully applies the "blacklist" set out in the European Regulation, which prohibits, amongst other things, the provision of accounting services, the design and implementation of internal control and financial reporting systems, valuation, actuarial services, internal audit, management functions and staff recruitment for PIEs. To these prohibitions may be added those derived from the Code of Ethics and the national independence framework, which emphasise the prevention of undue influence by prohibiting inappropriate financial and personal relationships, the acceptance of gifts of more than negligible value, or any form of auditor involvement in management decisions. These prohibitions extend to the auditor's entire network.

Finally, Luxembourg regulations specifically strengthen fee control. Article 20.3 of the Audit Law prohibits contingent fees, and Article 24.1.j prohibits any incentive scheme linked to the sale of consultancy services. Furthermore, the European limit of 70 percent of average audit fees over the last three fiscal years applies to non-audit services provided to PIEs, in order to prevent situations of excessive economic dependence. Furthermore, when revenue from a PIE client exceeds 15 percent of the auditor's total revenue for two consecutive fiscal years, the auditor is required to report this to both the audit committee and the CSSF, thereby strengthening transparency and supervisory control (Art. 20.6).

//// **TABLE 20** **Summary - Luxembourg**

Item	
Is there a definition of independence?	It is stated that the auditor must be independent of both the audited entity and related parties, but not defined.
Is there an explicit reference to independence in fact and independence in appearance?	Indirectly, by approaching independence from the perspective of an "objective, reasonable and informed third party", which introduces an external assessment (in appearance) in addition to the internal one (in fact) (Article 20 of the Law).
Period during which the auditor must be independent	During the period covered by the financial statements to be audited, and the period in which the audit is carried out (Art. 20.1 of the Law).
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	Yes, Article 20.1 expressly mentions the five types of threats that may compromise the auditor's independence (self-review, self-interest, advocacy, familiarity and intimidation).
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Yes, Article 22 stipulates that, prior to accepting or renewing an audit engagement, the auditor shall i) verify that they meet the independence requirements; ii) assess whether there are any risks that could affect their independence; and iii) document the safeguards implemented to mitigate those risks.
Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	Yes, Article 20 reproduces almost verbatim the general principle set out in Article 22.1 of the European Directive, stating that a statutory audit must not be performed if there is a risk arising from a financial, personal, commercial, employment or other relationship between the auditor (and their network) and the audited entity which could lead an objective third party to conclude that independence is compromised
Specific regulation in case of a threat arising from a financial interest (e.g. Directive Article 22.4.a) and b))	Articles 20.2 and 20.4 specifically stipulate that the auditor and their network must refrain from having a substantial and direct interest in the audited entity. They may not hold financial instruments of the audited entity, except through diversified collective investment undertakings.
The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	Article 20.4 also addresses this issue, prohibiting persons with employment, business or other relationships with the audited entity from participating in the statutory audit of accounts if such relationships could give rise to an actual or perceived conflict of interest.
Advocacy	The term,"*représentation*" is used to refer to advocacy. It appears in the list of risks set out in Article 20.1 as a reason for refusing to accept the audit engagement when it may compromise independence.
Regulations regarding gifts	Article 20.5 stipulates that auditors must not accept gifts or favours, unless their value is considered insignificant or negligible by an objective and reasonable third party.
Regulations on the provision of non-audit services	Article 20.6 states that, in the event of mergers or acquisitions, an assessment must be made as to whether the prior provision of non-audit services compromises independence, and steps must be taken to terminate such relationships if necessary.

Extension of threats (or incompatibilities) to persons or entities linked to the auditor (Directive, Art. 22.1 (Paragraph Three))	Luxembourg legislation adopts a broad approach to the scope of threats to independence, extending incompatibilities not only to sole practitioners but also to audit firms, their networks, persons who may directly or indirectly influence the audit, and persons closely associated, covering direct and indirect relationships of various kinds (Art. 20). This regime is reinforced by post-termination restrictions designed to prevent conflicts of interest arising from "revolving door" situations between the auditor and the audited entity (Art. 21).
Recusal (prohibitions) due to the concentration of fees received from a single audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	Article 25(4) and other articles on the organisation of engagements regulate fee traceability and control, although the specific reference to the 15 percent limit on revenue from a single client (as in Art. 4.3 of the Regulation) must be cross-checked directly against the Regulation.
Prohibition: period during which the former auditor of the audited entity is prohibited from: i) taking up management positions, ii) being appointed to the audit committee or a body performing equivalent functions, and iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (e.g. Directive, Art. 22 bis, 1 year, 2 years for PIEs).	Article 21.1 stipulates a period of 1 year, and 2 years for Public Interest Entities (PIE), during which the auditor may not assume a management position, serve on the audit committee, or be a non-executive member of the administrative or supervisory body. Conversely, the rule also prevents key management personnel of the audited entity from joining the audit firm in roles linked to the audit of that same client during the same period, thereby avoiding "revolving door" situations that compromise independence.
Regulations transposing and implementing Article 24bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	The Law of 23 July 2016 transposes this Directive, specifically through Articles 19, 20, 23 and 24, which regulate the internal organisation, independence, governance and quality control systems of auditors and audit firms, and is further implemented through CSSF regulations and the IRE's professional standards.
For Public Interest Entities, indicate the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation	For Public Interest Entities, Luxembourg directly applies Regulation (EU) 537/2014, supplemented by the Audit Law of 23 July 2016 and supervision by the CSSF, without introducing stricter requirements regarding rotation. Consequently, it maintains a maximum term of office of 10 years, extendable up to 20 years through a public tender or up to 24 years under a co-audit arrangement, and requires the internal rotation of key audit partners after seven years, with a three-year cooling-off period, in accordance with the options provided for in the European Regulation itself.
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	No, neither the Law nor the RCSSF list any specific exceptions to those set out in Article 5 of the Regulation.
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	No, the law on auditing did not set any limits on prohibited services that are more restrictive than those laid down by the EU.
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	No, the law on auditing did not set fee limits that were more restrictive than those laid down by the EU.

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12 The Netherlands

Glossary

AA	Accountant Consultant (*Accountant-administratieconsulent*)
AFM	Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten)*
Bta	Dutch Audit Firms Supervision Decree implementing the Wta Act (*Besluit toezicht accountantsorganisaties)*
NBA	The Royal Netherlands Institute of Chartered Accountants (*Koninklijke Nederlandse Beroepsorganisatie van Accountants)*
NV COS	Additional requirements regarding control and other standards (*Nadere voorschriften controle- en overige standaarden)*
NVKS	Additional requirements for quality systems *(Nadere voorschriften kwaliteitssystemen*)
RA	Chartered Accountant (*Registeraccountant*)
VAO	Regulations on audit firms (*Verordening accountantsorganisaties)*
VGBA	Regulations on Professional Conduct and Practice for Accountants (*Verordening gedrags- en beroepsregels accountants*)
Explanatory Notes on the VGBA Regulations	Explanatory Notes on the Regulations on Professional Conduct and Practice for Accountants (*Toelichting bij de Verordening gedrags- en beroepsregels accountants*, VGBA)
ViO	Regulations on the Independence of Auditors in Assurance Engagements (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*)
Explanatory Notes on the ViO Regulations	Explanatory Notes on the Regulations on the Independence of Auditors in Assurance Engagements (*Toelichting bij de Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*, ViO)
Examples of the application of the ViO Regulations	Practical Guide 1131 of the NBA: Examples of the application of the ViO Regulation (*NBA-handreiking 1131: Voorbeelden toepassing van de Verordening inzake de onafhankelijkheid (ViO) van accountants bij assurance-opdrachten*)
Wab	Auditors Profession Act (*Wet op het accountantsberoep)*
WFT	Financial Supervision Act (*Wet op het financieel toezicht)*
Wta	Audit Firms Supervision Act (*Wet toezicht accountantsorganisaties*)

Introduction

Institutional framework

In the Netherlands, auditor oversight is the responsibility of the *Autoriteit Financiële Markten*, hereinafter referred to as the AFM[19], also known in English as the *Dutch Authority for the Financial Markets*. The Executive Board of the AFM is composed of two members, both of whom hold full-time positions at the AFM. Members of the Board are not permitted to hold a position with an audit firm. Other activities undertaken by members of the Board may only be accepted if the Supervisory Council raises no objections. Board members are appointed by the Minister for Finance, on the basis of a non-binding recommendation from the AFM's Supervisory Council.

The Supervisory Council consists of four members. It is responsible for ensuring that the AFM's functions are properly performed by the Executive Board, in accordance with the applicable legislation and the principles of good governance.

The AFM's budget is assessed and approved by the Minister of Finance. All supervisory activities of the AFM are funded through fees levied on supervised firms. The fees charged to statutory auditors and audit firms are determined by the Minister of Finance, following consultation with the Advisory Panel, which includes representatives from professional bodies. There are different fees for market entry and for annual supervisory activities. The main factors in determining the amount of the annual fees are a proportion of the audit firm's turnover derived from non-PIE and PIE audits.

The AFM publishes an annual report available on its website. A summary report is also provided in English. The annual report includes information on the results of the AFM's activities, details of the findings of inspections of individual firms, an overall assessment of these findings in relation to previous years, and decisions on penalties. Decisions on penalties are published with the firms' names disclosed.

Furthermore, the professional body for accountants and auditors in the Netherlands is the *Koninklijke Nederlandse Beroepsorganisatie van Accountants*, hereinafter referred to as the NBA[20], also known in English as *Royal Netherlands Institute of Chartered Accountants*.

The Audit Firms Supervision Act (*Wet toezicht accountantsorganisaties*, hereinafter referred to as the Wta), introduces public supervision by the AFM of audit firms that issue audit reports relevant to Dutch capital markets. Since 1 October 2006, audit firms performing statutory audits in the Netherlands are required to hold the corresponding licence from the AFM.

In the Netherlands, statutory audits may be carried out by two types of auditors: accountant consultants (*accountant-administratieconsulent*, hereinafter, AA) and chartered accountants (*registeraccountant*, hereinafter, RA), both of whom are registered with the NBA. The NBA is a public-law corporation, appointed by the government to represent the general interests of the AA and RA professions, and is required by law to supervise the correct practice of the profession.

