



Audit Independence
The Supermarket Business Model:
A "Conflict of Interest"?

joannidesllc.com



Alert

Independence of Audits from Fiduciary Services Conflict of Interest: “Network” Firms

Further to the enactment of the Auditors’ Law 2017 (**N. 53(I)/2017**) (the “**Law**”)*, which, *inter alia*, prohibits any connection between the appointed auditors of a Cyprus company and the board of directors and/or officers of the same company;

*The Law enacts the provisions of DIRECTIVE 2014/56/EU of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

In instances where there is such a connection, in breach of the Law, the legitimacy of both the audited Financial Statements, as well as the board of a company is affected in cases where the company’s officers are in any way connected or associated to a company’s appointed auditors.

In particular Section 76(2)(d) stipulates that:

(2) None of the following persons shall be eligible to be appointed as legal auditors:

(d) a partner or an employee officer or an employee of the audited company.



"Network" Firms: One Stop Shop

Further to clarifications from global practitioners our interpretation of the Law, is that companies affiliated either through their shareholding / officers or a Partnership arrangement between the directors of a firm offering fiduciary services and the directors of a licensed audit firm fall under the prohibition of Section 76(2)(d), in that a "Network" of firms is established as defined and prohibited in the IESBA Code of Ethics on "Audit Independence" (the "**Code**") Paragraph 290.

Indeed, Paragraphs 290.144 – 290.146 of the Code provide that:

"Where a partner or employee of a firm serve as officer, director or company secretary of an audit client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level", thereby rendering an audit worthless and a directorship questionable.

Indeed under the Code a "Network" of firms is deemed to exist where:

1. One firm has referred a number of its fiduciary clients to a second firm for audit services and the second firm referred audit clients it had obtained, to the first firm for fiduciary services, or;
2. It appears that there is an arrangement between two firms that when either obtains a client for its services, it would refer that client to the other entity for the services the other entity provides, or;
3. Where it appears that both firms jointly promote their respective services to the same prospective clients, or;
4. There is an evident arrangement between two firms that is aimed at cooperation and they both appear to share a common business strategy to achieve their respective strategic objectives.

In such cases a reasonable and informed third party is therefore likely to conclude that the firms are associated in such a way that a "network" exists between them in contravention of the Code and the Law.

"Network" Firms: One Stop Shop

Conclusions

To avoid the consequences arising from a Conflict of Interest between "Network" firms, that would likely render audits worthless, it is recommended that fiduciary / legal services be provided by independent law firms and audits by independent audit firms to safeguard both the integrity of directorships and the legitimacy of audits in accordance with the Auditors Law 2017. It would appear that on every level, national, European and global the "supermarket" "business" model to providing professional services is over.

Notes





📍 49, Spyrou Acheimastou Ave.,
4520 Limassol, Cyprus

✉ john@joannidesllc.com

🌐 joannidesllc.com

☎ +357 25 354 454

🏠 +357 25 354 464