

**EXPLANATORY MEMORANDUM TO**  
**THE STATUTORY AUDITORS AND THIRD COUNTRY AUDITORS**  
**REGULATIONS 2007**

**2007 No. 3494**

1. This explanatory memorandum has been prepared by the Department for Business, Enterprise and Regulatory Reform and is laid before Parliament by Command of Her Majesty.

2. **Description**

2.1 These regulations amend the provisions of the Companies Act 2006 relating to the regulation of statutory auditors, and provide for a register of non-EU auditors to be established. They implement in part Directive 2006/43/EC of the European Parliament and of the Council 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 (OJ L 157, 9.6.2006, p. 87) (“the Audit Directive”).

2.2 The regulations amend the existing framework for the regulation of statutory audit in the UK in respect of public oversight, audit monitoring, technical and ethical standards and the qualification of auditors. They also provide for the regulation of non-EU auditors and for co-operation with audit authorities in the EU and in third countries.

3. **Matters of special interest to the joint committee on statutory instruments**

3.1 All the provisions in the regulations implement obligations of the Audit Directive. Those in regulations 34 to 40, 43 and 45(1) to (4) are (subject to the provision referred to in paragraphs 3.2 and 3.3 below) made under the powers in the Companies Act 2006 cited in the preamble. The remaining provisions are made under the power in section 2(2) of the European Communities Act 1972.

3.2 However, it should be noted that regulation 30 (made under section 2(2)) amends the power in section 1239 of the Companies Act 2006. (Paragraph 1(2) of Schedule 2 to the European Communities Act 1972 provides that section 2(2) may be used to modify or extend a power to legislate “to purposes of the like nature as those for which it was conferred”.) Although most of regulation 34 is made under the power in section 1239, regulation 34(3)(g) – which reflects the regulation 30 amendment to section 1239 – is made under section 2(2). This is because the amendment to section 1239 made by regulation 30 does not enter into force until after these regulations have been made. Accordingly, on the date of making the regulations, section 1239 did not provide the power to make regulation 34(3)(g), though section 2(2) did.

3.3 Similarly, regulation 31(4)(a) modifies the power in section 1241(2)(c) of the Companies Act 2006 by substituting the term “UK-traded non-EEA company” for “traded non-Community company” in the opening words of section 1241(2). Accordingly, as regulation 43 provides an exception from the

term “UK-traded non-EEA company”, and the reference to that new term in section 1241(2) does not enter into force until after these regulations have been made, regulation 43 is made under a combination of the powers in section 1241(2)(c) and section 2(2).

#### **4. Legislative background**

4.1 Part 42 of the Companies Act 2006 ensures that individuals or firms appointed as statutory auditors are properly qualified and supervised, and that audits are conducted properly. “Statutory auditor” means the auditor of a company under Part 16 of the Companies Act 2006, or the auditor of certain other bodies set out in section 1210 of the Act.

4.2 Many of the provisions of Part 42 restate, with modifications, provisions in Part 2 of the Companies Act 1989, (including the possibility of delegation of many of the Secretary of State’s powers to the Professional Oversight Board). Under Part 42 auditors are required to be members of a recognised supervisory body, and subject to its rules. Part 42 also provides for regulations to establish a register of persons eligible to be statutory auditors, the requirements for an auditor to be independent of the audited entity, and the qualification requirements for auditors. Schedule 10 sets out the detailed requirements for the regulation of its members which a supervisory body must meet in order to retain its status. The main provisions of Schedule 10 cover technical standards for audit work, ethical standards, monitoring of audit work, disciplinary arrangements, continuing education and professional indemnity insurance. The power to recognise supervisory bodies lies with the Secretary of State, although it is intended that this will be delegated by an order made under section 1252 of the Act to the Professional Oversight Board of the Financial Reporting Council. This delegation order is being laid in draft before Parliament at the same time as these regulations.

4.3 The Audit Directive contains a wide range of obligations relating to the regulation of statutory auditors and the conduct of statutory audits. The provisions of Part 42 already implement many of these obligations. These regulations make the amendments to Part 42 (and to other provisions of the Companies Act) necessary to implement the Directive, as set out in the following paragraphs. Other measures (unrelated to the Companies Act 2006) are also being made to implement the Directive. A Transposition Note setting out the main provisions implementing the Directive is attached at annex A to this memorandum.

4.4 Part 2 of these regulations amends Part 42 to ensure that the UK system for recognition of overseas audit qualifications complies with the Directive, and also to ensure that supervisory bodies can enforce, as required by the Directive, certain obligations on their former members. Part 3 amends Part 42 to implement Directive arrangements for UK audit authorities to co-operate with authorities in other Member States and third countries, as well as imposing on those UK authorities obligations to treat in confidence the information they receive in the course of carrying out their functions.

4.5 Part 4 of these regulations amends Schedule 10 to the Companies Act 2006 (which sets out the detailed requirements as to the rules of recognised

supervisory bodies), to ensure that the provisions of the Directive for the regulation of auditors are implemented. This part therefore updates provision in Schedule 10 on: the recognition of auditors from other EEA states; ethical and technical standards for audit work; additional requirements for audits of public interest entities; the monitoring of audit work; and the transfer of audit papers to overseas audit authorities.

4.6 The regulations also set out the requirements for the registration of auditors from third countries who audit third country companies listed on UK regulated markets and implement the requirement in the Directive to ensure that auditors should not be dismissed without proper grounds.

## **5. Extent**

5.1 These regulations apply to the United Kingdom.

## **6. European convention on human rights**

6.1 The Minister of State for Competitiveness, Rt Hon Stephen Timms MP has made the following statement regarding human rights:

In my view the provisions of the Statutory Auditors and Third Country Auditors Regulations 2007 are compatible with the Convention rights.

## **7. Policy background**

7.1 The Audit Directive replaces the 8<sup>th</sup> Company Law Directive (84/253/EC). It is in part an EU response to the corporate scandals of earlier in the decade and updates EU provision for many aspects of the regulation of auditors. Many of the provisions of the new Directive are already covered in the Companies Act 2006 (and before that, the Companies Act 1989). The approach has therefore been to implement the remaining requirements of the Directive into UK law in a way which should preserve the existing approach of setting a minimum statutory framework, while allowing professional and expert bodies to set the detailed requirements within that framework. The regulations therefore seek to put into statute the minimum provision required to meet the obligations of the Directive, as set out in paragraphs 4.4 to 4.6 above. They do not change the overall approach to regulation of auditors in the UK. The main interest in the regulations is expected to be from auditors and their regulatory bodies.

### **Commencement date**

7.2 The majority of the regulations come into force on 6 April 2008, and will apply to reporting periods starting on or after that date. A limited number of provisions, which do not bear directly on UK auditors or companies, will come into effect on 29 June 2008, which is the Directive's deadline for implementation.

### **Consultation**

7.3 There have been three consultations in the development of these regulations. On 23 August 2004 the DTI published a consultation paper asking for comments on the UK's negotiation strategy for the Audit Directive. The majority of the respondents were supportive of the Government's approach. Following the negotiation and adoption of the Directive, on 5 March 2007 the DTI published a consultation on the policy for implementation of the Directive. There were 31 responses, with the majority broadly supportive of the Government's overall approach, while commenting on many detailed issues. A summary of responses to the 5 March consultation, and the Government's conclusions, were published on 25 July 2007 alongside a draft of the regulations. Alongside these regulations the Government is now publishing a summary of the comments received on the July draft of the regulations and the Government's conclusions. This will be placed in the Libraries of the House. Copies of all the responses, with the exception of one private response, and the Government statements can be found at <http://www.berr.gov.uk/consultations/closedwithresponse/index.html>. Media interest in the implementation has largely been limited to the specialist press.

### **Scrutiny history of the Directive**

7.4 The DTI submitted EM 7677/04 on 22 April 2004 and a supplementary EM on 2 March 2005 on the Proposal for a Directive of the European Parliament and Council on Statutory Audit of Annual Accounts and Consolidated Accounts and amending Council Directives 78/660/EEC and 83/349/EEC. The House of Commons European Scrutiny Committee cleared it, while considering it legally and politically important. (Report 12, Item 25479, Session 2004-5.) The House of Lords Select Committee on the European Union cleared it by letter of 18 March 2005 to the Minister (Progress of Scrutiny, 21/3/05, Session 04/05).

### **Guidance**

7.5 The regulations directly bear mainly on the audit authorities, namely the Professional Oversight Board of the Financial Reporting Council and the recognised supervisory bodies. There is also a minor impact on the Auditing Practices Board of the Financial Reporting Council. The impact of these regulations on auditors will be indirect, as a result of changes to the regulatory regime of the supervisory bodies or the Professional Oversight Board, or the standards set by the Auditing Practices Board, and it is for the Professional Oversight Board to oversee the regulatory regimes of the recognised supervisory bodies. These bodies have been closely involved in the development of the regulations. Consequently the Government has not felt it necessary to produce comprehensive guidance on the regulations, beyond the Transposition Note and the responses to the consultations.

## **8. Impact**

8.1 An Impact Assessment detailing the impact of the implementation of the Audit Directive (and not only these regulations) is attached at Annex B.

8.2 There is limited impact on the public sector as these regulations mainly

apply to auditors and their regulatory authorities. Any impact on the public sector is discussed in the Impact Assessment.

## **9. Contact**

9.1 Jim Bellingham in the Department for Business, Enterprise and Regulatory Reform (telephone: 020 7215 3858 or email [jim.bellingham@berr.gsi.gov.uk](mailto:jim.bellingham@berr.gsi.gov.uk)).