Only auditors who are registered with the NBA and who are also included on the AFM's list of licensed audit firms may perform statutory audits in the Netherlands.

Legal framework

Accountancy is regulated by two pieces of legislation in the Netherlands: the Wta and the Auditors Profession Act (*Wet op het accountantsberoep*, hereinafter referred to as the Wab).

Directive 2006/43/EC was transposed into Dutch law by the Wta, the Dutch Audit Firms Supervision Decree, which implements said Act (*Besluit toezicht accountantsorganisaties*, hereinafter Bta), other

19 Website: www.afm.nl

20 Website:https://www.nba.nl/

supplementary legislation such as the Wab, and independence regulations such as the Regulation on the Independence of Auditors in Assurance Engagements[21] (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*, hereinafter, ViO).

With regard to the 2014 European Union reform (Directive 2014/56/EU and Regulation (EU) No 537/2014), this is implemented in the Netherlands primarily through the direct application of the Regulation and through amendments to the Wta and the Bta, as well as adjustments to the NBA regulations, including:

- ViO.
- Regulations on Professional Conduct and Practice for Accountants (*Verordening gedrags- en beroepsregels accountants*, hereinafter, VGBA).
- Regulations on audit firms (*Verordening accountantsorganisaties*, hereinafter, VAO[22]).
- Additional requirements for quality systems *(Nadere voorschriften kwaliteitssystemen*, hereinafter, NVKS).
- Additional requirements regarding control and other standards (*Nadere voorschriften controle- en overige standaarden*, hereinafter, NV COS).

Furthermore, the NBA publishes official interpretative documents that accompany the ViO and VGBA regulations. These are:

- Explanatory Notes on the Regulations on the Independence of Auditors in Assurance Engagements (*Toelichting bij de Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*, ViO).
- Explanatory Notes on the Regulations on Professional Conduct and Practice for Accountants (*Toelichting bij de Verordening gedrags- en beroepsregels accountants*, VGBA).

The NBA also publishes examples of ViO application in its Practical Guide 1131:

- Practical Guide 1131 of the NBA: Examples of the application of the ViO Regulation (*NBA-handreiking 1131: Voorbeelden toepassing van de Verordening inzake de onafhankelijkheid (ViO) van accountants bij assurance-opdrachten*).

It is important to note that the Dutch bill "Wijzigingswet accountancysector" aims to improve the quality of statutory audits of financial statements or annual accounts carried out by external auditors. It also implements the government's response to the Committee report on the Future of the Accounting Sector (Parliamentary Papers II 2019/20 33977, No. 29). This bill introduces amendments to the Wab, the Wta and the Accountants' Disciplinary Act (Wet tuchtrechtspraak accountants).

The bill was adopted by the Senate on 7 October 2025. It remains to be seen whether the Act will enter into force on 1 January 2026.

Independence

Regulations, general duty of independence and definition

The regulations on independence are set out in the Wta, Bta, ViO, the Explanatory Notes to the ViO Regulations and the Examples of the Application of the ViO Regulations.

21 Although the ViO uses the term "assurance engagement", this category expressly includes audits of financial statements, given that, pursuant to Article 1 of the ViO in conjunction with Article 1 of the VGBA, an assurance engagement is any professional service in which the auditor forms a conclusion intended to boost the user's confidence in the information assessed.

22 There is a new Verordening accountantsorganisaties 2025.

There is no explicit definition of independence. However, the Wta states that the audit firm (Article 19) and the auditor (Article 25a) must be independent of the audited entity and must not participate in its decision-making.

Meanwhile, Article 3 of the ViO states that the final lead auditor ensures that the assurance engagement is carried out independently (3.1). It also states that an auditor must not have a relationship with the management of the audited entity or a related third party if such a relationship threatens the independent performance of an assurance engagement (3.4) and that the accountant must ensure that the independent performance of an assurance engagement is not compromised by the fact that the accountant has a close personal relationship with the management of the audited entity or a related third party (3.5).

Independence is necessary in essence and in appearance (Article 3.2 of the ViO). Article 3 of the *Explanatory Notes on the ViO Regulations* states that the independence in appearance means the absence of facts and circumstances that are so significant that an objective, reasonable and informed third party would conclude -after weighing up all facts, circumstances and any measures taken- that the independent performance of an assurance engagement is compromised.

Articles 19 and 25a of the Wta stipulate that independence is required during the period covered by the financial statements to be audited and while the audit is underway. Article 3.3 of the ViO refers in the same vein to the period during which independence is required.

Threats and safeguards. Incompatibilities and prohibitions

With regard to the various types of factors giving rise to potential threats to independence, Article 1 of the ViO defines the term "threat" as an unacceptable risk that an assurance engagement will not be carried out independently due to self-interest, self-review, advocacy, familiarity or intimidation.

Article 6 of the *Explanatory Notes to the ViO Regulations* sets out auditors' obligation to identify and assess threats to their independence. Specifically, it states that:

"To ensure that an assurance engagement is carried out independently, the lead auditor applies an assessment framework. This framework requires the auditor to identify and assess the circumstances that may constitute a threat to independence in the performance of the engagement."

The same Article 6 further states that: *"If the lead auditor determines that a threat exists, they may not simply proceed with the assurance engagement and, where possible, must diligently take the necessary measures. A measure constitutes an appropriate safeguard if it ensures that the independent performance of the engagement is no longer effectively threatened and, therefore, the engagement may be carried out independently."*

The text thus expressly recognises the obligation to put in place safeguards to eliminate or reduce threats to independence, as well as the prohibition on carrying out the audit if there is a risk to independence. The specific provisions regarding threats arising from financial, employment, commercial or other interests, and the provisions on gifts, are set out in Articles 30a, 30b, 30c and 30d of the Act.

As regards Article 30a, firstly, it establishes two prohibitions (in the sense of incompatibilities): (a) The audit firm may not hold or derive any material or financial interest in the audited entity; (b) nor may it buy or sell financial instruments issued, guaranteed or backed by that entity. Secondly, it states that the above prohibition shall not apply if the exception referred to in the second paragraph of Article 22 of the Directive applies, which exempts interests held indirectly through diversified collective investment undertakings, including managed funds, such as pension funds or life insurance policies.

As regards Article 30b, it states that an audit firm shall not exert any influence on the outcome of a statutory audit if:

(a) it holds financial instruments of the audit client or holds financial instruments, as referred to in Article 22 Paragraph 4 Letter b) of the Directive, of an entity affiliated with that client. Regarding Ar-

ticle 22 Paragraph 4 Letter b), this refers to the holding of financial instruments of any entity linked to an audited entity, where such holding may give rise to a conflict of interest or be generally perceived as likely to give rise to a conflict of interest, with the exception of interests held indirectly through diversified collective investment undertakings;

(b) has an employment relationship such as that referred to in Article 19 Paragraph 2 of the Wta[23] with the audit client or a relationship as referred to in Article 19 Paragraph 2 of the Wta which affects independence.

We understand that the statement "shall not exert any influence" ("***oefent geen invloed uit***") should be interpreted as a requirement for independence; in other words, "shall not exert influence" should be understood to mean "shall not intervene in the audit". Furthermore, the aforementioned Article 30b goes on to state that "*2. Section 1, Letter a shall not apply where the exception referred to in Article 22 Section 4 Letter b of the Directive applies*", that is to say, with the exception of interests held indirectly through diversified collective investment undertakings.

Article 30c addresses the matter of gifts, stating that an audit firm shall not solicit or accept monetary or other gifts from the audit client or from entities related to the audit client unless an objective, reasonable and informed third party would consider the value to be insignificant or negligible.

With regard to Article 30d, it stipulates that an audit firm shall ensure that its employees and other persons referred to in Article 22 Paragraph 2 of the Directive (principal audit partners, any other natural person whose services are at the disposal of or under the control of that statutory auditor or audit firm, who are directly involved in statutory audit activities, as well as persons closely associated with them): (i) do not have a material or financial interest within the meaning of Article 30a; (ii) do not exert influence within the meaning of Article 30b; (iii) do not solicit or accept monetary or other gifts within the meaning of Article 30c; (iv) do not have, or have not had, an employment relationship with the audit client within the meaning of Article 22 Paragraph 4 Letter c) of the Directive, that is to say, one that could give rise to a conflict of interest or be generally perceived as likely to give rise to a conflict of interest.

In the Examples of the Application of the ViO (Section 2.7.2.4. Assistance with tax proceedings), the threat arising from advocacy is addressed in the following terms. Where a dispute between the responsible entity and the tax authorities is brought before the courts and a person associated with the audit firm or another party to the network assists the responsible entity in such proceedings, this constitutes a threat of advocacy within the meaning of Article 20 of the ViO. "Assistance" in this context means defending and taking a position on behalf of the responsible entity before the judicial authorities. Advocacy does not include responding to requests for information, providing factual accounts of the work performed, or assisting the responsible entity in analysing the dispute.

The regulations governing the provision of non-audit services are set out in the ViO (Articles 18–20a).

Article 18 prohibits undertaking an assurance engagement at an audited entity if the final lead auditor, the accounting department or accounting practice of the audit firm, or any other party to the network: (a) makes decisions on behalf of the audited entity, to the extent that such decisions affect the subject matter of the assurance engagement; (b) participates in the audited entity's decision-making process with regard to the subject matter of the assurance engagement; or (c) reports, on behalf of the management of the audited entity, to those responsible for its corporate governance on matters related to the subject matter of the assurance engagement.

Article 18a prohibits the undertaking of an assurance engagement with an audited entity if the audit firm or another party to the network provides or has provided a tax service to that entity or proposes or has proposed a tax transaction and: (a) The service or transaction affects the subject matter of the assurance; and (b) There is no defensible position supporting the service or transaction.

23 The audit firm shall take measures to ensure that, when performing a statutory audit, its independence is not compromised by any existing or potential conflict of interest or any other direct or indirect relationship involving the firm itself, the external auditor carrying out the audit or, where applicable, another party to the network, those responsible for the audit firm's policies, or other persons working under their supervision.

