

TRANSPOSITION NOTE

The table below sets out how the Statutory Auditors and Third Country Auditors Regulations 2016 (“SATCAR 2016”) and the Statutory Auditors and Third Country Auditors Regulations 2017 (“SATCAR 2017”) implement Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 on statutory audits of annual accounts and consolidated accounts, amending Directive 2006/43/EC of the European Parliament and of the Council.

Paragraph of Article 1 of Directive 2014/56/EU	Amendment made to Directive 2006/43/EC	Substantive effect	Implementation in the Statutory Auditors and Third Country Auditors Regulations 2016
Paragraph 1 amending Article 1	Inserts new subparagraph 2 into Article 1	Ensures that Article 29 of the Directive (and therefore the implementation of that Article) is not applied to inspections of audits of PIEs so that Article 26 of the EU Regulation applies in its place.	Regulation 9 of SATCAR 2016 and paragraph 13 of Schedule 10 to the Companies Act as substituted by paragraph 65 of Schedule 3 to SATCAR 2016
Paragraph 2 amending Article 2			
2(a)	Replaces paragraph 1.	Ensures that the Directive applies to small companies that are required to be audited by Member State law though this is no longer required by the EU Accounting Directive (2013/34/EU).	No implementation needed as this is consistent with existing approach for UK companies

2(b)	Replaces paragraph 4.	Excludes Member States' statutory audit firms from the Directive definition of a "third country audit entity".	No implementation needed as this is consistent with the existing UK approach
2(c)	Replaces paragraph 5.	Excludes Member States' auditors from the Directive definition of a "third country auditor".	No implementation needed as this is consistent with the existing UK approach
2(d)	Replaces paragraph 10.	Defines "competent authorities".	Regulation 2 of SATCAR 2016 provides that the competent authority in the UK is the Financial Reporting Council (FRC) and Regulation 3 of SATCAR 2016 sets out its responsibilities
2(e)	Deletes paragraph 11.	Deletes the reference to international auditing standards	No implementation needed
2(f)	Replaces paragraph 13.	Amends the definition of "public interest entities"	<ul style="list-style-type: none"> - Regulation 2 of SATCAR 2016; - Section 494A of the Companies Act 2006 as inserted by paragraph 12 of Schedule 3 to SATCAR 2016 and amended by regulation 12(15) of SATCAR 2017; - Section 519A of the Companies Act 2006 as amended by paragraph 26 of Schedule 3 to SATCAR 2016; and

				<ul style="list-style-type: none"> - Paragraph 20A of Schedule 10 to the Companies Act 2006 as substituted by paragraph 71 of Schedule 3 to SATCAR 2016.
2(g)	Replaces paragraph 15.	Defines a “non-practitioner”.		No implementation needed as this is consistent with the existing UK approach
2(h)	Adds new paragraphs 17-20.	Defines “medium-sized undertakings (para 17); “small undertakings” (para 18); “home member State” (para 19); and “host Member State” (para 20).		No implementation needed as this is consistent with the existing UK approach
Paragraph 3 amending Article 3				
3(a)	Amends the first subparagraph of paragraph 2 and deletes the second subparagraph.	Ensures that the competent authority is responsible for approval of auditors in each Member State.		Regulation 3 of SATCAR 2016
3(b)	Replaces paragraph 4(b).	Includes successor bodies to bodies previously covered by this Member State derogation.		No implementation needed as this is not relevant in a UK context.
Paragraph 4 inserting Article 3a	Inserts a new Article 3a	Allows audit firms from another Member State to perform statutory audits and sets the requirements for this.		<ul style="list-style-type: none"> - Paragraph 6(1)(c) of Schedule 10 to the Companies Act 2006 as inserted by paragraph 57(4) of Schedule 3 to SATCAR 2016 - Section 1223A(1) of the

