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STATUTORY INSTRUMENTS

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**2017 No. 516**

**AUDITORS**

**The Statutory Auditors and Third  
Country Auditors Regulations 2017**

*Made* - - - - - *30th March 2017*  
*Laid before Parliament* *5th April 2017*  
*Coming into force in accordance with regulation 1(2)*  
*and (3)*

The Secretary of State is a Minister designated<sup>(1)</sup> for the purposes of section 2(2) of the European Communities Act 1972<sup>(2)</sup> in relation to auditors and the audit of accounts.

The Secretary of State makes the following Regulations in exercise of the powers conferred by that section.

**PART 1**

**Introductory**

**Citation, commencement, application and interpretation**

1.—(1) These Regulations may be cited as the Statutory Auditors and Third Country Auditors Regulations 2017.

(2) These Regulations, apart from regulation 13(4)(b), come into force on 1st May 2017.

(3) Regulation 13(4)(b) comes into force on 1st October 2018.

(4) The amendments made by Part 2 have effect for financial years of building societies beginning on or after 17th June 2016.

(5) The amendments made by Part 3 and regulation 13(2) (and regulation 13(1) insofar as it relates to regulation 13(2)) have effect for financial years of friendly societies beginning on or after 17th June 2016.

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(1) [S.I. 2007/1679](#).

(2) [1972 c. 68](#). Section 2(2) was amended by section 27 of the Legislation and Regulatory Reform Act 2006 ([c. 51](#)) and by section 3 of, and Part 1 of the Schedule to, the European Union (Amendment) Act 2008 ([c. 7](#)). Other amendments have been made that are not relevant.

(6) The amendments made by regulation 12 have effect for financial years of companies beginning on or after 17th June 2016.

(7) The amendments made by regulation 15 have effect for financial years for Lloyd’s syndicate and aggregate accounts beginning on or after 17th June 2016.

(8) The amendments made by these Regulations to Part 16 of the Companies Act 2006 do not have effect in relation to the application of any provision of that Part to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008(3).

(9) In this regulation—

“building society” means a building society within the meaning of the Building Societies Act 1986(4);

“company” means a company within the meaning of section 1(1) of the Companies Act 2006(5);

“financial year”—

(a) in relation to building societies, has the meaning given by sections 117 and 117A of the Building Societies Act 1986(6);

(b) in relation to friendly societies, has the meaning given by section 118 of the Friendly Societies Act 1992(7);

(c) in relation to companies, has the meaning given by section 390 of the Companies Act 2006;

(d) in relation to Lloyd’s syndicate and aggregate accounts, has the meaning given by regulation 2(1) of the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008(8);

“friendly society” means a friendly society within the meaning of the Friendly Societies Act 1992(9);

“limited liability partnership” has the meaning given by section 1 of the Limited Liability Partnerships Act 2000(10); and

“Lloyd’s syndicate and aggregate accounts” means accounts required to be prepared in accordance with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

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(3) 2008/1911, amended by S.I. 2009/1342, 2009/1804, 2011/99, 2011/1043, 2012/1439, 2012/1741, 2012/2301, 2013/472, 2013/2005, 2014/1815 and 2016/575, and modified by S.I. 2011/245.

(4) 1986 c. 53. See in particular section 119 of that Act for the definition of building society, to which there are amendments but none is relevant.

(5) 2006 c. 46.

(6) Section 117 has been amended by paragraph 15 of Schedule 9 to the Financial Services (Banking Reform) Act 2013 (c. 33), and section 117A was inserted by paragraph 16 of Schedule 9 to that Act.

(7) 1992 c. 40.

(8) 2008/1950, amended by S.I. 2013/472.

(9) See in particular section 116 of that Act, to which there is an amendment but which is not relevant, for the definition of friendly society.

(10) 2000 c. 12.

## PART 2

### Amendments to Part 8 of the Building Societies Act 1986

#### Amendments to Part 8 of the Building Societies Act 1986

- 2.—(1) Part 8 of the Building Societies Act 1986 is amended as follows.
- (2) In section 78 (auditor’s report)(**11**)—
- (a) for subsection (4) substitute—
- “(4) The report must clearly state the opinion of the auditor as to whether the accounts—
- (a) give a true and fair view—
- (i) in the case of an individual balance sheet, of the state of affairs of the society as at the end of the financial year,
- (ii) in the case of an individual income and expenditure account, of the income and expenditure of the society for the financial year, and
- (iii) in the case of group accounts, of the state of affairs as at the end of the financial year and the income and expenditure for the financial year of the society and the subsidiary undertakings dealt with in the group accounts, so far as concerns members of the society,
- (b) have been properly prepared in accordance with the relevant financial reporting framework, and
- (c) have been prepared in accordance with the requirements of this Act (and, where applicable, Article 4 of the IAS Regulation).”;
- (b) in subsection (4A)—
- (i) for the first occurrence of “opinion” substitute “report”;
- (ii) in paragraph (b), for “audit opinion” substitute “report”;
- (iii) in paragraph (c) for “as a going concern” substitute “to adopt the going concern basis of accounting”;
- (c) in subsection (6), for “(4)(b)” substitute “(4)(a)”.
- (3) In section 78A (signature of auditor’s report)(**12**)—
- (a) omit subsection (2A);
- (b) after subsection (3) insert—
- “(4) Where more than one person is appointed as auditor, the report must be signed by all those appointed.”.
- (4) In section 78C (names to be stated in copies of auditor’s report filed or published)(**13**), in subsection (1A), for “individual” substitute “person”.
- (5) In section 79 (auditor’s duties and powers)(**14**), in subsections (1)(a) and (2)(a) for “proper” substitute “adequate”.
- (6) In Schedule 11 (auditors: appointment, tenure)(**15**)—

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(11) Section 78 was amended by [S.I. 1995/3233](#), [2004/3380](#), [2008/1519](#) and [2016/649](#); there are other amendments but none is relevant.

(12) Section 78A was inserted by [S.I. 2004/3380](#) and then substituted by [S.I. 2008/1519](#). It was amended by [S.I. 2016/649](#).

(13) Section 78C was inserted by [S.I. 2008/1519](#), and amended by [S.I. 2013/496](#) and [2016/649](#).

(14) Section 79 was amended by [S.I. 2001/2617](#), [2008/1519](#) and [2016/649](#); there are other amendments but none is relevant.

(15) Paragraphs 3A to 3C, 5A and 5B of Schedule 11 were inserted by [S.I. 2016/649](#); there are other amendments to Schedule 11 but none is relevant.

