



May 2020

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# The Local Auditors (Transparency) Regulations 2020:

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# The Local Auditors (Transparency) Regulations 2020

## Financial Reporting Council

### THE LOCAL AUDITORS (TRANSPARENCY) REGULATIONS 2020

#### Powers exercised

- A. The Financial Reporting Council Limited makes these Regulations in exercise of the power conferred on the Secretary of State by section 1240 of the Companies Act 2006<sup>1</sup>, as applied in relation to local audits by Section 18 and paragraphs 1, 2 and 15 of Schedule 5 to the Local Audit and Accountability Act 2014<sup>2</sup>, to make regulations requiring a person eligible for appointment as a local auditor, or a member of a specified class of such persons, to keep and make available specified information to the public.
- B. The power to make such regulations was transferred to the Financial Reporting Council by Article 2 of The Local Audit (Delegation of Functions) and Statutory Audit (Delegation of Functions) Order 2014<sup>3</sup>, which came into force on 19 August 2014 for the purpose of the transfer.

#### Citation, commencement and interpretation

1. (1) These Regulations may be cited as the Local Auditors (Transparency) Regulations 2020.

(2) These Regulations come into force on 29 May 2020.

(3) In these Regulations, the financial year of a local auditor is any period in respect of which a profit and loss account of the local auditor is required to be produced (by its constitution or by the law under which it is established), whether that period is a year or not.

(4) In these Regulations –

“the 2006 Act” means the Companies Act 2006;

“the 2014 Act” means the Local Audit and Accountability Act 2014;

“the Audit Regulation” means 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<sup>4</sup>;

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<sup>1</sup> 2006 c. 46.

<sup>2</sup> 2014 c. 2.

<sup>3</sup> S.I. 2014/2009.

<sup>4</sup> OJ L 158/77 27.05.14.

“the Financial Reporting Council” means the Financial Reporting Council Limited<sup>5</sup>;

“local audit” has the same meaning as in paragraph 1(2) of Schedule 5 to the 2014 Act;

“local auditor” has the same meaning as in section 4(1)(b) of the 2014 Act;

“major local audit” has the same meaning as in paragraph 13(10) of Schedule 10 to the 2006 Act, as it is applied to local audits by Section 18 and paragraphs 1, 2 and 28(7) of Schedule 5 to the 2014 Act;

“network” and “public interest entity” has the same meaning as in Regulation 2 of the Statutory Auditors and Third Country Auditors Regulations 2016<sup>6</sup>;

“statutory auditor” and “statutory audit” have the same meaning as in section 1210(1) of the 2006 Act;

“transparency reporting local auditor” is a local auditor that has issued an audit report in relation to one or more major local audits at any time during the financial year of that local auditor.

## **Application**

2. (1) These Regulations apply to transparency reporting local auditors.

(2) These Regulations apply in respect of each financial year of a transparency reporting local auditor commencing on or after 1 June 2019.

## **Obligation to prepare transparency report and its contents**

3. (1) A transparency reporting local auditor must prepare a transparency report for each financial year specified in regulation 2 above.

(2) Subject to paragraph (4) below, the transparency report must at a minimum contain the information set out in the Schedule to these Regulations.

(3) The transparency report must be approved by the transparency reporting local auditor and signed on its behalf.

(4) The information specified in paragraph (1)(g) of the Schedule to these Regulations may be omitted to the extent that the inclusion of that information in the transparency report would create, or be likely to create, a serious risk that any person would be subject to violence or intimidation.

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<sup>5</sup> A company registered in England and Wales with number 02486368.

<sup>6</sup> S.I. 2016/649.

(5) A transparency reporting local auditor that is also a statutory auditor that carries out statutory audits of public interest entities may prepare a single report that includes the information required by these Regulations and by Article 13 of the Audit Regulation.

### **Publication of transparency report**

4. (1) A transparency reporting local auditor must ensure that its transparency report is made available on a website that is maintained by or on behalf of the transparency reporting local auditor and identifies the transparency reporting local auditor in question.
  - (2) The transparency reporting local auditor must ensure that –
    - (a) The transparency report is made available on the website specified in paragraph (1) above not later than four months after the end of the financial year of the transparency reporting local auditor to which it relates; and
    - (b) It remains available for a period of five years from the date on which the period of three months specified in paragraph (a) above ends.
  - (3) The transparency reporting local auditor must notify the Financial Reporting Council when a transparency report required by regulation 3 is made available on the website together with an indication of where that website can be found.

### **Revocation**

5. The Local Auditors (Transparency) Instrument 2015 is revoked.

By Order of the Financial Reporting Council

29 May 2020

## SCHEDULE

1. The information that must be included in a transparency report is:
  - a. A description of the legal structure, governance and ownership of the transparency reporting local auditor;
  - b. Where the transparency reporting local auditor belongs to a network, a description of the network and the legal, governance and structural arrangements of the network;
  - c. A description of the internal quality control system of the transparency reporting local auditor and a statement by the administrative or management body on the effectiveness of its functioning in relation to local audit work;
  - d. A description of the transparency reporting local auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted;
  - e. Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained;
  - f. A statement of when the last monitoring of the performance by the transparency reporting local auditor of local audit functions, within the meaning of paragraph 23 of Schedule 10 to the 2006 Act, as applied in relation to local audits by Section 18 and paragraphs 1, 2 and 28(7) of Schedule 5 to the 2014 Act, took place;
  - g. A list of major local audits in respect of which an audit report has been made by the transparency reporting local auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list;
  - h. A statement on the policies and practices of the transparency reporting local auditor designed to ensure that persons eligible for appointment as a local auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level;
  - i. Turnover for the financial year of the transparency reporting local auditor to which the report relates, including the showing of the importance of the transparency reporting local auditor's local audit work; and
  - j. Information about the basis for the remuneration of partners.



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