

## SCHEDULE 3

### Amendments to the Companies Act 2006

## PART 5

### Amendments to Part 42 of the Companies Act 2006

**29.**—(1) Section 1217 (supervisory bodies)(1) is amended as follows.

(2) In subsection (1A), for the words from “paragraphs 9(3)(b)” to “other officer)” substitute “paragraphs 9(1A) and 10C(3) (bar on appointment as director or other officer) and paragraph 9(3)(b) (confidentiality of information)”.

(3) In subsection (3), after “which the body” insert, “or the competent authority”.

**30.**—(1) Section 1218 (exemption from liability for damages) is amended as follows.

(2) In subsection (3)—

(a) in paragraph (d), after “this Part” insert “or by or by virtue of the Statutory Auditors and Third Country Auditors Regulations 2016;”;

(b) after paragraph (d) insert—

“(e) the obligations imposed on the body by or by virtue of the Audit Regulation.”.

(3) In subsection (4)—

(a) in paragraph (b), after “this Part” insert “, the Statutory Auditors and Third Country Auditors Regulations 2016 or the Audit Regulation”;

(b) in the closing words, after “this Part” insert “, the Statutory Auditors and Third Country Auditors Regulations 2016 or the Audit Regulation”.

**31.** After section 1223 (matters to be notified to the Secretary of State), insert—

#### “Matters to be notified to the competent authority

**1223ZA.**—(1) The competent authority may require a recognised supervisory body—

(a) to notify the competent authority immediately of the occurrence of such events as the competent authority may specify in writing and to give the competent authority such information in respect of those events as is so specified;

(b) to give the competent authority, at such times or in respect of such periods as the competent authority may specify in writing, such information as is so specified.

(2) The notices and information required to be given must be such as the competent authority may reasonably require for the exercise of its functions under this Part, the Statutory Auditors and Third Country Auditors Regulations 2016 or the Audit Regulation.

(3) The competent authority may require information given under this section to be given in a specified form or verified in a specified manner.

(4) Any notice or information required to be given under this section must be given in writing unless the competent authority specifies or approves some other manner.”.

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(1) Section 1217 was amended by [S.I.2007/3494](#).

**32.**—(1) Section 1223A (notification of matters relevant to other EEA states)(2) is amended as follows.

(2) For subsection (1), substitute—

“(1) A recognised supervisory body must notify the Secretary of State—

- (a) if a notifiable person becomes eligible for appointment as a statutory auditor, unless the notifiable person is an individual;
- (b) if a notifiable person’s eligibility for appointment as a statutory auditor is withdrawn;
- (c) of the reasons for any such withdrawal.”.

**33.** After section 1224 (Secretary of State’s power to call for information), insert—

**“The competent authority’s power to call for information**

**1224ZA.**—(1) The competent authority may by notice in writing require any recognised supervisory body to give the competent authority such information as it may reasonably require for the exercise of its functions under this Part, the Statutory Auditors and Third Country Auditors Regulations 2016 or the Audit Regulation.

(2) The competent authority may require that any information which it requires under this section is to be given within such reasonable time and verified in such manner as it may specify.”.

**34.**—(1) Section 1224A (restrictions on disclosure)(3) is amended as follows.

(2) In subsection (1), for the words from “or sections 522 to 524” to the end substitute “sections 522 to 524 (notification to appropriate audit authority of resignation or removal of auditor), the Statutory Auditors and Third Country Auditors Regulations 2016 or the Audit Regulation.”.

(3) In subsection (2), for paragraph (c) substitute—

“(c) the competent authority.”.

**35.**—(1) Section 1225 (enforcement: general)(4) is amended as follows.

(2) In subsection (1)—

- (a) in paragraph (b) omit “or”;
- (b) at the end of paragraph (c) insert “or” and after that paragraph insert—

“(d) that a recognised supervisory body has not complied with an obligation imposed on it by or by virtue of the Statutory Auditors and Third Country Auditors Regulations 2016.”.