## ANNEX B

<b>Department for Business, Enterprise &amp; Regulatory Reform</b>		<b>Impact assessment of the implementation of the EU Directive on the statutory audit of annual and consolidated accounts</b>
<b>Stage Consultation</b>	<b>Version 2 December 2007</b>	<b>Related Publications:</b> Implementation of Directive 2006/43/EC on statutory audits of annual and consolidated accounts: <ul style="list-style-type: none"><li>- A consultative document, March 2007</li><li>- Policy Conclusions and Draft Regulations, July 2007</li></ul>

**Available to view or download at:** [www.berr.gov.uk/consultations](http://www.berr.gov.uk/consultations)

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*What is the problem under consideration? Why is government intervention necessary?*

The Directive aims to establish minimum levels of investor protection across the EU. This will enhance the level of confidence in EU capital markets and, whilst these measures cannot guarantee the prevention of another financial scandal, they will mitigate the risks of corporate malpractice occurring.

*What are the policy objectives and the intended effects?*

The Directive clarifies the duties of statutory auditors and provides for their independence and ethical standards; introduces a requirement for external quality assurance; provides for public oversight of the audit profession, including third country auditors, and improved cooperation between oversight bodies in the EU. It also provides a basis for international cooperation between regulators in the EU and with regulators in third countries.

*What policy options have been considered? Please justify any preferred option.*

### Option 1

Do nothing to implement the Directive, continuing with the current UK regime, which already reflects many but not all of the provisions in the Directive;

### Option 2

Implement the Directive by building on the existing UK framework and taking advantage of the flexibilities provided in the Directive, where these are considered to be the preferred policy choice; or

### Option 3

Implement the Directive without taking up optional exemptions and/or through a less efficient and more complex means of implementation.

Option 2 represents the Government's assessment of the best means of implementation within these flexibilities and is, therefore, the Government's preferred option.

*When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?*

*The majority of the provisions of the Directive will have to be implemented by 29 June 2008. In line with Government policy on common commencement dates, it is envisaged that the implementing regulations will come into force on 6 April 2008 and will apply to reporting periods beginning on or after that date. Actual costs and benefits, and the achievement of the desired effects, will be evident after the first reports which are subject to the new requirements are published in 2009.*

**Ministerial Sign-off:**

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options***

*Signed by the responsible Minister:  
Stephen Timms*

*Date: 17th December 2007*

**Policy Option:** Option 2: Implement the Directive by building on the existing UK framework and taking advantage of the flexibilities provided in the Directive, where these are considered to be the preferred policy choice.

<p><b>ANNUAL COSTS</b></p> <p>One off (Transition)                      Yrs <input type="text" value="10"/></p> <p><input type="text" value="£8.9-10.1 million"/></p> <p><b>Average Annual Cost</b> (excluding one-off)</p> <p><input type="text" value="£5.8-7.6 million"/></p>	<p>Public register – up to £4.5 million (one off)          Audit reporting – up to £10,000 (per annum)          Cooperation between oversight systems – up to £30,000 (per annum)          Dismissal and resignation – up to £215,000 (per annum)          Transparency reports – up to £1 million (per annum)          Audit Committees – £2.3 - £3.5 million (one off) and £3.5 - £5.3 million (per annum)          International provisions – up to £3 million (£2 million one off, £1 million on-going) + £650 per instance          Cooperation between third countries – up to £100,000</p> <p style="text-align: right;"><b>Total cost (PV)</b> (over 10 years)      <input type="text" value="£58.4-£75.1 million"/></p>
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**Other key non-monetised costs**  
None

<p><b>ANNUAL BENEFITS</b></p> <p>One off <input type="text"/> Yrs <input type="text"/></p> <p><b>Average Annual Benefit</b> (excluding one-off)</p> <p><input type="text"/></p>	<p>Not possible to quantify.</p> <p style="text-align: right;"><b>Total Benefit PV</b>      <input type="text"/></p>
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**Other key non-monetised BENEFITS**

It is difficult to monetise the benefits of the Directive. The aim of the Directive is to raise the standard of, and public confidence in, the audit function across the European Internal Market. Greater confidence should reduce investor costs and have a favourable impact on the cost of capital. It should also give greater confidence in corporate reporting systems that underpin capital markets.

Companies involved in corporate scandals lose significant market value and are often forced to restructure, with consequent job losses. It has been estimated that the loss in stock market wealth in the US, as a result of the Enron and Worldcom scandals, has been at least 9% or 0.36% of Gross Domestic Product (GDP) - \$38.2 billion in the first year.<sup>1</sup>

**KEY Assumption/Sensitivities Risks**  
There is a legal obligation to implement the Directive into UK law.

Price Base Year 2006/2007	Time Period Years Year 1	Net Benefit Range (NPV) £-£ not possible to quantify	<b>NET BENEFIT</b> (NPV Best Estimate) £ not possible to quantify
What is the geographic coverage of the policy/option?			UK
On what date will the policy be implemented?			6 April 2008
Which organisation(s) will enforce the policy?			FRC (POB and APB), FSA,

<sup>1</sup> See Graham, Carol/Litan, Robert/Sukhtankar, Sandip (2002) 'The bigger they are, the harder they fall: an estimate of the costs of the crisis in corporate governance.'



	FRRP, RSBs			
What is the total annual cost of enforcement for these organisations?	To be calculated - the cost is likely to be recovered from businesses and auditors			
Will implementation go beyond minimum EU requirements?	The implementation proposals fit with the established UK audit framework, which is more developed than EU requirements in some respects.			
What is the value of the proposed offsetting measure per year?	n/a			
What is the value of changes in green gas emissions?	n/a			
Will the proposal have a significant impact on competition?	No			
Annual cost per organisaton (excluding one-off)	Micro -	Small -	Med -	Large -
Are any of these organisations exempt?	Yes	Yes	No	No
<b>Impact on Admin Burdens Baseline (2005 prices)</b> <b>The admin burdens costs are likely to be shared between BERR and other implementing authorities such as the Professional Oversight Board</b> Increase of <input type="text" value="£1,220,000"/> Decrease of <input type="text" value="0"/> <b>Net Impact</b> <input type="text" value="+ £1,220,000"/>				

# Evidence Base for Summary Sheets

## THE EUROPEAN DIRECTIVE ON THE STATUTORY AUDIT OF ANNUAL AND CONSOLIDATED ACCOUNTS (2006/43/EC)

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, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

### **1 Background**

1.1 On 16 March 2004 the European Commission presented a proposal for a Directive of the European Parliament and of the Council on Statutory Audit of Annual and Consolidated Accounts.

1.2 On publication of the proposal the Commission omitted to prepare and publish a cost impact assessment. In the absence of this assessment, the Department of Trade and Industry (DTI) produced a partial impact assessment that was attached to its consultation document of 10 September 2004. After consideration of the responses to that consultation the Department published an updated regulatory impact assessment (RIA) that can be found at: [www.berr.gov.uk/files/file22807.pdf](http://www.berr.gov.uk/files/file22807.pdf)

1.3 After consideration by the European Parliament, the European Commission and Member States, political agreement was reached on the Directive. This was published on 9 June 2006. The full text of the Directive can be found at: [www.eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52004PC0177:EN:HTML](http://www.eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52004PC0177:EN:HTML)

### **The current UK framework**

1.4 Following the recommendations of the Co-ordinating Group on Audit and Accounting Issues, the Government made a number of changes to audit and accounting regulation. Many of these changes were implemented by the Companies (Audit, Investigations and Community Enterprise) Act 2004.

1.5 In addition, the Companies Act 2006 sets out provisions (in parts 16 and 42) for the audit of companies and those carrying out statutory audit. These Parts include restatements and modification of earlier company law and some of the new provisions contained in this Directive. Part 42 provides that auditors of banks, building societies and insurers are also subject to the statutory auditor regime. This UK regime therefore covers all statutory audits within the scope of the Directive.

1.6 The effect of this is that the UK framework for statutory audit already meets a significant number of the requirements of the Directive. However, not all Member States are as far advanced. As recent financial scandals have shown, confidence is a European, not just UK, concern. A harmonised approach is therefore desirable.

## **Impact of the Directive**

1.7 This Impact Assessment primarily covers implementation of the Directive through the Statutory Auditors and Third Country Auditors Regulations, which apply to companies, and through separate regulations to be made by BERR in relation to miscellaneous banking and insurance undertakings and certain partnerships. It also includes an assessment of those provisions in the Directive which are implemented by Part 42 of the Companies Act and those which are to be implemented by the Professional Oversight Board. The Treasury will be implementing the Directive in respect to building societies and friendly societies.

1.8 In assessing the impact of the Directive, the Department has considered the extent to which it differs from the measures that have been introduced by the UK Government. The Directive is one of a number of EU measures aimed at creating an efficient and harmonised EU capital market. These include:

- (a) The adoption of International Accounting Standards (Regulation EC1606/2002);
- (b) The Directive on Market Abuse (Directive 2003/71/EC on Insider Dealing and Market Manipulation);
- (c) The Prospectus Directive (Directive 2003/71/EC on the Prospectus to be published when securities are offered to the public or admitted to trading);
- (d) Amendments to the 4<sup>th</sup> Company Law Directive 78/660/EEC of 25 July 1978 (Annual Accounts of certain types of companies) and the 7<sup>th</sup> Company Law Directive 83/349/EEC of 13 June 1983 (on consolidated accounts);
- (e) Directive 86/635/EEC on the Annual Accounts and Consolidated Accounts of Banks and other financial institutions; and
- (f) The Insurance Accounting Directive 91/674/EEC on the Annual Accounts and Consolidated Accounts of Insurance undertakings.