Article 19 provides that a threat requiring a response arises if the audit firm or another party to the network provides or has provided a service other than an assurance service to the audited entity, which is not a public interest entity, and which has a material impact on the subject matter of the assurance engagement.

Article 20 Paragraph 1 prohibits the undertaking of an assurance engagement at an audited entity that is not a public interest entity if the audit firm or another party to the network provides or has provided that entity with a service other than an assurance service that has a material impact on the subject matter of the assurance and: (a) is ad hoc or non-routine; or (b) gives rise to an advocacy threat. As an exception to Paragraph 1, an assurance engagement may be undertaken if a measure has been or is to be taken to ensure independence and the conditions set out in Article 3(7) on independence in an assurance engagement for a specific group of users or in Article 4 on independence in an assurance engagement carried out by a government chartered accountant are met.

Article 20a Paragraph 1 prohibits the acceptance of an assurance engagement at an audited entity that is not a public interest entity if the audit firm or another party to the network provides, or has provided, that entity with a service other than assurance which has an impact on the subject matter of the assurance and results in a method of processing the subject matter of the assurance whose suitability is called into question by the assurance team. As an exception to Paragraph 1, an assurance engagement may be undertaken if a measure has been taken or shall be taken to safeguard independence and the conditions set out in Article 3(7) or Article 4 are met.

As regards the scope of threats to persons or entities associated with the auditor, while no exhaustive list of such threats is provided, they may be identified throughout the text of the regulations. Note the reference to Article 22 Paragraph 2 of the Directive made by the Bta in its Article 30d, and the reference to Article 19 Paragraph 2 of the Wta made by the Bta in its Article 30b. On the other hand, see, for example, Article 31 Paragraph 1 of the ViO, which lays down the prohibition on performing an assurance engagement if a member of the engagement team or someone with a close financial relationship to a member of the engagement team has a financial interest in: (a) the audited entity; (b) an entity with influence over the formulation of policies relating to the audited entity, to the extent that the audited entity is relevant to said entity with influence over policy-making; or (c) an entity in which the management of the audited entity has a financial interest, unless that interest is immaterial to each of the parties involved; and the management of the audited entity cannot exercise significant influence over the entity in which it holds a financial interest. As regards Article 31 Paragraph 2, it prohibits the acceptance of an assurance engagement in the event that a financial interest in an entity (see Paragraph 1) arises in: (a) the firm; (b) another party to the network; or (c) a partner, director or internal supervisor of the firm or of another party to the network; (d) a senior member of the non-audit services team, other than that referred to in Section (c), who is involved in the provision of a non-audit service to the audited entity by the firm or another party to the network, unless that senior member's contribution to that service is minimal; (e) a close financial relationship with a person referred to in Sections c) and d). Within this context, it is also worth highlighting Article 3, Paragraph 5 of the ViO, which stipulates that the auditor shall ensure that the independent performance of an assurance engagement is not compromised by the relationship that a family member or a person with whom there is close social contact (close personal relationship, Article 1 of the ViO) may have with the management of the audited entity or a related third party.

Regarding the concept of a "close financial relationship", this is based on the concept of a "close personal relationship" and is defined as a person who is financially dependent on the auditor or with whom the auditor shares a household, anyone to whose financial situation the auditor is directly or indirectly linked, and anyone for whom the auditor manages finances or to whom the auditor provides financial advice (Article 1 of the ViO).

//// **TABLE 21** **Exclusions (incompatibilities) Netherlands**

Grounds for exclusion	Legal basis	Applicable to:
Material or financial interest	Art. 30a and 30d of the Bta.	Audit firm. Employees, key audit partners, any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, who are directly involved in statutory audit activities and persons closely associated with them.
Sale and purchase of financial instruments.	Art. 30a of the Bta.	Audit firm.
Holding of financial instruments.	Art. 30b and 30d of the Bta.	Audit firm. Employees, key audit partners, any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, who are directly involved in statutory audit activities and persons closely associated with them.
Employment relationship (Article 19 Paragraph 2 of the Wta). Relationships such as those referred to in Article 19 Paragraph 2 of the WTA which affect independence.	Art. 30b and 30d of the Bta.	Audit firm, external auditor conducting the audit, another party to the network, those responsible for the audit firm's policies, or other persons working under their supervision. Employees, key audit partners, any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, who are directly involved in statutory audit activities and persons closely associated with them.
Requesting or accepting monetary or other gifts.	Art. 30c and 30d of the Bta.	Audit firm. Employees, key audit partners, any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, who are directly involved in statutory audit activities and persons closely associated with them.
Employment relationship (Article 22 Paragraph 4 Letter c) of the Directive).	Art. 30d of the Bta.	Employees, key audit partners, any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, who are directly involved in statutory audit activities and persons closely associated with them.
Financial interest.	ViO (Art. 31 Paragraphs 1 and 2)	Audit firm. Members of the audit engagement team. Those with a close financial relationship with a member of the engagement team. Other parties to the network. A partner, director or internal supervisor of the firm or of party to the network. A senior member of the non-audit services team, who is not a partner, director or internal supervisor of the firm or of another party to the network, who is involved in the provision of a non-audit service to the audited entity by the firm or another party to the network, unless that senior member's contribution to that service is minimal.
Making decisions on behalf of the audited entity. Participating in the decision-making process of the audited entity. Reporting on matters related to the subject of assurance.	ViO (Art. 18)	Final lead auditor, accounting department or office of the audit firm, or any other party to the network.
Providing a tax service or a proposal for a tax transaction.	ViO (Art. 18a)	Audit firm or another party to the network
Providing a service other than assurance.	ViO (Art. 19, Art. 20 Paragraph 1 and Art. 20a Paragraph 1)	Audit firm or another party to the network

The receipt of material fees poses a threat that requires the adoption of measures.	ViO (Art. 24 and 25)	Audit firm, network, key audit partner or a member of the firm or network for which these fees constitute a significant performance indicator.
Position as policy-maker, member of the audit committee or a body with similar functions, or member of the supervisory body.	Wta (Art. 29a)	Auditor.
Participation in the performance of the statutory audit.	Bta (Art. 27)	Owners or shareholders of an audit firm; persons who determine or jointly determine the day-to-day policies of an audit firm, the supervisory body of an audit firm, or an entity affiliated with an audit firm.

Fees and limits on fees

With regard to fee concentration, Article 24 of the ViO stipulates that, if the total fees received from a client are material to the firm, the network, the partner in charge or a part of the firm or network for which these fees constitute a significant indicator of performance, a threat arises that requires action. Article 25 provides further detail, stipulating that: (a) a threat requiring a specific response arises if the total fees per fiscal year received or expected to be received by the audit firm from a client during two or more consecutive fiscal years exceeds fifteen percent of its total revenue in each of those fiscal years; (b) as a measure, from the second fiscal year onwards and for as long as the threat persists, a specific quality review shall be carried out for each fiscal year audited, to be conducted by an auditor external to the audit firm. These obligations also apply to the party to the network established in the Netherlands.

With regard to the positions that may not be held by the auditor within the audited entity, Article 29a of the Wta states the following: a person who has been responsible for carrying out a statutory audit as an external auditor may not, upon completion of their work as an external auditor at said entity, hold any position for a minimum period of one year as: (a) a person responsible for policy-making within that entity; (b) a member of the audit committee or a body with similar functions within that entity; (c) a member of the supervisory body of that entity. If the audited entity is a public interest entity (PIE), this period shall be at least two years.

Furthermore, Article 27 of the Bta stipulates that the owners or shareholders of an audit firm, persons who determine or jointly determine the day-to-day policies of an audit firm, the supervisory body of an audit firm or an entity affiliated with an audit firm, shall not be involved in the performance of the statutory audit by said audit firm in any way that would compromise the independence and objectivity of the external auditor performing the statutory audit on behalf of the audit firm in question.

The Dutch legislation transposing and implementing Article 24-bis of Directive 2006/43/EC (introduced by Directive 2014/56/EU), which concerns the internal organisation of statutory auditors and audit firms, includes Articles 21 and 22a of the Wta, Articles 8 and 8a of the Bta and Article 11 of the ViO.

Public Interest Entities

The term PIE appears in Article 1 of the ViO, however, it is not defined. The ViO refers to the WTA (Article 1, Paragraph 1, Subparagraph l), which defines a "public interest entity" as follows:

1º. A legal entity established in the Netherlands under Dutch law whose securities are admitted to trading on a regulated market, as referred to in Article 1:1 of the WFT;

2º. A bank with its registered office in the Netherlands, as referred to in Article 1:1 of the WFT, which has been granted a licence pursuant to said Act;

3º. A central credit institution with its registered office in the Netherlands, as referred to in Article 1:1 of the WFT, which has been granted a licence pursuant to said Act;

4º. An insurer as referred to in Article 1:1 of the WFT with its registered office in the Netherlands, other than an insurer with a limited scope of risk as referred to in the aforesaid article.

5º. A company, institution or public body belonging to one of the categories designated pursuant to Article 2 (Wta);

With regard to the mandatory rotation applicable to firms (external rotation) in relation to PIE audits, a maximum engagement term of 10 years and a cooling-off period of 4 years are stipulated. This means that no use is made of the possible extensions to the maximum term as permitted by the Regulation.

As regards the mandatory rotation applicable to the lead auditor of PIE audits (internal rotation), Article 24 of the Wta sets this at 5 years.

Furthermore, pursuant to Article 24b (Paragraph 1) of the Wta, as well as Article 5 Paragraph 1 of the EU Regulation, an audit firm performing the statutory audit of a PIE may not provide non-audit services to the entity or to its affiliated entities. Consequently, it may not provide *any* services other than audit services; this constitutes a complete prohibition, which is, of course, broader than that set out in the list included in EU Regulation 537/2014 (Article, 5 Paragraph 1). As a result, it precludes the possibility of authorising the provision of certain services (provided certain requirements are met) as permitted by Article 5, Paragraph 3 of the aforesaid Regulation. Article 24b (Paragraph 1) of the Wta therefore precludes the audit committee from authorising the provision of non-audit services, as provided for in Article 5 Paragraph 4 of the Regulation.