(3) In subsection (3), after “Schedule 11 (revocation of recognition orders)” insert “or the powers of the competent authority under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016.”.

**36.**—(1) Section 1229 (supervision of Auditors General by the Independent Supervisor)(5) is amended as follows.

(2) In subsection (2)(b), for “bodies” substitute “recognised supervisory bodies”.

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(2) Section 1223A was inserted by [S.I. 2007/3494](#).

(3) Section 1224A was inserted by [S.I. 2007/3494](#) and amended by [S.I. 2011/1856](#).

(4) Section 1225, 1225A-1225G was substituted for section 1225 by [S.I. 2012/1741](#).

(5) Sections 1229(2), 1229(2A) and 1229(3A) were inserted by [S.I. 2007/3494](#).

(3) In subsection (3A), for “paragraphs 9 to 10A and 12 to 15” substitute “paragraphs 9 to 10C and 12 to 16”.

**37.**—(1) Section 1239 (register of auditors)(**6**) is amended as follows.

(2) In subsection (5), omit paragraph (e) and after paragraph (f) insert—

“(g) the competent authority”.

**38.**—(1) Section 1251A (duty of Secretary of State to report on inspections)(**7**) is amended as follows.

(2) In paragraph (b) for “paragraph 13(9)”, substitute “paragraph 13(12)”.

**39.**—(1) Section 1252 (delegation of Secretary of State’s functions) is amended as follows.

(2) In subsection (2)(b), for “(whether” substitute “(including the competent authority, and whether”.

**40.**—(1) Section 1253 (delegation of functions to an existing body)(**8**) is amended as follows.

(2) In subsection (5) omit the words “paragraph 21 to 22B, 23(1)(**9**), 23A(1) (**10**) or 24(1)(**11**) of Schedule 10 or”.

**41.**—(1) Section 1253B (requests from EEA competent authorities)(**12**) is amended as follows.

(2) For subsection (1) substitute—

“(1) The Secretary of State must take all necessary steps to—

(a) ensure that an investigation is carried out, or

(b) provide any other assistance or information,

if requested to do so by an EEA competent authority or a European supervisory authority (“the requesting authority”), in accordance with Article 36 of the Audit Directive (regulatory co-operation between Member States) or Article 31, 32 or 33 of the Audit Regulation.”.

(3) In subsection (2)—

(a) in paragraph (a), for “the EEA competent authority” substitute “the requesting authority”, and

(b) in paragraph (b), for “the EEA competent authority which made the request” substitute “the requesting authority”.

(4) After subsection (3) insert—

“(4) In this section “European supervisory authority” means—

(a) the European Securities and Markets Authority;

(b) the European Banking Authority;

(c) the European Insurance and Occupational Pensions Authority.”.

**42.**—(1) Section 1253C (notification to competent authorities of other EEA states)(**13**) is amended as follows.

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(6) Section 1239 was amended by [S.I. 2007/3494](#).

(7) Section 1251A was inserted by [S.I. 2007/3494](#).

(8) Section 1253 was amended by [S.I. 2013/1672](#).

(9) Paragraph 23(1) was substituted for paragraph 23(1) by [S.I. 2012/1741](#).

(10) Paragraph 23A was inserted by [S.I. 2011/1856](#) and amended by [S.I. 2013/1672](#).

(11) Paragraph 24(1) and (1A) were substituted for paragraph 24(1) by [S.I. 2012/1741](#).

(12) Section 1253B was inserted by [S.I. 2007/3494](#).

(13) Section 1253C was inserted by [S.I. 2007/3494](#) and amended by [S.I. 2011/1043](#).

(2) For subsection (1) substitute—

“(1) If the Secretary of State receives notice from a recognised supervisory body under section 1223A(1) (notification of matters relevant to other EEA States) that—

(a) a person has become eligible for appointment as a statutory auditor, or

(b) a person’s eligibility for appointment as a statutory auditor has been withdrawn, the Secretary of State must notify the relevant EEA competent authority.”.

