
STATUTORY INSTRUMENTS

2017 No. 516

The Statutory Auditors and Third
Country Auditors Regulations 2017

PART 3

Amendments to Part 6 of the Friendly Societies Act 1992

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),
- (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;
 - (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:

First financial year of the maximum engagement period	Last financial year of the maximum engagement period
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—
	(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

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First financial year of the maximum engagement period	Last financial year of the maximum engagement period
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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.

(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](#)(1), 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](#)(2);

(1) OJ L 157, 09.06.06, p.87. This Directive was amended by Directives [2008/30/EC](#), 2013/34/EU and 2014/56/EU.

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

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“competent authority” means the Financial Reporting Council Limited⁽³⁾”.

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