				Companies Act 2006 as substituted by paragraph 32 of Schedule 3 to SATCAR 2016
Paragraph 5 amending Article 5				
5	Replaces paragraph 3.	Makes sure that, where the approval of a statutory auditor or audit firm is withdrawn, the competent authority informs the relevant competent authorities of other Member States where the auditor or firm is also registered.	No implementation needed as this is consistent with the existing UK approach	
Paragraph 6 amending Article 6				
6	Adds a new paragraph.	Obliges the competent authorities to cooperate on the convergence of professional qualifications.	No implementation needed as this reflects general requirements of the EU regulation	
Paragraph 7 amending Article 8				
7(a)	Replaces paragraph 1 (i).	Inserts cross-reference to Article 26 in the definition of international auditing standards.	No implementation needed as no substantive effect	
7(b)	Deletes paragraph 3.	Removes the ability of the Commission to adapt the list of subjects to be	No implementation needed	

			included in the test of theoretical knowledge.	
Paragraph 8 amending Article 10				
8	Replaces paragraph 1.	Replaces reference to “accounts” with “financial statement” in the requirements for practical training.	No substantive effect so no implementation necessary	
Paragraph 9 amending Article 13				
9	Replaces Article 13.	Replaces the word “penalties” for “sanctions”.	No substantive effect so no implementation necessary	
Paragraph 10 amending Article 14				
10	Replaces Article 14.			
	Replaces paragraph 1, inserts paragraph 2.	Permits an adaptation period as an alternative to an aptitude test for the approval of the individual EEA auditor in the UK.	Paragraph 6(1)(aa), (1A) to (2C) of Schedule 10 to the Companies Act 2006: see paragraph 57(2), (5), (6) and (7) of Schedule 3 to SATCAR 2016	
	Inserts paragraph 3.	Requirement for the competent authorities to cooperate on converging the adoption period and aptitude test.	No implementation necessary	
Paragraph				

11 amending Article 15				
11	Replaces paragraph 1.	Replaces reference to Member States' ability to "disapply" the requirements in the Article with ability to "derogate" from them.	No substantive change so no implementation needed	
Paragraph 12 amending Article 17				
12	Subparagraph (j) is added into paragraph 1.	Adds requirement for the public register of audit firms to indicate where the firm is an EEA firm that is providing services cross border under Article 3a	FRC audit register regulations	
Paragraph 13 amending Article 21				
13(a)	Replaces the title.	Amends the title from "Professional ethics" to "Professional ethics and scepticism".	No implementation needed	
13(b)	Replaces paragraph 2	Introduces the need for an auditor to maintain "professional scepticism" throughout the audit.	Paragraph 2 of Schedule 1 to SATCAR 2016	
Paragraph 14 amending Article 22				
14(a)	Replaces paragraph 1.	Introduces more detailed requirements	Paragraphs 2 to 4 of Schedule 1 to	

			relating to the need for auditor independence.	SATCAR 2016
14(b)	Replaces paragraph 2.		Auditors must ensure that those working on the audit and their dependents have no investments in financial instruments from companies in their area of statutory audit work.	Paragraph 5 of Schedule 1 to SATCAR 2016
14(c)	Replaces paragraph 4.		Introduces new requirements preventing participation in an audit by people with a financial interest or other relationship with the entity being audited.	Paragraph 5 of Schedule 1 to SATCAR 2016
14(d)	Inserts paragraph 5.		Prevents the auditor, those working on the audit and their dependents from soliciting or accepting non-trivial gifts or favours from the audited entity.	Paragraph of Schedule 1 to SATCAR 2016
	Inserts paragraph 6.		Clarifies how to apply the independence requirement where the company is involved in a merger or acquisition.	Paragraph 6 of Schedule 1 to SATCAR 2016
Paragraph 15	Inserts Article 22a		Sets the period during which a former auditor or their registered audit personnel may not take up a management or directorial position at a former client.	Paragraph 7 of Schedule 1 to SATCAR 2016
Paragraph 16 inserting Article 22b	Inserts Article 22b.		Sets out the assessments that an auditor must make before accepting an engagement for a statutory audit	Paragraph 8 of Schedule 1 to SATCAR 2016
Paragraph 17 amending Article 23				
17(a)	Replaces paragraph 2		Updates to include reference to the	No amendment needed