(3) In subsection (3), for the words from “the reasons” to the end substitute, “, in a case where a person’s eligibility for appointment as a statutory auditor has been withdrawn, the reasons for the withdrawal”.

**43.**—(1) Section 1253D (restriction on transfer of audit working papers to third countries)(**14**) is amended as follows.

(2) In subsection (1), for “Audit working papers” substitute “Audit working papers and investigation reports”.

**44.**—(1) Section 1253DA (transfer by Secretary of State) is amended as follows.

(2) For the words “audit working papers” wherever they appear substitute “audit working papers and investigation reports”.

**45.**—(1) Section 1253DB (transfer by statutory auditor with approval of Secretary of State) is amended as follows.

(2) For the words “audit working papers” wherever they appear substitute “audit working papers and investigation reports”.

**46.** In section 1253DC (transfer by statutory auditor for purposes of investigation of auditor), for “audit working papers” substitute “audit working papers and investigation reports”.

**47.**—(1) Section 1253DD (agreement of EEA competent authority) is amended as follows.

(2) For the words “audit working papers” wherever they appear substitute “audit working papers and investigation reports”.

**48.**—(1) Section 1253DE (transfer by means of inspection) is amended as follows.

(2) In subsection (1)(**15**) for “audit working papers” substitute “audit working papers and investigation reports”.

**49.**—(1) Section 1253E (working arrangements for transfer of papers) is amended as follows.

(2) For the words “audit working papers” wherever they appear, substitute “audit working papers and investigation reports”.

(3) In subsection (5)—

(a) omit the word “and” at the end of paragraph (a);

(b) at the end of paragraph (b), insert “and” and after that paragraph, insert—

“(c) ensure that the protection of the commercial interests of any audited person, including its industrial and intellectual property, is not undermined.”.

(4) After subsection (7) insert—

“(7A) The arrangements must—

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(14) Sections 1253D-1253DE were substituted for section 1253D by [S.I. 2010/2537](#).

(15) Section 1253DE(1) was amended by [S.I. 2010/2537](#).

- (a) provide that the Secretary of State may only disclose confidential information received from the third country competent authority—
  - (i) with the agreement of that authority or for purposes for which that authority has given its agreement,
  - (ii) where disclosure is required by law, or
  - (iii) where disclosure is necessary in connection with legal proceedings, and
- (b) provide that the third country competent authority may only disclose confidential information received from the Secretary of State—
  - (i) with the Secretary of State’s agreement or for purposes for which the Secretary of State has given agreement,
  - (ii) where disclosure is required by law, or
  - (iii) where disclosure is necessary in connection with legal proceedings.”.

**50.**—(1) Section 1254 (directions to comply with international obligations)(**16**) is amended as follows.

- (2) In subsection (1)(a), after “the Independent Supervisor” insert “, the competent authority”.
- (3) In subsection (3), after “the Independent Supervisor” insert “, the competent authority”.

**51.**—(1) Section 1261 (minor definitions) is amended as follows.

- (2) In subsection (1)—
  - (a) at the appropriate places, insert the following definitions—
    - ““audit working papers and investigation reports” means—
      - (a) any documents which are or have been held by a statutory auditor, an EEA auditor or a third country auditor and which are related to the conduct of an audit conducted by that auditor;
      - (b) any report of an inspection of the conduct of an audit by a statutory auditor, an EEA auditor or a third country auditor, or
      - (c) any report of an investigation into the conduct of a statutory auditor, an EEA auditor or a third country auditor;”;
    - ““the Audit Regulation” means Regulation 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public interest entities;”;
    - ““the competent authority” means the Financial Reporting Council Limited”;
  - (b) in the definition of “the Audit Directive” omit the words “ as amended at any time before 1st January 2009”;
  - (c) omit the definition of “audit working papers”;
  - (d) in the definition of “third country auditor” after “other than” insert “an EEA auditor or”;
  - (e) in the definition of “transfer” after “audit working papers” insert “and investigation reports”.