- (a) omit paragraph 3A;
- (b) in paragraph 3B—
  - (i) in sub-paragraph (2)(b), omit from “, including the following” to the end;
  - (ii) in sub-paragraph (3), omit “or directors”;
  - (iii) in sub-paragraph (4)(a), at the end insert “drawn from those auditors who have participated in a selection procedure under sub-paragraph (3),”;
  - (iv) in sub-paragraph (4)(c), for “paragraph 3A” substitute “Article 16(6) of the Audit Regulation”;
  - (v) for sub-paragraphs (5) to (7) substitute—
    - “(5) The directors must include in their proposal—
      - (a) the recommendation made by the audit committee in connection with the appointment, and
      - (b) if the proposal of the directors departs from the preference of the audit committee—
        - (i) a recommendation for a candidate or candidates for appointment drawn from those auditors who have participated in a selection procedure under sub-paragraph (3), and
        - (ii) the reasons for not following the audit committee’s recommendation.
    - (6) Where the audit committee recommends re-appointment of the society’s existing auditor or auditors, and the directors are in agreement, sub-paragraphs (3) and (4)(a) and (b) do not apply.”;
- (c) in paragraph 3C—
  - (i) in sub-paragraph (3), at the end insert “, from which their proposed auditor or auditors must be drawn”;
  - (ii) for sub-paragraphs (4) to (6) substitute—
    - “(4) Sub-paragraph (3) does not apply in relation to a proposal to re-appoint the society’s existing auditor or auditors.”;
- (d) after paragraph 3C insert—
  - “**3D.**—(1) A person who has been, or will have been, auditor of a building society in respect of every financial year comprised in the maximum engagement period may not be appointed as auditor of the society in respect of any financial year which begins within the period of 4 years beginning with the day after the last day of the last financial year of the maximum engagement period.
  - (2) A person who is a member of the same network as the auditor mentioned in sub-paragraph (1) may not be appointed as auditor of the society in respect of any financial year which begins within the period of 4 years mentioned in that sub-paragraph.
  - (3) In this paragraph “network” means an association of persons, other than a firm, co-operating in audit work by way of—
    - (a) profit-sharing;
    - (b) cost-sharing;
    - (c) common ownership, control or management;
    - (d) common quality control policies and procedures;
    - (e) common business strategy; or

(f) use of a common name.

**3E.—(1)** Where a person is auditor of a building society in respect of consecutive financial years, the maximum engagement period of the person as auditor of the society—

- (a) begins with the first of those years (see the appropriate entry in the first column of the following Table), and
- (b) ends with the financial year specified in the corresponding entry in the second column of the Table:

<b>First financial year of the maximum engagement period</b>	<b>Last financial year of the maximum engagement period</b>
A financial year of the society beginning before 17 June 1994	The last financial year of the society to begin before 17 June 2020.
A financial year of the society beginning—	The last financial year of the society to begin before 17 June 2023.
(a) on or after 17 June 1994, and	
(b) before 17 June 2003	
A financial year of the society beginning—	<i>No qualifying selection procedure</i>
(a) on or after 17 June 2003, and	Where neither the first financial year of the maximum engagement period nor any subsequent financial year is one in respect of which the auditor has been appointed following the carrying out of a qualifying selection procedure, the later of—
(b) before 17 June 2016	(a) the last financial year of the society to begin before 17 June 2016, and
	(b) the last financial year of the society to begin within the period of 10 years beginning with the first day of the first financial year of the maximum engagement period.
	<i>No qualifying selection procedure within 10 years</i>
	Where the last day of the last financial year of the society to begin within the period of 10 years beginning with the first day of the last financial year of the society in respect of which the auditor was appointed following a qualifying selection procedure is before 17 June 2016—

<b>First financial year of the maximum engagement period</b>	<b>Last financial year of the maximum engagement period</b>
	<p>(a) the last financial year of the society to begin before 17 June 2016, unless</p> <p>(b) the auditor is appointed following a qualifying selection procedure for the first financial year of the society to begin on or after 17 June 2016, in which case it is the last financial year of the society to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.</p> <p><i>Qualifying selection procedure within 10 years</i></p> <p>In any other case, the earlier of-</p> <p>(a) the last financial year of the society to begin within the period of 10 years beginning with the first day of the last financial year of the society in respect of which the auditor was appointed following a qualifying selection procedure, and</p> <p>(b) the last financial year of the society to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.</p>
<p>A financial year of the society beginning on or after 17 June 2016</p>	<p>The earlier of—</p> <p>(a) the last financial year of the society to begin within the period of 10 years beginning with the first day of the last financial year of the society in respect of which the auditor was appointed following a qualifying selection procedure, and</p> <p>(b) the last financial year of the society to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.</p>

(2) Where the first financial year of the maximum engagement period begins on or after 17 June 2003, the maximum engagement period may be extended by a period of no more than 2 years with the approval of the competent authority.

- (3) Such approval may be given by the competent authority only if it is satisfied that exceptional circumstances exist.
- (4) Where the competent authority gives its approval as mentioned in sub-paragraph (2) —
- (a) the second column of the Table in sub-paragraph (1) has effect with the necessary modifications, and
  - (b) the first appointment to be made after the end of the period as so extended must be made following a qualifying selection procedure.
- (5) In this paragraph “qualifying selection procedure” means—
- (a) in the case of an appointment in respect of a financial year beginning on or after 17 June 2016 made after the Statutory Auditors and Third Country Auditors Regulations 2017 come into force—
    - (i) if the society has an audit committee, a selection procedure that complies with the requirements of paragraph 3B(3) and (4)(a) and (b), and
    - (ii) if the society does not have an audit committee, a selection procedure that complies with the requirements of Article 16(3) of the Audit Regulation;
  - (b) in any other case, a selection procedure that substantially meets the requirements of Article 16(2) to (5) of the Audit Regulation, having regard to the circumstances at the time (including whether the society had an audit committee).”;
- (e) omit paragraphs 5A and 5B;
- (f) in paragraph 8C—
- (i) the existing text becomes sub-paragraph (1);
  - (ii) after sub-paragraph (1) insert—
- “(2) For the purposes of this Schedule, a person is auditor of a building society in respect of a financial year if the auditor is required to report on the accounts of the society for that financial year.”.

## PART 3

### Amendments to Part 6 of the Friendly Societies Act 1992

3. Part 6 of the Friendly Societies Act 1992<sup>(16)</sup> is amended as follows.
4. In section 72 (auditors’ appointment, tenure, qualifications, etc), after subsection (2) insert—
- “(3) Schedule 14A to this Act has effect with regard to the appointment and removal of auditors of societies to which the Audit Directive applies.”.
5. In section 73 (auditor’s report)<sup>(17)</sup>—
- (a) in subsection (1), before “report” insert “written”;
  - (b) in subsection (2)—
    - (i) in paragraph (a) for “proper” substitute “adequate”; and
    - (ii) omit the words from “and, if the auditor” to the end;
  - (c) after subsection (2) insert—

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<sup>(16)</sup> 1992 c. 40.

<sup>(17)</sup> Section 73 was amended by S.I. 2001/2617, 2005/2211 and 2008/1140.

- “(2A) If the auditor is of the opinion that—
- (a) adequate accounting records have not been kept under section 68, or
  - (b) the annual accounts are not in agreement with the accounting records,
- the auditor must state that fact in his report.”;
- (d) for subsection (4A) substitute—
- “(4A) The auditor shall, in his report—
- (a) state whether, in his opinion, based on the work undertaken in the course of the audit—
    - (i) the information given in the report of the committee of management for the financial year for which the annual accounts are prepared is consistent with those accounts,
    - (ii) that report has been prepared in accordance with this Act and the regulations made under it,
  - (b) state whether, in the light of the knowledge and understanding of the society or registered branch and its environment obtained in the course of the audit, the auditor has identified material misstatements in the report of the committee of management, and
  - (c) if applicable, give an indication of the nature of each of the misstatements referred to in paragraph (b).”;
- (e) for subsections (5A) to (5D) substitute—
- “(5A) The auditor’s report must include—
- (a) the identity of the friendly society or registered branch whose annual accounts are the subject of the audit,
  - (b) a description of the annual accounts that are the subject of the audit (including the period covered by those accounts),
  - (c) a description of the financial reporting framework that has been applied in the preparation of those accounts, and
  - (d) a description of the scope of the audit identifying the auditing standards in accordance with which the audit was conducted.
- (5B) The report must clearly state the opinion of the auditor as to whether the annual accounts—
- (a) give a true and fair view—
    - (i) in the case of an individual balance sheet, of the state of affairs of the society or branch as at the end of the financial year,
    - (ii) in the case of an individual income and expenditure account, of the income and expenditure of the society or branch for the financial year, and
    - (iii) in the case of the group accounts of an incorporated friendly society, of the state of affairs as at the end of the financial year and of the income and expenditure for the financial year of the society and the subsidiary undertakings dealt with in the group accounts, so far as concerns members of the society,
  - (b) have been properly prepared in accordance with the relevant financial reporting framework, and
  - (c) have been prepared in accordance with the requirements of this Act (and where applicable, Article 4 of the IAS Regulation).