## **2 Scope of the Directive**

2.1 The Directive's requirements affect the statutory audit of the following entities:

- Companies required to produce annual accounts under the Fourth Company Law Directive (78/660/EEC);
- Companies required to produce annual and consolidated accounts under the Seventh Company Law Directive (83/349/EEC);
- Banks and other financial institutions required to produce annual and consolidated accounts under Council Directive 86/635/EEC;
- Insurance undertakings required to produce annual and consolidated accounts under Council Directive 91/674/EEC.

2.2 Chapter 10 of the Directive (Articles 39 to 43) sets additional requirements for companies who are defined in the Directive as public interest entities<sup>2</sup>. Whilst it is an option in the Directive, the Government does not intend to specify any other entities as 'public interest entities' for the purposes of Chapter 10 of the Directive. The Government proposes to take up the options to exempt certain entities as

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<sup>2</sup> 'Public Interest Entities' are defined by the Directive as entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions within the meaning of Article 1(1) of European Parliament and Council Directive 2000/12/EC and insurance undertakings as defined in Article 2 of Council Directive 1991/674/EEC. (The UK may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or their number of employees).

provided for in Articles 39 and 41.6. The exemption in Article 39 narrows the application of the requirements in Chapter 10 to those entities whose securities are admitted to trading on a regulated market in the UK<sup>3</sup>, and the scope is narrowed further by the exemptions for specific entities in Article 41.6.

2.3 There are around 1,100<sup>4</sup> companies registered in the UK whose shares are traded on the London Stock Exchange's main market. These companies cover a diverse range of sectors and operate in a variety of EU and non-EU competitive environments. The following table provides an indication of the scope of the public interest entities that will be subject to the requirements of Chapter 10 of the Directive:

Companies covered by the Regulations implementing Chapter 10 of the Directive

UK registered companies trading on the LSE (SEAQ and SETS)*			
	By turnover (in millions)	By assets (in millions)	By no. of employees
Smallest company	£0.002	£0.013	1
Largest company	£152,618	£683,573	402,375
Average size	£1,358	£4,568	9491
Median size	£170	£138	1240

\*Information from FAME database, 2004 figures. Data does not include stocks from the Alternative Investment Market.

2.4 There are an additional 300 overseas companies<sup>5</sup> admitted to trading on the LSE Main Market, with a total market capitalisation of £2000 billion. In relation to the other EU regulated markets operating in the UK, there are 77 members of EDX<sup>6</sup> and 127 members of virt-x<sup>7</sup>. Of these, approximately 60 are UK registered companies. The Government's view is that the Regulations should not apply to issuers whose registered office is not the UK.

2.5 Small companies make up around 20%<sup>8</sup> of the companies coming into the scope of this part of the Directive. We do not consider that the Directive's requirements will add a disproportionate burden upon them, as they would already be expected to meet UK requirements associated with their listing.

### **3 Small Firms Impact Test**

3.1 The Audit Directive applies to those entities that are already subject to statutory audits under the requirements of existing Community law. Under the 4<sup>th</sup> and 7<sup>th</sup> Company Law Directives, small companies are exempt from the requirement to have a statutory audit. In the UK, companies that qualify as 'small'<sup>9</sup> and meet the

<sup>3</sup> A regulated market is a market place, trading system or exchange which meets the minimum EU standards set out in title III of the Markets in Financial Instruments Directive (2004/39/EC). Under Article 16 of the Investment Services Directive (93/22), the FSA is responsible for maintaining the list of regulated markets for which it is the Home Member State. In the UK currently, the list includes the London Stock Exchange Regulated Market, PLUS-Listed Market, Virt-x Exchange Ltd, EDX, LIFFE, ICE Futures Europe, and the London Metal Exchange.

<sup>4</sup> LSE Main Market statistics, August 2006: 1,161 companies registered in the UK. FAME database, August 2006: 1,066 companies registered in England, Scotland and Wales.

<sup>5</sup> LSE Main Market statistics, August 2006.

<sup>6</sup> London Stock Exchange website (<http://www.londonstockexchange.com/NR/rdonlyres/E3059B89-B0D8-4DC6-AF27-997CE3F5209B/0/EDXLondonMembershipList20070710.pdf>), August 2007

<sup>7</sup> Virt-x website ([http://www.virt-x.com/members/member\\_list.html](http://www.virt-x.com/members/member_list.html)), August 2007

<sup>8</sup> FAME database, August 2006.

<sup>9</sup> In the UK small companies are defined as: a balance sheet total of up to £2.8 million; and/or an annual turnover of up to £5.6 million

turnover and balance sheet thresholds can be exempt and will not, therefore, be subject to the requirements of the Audit Directive<sup>10</sup>.

3.2 Small companies that are also public companies are not exempt from the requirement to have a statutory audit. They are, therefore, subject to the requirements of the Statutory Audit Directive, including those in Chapter 10 if they are deemed to be Public Interest Entities (as defined in the footnote 2 above).

3.3 Some small companies, which are not required by law to have their accounts audited nonetheless elect to do so because they see economic benefits in doing so.

3.4 European Directive 2006/46/EC, published on 16 August 2006, amends the 4<sup>th</sup> and 7<sup>th</sup> Company Law Directives, Bank Accounts and Insurance Accounts Directives. The Directive must be implemented by 5 September 2008. The Department consulted separately on the implementation of this Directive and the Government's conclusions on that consultation can be found at:  
<http://www.berr.gov.uk/consultations/index.html>

## **4 Risk Assessment**

4.1 This Directive seeks to reduce the risk of future corporate scandals such as those at Worldcom, Enron and Parmalat and the subsequent collapse of Andersens, by setting out provisions to ensure regulation of and transparency in the statutory audit function. The Directive aims to establish minimum levels of investor protection across the EU. Whilst these measures cannot guarantee the prevention of another financial scandal, they will further mitigate the risks of such corporate malpractice occurring in the future.

4.2 It is difficult to quantify the risk of poor investor confidence across Europe and globally. Companies involved in corporate scandals lose significant market value and are often forced to restructure, with consequent job losses. It has been estimated that the loss in stock market wealth in the US, as a result of the Enron and Worldcom scandals, has been at least 9% or 0.36% of Gross Domestic Product (GDP) - \$38.2 billion in the first year.<sup>11</sup>

## **5 Options**

5.1 The majority of the provisions of the Directive will have to be implemented by 29 June 2008. In line with Government policy on common commencement dates, it is envisaged that the implementing regulations will come into force on 6 April 2008 and will apply to reporting periods beginning on or after that date. In practice, in most cases, these are likely to be the same reporting periods as the requirements would apply to were the Regulations commenced on 29 June and early implementation will, therefore, provide an additional period within which businesses can familiarise themselves with the requirements.

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<sup>10</sup> The UK audit exemption works differently to that in EU legislation. Under EU legislation, all small companies are exempt, where a small company is defined as one which meets two out of the following three conditions: balance sheet less than 4.4 million Euros; turnover less than 8.8 million euros; fewer employees than 50. In the UK, conditions on turnover and balance sheet must BOTH be met.

<sup>11</sup> See Graham, Carol/Litan, Robert/Sukhtankar, Sandip (2002) 'The bigger they are, the harder they fall: an estimate of the costs of the crisis in corporate governance.'

5.2 The previous consultation document noted a number of provisions in respect of which the Government identified that there were choices to be made as to the way in which the requirements of the Directive are to be implemented. These options fell into two categories:

- Optional exemptions as provided for in Articles 39, 41 and 46; or
- Alternative mechanisms for implementing, as identified in relation to Articles 21 to 25, and 37 to 49.

5.3 Recognising these choices, we identified three broad alternative options for implementation:

#### Option 1

Do nothing to implement the Directive, continuing with the current UK regime, which already reflects many but not all of the provisions in the Directive;

#### Option 2

Implement the Directive by building on the existing UK framework and adopting the implementing options where these are considered to be the preferred policy choice; or

#### Option 3

Implement the Directive without taking up optional exemptions and/or through less efficient and more complex means of implementation.

## **6. Cost-Benefit Analysis**

### **OPTION 1 – Do nothing to implement the Directive, continuing with the current UK regime, which already reflects many but not all of the provisions in the Directive**

6.1 As identified in the revised draft RIA published in February 2005, it is not feasible to ‘do nothing further’ as the UK Government is under a legal obligation to implement this Directive. Whilst there will be no implementation costs associated with this option there will be potential costs for the UK economy. These include:

- (a) Lack of confidence in UK’s capital markets;
- (b) Potential increased costs for investors associated with different regimes and the need for ‘greater due diligence checks’;
- (c) Potential increased costs for UK business in dealing with different auditing regulatory regimes and standards across the EU; and
- (d) Potential disadvantages for UK auditors seeking business in other Member States.
- (e) Risk of infraction proceedings brought against the UK Government by the Commission.

***OPTION 2 – Implement the Directive by building on the existing UK framework and taking advantage of the flexibilities provided in the Directive, where these are considered to be the preferred policy choice***

6.2 The aim of the Directive is to raise the standard of, and public confidence in, the audit function across the European Internal Market. Greater confidence should reduce investor costs and have a favourable impact on the cost of capital. It should also restore faith in corporate reporting systems that underpin capital markets.

6.3 Attached at Appendix A is a table identifying the estimated costs of implementing the Directive by means of Option 2. This table is based on our analysis and on the figures supplied by stakeholders in response to the Government's previous consultations on the draft Directive and on the policy options, which can be found using the link in paragraph 1.2 above. In particular, we continue to discuss with the regulators the costs relating to their implementation of the provisions for which they are responsible. The most significant costs identified are:

- Updating the current register of auditors to include additional information (Article 15);
- Submission of a dismissal notice in cases where the auditor has been dismissed (Article 38);
- Publication of a transparency report by audit firms who perform the statutory audit of public interest entities (Article 40);
- Supply of information by Third country auditors to the oversight body required under Articles 45 and 46;
- Changes required to ensure that proper systems are in place to meet requirements on the cooperation between third country competent authorities (Article 47); and
- Provisions for Public Interest Entities to have audit committees or bodies performing equivalent functions.