**52.**—(1) Section 1262 (index of defined expressions)(**17**) is amended as follows.

- (2) At the appropriate places insert the following entries in the Table—

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(16) Section 1254 was amended by [S.I. 2007/3494](#) and [2011/1043](#).

(17) Section 1262 was amended by [S.I. 2007/3494](#).

“Audit Regulation	section 1261(1)”
“audit working papers and investigation reports	section 1261(1)”
“competent authority	section 1261(1)”

(3) Omit the entry relating to “audit working papers”.

**53.** Schedule 10 (recognised supervisory bodies) is amended as follows.

**54.**—(1) Paragraph 2 is amended as follows.

(2) For sub-paragraph (2) substitute—

“(2) The Secretary of State may make a recognition order only if it appears to him, from the information furnished by the body and having regard to other information in his possession, that—

- (a) the requirements of Part 2 of this Schedule are satisfied in the case of that body,
- (b) the body is able to perform all of the tasks which can be delegated by the competent authority under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016, and
- (c) the body is organised in such a way that conflicts of interest are avoided.”.

**55.**—(1) Paragraph 3 is amended as follows.

(2) For sub-paragraph (1) substitute—

“(1) A recognition order in respect of a body may be revoked by a further order made by the Secretary of State if at any time it appears to him—

- (a) that any requirement of Part 2 or 3 of this Schedule, other than a requirement relating to a task delegated to the body under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016, is not satisfied in the case of the body,
- (b) that the body has failed to comply with any obligation imposed on it by or by virtue of this Part of this Act, other than an obligation relating to a task delegated to the body under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016, or
- (c) that the continued recognition of the body is undesirable having regard to the existence of one or more other bodies which have been or are to be recognised.”.

(3) After subparagraph (1), insert—

“(1A) A recognition order in respect of a body may be revoked by a further order made by the Secretary of State if at any time—

- (a) one or more tasks delegated to the body under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016 has been reclaimed by the competent authority, and
- (b) it appears to the Secretary of State that the continued recognition of the body is undesirable having regard to the circumstances in which the task or tasks were reclaimed.”.

(4) In sub-paragraph (10)(a), after “(1)” insert “, (1A)”.

**56.** In Part 2, before paragraph 6, insert—

**“Delegation etc. of tasks by competent authority**

**5A.** The body (“B”) must have rules providing that—

- (a) in circumstances where and to the extent that a task delegated to the body is reclaimed by the competent authority under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016, the competent authority may apply rules (and may vary the rules it applies) made by B in accordance with the requirements of this Part of this Schedule,
- (b) in circumstances where and to the extent that a task delegated to B is reclaimed by the competent authority under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016 and is delegated to another recognised supervisory body, the other recognised supervisory body may apply rules (and may vary the rules it applies) made by B in accordance with the requirements of this Part of the Schedule, and
- (c) in circumstances where and to the extent that a task is not delegated to B by the competent authority under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016, the competent authority may apply rules (and may vary the rules it applies) made by B in accordance with the requirements of paragraphs 12 to 16 of this Schedule.

**Consultation**

**5B.** The body must consult with the competent authority and with other recognised supervisory bodies in making or varying rules in accordance with the requirements of this Schedule.”.

**57.**—(1) Paragraph 6 is amended as follows.

(2) In sub-paragraph (1) for paragraph (aa)(iii), substitute—

“(iii) he meets the requirements of sub-paragraph (1A).”.

(3) In sub-paragraph (1)(b), after “case of a firm” insert “which is not an EEA auditor”.

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

“(c) in the case of a firm which is an EEA auditor—

- (i) each individual responsible for statutory audit work on behalf of the firm is eligible for appointment as a statutory auditor,
- (ii) the firm would be eligible for appointment as a statutory auditor if it were not an EEA auditor or is eligible for a corresponding appointment as an auditor under the law of an EEA State or part of an EEA State, other than the United Kingdom, and
- (iii) if the firm is eligible for a corresponding appointment as an auditor under the law of an EEA State or part of an EEA State other than the United Kingdom, the firm provides proof of its eligibility in the form of a certificate, dated not more than three months before it is provided by the firm, from the competent authority of the EEA State concerned.”.