- (5C) The auditor’s report must—
  - (a) be either unqualified or qualified,
  - (b) include a reference to any matters to which the auditor wishes to draw attention by way of emphasis without qualifying the report,
  - (c) include a statement on any material uncertainty relating to events or conditions that may cast significant doubt about the ability of the friendly society or registered branch to continue to adopt the going concern basis of accounting, and
  - (d) identify the auditor’s place of establishment.”;
- (f) at the end insert—
  - “(6) Where more than one person is appointed as auditor, all the persons appointed must jointly make a report under this section, which must include a statement as to whether they all agree on—
    - (a) the matters contained in the report,
    - (b) the statements given under subsections (2A), (3) and (4A), and
    - (c) the indications given under subsection (4A).
  - (7) Where the persons do not all agree on all of those things, the report must—
    - (a) include the opinions of each person appointed, and
    - (b) give reasons for the disagreement.”.
- 6. In section 74 (signature of auditor’s report)(18)—
  - (a) in subsection (1), after “the auditor” insert “(or, where more than one person is appointed as auditor, all of their names)”, and
  - (b) after subsection (3) insert—
    - “(4) Where more than one person is appointed as auditor, the report must be signed by all those appointed.”.
- 7. In section 74B (names to be stated in copies of auditor’s report filed or published)(19) after subsection (1) insert—
  - “(1A) If more than one person is appointed as auditor, the reference in subsection (1)(a) to the name of the auditor is to be read as a reference to the names of all the auditors.”.
- 8. At the beginning of section 74C(1) (circumstances in which names may be omitted)(20) for “The” substitute “An”.
- 9. In section 78A (interpretation of Part 6)(21), for subsection (3) substitute—
  - “(3) References in this Part to a friendly society to which the Audit Directive applies are to a friendly society that is—
    - (a) an insurance undertaking within the meaning given by Article 2.1 of Council Directive 1991/674/EEC on the annual accounts and consolidated accounts of insurance undertakings(22), or
    - (b) an issuer whose transferable securities are admitted to trading on a regulated market.

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(18) Section 74 was substituted by [S.I. 2008/1140](#).

(19) Section 74B was inserted by [S.I. 2008/1140](#) and amended by [S.I. 2013/496](#).

(20) Section 74C was inserted by [S.I. 2008/1140](#) and amended by [S.I. 2013/496](#).

(21) Section 78A was inserted by [S.I. 2005/2211](#), and subsection (3) was inserted by [S.I. 2008/948](#). There are other amendments but none is relevant.

(22) OJ No. L 374 31.12.91, p. 7.

- (4) In subsection (3)—
- (a) “issuer” and “regulated market” have the same meaning as in Part 6 of the Financial Services and Markets Act 2000<sup>(23)</sup>; and
  - (b) “transferable securities” means anything which is a transferable security for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments<sup>(24)</sup>.”.

**10.** In Schedule 14 (auditors: appointment, tenure, qualifications and remuneration)—

- (a) in paragraph 10, after sub-paragraph (5) insert—
  - “(6) An auditor may not be removed from office before the expiration of that auditor’s term of office except—
  - (a) by resolution under this paragraph, or
  - (b) in accordance with paragraph 6 of Schedule 14A.”; and
- (b) in paragraph 10A(1)<sup>(25)</sup>, after “removed from office” insert “, other than by order of the High Court made under paragraph 6 of Schedule 14A, ”.

**11.** After Schedule 14, insert—

“SCHEDULE 14A

Section 72(3)

APPOINTMENT AND REMOVAL OF AUDITORS:  
SOCIETIES TO WHICH AUDIT DIRECTIVE APPLIES

*Introductory*

**1.—(1)** This Schedule makes provision in relation to the appointment and removal of the auditor or auditors of a friendly society to which the Audit Directive applies.

(2) For the purposes of this Schedule, a person is auditor of a friendly society in respect of a financial year if the person is required to report on the accounts of that society for that financial year.

*Appointment of auditor for society which has an audit committee*

**2.—(1)** This paragraph applies to the appointment under section 72 of an auditor or auditors if the society has an audit committee.

- (2) Before an appointment is made—
  - (a) the audit committee of the society must make a recommendation to the committee of management in connection with the appointment, and
  - (b) the committee of management must propose an auditor or auditors for appointment.
- (3) Before the audit committee makes a recommendation or the committee of management makes a proposal under sub-paragraph (2), the audit committee must carry out a selection procedure in accordance with Article 16(3) of the Audit Regulation.
- (4) The audit committee must in its recommendation—
  - (a) identify its first and second choice candidates for appointment, drawn from those auditors who have participated in a selection procedure under sub-paragraph (3),

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<sup>(23)</sup> 2000 c. 8. See sections 102A(6) and 103(1).

<sup>(24)</sup> OJ No. L 145 30.04.04, p. 1.

<sup>(25)</sup> Paragraph 10A was inserted by S.I. 2008/1140 and amended by S.I. 2013/496.

- (b) give reasons for the choices so identified,
- (c) state that—
  - (i) the recommendation is free from influence by a third party, and
  - (ii) no contractual term of the kind mentioned in Article 16(6) of the Audit Regulation has been imposed on the friendly society.
- (5) The committee of management must include in its proposal—
  - (a) the recommendation made by the audit committee in connection with the appointment, and
  - (b) if the proposal of the committee of management departs from the preference of the audit committee—
    - (i) a recommendation for a candidate or candidates for appointment drawn from those auditors who have participated in a selection procedure under sub-paragraph (3), and
    - (ii) the reasons for not following the audit committee’s recommendation.
- (6) Where the audit committee recommends re-appointment of the society’s existing auditor or auditors, and the committee of management is in agreement, sub-paragraphs (3) and (4)(a) and (b) do not apply.

*Appointment of auditor for society which does not have an audit committee*

- 3.—**(1) This paragraph applies to the appointment under section 72 of an auditor or auditors if the society does not have an audit committee.
- (2) Before the appointment is made, the committee of management must propose an auditor or auditors for appointment.
- (3) Before the committee of management makes a proposal under sub-paragraph (2), it must carry out a selection procedure in accordance with Article 16(3) of the Audit Regulation, from which their proposed auditor or auditors must be drawn.
- (4) Sub-paragraph (3) does not apply in relation to a proposal to re-appoint the society’s existing auditor or auditors.

