
STATUTORY INSTRUMENTS

2007 No. 3494

The Statutory Auditors and Third
Country Auditors Regulations 2007

PART 4

RECOGNISED SUPERVISORY BODIES

EEA auditors

17.—(1) Paragraph 6 of Schedule 10 to the Companies Act 2006 (holding of appropriate qualification) is amended as follows.

(2) In sub-paragraph (1)(a), after “individual” insert “other than an EEA auditor”.

(3) After sub-paragraph (1)(a), insert—

“(aa) in the case of an individual who is an EEA auditor—

(i) he holds an appropriate qualification,

(ii) he has been authorised on or before 5 April 2008 to practise the profession of company auditor pursuant to the European Communities (Recognition of Professional Qualifications) (First General System) Regulations 2005 ([S.I. 2005/18](#)) and has fulfilled any requirements imposed pursuant to regulation 6 of those Regulations, or

(iii) he has passed an aptitude test in accordance with sub-paragraph (2), unless an aptitude test is not required (see sub-paragraph (2A)).”.

(4) For sub-paragraph (2) substitute—

“(2) The aptitude test—

(a) must test the person’s knowledge of subjects—

(i) that are covered by a recognised professional qualification,

(ii) that are not covered by the professional qualification already held by the person, and

(iii) the knowledge of which is essential for the pursuit of the profession of statutory auditor;

(b) may test the person’s knowledge of rules of professional conduct;

(c) must not test the person’s knowledge of any other matters.

(2A) No aptitude test is required if the subjects that are covered by a recognised professional qualification and the knowledge of which is essential for the pursuit of the profession of statutory auditor are covered by the professional qualification already held by the person.”.

Meaning of “controlled by qualified persons”

18.—(1) Paragraph 7 of Schedule 10 to the Companies Act 2006 (meaning of “controlled by qualified persons”) is amended as follows.

(2) In sub-paragraph (2), in paragraphs (a)(ii) and (b)(ii), for “a member State”, in each place where it occurs, substitute “an EEA State”.

Professional integrity and independence

19.—(1) Paragraph 9 of Schedule 10 to the Companies Act 2006 (professional integrity and independence) is amended as follows.

(2) In sub-paragraph (1)(a), after “integrity” omit “and”.

(3) After sub-paragraph (1)(b) insert—

- “(c) persons appointed as statutory auditors take steps to safeguard their independence from any significant threats to it,
- (d) persons appointed as statutory auditors record any such threats and the steps taken to safeguard the proper conduct of the audit from them, and
- (e) remuneration received or receivable by a statutory auditor in respect of statutory audit work is not—
 - (i) influenced or determined by the statutory auditor providing other services to the audited person, or
 - (ii) on a contingent fee basis.”.

(4) For sub-paragraph (3) substitute—

“(3) The body must also have adequate rules and practices designed to ensure that—

- (a) no firm is eligible under its rules for appointment as a statutory auditor unless the firm has arrangements to prevent any person from being able to exert any influence over the way in which a statutory audit is conducted in circumstances in which that influence would be likely to affect the independence or integrity of the audit;
- (b) any rule of law relating to the confidentiality of information received in the course of statutory audit work by persons appointed as statutory auditors is complied with; and
- (c) a person ceasing to hold office as a statutory auditor makes available to his successor in that office all relevant information which he holds in relation to that office.”.

(5) For sub-paragraph (4) substitute—

“(4) The rules referred to in sub-paragraph (3)(b) (confidentiality of information) must apply to persons who are no longer members of the body as they apply to members and any fine imposed in the enforcement of those rules shall be recoverable by the body as a debt due to it from the person obliged to pay it.”.

Technical standards for group audits

20.—(1) After paragraph 10 of Schedule 10 to the Companies Act 2006(1) (technical standards) insert—

“Technical standards for group audits

10A.—(1) The body must have rules and practices as to technical standards ensuring that group auditors—

- (a) review for the purposes of a group audit the audit work conducted by other persons, and
- (b) record that review.