(5) After sub-paragraph (1) insert—

“(1A) The requirements of this sub-paragraph are that the individual—

- (a) already holds a professional qualification which covers all the subjects which are covered by a recognised professional qualification and which are subjects of which knowledge is essential for the pursuit of the profession of statutory auditor, or

- (b) holds a professional qualification which does not cover all those subjects and has met whichever of the requirements of sub-paragraph (1B) is specified in the body's rules.
- (1B) The body's rules must specify that the condition in sub-paragraph (1A)(b) is satisfied in one of the following ways—
  - (a) only by passing an aptitude test in accordance with sub-paragraph (2),
  - (b) only by completing an adaptation period in accordance with sub-paragraphs (2B) and (2C), or
  - (c) either by passing an aptitude test in accordance with sub-paragraph (2) or by completing an adaptation period in accordance with sub-paragraphs (2B) and (2C), according to the choice of the individual.”.
- (6) Omit sub-paragraph (2A).
- (7) Before sub-paragraph (3) insert—
  - “(2B) An adaptation period is a period, not exceeding three years, in which the individual (“the applicant”) pursues the profession of statutory auditor under the supervision of an individual who holds an appropriate qualification, subject to an assessment (“the ability assessment”) of the applicant’s ability to pursue the profession of statutory auditor in the United Kingdom.
  - (2C) Where the body’s rules specify that the condition in sub-paragraph (1B)(b) can be satisfied by completing an adaptation period—
    - (a) the body must have rules governing the adaptation period and the ability assessment, having regard to the circumstances of each applicant and, in particular, to the fact that each applicant is a qualified professional in another EEA State,
    - (b) the applicant may be required to undergo further training during the adaptation period,
    - (c) the applicant’s performance during the adaptation period must be assessed by the body, and
    - (d) the body must determine the applicant’s professional status during the adaptation period.”.

**58.**—(1) Paragraph 9 is amended as follows.

(2) In sub-paragraph (1)(c) for “from any significant threats to it” substitute “in accordance with the standards mentioned in sub-paragraph (3A)”.

(3) In sub-paragraph (1)(d), for the words after “record” substitute “ the matters required to be recorded in accordance with those standards.”

(4) Omit sub-paragraph (1)(e).

(5) After sub-paragraph (1) insert—

“(1A) The body must have adequate rules and practices designed to ensure that, except where the audited person is a public interest entity—

- (a) an individual who has been appointed as statutory auditor may not be appointed as a director or other officer of the audited person or be concerned in the management of the audited person during a period of not less than one year determined in standards set by the competent authority and commencing on the date on which the individual’s appointment as a statutory auditor ended;



- (b) a key audit partner of a firm which has been appointed as statutory auditor may not be appointed as a director or other officer of the audited person or be concerned in the management of the audited person during a period of not less than one year to be determined in standards set by the competent authority and commencing on the date on which the firm’s appointment as a statutory auditor ended.”.
  - (6) Omit sub-paragraph (2).
  - (7) In sub-paragraph (3), omit paragraphs (a) and (c) and the “and” at the end of paragraph (b).
  - (8) After sub-paragraph (3) insert—
    - “(3A) The rules and practices mentioned in sub-paragraphs (1) and (3) must include provision requiring compliance with standards for the time being determined by the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016.”.
  - (9) In sub-paragraph (4), for “sub-paragraph (3)(b) (confidentiality of information)” substitute “sub-paragraphs (1A) and (3)(b)”.
  - (10) After sub-paragraph (4) insert—
    - “(5) An auditor is not to be regarded as an officer of the audited person for the purposes of sub-paragraph (1A) (a) and (b).”.
- 59.**—(1) Paragraph 10 is amended as follows.
- (2) For sub-paragraph (2) substitute—
    - “(2) The rules and practices mentioned in sub-paragraph (1) must include provision requiring compliance with any standards for the time being determined by the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016.”.
- 60.**—(1) Paragraph 10A is amended as follows.
- (2) For sub-paragraph (2) substitute—
    - “(2) The rules and practices mentioned in sub-paragraph (1) must include provision requiring compliance with any standards for the time being determined by the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016.”.
  - (3) For sub-paragraph (3) substitute—
    - “(3) The body must have rules and practices ensuring that group auditors retain copies of any documents necessary for the purposes of any review in accordance with those standards.”.
  - (4) Omit sub-paragraphs (4) to (6).
- 61.** Omit paragraph 10B.
- 62.**—(1) Paragraph 10C is amended as follows.
- (2) Omit sub-paragraphs (1) and (2).
  - (3) For sub-paragraph (3) substitute—
    - “(3) The body must have adequate rules and practices designed to ensure that—
      - (a) an individual who has been appointed as statutory auditor of a public interest entity may not be appointed as a director or other officer of the entity or be concerned in the management of the entity during a period of not less than two years to be determined in standards set by the competent authority and commencing on the date on which the individual’s appointment as statutory auditor ended;

