

REGISTRATION AS A THIRD COUNTRY AUDITOR IN SWEDEN

Frequently Asked Questions (FAQ) – Form B (Swe) “Non-Equivalent countries”

1 Registration

1.1 Why do third country audit entities have to register with authorities in EU Member States?

The European Statutory Audit Directive 2006/43/EC (the “Audit Directive”) as amended by the Directive 2014/56/EU sets minimum regulatory requirements for statutory audits across the European Union/European Economic Area (“EU/EEA”). The interrelation of capital markets underlines the need to ensure that auditors from third countries carry out high quality audit work in relation to capital markets within the EU/EEA. The Audit Directive therefore requires that the relevant statutory audit entities and auditors from third countries be entered in a public register and be subject to a level of regulation equivalent to the minimum required for EU/EEA auditors. The European Commission has declared a number of third countries as “equivalent” and has also made transitional measures to facilitate the introduction of these requirements.

Registration is required according to Article 45 of the Audit Directive if a third country audit entity provides an audit report concerning the annual or consolidated accounts of a relevant audit client (see FAQ no. 1.4).

1.2 Which auditors come within the definition of a third country audit entity?

According to Article 2(4) of the Audit Directive a ‘third country audit entity’ means an entity, regardless of its legal form, which carries out audits of the annual or consolidated financial

statements of a relevant audit client (see FAQ no. 1.4), other than an entity which is registered as an audit firm in any Member State as a consequence of approval in accordance with Article 3 of the Audit Directive.

1.3 Who should use Form B (Swe)?

Form B (Swe) has to be used by a third country audit entity the home country of which is **not** an “equivalent” or a “transitional” country as set out the European Commission’s decision of 25 July 2016 (2016/1233/EU) amending the European Commission’s decision of 19 January 2011 (2011/30/EU). Such third country audit entities should use Form A (Swe).

The home country is ordinarily the country where both the third country audit entity and the audit client are incorporated or have their main office. However, in some cases, it may happen that the country of incorporation or the audit client differs from the country where the third country audit entity is incorporated or has its main office. In this case, the **home country is the one of the audit entity**.

If you are uncertain about which form you have to use, **you should contact the SIA**.

1.4 What is a “relevant audit client” (Item 9.0)

A relevant audit client is a company incorporated outside the EU/EEA with transferable securities, within the meaning of Article 4 (1) (18) of EU Directive 2004/39/EC, admitted to trading on a regulated market, within the meaning of Article 4 (1) (14) of EU Directive 2004/39/EC, of any Member State of the EU/EEA.

This refers to an issuer, as defined by Article 2 (1) (d) of EU Directive 2004/109/EC, except when the company is an issuer exclusively of debt securities, within the meaning of Article 2 (1) (b) of EU Directive 2004/109/EC, admitted to trading on a regulated market, within the meaning of Article 4 (1) (14) of EU Directive 2004/39/EC, in the relevant Member State of the EU/EEA, the denomination per unit of which is:

- If admitted to trading on or before 31 December 2010: at least EUR 50,000 or, in case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 50,000; or

- If admitted to trading after 31 December 2010: at least EUR 100,000 or, in case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 100,000.

The applicant should submit applications in each Member State where the audit client's securities are admitted to trading on a regulated market.

1.5 Does registration entitle third country audit entities to provide statutory audit services in the EU/EEA?

No. Registration as a third country audit entity only gives approval, for the purposes of Swedish requirements, in relation to the audit of a third country entity with securities admitted to trading on a Swedish regulated market. It does not give approval to carry out statutory audits as required by EU law (see Article 2 (1) of EU Directive 2006/43/EC, as amended by EU Directive 2014/56/EU). Nor does it recognise the qualifications of third country auditors.

1.6 What are the requirements for registration as a third country audit entity under Article 45 of the Audit Directive?

A Member State may **only** register a third country audit entity if:

- a) the third country audit entity provides information for the public register, as required by Article 17 of the Audit Directive with appropriate modification;
- b) a majority of the members of the administrative or management body of the third country audit entity hold an audit qualification equivalent to that required for European statutory auditors;
- c) individual third country auditors responsible for carrying out the audit on behalf of the third country audit entity hold an audit qualification equivalent to that required for European statutory auditors;
- d) the third country audit entity undertakes to carry out the relevant audits in accordance with international auditing standards (or equivalent) and in accordance with the minimum independence standards required by the Audit Directive for European audit firms (or equivalent);

- e) the third country audit entity undertakes to publish an annual transparency report which includes information as required under Article 13 of EU Regulation 537/2014 for European audit firms, or meets equivalent disclosure requirements;
- f) the third country audit entity and the individual third country auditors carrying out the audit on behalf of the third country audit entity are of good repute.