*Restriction on appointment of auditor who holds office for maximum engagement period*

- 4.—**(1) A person who has been, or will have been, auditor of the society in respect of every financial year comprised in the maximum engagement period may not be appointed as auditor of the society in respect of any financial year which begins within the period of 4 years beginning with the day after the last day of the last financial year of the maximum engagement period.
- (2) A person who is a member of the same network as the auditor mentioned in sub-paragraph (1) may not be appointed as auditor of the society in respect of any financial year which begins within the period of 4 years mentioned in that sub-paragraph.
- (3) In this paragraph “network” means an association of persons, other than a firm, co-operating in audit work by way of—
  - (a) profit-sharing;
  - (b) cost-sharing;
  - (c) common ownership, control or management;
  - (d) common quality control policies and procedures;

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- (e) common business strategy; or
- (f) use of a common name.

*The maximum engagement period*

5.—(1) Where a person is auditor of the society in respect of consecutive financial years, the maximum engagement period of the person as auditor of the society—

- (a) begins with the first of those years (see the appropriate entry in the first column of the following Table), and
- (b) ends with the financial year specified in the corresponding entry in the second column of the Table:

<b>First financial year of the maximum engagement period</b>	<b>Last financial year of the maximum engagement period</b>
A financial year of the society beginning before 17 June 1994	The last financial year of the society to begin before 17 June 2020.
A financial year of the society beginning— (a) on or after 17 June 1994, and (b) before 17 June 2003	The last financial year of the society to begin before 17 June 2023.
A financial year of the society beginning— (a) on or after 17 June 2003, and (b) before 17 June 2016	<i>No qualifying selection procedure</i>  Where neither the first financial year of the maximum engagement period nor any subsequent financial year is one in respect of which the auditor has been appointed following the carrying out of a qualifying selection procedure, the later of—  (a) the last financial year of the society to begin before 17 June 2016, and  (b) the last financial year of the society to begin within the period of 10 years beginning with the first day of the first financial year of the maximum engagement period.  <i>No qualifying selection procedure within 10 years</i>  Where the last day of the last financial year of the society to begin within the period of 10 years beginning with the first day of the last financial year of the society in respect of which the auditor was appointed following a qualifying selection procedure is before 17 June 2016—

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<b>First financial year of the maximum engagement period</b>	<b>Last financial year of the maximum engagement period</b>
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(a) the last financial year of the society to begin before 17 June 2016, unless

(b) the auditor is appointed following a qualifying selection procedure for the first financial year of the society to begin on or after 17 June 2016, in which case it is the last financial year of the society to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.

*Qualifying selection procedure within 10 years*

In any other case, the earlier of-

(a) the last financial year of the society to begin within the period of 10 years beginning with the first day of the last financial year of the society in respect of which the auditor was appointed following a qualifying selection procedure, and

(b) the last financial year of the society to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.

A financial year of the society beginning on or after 17 June 2016      The earlier of—

(a) the last financial year of the society to begin within the period of 10 years beginning with the first day of the last financial year of the society in respect of which the auditor was appointed following a qualifying selection procedure, and

(b) the last financial year of the society to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.

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(2) Where the first financial year of the maximum engagement period begins on or after 17 June 2003, the maximum engagement period may be extended by a period of no more than 2 years with the approval of the competent authority.

(3) Such approval may be given by the competent authority only if it is satisfied that exceptional circumstances exist.

(4) Where the competent authority gives its approval as mentioned in sub-paragraph (2)—

- (a) the second column of the Table in sub-paragraph (1) has effect with the necessary modifications, and
  - (b) the first appointment to be made after the end of the period as so extended must be made following a qualifying selection procedure.
- (5) In this paragraph “qualifying selection procedure” means—
- (a) in the case of an appointment in respect of a financial year beginning on or after 17 June 2016 made after this Schedule comes into force—
    - (i) if the society has an audit committee, a selection procedure that complies with the requirements of paragraphs 2(3) and (4)(a) and (b), and
    - (ii) if the society does not have an audit committee, a selection procedure that complies with the requirements of Article 16(3) of the Audit Regulation;
  - (b) in any other case, a selection procedure that substantially meets the requirements of Article 16(2) to (5) of the Audit Regulation, having regard to the circumstances at the time (including whether the society had an audit committee).

#### *Application to court to remove auditor from office*

6.—(1) The competent authority may apply to the High Court for an order removing an auditor of the society from office if the authority considers that there are proper grounds for removing the auditor from office.

(2) The members of the society may apply to the High Court for an order removing an auditor of the society from office if the applicant or applicants consider that there are proper grounds for removing the auditor from office.

(3) If the court is satisfied, on hearing an application under sub-paragraph (1), that there are proper grounds for removing the auditor from office, it may make an order removing the auditor from office.

(4) If the court is satisfied, on hearing an application under sub-paragraph (2), that—

- (a) the applicants represent in total—
  - (i) not less than 5% of the voting rights of all the members having a right to vote at a general meeting of the friendly society, or
  - (ii) not less than 5% in nominal value of the amount of the contribution or subscription income of a friendly society as shown by the latest balance sheet, and
- (b) there are proper grounds for removing the auditor from office,

the court may make an order removing the auditor from office.

(5) For the purposes of this paragraph, divergence of opinions on accounting treatments or audit procedures are not to be taken to be proper grounds for removing an auditor from office.

#### *Interpretation*

7. In this Schedule—

“audit committee” means a body which performs—

- (a) the functions referred to in Article 39(6) of [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//60/EEC](#) and [83/349/EEC](#) and repealing Council [Directive 84/253/EEC](#)(26), or

(b) equivalent functions;

“Audit Regulation” means Regulation 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public interest entities and repealing Commission Decision 2005/909/EEC(27);

“competent authority” means the Financial Reporting Council Limited(28).”.

## PART 4

### Amendments to the Companies Act 2006

#### Amendments to Part 16 of the Companies Act 2006

12.—(1) Part 16 of the Companies Act 2006(29) is amended as follows.

(2) In section 485A (appointment of auditors of private company: additional requirements for public interest entities with audit committees)(30)—

- (a) in subsection (3)(b), omit from “, including the following” to the end;
- (b) in subsection (4), omit “or directors”;
- (c) in subsection (5)(a), at the end insert “drawn from those auditors who have participated in a selection procedure under subsection (4),”;
- (d) for subsections (6) to (8) substitute—
  - “(6) The directors must include in their proposal—
    - (a) the recommendation made by the audit committee in connection with the appointment, and
    - (b) if the proposal of the directors departs from the preference of the audit committee—
      - (i) a recommendation for a candidate or candidates for appointment drawn from those auditors who have participated in a selection procedure under subsection (4), and
      - (ii) the reasons for not following the audit committee’s recommendation.
  - (7) Where the audit committee recommends re-appointment of the company’s existing auditor or auditors, and the directors are in agreement, subsections (4) and (5)(a) and (b) do not apply.”.

(3) In section 485B (appointment of auditors of private company: additional requirements for public interest entities without audit committees)(31)—

- (a) in subsection (4), after “Audit Regulation, ” insert “from which their proposed auditor or auditors must be drawn,”;
  - (b) for subsections (5) to (7) substitute—
    - “(5) Subsection (4) does not apply in relation to a proposal to re-appoint the company’s existing auditor or auditors.”.
- (4) After section 485B insert—

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(27) OJ L 158, 27.05.14, p.77.

(28) A company registered in England and Wales with number 02486368.

(29) 2006 c. 46.

(30) Section 485A was inserted by S.I. 2016/649.

(31) Section 485B was inserted by S.I. 2016/649.