- (b) a key audit partner of a firm which has been appointed as statutory auditor of a public interest entity may not be appointed as a director or other officer or be concerned in the management of the entity during a period of not less than two years to be determined in standards set by the competent authority and commencing on the date on which the firm's appointment as statutory auditor ended.”.

(4) Omit sub-paragraph (6).

**63.** For paragraph 11 substitute—

“**11.** The body must have rules and practices designed to ensure that persons eligible for appointment as statutory auditors take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.”.

**64.**—(1) Paragraph 12 is amended as follows.

(2) For sub-paragraph (2) substitute—

“(2) The arrangements for monitoring must make provision for that function to be performed by the competent authority or any body to whom that authority has delegated tasks in accordance with regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016.”.

(3) For sub-paragraph (3) substitute—

“(3) The arrangements for enforcement must—

- (a) make provision for that function to be performed by the competent authority or any body to whom that authority has delegated tasks in accordance with regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016;
- (b) include provision for sanctions which include—
  - (i) the withdrawal of eligibility for appointment as a statutory auditor;
  - (ii) a notice requiring the person responsible for any breach to cease the conduct amounting to a breach and to abstain from repeating such conduct;
  - (iii) a public statement identifying the person responsible for any breach and the nature of the breach (which may take the form of a reprimand or a severe reprimand);
  - (iv) a temporary prohibition preventing a person responsible for any breach from carrying out statutory audits or signing audit reports;
  - (v) a temporary prohibition of up to three years preventing a person responsible for any breach from exercising specified functions in a firm that is eligible for appointment as a statutory auditor or in a public interest entity;
  - (vi) a declaration that the audit report does not satisfy the audit reporting requirements and, where appropriate, a declaration as to the proportion of the audit fee that is not payable as a result;
  - (vii) an appropriate financial penalty;
  - (viii) a requirement to take action to mitigate the effect or prevent the recurrence of the contravention;
  - (ix) exclusion from membership of the body; and
- (c) include provision for the body to make available to the public information relating to the steps it has taken to ensure the effective enforcement of its rules.”.

(4) After sub-paragraph (3) insert—

“(4) The sanctions referred to in sub-paragraph (3)(b)(v) must apply to persons who are no longer members of the body as they apply to members.

(5) The information to be made available to the public under sub-paragraph (3)(c) must include the following information (which the body must continue to make available in accordance with sub-paragraph (7)) in relation to sanctions the body imposes—

- (a) information concerning the type of contravention and its nature;
- (b) the identity of the person sanctioned, unless any of the circumstances mentioned in sub-paragraph (6) applies; and
- (c) where a sanction is subject to appeal, information concerning the status and outcome of any appeal.

(6) The circumstances in which the identity of the person sanctioned must not be made available to the public are—

- (a) where that person is an individual and the body considers the publication of personal data would be disproportionate;
- (b) where publication would jeopardise the stability of financial markets;
- (c) where publication would jeopardise an ongoing criminal investigation; and
- (d) where publication would cause disproportionate damage to any institution or individual involved.