Pursuant to Article 24b (Paragraph 2) of the Wta, in addition to the provisions of Article 5 Paragraph 1 of the EU Regulation, an audit firm that is part of a network may not carry out statutory audits of a PIE if:

a. Another party to the network established in the Netherlands carries out activities other than the audit services referred to in Article 24b Paragraph 1 for that PIE, its affiliated entities established in the Netherlands or in another Member State, or its affiliated entities referred to in Article 24b Paragraph 3a), established in a non-Member State; or

b. Another party to the network not established in the Netherlands carries out other activities referred to in Article 24b Paragraph 1 for that public interest entity or an affiliate of that organisation established in the Netherlands.

Thus, an audit firm that is a party to the network may perform statutory audits of a PIE when another party to the network that is not established in the Netherlands provides the non-audit services for said public interest entity or an affiliated entity not established in the Netherlands.

Meanwhile, Article 24b (Paragraph 3) of the Wta stipulates that, for the purposes of the first and second paragraphs of Article 24b, "affiliated entity" means:

a. a legal person or company that, individually or together with another group company, manages the group or part of the group to which the PIE belongs, as well as a legal person or company which may exercise dominant control over or have centralised management of a PIE; and

b. any subsidiary of a PIE, any other group company subordinate to the PIE, or any other legal person or company over which a public interest entity may exercise dominant control or centralised management.

Finally, Article 24b (Paragraph 4) of the Wta provides that the State of the Netherlands is not an affiliated entity as referred to in the third paragraph.

Articles 25a and 25b of the ViO refer to fees in audits of public interest entities. Article 25a provides that, in addition to the provisions of Article 25 (2) of the ViO (it should be noted that, when discussing fee concentration, the procedure to be followed has been set out), the final lead auditor of a statutory audit of a PIE must, from the fourth consecutive reporting period, consult with the audit committee or a body with similar responsibilities at that entity to determine whether the statutory audit can continue and, if so, what measures, if any, are to be taken to that end. The audit may only continue once

the final lead auditor has obtained written approval from the audit committee or the body with similar responsibilities. Within this context, the ViO has introduced stricter requirements regarding fees than those set out in Regulation (EU) No 537/2014, since, in any event, Dutch regulations provide for a quality review by an auditor external to the firm if the total fees per fiscal year that the audit firm has received or expects to receive from a client during two or more consecutive fiscal years exceed fifteen percent of its total revenue in each of those fiscal years.

Article 25b stipulates that the final lead auditor must resign from an assurance engagement with a public interest entity if, for five consecutive fiscal years, the fees invoiced to that entity exceed 15 percent of the audit firm's total revenue in each of those fiscal years.

//// TABLE 22 Summary The Netherlands

Item	The Netherlands
Is there a definition of independence?	Not explicitly, however, the Wta states that the audit firm and the auditor must be independent of the audited entity and must not participate in its decision-making.
Is there an explicit reference to independence in fact and independence in appearance?	Yes, the ViO states that independence is necessary in both substance and form.
Period during which the auditor must be independent	The Wta stipulates that independence is required during the period covered by the financial statements to be audited and while the audit is underway.
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	Yes, the ViO defines the term "threat" as an unacceptable risk that an assurance engagement will not be carried out independently due to self-interest, self-review, advocacy, familiarity or intimidation.
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Yes, the Explanatory Notes to the ViO Regulations set out the obligation to identify and assess circumstances that may pose a threat to independence. It also stipulates that, where a threat is identified, the necessary measures shall be taken wherever possible, specifying that a measure constitutes an adequate safeguard if it ensures that the independent performance of the engagement is no longer effectively threatened.
Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	Not exactly. The Explanatory Notes to the ViO Regulations stipulate that an audit must not be performed if there is a risk to independence. Additionally, it refers to the role of an objective, reasonable and informed third party in assessing whether the independence of an assurance engagement is compromised.

Specific regulation in case of a threat arising from a financial interest (e.g. Directive Article 22.4.a) and b))	Art. 30A, 30b and 30d of the Bta. Article 30a, firstly, lays down two prohibitions: (a) The audit firm may not hold or derive any material or financial interest in the audited entity; (b) nor may it buy or sell financial instruments issued, guaranteed or backed by that entity. Secondly, it states that the above prohibition shall not apply if the exception referred to in the second paragraph of Article 22 of the Directive applies, which exempts interests held indirectly through diversified collective investment undertakings, including managed funds, such as pension funds or life insurance policies. Article 30b states that an audit firm shall not exert any influence on the outcome of a statutory audit if: (a) it holds financial instruments of the audit client or holds financial instruments, as referred to in Article 22 Paragraph 4 Letter b) of the Directive, of an entity affiliated with that client. Regarding Article 22 Paragraph 4 Letter b), this refers to the holding of financial instruments of any entity linked to an audited entity, where such holding may give rise to a conflict of interest or be generally perceived as likely to give rise to a conflict of interest, with the exception of interests held indirectly through diversified collective investment undertakings; Article 30b states that Letter a) shall not apply if the exception referred to in Paragraph Four, Letter b), of Article 22 of the Directive applies. Article 30d extends the requirements of 30a and 30b to its employees, key audit partners, any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, who are directly involved in statutory audit activities and persons closely associated with them.
The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	Art. 30b and 30d of the Bta. Article 30b states that an audit firm shall not exert any influence on the outcome of a statutory audit if: (b) has an employment relationship such as that referred to in Article 19 Paragraph 2 of the Wta[24], with the audit client or a relationship as referred to in Article 19 Paragraph 2 of the Wta which affects independence. Article 30d stipulates that an audit firm shall ensure that its employees and other persons referred to in Article 22 Paragraph 2 of the Directive (key audit partners, any other natural person whose services are at the disposal of or under the control of said statutory auditor or audit firm, who are directly involved in statutory audit activities, as well as persons closely associated with them) do not exert influence within the meaning of Article 30b and do not have, or have not had, an employment relationship with the audit client within the meaning of Article 22 Paragraph 4 Letter c) of the Directive, that is to say, which could give rise to a conflict of interest or be generally perceived as likely to give rise to a conflict of interest.
Advocacy	Examples of the application of the ViO (Section 2.7.2.4. Assistance with tax proceedings) Where a dispute between the responsible entity and the tax authorities is brought before the courts and a person associated with the audit firm or another party to the network assists the responsible entity in such proceedings (defending and acting on behalf of the responsible entity before the judicial authorities), this constitutes a threat due to advocacy. Advocacy does not include responding to requests for information, providing factual accounts of the work performed, or assisting the responsible entity in analysing the dispute.

24 The audit firm shall take measures to ensure that, when performing a statutory audit, its independence is not compromised by any existing or potential conflict of interest or any other direct or indirect relationship involving the firm itself, the external auditor carrying out the audit or, where applicable, another party to the network, those responsible for the audit firm's policies, or other persons working under their supervision.

Regulations regarding gifts	Article 30c of the Bta stipulates that an audit firm shall not solicit or accept monetary or other gifts from the audit client or from entities related to the audit client, unless an objective, reasonable and informed third party considers the value to be insignificant or negligible. Article 30d extends the requirements of 30c to its employees, key audit partners, any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, who are directly involved in statutory audit activities and persons closely associated with them.
Regulations on the provision of non-audit services	Under ViO (Articles 18–20a), the compatibility of non-audit services depends on whether they give rise to a mitigable threat or an absolute prohibition.
Extensions of threats (or incompatibilities) to entities associated with the audited entity with regard to financial instruments	Entity affiliated with the audit client (Bta, Art. 30b).
Extensions of threats (or incompatibilities) to persons or entities associated with the auditor (Directive, Art. 22.1 (Paragraph Three), LAC Arts 18, 19 and 20)	No comprehensive list of threats (or incompatibilities) has been found. However, the following have been identified throughout the Bta regulatory text: - employees - key audit partners - any other natural person whose services are made available to or are under the control of the statutory auditor or audit firm, who are directly involved in statutory audit activities, and persons closely associated with them. - other parties to the network - those responsible for policy-making within the audit firm or other persons working under their supervision - owners or shareholders of an audit firm; persons who determine or jointly determine the day-to-day policies of an audit firm, the supervisory body of an audit firm, or an entity affiliated with an audit firm. The following have also been identified throughout the ViO regulatory text: - members of the audit engagement team. - those with a close financial relationship with a member of the engagement team. - other parties to the network - a partner, director or internal supervisor of the firm or of another party to the network. - a senior member of the non-audit services team, who is not a partner, director or internal supervisor of the firm or of another party to the network, who is involved in the provision of a non-audit service to the audited entity by the firm or another part of the network, unless that senior member's contribution to that service is minimal. - family member or a person with whom there is close social contact - accounting department or office of the audit firm, or any other party to the network.
Recusal (prohibitions) due to a concentration of fees received from the same audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	If the total fees per fiscal year received or expected to be received by the audit firm from a client during two or more consecutive fiscal years exceeds fifteen percent of its total revenue in each of those fiscal years, from the second fiscal year onwards and for as long as the threat persists, a specific quality review shall be carried out for each fiscal year audited, to be conducted by an auditor external to the audit firm. These obligations also apply to the party to the network established in the Netherlands (Article 25 of the ViO).