6.4 We note that there may also be occasional or minimal costs related to some of the provisions which have not been explicitly identified in this assessment.

6.5 The Directive provides optional exemptions from some requirements and allows flexibility in the approach adopted by Member States in the implementation of others. The Government's objective is to maintain the benefits of the existing UK framework whilst avoiding unnecessary costs in implementing the additional requirements in the Directive. The Government intend to use all exemptions and flexibilities which they consider offer the least burdensome route for implementation. There are a small number of requirements for which the least costly and least complex implementation approach is to maintain the established UK framework, and where the benefits of moving to the minimum EU requirement would be outweighed by the cost of doing so.

**6.6 Option Two represents the Government's assessment of the best means of implementation within these flexibilities and is, therefore, the Government's preferred option.**

**OPTION 3 – Implement the Directive without taking up optional exemptions and/or through a less efficient and more complex means of implementation**

6.7 This option is similar to option 2 except that we would not seek to use as many of the flexibilities provided for in the Directive and identified in the consultation document and would adopt some or all of the alternatives to the preferred options identified. On the basis of our current assessment of the issues to date, we have not identified significant overall cost differentials between options 2 and 3. The choice between them is, therefore, primarily policy based and will depend on what is likely to be the most appropriate balance of protections and regulations, and the most efficient and least complex means of implementation. However, respondents are invited to submit further information on potential cost differentials between the various options.

## **7 Business Sectors Affected**

7.1 This Directive will affect all companies and financial institutions, such as banks and Insurance undertakings, which are required to have a statutory audit. There are additional requirements on companies classified as public interest entities and for public interest entities' audit firms. This Directive will affect statutory auditors, audit firms and their Recognised Supervisory Bodies. There are also some new requirements for the Financial Reporting Council, and the FSA will need to amend some of its rules.

7.2 The Financial Reporting Council is funded by the Government, companies (via listing fees) and the accountancy profession. For Recognised Supervisory Bodies, costs will be met on a cost recovery basis via increases in membership fees and, therefore, falls on auditors and audit firms.

## **8 Issues of Equity and Fairness**

8.1 The Government considers that the measures introduced by the Directive will not bring disproportionate benefits or have a disproportionate effect on particular groups.

## **9 Competition Assessment**

9.1 The Directive's requirements will affect all accountancy companies that carry out statutory audits, and all companies and financial institutions, such as bank and insurance undertakings, which are subject to the requirement to have a statutory audit. It is not anticipated that the Directive will: affect any of these businesses more than others; affect market structure; change the number or size of those businesses; lead to higher start-up costs for those businesses; or lead to higher on-going costs. Certain provisions of the Directive apply only to the audits of Public Interest Entities<sup>12</sup>, some of which may be small companies. These provisions are unlikely to affect competition as they apply equally to all Public Interest Entities that will be subject to the UK implementation of them.

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<sup>12</sup> 'Public Interest Entities' are defined by the Directive as entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions within the meaning of Article 1(1) of European Parliament and Council Directive 2000/12/EC and insurance undertakings as defined in Article 2 of Council Directive 1991/674/EEC. (The UK may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or their number of employees).



## **10 Consultation**

10.1 The Government has worked closely with UK stakeholders during the consultation process to ensure the effective implementation of the provisions in the Directive to ensure that each element of the Directive brings economic benefits that justify legislation. BERR will endeavour to ensure that the final implementation proposal offers business flexibility that keep burdens and disruption to a minimum.

10.2 The DTI published a consultation document on the proposed Directive on 10 September 2004. The report on the responses received and an updated RIA, published in February 2005, can be found at the link identified in paragraph 1.2 above. Prior to publication of this consultation document, the Department held meetings with a range of stakeholder representatives. Since then, we have continued to maintain regular contact with our key stakeholders for assistance in developing the proposals set out in the consultation documents and to gain informal views on the draft regulations. We will continue to work with stakeholders throughout the implementation process.

**Department for Business, Enterprise and Regulatory Reform  
December 2007**

## BREAKDOWN OF COSTS

The following table shows the best estimate of costs, based on responses to the Government's consultations on the Directive and its implementation. The assessment has been updated in relation to the cost of the audit committee requirements in Article 41 of the Directive, based on the additional data provided by stakeholders.

<b>Article</b>	<b>Subject Matter</b>	<b>Cost</b>	<b>Comment</b>
3,4 and 5	Auditor Approval	Minimal cost	The Directive's requirements will not impose any significant additional cost.
6, 7, 8, 9, 10, 11, 12 and 13	Auditor Education	No additional cost	The Directive's requirements will not impose any additional cost.
14	Approval of Auditors from other Member States	Minimal cost	The Directive's requirements will not impose any significant additional cost.
15, 16, 17, 18, 19 and 20	Public Register	Up to £4.5 million as one off policy cost.	<p>There will be costs associated with obtaining and storing information that is not currently held on the public register and making the information available electronically. These costs will, however, be offset against savings relating to stakeholders' search costs (see note 1 below).</p> <p>The POB will be consulting on their implementation of these requirements, which may provide further evidence.</p>
21 to 24	Ethics, Independence and Confidentiality	Minimal cost	<p>The Directive's requirements will not impose any significant additional cost.</p> <p>Any future proposals from the Commission for comitology provisions might have cost implications (see note 2</p>

			below).
25	Auditor Fees	No additional costs	The Directive's requirements will not impose any additional cost.
26	Standards	No additional costs	The UK has already adopted International Standards on Auditing and the APB will consider any updating required in lieu of EU adoption of ISAs. The European Commission has recently commissioned a cost-benefit analysis of the adoption of ISAs, which may provide further evidence.
27	Consolidated Accounts	No additional costs	The Directive's requirements will not impose any additional cost. (see note 3 below).
28	Audit Reporting	Up to £10,000 cost per annum (split between policy and admin costs).	The changes required to the current UK system should largely be cost neutral. The figure of £10,000 per annum represents the cost of exemptions (see note 4 below).
29 and 43	Quality Assurance	No additional costs	The Directive's requirements will not impose any additional cost. (see note 5 below).
30	Investigations	No additional costs	The Directive's requirements will not impose any additional cost.
32	Public Oversight	No additional costs	The Financial Reporting Council (FRC), Professional Oversight Board (POB) took the oversight of statutory auditors from April 2005.
33, 34, 35 and 36	Co-operation between oversight systems	Up to £30,000 per annum in policy costs	There are likely to be increased costs for the POB (see note 6 below).
37	Auditor Appointment	No Additional costs	The Directive's requirements will not impose any additional cost.
38	Dismissal and Resignation	Up to £215,000 administrative cost per annum	Instances of auditor dismissal will be notified to the POB. The figure of £215,000 per annum covers the preparation and transmission of dismissal letters (see note 7 below).
40	Transparency Report	Up to £1 million per annum in	The requirement for published annual

		administration costs	transparency reports are likely to apply in the UK to only a small number of audit firms, 30 or 40 at most. Many of these already prepare annual reports and the additional costs for those firms are likely to be low. Firms within this requirement that do not at present prepare an annual report will have more significant costs – see note 8.
41 and 42(1)	Audit Committees	(a) One off policy cost in range of £2.3 - £3.5 million  (b) Range of £3.5 - £5.3million policy cost per annum	The revised figures are based on new survey evidence and introduction of range of estimates (see note 9 below).  The figures relate to the costs of recruitment resulting from the changes required to companies' audit committees.  These requirements will be implemented by the FSA. The FSA will shortly be publishing a consultation on the necessary amendments to their rules, which provide further evidence.
42(2) and (3)	Auditor Rotation/Auditor 'cooling off	No additional costs	The Directive's requirements will not impose any additional cost.
44, 45 and 46	International Provisions	Under Article 46, up to £2 million to set-up and £1 million on-going costs.  Third country auditor registration £650 administration cost per instance.	Responsibility for the approval of third country auditors under Article 45 is proposed to be delegated to the POB. Responsibility for the assessment of the equivalence of third countries' systems of oversight, quality assurance, investigations and sanctions under article 46 falls to the Commission and to the POB (see note 10 below). The costs comprise the following elements:  <ul style="list-style-type: none"> <li>• Costs of inspecting non-</li> </ul>

			<p>EU audit firms (costs would be passed to non-EU auditors and thus to issuers);</p> <ul style="list-style-type: none"> <li>• Costs of setting up a system of registration of third country audit firms; and</li> <li>• Costs to the audit firms of registering and of any inspection (e.g. management time).</li> </ul>
47	Co-operation between third countries	Possibly £100,000 per annum of administration cost (based on 50 cases per annum)	The figures relate to cost of transferring information between competent authorities. The 'on going' costs will depend on the number of requests (see note 11 below).
49	Disclosure	No additional costs	<p>The Directive's requirements will not impose any additional cost.</p> <p>BERR is consulting on minor changes to this regulation which will reduce the cost of compliance. That consultation may produce further evidence as to the extent of the savings.</p>

**Notes:**

1. There are approximately 9000 audit firms. Additional information will be required from those firms to allow for the recognised supervisory bodies (ICAEW, ICAS, ICAI, ACCA and AIA) to comply with the public register requirements. Audit firms are already expected to complete annual returns with respect to the register. Based on information provided by the POB we do not now consider that the costs identified in the report on responses to the consultation on negotiation are accurate. We consider the costs on audit firms will be substantially lower. The cost of updating and implementing the register are estimated as follows:

5 supervisory bodies (at £150,000 each\*)  
= £750,000

Top 12 audit firms (50 hours each for completion of annual return at £200 per hour)  
= £120,000

8986 Firms at average of £400 (2 hours for annual return completion  
at £200 per hour) = £3.6 million

(\* This cost is based on the amount incurred to update a similar computer system by a supervisory body).