1.7 What happens if an applicant does not meet the requirements under Article 45 of the Audit Directive?

According to Article 45(4) of the Audit Directive, audit reports issued by third country audit entities which are not registered in a Member State will have no legal effect in that Member State which means that the accounts would be considered as “not audited” under EU purposes.

2 Application procedure

2.1 How does a third country audit entity apply for registration in the EU/EEA?

The registration of third country audit entities shall be carried out in each individual Member State. The Audit Directive does not provide a single registration for the EU/EEA. Therefore registration is the responsibility of each Member State and third country audit entities have to submit their applications separately to the relevant competent authority in each Member State where a registration is required. However, Member States are cooperating closely so that third country audit entities will be able to use, as far as national regulatory systems allow, application forms which follow the agreed common format.

2.2 When will third country audit entities be able to apply for registration?

Third country audit entities are required to register with the SIA if they intend to issue an auditor’s report concerning the annual or consolidated financial statements of a relevant audit client (see FAQ no. 1.4). Registration is required at the latest before the issuance of the auditor’s opinion.

2.3 Will the information submitted by the third country audit entity be treated as confidential?

Yes, other than in respect of the information available on the register that will be electronically accessible to the public. According to Article 36(2) of the Audit Directive the obligation of professional secrecy shall apply to all persons who are employed or who have been employed by competent authorities. Information covered by professional secrecy may not be disclosed to any other person or authority except by virtue of the laws, regulations or administrative procedures of a Member State.

2.4 What information provided in the form will be available on the public register?

The information provided under Items 1.1 to 1.14, 2.2, 3.2, 3.3, 4.1 and 5.1 of Form B (Swe) will be stored in the Register in electronic form and will be electronically accessible to the public.

2.5 Will the information submitted by the third country audit entity be subject to data protection rules?

Yes. All Competent Authorities in the Member States are subject to data protection provisions according to EU law. However, as noted above, some information will be publicly available in the Register.

2.6 Which countries are members of the EU/EEA?

Members of the EU: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Croatia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

Members of the EEA which are not members of the EU: Iceland, Liechtenstein and Norway.

2.7 What language should be used for registration purposes?

Each Member State is responsible for registration. Therefore Member States may require the submission of information in their own official language.

Submitted information may be provided to the SIA in the following languages: Swedish or English.

3 Other information required by Form B (Swe)

3.1 What is a network? (Item 3.1)

According to Article 2 (7) of EU Directive 2006/43/EC a 'network' is:

- a) The larger structure which is aimed at cooperation and to which the applicant belongs; and
- b) Which is clearly aimed at profit or cost-sharing or shares common ownership, control or management, or shares common quality-control policies and procedures, or shares a common business strategy, or shares the use of a common branch-name or shares a significant part of professional resources.

3.2 What is an affiliate of the applicant? (Item 3.3)

In this context an 'affiliate' means any undertaking, regardless of its legal form, which is connected to the third country audit entity by means of common ownership, control or management, *and* which provides services to 'relevant audit clients' listed under Item 7.0.

3.3 Who are third country auditors (Item 7)?

Third country auditors are those **individuals** designated by the applicant for a particular audit engagement listed under Item 9.0 as being primarily responsible for carrying out (or signing) the audit on behalf of the applicant *or* in the case of a group audit, at least the auditor(s) designated by the applicant as being primarily responsible for carrying out (or signing) the audit at the level of the group.

3.4 What information should a transparency report contain (Item 8.0)?

A transparency report should normally contain the information as referred to in Article 13 of the Regulation (EU) No 537/2014:

- a) a description of the legal structure and ownership of the third country audit entity;

- b) where the third country audit entity belongs to a network, a description of the network and the legal and structural arrangements in the network;
- c) a description of the governance structure of the third country audit entity;
- d) a description of the internal quality control system of the third country audit entity and a statement by the administrative or management body on the effectiveness of its functioning;
- e) an indication of when the last quality assurance review took place;
- f) a list of public-interest entities for which the third country audit entity has carried out audits during the preceding financial year. In this context a public-interest entity is defined as a company which is listed under Item 12.0 'Relevant audit clients';
- g) a statement concerning the third country audit entity's independence practices which also confirms that an internal review of independence compliance has been conducted;
- h) a statement on the policy followed by the third country audit entity concerning the continuing education of third country auditors referred to in Article 13 of the Audit Directive;
- i) information concerning the basis for the partners' remuneration;
- j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) of the Regulation (EU) No 537/2014; and
- k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:
 - a. revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;
 - b. revenues from the statutory audit of annual and consolidated financial statements of other entities;
 - c. revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and
 - d. revenues from non-audit services to other entities.

The transparency report shall be signed by the third country auditor or third country audit entity, as the case may be.

