

## SCHEDULE 3

### Amendments to the Companies Act 2006

## PART 5

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

65. For paragraphs 13 and 14 substitute—

#### “Monitoring of audits

13.—(1) The body must—

- (a) have adequate arrangements for enabling the performance by its members of statutory audit functions to be monitored by means of inspections, where functions relating to the monitoring of the audits are the subject of a delegation of tasks to the body under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016;
- (b) in the case of members of the body who perform any statutory audit functions in respect of audits where functions relating to the monitoring of the audits are not the subject of such a delegation—
  - (i) have arrangements for the monitoring of those audits by the competent authority in accordance with those Regulations and, in respect of public interest entities, Article 26 of the EU Audit Regulation; and
  - (ii) have rules and practices designed to ensure that a sanction imposed by the competent authority in accordance with those Regulations is to be treated as if it were a sanction which the body had determined under arrangements for enforcement within paragraph 12;
- (c) in the case of members of the body who perform any third country audit functions—
  - (i) have arrangements for the monitoring of those audits by the competent authority in accordance with the Statutory Auditors and Third Country Auditors Regulations 2016; and
  - (ii) have rules and practices designed to ensure that a sanction imposed by the competent authority in accordance with those Regulations is to be treated as if it were a sanction which the body had determined under arrangements for enforcement within paragraph 12; and
- (d) have rules designed to ensure that members of the body take such steps as may reasonably be required of them to enable their performance of any statutory audit functions or third country audit functions to be monitored by means of inspections.

(2) Any monitoring of members of the body under the Statutory Auditors and Third Country Auditors Regulations 2016 or Article 26 of the EU Audit Regulation is to be regarded (so far as their performance of statutory audit functions, or of third country audit functions, is concerned) as monitoring of compliance with the body's rules for the purposes of paragraph 12(1) and (1A).

(3) The arrangements referred to in sub-paragraph (1)(a) must—

- (a) make provision for inspections to be conducted by the competent authority or any recognised supervisory body to whom that authority has delegated tasks

**Changes to legislation:** *There are currently no known outstanding effects for the The Statutory Auditors and Third Country Auditors Regulations 2016, Paragraph 65. (See end of Document for details)*

- in accordance with regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016; and
- (b) include an inspection which is conducted in relation to each person eligible for appointment as a statutory auditor—
- (i) at such frequency as the body considers appropriate given the risks arising from the statutory audit work undertaken by the person eligible for appointment as a statutory auditor; and
  - (ii) at least once every six years in the case of a person who, during any of the previous five years, has carried out a statutory audit of an entity not subject to the small companies regime (see section 381).
- (4) The arrangements must provide that the determination by the body of the frequency of inspections under sub-paragraph (3)(b)(i) is subject to any direction by the competent authority.
- (5) The inspection must be conducted by persons who—
- (a) have an appropriate professional education;
  - (b) have experience of—
    - (i) statutory audit work, or
    - (ii) equivalent work on the audit of accounts under the law of an EEA State, or part of an EEA State, other than the United Kingdom;
  - (c) have received adequate training in the conduct of inspections;
  - (d) have declared that they do not have any interests likely to conflict with the proper conduct of the inspection;
  - (e) have not been an employee or partner or member of the management body of the person subject to inspection and have not been otherwise associated with that person for at least three years before the inspection.
- (6) The inspection must review one or more statutory audits in which the person to whom the inspection relates has participated.
- (7) The inspection must include an assessment of—
- (a) the person's compliance with the standards set by the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016;
  - (b) the resources allocated by the person to statutory audit work;
  - (c) in the case of an inspection in relation to a firm, its internal quality control system;
  - (d) the remuneration received by the person in respect of statutory audit work.
- (8) The inspection must be appropriate and proportionate in view of the scale and complexity of the statutory audit work of the person subject to inspection.
- (9) Where undertaking inspections of statutory audits of undertakings that qualify as small (see sections 382 and 383) or medium sized (see sections 465 and 466) the body must take account of the fact that the standards determined by the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016 are designed to be applied in a manner that is proportionate to the scale and complexity of the business of the audited person.
- (10) An inspection conducted in relation to a firm may be treated as an inspection of all individuals responsible for statutory audit work on behalf of that firm, if the firm has a common quality assurance policy with which each such individual is required to comply.

**Changes to legislation:** *There are currently no known outstanding effects for the The Statutory Auditors and Third Country Auditors Regulations 2016, Paragraph 65. (See end of Document for details)*

(11) The main conclusions of the inspection must be recorded in a report which is made available to—

- (a) the person to whom the inspection relates, and
- (b) the body.

(12) The body must, at least once in every calendar year, deliver to the Secretary of State a summary of the results of inspections conducted under this paragraph.

#### **Membership, eligibility and enforcement**

**14.** The rules and practices of the body relating to—

- (a) the admission and expulsion of members,
- (b) the grant and withdrawal of eligibility for appointment as a statutory auditor by the body, where this task has been delegated to the body by the competent authority under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016, and
- (c) the enforcement action the body takes in respect of its members, where tasks related to the competent authority's responsibility for imposing and enforcing sanctions have been delegated to the body under that regulation,

must be fair and reasonable and include adequate provision for appeals.”.

**Changes to legislation:**

There are currently no known outstanding effects for the The Statutory Auditors and Third Country Auditors Regulations 2016, Paragraph 65.