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STATUTORY INSTRUMENTS

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**2017 No. 516**

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

**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<sup>(1)</sup> is amended as follows.

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

- (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)<sup>(3)</sup>—

- (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—

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

<sup>(2)</sup> Section 485A was inserted by [S.I. 2016/649](#).

<sup>(3)</sup> Section 485B was inserted by [S.I. 2016/649](#).

“(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—

**“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)(4), in subsection (2), for “that section” substitute “section 485”.

(6) In section 487 (term of office of auditors of private company)(5)—

(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)(6).

(8) In section 489A (appointment of auditors of public company: additional requirements for public interest entities with audit committees)(7)—

(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.”.

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

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

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

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

(9) In section 489B (appointment of auditors of public company: additional requirements for public interest entities without audit committees)(8)—

(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)(9), in subsection (2), for “that section” substitute “section 489”.

(12) In section 491 (term of office of auditors of public company)(10), omit subsections (1A) to (1E).

(13) Omit section 491A (maximum engagement period: transitional arrangements for public companies)(11).

(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.

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

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

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

(11) 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>
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	
(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>

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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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In any other case, 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.

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.

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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 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)(**12**), in the definition of “public interest company”, for “company” substitute “entity”.
- (16) In section 495 (auditor’s report on company’s annual accounts)(**13**), 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)(**14**), omit subsection (7).

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

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

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