Once the register has been updated to include the additional information the directive requires we do not consider that there will be any further cost on auditors or audit firms to ensure that information is accurate as that requirement already exists.

2. The Directive allows audit firms to provide non-audit services to audit clients in accordance with the existing UK 'threats and safeguards approach'. The implementation of the requirement should, therefore, have no cost impact and it is important to emphasise that costs would only occur if the Commission decided, under comitology provisions, to set restrictions on the provision of non audit services.

Costs would depend on the restrictions imposed but would be likely to result from efficiency losses. For example, excluding the auditor from the provision of some non-audit services would add cost since it is more efficient for some services to be provided by the auditor who already knows the business. Excluding the auditor may also decrease the choice of non-audit service providers for the company.

One estimate from audit firms puts costs at £30 million and is based on the following assumptions:

- (a) Large companies are audited by large audit firms which would – if a ban was introduced - separate their audit and non audit services teams;
- (b) Businesses would not incur new costs following the separation of their audit and non audit service providers;
- (c) The separation of audit and non audit service providers would cost, on average, £3000 per business; and
- (d) Some 95,000 businesses are required by law to have a statutory audit and could, therefore, be affected by a more restrictive approach.

This figure is at odds with the figure provided by the Recognised Supervisory Bodies. They estimate a one off cost of up to £100 million. This divergence demonstrates the difficulties in assessing potential additional costs in this area.

The Government considers that this range of estimates is very high and that a more restrictive approach under comitology would be an issue only for the largest firms and audits of listed companies. Though there may be some one-off costs for larger audit firms, the Government considers that most costs would result from the loss of efficiency savings resulting from the on-going separation of services.

3. Although we do not envisage any additional costs, it is possible there could be additional activity for the Professional Oversight Board associated with reviewing the work of overseas subsidiaries. Any costs would depend on factors, such as: (a) the decision when to carry out the review; (b) the location of the subsidiary; (c) the ability for documentation to be transferred electronically, or in hard copy.

4. The Directive provides exemptions from disclosure where the requirements would give rise to imminent and significant threats to an auditor's personal security. Utilising the exemption, while probably unusual, would have associated costs. We have estimated that these will be £1000 per instance. This exemption was one identified by the Audit Profession and those entities affected. This exemption imposes in part a policy and administrative cost (we estimate the admin cost is £200 per instance). However, it will provide for companies to appoint an auditor where otherwise it might be impossible.
5. No significant changes to the UK system are envisaged.
6. The POB will be responsible for co-ordinating requests (under Article 34) from other Member States authorities. There are likely to be increased costs for the POB if, as expected, these provisions result in significantly greater coordination and cooperation between and amongst Oversight Bodies within the EU. It is difficult to put a figure on this but it might be of the order of £30,000 a year.
7. The Directive will require companies to notify the competent authorities when they dismiss their auditors. (This is currently not a requirement under UK company law but will be upon enactment of provisions in the 2006 Companies Act). Our cost estimate is based on the number of dismissals and resignations during the years 1990 to 1999. During this period, on average, 2138 firms were dismissed each year. Assuming each dismissal and resignation notification costs some £100 the per annum cost of the new requirement will be £213,800. Whilst this is an administrative cost it will provide for greater transparency into the reasons why a company dismisses auditors. We consider that this transparency will allow investors to make informed choices.
8. Costs based on up to 20 firms having to prepare a report for the first time at an estimated cost of £50,000 per firm. The POB will have responsibility for ensuring that auditors and audit firms comply with the new requirement. Its costs have not been included.
9. The Directive applies to all regulated markets in the UK<sup>13</sup>. The London Stock Exchange has 1461 listed companies and this analysis is based on the cost implications for those companies. It is possible that the costs for companies trading on other UK regulated markets may be different.

Surveys indicate that all or virtually all FTSE 350 companies have an audit committee, and that 88%<sup>14</sup> of these are fully independent. In addition, an analysis of a sample of over 300 listed companies outside the FTSE 350, carried out for the FRC by Manifest, found that 99% of them have an audit committee and that 52% of these committees are also fully independent. Taken together these surveys therefore indicate that around 60% of listed companies currently have a fully independent audit committee. We currently have no survey data to indicate how many of the remaining 40% of listed companies do not at least have an audit committee with at least one

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<sup>13</sup> A regulated market is a market place, trading system or exchange which meets the minimum EU standards set out in title III of the Markets in Financial Instruments Directive (2004/39/EC). Under Article 16 of the Investment Services Directive (93/22), the FSA is responsible for maintaining the list of regulated markets for which it is the Home Member State. In the UK currently, the list includes the London Stock Exchange Regulated Market, PLUS-Listed Market, Virt-x Exchange Ltd, EDX, LIFFE, ICE Futures Europe, and the London Metal Exchange.

<sup>14</sup> Grant Thornton's FTSE 350 Corporate Governance Review 2006.

independent member (the minimum required to meet the Directive requirements). The Government consider it probable that the number of such companies is likely to be small. However, for the purposes of estimation we have assumed a range of 40-60% (i.e. around 234 - 351) of the estimated 40% without a fully independent committee. The costs reflected in this assessment relate to the cost of recruiting an independent member for those companies who do not already have at least one. We estimated previously that the cost to a company of hiring an independent member will be some £15,000 per annum. In addition, we estimate a cost of £10,000 for the recruitment of each member<sup>15</sup>.

Deloitte's annual survey, "At the Helm: 2007 survey of board structure and NEDs", which is based on a sample of 103 companies, further suggests that 97% of committees contain a member with recent and relevant financial expertise. The Grant Thornton survey however found that 79% of FTSE 350 companies (and 86% of FTSE 100 companies) had audit committees meeting this requirement.

10. The Companies Act 2006 makes provision for POB costs of assessments under Article 45 to be charged to third country auditors. Costs will depend on the number of applications dealt with under Article 45, which in turn will be influenced by the Commission's assessment under Article 46.

The scale of costs depends on a range of factors, in particular (i) the extent to which we can disapply the Article 45 regime using the exemptions under Article 46; (ii) the numbers and geographical spread of third country issuers with securities traded on UK regulated markets, and the number of third country auditors (POB estimates 600 issuers and 200 audit firms in 50 countries); and (iii) how we apply any system in practice.

The POB estimate costs of setting up a registration system and carrying out an inspection programme, assuming equivalence for only a relatively small number of countries under Article 46, to be £1.5 to £2 million in the set-up phase and £1 million in steady state. At the other extreme, assuming equivalence for all, the cost would be almost zero.

In the draft RIA published with the Government's report on responses to the consultation document on the negotiation on the Commission's proposal we estimated that third country auditor's costs would be £650 per instance. As identified above, the assessment of how many third country auditors will be required to register is dependent upon the application of the provisions in Article 46.

11. As the implementation of this article is likely to involve increased restriction on audit firms passing papers to third country authorities, it is unlikely to result in increased costs to business. It may, however, result in increased cooperation and transfer of papers between regulatory authorities. It is extremely difficult to estimate the costs which may result from this provision. However, we would expect the number of such cases to be relatively small. If there were 50 cases a year, with an average cost of transferring information of £2000, we estimate an annual cost of £100,000.

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<sup>15</sup> Recruitment costs taken from the Chartered Institute of Personnel and Development Recruitment, Retention and Turnover Survey 2007.



We do not expect that this will involve the setting up of expensive IT systems but we welcome views on this.

## Specific Impact Tests - Checklist

<b>Type of testing undertaken</b>	<b>Results in Evidence Base? (Y/N)</b>	<b>Results annexed? (Y/N)</b>
Competition Assessment	Y	N
Small Firms Impact Test	Y	N
Legal Aid	N	N
Sustainable Development	N	N
Carbon Assessment	N	N
Other Environment	N	N
Health	N	N
Race Equality	Y	N
Disability Equality	Y	N
Gender Equality	Y	N
Human Rights	Y	N
Rural Proofing	N	N

**TRANSPOSITION NOTE****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, AMENDING COUNCIL DIRECTIVES 78/660/EEC AND 83/349/EEC AND REPEALING COUNCIL DIRECTIVE 84/253/EEC**

1. This note describes the implementation in the UK of 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, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L157, 9.6.2006, p.87). The Directive must be implemented by 29 June 2008.

2. The Directive regulates auditors and the audit process, repealing and replacing the Eighth Council Directive 84/253/EEC of 10 April 1984 based on Article 54 (3) (g) of the Treaty on the approval of persons responsible for carrying out the statutory audits of accounting documents. The Directive extends to auditors in the European Economic Area by virtue of Decision of the EEA Joint Committee No. 160/2006 of 8 December 2006 amending Annex XXII (Company law) to the EEA Agreement (OJ L 89, 29.3.2007, p.38).

3. The Directive applies in relation to all audits of accounts required by Community law (article 2.1): that is, audits of company accounts and the accounts of certain partnerships, insurers and credit institutions (e.g. building societies, friendly societies). The Directive sets down requirements as to:

- auditors' qualifications (articles 3-13);
- registration of auditors (articles 15-20);
- auditors' professional ethics (articles 21-24);
- auditing standards (article 26);
- aspects of the audit process (articles 25, 27, 28);
- monitoring and investigation of auditors (articles 29-30);
- oversight of auditors by competent authorities (articles 32-36, 47); and
- regulation of third country auditors (articles 45-46).

There are also some obligations in the Directive on audited entities, relating to:

- appointment of auditors (article 37);
- dismissal of auditors (article 38); and
- establishment of an audit committee (article 41).