(2) The body must participate in arrangements within paragraph 22, and the rules and practices mentioned in sub-paragraph (1) must include provision requiring compliance with any standards for the time being determined under such arrangements.

(3) The body must also have rules and practices ensuring that group auditors—

- (a) retain copies of any documents necessary for the purposes of the review that they have received from third country auditors who are not covered by working arrangements under section 1253E, or
- (b) agree with those third country auditors proper and unrestricted access to those documents on request.

(4) The body’s rules and practices must ensure that group auditors make those documents available on request to—

- (a) the body;
- (b) any other body with which the body has entered into arrangements for the purposes of paragraph 23 or 24 (independent arrangements for monitoring and investigation);
- (c) the Secretary of State.

(5) The body may provide that the rules and practices referred to in sub-paragraphs (3) and (4) do not apply if, after taking all reasonable steps, a group auditor is unable to obtain the copies of the documents or the access to the documents necessary for the review.

(6) If the body does so provide, its rules and practices must ensure that the group auditor records—

- (a) the steps taken to obtain copies of or access to those documents,
- (b) the reasons why the copies or access could not be obtained, and
- (c) any evidence of those steps or those reasons.

(7) In this paragraph—

“group auditor” means a person appointed as statutory auditor to conduct an audit of group accounts;

“group” has the same meaning as in Part 15 of this Act (see section 474).”.

Public interest entity reporting and independence requirements

21. After paragraph 10A of Schedule 10 to the Companies Act 2006 (inserted by regulation 20 above) insert—

“Public interest entity reporting requirements

10B.—(1) The body must have adequate rules and practices designed to ensure that persons appointed as statutory auditors of public interest entities report to the entity’s audit committee (if it has one) at least once in each calendar year at any time during which they hold the office of statutory auditor.

(2) The report must include—

- (a) a statement in writing confirming the person's independence from the public interest entity;
- (b) a description of any services provided by the person to the public interest entity other than in his capacity as statutory auditor;
- (c) a description of any significant threats to the person's independence;
- (d) an explanation of the steps taken by the person to safeguard his independence from those threats;
- (e) a description of any material weaknesses arising from the statutory audit in the public interest entity's internal control in relation to the preparation of accounts; and
- (f) any other significant matters arising from the statutory audit.

(3) The body must participate in arrangements within paragraph 22A (arrangements for setting standards), and the rules and practices mentioned in sub-paragraph (1) must include provision requiring compliance with any standards for the time being determined under such arrangements.

(4) In this paragraph, "audit committee" means a body which performs the functions referred to in Article 41.2 of the Audit Directive or equivalent functions.

Public interest entity independence requirements

10C.—(1) The body must have adequate rules and practices designed to ensure that—

- (a) an individual does not accept an appointment by a public interest entity as statutory auditor if—
 - (i) he has been the statutory auditor of the entity for a continuous period of more than seven years, and
 - (ii) less than two years have passed since he was last the statutory auditor of the entity;
- (b) where a firm has been appointed by a public interest entity as statutory auditor, an individual may not be a key audit partner if—
 - (i) he has been a key audit partner in relation to audits of the entity for a continuous period of more than seven years, and
 - (ii) less than two years have passed since he was last the key audit partner in relation to an audit of the entity.

(2) The body must participate in arrangements within paragraph 22B (arrangements for setting standards), and the rules and practices mentioned in sub-paragraph (1) must include provision requiring compliance with any standards for the time being determined under such arrangements.

(3) The body must also have adequate rules and practices designed to ensure that—

- (a) an individual who has been appointed by a public interest entity as statutory auditor may not be appointed as a director or other officer of the entity during a period of two years commencing on the date on which his appointment as statutory auditor ended;
- (b) a key audit partner of a firm which has been appointed by a public interest entity as statutory auditor may not be appointed as a director or other officer of the entity during a period of two years commencing on the date on which his work as key audit partner ended.

(4) The rules referred to in sub-paragraph (3) must apply to persons who are no longer members of the body as they apply to members and any fine imposed in the enforcement of those rules shall be recoverable by the body as a debt due to it from the person obliged to pay it.