3.5 What auditing standards are acceptable under Article 45(5)(d) of the Audit Directive (Item 10.1)?

Article 45(5)(d) of the Audit Directive requires the relevant audits to be carried out either in accordance with international auditing standards as adopted by the European Union pursuant to Article 26 of the Audit Directive or in accordance with equivalent standards.

To date the European Union has not yet adopted any international auditing standards. In Sweden international auditing standards means International Standards on Auditing (ISAs), International Standard on Quality Control 1 (ISQC 1) and other related Standards issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB).

If the applicant doesn't use these standards, the SIA will analyze the acceptability of the standards applied by a particular third country audit firm on a case by case basis.

3.6 What independence requirements are acceptable under Article 45(5)(d) of the Audit Directive (Item 10.2)?

Article 45(5)(d) of the Audit Directive requires the relevant audits to be carried out in accordance with independence requirements pursuant to Articles 22, 22b and 25 of the Audit Directive or in accordance with equivalent requirements.

To date there has been no European decision on equivalence. The SIA will accept independence requirements according to the IESBA's Code of Ethics or similar ones.

3.7 What should be included in the description of the applicant's internal quality control system? (Item 11.0)

A description of the applicant's internal quality control system should include at least a description of:

- a) The policies designed to provide reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances; and

- b) The procedures necessary to implement and monitor compliance with these policies.

3.8 What is an external quality assurance review? (Item 12.0)

An external quality assurance review can be:

- A peer review under the supervision of a professional body or an independent public oversight body;
- A review carried out by a professional body;
- A review carried out by a professional body under the supervision of an independent public oversight body; or
- An inspection by an independent public oversight body in any jurisdiction.

The external quality assurance review should comprise both an assessment of the firm-wide procedures (including an assessment of compliance with applicable auditing standards and independence requirements, of the quantity and quality of resources spent, of the audit fees charged and of the internal quality control system of the audit firm) and adequate testing of selected audit files.

Nevertheless, it is important to note that this obligation **only** applies if an external quality assurance review **has been carried out** and a corresponding report exists.

3.9 What information is needed in respect of the “good repute” requirement (Item 13.0)?

Article 45(5)(b) and (c) of the Audit Directive refers to the requirement of good repute as laid down in Article 4 of this Directive in relation to members of the administrative or management body of the third country audit entity as well as to individual third country auditors carrying out the audit on behalf of the third country audit entity.

In order to assess whether or not an audit entity, as well as relevant individuals are of good repute, applicants are requested to make a “Declaration on Honour” to that effect, by using the relevant form “DEC HON SWE”.

In particular regarding third country audit entities, the SIA requires that **each** member of the administrative and/or management board of the firm listed in Form B-5 (SWE) – Administration and

Management; **and each** individual third country auditors listed in Form B-6 (Swe) – Third country auditors which has been designated by the third country audit entity as being the person responsible for carrying out or signing on behalf of the audit entity an audit of a relevant audit client (listed in Form B-7 (Swe) – Client Information) must be of good repute. Accordingly, all the above-mentioned persons are requested to make and to sign a declaration to that effect giving further explanations as appropriate. If the applicant is unsure as to whether it meets the good repute requirements, it should contact the SIA.

Where necessary, the SIA may contact the applicant (either the single practitioner or the audit firm) in order to seek further information or confirmations from it. Information related to good repute requirements is likely to vary between Member States.

4 Registration costs

4.1 Is there a common system of registration fees across the EU/EEA?

No. EU Directive 2006/43/EC, as amended, does not provide for a single registration fee across the EU/EEA. This is a matter for individual Member States.

In Sweden, the applicant must pay an initial application fee and if the application is approved a registration fee. Thereafter the applicant must pay an annual registration fee.

4.2 How to pay the registration fees?

The fee is payable on submission of the application form and shall be transferred to the account of the SIA. (Note to the payee: “Registration: “Name of the auditor/audit entity”, “Country name”, “Year”, “Month”” Example: EYUS201809).

Payment instructions:

Bank name:	Danske Bank
BIC (SWIFT-CODE):	DABASESX
Owner of the account:	Revisorsinspektionen
Account number:	Bank giro number 784-8419
IBAN:	SE8612000000012810104662

5 Updating of registration information

5.1 What does the third country audit entity need to do to update registration information?

According to Article 18 of the Audit Directive third country audit entities have to notify the competent authorities of the Member States in charge of the public register without undue delay of any change of information contained in the public register. The SIA considers a timeframe of up to one month as appropriate to communicate any changes.

Furthermore, every fifth year, third country audit entities have to reapply to remain registered as a third country audit entity with the SIA.

If you have further queries please contact us by e-mail at ri@revisorsinspektionen.se