4. UK law already regulates auditors and the audit process in the Companies Act 1985 and the Companies Act 1989 in Great Britain, and equivalent legislation in Northern Ireland. Those provisions are replaced by Parts 16 and 42 of the Companies Act 2006, which apply to the whole of the UK and (it is intended) will be brought into force on 6<sup>th</sup> April 2008 (see the

Companies Act 2006 (Commencement No. 5, Consequential Amendments, Transitional Provisions and Savings) Order 2007).

5. The UK implementation of the Directive consists of provisions in the following instruments, which are the responsibility of the Secretary of State for Business, Enterprise and Regulatory Reform, except where indicated:

- Parts 16 and 42 of the Companies Act 2006;
- Statutory Auditors and Third Country Auditors Regulations 2007 (including amendments to the Companies Act 2006);
- the Statutory Auditors (Delegation of Functions etc) Order 2008 (which delegates functions of the Secretary of State under Part 42 of the Companies Act 2006 to the Professional Oversight Board);
- the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008;
- Partnerships (Accounts) Regulations 2008;
- Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;
- Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008;
- Building Societies Act 1986 (*HM Treasury responsible*);
- Building Societies Act 1986 (Accounts, Audit and EEA State Amendments) Order 2008 (*HM Treasury responsible*);
- Friendly Societies Act 1992 (*HM Treasury responsible*);
- Friendly Societies Act 1992 (Accounts, Audit and EEA State Amendments) Order 2008 (*HM Treasury responsible*);
- regulations to be made replacing the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 (*HM Treasury responsible*);
- regulations to be made regarding the register of auditors, the subjects for auditors' examinations, and transparency reports (*Professional Oversight Board responsible*);
- rules to be made relating to audits of certain entities whose securities are traded on a regulated market (*Financial Services Authority responsible*).

6. The implementing provisions in the above instruments do not go beyond the Directive's requirements in any significant respect.

7. The table below describes the main substantive provisions implementing the Directive. Unless otherwise indicated, references in the table to a section or schedule are to provisions of the Companies Act 2006 and references to a regulation are to a provision of the Statutory Auditors and Third Country Auditors Regulations 2007.

<b>Article</b>	<b>Objective</b>	<b>Implementation</b>
1	Describes the Directive's subject matter.	No implementation required.
2	Sets out definitions of terms used in Directive.	Directive definitions reflected in substantive implementing provisions.
<b>APPROVAL OF AUDITORS</b>		
3.1	Statutory audits may only be carried out by approved statutory auditors.	Section 1212(1).
3.2	Competent authorities to be designated for approving statutory auditors.	Section 1217 and Schedule 10.
3.3	Statutory auditors who are individuals to be approved only if articles 4 and 6-10 are met.	See implementation of articles 4 and 6-10 below.
3.4	Statutory auditors which are firms to be approved only if individuals conducting audits comply with articles 4 and 6-12, and if firm is controlled and managed by qualified individuals.	Paragraphs 6 and 7 of Schedule 10. See also implementation of articles 4 and 6-12 below.
4	Statutory auditors must be of good repute.	Paragraph 8 of Schedule 10.
5.1	Approval to be withdrawn if good repute compromised.	Paragraphs 8 and 14 of Schedule 10.
5.2	Approval to be withdrawn if firm not controlled and managed by qualified individuals.	Paragraphs 6, 7 and 14 of Schedule 10.
5.3	Withdrawal of approval to be notified to relevant authorities of other Member States.	Sections 1223A and 1253C (as inserted by regulations 7 and 14).
<b>AUDITORS' QUALIFICATIONS</b>		
6	Qualifications to include theoretical instruction, practical training and examination of professional competence.	Sections 1219 and 1220, and paragraphs 6 to 11 of Schedule 11.
7	Examination of professional competence must guarantee theoretical knowledge of subjects relevant to statutory audit, and the ability to apply that knowledge in practice.	Paragraph 8 of Schedule 11 and <i>regulations to be made by the Professional Oversight Board prescribing examination subjects.</i>
8.1 and 8.2	List of subjects to be included in test of theoretical knowledge.	Paragraph 8 of Schedule 11 and <i>regulations to be made by the Professional Oversight Board prescribing examination subjects.</i>
8.3	Commission may adopt further measures.	No implementation required at this stage.
9.1	Person holding a degree in a subject may be exempted from further test of theoretical knowledge under Article 7 or 8 in that subject.	Paragraph 8(2) of Schedule 11.

9.2	Person holding a degree in a subject may be exempted from further test of ability to apply knowledge under Article 7 if also has a diploma attesting to practical training.	Paragraph 8(3) of Schedule 11.
10.1	Practical training of minimum 3 years, at least 2 years of which with a statutory auditor.	Paragraph 9 of Schedule 11.
10.2	Training providers must provide adequate guarantees of their ability to provide training.	Paragraph 9(3) of Schedule 11.
11	Member State may allow a person who does not meet the Article 6 requirements instead to qualify through: (a) 15 years' professional experience and passing the exam under Article 7; or (b) 7 years' professional experience, passing the exam under Article 7, and completing the practical training under Article 10.	(a) Not implemented. (b) Paragraph 7 of Schedule 11.
12.1	Theoretical instruction of more than 1 year may count towards up to 4 years of the professional experience required by Article 11.	Paragraph 10(1) of Schedule 11.
12.2	Combination of professional experience and practical training must not be shorter than combination of theoretical instruction with practical training.	Paragraph 10(2) of Schedule 11.
13	Statutory auditors required to take part in continuing education.	Paragraphs 11 and 14 of Schedule 10.
14	Member State authorities must approve auditors from other Member States who pass an aptitude test.	Paragraph 6 of Schedule 10 (as amended by regulation 17).
<b>REGISTRATION OF AUDITORS</b>		
15.1	Auditors to be entered into public register in accordance with Articles 16 and 17.  Requirements of Articles 15 and 16 may be disapplied if threat to a person's security.	See implementation of Articles 16 and 17 below.  <i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>
15.2	Each auditor to be identified by registration number; register to be in electronic form and electronically accessible.	<i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>
15.3	Register to contain name and address of auditors' supervisory authorities.	<i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>
15.4	Register to be fully operational by 29 June 2009.	<i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>

16.1	Register to contain individual statutory auditor's name and address, details of any firm he is employed by, and details of any registration in other Member States.	<i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>
16.2	Third country auditors to be marked in register as such.	Regulation 32(2)(c).
17.1	Register to contain audit firm's name and address, legal form, names and addresses of owners and managers, and details of any registration in other Member States.	<i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>
17.2	Third country audit firms to be marked in register as such.	Regulation 32(3)(d).
18	Statutory auditors under a duty to update register.	<i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>
19	Information provided for register under Articles 16, 17 and 18 must be signed by statutory auditor.	<i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>
20.1	Register to be in a language permitted by Member State.	<i>Regulations to be made by the Professional Oversight Board on register of auditors.</i>
20.2	Member State may allow information on register in a second Community language.	Not implemented.
<b>PROFESSIONAL ETHICS</b>		
21.1	Statutory auditors subject to professional ethics principles, including integrity, objectivity, professional competence and due care.	Paragraphs 9 and 21 of Schedule 10 (as amended by regulation 19).
21.2	Commission may adopt further measures.	No implementation required at this stage.
22.1	Statutory auditor to be independent of audited person.	Sections 1214 and 1215, and paragraphs 9 and 21 of Schedule 10 (as amended by regulation 19).
22.2	Audit not to be carried out if significant threats to statutory auditor's independence; safeguards to be applied to mitigate threats.  Audit of public interest entity not to be carried out in case of self-review or self-interest,	Paragraphs 9 and 21 of Schedule 10 (as amended by regulation 19).  Paragraphs 9 and 21 of Schedule 10 (as amended by regulation 19).
22.3	Statutory auditors to record significant threats to independence and safeguards applied.	Paragraphs 9 and 21 of Schedule 10 (as amended by regulation 19).
22.4	Commission may adopt further measures.	No implementation required at this stage.
23.1	Audit documents to be subject to rules on confidentiality.	Paragraph 9(3)(b) of Schedule 10 (as amended by regulation 19).

23.2	Such confidentiality rules not to impede enforcement of Directive.	Paragraph 9(3)(b) of Schedule 10 (as amended by regulation 19).
23.3	Outgoing statutory auditor to provide incoming statutory auditor with all relevant information.	Paragraph 9(3)(c) of Schedule 10 (as amended by regulation 19).
23.4	Obligations of Article 23.1 and 2 extend to former statutory auditors.	Paragraph 9(4) of Schedule 10 (as amended by regulation 19).
24	Owners and managers of audit firms not to compromise independence and objectivity of individual auditors in conduct of audits.	Paragraph 9(3)(a) of Schedule 10 (as amended by regulation 19).
25	Audit fees not to be influenced by provision of additional services or based on a contingency.	Paragraphs 9(1)(e) and 21 of Schedule 10 (as amended by regulation 19).
<b>AUDIT STANDARDS AND REPORTING</b>		
26.1	Statutory audits to be conducted in accordance with international auditing standards adopted by Commission; but national standards may be applied if no such standards adopted.	No implementation required at this stage.
26.2	Commission may adopt international auditing standards under certain conditions.	No implementation required.
26.3	Member States may derogate from adopted international auditing standards under certain conditions.	No implementation required at this stage.
26.4	Member States may impose additional requirements until 29 June 2010.	No implementation required at this stage.
27(a)	For statutory audits of group accounts group auditor bears full responsibility.	- sections 495 and 471; - section 78(4)(c) of Building Societies Act 1986; - section 73(5)(c) of Friendly Societies Act 1992.
27(b)	Group auditor reviews work performed by other auditors, and documents review.	Paragraphs 10A(1) and 22 of Schedule 10 (as inserted by regulation 20).
27(c)	If work is carried out by an auditor in a country with which there is no Article 47 arrangement, group auditor is to retain copies of that auditor's documentation and make them available to authorities.	Paragraph 10A(3) to (6) of Schedule 10 (as inserted by regulation 20).