(5) An auditor of a public interest entity is not to be regarded as an officer of the entity for the purposes of sub-paragraph (3)(a) and (b).

(6) For the purposes of this paragraph—

- (a) a “key audit partner” is an individual identified by a firm appointed as statutory auditor as being primarily responsible for the statutory audit; and
- (b) a key audit partner of a firm appointed as statutory auditor of a parent undertaking or a material subsidiary undertaking of a public interest entity is to be treated as if he were a key audit partner of the firm appointed as statutory auditor of the public interest entity.”.

Monitoring and enforcement

22.—(1) Paragraph 12 of Schedule 10 to the Companies Act 2006 (monitoring and enforcement) is amended as follows.

(2) For sub-paragraph (1) substitute—

“(1) The body must—

- (a) have adequate resources for the effective monitoring and enforcement of compliance with its rules, and
- (b) ensure that those resources may not be influenced improperly by the persons monitored.

(1A) The body must—

- (a) have adequate arrangements for the effective monitoring and enforcement of compliance with its rules, and
- (b) ensure that those arrangements operate independently of the persons monitored.”.

(3) After sub-paragraph (2) insert—

“(3) The arrangements for enforcement must include provision for—

- (a) sanctions which include—
 - (i) the withdrawal of eligibility for appointment as a statutory auditor; and
 - (ii) any other disciplinary measures necessary to ensure the effective enforcement of the body’s rules; and
- (b) the body making available to the public information relating to steps it has taken to ensure the effective enforcement of its rules.”.

Monitoring of audits

23. For paragraph 13 of Schedule 10 to the Companies Act 2006(2) (independent monitoring of audits of listed companies and other major bodies) substitute—

“Monitoring of audits

13.—(1) The body must—

- (a) in the case of members of the body who do not perform any statutory audit functions in respect of major audits, have adequate arrangements for enabling the performance by its members of statutory audit functions to be monitored by means of inspections;
 - (b) in the case of members of the body who perform any statutory audit functions in respect of major audits, participate in arrangements within paragraph 23(1); and
 - (c) 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 to be monitored by means of inspections.
- (2) Any monitoring of members of the body under the arrangements within paragraph 23(1) is to be regarded (so far as their performance of statutory audit functions in respect of major audits 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 include an inspection which is conducted in relation to each person eligible for appointment as a statutory auditor at least once every six years.
- (4) 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) do not have any interests likely to conflict with the proper conduct of the inspection.
- (5) The inspection must review one or more statutory audits in which the person to whom the inspection relates has participated.
- (6) The inspection must include an assessment of—
- (a) the person's compliance with the body's rules established for the purposes of paragraphs 9 (professional integrity and independence), 10 (technical standards), 10A (technical standards for group audits) and 10C (public interest entity independence requirements);
 - (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.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) In this paragraph—

“major audit” means a statutory audit conducted in respect of—

- (a) a public interest entity, or
- (b) any other person in whose financial condition there is a major public interest;

“statutory audit function” means any function performed as a statutory auditor.”.

Transfer of papers to third countries

24. After paragraph 16 of Schedule 10 to the Companies Act 2006 (independent investigation for disciplinary purposes of public interest cases) insert—

“Transfer of papers to third countries

16A.—(1) The body must have adequate rules and practices designed to ensure that persons eligible under its rules for appointment as a statutory auditor deliver audit working papers to a third country competent authority only if—

- (a) the authority has entered into arrangements with the Secretary of State in accordance with section 1253E (working arrangements); and
- (b) the following four conditions are met.

(2) The first condition is that the competent authority has requested the audit working papers for the purposes of an investigation.

(3) The second condition is that the competent authority has given to the Secretary of State notice of its request.

(4) The third condition is that the papers relate to the audit of a body which—

- (a) has issued securities in the country or territory in which the competent authority is established, or
- (b) forms part of a group issuing statutory consolidated accounts in that country or territory.

