



# Friendly Societies Act 1974

## 1974 CHAPTER 46

### *Accounts, audit and auditors*

#### **29 Books of account, etc.**

- (1) Every registered society and branch shall—
  - (a) cause to be kept proper books of account with respect to its transactions and its assets and liabilities, and
  - (b) establish and maintain a satisfactory system of control of its books of account, its cash holdings and all its receipts and remittances.
- (2) For the purposes of subsection (1)(a) above, proper books of account shall not be taken to be kept with respect to the matters mentioned in that paragraph unless there are kept such books as are necessary to give a true and fair view of the state of the affairs of the society or branch and to explain its transactions.
- (3) Any book of account to be kept by a registered society or branch may be kept either by making entries in bound books or by recording the matters in question in any other manner.
- (4) Where any such book of account is not kept by making entries in a bound book but by some other means, the society or branch shall take adequate precautions for guarding against falsification and for facilitating its discovery.

#### **30 General provisions as to accounts and balance sheets**

- (1) Every revenue account of a registered society or branch shall give a true and fair view—
  - (a) if it deals with the affairs of the society or branch as a whole, of the income and expenditure of the society or branch as a whole for the period to which the account relates; and
  - (b) if it deals with a particular business conducted by the society or branch, of the income and expenditure of the society or branch in respect of that business for the period to which the account relates.

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*Status: This is the original version (as it was originally enacted).*

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- (2) Every registered society or branch shall, in respect of each year of account, cause to be prepared either—
- (a) a revenue account which deals with the affairs of the society or branch as a whole for that year; or
  - (b) two or more revenue accounts for that year which deal separately with the particular businesses conducted by the society or branch.
- (3) In a case falling within subsection (2)(b) above, without prejudice to the application of subsection (1)(b) above to each revenue account dealing with a particular business conducted by a society or branch, the revenue accounts in question, when considered together, shall give a true and fair view of the income and expenditure of the society or branch as a whole for the year of account to which they relate.
- (4) Subject to subsection (5) below, every balance sheet of a registered society or branch shall give a true and fair view, as at the date of the balance sheet, of the state of the affairs of the society or branch.
- (5) Subsection (4) above does not apply in the case of—
- (a) a registered friendly society or a branch thereof, or
  - (b) a specially authorised society or branch which, by virtue of a direction in the authority for registering that society or branch, is required to carry out a valuation under section 41 below,
- but every balance sheet of a society or branch falling within paragraph (a) or paragraph (b) above shall give a true and fair view, as at the date of the balance sheet, of the assets and current liabilities of the society or branch and the resulting balances of its funds.
- (6) A registered society or branch shall not publish any revenue account or balance sheet unless—
- (a) it has been previously audited by the auditor or auditors last appointed to audit the accounts and balance sheet of the society or branch; and
  - (b) it incorporates a report by the auditor or auditors stating whether, in their opinion, it complies with subsection (1), subsection (4) or, as the case may require, subsection (5) above; and
  - (c) it has been signed by the secretary of the society or branch and by two members of the committee thereof acting on behalf of that committee.
- (7) Without prejudice to the provisions of subsection (6) above, a registered society or branch falling within paragraph (a) or paragraph (b) of subsection (5) above shall not publish any balance sheet which does not include a statement containing the same particulars as the statement required to be included in the annual return of that society or branch by section 43(5) below.
- (8) If in relation to any revenue account, revenue accounts or balance sheet of a registered society or branch, a member of the committee thereof fails to take all reasonable steps to secure compliance—
- (a) with subsection (1), subsection (4) or, as the case may require, subsection (5) above, or
  - (b) in a case falling within subsection (2) (b) above, with subsection (3) above,
- he shall be liable on summary conviction to a fine not exceeding £400 unless he proves that he had reasonable grounds to believe, and did believe, that a competent

and reliable person was charged with the duty of seeing that the relevant provision was complied with and was in a position to discharge that duty.