Prohibition: period during which the former auditor of the audited entity is prohibited from: i) taking up management positions, ii) being appointed to the audit committee or a body performing equivalent functions, and iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (e.g. Directive, Art. 22 bis, 1 year, 2 years for PIEs)	Article 29a of the Wta stipulates a minimum of 2 years if the audited entity is a PIE, and a minimum of 1 year if it is not a PIE. Prohibitions related to: (a) a person responsible for policy-making within said entity; (b) a member of the audit committee or a body with similar functions within said entity; (c) a member of the supervisory body of said entity.
Regulations concerning the non-involvement of the owners or shareholders of an audit firm, as well as the members of the administrative, management and supervisory bodies of said firm or of a subsidiary, in the performance of a statutory audit that might compromise the auditor's independence and objectivity in any way (Art. 24 Directive).	Article 27 of the Bta stipulates that the owners or shareholders of an audit firm, persons who determine or jointly determine the day-to-day policies of an audit firm, the supervisory body of an audit firm or an entity affiliated with an audit firm, shall not be involved in the performance of the statutory audit by said audit firm in any way that would compromise the independence and objectivity of the external auditor performing the statutory audit on behalf of the audit firm in question.
Regulations transposing and implementing Article 24bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	It includes the following articles: ▪ Articles 21 and 22a of the Wta ▪ Articles 8 and 8a of the Bta ▪ Article 11 of the ViO
For PIEs, it sets out the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation.	External rotation: a maximum engagement term of 10 years and a cooling-off period of 4 years are stipulated. This means that no use is made of the possible extensions to the maximum term as permitted by the Regulation. Internal rotation: Article 24 of the Wta sets this at 5 years.
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	No. Pursuant to Article 24b (Paragraph 1) of the Wta, an audit firm performing the statutory audit of a PIE may not provide non-audit services to the entity or to its affiliated entities. As a result, it precludes the possibility of authorising the provision of certain services (provided certain requirements are met) as permitted by Article 5 Paragraph 3 of the aforesaid Regulation.
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	Yes, since Article 24b (Paragraph 1) of the Wta precludes the audit committee from authorising the provision of non-audit services, as provided for in Article 5 Paragraph 4 of the Regulation.
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	Articles 25a and 25b of the ViO refer to fees in PIE audits. The ViO has introduced stricter requirements regarding fees than those set out in Regulation (EU) No 537/2014, since, in any event, Dutch regulations provide for a quality review by an auditor external to the firm if the total fees per fiscal year that the audit firm has received or expects to receive from a client during two or more consecutive fiscal years exceed fifteen percent of its total revenue in each of those fiscal years.

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13 Portugal

Glossary

CMVM	*Portuguese Securities Market Commission*
CNSA	*National Audit Oversight Board*
EOROC	*Statutes of the Institute of Statutory Auditors*
IGF	*General Inspectorate of Finance*
OCC	*Institute of Chartered Accountants*
OROC	*Institute of Statutory Auditors*
RJSA	*Legal Framework of Audit Oversight*
ROC	*Statutory Auditors*
SROC	*Statutory Audit Firms*

Institutional framework

Public oversight of audits is the responsibility of the Portuguese Securities Market Commission (CMVM). Following the entry into force of Law 148/2015 (which repealed the previous *Conselho Nacional de Supervisão de Auditoria* - CNSA), the CMVM assumed all powers relating to the supervision and oversight of statutory auditors and audit firms. Under transitional provisions, all pending proceedings from the former CNSA were transferred to the CMVM in 2016. Furthermore, Government Decree 5/2023 (CMVM Regulations) expressly reiterates that it is the CMVM which maintains the Official Register of Statutory Auditors (ROC) and Audit Firms (SROC). The CMVM supervises the performance of audit activities. Alongside the CMVM, the *Inspeção-Geral de Finanças* (IGF) acts as the audit authority under the Ministry of Finance. Law 148/2015 (*Regime de Supervisão de Auditoria*) also stipulates that the IGF shall receive mandatory reports from auditors and audit firms on public interest entities (as provided for in the Statutes of the OROC, a public-law corporation (see below), are well as participate in quality inspections, however, administrative penalties are imposed by the CMVM (IGF, 2025).

Article 6 of Law 148/2015 provides that, in addition to registration in the OROC, it is the responsibility of the CMVM to register auditors and audit firms wishing to carry out functions in the public interest. In other words, the CMVM maintains the official register listing professionals authorised to audit accounts. In practice, the CMVM processes applications for registration and may suspend or cancel registrations when the requirements are not met. At the same time, the OROC maintains its two lists of members (ROC and SROC), but these lists now apply primarily to activities that are not subject to public oversight.

The CMVM, as the supervisory authority for the audit profession, has the following responsibilities: (i) maintaining a register of auditors and audit firms; (ii) establishing a quality assurance system for audits of public interest entities (PIE); (iii) developing an investigation and disciplinary system; and (iv) issuing regulations on matters falling within the scope of its responsibilities, following consultation with the OROC.

The *Ordem dos Revisores Oficiais de Contas* (OROC) is the public-law corporation representing auditors in Portugal Although it is not a state authority, the OROC performs self-regulatory functions: it maintains a register of its members, issues technical and ethical standards, and has an independent Disciplinary Board which imposes penalties for ethical or professional breaches by statutory auditors. As a national public-law corporation, the OROC represents and brings together all its registered auditors and audit firms (ROC and SROC) and safeguards the integrity of the profession (OROC, 2025). Its functions include defending the interests of auditors, drawing up and updating the Code of Ethics, publishing technical guidelines, organising continuing professional development and conferences, and representing the profession internationally (e.g. before the International Federation of Accountants – IFAC, or European forums of auditors). In this regard, the OROC acts as the point of contact and technical regulator for the audit profession in Portugal.

Some of the OROC's responsibilities overlap with those of the CMVM. The OROC carries out the following regulatory activities: (i) enforcing the requirements for Initial Professional Development (IPD) and Continuing Professional Development (CPD) for auditors; (ii) maintaining a register of statutory auditors and audit firms; (iii) establishing ethical requirements for its members; (iv) managing and supervising the CPD programme; (v) establishing a quality control system for audits of non- public interest entities (non-PIE); and (vi) establishing a reporting and disclosure system for its members.

Legal framework

In Portugal, the auditing of accounts is primarily regulated by the *Regime Jurídico da Supervisão de Auditoria* (Law 148/2015, of 9 September). This law transposes Directive 2014/56/EU and supplements the implementation of Regulation (EU) No 537/2014, setting out the rules for the public oversight of audit activities. At the same time, the *Estatuto da Ordem dos Revisores Oficiais de Contas* (EOROC) (Law 140/2015 of 7 September) regulates the profession of statutory auditors and their functions. In practice, Portuguese auditors are required to apply the International Standards on Auditing as adopted at European level –where formal adoption has taken place– and, in other cases, the technical standards issued by the OROC in line with the international framework. In turn, the *Código dos Valores Mobiliários* and the *Código das Sociedades Comerciais* set out the entities that are required to undergo an audit. Conversely, a voluntary audit is defined as one commissioned by an entity, without any legal obligation to do so, of its annual accounts (an activity which, under the Statute, is also the sole remit of statutory auditors).

The audit requirements are set out in Law 140/2015, as last amended by Law 99-A/2021, which was enacted to update national audit regulations (adjustments to the functions of the supervisory body, definitions under the Legal Framework of Audit Oversight (RJSA), etc.).

The Portuguese Commercial Companies Code requires all public limited companies (S.A.) to undergo an annual audit. It also requires limited liability companies (S.L.) to have their financial statements audited annually if they exceed two of the three thresholds in two consecutive fiscal years: (i) net turnover of €3,000,000; (ii) total assets of €1,500,000; and/or (iii) an average workforce of 50 employees during the fiscal year. Limited liability companies that do not exceed two of the above thresholds are exempt from the annual audit requirement. Furthermore, all public interest entities (PIEs) (listed companies, credit institutions, insurance and reinsurance companies, pension funds that finance a special social security scheme, and holding companies that control insurance companies) are required to undergo an audit in accordance with the Law.

Under the supervision of the Ministry of Finance, all universities, the OROC and the *Ordem dos Contabilistas Certificados* are responsible for implementing the requirements for Initial Professional Development (IPD) and Continuing Professional Development (CPD) for statutory auditors, as set out in Law 148/2015, Law 79/2023 and Law 68/2023. In order to practise as an auditor and become a member of the OROC, individuals must: hold a university degree (minimum: Master's degree), pass the entrance examinations (four written exams and one oral exam), have at least three years' work experience (under the supervision of a mentor with at least five years' experience as an auditor) and

pass a final examination (under the new regime applicable from 2025, candidates may be exempted from the examination in specific areas that have already been covered at university, subject to the relevant equivalence assessment). OROC members may then register with the CMVM in order to sign audit reports.

Independence

Regulations, general duty of independence and definition

Portuguese law imposes a highly strict duty of independence on auditors. However, Law 148/2015 presupposes the existence of a duty of independence, but does not define or elaborate on it, effectively referring to external regulations – such as Regulation (EU) No 537/2014 or the *Estatuto da Ordem dos ROC* (EOROC) – for the conceptual framework of independence applicable to auditors in Portugal. Apart from these references, the Act does not incorporate the European framework of threats and safeguards, does not define independence, nor does it distinguish between independence in fact and in appearance, nor does it list threats or establish obligations to identify and assess them.

Consequently, it is the EOROC that provides the coherent set of provisions -both direct and indirect- aimed at safeguarding the auditor's independence in all areas (personal, financial, professional and institutional). These range from the general definition of the duty of independence to the rules on rotation, incompatibilities and post-engagement restrictions. More specifically, the EOROC provides, in general terms, that auditors and audit firms must carry out their professional activities with complete independence, objectivity and impartiality, free from any pressures or interests that might influence their professional judgement. This general mandate emphasises independence as a fundamental ethical principle in the practice of the profession (Art. 61.2), fulfilling the imperative that the credibility of the audit depends, to a large extent, on the actual and perceived independence of those who perform it.

The general duty of independence in the EOROC is of a mandatory nature: it is not limited to an ethical exhortation, but imposes specific obligations on the auditor (recusal, prevention, documentation), and failure to comply with them would constitute a breach of the professional standard. This duty is set out primarily in Article 71, supplemented by the general principle in Article 61.2, imposing on the auditor a permanent obligation of objectivity and impartiality towards their audited clients, and is broken down into several specific requirements that define its scope and technical nature. The first of these is independence from the audited entity. In this regard, Article 71.1 provides that, in the performance of their duties, the auditor must maintain independence from the audited entity throughout the period covered by the audited financial statements and the performance of the audit. Consequently, the auditor may not become involved in or participate in the client entity's decision-making, thereby ensuring a clear separation between the audit function and the management of the audited company.