(5) The fourth condition is that no legal proceedings have been brought (whether continuing or not) in relation to the auditor or audit to which the working papers relate.

(6) The body must also have adequate rules and practices designed to ensure that a person eligible under its rules for appointment as a statutory auditor may refuse to deliver audit working papers to a third country competent authority if the Secretary of State certifies that the delivery of the papers would adversely affect the sovereignty, security or public order of the United Kingdom.”.

Interpretation

25. After paragraph 20 of Schedule 10 to the Companies Act 2006 (promotion and maintenance of standards), insert—

“Interpretation

20A. In this Part of this Schedule—

“public interest entity” means an issuer—

- (a) whose transferable securities are admitted to trading on a regulated market; and
- (b) the audit of which is a statutory audit (see section 1210(1));

“issuer” and “regulated market” have the same meaning as in Part 6 of the Financial Services and Markets Act 2000 (see sections 102A to 103); and

“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.”.

Arrangements for setting technical standards

26.—(1) Paragraph 22 of Schedule 10 to the Companies Act 2006 (arrangements for setting technical standards) is amended as follows.

(2) For “paragraph 10(2)” substitute “paragraphs 10(2) and 10A(2)”.

(3) In paragraph (a) for “paragraph 10(1)” substitute “paragraphs 10(1) and 10A(1) respectively”.

Arrangements for setting standards relating to public interest entity reporting and independence requirements

27. After paragraph 22 of Schedule 10 to the Companies Act 2006 (arrangements for setting technical standards), insert—

“Arrangements for setting standards relating to public interest entity reporting requirements

22A. The arrangements referred to in paragraph 10B(3) are appropriate arrangements—

- (a) for the determining of standards for the purposes of the rules and practices mentioned in paragraph 10B(1), and
- (b) for ensuring that the determination of those standards is done independently of the body.

Arrangements for setting standards relating to public interest entity independence requirements

22B. The arrangements referred to in paragraph 10C(2) are appropriate arrangements—

- (a) for the determining of standards for the purposes of the rules and practices mentioned in paragraph 10C(1), and
- (b) for ensuring that the determination of those standards is done independently of the body.”.

Arrangements for independent monitoring of audits of listed companies and other major bodies

28.—(1) Paragraph 23 of Schedule 10 to the Companies Act 2006 (arrangements for independent monitoring of audits of listed companies and other major bodies) is amended as follows.

(2) In sub-paragraph (1) for “paragraph 13(1)” substitute “paragraph 13(1)(b)”.

(3) After sub-paragraph (1) insert—

“(1A) Subject to sub-paragraph (1C), the arrangements referred to in sub-paragraph (1) must include provision for an inspection conducted in relation to each person eligible for appointment as a statutory auditor at least once every three years.

(1B) Sub-paragraphs (4) to (9) of paragraph 13 apply in relation to inspections under sub-paragraph (1A) as they apply in relation to inspections under that paragraph.

(1C) The arrangements referred to in sub-paragraph (1) may provide that the body performing the inspections may decide that all or part of the inspection referred to in sub-

paragraph (1A) is not required in the case of a member of a supervisory body who performs statutory audit functions in respect of ten or fewer major audits per year.

(1D) If—

- (a) the arrangements make the provision referred to in sub-paragraph (1C), and
- (b) the body performing the inspections decides that all of an inspection is not required in relation to a member,

the supervisory body must ensure that the arrangements referred to in paragraph 13(1)(a) apply in relation to that member, subject to the modification specified in sub-paragraph (1F).

(1E) If—

- (a) the arrangements make the provision referred to in sub-paragraph (1C), and
- (b) the body performing the inspections decides that part of an inspection is not required in relation to a member,

the supervisory body must ensure that the arrangements referred to in paragraph 13(1)(a) apply in relation to that part of the inspection of that member, subject to the modification specified in sub-paragraph (1F).

(1F) For the purposes of sub-paragraphs (1D) and (1E), paragraph 13(3) applies with the substitution of “three years” for “six years”.