### **31 Obligation to appoint auditors**

- (1) Subject to the following provisions of this section, every registered society and branch shall, in each year of account, appoint a qualified auditor or qualified auditors to audit its accounts and balance sheet for that year.
- (2) Subsection (1) above shall not apply to a society or branch (not being a collecting society or branch thereof) if—
  - (a) the receipts and payments of that society or branch in respect of the preceding year of account did not, in the aggregate, exceed £5,000 ; and
  - (b) the number of its members at the end of that year did not exceed 500 ; and
  - (c) the value of its assets at the end of that year did not, in the aggregate, exceed £5,000.
- (3) Without prejudice to subsection (2) above, subsection (1) above shall not apply to a registered branch if—
  - (a) the conditions specified in paragraphs (a) and (b) of subsection (2) above are satisfied in respect of that branch; and
  - (b) at the end of the preceding year of account at least 75% of its assets had been transferred to the society of which it is a branch or to another registered branch of that society for the purpose of being invested, in accordance with section 46(2) below, by that society or other branch, and the value of its assets not so transferred did not, in the aggregate, exceed £5,000; and
  - (c) the society or branch to which the assets were transferred is one to which subsection (1) above applies in the year of account in question.
- (4) A registered society or branch to which, by virtue of subsection (2) or subsection (3) above, subsection (1) above does not apply in respect of any year of account is in this Act referred to as an exempt society or, as the case may be, an exempt branch, in respect of that year of account.
- (5) Regulations made by the Chief Registrar, with the consent of the Treasury, may—
  - (a) substitute for any sum or number for the time being specified in subsection (2) above, or for any sum or percentage for the time being specified in subsection (3) above, such sum, number or percentage as may be specified in the regulations ; and
  - (b) prescribe what receipts and payments of a society shall be taken into account for the purposes of those subsections ;and any such regulations may make different provision in relation to different cases or different circumstances.

### **32 Audit of exempt societies and branches**

- (1) Subject to any direction given by the registrar under subsection (2) below, every registered society or branch which is an exempt society or an exempt branch in respect of the current year of account shall in that year appoint at its option either—
  - (a) a qualified auditor or qualified auditors, or
  - (b) two or more persons who are not qualified auditors,to audit its accounts and balance sheet for that year.

- (2) The registrar may give a direction in the case of any particular society or branch which is an exempt society or branch in respect of the current year of account requiring it to appoint a qualified auditor to audit its accounts and balance sheet for that year.
- (3) The registrar may give a direction in the case of any particular society or branch which was an exempt society or branch in respect of any year of account before that in which the direction is given and did not appoint a qualified auditor or qualified auditors to audit its accounts and balance sheet for that year—
  - (a) requiring it to appoint a qualified auditor to audit those accounts and that balance sheet, and
  - (b) in a case where that society or branch has sent to him its annual return for that year before the date of the direction, requiring it, after its accounts and balance sheet have been audited by a qualified auditor, to send to him within three months from receipt of the direction a further annual return complying with the requirements of this Act (other than the requirement as to the time at which the annual return must be sent).
- (4) A failure by a registered society or branch to comply with any direction given by the registrar under this section shall be an offence under this Act.

### **33 Reappointment and removal of auditors**

- (1) A qualified auditor appointed to audit the accounts and balance sheet of a registered society or branch for the preceding year of account shall be re-appointed as auditor of the society for the current year of account unless—
  - (a) a resolution has been passed at a general meeting of the society or branch appointing somebody instead of him or providing expressly that he shall not be reappointed; or
  - (b) he has given to the society or branch notice in writing of his unwillingness to be reappointed; or
  - (c) he is ineligible for appointment as auditor of the society or branch for the current year of account; or
  - (d) he has ceased to act as auditor of the society or branch by reason of death or incapacity.
- (2) Where notice is given of an intended resolution to appoint at a general meeting some person or persons in place of a retiring auditor and the resolution cannot be proceeded with at the meeting because of the death or incapacity of that person or persons, or because he or they are ineligible for appointment as auditor or auditors of the society or branch for the current year of account (as the case may be), the retiring auditor shall not be automatically reappointed by virtue of subsection (1) above.
- (3) For the purposes of this section, a person is ineligible for appointment as auditor of a registered society or branch for the current year of account if, but only if,—
  - (a) his appointment in relation to the society or branch is prohibited by section 37 below, or
  - (b) (in the case of a society or branch which is not an exempt society or branch in respect of that year of account) he is not a qualified auditor at the time when the question of his appointment falls to be considered.