**“Restriction on appointment of auditor of private company which is a public interest entity**

**485C.**—(1) A person who has been, or will have been, auditor of a private company which is a public interest entity for every financial year comprised in the maximum engagement period (see section 494ZA) may not be appointed as auditor of the company for any financial year which begins within the period of 4 years beginning with the day after the last day of the last financial year of the maximum engagement period.

(2) A person who is a member of the same network as the auditor mentioned in subsection (1) may not be appointed as auditor of the company for any financial year which begins within the period of 4 years mentioned in that subsection.

(3) This section does not apply in relation to an Auditor General.”.

(5) In section 486 (appointment of auditors of private company: default power of Secretary of State)(**32**), in subsection (2), for “that section” substitute “section 485”.

(6) In section 487 (term of office of auditors of private company)(**33**)—

(a) omit subsections (1A) to (1E);

(b) for subsection (2)(f) substitute—

“(f) the auditor’s appointment would be in breach of section 485C.”.

(7) Omit section 487A (maximum engagement period: transitional arrangements)(**34**).

(8) In section 489A (appointment of auditors of public company: additional requirements for public interest entities with audit committees)(**35**)—

(a) in subsection (3)(b), omit from “, including the following” to the end;

(b) in subsection (4), omit “or directors”;

(c) in subsection (5)(a), at the end insert “drawn from those auditors who have participated in a selection procedure under subsection (4),”;

(d) for subsections (6) to (8) substitute—

“(6) The directors must include in their proposal—

(a) the recommendation made by the audit committee in connection with the appointment, and

(b) if the proposal of the directors departs from the preference of the audit committee—

(i) a recommendation for a candidate or candidates for appointment drawn from those auditors who have participated in a selection procedure under subsection (4), and

(ii) the reasons for not following the audit committee’s recommendation.

(7) Where the audit committee recommends re-appointment of the company’s existing auditor or auditors, and the directors are in agreement, subsections (4) and (5)(a) and (b) do not apply.”.

(9) In section 489B (appointment of auditors of public company: additional requirements for public interest entities without audit committees)(**36**)—

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(32) Section 486 was amended by [S.I. 2016/649](#).

(33) Section 487 was amended by [S.I. 2016/649](#).

(34) Section 487A was inserted by [S.I. 2016/649](#).

(35) Section 489A was inserted by [S.I. 2016/649](#).

(36) Section 489B was inserted by [S.I. 2016/649](#).



- (a) in subsection (4), after “Audit Regulation,” insert “from which their proposed auditor or auditors must be drawn,”;
- (b) for subsections (5) to (7) substitute—
  - “(5) Subsection (4) does not apply in relation to a proposal to re-appoint the company’s existing auditor or auditors.”;
- (10) After section 489B insert—

**“Restriction on appointment of auditor of public company which is a public interest entity**

**489C.**—(1) A person who has been, or will have been, auditor of a public company which is a public interest entity for every financial year comprised in the maximum engagement period (see section 494ZA) may not be appointed as auditor of the company for any financial year which begins within the period of 4 years beginning with the day after the last day of the last financial year of the maximum engagement period.

(2) A person who is a member of the same network as the auditor mentioned in subsection (1) may not be appointed as auditor of the company for any financial year which begins within the period of 4 years mentioned in that subsection.

(3) This section does not apply in relation to an Auditor General.”.

(11) In section 490 (appointment of auditors of public company: default power of Secretary of State)(**37**), in subsection (2), for “that section” substitute “section 489”.

(12) In section 491 (term of office of auditors of public company)(**38**), omit subsections (1A) to (1E).

(13) Omit section 491A (maximum engagement period: transitional arrangements for public companies)(**39**).

(14) After section 494 (disclosure of services provided by auditor or associates and related remuneration), insert—

**“The maximum engagement period**

**494ZA.**—(1) Where a person is auditor of a company for consecutive financial years, the maximum engagement period of the person as auditor of the company—

- (a) begins with the first of those years (see the appropriate entry in the first column of the following Table), and
- (b) ends with the financial year specified in the corresponding entry in the second column of the Table:

<b>First financial year of the maximum engagement period</b>	<b>Last financial year of the maximum engagement period</b>
A financial year of the company beginning before 17 June 1994	The last financial year of the company to begin before 17 June 2020.
A financial year of the company beginning—	The last financial year of the company to begin before 17 June 2023.

- (a) on or after 17 June 1994, and

(37) Section 490 was amended by [S.I. 2016/649](#).

(38) Subsections (1A) to (1E) were inserted by [S.I. 2016/649](#).

(39) Section 491A was inserted by [S.I. 2016/649](#).

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

<b>First financial year of the maximum engagement period</b>	<b>Last financial year of the maximum engagement period</b>
(b) before 17 June 2003	
A financial year of the company beginning—	<i>No qualifying selection procedure</i>
(a) on or after 17 June 2003, and	Where neither the first financial year of the maximum engagement period nor any subsequent financial year is one for which the auditor has been appointed following the carrying out of a qualifying selection procedure, the later of-
(b) before 17 June 2016	(a) the last financial year of the company to begin before 17 June 2016, and
	(b) the last financial year of the company to begin within the period of 10 years beginning with the first day of the first financial year of the maximum engagement period.
	<i>No qualifying selection procedure within 10 years</i>
	Where the last day of the last financial year of the company to begin within the period of 10 years beginning with the first day of the last financial year of the company for which the auditor was appointed following a qualifying selection procedure is before 17 June 2016—
	(a) the last financial year of the company to begin before 17 June 2016, unless
	(b) the auditor is appointed following a qualifying selection procedure for the first financial year of the company to begin on or after 17 June 2016, in which case it is the last financial year of the company to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.
	<i>Qualifying selection procedure within 10 years</i>
	In any other case, the earlier of-
	(a) the last financial year of the company to begin within the period of 10 years

<b>First financial year of the maximum engagement period</b>	<b>Last financial year of the maximum engagement period</b>
	beginning with the first day of the last financial year of the company for which the auditor was appointed following a qualifying selection procedure, and
	(b) the last financial year of the company to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.
A financial year of the company beginning on or after 17 June 2016	The earlier of—  (a) the last financial year of the company to begin within the period of 10 years beginning with the first day of the last financial year of the company for which the auditor was appointed following a qualifying selection procedure, and  (b) the last financial year of the company to begin within the period of 20 years beginning with the first day of the first financial year of the maximum engagement period.

(2) Where the first financial year of the maximum engagement period begins on or after 17 June 2003, the maximum engagement period may be extended by a period of no more than 2 years with the approval of the competent authority.

(3) Such approval may be given by the competent authority only if it is satisfied that exceptional circumstances exist.

(4) Where the competent authority gives its approval as mentioned in subsection (2)—

- (a) the second column of the Table in subsection (1) has effect with the necessary modifications, and
- (b) the first appointment to be made after the end of the period as so extended must be made following a qualifying selection procedure.

(5) In this paragraph “qualifying selection procedure” means—

- (a) in the case of an appointment for a financial year beginning on or after 17 June 2016 made after the Statutory Auditors and Third Country Auditors Regulations 2017 come into force—
  - (i) if the company is a private company and has an audit committee, a selection procedure that complies with the requirements of section 485A(4) and (5)(a) and (b),
  - (ii) if the company is a public company and has an audit committee, a selection procedure that complies with the requirements of subsections 489A(4) and (5)(a) and (b), and
  - (iii) if the company does not have an audit committee, a selection procedure that complies with the requirements of Article 16(3) and (4) of the Audit Regulation;

(b) in any other case, a selection procedure that substantially meets the requirements of Article 16(2) to (5) of the Audit Regulation, having regard to the circumstances at the time (including whether the company had an audit committee).”.