At the same time, the OROC Code of Ethics, based on the IFAC Code of Ethics, elaborates on and complements this framework, requiring, in the case of Public Interest Entities (PIEs) and in line with national and European legislation, the periodic rotation of responsible partners, the monitoring of economic dependence arising from fees, and the identification, documentation and mitigation of threats to independence through appropriate safeguards. The Code does not impose automatic mandatory rotation: the rotation of partners is designed as a safeguard, applicable when a prolonged association with the client gives rise to significant threats to independence which cannot be reduced to an acceptable level by other means. Overall, Portuguese regulations require the auditor to act with "professional scepticism" and to apply the current Technical Auditing Standards free from external influence.

The EOROC (in Art. 66) enshrines the principle of irremovability, according to which the appointed auditor may not be dismissed before the end of their term of office –or, in the absence of a contractual

term, before four years have elapsed– unless there is express written consent or just cause exists in accordance with the terms of the *Código das Sociedades Comerciais*. This principle aims to prevent undue pressure from the audited entity and to ensure the stability required for the independent performance of the audit. Alongside this guarantee of stability, the OROC Code of Ethics, in line with the threats and safeguards approach of the IFAC Code, requires the implementation of a mechanism for the gradual rotation of the audit team when a prolonged association with a client may give rise to threats of familiarity or self-interest. This mechanism does not involve the automatic or simultaneous replacement of all team members, rather a progressive and planned renewal of key personnel on the engagement, which may include, depending on the circumstances, the key audit partners, auditors with supervisory or review functions, staff responsible for coordinating the engagement, quality control or client relations, as well as specialists performing essential audit functions. Its aim is to gradually reduce excessive closeness to the client, whilst preserving technical continuity and the quality of the engagement.

Furthermore, the law clarifies the starting point for calculating rotation periods in PIE audits, setting it as the first fiscal year of the first appointment as auditor of the public interest entity; and, should the auditor have already been providing services before the entity acquired that status, the calculation restarts on the date of recognition as such. Finally, in the event of any uncertainty regarding the actual start date of the audit engagement, the standard requires the auditor to report this situation immediately to the CMVM, which is responsible for determining the relevant date. Taken as a whole, this regulatory framework reflects a comprehensive approach aimed at ensuring independence, preventing excessive familiarity and boosting the credibility of the audit process in Portugal.

Threats and safeguards

Law 148/2015 does not regulate threats and safeguards on a case-by-case basis, but fully adopts the European conceptual framework, imposing on the auditor a legal obligation to identify, assess and mitigate threats to independence, in line with Directive 2014/56/EU and Regulation (EU) No 537/2014.

In Portugal, the OROC's Code of Ethics –which incorporates the IESBA's International Code of Ethics– is legally binding on all auditors because the *Estatuto da Ordem dos Revisores Oficiais de Contas* (EOROC) confers regulatory force on the OROC's ethical standards (Art. 61.2) and expressly sets out the duty of independence in Article 71. This means that the auditor must apply the conceptual framework for identifying threats and safeguards, document the analysis, and decline the engagement when independence cannot be guaranteed. Consequently, even in non-PIE audits, Portuguese regulations require a rigorous approach to threats to independence in accordance with the EOROC and the OROC Code of Ethics.

Once again, it is the EOROC that substantively addresses the prevention of conflicts of interest, requiring auditors to take all appropriate measures to ensure that their independence is not compromised by any conflict of interest with the audited entity, whether actual or potential, nor by commercial, financial, personal or other relationships, whether direct or indirect (Art. 71.2). This proactive obligation involves identifying and eliminating (or mitigating through safeguards) any link or situation that may undermine the auditor's objectivity. Furthermore, Article 71.4 prohibits auditors, their employees and any person closely associated with them from holding significant financial interests in the audited entity (for example, holding shares or financial instruments in the audited company). However, only very limited exceptions are permitted for indirect holdings through sufficiently diversified collective investment undertakings, provided that the auditor cannot influence investment decisions and that no significant threat to independence arises. This prevents the auditor from acting as judge in matters affecting their own financial interests. If an objective and informed third party may reasonably conclude that such circumstances compromise the auditor's independence, then the auditor must withdraw from the engagement, even taking into account any safeguards that may have been applied. This clause sets a negative limit on the scope of the duty of independence: when the

threat is such that objectivity could be called into question, the only acceptable option is to withdraw or decline the audit in order to protect the public interest.

The duty of independence also has a procedural aspect, as Article 71.6 of the EOROC requires auditors to document all relevant threats to their independence and the safeguards applied to mitigate them in their working papers. This documentation ensures transparency and enables the monitoring of how potential conflicts are managed during the audit. Similarly, Article 71.8 prohibits the auditor (and members of their team) from soliciting or accepting gifts, favours or offers from the audited entity or its related parties, unless their value is objectively negligible or irrelevant. This prevents undue commitments or situations where influence is exerted through gifts or benefits, thereby reinforcing both independence in fact and independence in appearance.

Finally, Article 71.10 provides that if, during the audit period, events occur that give rise to new risks to independence (for example, a merger or acquisition linking the auditor to another entity), the auditor has a maximum of three months to eliminate any supervening interest or relationship that compromises their independence, while at the same time applying safeguards to minimise the threat during that period. These obligations demonstrate that independence is not static, rather, it requires continuous monitoring and diligent action to preserve it in the face of changing circumstances.

Incompatibilities and prohibitions

Similarly, the incompatibilities and prohibitions applicable to statutory auditors are not set out in Law 148/2015, but are instead laid down in the *Estatuto da Ordem dos Revisores Oficiais de Contas* (EOROC) and in the OROC Code of Ethics, which incorporate the IFAC Code of Ethics, and which contain detailed regulations on professional incompatibilities, such as: a prohibition on holding significant financial interests in the audited entity; on holding management, representative or employment positions with the client; a prohibition on maintaining business or personal relationships that compromise independence; a prohibition on participating in management decisions of the audited entity; or a prohibition on accepting gifts or favours beyond those considered negligible (Articles 71, 89 or 91 of the EOROC). The profession of auditor may not be practised in conjunction with any other activity that compromises independence or ethical standards (Art. 88). The above articles also set out restrictions applicable to the audit firm, its partners, employees involved in the audit, and persons closely associated with them, in line with the "network-level independence" approach set out in European regulations.

With regard to temporary suspensions from practising (which do not constitute incompatibility), the law provides that, if a ground for cancellation arises which does not permanently affect the auditor's technical competence, suitability or independence and is remediable, the CMVM may temporarily suspend the registration rather than cancel it. The purpose of this suspension is to halt the performance of the auditor's duties while the problem is being rectified. Furthermore, an auditor's registration (ROC or SROC) may be suspended at the request of the person concerned. These suspensions do not entail a permanent incompatibility, but rather a temporary interruption of the auditor's duties until the circumstances responsible for the suspension have been resolved.

Table 23. Exclusions (incompatibilities) provides an overview of the exclusions set out by the *Estatuto de la Ordem dos Revisores Oficiais de Contas (EOROC).*

//// **TABLE 23** **Exclusions (incompatibilities) Portugal**

Grounds for exclusion	Legal basis	Applicable to:
Being an employee of a public body, carrying out duties relating to supervision, control, auditing, inspection or similar functions.	EOROC Art. 49.1-2; 71.1–5 & 89.3.	Sole practitioner (ROC/partner). This applies to family members and key personnel only if their relationships may influence the assignment or pose a threat to independence that is apparent to an objective third party, or if they constitute an incompatibility.
Holding administrative, management, leadership positions or ones of executive responsibility within the audited entity or any company in which it holds a stake or in which it has a stake.	EOROC Arts. 71.1–3, 89.2 & 89.3.	Sole practitioner. This extends to family members and key personnel only if their relationships involve a decision-making role or pose a threat to independence that is apparent to an objective third party and, in the case of family members, where the rule expressly provides for this.
Holding significant financial interests (direct or indirect shareholdings) in the audited entity.	EOROC Arts. 71.3–5 & 89.3.a	Sole practitioner (ROC). It extends to family members and key personnel only where the rules so provide (spouse/civil partner and lineal relatives with a stake) and/or where such interests or relationships pose a threat to independence that is apparent to an objective third party, including the prohibition on "direct and material financial interests" for the team and "persons closely associated".
Having a spouse, civil partner or close relative (up to the third degree of kinship in the collateral line) who holds an administrative, managerial, executive or directorial position within the audited entity or any company within its group.	Art. 89.3.b	Sole practitioner. Audit firm, including its partners, shareholders and members of the governing body. Employees directly involved in the audit. Persons closely associated with the auditor.
Providing additional paid services to the audited entity that compromise the auditor's professional independence.	Art. 89.3.c	Sole practitioner and Audit firms.
Performing non-audit functions at a competitor of the audited entity, without the consent of the entities concerned	Art. 89.3.d	Sole practitioner.
Having held a management position over the last three years in the entity to be audited (or, in the case of a PIE, having been a member of its supervisory body) prior to undertaking the audit	Art. 89.3.e	Sole practitioner.

Fees

The EOROC also ensures that financial relationships between the auditor and the client do not undermine independence. One aspect of this concerns professional fees, where the Statute expressly prohibits any form of remuneration that compromises the independence or quality of their work, ruling out contingent or performance-related fees, as well as financial dependence arising from the provision of other services to the auditee (Art. 59.2). Similarly, Art. 74.10 requires that audit firms' internal remuneration policies do not introduce perverse incentives that undermine objectivity. It is especially prohibited for income earned by auditors from non-audit services provided to an audited entity to influence the performance appraisal or remuneration of any person capable of influencing the audit. This prevents, for example, the firm from remunerating or assessing an auditor on the basis of consultancy services sold to the same audit client, a practice that could call their independence into question. Finally, it is worth noting the prohibition on accepting gifts or favours from the client (Art. 71.8), which forms part of the control over any financial ties or benefits that could undermine the auditor's impartiality Beyond these considerations, there are no explicit fee limits for non-PIE audits.