### **34 Notice of resolutions relating to appointment and removal of auditors**

- (1) A resolution at a general meeting of a registered society or branch—
  - (a) appointing another person as auditor in place of a retiring qualified auditor, or
  - (b) providing expressly that a retiring qualified auditor shall not be reappointed, shall not be effective unless notice of the intention to move the resolution has been given to the society or branch not less than twenty-eight days before the meeting at which it is moved.
- (2) Where notice of the intention to move any such resolution has been given under subsection (1) above to a society or branch which is required by its rules to give notice to its members of the meeting at which the resolution is to be moved, the society or branch shall, if it is practical to do so, give them notice of the resolution at the same time and in the same manner as it gives notice of the meeting.
- (3) Where notice of the intention to move any such resolution has been given to a registered society or branch under subsection (1) above, and that society or branch does not give notice of the resolution under subsection (2) above, it shall give notice of the resolution to its members not less than fourteen days before the meeting at which the resolution is to be moved either by advertisement in a newspaper having an appropriate circulation or in any other way allowed by the rules of the society or branch.
- (4) Where—
  - (a) for any of the reasons mentioned in section 33(2) above, an intended resolution to appoint some person or persons in place of a retiring qualified auditor cannot be proceeded with at the meeting, and
  - (b) by the rules of the registered society or branch an auditor can only be appointed by a resolution passed at a general meeting after notice of the intended resolution has been given to the society or branch before the meeting;a resolution passed at that meeting reappointing the retiring auditor or appointing an auditor in place of the retiring auditor shall be effective notwithstanding that no notice of that resolution has been given to the society or branch under its rules.
- (5) Any provision in this section which requires notice to be given to the members of a society or branch shall be construed, in the case of a meeting of delegates appointed by members, as requiring the notice to be given to the delegates so appointed.

### **35 Proceedings subsequent to receipt of notice under s. 34**

- (1) On receipt by a registered society or branch of notice given under section 34(1) above, the society or branch shall forthwith send a copy of the notice to the retiring auditor.
- (2) On receipt of a copy of such a notice, the retiring auditor may at any time before the date of the general meeting make representations in writing to the society or branch (not exceeding a reasonable length) with respect to the intended resolution, and, without prejudice to the preceding provision, the retiring auditor may—
  - (a) notify the society or branch that he intends to make such representations; and
  - (b) request that notice of his intention, or of any such representations made by him and received by the society or branch before notice of the intended resolution is given to its members, shall be given to members of the society or branch.

- (3) Subject to subsection (4) below, a society or branch which receives representations or a notification of intended representations under subsection (2) above before the date when notice of the intended resolution is required by subsection (2) or (as the case may be) subsection (3) of section 34 above to be given to its members shall—
- (a) in any notice of the resolution given to its members, state that it has received those representations or that notification (as the case may be),
  - (b) in any such notice, state that any member may receive on demand made before the date of the general meeting a copy of any representations which have been or may be received by the society or branch before that date, and
  - (c) send a copy of any representations received by the society or branch before the date of the meeting to any member on demand made before that date;
- but without prejudice either to the preceding provisions of this subsection or to his right to be heard orally, the retiring auditor may also require that any representations made by him before the date of the general meeting shall be read out at the meeting.
- (4) Copies of any such representations need not be sent out, and the representations need not be read out at the meeting, if, on the application either of the society or branch or of any other person, the High Court is satisfied that the rights conferred by this section are being abused to secure needless publicity for defamatory matter; and the court may order the costs of the society or branch on an application under this section to be paid, in whole or in part, by the auditor, notwithstanding that he is not a party to the application.
- (5) In the application of subsection (4) above to a society or branch registered in Scotland, for the reference to the High Court there shall be substituted a reference to the Court of Session and for the reference to costs there shall be substituted a reference to expenses.
- (6) Any provision in this section which requires notice to be given to the members of a society or branch or confers any right upon a member (as the case may be) shall be construed, in the case of a meeting of delegates appointed by members, as requiring a notice to be given to the delegates so appointed or as conferring the right upon a delegate (as the case may be).

### **36 Qualified auditors**

- (1) Subject to subsection (2) below, no person shall be a qualified auditor for the purposes of this Act unless he is either a member of one or more of the following bodies, that is to say,—
- (a) the Institute of Chartered Accountants in England and Wales;
  - (b) the Institute of Chartered Accountants of Scotland;
  - (c) the Association of Certified and Corporate Accountants;
  - (d) the Institute of Chartered Accountants in Ireland ;
  - (e) any other body of accountants established in the United Kingdom and for the time being recognised for the purposes of section 161(1)(a) of the Companies Act 1948 by the Secretary of State,
- or a person who is for the time being authorised by the Secretary of State under section 161(1)(b) of that Act as being a person with similar qualifications obtained outside the United Kingdom.
- (2) Subject to subsection (3) below, for the purposes of any provision (except subsections (2) and (3) of section 32) of this Act a person who is not a qualified auditor under

subsection (1) above shall nevertheless be a qualified auditor in relation to any particular registered society or branch if—

- (a) he was on 26th July 1968 an approved auditor appointed by the Treasury under section 30 of the Friendly Societies Act 1896, and
  - (b) he audited the accounts and balance sheet of that society or branch for the year of account immediately preceding the year of account comprising that date and for every year of account since the first-mentioned year until the current year of account.
- (3) The Chief Registrar may at any time direct that a person who is a qualified auditor in relation to a particular society or branch or particular societies or branches by virtue of subsection (2) above shall cease to be so qualified from the date of that direction.