(15) In section 494A (interpretation)(40), in the definition of “public interest company”, for “company” substitute “entity”.

(16) In section 495 (auditor’s report on company’s annual accounts)(41), in subsection (4)(c), after “events” insert “or conditions”.

(17) In section 506 (circumstances in which names may be omitted), in subsection (1), for “The auditor’s” substitute “An auditor’s”.

(18) In section 511A (public interest companies: application to court to remove auditor from office)(42), omit subsection (7).

### **Amendments to Part 42 of the Companies Act 2006**

**13.**—(1) Part 42 of the Companies Act 2006 is amended as follows.

(2) In section 1210 (meaning of “statutory auditor” etc)(43)—

(a) for subsection (1)(c) substitute—

“(c) a person appointed as auditor of a friendly society under section 72 of or Schedule 14 to the Friendly Societies Act 1992(44), where that society is—

(i) an insurer, or

(ii) an issuer whose transferable securities are admitted to trading on a regulated market;”;

(b) in subsection (3), at the appropriate places insert—

““issuer” has the same meaning as in Part 6 of the Financial Services and Markets Act 2000(45) (see section 102A(6)(46));” and

““regulated market” has the same meaning as in Part 6 of the Financial Services and Markets Act 2000 (see section 103(1)(47)).”.

(3) In section 1217 (supervisory bodies), in subsection (1A)(48)—

(a) for “officer) and” substitute “officer), ”

(b) after “of information)” insert “ and paragraph 12(3)(b)(v) (temporary prohibition from exercising functions in a firm)”.

(4) In section 1219 (appropriate qualifications)(49)—

(a) in subsection (2)(c), for “approves his qualification” substitute “approved his qualification before 1st October 2018”;

(b) omit subsection (3).

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(40) Section 494A was inserted by [S.I. 2016/649](#).

(41) Subsection (4) was substituted by [S.I. 2016/649](#); there are other amendments to section 495 but none is relevant.

(42) Section 511A was inserted by [S.I. 2016/649](#).

(43) Section 1210(3) was amended by [S.I. 2008/565](#), [2012/1809](#) and [2013/3115](#); there are other instruments amending section 1210 but none is relevant.

(44) [1992 c. 40](#).

(45) [2000 c. 8](#).

(46) Section 102A was substituted for section 103 as originally enacted by [S.I. 2005/1433](#). Subsection (6) was amended by paragraph 10 of Schedule 15 to the Companies Act 2006 (c. 46) and by [S.I. 2015/1755](#); there are other amendments to the section but none is relevant.

(47) The definition of “regulated market” was amended by paragraph 11 of Schedule 15 to the Companies Act 2006.

(48) Subsection (1A) was inserted by [S.I. 2007/3494](#) and amended by [S.I. 2016/649](#). There are other amendments to section 1217 but none is relevant.

(49) Section 1219 was amended by [S.I. 2007/3494](#).

(5) In section 1253D (restriction on transfer of audit working papers to third countries)(**50**), after subsection (2)(g), insert—

- “(h) the Comissão de Valores Mobiliários of Brazil;
- (i) the Dubai Financial Service Authority of Dubai International Financial Centre;
- (j) the Registrar of Companies of Guernsey;
- (k) the Finance Professions Supervisory Centre of Indonesia;
- (l) the Isle of Man Financial Services Authority;
- (m) the Jersey Financial Services Commission;
- (n) the Audit Oversight Board of Malaysia;
- (o) the Independent Regulatory Board for Auditors of South Africa;
- (p) the Financial Services Commission of South Korea;
- (q) the Financial Supervisory Service of South Korea;
- (r) the Financial Supervisory Commission of Taiwan;
- (s) the Securities and Exchange Commission of Thailand.”

(6) In section 1253E (working arrangements for transfer of papers)(**51**), in subsection (8), for “an approved” to “(f) or (g)” substitute “the Australian Securities and Investments Commission”.

(7) In section 1254 (directions to comply with international obligations), for paragraph (a) of subsection (1) substitute—

- “(a) that any action proposed to be taken by—
  - (i) a recognised supervisory body,
  - (ii) a recognised qualifying body,
  - (iii) a person keeping a register of auditors, or part of such a register, in accordance with regulations under section 1239(1),
  - (iv) a body exercising functions under arrangements within Schedule 12,
  - (v) the Independent Supervisor,
  - (vi) the competent authority, or
  - (vii) a body designated by order under section 1252,would be incompatible with EU obligations or any other international obligations of the United Kingdom, or”.

(8) In Schedule 10 (recognised supervisory bodies)—

- (a) in paragraph 6(2C), for “(1B)(b)” substitute “(1A)(b)”;
- (b) in paragraph 16AA(**52**), at the beginning of paragraph (b) insert “in the case of an approved third country competent authority listed in section 1253D(2)(a), (b), (c), (d) or (e), ”.

(9) For paragraph 62(**53**) in Part 2 of Schedule 11A (specified descriptions of types of permitted information disclosure)(**54**) substitute—

“**62.** A disclosure for the purpose of making available to the public information relating to inspections carried out under regulation 9 (monitoring of audits by the competent

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(50) Section 1253D was inserted by [S.I. 2007/3494](#), substituted by [S.I. 2010/2537](#) and amended by [S.I. 2016/649](#).

(51) Section 1253E was inserted by [S.I. 2007/3494](#), substituted by [S.I. 2010/2537](#) and amended by [S.I. 2016/649](#).

(52) Paragraph 16AA was substituted for paragraph 16A (which was inserted by [S.I. 2007/394](#)) by [S.I. 2010/2537](#).

(53) Paragraph 62 was amended by [S.I. 2011/1856](#).

(54) Schedule 11A was inserted by [S.I. 2007/3494](#). There are amendments which are not relevant to these Regulations.

authority) of the Statutory Auditors and Third Country Auditors Regulations 2016 ([S.I. 2016/649](#)), provided such information does not identify any audited person.”.

## PART 5

### Amendments to secondary legislation

#### **Amendments to the Statutory Auditors and Third Country Auditors Regulations 2016**

**14.**—(1) The Statutory Auditors and Third Country Auditors Regulations 2016([55](#)) are amended as follows.

- (2) In regulation 5(11)(j), after “Schedule 14” insert “or Schedule 14A”.
- (3) For regulation 12 substitute—

“**12.**—(1) This regulation applies to any term in a contract which, in relation to the conduct of a statutory audit of an audited person other than a person which is a public interest entity, provides for the restriction of the audited person’s choice of statutory auditor to certain categories or lists of statutory auditors.

- (2) A term to which this regulation applies has no effect.”.

#### **Amendments to the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008**

**15.**—(1) The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008([56](#)) are amended as follows.

- (2) For regulation 10 (auditor’s report) substitute—

##### **“Auditor’s report**

**10.**—(1) A syndicate’s auditor must make a written report to the syndicate’s members on all annual accounts of the syndicate of which copies are to be sent to the syndicate members during the auditor’s tenure of office.