			Audit Regulation.	
17(a) and (b)	Replaces paragraph 3		Requires a former auditor to provide their successor with access to all relevant information concerning the audited entity.	Paragraph 9 of Schedule 1 to SATCAR 2016
17(c)	Inserts paragraph 5. Subparagraph 1		Allows an auditor to transfer information to an auditor in a third country where this is necessary for the audit of consolidated financial statements of a parent in the third country.	Paragraph 9 of Schedule 1 to SATCAR 2016
	Subparagraph 2		Provides for the transfer of information to the relevant competent authority in relation to specified undertakings.	The effect of this provision was already implemented in UK law via Part 3 of Schedule 11A to the Companies Act 2006
	Subparagraph 3		Clarifies that the EU Data Protection Directive applies to the transfer of audit working papers to the auditors of the holding company of a group in a third country.	No amendment needed. UK data protection legislation already has this effect
Paragraph 18 inserting Article 24a	Inserts Article 24a		Sets out internal organisational requirements for auditors and audit firms.	Paragraph 10 of Schedule 1 to SATCAR 2016
Paragraph 19 inserting Article 24b	Inserts Article 24b.		Sets out a number of requirements relating to the organisation of audit work. .	Paragraphs 11 to 12 of Schedule 1 to SATCAR 2016

Paragraph 20 inserting Article 25a	Inserts Article 25a	Limits the scope of the statutory audit in relation to the future viability of the entity and the efficiency or effectiveness of its management.	Paragraph 14 of Schedule 1 to SATCAR 2016
Paragraph 21 replacing Article 26			
	Replaces Article 26.	Provides for the application of international auditing standards.	Regulation 4 of SATCAR 2016
Paragraph 22 replacing Article 27			
	Replaces Article 27.	Revised provisions on the statutory audit of the consolidated financial statements of a group of undertakings.	Paragraph 15 of Schedule 1 to SATCAR 2016
Paragraph 23 replacing Article 28			
	Replaces Article 28.	Updated provisions relating to the content of the audit report. The provision is changed to: make it clear that the audit report is prepared in accordance with auditing standards; require a “going concern” statement in line with auditing standards; require the auditors to state their place of establishment. There are also changes to specify how an audit report should be prepared by joint auditors.	Regulation 4 of SATCAR 2016 and: <ul style="list-style-type: none"> - Sections 495, 496, 497A, 498 and 506 of the Companies Act 2006 as amended by paragraphs 13 to 16 of Schedule 3 to SATCAR 2016 and regulation 12(16) and (17) of SATCAR 2017; - Sections 78, 78A, 78C, 78D

				and 79 of the Building Societies Act 1986 as amended by paragraphs 3 to 7 of Schedule 4 to SATCAR 2016 and regulation 2(2) to (5) of SACAR 2017; - Sections 73, 74, 74B and 74C of the Friendly Societies Act 1992 as amended by regulations 5 to 8 of SATCAR 2017; - Regulations 10 to 14 and 22 to 26 of the Insurance Accounts Directive (Lloyds Syndicates and Aggregate Accounts) Regulations 2008 as amended by regulation 15 of SATCAR 2017
Paragraph 24 amending Article 29				
24(a)(i)	Replaces paragraph 1 (a).	Minor changes of terminology and removal of cross reference	No implementation necessary	
24(a)(ii)	Replaces paragraph 1 (h).	Enables a reduction in the frequency of inspections of auditors only of small companies and limited liability partnerships	Regulation 9(10) of SATCAR 2016 (inspections by the competent authority) and paragraph 13(3)(b) of Schedule 10 to the Companies Act 2006 as inserted by paragraph 65 of Schedule 3 to SATCAR 2016 (inspections delegated by the	