### **37 Restrictions on appointment of auditors**

- (1) None of the following persons may be appointed as auditor of a registered society or branch, that is to say,—
- (a) an officer or servant of the society or branch; or
  - (b) a person who is a partner of, or in the employment of, or who employs, an officer or servant of the society or branch; or
  - (c) a body corporate.
- (2) Nothing in this section shall prevent the appointment as auditor of a registered society or branch of a Scottish firm if none of the partners of the firm is ineligible for appointment as auditor of the society or branch by virtue of subsection (1) above.
- (3) Any appointment made by a registered society or branch in contravention of this section shall not be an effective appointment for the purposes of this Act.
- (4) References in subsection (1) above to an officer or servant shall be construed as not including an auditor.

### **38 Auditors' report**

- (1) The auditors of a registered society or branch shall make a report to the society or branch on the accounts examined by them and on the revenue account or accounts and the balance sheet of the society or branch for the year of account in respect of which they are appointed.
- (2) The report shall state whether the revenue account or accounts and the balance sheet for that year comply with the requirements of this Act and whether, in the opinion of the auditors—
- (a) the revenue account or accounts give a true and fair view, in accordance with section 30 above, of the income and expenditure of the society or branch as a whole for that year of account and, in the case of each such account which deals with a particular business conducted by the society or branch, a true and fair view in accordance with that section of the income and expenditure of the society or branch in respect of that business for that year; and
  - (b) the balance sheet gives a true and fair view, in accordance with that section, either of the state of the affairs of the society or branch or of the assets and current liabilities of the society or branch and the resulting balances of its funds (as the case may require) as at the end of that year of account.

- (3) Without prejudice to the provisions of subsection (2) above, where the report of the auditors relates to any accounts other than the revenue account or accounts for the year of account in respect of which they are appointed, that report shall state whether those accounts give a true and fair view of any matter to which they relate.
- (4) It shall be the duty of the auditors of a registered society or branch, in preparing their report under this section, to carry out such investigations as will enable them to form an opinion as to the following matters, that is to say,—
- (a) whether the society or branch has kept proper books of account in accordance with the requirements of section 29(1)(a) above ; and
  - (b) whether the society or branch has maintained a satisfactory system of control over its transactions in accordance with the requirements of section 29(1)(b) above; and
  - (c) whether the revenue account or accounts, the other accounts (if any) to which the report relates, and the balance sheet are in agreement with the books of ; account of the society or branch;
- and if the auditors are of opinion that the society or branch has failed to comply with paragraph (a) or paragraph (b) of section 29(1) above, or if the revenue account or accounts, the other accounts (if any) and the balance sheet are not in agreement with the books of account of the society or branch, the auditors shall state that fact in their report.
- (5) If the auditors fail to obtain all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit, they shall state that fact in their report.

### **39 Auditors' right of access to books and to attend and be heard at meetings**

- (1) Every auditor of a registered society or branch—
- (a) shall have a right of access at all times to the books, deeds and accounts of the society or branch and to all other documents relating to its affairs; and
  - (b) shall be entitled to require from the officers of the society or branch such information and explanations as he thinks necessary for the performance of the duties of the auditors.
- (2) The auditors of a registered society or branch shall be entitled—
- (a) to attend any general meeting of the society or branch, and to receive all notices of, and other communications relating to, any general meeting which any member of the society or branch is entitled to receive; and
  - (b) to be heard at any meeting which they attend on any part of the business of the meeting which concerns them as auditors.

### **40 Remuneration of qualified auditors**

- (1) Regulations made by the Chief Registrar with the consent of the Treasury under section 10 of the Friendly and Industrial and Provident Societies Act 1968 may prescribe the maximum rates of remuneration to be paid by registered societies and branches for the audit of their accounts and balance sheets by qualified auditors.
- (2) No auditor of a registered society or branch shall ask for, receive, or be entitled to receive, remuneration in excess of the rate prescribed in respect of his services by regulations made by virtue of this section.