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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations are primarily made in exercise of the powers conferred by section 8(1) of the European Union (Withdrawal) Act 2018 (c. 16), together with various other domestic powers, in order to address failures of retained EU law to operate effectively and other deficiencies (in particular under paragraphs (a), (b), (c), (d), (e), (f) and (g) of section 8(2) of that Act) arising from the withdrawal of the UK from the European Union. Part 5 contains amendments made under section 2(2) of the European Communities Act 1972 (c. 68), which implement aspects of Article 32 of Directive 2006/43/EC of the European Parliament and of the Council on statutory audits of annual accounts and consolidated accounts (OJNo. 157 09.06.2006, p. 87).

These Regulations make amendments to legislation in the field of statutory auditing, in particular to the regulatory oversight and professional recognition of statutory auditors and third country auditors, and the requirements for the statutory audit of certain types of business undertakings, which may be companies, limited liability partnerships, building societies, friendly societies, or certain other types of insurer.

Part 2 amends primary legislation including Parts 16 and 42, and Schedules 10, 11, 11A and 12 to the Companies Act 2006, the Building Societies Act 1986, the Friendly Societies Act 1992, the Companies (Audit, Investigations and Community Enterprise) Act 2004 and the Local Audit and Accountability Act 2014. In particular, regulation 14 introduces new powers (sections 1240A and 1240B) to Part 42 of the Companies Act 2006. Section 1240A confers on the Secretary of State powers to approve the audit regulatory regime of third countries as being equivalent, in this case, to the UK. Section 1240B confers on the Secretary of State powers to approve third country competent authorities as being adequate in relation to their ability to co-operate with the competent authority on the transfer of audit working papers. These powers replace powers previously exercised in respect of the European Union by the European Commission under Articles 46 and 47 of Directive 2006/43/EC of the European Parliament and of the Council on statutory audits of annual accounts and consolidated accounts. Part 3 amends various pieces of secondary legislation concerning statutory audits and statutory auditors, audit reporting requirements and other requirements such as keeping a register of third country auditors. Part 4 amends Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. Part 5 amends, using section 2(2) of the European Communities Act 1972, various provisions of the Statutory Auditors and Third Country Auditors Regulation 2016. Part 6 introduces Schedule 1, which lists countries approved as equivalent third countries and transitional third countries, and Schedule 2, which lists third country competent authorities approved as adequate. Part 7 introduces Schedule 3 which revokes various pieces of retained direct EU legislation that are no longer needed. Part 8 introduces Schedule 4 which sets out the transitional provisions for some of the amendments made by these Regulations.

These Regulations refer to: (a) the Rulebook made by the Prudential Regulation Authority under the Financial Services and Markets Act 2000, and sourcebooks made by the Financial Conduct Authority under that Act. The Rulebook is available on <http://www.prarulebook.co.uk> and copies of the rules referred to can be obtained from the Prudential Regulation Authority, 20 Moorgate, London EC2R 6DA, where it is also available for inspection; (b) sourcebooks made by the Financial Conduct Authority that are available on <https://www.handbook.fca.org.uk/handbook> and copies of the rules referred to can be obtained from the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN, where it is also available for inspection; (c) the 2016-2017 Handbook of International

**Draft Legislation:** This is a draft item of legislation. This draft has since been made as a UK Statutory Instrument: *The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 No. 177*

Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements made by the International Auditing and Assurance Standards Board (“IAASB”) and available on <https://www.ifac.org/publications-resources/2016-2017-handbook-international-quality-control-auditing-review-other>.

An impact assessment has not been produced for this instrument as no, or no significant, impact on the private or voluntary sector is foreseen.