24(a)(iii)	Replaces paragraph 1 (k).	Requires inspections to be proportionate to the scale and complexity of the audit work carried out	competent authority) Regulation 9(7)(c) of SATCAR 2016 (inspections by the competent authority) and paragraph 13(8) of Schedule 10 to the Companies Act 2006 as inserted by paragraph 65 of Schedule 3 to SATCAR 2016 (inspections delegated by the competent authority)
24(b)	Replaces paragraph 2.	Inserts further provisions to ensure the competence and independence of audit inspection personnel.	Regulation 9(6) of SATCAR 2016 (inspections by the competent authority) and paragraph 13(5) of Schedule 10 to the Companies Act 2006 as inserted by paragraph 65 of Schedule 3 to SATCAR 2016 (inspections delegated by the competent authority)
24(c)	Inserts paragraph 3.	Inserts further provisions to ensure that the proportionate application of auditing standards is to be taken into account in the approach to audit inspections	Regulation 9(12) of SATCAR 2016 (inspections by the competent authority) and paragraph 13(9) of Schedule 10 to the Companies Act 2006 as inserted by paragraph 65 of Schedule 3 to SATCAR 2016 (inspections delegated by the competent authority)
Paragraph 25 amending Articles 30a to 30f	Replaces Chapter VII (Articles 30a-f).		

	Article 30	Requires effective systems of investigations and sanctions of statutory audits. Allows breaches to be dealt with by national criminal law rather than administratively. Requires the appropriate public disclosure of measures and sanctions imposed on auditors; Member states have the option to decide not to require the publication of personal data.	Regulation 6 of SATCAR 2016. There are existing criminal sanctions in Part 16 of the Companies Act 2006
	Article 30a	Sets out minimum sanctions that may be applied. Enables the competent authority to take action either directly, in collaboration with other authorities or by applying to the courts. Allows Member States to provide additional sanctioning powers to those specified and to provide other authorities with sanctioning powers in respect of public interest entities' audits.	Regulation 5 of SATCAR 2016 (enforcement by the competent authority) and paragraph 64 of Schedule 3 to SATCAR 2016 (enforcement delegated by the competent authority). The existing UK approach allows the competent authority to act in the ways set out in the Article. The Prudential Regulation Authority's framework for sanctioning auditors will continue to apply
	Article 30b	Specifies the factors that the competent authority must take into account in determining a sanction.	Regulation 5 of SATCAR 2016
	Article 30c	Sets out the framework for the publication of sanctions.	Regulation 6 (enforcement by the competent authority) of SATCAR 2016 and paragraph 64 of Schedule 3 to SATCAR 2016 (enforcement delegated by the competent authority)

	Article 30d	Requires Member States to provide for appeals against sanctions.	Regulation 5 (enforcement by the competent authority) of SATCAR 2016 and paragraph 64 of Schedule 3 to SATCAR 2016 (enforcement delegated by the competent authority)
Article 30e	Requires Member States to provide for effective mechanisms to facilitate reporting of breaches to the competent authority.	Reporting of breaches of legal requirements are covered by whistleblowing law through the Public Interest Disclosure Act 1998. The following regulations provide that the FRC (which is the designated competent authority in the UK) is the prescribed authority for the purposes of receiving disclosures about breaches of legal requirements in relation to audit: <ul style="list-style-type: none"> - The Schedule to the Public Interest Disclosure (Prescribed Persons) Order 2014 as amended by regulation 17 of SATCAR 2017. - The Schedule to the Public Interest Disclosure (Prescribed Persons) Order (Northern Ireland) 1999 as 	

				amended by regulation 18 of SATCAR 2017
	Article 30f		Sets out the annual reporting requirements on competent authorities relating to sanctions imposed	No implementation needed
Paragraph 26 amending Article 32				
26(a)	Replaces paragraph 1.		Adds a requirement for Member States to designate a competent authority for oversight of auditors and audit firms.	Regulations 2 and 3 of SATCAR 2016
26(b)	Replaces paragraph 3.		Removes the ability of Member States to allow a minority of audit practitioners to be involved in the governance of the public oversight system but allows the competent authority to engage practitioners to carry out specific tasks.	Regulation 2 of SATCAR 2016 designates the FRC which meets this requirement
26(c)	Replaces paragraph 4.		Sets out the responsibilities of the competent authority.	Regulation 3 of SATCAR 2016
26(d)	Inserts paragraphs 4a and 4b.		Requires Member States to designate one or more competent authorities to carry out the tasks provided for in the Directive. Allows Members States to permit the delegation of tasks by the competent authority to other bodies authorised by law.	Regulations 2 and 3 of SATCAR 2016 and paragraph 5A of Schedule 10 to the Companies Act 2006 as inserted by paragraph 56 of Schedule 3 to SATCAR 2016
26(e)	Replaces paragraphs 5		Gives the competent authority the right	Regulation 3, 5, 7 and 10 of

