
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

3. Part 6 of the Friendly Societies Act 1992⁽¹⁾ is amended as follows.
4. In section 72 (auditors' appointment, tenure, qualifications, etc), after subsection (2) insert—

“(3) Schedule 14A to this Act has effect with regard to the appointment and removal of auditors of societies to which the Audit Directive applies.”.
5. In section 73 (auditor's report)⁽²⁾—
 - (a) in subsection (1), before “report” insert “written”;
 - (b) in subsection (2)—
 - (i) in paragraph (a) for “proper” substitute “adequate”; and
 - (ii) omit the words from “and, if the auditor” to the end;
 - (c) after subsection (2) insert—

“(2A) If the auditor is of the opinion that—
 - (a) adequate accounting records have not been kept under section 68, or
 - (b) the annual accounts are not in agreement with the accounting records,the auditor must state that fact in his report.”;
 - (d) for subsection (4A) substitute—

“(4A) The auditor shall, in his report—
 - (a) state whether, in his opinion, based on the work undertaken in the course of the audit—
 - (i) the information given in the report of the committee of management for the financial year for which the annual accounts are prepared is consistent with those accounts,
 - (ii) that report has been prepared in accordance with this Act and the regulations made under it,
 - (b) state whether, in the light of the knowledge and understanding of the society or registered branch and its environment obtained in the course of the audit, the auditor has identified material misstatements in the report of the committee of management, and

⁽¹⁾ 1992 c. 40.

⁽²⁾ Section 73 was amended by S.I. 2001/2617, 2005/2211 and 2008/1140.

- (c) if applicable, give an indication of the nature of each of the misstatements referred to in paragraph (b).”;
- (e) for subsections (5A) to (5D) substitute—
 - “(5A) The auditor’s report must include—
 - (a) the identity of the friendly society or registered branch whose annual accounts are the subject of the audit,
 - (b) a description of the annual accounts that are the subject of the audit (including the period covered by those accounts),
 - (c) a description of the financial reporting framework that has been applied in the preparation of those accounts, and
 - (d) a description of the scope of the audit identifying the auditing standards in accordance with which the audit was conducted.
 - (5B) The report must clearly state the opinion of the auditor as to whether the annual accounts—
 - (a) give a true and fair view—
 - (i) in the case of an individual balance sheet, of the state of affairs of the society or branch as at the end of the financial year,
 - (ii) in the case of an individual income and expenditure account, of the income and expenditure of the society or branch for the financial year, and
 - (iii) in the case of the group accounts of an incorporated friendly society, of the state of affairs as at the end of the financial year and of the income and expenditure for the financial year of the society and the subsidiary undertakings dealt with in the group accounts, so far as concerns members of the society,
 - (b) have been properly prepared in accordance with the relevant financial reporting framework, and
 - (c) have been prepared in accordance with the requirements of this Act (and where applicable, Article 4 of the IAS Regulation).
 - (5C) The auditor’s report must—
 - (a) be either unqualified or qualified,
 - (b) include a reference to any matters to which the auditor wishes to draw attention by way of emphasis without qualifying the report,
 - (c) include a statement on any material uncertainty relating to events or conditions that may cast significant doubt about the ability of the friendly society or registered branch to continue to adopt the going concern basis of accounting, and
 - (d) identify the auditor’s place of establishment.”;
- (f) at the end insert—
 - “(6) Where more than one person is appointed as auditor, all the persons appointed must jointly make a report under this section, which must include a statement as to whether they all agree on—
 - (a) the matters contained in the report,
 - (b) the statements given under subsections (2A), (3) and (4A), and
 - (c) the indications given under subsection (4A).
 - (7) Where the persons do not all agree on all of those things, the report must—

- (a) include the opinions of each person appointed, and
 - (b) give reasons for the disagreement.”.
6. In section 74 (signature of auditor’s report)(3)—
- (a) in subsection (1), after “the auditor” insert “(or, where more than one person is appointed as auditor, all of their names)”, and
 - (b) after subsection (3) insert—
 - “(4) Where more than one person is appointed as auditor, the report must be signed by all those appointed.”.
7. In section 74B (names to be stated in copies of auditor’s report filed or published)(4) after subsection (1) insert—
- “(1A) If more than one person is appointed as auditor, the reference in subsection (1)(a) to the name of the auditor is to be read as a reference to the names of all the auditors.”.
8. At the beginning of section 74C(1) (circumstances in which names may be omitted)(5) for “The” substitute “An”.
9. In section 78A (interpretation of Part 6)(6), for subsection (3) substitute—
- “(3) References in this Part to a friendly society to which the Audit Directive applies are to a friendly society that is—
 - (a) an insurance undertaking within the meaning given by Article 2.1 of Council Directive 1991/674/EEC on the annual accounts and consolidated accounts of insurance undertakings(7), or
 - (b) an issuer whose transferable securities are admitted to trading on a regulated market.
 - (4) In subsection (3)—
 - (a) “issuer” and “regulated market” have the same meaning as in Part 6 of the Financial Services and Markets Act 2000(8); and
 - (b) “transferable securities” means anything which is a transferable security for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments(9).”.
10. In Schedule 14 (auditors: appointment, tenure, qualifications and remuneration)—
- (a) in paragraph 10, after sub-paragraph (5) insert—
 - “(6) An auditor may not be removed from office before the expiration of that auditor’s term of office except—
 - (a) by resolution under this paragraph, or
 - (b) in accordance with paragraph 6 of Schedule 14A.”; and
 - (b) in paragraph 10A(1)(10), after “removed from office” insert “, other than by order of the High Court made under paragraph 6 of Schedule 14A, ”.

(3) Section 74 was substituted by [S.I. 2008/1140](#).

(4) Section 74B was inserted by [S.I. 2008/1140](#) and amended by [S.I. 2013/496](#).

(5) Section 74C was inserted by [S.I. 2008/1140](#) and amended by [S.I. 2013/496](#).

(6) Section 78A was inserted by [S.I. 2005/2211](#), and subsection (3) was inserted by [S.I. 2008/948](#). There are other amendments but none is relevant.

(7) OJ No. L 374 31.12.91, p. 7.

(8) 2000 c. 8. See sections 102A(6) and 103(1).

(9) OJ No. L 145 30.04.04, p. 1.

(10) Paragraph 10A was inserted by [S.I. 2008/1140](#) and amended by [S.I. 2013/496](#).

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— (a) on or after 17 June 1994, and	The last financial year of the society to begin before 17 June 2023.

First financial year of the maximum engagement period	Last financial year of the maximum engagement period
(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	<p>(a) the last financial year of the society to begin before 17 June 2016, and</p> <p>(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>
	<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.
	<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 financial year of

First financial year of the maximum engagement period	Last financial year of the maximum engagement period
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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](#)(**11**), 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](#)(**12**);

“competent authority” means the Financial Reporting Council Limited(**13**).”.

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

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

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