Public Interest Entities

The Portuguese system is subject to restrictions arising from the direct implementation of Regulation (EU) No 537/2014, which sets out prohibitions on non-audit services for public interest entities, limits on the concentration of fees, rules on auditor rotation, and cooling-off periods to prevent former auditors from taking up executive or supervisory positions within the audited entity.

Public oversight also falls to the *Comissão do Mercado de Valores Mobiliários* (CMVM), while the *Inspeção-Geral de Finanças* (IGF) is involved only in communications and inspections, without the power to impose penalties. Art. 3 of Law 148/2015 defines Public Interest Entities (PIE) specifically as issuers of securities admitted to trading on a regulated market located in or operating in Portugal, credit institutions, insurance and reinsurance companies, entities whose main activity is to acquire shareholdings conferring a majority of voting rights in credit institutions, insurance holding companies and mixed insurance holding companies, and pension funds financing a special social security scheme. On matters of independence, Portugal refers directly to Regulation (EU) No 537/2014 (Art. 3.3.e), which sets out the framework for threats and safeguards, the oversight of the audit committee and the approval of non-audit services.

The technical requirements are set out in the *Estatuto da Ordem dos ROC* (EOROC) and the OROC Code of Ethics, which require complete independence throughout the entire audit period, a prohibition on participating in management decisions, absence of any significant financial interests in the entity, mandatory documentation of threats and safeguards, and a prohibition on accepting gifts unless their value is negligible.

Secondly, the system is strengthened by limiting the maximum period during which the key audit partner may directly lead or carry out a PIE audit: seven consecutive years, after which a cooling-off period of at least three years applies, before any new appointment can be made. At the same time, the term of the audit engagement for these entities may not be less than two years nor exceed ten years, in line with European requirements aimed at preventing excessively long-term relationships between auditor and client.

With regard to incompatibilities and prohibited services, Portugal fully applies the "blacklist" set out in Regulation (EU) No 537/2014 –accounting, internal control design, significant valuations, actuarial services, internal audit, management, human resources, as well as additional tax and legal services– to both the firm and its entire network, supplemented by the general Portuguese framework on independence and prohibitions which may block any relationship (not just "services") that compromises objectivity. Finally, the control of fees complies with European limits: for PIEs, permitted non-audit services may not exceed 70 percent of the average audit fees for the previous three fiscal years; furthermore, the EOROC prohibits contingent fees, incentives linked to non-audit services and any remuneration that compromises independence, alongside a ban on accepting financial benefits from the client. Overall, the Portuguese system imposes a system aligned with the most stringent European standards to ensure independence in fact and independence in appearance of PIE auditors.

//// **TABLE 24** **Summary - Portugal**

Item	
Is there a definition of independence?	Neither in the law nor in the EOROC. Article 71 of the EOROC does refer to the duty to be independent.
Is there an explicit reference to independence in fact and independence in appearance?	No, neither the law nor the EOROC distinguishes between independence in fact and independence in appearance.
Period during which the auditor must be independent	Yes, the law does provide for this indirectly in the case of PIEs. The EOROC stipulates that the auditor must maintain their independence throughout the fiscal year under audit and the entire statutory audit process (Art. 71).
Is there a list of the different types of factors that may give rise to potential threats to independence (self-review, self-interest, advocacy, familiarity or trust, or intimidation)?	Not in the law, but yes, in the EOROC. Article 71.3 thus explicitly lists these categories: "self-audit, self-interest, advocacy, familiarity or intimidation" between the auditor (or their influential associates) and the audited entity.
Is there an obligation to identify and assess threats to independence and to put safeguards in place?	Not in the law, but yes, in the EOROC. Article 71.6 requires auditors to document all relevant threats to their independence and the safeguards applied to mitigate them in their working papers. Article also 73 stipulates that, before accepting or continuing an engagement, the auditor must assess and document whether there are any threats to their independence and what safeguards are in place.
Apart from specific incompatibilities, is the general principle established that "the statutory auditor or audit firm shall not perform a statutory audit if there is a risk of self-review, self-interest, bias, familiarity or intimidation due to a financial, personal, business, employment or other relationship between the statutory auditor, the audit firm, its network and any natural person in a position to influence the outcome of the statutory audit, and the audited entity, as a result of which an objective, reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or the audit firm is compromised" (Art. 22.1 of the Directive)?	Article 71.3 of the EOROC stipulates that the auditor may not perform the audit if there is a threat that compromises independence.
Specific regulation in case of a threat arising from a financial interest (e.g. Directive, Art. 22.4.a) and b))	Article 71.11.b of the EOROC describes the threat arising from a financial interest. It is understood to exist when independence may be compromised by a financial interest (direct or indirect interest in the client) or by excessive dependence on fees from the client. The EOROC also prohibits the performance of an audit if financial relationships compromise independence (Art. 71.1–3). There are also specific prohibitions on the auditor, the audit team and closely related persons having a material interest in the auditee, with the exception of diversified collective investment undertakings (EOROC Art. 71.4-5), reinforced by the incompatibility arising from a shareholding in the auditee's share capital (EOROC Art. 89.3(a).
The same applies where there is a threat arising from an employment, commercial or other relationship (e.g. Directive Art. 22.4.c))	Prohibition on performing audits where such relationships (including the network and any person who may influence the outcome) would lead an objective, reasonable and informed third party to conclude that independence is compromised (EOROC Art. 71.1-3) and, furthermore, regarding the exclusion of team members: persons falling within the scope of Art. 71.4 may not participate or exert influence if they have had an employment, commercial or other relationship with the auditee that could give rise to a conflict (EOROC Art. 71.4-5 & 71.7(c).
Advocacy	This is explicitly mentioned under the term "representation" in Article 71.3 of the EOROC. It is considered a threat if the auditor acts on behalf of the client; in such a case, the audit is precluded.
Regulations regarding gifts	Article 71.8 of the EOROC expressly regulates this by prohibiting the auditor or persons closely associated with them from soliciting or accepting monetary or non-monetary offers, or favours, from the audited entity or its affiliates. The only exception is where an objective third party would consider the value to be negligible.

Regulations on the provision of non-audit services	The EOROC imposes several measures. Article 71.9 requires the identification and assessment of non-audit services in the event of an acquisition. Furthermore, Article 73 requires an assessment and documentation of whether such services give rise to threats to independence and its safeguards, and Article 74.10 prohibits fees for non-audit services from being used as a factor or criterion in the performance appraisal of audit staff. Furthermore, for public interest entities, Article 78.2.c requires that all non-audit services provided to the auditee (or its group) be reported annually to the supervisory body.
Extension of threats (or incompatibilities) to persons or entities linked to the auditor (Directive, Art. 22.1 (Paragraph Three))	Yes. Article 71.4 of the EOROC extends the independence requirements for the auditor (or audit firm) to its senior partners, employees and any person whose services are under its control and who is involved in the audit. It also applies to "persons closely associated" (spouse or civil partner, descendants, other dependent relatives living in the same household, and entities controlled by them).
Recusal (prohibitions) due to a concentration of fees received from the same audited entity (e.g. Art. 25 LAC, Art. 4.3 of EU Regulation 537/2014)	Yes, in the case of public PIEs, Article 77.6 of the EOROC stipulates that the auditor must immediately inform the CMVM when the audit fees for a public interest entity exceed 15% of their total fees in each of the last three fiscal years. The auditor must also indicate the measures taken to safeguard their independence. This rule addresses the concentration of fees as a potential threat.
Prohibition: period during which the former auditor of the audited entity is prohibited from: i) taking up management positions, ii) being appointed to the audit committee or a body performing equivalent functions, and iii) being appointed as a non-executive member of the administrative or supervisory body of the audited entity (e.g. Directive, Art. 22 bis, 1 year, 2 years for PIEs).	Article 72 of the EOROC stipulates that the auditor (or the key audit partner) may not, for at least one year following their departure (or two years in the case of PIEs), take up any significant management positions, nor may they sit on the management or supervisory body of the audited entity.
Regulations transposing and implementing Article 24bis of Directive 2006/43/EU, as amended by Directive 2014/56/EU (Independence and objectivity of statutory auditors carrying out statutory audits on behalf of audit firms)	The EOROC sets out the internal organisation of the auditor primarily through three articles: Art. 74, which defines the internal infrastructure (quality, risks, IT and independence); Art. 75, which focuses on operational aspects (appointment of partners and resources); and Art. 73, which requires a prior assessment of independence and capacity before accepting any engagement.
For Public Interest Entities, indicate the options chosen by national legislation from amongst those permitted by Regulation (EU) No 537/2014 on external and internal rotation	The EOROC has opted to apply the 'baseline' thresholds set out in Art. 17 of EU Regulation 537/2014 for the audits of Public Interest Entities (PIE), without making use of the optional extensions available through a public tender or joint audit. The external rotation of the auditor or the audit firm has a maximum duration of 10 years (with an initial term of not less than 2 years) (Art. 54.3), and the internal rotation of the key audit partner has a maximum duration of 7 years, with a minimum cooling-off period of 3 years before they may be reappointed (Art. 54.2). In addition, a mechanism for the gradual rotation of those responsible for the engagement is set out (Art. 54.7).
For PIEs: Are there any exceptions to the list of prohibited services set out in Art. 5 of EU Regulation 537/2014?	No. The EOROC does not introduce any further exceptions to the list of prohibited services set out in Article 5 of the Regulation. As a matter of fact, Article 77.12) merely states that the records of different services must be organised in such a way as to cover services not prohibited by EU legislation.
For PIEs: Have stricter requirements been introduced under Art. 5.4 of EU Regulation 537/2014 concerning the provision of non-audit services other than those prohibited under Art. 5.1?	No. The EOROC does not require stricter restrictions on non-audit services than those set out in Article 5 of the Regulation. It refers to EU legislation on the definition of prohibited services.
For PIEs: Have stricter requirements regarding fees been introduced under Art. 4.4 of EU Regulation 537/2014?	No, the EOROC has not set fee limits that are more restrictive than those laid down by the EU. The only related measure is the obligation to notify the CMVM when the 15% threshold is exceeded (Article 77.6).