- (2) The auditor’s report must include—
  - (a) the identity of the syndicate whose annual accounts are the subject of the audit,
  - (b) a description of the annual accounts that are the subject of the audit (including the period covered by those accounts),
  - (c) a description of the financial reporting framework that has been applied in the preparation of those accounts, and
  - (d) a description of the scope of the audit identifying the auditing standards in accordance with which the audit was conducted.
- (3) The report must state clearly the opinion of the auditor as to whether the annual accounts—
  - (a) give a true and fair view—
    - (i) in the case of an individual balance sheet, of the state of affairs of the syndicate as at the end of the financial year, and

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[\(55\) S.I. 2016/649.](#)

[\(56\) S.I. 2008/1950](#), amended by [S.I. 2013/472](#).

- (ii) in the case of an individual profit and loss account, of the profit or loss of the syndicate for the financial year;
    - (b) have been properly prepared in accordance with the relevant financial reporting framework, and
    - (c) have been prepared in accordance with the requirements of these Regulations.
  - (4) The auditor must, in the auditor’s report on the syndicate’s annual accounts—
    - (a) state whether in the auditor’s opinion, based on the work undertaken in the course of the audit—
      - (i) the information given in the managing agent’s report for the financial year for which the annual accounts are prepared is consistent with those accounts;
      - (ii) that report has been prepared in accordance with these Regulations,
    - (b) state whether, in the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, the auditor has identified material misstatements in the managing agent’s report, and
    - (c) if applicable, give an indication of the nature of each of the misstatements referred to in paragraph (b).
  - (5) The auditor’s report must—
    - (a) be unqualified or qualified,
    - (b) include a reference to any matters to which the auditor wishes to draw attention by way of emphasis without qualifying the report,
    - (c) include a statement on any material uncertainty relating to events or conditions that may cast doubt on the ability of the syndicate to continue to write future business, and
    - (d) identify the auditor’s place of establishment.”.
- (3) In regulation 11 (duties of auditors)—
- (a) in paragraph (2), for the full-out words at the end substitute “the auditor must state that fact in the auditor’s report”.
  - (b) after paragraph (4) insert—
    - “(5) Where more than one person is appointed as an auditor—
      - (a) all the persons appointed must jointly make a report under this regulation and the report must include a statement as to whether all the persons appointed agree on—
        - (i) the matters contained in the report,
        - (ii) the statements under regulation 10(4) and paragraphs (2) and (3) of this regulation, and
        - (iii) the indications given under regulation 10(4), and
      - (b) if all the persons appointed cannot agree on—
        - (i) the matters contained in the report,
        - (ii) the statements under regulations 10(4) and paragraphs (2) and (3) of this regulation, or
        - (iii) the indications given under regulation 10(4),
- the report must include the opinions of each person appointed and give reasons for the disagreement.”.
- (4) In regulation 12 (signature of auditor’s report)—

- (a) in paragraph (1), after “the auditor” insert “(or where more than one person is appointed as auditor, all of their names)”;
- (b) after paragraph (3) insert—
  - “(4) Where more than one person is appointed as auditor, the report must be signed by all of them.”.
- (5) In regulation 13 (names to be stated in copies of auditor’s report published or filed) after paragraph (1) insert—
  - “(1A) If more than one person is appointed as auditor, the reference in paragraph (1)(a) to the name of the auditor is to be read as a reference to the names of all the auditors.”.
- (6) In regulation 14 (circumstances in which names may be omitted), at the beginning of paragraph (1), for “The” substitute “An”.
- (7) In regulation 18 (preparation of aggregate accounts by Council of Lloyd’s)—
  - (a) at the beginning of paragraph (4), insert “Subject to the modification in paragraph (4A),”;
  - (b) after paragraph (4) insert—
    - “(4A) Paragraph 16 of Schedule 3 to the 2008 Regulations applies in relation to the syndicates as if it read “The syndicates are presumed to continue to write future business.”.
- (8) For regulation 22 (auditor’s report) substitute—
  - “**22.**—(1) The members of the Council of Lloyd’s must obtain a written auditor’s report on the aggregate accounts.
  - (2) The auditor’s report must include—
    - (a) a statement that the subject of the review is the aggregate accounts which are an accumulation of the syndicates’ annual accounts prepared in accordance with these Regulations,
    - (b) a description of the aggregate accounts that are the subject of the review (including the period covered by those accounts),
    - (c) a description of the financial reporting framework that has been applied in the preparation of those accounts,
    - (d) a description of the scope of the review identifying the standards in accordance with which the review was conducted, and
    - (e) a clear statement as to whether, in the auditor’s opinion, the aggregate accounts have been properly prepared in accordance with the requirements of these Regulations, and whether those accounts are correctly aggregated.
  - (3) The auditor must in the auditor’s report—
    - (a) state whether, in the auditor’s opinion, based on the work undertaken in the course of the audit—
      - (i) the information given in the annual report of the Council of Lloyd’s for the financial year for which the aggregate accounts are prepared is consistent with those accounts, and
      - (ii) that report has been prepared in accordance with these Regulations,
    - (b) state whether, in the light of the knowledge and understanding of the syndicates and their environment obtained in the course of the audit, the auditor has identified material misstatements in the annual report of the Council of Lloyd’s, and
    - (c) if applicable, give an indication of the nature of each of the misstatements referred to in paragraph (b).



- (4) The auditor’s report must—
  - (a) be either unqualified or qualified,
  - (b) include a reference to any matters to which the auditor wishes to draw attention by way of emphasis without qualifying the report, and
  - (c) identify the auditor’s place of establishment.
- (5) Where more than one person is appointed as an auditor—
  - (a) all the persons appointed must jointly make a report under this regulation and the report must include a statement as to whether all the persons appointed agree on—
    - (i) the matters contained in the report,
    - (ii) the statements under paragraph (3), and
    - (iii) the indications given under paragraph (3), and
  - (b) if all the persons appointed cannot agree on—
    - (i) the matters contained in the report,
    - (ii) the statements under paragraph (3), or
    - (iii) the indications given under paragraph (3),the report must include the opinions of each person appointed and give reasons for the disagreement.”.
- (9) In regulation 23 (signature of auditor’s report)—
  - (a) in paragraph (1) after “the auditor” insert “(or, where more than one person is appointed as auditor, all of their names)”;
  - (b) after paragraph (3) insert—
    - “(4) Where more than one person is appointed as auditor, the report must be signed by all of them.”.
- (10) In regulation 24 (names to be stated in copies of auditor’s report published or filed) after paragraph (1) insert—
  - “(1A) If more than one person is appointed as auditor, the reference in paragraph (1)(a) to the name of the auditor is to be read as a reference to the names of all the auditors.”.
- (11) In regulation 25 (circumstances in which names may be omitted), at the beginning of paragraph (1), for “The” substitute “An”.
- (12) In regulation 26 (duties of auditors), after paragraph (3) insert—
  - “(4) Where more than one person is appointed as auditor, the report must include a statement as to whether all the persons appointed agree on any statements given under paragraphs (2) and (3) and, if they cannot agree on those statements, the report must include the opinions of each person appointed and the reasons for the disagreement.”.
- (13) After regulation 31 (consequential amendment) insert—

**“Review**

- 32.—**(1) The Treasury must from time to time—
  - (a) carry out a review of the provisions of these Regulations to which amendments have been made by the Statutory Auditors and Third Country Auditors Regulations 2017, and
  - (b) publish a report setting out the conclusions of the review.
- (2) The first report must be published before 1st May 2022.

(3) Subsequent reports must be published at intervals not exceeding 5 years.

