International Independence Register: Guidelines

1. Clientele data collection

Following the network definition of the IFAC Code of Ethics, HLB International is considered to be a network. As such, it is under the obligation to maintain an International Independence Register.

The Register is required to contain details of all listed companies and other "entities of significant public interest" and the system has been designed to collect this information from all HLBI member firms.

Each country should have a definition of "entities of significant public interest", but if this is not the case in your country, guidelines are included in the IFAC Code of Ethics.

2. Completion of the Data Input

There are three Sections for completion. Listed, financial services and other PIE (public interest entities).

It should be noted that the Independence Register requirement relates to all clients and not just to audit clients. For example, if you have a tax client, which is a listed company, or is an unlisted bank, they should be included on the return because a member firm somewhere in the world may be providing audit services to another group company and this could affect global independence.

Completion Guidance notes:

(a) Ultimate Holding Company

Please provide details under this heading for each of the sections for:

- All companies where your firm is the **auditor** of the Ultimate Holding Company
- All companies where your firm provides **non-audit** services (see section 2 above).
- All holding companies where your firm provides **audit services** to a **subsidiary, associate or related company.**

(b) Clients which do not have a Holding Company or Subsidiary Companies

These are single company clients (non-group companies) that fall into any of the sections 1, 2 or 3.

(c) Subsidiaries, Associates and related companies (National and International) Provide details under this heading for sections for:

- **All** subsidiaries, associates and related companies where you are the auditor of the ultimate holding company
- **Client subsidiaries, associates and related companies** of a non-client holding company, indicating all services provided.

The IFAC definition of related company in the code of Ethics is set out later in this document.

If you have any problems inputting data online, please telephone Jean-Charles Mahler on tel:+44 (0)20 7881 1100 or email at: j.mahler@hlb.global

3. The International Independence Register

The data provided will enable the HLBI Executive Office to maintain an International Independence Register, which will be maintained on the HLB Intranet and which will be available for inspection by all member firms. Each member firm's compliance officer will be required to advise the HLBI Executive Office of the following on a timely basis:

A. Any additions and deletions, as the Register needs to be updated on a quarterly basis.

B. That he /she has reviewed the firm's independence in relation to all clients of HLB member firms recorded in the register. Any conflicts will need to be reported to both the contact partner/s listed in the register and to the HLB Technical Director. If the conflict arising cannot be resolved then the HLB Technical Director will report this to the HLBI Chief Executive for resolution by the International Executive Committee.

The International Independence Register and Section 290 of the IFAC Code of Ethics

The requirement to maintain an international Independence Register is contained in Section 290 of the revised IFAC Code of Ethics. It should be remembered that the requirements of this Section relate only to listed companies and to other entities of "significant public interest." The following excerpts from Section 290 highlight the areas where the independence requirements have an effect at an international level:

Network Definition

The new definition of a network, effective for audit reports signed after 31 December 2008 is: "A larger structure: (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources. " Further details are in sections 290.13 to 290.24 of the IFAC code of ethics.

There is an identical definition in the European 8th Directive on Company Law.

Assurance Teams

Section 290.4: In the case of audit engagements, it is in the public interest and, therefore, required by this Code that members of assurance teams, firms and network firms shall be independent of assurance clients.

Entities of "Significant Public Interest"

Section 290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:

(a) All listed entities; and
(b) Any entity
  (i) Defined by regulation or legislation as a public interest entity; or
  (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator

Section 290.26 Firms and member bodies are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;

- Size; and

- Number of employees

Related entities

An entity that has any of the following relationships with the client:
(a) An entity that has direct or indirect control over the client provided the client is material to such entity;
(b) An entity with a direct financial interest in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity;
(c) An entity over which the client has direct or indirect control;
(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
(e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.