
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations implement obligations in [Directive 2014/56/EU](#) of the European Parliament and of the Council of 16 April 2014 amending [Directive 2006/43/EC](#) on statutory audits of annual accounts and consolidated accounts (OJ L 157, 09.06.06, p.87) and Regulation (EU) 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](#) (“the Audit Regulation”) (OJ L 158, 27.05.14, p.77). The amended [Directive 2006/43/EC](#) is known as “the Audit Directive”. The Audit Regulation is directly applicable, but changes have been made to domestic law to remove inconsistencies between domestic law and the Audit Regulation.

The amendments to the Audit Directive and the Audit Regulation were fully transposed in relation to companies and building societies by the Statutory Auditors and Third Country Auditors Regulations 2016 ([S.I. 2016/649](#)). Amendments were made by that instrument to Part 42 of the Companies Act 2006 ([c. 46](#)), which applies in respect of all statutory auditors, of all entities subject to statutory audit.

These Regulations make some amendments to the transposition of the Audit Directive and the Audit Regulation in relation to companies (see Part 4 of the Regulations) and building societies (see Part 2 of the Regulations), and complete the transposition of the Audit Directive in relation to friendly societies (see Part 3 of the Regulations) and Lloyd’s syndicates and the syndicates’ aggregate accounts (see regulation 15). They also transpose the remainder of the Audit Regulation where necessary in relation to friendly societies.

The transposition for each entity mirrors the transposition for companies in Part 16 of the Companies Act 2006 as far as possible, making appropriate adjustments to take account of the nature of the entity concerned and the relevant legal framework for that entity. The main effect of the changes is in relation to rotation and retendering for the statutory auditor of a “public interest entity” (a public interest entity is one which issue securities which are admitted to trading on a regulated market, or which is a credit institution or an insurance undertaking). A maximum engagement period of ten years is introduced, although this can be extended to twenty years provided that there is a selection procedure at least every ten years. Rotation and retendering is not required for audits of Lloyd’s syndicates or of the syndicates’ aggregate accounts.

The main change in respect of existing transposition for companies and building societies (which is then mirrored for friendly societies) is to make the provisions relating to rotation and retendering for statutory auditors clearer, but there are also some minor and technical amendments.

Regulation 13(5) amends section 1253D of the Companies Act 2006 in order to transpose Commission Implementing Decision (EU) 2016/1010 of 21 June 2016 on the adequacy of the competent authorities of certain third countries and territories pursuant to [Directive 2006/43/EC](#) of the European Parliament and of the Council (OJ L 165, 23.06.16, p.17). This Decision was issued under Article 47 of the Audit Directive.

Regulation 15(13) requires the Treasury to review the provisions relating to Lloyd’s syndicates amended by these Regulations and to publish a report by 1st May 2022, and at least every five years after that. Following a review it will fall to the Treasury to consider whether the provisions should remain as they are, or be revoked or be amended. A further instrument would be needed to revoke or amend the provisions.

Regulation 17 makes consequential amendments to the Public Interest Disclosure (Prescribed Persons) Order 2014 ([S.I. 2014/2418](#)), to take account of the changes in functions of the Financial

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

Reporting Council resulting from the Statutory Auditors and Third Country Auditors Regulations 2016 and these Regulations, to maintain protection for whistleblowers who are workers making disclosures in respect of these functions, in Great Britain. Regulation 18 makes corresponding consequential amendments to the Public Interest Disclosure (Prescribed Persons) Order (Northern Ireland) 1999 (S.R. (NI) 1999 No 401), which applies in Northern Ireland.

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation in future once the UK has left the EU.

A transposition note is available alongside these Regulations at www.legislation.gov.uk.

A full regulatory impact assessment of the effect of transposition of the Audit Directive and the Audit Regulation on the costs of business and the voluntary sector is available from the Business Environment Directorate, Department for Business, Energy and Industrial Strategy, 1 Victoria Street, London SW1H 0ET or from www.gov.uk/beis, and is also available alongside the Statutory Auditors and Third Country Auditors Regulations 2016 at www.legislation.gov.uk.