		to initiate, investigate and, if necessary, take action against auditors and audit firms. Member States must give the competent authority the necessary powers.	SATCAR 2016 and Schedule 2 to SATCAR 2016
	Replaces paragraph 6	Provides that the competent authority must be transparent.	No implementation needed
	Replaces paragraph 7	Provides that the system of public oversight must have adequate resources to initiate and conduct investigations.	No implementation needed
Paragraph 27 amending Article 34			
27(a)	Subparagraph inserted into paragraph 1.	Enables a more limited form of oversight inspection for other Member State audit firms that become eligible for appointment as statutory auditors under new Article 3a, based on quality assurance inspections by relevant Member State competent authority.	Possible for competent authority under existing framework
27(b)	Replaces paragraph 2	Substitutes "accounts" for "financial statements". Rephrases "the statutory audit of the consolidated accounts" for "that statutory audit". Adds "an" before "audit firm".	No substantive change so no amendment has been made
	Replaces paragraph 3	Adds "an" before "audit firm". Substitutes "accounts" for "financial statements".	No substantive change so no amendment has been made
27(c)	Inserts paragraph 4.	Provides that, where a statutory auditor	Regulation 11 of SATCAR 2016

			conducts a third country audit, that audit should be subject to the UK system of audit inspections, investigations and sanctions.	and paragraph 13(1)(c) and (d) of Schedule 10 to the Companies Act 2006 as inserted by paragraph 65 of Schedule 3 to SATCAR 2016
Paragraph 28 deleting Article 35	Deletes Article 35.		No change in effect as the previous effect of this Article is preserved in Article 32 and in the Regulation.	No change in effect so amendment needed
Paragraph 29 amending Article 36				
29(a)	Replaces paragraph 1.		Provides for the cooperation of Member States' competent authorities.	No implementation needed
29(b)	Replaces paragraph 3.		Applies the obligation of confidentiality to anyone who has been delegated tasks by the competent authority.	No implementation needed as the RSBs are already included in the UK confidentiality framework
29(c)(i)	Replaces point (b) in the third subparagraph in paragraph 4.		Replaces "statutory auditors or audit firms" with "persons"	No implementation needed
29(c)(ii)	Replaces point (c) in the third subparagraph in paragraph 4.		Replaces "statutory auditors or audit firms" with "persons"	No implementation needed
29(c)(iii)	Replaces fourth subparagraph in paragraph 4.		Adds a reference to European Supervisory Authorities as bodies which can only use information for their exercise of their functions; and adds functions under the Audit Regulation	No implementation needed
29(d)	Inserts paragraph 4a.		Allows competent authorities to transmit information to certain specified bodies.	
29(e)	Replaces point (a) of paragraph 6.		Adds a reference to breaching national security rules as a reason for the competent authority to refuse to act on a request for an investigation by the competent authority of another Member	No implementation needed

29(f)	Deletes paragraph 7.	State. Removes the ability of the Commission to adopt implementing measures to facilitate co-operation between competent authorities.	No implementation needed
Paragraph 30 amending Article 37			
30	Inserts paragraph 3.	Provides that any clause restricting shareholders' choice of auditor is null and void.	Regulation 12 of SATCAR 2016 as substituted by regulation 14(3) of SATCAR 2017
Paragraph 31 amending Article 38			
31	Inserts paragraph 3.	Requires Member States to allow certain specified person to bring a legal claim for dismissal of an auditor.	<ul style="list-style-type: none"> - For companies – section 511A of Companies Act 2006 as inserted by Schedule 3, paragraph 22 to SATCAR 2016; - For Building Societies – paragraph 6ZA of Schedule 11 to the Building Societies Act 1986, as inserted by paragraph 8(d) of Schedule 4 to SATCAR 2016; - For Friendly Societies – paragraph 6 of Schedule 14A to the Friendly Societies Act 1992, as inserted by regulation 11 of