(4) Section 30(3) of the Small Business, Enterprise and Employment Act 2015<sup>(57)</sup> requires that a review carried out under this regulation must, so far as is reasonable, have regard to how article 28 of [Directive 2006/43/EC](#) on statutory audits of annual accounts and consolidated accounts<sup>(58)</sup> is implemented in other member States.

(5) Section 30(4) of the Small Business, Enterprise and Employment Act 2015 requires that a report published under this regulation must, in particular—

- (a) set out the objectives intended to be achieved by the regulatory provision referred to in paragraph (1)(a),
- (b) assess the extent to which those objectives are achieved,
- (c) assess whether those objectives remain appropriate, and
- (d) if those objectives remain appropriate, assess the extent to which they could be achieved in another way which involves less onerous regulatory provision.

(6) In this regulation, “regulatory provision” has the same meaning as in sections 28 to 32 of the Small Business, Enterprise and Employment Act 2015 (see section 32 of that Act).”.

(14) In Schedule 1 (syndicate accounts)—

- (a) in paragraph 1(4), for “sub-paragraph (5)” substitute “sub-paragraphs (4A) and (5)”; and
- (b) after paragraph 1(4) insert—

“(4A) Paragraph 16 of Schedule 3 to the 2008 Regulations applies in relation to a syndicate as if it read “The syndicate is presumed to continue to write future business.””.

#### **Amendments to the Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012**

**16.**—(1) The Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012<sup>(59)</sup> is amended as follows.

(2) In regulation 7(6)—

- (a) in paragraph (a), after “the Statutory Auditors and Third Country Auditors Regulations 2016” insert “and the Statutory Auditors and Third Country Auditors Regulations 2017”; and
- (b) in paragraph (b), after “the Statutory Auditors and Third Country Auditors Regulations 2016” insert “and the Statutory Auditors and Third Country Auditors Regulations 2017”.

#### **Amendments to the Public Interest Disclosure (Prescribed Persons) Order 2014**

**17.**—(1) The Schedule to the Public Interest Disclosure (Prescribed Persons) Order 2014<sup>(60)</sup> is amended as follows.

(2) In the entry relating to the Financial Reporting Council Limited and its conduct committee—

- (a) in the first column, for “conduct committee” substitute “Conduct Committee”; and
- (b) in the second column—

(i) after “Matters relating to—” insert—

“(za) exercising the functions of the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016<sup>(61)</sup>”

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<sup>(57)</sup> 2015 c. 26. Section 30 was amended by section 19 of the Enterprise Act 2016 (c. 12).

<sup>(58)</sup> OJ L 157, 09.06.06, p.87. This Directive was amended by Directives 2008/30/EC, 2013/34/EU and 2014/56/EU.

<sup>(59)</sup> S.I. 2012/1741, amended by S.I. 2016/649. There is another amending instrument but it is not relevant.

<sup>(60)</sup> S.I. 2014/2418, there are amending instruments but none is relevant.

<sup>(61)</sup> S.I. 2016/649.

- and under Regulation (EU) 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities~~(62)~~”;
- (ii) in paragraph (c)—
- (aa) omit from “statutory audit functions” to “and of”; and
- (bb) for “that paragraph” substitute “paragraph 13(10) of Schedule 10 to the Companies Act 2006~~(63)~~”;
- (iii) for paragraph (d) substitute—
- “(d) exercising, in relation to third country auditors (as defined by section 1261 of the Companies Act 2006~~(64)~~), functions—
- (i) of the Secretary of State under Part 42 of that Act, delegated under that Part~~(65)~~,
- (ii) under the arrangements within Schedule 12 to that Act, and
- (iii) of the designated body~~(66)~~ under the Statutory Auditors and Third Country Auditors Regulations 2013~~(67)~~”;
- (iv) for paragraph (f) substitute—
- “(f) the investigation of, and enforcement action in relation to, conduct of the persons listed below, and the holding of disciplinary hearings concerning those persons in matters which raise or appear to raise important issues affecting the public interest—
- (i) accountants, and
- (ii) actuaries;”;
- (v) after paragraph (f) insert—
- “(g) the investigation of, and enforcement action in relation to, the conduct of local auditors (as defined by section 4(1)(b) of the Local Audit and Accountability Act 2014~~(68)~~), and the holding of disciplinary hearings concerning local auditors in public interest cases (as defined in paragraph 24 of Schedule 10 to the Companies Act 2006 as applied by paragraph 28 of Schedule 5 of the Local Audit and Accountability Act 2014~~(69)~~).”.

## **Amendments to the Public Interest Disclosure (Prescribed Persons) Order (Northern Ireland) 1999**

**18.**—(1) The Schedule to the Public Interest Disclosure (Prescribed Persons) Order (Northern Ireland) 1999~~(70)~~ is amended as follows.

~~(62)~~ OJ L 158, 27.5.2014, p.77.

~~(63)~~ [2006 c.46](#). Paragraph 13(10) of Schedule 10 to the Companies Act 2006 was repealed by [S.I. 2016/649](#), subject to a saving in relation to local audit carried out under the Local Audit and Accountability Act 2014 ([2014 c.2](#)).

~~(64)~~ The definition of third country auditor in section 1261 was inserted by [S.I. 2007/3494](#) and amended by [S.I. 2016/649](#). There are other amendments to section 1261 but none is relevant.

~~(65)~~ See section 1252 of the Companies Act 2006 and [S.I. 2012/1741](#) made under that section.

~~(66)~~ The designated body in [S.I. 2013/1672](#) is defined in regulation 5 as the Financial Reporting Council Limited, a company registered in England and Wales with number 02486368.

~~(67)~~ [SI 2013/1672](#).

~~(68)~~ [2014 c.2](#).

~~(69)~~ Paragraph 24 of Schedule 10 to the Companies Act 2006 was repealed by [S.I. 2016/649](#), however it was saved by that instrument in relation to local audit carried out under the Local Audit and Accountability Act 2014.

~~(70)~~ S.R. (NI) [1999 No 401](#); the Schedule to that instrument was last substituted by S.R. (NI) [2014 No 48](#).

(2) In the entry relating to the Financial Reporting Council Limited and its Conduct Committee, in the second column—

(a) after “Matters relating to—” insert—

“(za) exercising the functions of the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016 and under Regulation (EU) 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities;”;

(b) omit paragraph (c);

(c) for paragraph (d) substitute—

“(d) exercising, in relation to third country auditors (as defined by section 1261 of the Companies Act 2006), functions—

(i) of the Secretary of State under Part 42 of that Act, delegated under that Part,

(ii) under the arrangements within Schedule 12 to that Act, and

(iii) of the designated body under the Statutory Auditors and Third Country Auditors Regulations 2013;”;

(d) for paragraph (f) substitute—

“(f) the investigation of, and enforcement action in relation to, conduct of the persons listed below, and the holding of disciplinary hearings concerning those persons in matters which raise or appear to raise important issues affecting the public interest—

(i) accountants, and

(ii) actuaries;”;

(e) omit paragraph (g).

*Margot James*  
Minister for Small Business, Consumers and  
Corporate Responsibility  
Department for Business, Energy and Industrial  
Strategy

30th March 2017

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## 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](http://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](http://www.gov.uk/beis), and is also available alongside the Statutory Auditors and Third Country Auditors Regulations 2016 at [www.legislation.gov.uk](http://www.legislation.gov.uk).