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14 Comparison and Conclusions

There is a high degree of harmonisation in the transposition of the rules on independence set out in Directive 2006/43/EC. As might be expected, all the countries studied require that the auditor and any natural person in a position to influence, directly or indirectly, the outcome of the statutory audit be independent of the audited entity and not be involved in the latter's decision-making process.

However, in most countries the concept of independence is either not defined (Belgium, Finland, Luxembourg, the Netherlands and Portugal) or is defined implicitly as "no links which impair or are likely to impair their freedom of freedom of individual judgement" (Germany) or as "fear of bias" (Austria); or it is stated that it is characterised by the exercise, with full objectivity, of the powers and responsibilities (France); and in Italy, it is defined as "a combination of integrity, objectivity and independence of mind, complemented by the obligation to avoid any circumstances that might give rise to the appearance of a lack of independence". In the absence of a definition, reference must be made to the IFAC Code of Ethics when applicable in the country in question (Greece). Only two countries define independence, albeit in slightly different terms. Spain defines it as " *the absence of any interests or influences that may compromise the auditor's objectivity when performing their audit engagements*" (RAC art. 37.1). Ireland defines it as *freedom from conditions and relationships which, in the context of an engagement, would compromise the integrity or objectivity of the firm or covered persons*".

With the exception of Finland and Portugal, all countries refer to independence in fact, material or mental, and to independence in appearance – that is, being and appearing to be independent. Germany and Luxembourg do so implicitly by requiring that an objective, reasonable and informed third party be able to conclude that independence may be compromised. Although Greece does not make such a reference in its national regulations, it does so through the application of the IFAC Code of Ethics. The remaining countries make explicit reference to independence in fact and independence in appearance. In the case of Spain, this is set out in the preamble to the Law on Auditing.

All the countries studied require that the period of independence of the auditor must be the period to which the financial statements to be audited relate and the period during which the statutory audit is carried out in accordance with Article 22.1 of Directive 2006/43/EU.

With regard to the types of risks or factors that may threaten independence, all countries, with the exception of Finland and Belgium, explicitly mention the risks set out in Article 22.1 of Directive 2006/43/EU, albeit with some nuances. France does not mention bias or advocacy. Instead of bias, Austria refers to the representation of interests, Germany to the provision of legal services, and the others include advocacy (Spain, Greece, Ireland, Italy, Luxembourg, the Netherlands and Portugal).

The auditor's obligation to identify and assess threats to independence and to put safeguards in place is explicitly and clearly set out in all countries except Greece, where it is implicitly contained in the provision stating that "*the auditor or the audit firm must record in their audit working papers all significant risks to their independence, as well as the safeguards implemented to mitigate those risks*" (Article 21.4 of Law 449/2017).

Apart from stipulating of specific incompatibilities, all countries introduce a duty on the auditor (or audit firm) to not perform the audit where the threat to independence is such that an objective,

reasonable and informed third party might conclude, taking into account the safeguards applied, that the independence of the statutory auditor or audit firm is compromised (Article 22.1 of Directive 2006/43/EC).

There is a high degree of consistency regarding these incompatibilities across countries. All of them incorporate the provisions of Article 22.4 of Directive 2006/43/EC:

a) holding financial instruments of the audited entity, with the exception of interests held indirectly through diversified collective investment undertakings;

b) holding financial instruments of any entity related to an audited entity, where such holding may give rise to a conflict of interest or be generally perceived as likely to give rise to a conflict of interest, with the exception of interests held indirectly through diversified collective investment undertakings;

c) having had, during the period in which the auditor's independence is required, an employment, commercial or other relationship with the audited entity that could give rise to a conflict of interest or be generally perceived as likely to give rise to a conflict of interest.

With regard to advocacy, where this is explicitly mentioned, it is treated as a threat to independence rather than an incompatibility, except in Spain (which in turn introduces exceptions to this incompatibility). Ireland prohibits the auditor from representing the interests of the audited entity. The Netherlands prohibits the performance of an audit if the audit firm provides a non-audit service that has a material impact on the subject matter of the audit and is subjective, non-routine, or gives rise to a threat of advocacy (Article 20.4.2 ViO).

With regard to the prohibition on receiving gifts or favours from the audited entity or from any entity linked to an audited entity, except in cases where an objective, reasonable and informed third party would consider their value to be insignificant or negligible (Article 22.5 of Directive 2006/43/EC), all countries incorporate this provision, either directly and explicitly or by application of the IFAC Code of Ethics (Austria, Finland). In France, the maximum limit on gifts, whether monetary or otherwise, or favours that may be requested or accepted is established by order of the Minister for Justice. In Italy, this is set out in the *Codice Italiano di Etica e Indipendenza*, which also establishes the need to maintain internal records and policies on the acceptance of gifts. In Spain, the Audit Regulations provide more detailed guidance, defining what is meant by "insignificant" as follows: when, having assessed the facts and circumstances of each case, it can be concluded that, given their nature and value, they are of negligible quantitative importance, occur in the normal course of the audit, and do not influence, nor are they intended to influence, the auditor's objectivity and decisions. Furthermore, statutory auditors must set out in their code of conduct, the policy on gifts and favours, as well as the procedures for their disclosure.

With regard to the regulation of non-audit services in non-PIEs, apart from the general framework of threats and safeguards, Austria, Belgium, Spain, France, Greece, Ireland, Luxembourg, the Netherlands and Portugal have lists of incompatibilities (blacklists) of varying scope.

The extension of threats or incompatibilities to persons or entities related to the auditor (Article 22.1 of Directive 2006/43/EC) is present in all countries; to this are added persons closely associated with the auditor (Belgium, France, Portugal) or family members of the lead auditors (Spain). In the Netherlands, the scope is extended to senior members of the non-audit services team, who are not partners, directors or internal supervisors of the firm or of another party to the network, who are involved in the provision of a non-audit service to the audited entity by the firm or another party to the network, unless that senior member's contribution to that service is minimal.

For non-PIE audits, in most countries, there are no grounds for recusal due to the concentration of fees received from a single audited entity. Only Germany, Austria and Spain introduce, for non-PIE audits, grounds for recusal where the concentration of fees from a single client has exceeded 30 percent continuously over the last three fiscal years.

All countries lay down the post-engagement restrictions for auditors, as set out in Article 22.bis of Directive 2006/43/EC (appointment to the audit committee or a body performing equivalent functions, and as a non-executive member of the administrative or supervisory body of the audited entity), last-

ing one year for non-PIEs and two years for PIEs. In Luxembourg, this also applies reciprocally; that is to say, key management personnel of the audited entity are prohibited from taking up employment with the audit firm in positions relating to the audit of the same client within those periods.

Another aspect of interest is long-standing audit relationships involving non-PIEs. In Ireland, although the IAASA Ethical Standard 2025 does not require automatic rotation, it does stipulate that, from the tenth year onwards, additional safeguards must be put in place to protect independence. Similarly, in Spain, the threat is considered significant when the contract term exceeds 10 years, and safeguard measures are recommended (Query 3 BOICAC 109/2017).

With regard to PIEs and external audit rotation, most countries make use of the power granted by Regulation (EU) No 537/2014 to Member States to extend the maximum engagement period beyond 10 years. Austria, Belgium, Spain, Finland and Luxembourg have introduced an extension to 20 years via a public call for tenders and to 24 years via co-audit. In France, the extension via public tender is limited to 16 years, while that via co-audit is, likewise, 24 years. Germany and Greece abolished the previous 20- and 24-year extensions in 2021; consequently, the maximum contract term in those countries is 10 years. Ireland, Italy and Portugal have not introduced these extensions, with the maximum term being 10 years, except in Italy, which sets a maximum term of 9 years.

Regarding internal rotation, two distinct groups may be identified: one group of countries that maintains the obligation for internal rotation of the lead auditor of the engagement after seven years, as laid down in Regulation (EU) No 537/2014 (Austria, Belgium, Finland, Greece, Luxembourg and Portugal), and another group that has introduced a shorter period, which is five years (Germany, Spain, Ireland and the Netherlands), except for France, where it is six years.

With regard to the option available to Member States to include exceptions to the list of prohibited services (Article 5 of Regulation (EU) No 537/2014), 8 countries have not introduced any exceptions (Germany, Belgium, France, Greece, Luxembourg, Italy, the Netherlands and Portugal) and 4 countries have introduced the permitted exceptions (Austria, Spain, Finland and Ireland).

As regards whether stricter requirements have been introduced under Article 5.4 of Regulation (EU) No 537/2014 for the provision of non-audit services that are not prohibited services, 10 countries have not introduced such requirements (Germany, Austria, Belgium, Finland, France, Greece, Ireland, Italy, Luxembourg and Portugal). In Spain, the services prohibited by Regulation (EU) No 537/2014 are further extended to include the family members of the lead auditors (Art. 18 LAC) and to persons or entities associated with the auditor (Art. 19 LAC). In the Netherlands, all non-audit services to the related entity and its affiliated entities are prohibited (Art. 24b of the Wta).

Finally, regarding the power of Member States to introduce stricter requirements on fees under Article 4.4 of Regulation (EU) No 537/2014, 10 countries have not introduced any requirements (Germany, Austria, Belgium, Finland, France, Greece, Ireland, Italy, Luxembourg, Portugal) and only two countries have introduced some additional requirements. In Spain, the same limit on fees from a single client in each of the last three consecutive fiscal years for both audit and non-audit fees (15 percent) is maintained; however, if this limit is exceeded, this constitutes grounds for recusal. In the Netherlands, a quality review by an auditor external to the firm is also required if the total fees per fiscal year that the audit firm has received or expects to receive from a client during two or more consecutive fiscal years exceed fifteen percent of its total revenue in each of those fiscal years.

In summary, with regard to PIE audits, the options permitted under Regulation (EU) No 537/2014 give rise to a degree of variability. It is noteworthy that the vast majority of countries have opted to extend the audit contract to the maximum permitted by the aforementioned Regulation. It is also worth noting that two countries (Germany and Greece) have recently abolished such extensions.

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