

## SCHEDULES

### [<sup>F1</sup>SCHEDULE 14A

Section 72(3)

#### APPOINTMENT AND REMOVAL OF AUDITORS: SOCIETIES [<sup>F2</sup>SUBJECT TO SPECIAL REQUIREMENTS]

##### Textual Amendments

- F1** Sch. 14A inserted (with effect in accordance with reg. 1(5) of the amending S.I.) by [The Statutory Auditors and Third Country Auditors Regulations 2017 \(S.I. 2017/516\)](#), regs. 1(2), **11**
- F2** Words in Sch. 14A heading substituted (31.12.2020) by [The Friendly Societies \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1039\)](#), regs. 1, **14(a)**; 2020 c. 1, Sch. 5 para. 1(1)

##### *Introductory*

- (1) This Schedule makes provision in relation to the appointment and removal of the auditor or auditors of a friendly society [<sup>F3</sup>subject to special requirements].
- (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.

##### Textual Amendments

- F3** Words in Sch. 14A para. 1(1) substituted (31.12.2020) by [The Friendly Societies \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1039\)](#), regs. 1, **14(b)**; 2020 c. 1, Sch. 5 para. 1(1)

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

- (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—

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- (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),
  - (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—

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- (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.

[ (1) If—

- <sup>F4</sup>4A. (a) a friendly society appoints, or purports to appoint, an auditor or auditors, and  
 (b) the appointment or purported appointment is made in breach of paragraph 2, 3 or 4 (requirements applying to appointment of auditors),

the appropriate authority may appoint another auditor or auditors in place of the auditor or auditors referred to in paragraph (a).

- (2) The breach of paragraph 2, 3 or 4 does not invalidate any report made under this Part by the auditor or auditors on the society's annual reports or accounts before the auditor or auditors are replaced under sub-paragraph (1) of this paragraph.
- (3) But where the breach in question is a breach of paragraph 4, paragraph 9 of Schedule 14 (appropriate authority's power to require second audit) applies as if the auditor was, or auditors were, ineligible for appointment to that office for the period during which the audit was conducted.
- (4) Within one week of becoming aware of the breach of paragraph 2, 3 or 4, the society must give notice to the appropriate authority that the power under sub-paragraph (1) of this paragraph has become exercisable.
- (5) If a society fails to give the notice required by sub-paragraph (4), the society or branch shall be guilty of an offence and liable on summary conviction—
  - (a) to a fine not exceeding level 3 on the standard scale; and
  - (b) in the case of a continuing offence to an additional fine not exceeding one-tenth of that level for every day during which the offence continues;
 and so shall any officer who is also guilty of the offence.]

#### Textual Amendments

- F4** Sch. 14A para. 4A inserted (with effect in accordance with reg. 2(2) of the amending S.I.) by The Statutory Auditors Regulations 2017 (S.I. 2017/1164), reg. 1(2)(3), Sch. 1 para. 6 (with reg. 2(6)(7))

#### *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:

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<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	<p><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.</p> <p><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—            (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.</p> <p><i>Qualifying selection procedure within 10 years</i>            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</p>

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<b>First financial year of the maximum engagement period</b>	<b>Last financial year of the maximum engagement period</b>
<p>A financial year of the society beginning on or after 17 June 2016</p>	<p>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.</p> <p>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.</p>
<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.</p> <p>(3) Such approval may be given by the competent authority only if it is satisfied that exceptional circumstances exist.</p> <p>(4) Where the competent authority gives its approval as mentioned in sub-paragraph (2)</p> <hr/> <p>(a) the second column of the Table in sub-paragraph (1) has effect with the necessary modifications, and</p> <p>(b) the first appointment to be made after the end of the period as so extended must be made following a qualifying selection procedure.</p> <p>(5) In this paragraph “qualifying selection procedure” means—</p> <p>(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—</p> <p>(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</p> <p>(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;</p> <p>(b) in any other case, a selection procedure that substantially meets the requirements of Article 16(2) to (5) of the Audit Regulation [F5 as it had effect immediately before IP completion day], having regard to the circumstances at the time (including whether the society had an audit committee).</p>	

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### Textual Amendments

- F5** Words in Sch. 14A para. 5(5)(b) inserted (31.12.2020) by [The Statutory Auditors and Third Country Auditors \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/177\)](#), regs. 2, **40** (as amended by [S.I. 2020/523](#), regs. 1(2), **14(j)**); 2020 c. 1, Sch. 5 para. 1(1)

### *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—
- <sup>F6</sup>(1) [<sup>F7</sup>“audit committee” means a body which performs—
- (a) the functions referred to in—
    - (i) rule 7.1.3 of the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority under the Financial Services and Markets Act 2000 ; or
    - (ii) rule 2.4 of the Audit Committee Part of the Rulebook made by the Prudential Regulation Authority under that Act; 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;
- “competent authority” means the Financial Reporting Council Limited.

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[ For the purposes of the definition of “audit committee”, references to rules made by <sup>F8</sup>(2) the Prudential Regulation Authority or the Financial Conduct Authority are to those rules as they have effect on IP completion day.]]

**Textual Amendments**

- F6** Sch. 14A para. 7 renumbered as Sch. 14A para. 7(1) (31.12.2020) by [The Friendly Societies \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1039\)](#), regs. 1, **14(c)(i)**; 2020 c. 1, Sch. 5 para. 1(1)
- F7** Words in Sch. 14A para. 7(1) substituted (31.12.2020) by [The Friendly Societies \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1039\)](#), regs. 1, **14(c)(ii)**; 2020 c. 1, Sch. 5 para. 1(1)
- F8** Sch. 14A para. 7(2) inserted (31.12.2020) by [The Friendly Societies \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1039\)](#), regs. 1, **14(c)(iii)** (as amended by S.I. 2020/1301, regs. 1, 3, Sch. para. 1(a)); 2020 c. 1, Sch. 5 para. 1(1)

**Changes to legislation:**

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