(7) Information in relation to sanctions mentioned in sub-paragraph (3) must continue to be made available for a proportionate period and must be published on the body’s website for at least five years after the relevant date.

(8) In sub-paragraph (7), “the relevant date” means—

- (a) where the body imposes a sanction and that decision is appealed, the date on which the appeal is determined;
- (b) where the body imposes a sanction and that decision is not appealed, the date by which any appeal was required to be lodged.”.

65. For paragraphs 13 and 14 substitute—

**“Monitoring of audits**

**13.—(1)** The body must—

- (a) have adequate arrangements for enabling the performance by its members of statutory audit functions to be monitored by means of inspections, where functions relating to the monitoring of the audits are the subject of a delegation of tasks to the body under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016;
- (b) in the case of members of the body who perform any statutory audit functions in respect of audits where functions relating to the monitoring of the audits are not the subject of such a delegation—
  - (i) have arrangements for the monitoring of those audits by the competent authority in accordance with those Regulations and, in respect of public interest entities, Article 26 of the EU Audit Regulation; and
  - (ii) have rules and practices designed to ensure that a sanction imposed by the competent authority in accordance with those Regulations is to be treated

- as if it were a sanction which the body had determined under arrangements for enforcement within paragraph 12;
- (c) in the case of members of the body who perform any third country audit functions—
- (i) have arrangements for the monitoring of those audits by the competent authority in accordance with the Statutory Auditors and Third Country Auditors Regulations 2016; and
  - (ii) have rules and practices designed to ensure that a sanction imposed by the competent authority in accordance with those Regulations is to be treated as if it were a sanction which the body had determined under arrangements for enforcement within paragraph 12; and
- (d) 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 or third country audit functions to be monitored by means of inspections.
- (2) Any monitoring of members of the body under the Statutory Auditors and Third Country Auditors Regulations 2016 or Article 26 of the EU Audit Regulation is to be regarded (so far as their performance of statutory audit functions, or of third country audit functions, 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—
- (a) make provision for inspections to be conducted by the competent authority or any recognised supervisory body to whom that authority has delegated tasks in accordance with regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016; and
  - (b) include an inspection which is conducted in relation to each person eligible for appointment as a statutory auditor—
    - (i) at such frequency as the body considers appropriate given the risks arising from the statutory audit work undertaken by the person eligible for appointment as a statutory auditor; and
    - (ii) at least once every six years in the case of a person who, during any of the previous five years, has carried out a statutory audit of an entity not subject to the small companies regime (see section 381).
- (4) The arrangements must provide that the determination by the body of the frequency of inspections under sub-paragraph (3)(b)(i) is subject to any direction by the competent authority.
- (5) 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) have declared that they do not have any interests likely to conflict with the proper conduct of the inspection;

- (e) have not been an employee or partner or member of the management body of the person subject to inspection and have not been otherwise associated with that person for at least three years before the inspection.
- (6) The inspection must review one or more statutory audits in which the person to whom the inspection relates has participated.
- (7) The inspection must include an assessment of—
  - (a) the person’s compliance with the standards set by the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016;
  - (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.
- (8) The inspection must be appropriate and proportionate in view of the scale and complexity of the statutory audit work of the person subject to inspection.
- (9) Where undertaking inspections of statutory audits of undertakings that qualify as small (see sections 382 and 383) or medium sized (see sections 465 and 466) the body must take account of the fact that the standards determined by the competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016 are designed to be applied in a manner that is proportionate to the scale and complexity of the business of the audited person.
- (10) 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.
- (11) 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.
- (12) 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.