28.1	Audit report of audit firm to be signed by individual auditor carrying out the work, unless threat to personal security.	<ul style="list-style-type: none"> <li>- sections 503 to 506;</li> <li>- regulation 10 of the Partnerships (Accounts) Regulations 2008;</li> <li>- regulation 9 of the Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;</li> <li>- regulation 8 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008;</li> <li>- sections 78A to 78D of Building Societies Act 1986 (as inserted by article 5 of Building Societies Act 1986 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- sections 74 to 74C of Friendly Societies Act 1992 (as inserted by article 5 of Friendly Societies Act 1992 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- <i>regulations to be made replacing the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.</i></li> </ul>
28.2	If no international standard adopted for audit reports under Article 26.1, Commission may adopt a common EU standard.	No implementation required at this stage.
<b>QUALITY ASSURANCE REVIEWS</b>		
29.1	Statutory auditors must be subject to quality assurance reviews meeting following conditions:	
	(a) independent of the auditors;	Paragraph 12(1A) of Schedule 10 (as amended by regulation 22).
	(b) funding secure and free from influence;	Paragraph 12(1) of Schedule 10 (as amended by regulation 22).
	(c) adequate resources;	Paragraph 12(1) of Schedule 10 (as amended by regulation 22).
	(d) carried out by persons with appropriate education and experience;	Paragraph 13(4) of Schedule 10 (as amended by regulation 23).
	(e) selection of reviewers is objective;	Paragraph 13(4) of Schedule 10 (as amended by regulation 23).
	(f) review to test audit files, check compliance with audit standards, independence requirements, resources allocated, audit fees, and internal quality control;	Paragraph 13(5) and (6) of Schedule 10 (as amended by regulation 23).
	(g) review to be subject of a report;	Paragraph 13(8) of Schedule 10 (as amended by regulation 23).
	(h) take place at least every 6 years;	Paragraph 13(3) of Schedule 10 (as amended by regulation 23).

	(i) overall results of reviews to be published annually;	Section 1251A (as inserted by regulation 11).
	(j) review recommendations to be followed up, or disciplinary action taken.	Paragraphs 12 and 14 of Schedule 10 (as amended by regulation 22).
29.2	Commission may adopt measures for the uniform application of (a), (b) and (e) to (j) above.	No implementation required at this stage.
<b>INVESTIGATIONS AND OVERSIGHT</b>		
30.1	Member States to have effective systems of investigations and penalties.	Paragraphs 12 and 14 of Schedule 10 (as amended by regulation 22).
30.2	Penalties to be effective, proportionate and dissuasive.	Paragraphs 12 and 14 of Schedule 10 (as amended by regulation 22).
30.3	Penalties to be disclosed to the public and include the possibility of withdrawal of approval.	Paragraph 12(3) of Schedule 10 (as amended by regulation 22).
31	Commission to present a report on auditors' liability.	No implementation required.
32.1	Member States to have effective oversight of statutory auditors in accordance with paragraphs 2 to 7.	Sections 1209 to 1264 and Schedules 10 to 14.
32.2	All statutory auditors to be subject to public oversight.	Sections 1212(1) and 1217, paragraphs 1 to 4 of Schedule 10, and article 4 of the Statutory Auditors (Delegation of Functions etc) Order 2008.
32.3	System of public oversight to be governed by independent non-practitioners.	Article 4 of the Statutory Auditors (Delegation of Functions etc) Order 2008.
32.4	System of public oversight to oversee approval and registration of statutory auditors, adoption of audit standards, continuing education, quality assurance, investigations and discipline.	Sections 1209 to 1264 and Schedules 10 to 14, and article 4 of the Statutory Auditors (Delegation of Functions etc) Order 2008.
32.5	System of public oversight to include conducting investigations in relation to statutory auditors and taking appropriate action.	Sections 1224 and 1225, and article 4 of the Statutory Auditors (Delegation of Functions etc) Order 2008.
32.6	System of public oversight to be transparent and publish annual work programmes and activity reports.	Paragraph 10 of Schedule 13 and article 7 of the Statutory Auditors (Delegation of Functions etc) Order 2008.
32.7	System of public oversight to be adequately funded, and funding free from undue influence.	Article 4 of the Statutory Auditors (Delegation of Functions etc) Order 2008.
33	Member States to ensure cooperation of national public oversight systems, and to nominate one entity as responsible for that cooperation.	Sections 1253A to 1253C (as inserted by regulation 16), and article 4 of the Statutory Auditors (Delegation of Functions etc) Order 2008.

34.1	Member States to respect the principle of home-country regulation.	Sections 1210 and 1212.
34.2	For audits of group accounts, Member States may not impose additional requirements on audits of subsidiaries established in other Member States.	Sections 1210 and 1212, and paragraphs 6 to 11 of Schedule 10 (as amended by regulations 17 to 21).
34.3	For companies whose securities are traded on the market of a second Member State, the second Member State may not impose additional requirements on their audits.	Sections 1210 and 1212, and paragraphs 6 to 11 of Schedule 10 (as amended by regulations 17 to 21).
35.1	Member States to designate competent authorities for Directive's tasks.	Section 1217 and Schedule 10, Section 1220 and Schedule 11, and the Statutory Auditors (Delegation of Functions etc) Order 2008.
35.2	Competent authorities to avoid conflicts of interest.	Section 1217 and Schedule 10, Section 1220 and Schedule 11, and the Statutory Auditors (Delegation of Functions etc) Order 2008.
36.1	Competent authorities of Member States to cooperate with one another, render assistance and exchange information.	Sections 1253A to 1253C (as inserted by regulation 14).
36.2	Obligations of professional secrecy to apply to employees of competent authorities.	Sections 1224A and 1224B and Schedule 11A (as inserted by regulation 8 and Schedule to the Regulations).
36.3	Article 36.2 shall not prevent competent authorities exchanging information.	Section 1224A(4) and (5) and Schedule 11A (as inserted by regulation 10 and Schedule to the Regulations).
36.4	Competent authorities to provide information requested by competent authorities of other Member States. They may refuse in certain circumstances.	Section 1253B (as inserted by regulation 14).
36.5	Competent authorities to notify competent authorities of other Member States if aware of unlawful conduct in their territories.	Section 1253C (as inserted by regulation 14).
36.6	Competent authorities to conduct investigations requested by competent authorities of other Member States. They may refuse in certain circumstances.	Section 1253B (as inserted by regulation 14).

36.7	Commission may adopt further measures to facilitate cooperation between competent authorities.	No implementation required at this stage.
<b>APPOINTMENT AND DISMISSAL OF AUDITORS</b>		
37.1	Statutory auditor to be appointed by members of audited entity.	<ul style="list-style-type: none"> <li>- sections 485 and 489;</li> <li>- regulation 8 of the Partnerships (Accounts) Regulations 2008;</li> <li>- regulation 7 of the Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;</li> <li>- regulation 6 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008;</li> <li>- section 77 of, and Schedule 11 to, the Building Societies Act 1986;</li> <li>- section 72 of, and Schedule 14 to, the Friendly Societies Act 1992;</li> <li>- <i>regulations to be made replacing the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.</i></li> </ul>
37.2	Alternative systems of appointment allowed if designed to ensure independence of auditor from managers of audited entity.	Sections 486 and 490;

38.1	Statutory auditors not to be dismissed on improper grounds.	<ul style="list-style-type: none"> <li>- section 994 (as amended by regulation 42);</li> <li>- regulation 11 of the Partnerships (Accounts) Regulations 2008;</li> <li>- regulation 10 of the Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;</li> <li>- regulation 9 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008;</li> <li>- paragraph 6A of Schedule 11 to the Building Societies Act 1986 (as inserted by article 6 of Building Societies Act 1986 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- paragraph 10A of Schedule 14 to the Friendly Societies Act 1992 (as inserted by article 6 of Friendly Societies Act 1992 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- <i>regulations to be made replacing the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.</i></li> </ul>
38.2	Statutory auditor and audited entity to inform competent authority of dismissal or resignation, including an explanation of the reasons.	<ul style="list-style-type: none"> <li>- sections 522 and 523;</li> <li>- regulations 12 and 13 of the Partnerships (Accounts) Regulations 2008;</li> <li>- regulations 11 and 12 of the Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;</li> <li>- regulations 10 and 11 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008;</li> <li>- paragraphs 8A to 8C of Schedule 11 to the Building Societies Act 1986 (as inserted by article 6 of Building Societies Act 1986 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- paragraphs 15A to 15C of Schedule 14 to the Friendly Societies Act 1992 (as inserted by article 6 of Friendly Societies Act 1992 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- <i>regulations to be made replacing the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.</i></li> </ul>
<b>STATUTORY AUDITS OF PUBLIC INTEREST ENTITIES</b>		
39	Member States may exempt non-traded public interest entities from the requirements of Articles 40 to 43.	Implemented in provisions relating to Articles 40 to 43 – see below.
40.1	Statutory auditors of public interest entities to publish transparency reports containing certain information on their websites.	<i>Regulations to be made by the Professional Oversight Board on transparency reports.</i>