			SATCAR 2017
Paragraph 32 amending Chapter X (Articles 39-44).			
32	Replaces entire chapter (Articles 39-43).	Sets out the requirements for the audit committees of public interest entities.	New PRA rules for banks, building societies and insurers and updated FCA rules for audited issuers of securities admitted to trading on regulated markets
Paragraph 33 amending Article 45			
33(a)	Replaces paragraph 1.	Sets out when the competent authority need not register a third-country auditor or audit entity because the audited entity is a large debt securities issuer	Regulation 20 of SATCAR 2016
33(b)(i)	Deletes paragraph 5 (a).	Corrects the conditions for registration of a third-country audit entity	No implementation needed – see entry for transposition of paragraph 33(c)
33(b)(ii)	Replaces point (d).	Only substantive effect is of substituting “24” with “22b”.	Regulation 19 of SATCAR 2016
33(b)(iii)	Replaces point (e).	Updates cross references	No substantive effect so no implementation necessary
33(c)	Inserts paragraph 5a	Provides that a Member State may only	No implementation needed as this

			register a third-country auditor if they comply with certain of the requirements in the Article (works alongside paragraph 33(b)(j)).	is consistent with the existing UK approach
33(d)	Replaces paragraph 6.		Updates Commission power to decide whether standards and requirements are equivalent to Directive provisions for the purpose of registering third-country auditors.	No implementation necessary
Paragraph 34 amending Article 46				
34	Replaces paragraph 2.		Additional provision on the decision of equivalence by the Commission.	No implementation necessary
Paragraph 35 amending Article 47				
35(a)(i)	Replaces subparagraph 1 of paragraph 1.		Includes the transfer of inspection or investigation reports in the framework on transfer of audit working papers to third countries.	<ul style="list-style-type: none"> - Sections 1253D to 1253E and 1261 of the Companies Act 2006 as amended by paragraphs 43 to 49(2) and 51 of Schedule 3 to SATCAR 2016; - Paragraphs 16A and 16AB of Schedule 10 to the Companies Act 2006 as amended by paragraphs 68 and 69 of Schedule 3 to SATCAR 2016; and, - Paragraph 80 of Schedule

				11A to the Companies Act 2006 as amended by paragraph 73(3) of Schedule 3 to SATCAR 2016.
35(a)(ii)	Replaces point (a) in paragraph 1.	Replaces reference to “accounts” with “financial statements”.	No substantive effect so no implementation necessary	
35(b)	Inserts point (ba) in paragraph 2.	Requires that working arrangements between competent authorities must not undermine the commercial and intellectual property interests of the audited entity.	Section 1253E(5) of the Companies Act 2006 as amended by paragraph 49(3) of Schedule 3 to SATCAR 2016	
35(c)	Replaces the second indent in point (b) of paragraph 2.	Allows for refusal of a request between the competent authority and a third country competent authority for documents where judgment has already been passed in relation to the same issues.	Section 1253E(7A) of the Companies Act 2006 as amended by paragraph 49(4) of Schedule 3 to SATCAR 2016	
35(d)	Replaces paragraph 3.	Updates the Commission’s power to decide whether the competent authority of the third country meets adequacy requirements.	No implementation necessary	
35(e)	Deletes paragraph 5.	Removes the ability of the Commission to specify exceptional cases where auditors are allowed to transfer papers and documents directly to the competent authority of a third country.	No implementation necessary	
Paragraph				

36 amending Article 48				
36	Replaces paragraphs 1 and 2.	Updates provisions on Commission procedures	No implementation necessary	
Paragraph 37 amending Article 48a				
37	Inserts Article 48a	Provides for the Commission's exercise of the power to adopt delegated acts.	No implementation necessary	
Paragraph 38 amending Article 49				
38	Removes Article 49	Removes amendments to provisions of the 4 th and 7 th Company Law Directives, as these have now been repealed	No implementation needed	