40.2	Transparency report to be signed by the statutory auditor.	<i>Regulations to be made by the Professional Oversight Board on transparency reports.</i>
41.1	Public interest entities to have audit committees, whose membership includes one independent person competent in accounting or auditing.	No implementation required – see Article 41.5 below.
41.2	Functions of an audit committee to include monitoring financial reporting process, the audit, and the independence of the statutory auditor.	No implementation required – see Article 41.5 below.
41.3	Proposal of public interest entity’s managers for appointment of statutory auditor to be based on audit committee’s recommendation.	No implementation required – see Article 41.5 below.
41.4	Statutory auditor to report to audit committee on key matters arising from audit.	Paragraph 10B(2)(e) and (f) of Schedule 10 (as inserted by regulation 21).
41.5	Member States may exempt public interest entities from the above requirements if they have a body performing equivalent functions.	<i>Rules to be made by the Financial Services Authority.</i>
41.6	Member States may exempt from the above requirements: (a) a subsidiary of a public interest entity; (b) a collective investment undertaking; (c) an issuer of asset-backed securities; (d) a credit institution which is not traded or issued debt securities of more than 100 million euros.	<i>Rules to be made by the Financial Services Authority.</i>
42.1	Statutory auditors of public interest entities to: (a) confirm annually in writing to audit committee their independence; (b) disclose annually to audit committee any additional non-audit services provided to entity; (c) discuss with audit committee the threats to their independence and the safeguards applied.	(a) Paragraph 10B(2)(a) of Schedule 10 (as inserted by regulation 21). (b) Paragraph 10B(2)(b) of Schedule 10 (as inserted by regulation 21). (c) Paragraph 10B(2)(c) and (d) of Schedule 10 (as inserted by regulation 21).
42.2	In audit firms, key audit partners responsible for audit to rotate after 7 years.	Paragraph 10C(1)(a) and (b) of Schedule 10 (as inserted by regulation 21).
42.3	Key audit partners not to take up key management posts in audited entity for two years following audit.	Paragraph 10C(3) and (4) of Schedule 10 (as inserted by regulation 21).
43	Quality assurance review under Article 29 must be every 3 years for statutory auditors of public interest entities.	Paragraph 23(1A) of Schedule 10 (as inserted by regulation 28).

**AUDITORS FROM THIRD COUNTRIES**

44.1	Member States may approve third country auditors as statutory auditors, subject to reciprocity, if they meet requirements equivalent to Articles 4 and 6 to 13.	Section 1221(3) and (4).
44.2	The requirements of Article 14 also apply to approval of a third country auditor.	Section 1221(1A) and (7A) (as amended by regulation 6).
45.1	Competent authorities of Member State must register in accordance with Articles 15 to 17 third country auditor who provide an audit report of a company whose securities are traded on a regulated market in that Member State.	Regulations 34 to 37.
45.2	Articles 18 and 19 also apply to such registration.	Regulations 35(5) and 39.
45.3	Member States to subject registered third country auditors to their systems of oversight, quality assurance, and investigation and penalties.	Sections 1242 to 1245 and Schedule 12 (as amended by regulations 32 and 33).
45.4	Audit reports to have no legal effect if the third country auditor is not registered.	<i>Rules to be made by the Financial Services Authority.</i>
45.5	Third country auditors to be registered only if: (a) meet requirements equivalent to Article 3(3); (b) majority of firm's managers meet requirements of Articles 4 to 10; (c) individual auditors meet requirements of Articles 4 to 10; (d) audits conducted in accordance with standards and requirements equivalent to Articles 22, 24, 25 and 26; (e) publish a transparency report equivalent to Article 40 requirements.	(a) Regulations 35(3)(c) and (4) and 36(c); (b) Regulations 35(3)(c) and 36(b)(i); (c) Regulations 35(3)(c) and 36(b)(ii); (d) Regulations 35(3)(c) and 36(d) and (e); (e) Regulations 35(3)(c) and 36(f).
45.6	Equivalence referred to in Article 45.5(d) to be assessed by Commission. Member States may assess if no Commission decision.	Regulation 36(d) and (e).
46.1	Member States may disapply Article 45.1 – 3 on basis of reciprocity if a third country auditor is subject in home country to quality assurance, investigations and oversight equivalent to Articles 29, 30 and 32.	Sections 1239(7) and 1242(4) (as amended by regulation 30(5)).
46.2	Equivalence referred to in Article 46.1 to be assessed by Commission. Member States may assess if no Commission decision.	Sections 1239(7) and 1242(4) (as amended by regulation 30(5)).

46.3	Member States to communicate to Commission their assessments of equivalence and any cooperative arrangements with third country authorities.	No implementation required in legislation.
<b>TRANSFER OF PAPERS TO THIRD COUNTRY AUTHORITIES</b>		
47.1	Member States may allow transfer of audit papers to a third country authority if: (a) papers relate to a company traded in that country or a group based in that country; (b) transfer is via Member State authority; (c) third country authority meets requirements declared as adequate under Article 47.3; (d) there are working arrangements based on reciprocity between the authorities; (e) transfer is in accordance with Data Protection Directive.	Section 1253D (as inserted by regulation 15). (No further implementation required at this stage until a Commission decision under Article 47.3.)
47.2	Working arrangements referred to in Article 47.1(d) must ensure that: (a) requests for audit papers are justified; (b) employees of authority are subject to professional secrecy obligations; (c) authorities only use papers for oversight and other functions equivalent to Articles 29, 30 and 32; (d) a request for papers may be if adverse effect on security or public order, or judicial proceedings initiated in respect of same matter.	No implementation required at this stage until a Commission decision under Article 47.3.
47.3	Adequacy referred to in Article 47.1(c) to be decided by Commission.	No implementation required at this stage.
47.4	As a derogation from Article 47.1, Member States may allow direct transfer of papers from auditors to third country authorities if: (a) authorities have initiated investigations; (b) transfer does not conflict with auditor's obligations to Member State authority; (c) reciprocal working arrangements between authorities for direct access; (d) Member State authority informed of request in advance; (e) working arrangements comply with Article 47.2.	(a) Paragraph 16A(2) of Schedule 10 (as inserted by regulation 24). (b) No implementation required, as no such conflicting obligations exist. (c) Paragraph 16A(1)(a) of Schedule 10 (as inserted by regulation 24) and section 1253E (as inserted by regulation 15). (d) Paragraph 16A(4) of Schedule 10 (as inserted by regulation 24). (e) Paragraph 16A(1)(a) of Schedule 10 (as inserted by regulation 24) and section 1253E (as inserted by regulation 15).



47.5	Commission may specify the cases to which Article 47.4 applies.	No implementation required at this stage.
47.6	Member States to communicate to Commission working arrangements referred to above.	No implementation required in legislation.
<b>COMMITTEE PROCEDURE</b>		
48	Committee procedure (comitology) for further measures to be made by Commission under Directive.	No implementation required.
<b>DISCLOSURE OF AUDITOR REMUNERATION</b>		
49.1(a)	Article 43.1 of Directive 78/660/EEC amended so that notes on company accounts include auditor's fees for audit and other services.	<ul style="list-style-type: none"> <li>- Regulation 5 of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008;</li> <li>- regulation 4(2) of the Partnerships (Accounts) Regulations 2008;</li> <li>- regulation 4(2) of the Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;</li> <li>- regulation 3(5) of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008;</li> <li>- Schedule 10C to the Building Societies Act 1986 (as inserted by Schedule 1 to the Building Societies Act 1986 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- Schedule 13F to the Friendly Societies Act 1992 (as inserted by Schedule 1 to the Friendly Societies Act 1992 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- <i>regulations to be made replacing the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.</i></li> </ul>
49.1(b)	Article 44.1 of Directive 78/660/EEC amended so that Member States may allow small companies not to produce notes on such fees.	<ul style="list-style-type: none"> <li>- regulation 4 of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008;</li> <li>- regulation 4(2) of the Partnerships (Accounts) Regulations 2008;</li> <li>- regulation 4(2) of the Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;</li> </ul>

49.1(c)	Article 45.2 of Directive 78/660/EEC amended so that Member States may allow medium-size companies not to disclose such fees if disclosed to audit regulator on request.	<ul style="list-style-type: none"> <li>- regulation 4(4) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008;</li> <li>- regulation 4(2) of the Partnerships (Accounts) Regulations 2008;</li> <li>- regulation 4(2) of the Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;</li> </ul>
49.2	Article 34 of Directive 83/349/EEC amended so that notes on group accounts include auditor's fees for audit and other services.	<ul style="list-style-type: none"> <li>- regulation 6 of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2007;</li> <li>- regulation 4(2) of the Partnerships (Accounts) Regulations 2008;</li> <li>- regulation 4(2) of the Bank Accounts Directive (Miscellaneous Banks) Regulations 2008;</li> <li>- regulation 3(5) of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008;</li> <li>- Schedule 10C to the Building Societies Act 1986 (as inserted by Schedule 1 to the Building Societies Act 1986 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- Schedule 13F to the Friendly Societies Act 1992 (as inserted by Schedule 1 to the Friendly Societies Act 1992 (Accounts, Audit and EEA State Amendments) Order 2008);</li> <li>- <i>regulations to be made replacing the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.</i></li> </ul>
<b>FINAL PROVISIONS</b>		
50	Directive 84/253/EEC (previous directive on audit) is repealed.	No implementation required.
51	Statutory auditor approved under Directive 84/253/EEC before this Directive is transposed to be considered as approved in accordance with this Directive.	Section 1219(b) and (c).
52	Member States may impose more stringent requirement, unless otherwise provided for in Directive.	No specific implementation required.
53	Member States must transpose Directive by 29 June 2008, and communicate main provisions of national law to Commission.	No specific implementation required.
54	Directive enters into force 20 days after publication.	No implementation required.
55	Directive addressed to the Member States.	No specific implementation required.

*Department for Business, Enterprise and Regulatory Reform*  
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