### **Membership, eligibility and enforcement**

- 14.** The rules and practices of the body relating to—
- (a) the admission and expulsion of members,
  - (b) the grant and withdrawal of eligibility for appointment as a statutory auditor by the body, where this task has been delegated to the body by the competent authority under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016, and
  - (c) the enforcement action the body takes in respect of its members, where tasks related to the competent authority’s responsibility for imposing and enforcing sanctions have been delegated to the body under that regulation,

must be fair and reasonable and include adequate provision for appeals.”.

**66.**—(1) Paragraph 15 is amended as follows.

(2) For sub-paragraph (2) substitute—

“(2) The arrangements mentioned in sub-paragraph (1) must make provision for the whole or part of the function of investigating those complaints to be performed by the

competent authority under the Statutory Auditors and Third Country Auditors Regulations 2016.”.

67. For paragraph 16 substitute—

**“Independent investigation for enforcement purposes**

16.—(1) The body must have rules and practices designed to ensure that, where the competent authority has decided that any particular enforcement action should be taken against a member of the body following the conclusion of an investigation under the Statutory Auditors and Third Country Auditors Regulations 2016, that decision is to be treated as if it were a decision made by the body in enforcement proceedings against the member.

(2) The body must have adequate arrangements as part of its rules and practices—

- (a) to facilitate the conduct of investigations into non-delegated cases by the competent authority in connection with the performance of statutory audit functions or third country audit functions by members of the body;
- (b) for the holding by the competent authority of hearings relating to members of the body in accordance with the Statutory Auditors and Third Country Auditors Regulations 2016, where necessary following those investigations; and
- (c) for making decisions by the competent authority following those investigations as to whether (and, if so, what) enforcement action should be taken against members of the body.

(3) “Non-delegated cases” means matters relating to tasks which have not been delegated to the body by the competent authority under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016.”.

68.—(1) Paragraph 16A is amended as follows.

(2) For the words “audit working papers”, wherever they appear, substitute “audit working papers and investigation reports”.

69.—(1) Paragraph 16AB is amended as follows.

(2) For the words “audit working papers”, wherever they appear, substitute “audit working papers and investigation reports”.

70. After paragraph 20 insert—

**“Supplementary: funding of arrangements**

20ZA.—(1) This paragraph applies where, under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016, the competent authority has delegated the task of approving persons as eligible for appointment as statutory auditors to a body (“B”).

(2) B must pay the costs incurred by—

- (a) the competent authority in carrying out activities mentioned in paragraphs 9 to 10C, 12, 13 and 16, or
- (b) another recognised supervisory body, in carrying out those activities as a result of the competent authority delegating a task to the other body,

in relation to any statutory auditor bound by B’s rules.”.

71. For paragraph 20A substitute—

## “Interpretation

### 20A. In this Part of this Schedule—

“audit reporting requirements” has the meaning given by regulation 2 of the Statutory Auditors and Third Country Auditors Regulations 2016 as amended from time to time;

“issuer” has the same meaning as in Part 6 of the Financial Services and Markets Act 2000 (see section 102A(6));

“key audit partner” means—

- (a) the statutory auditor designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm; or
- (b) in the case of a group audit, the statutory auditor designated by an audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor designated as being primarily responsible at the level of material subsidiaries; or
- (c) the statutory auditor who signs the audit report.

“public interest entity” means—

- (a) an issuer whose transferable securities are admitted to trading on a regulated market;
- (b) a credit institution within the meaning given by Article 4(1)(1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, other than one listed in Article 2 of [Directive 2013/36/EU](#) of the European Parliament and of the Council on access to the activity of credit institutions and investment firms;
- (c) an insurance undertaking within the meaning given by Article 2(1) of Council Directive [1991/674/EEC](#) of the European Parliament and of the Council on the annual accounts and consolidated accounts of insurance undertakings,

“regulated market” has the same meaning as in Part 6 of the Financial Services and Markets Act 2000 (see section 103(1));

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

“third country audit function” means any function related to the audit of a UK-traded non-EEA company or of an equivalent body corporate whose transferable securities are admitted to trading on a regulated market situated or operating in another EEA state; 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.”.

72. Part 3 is repealed.

73.—(1) Schedule 11A (specified persons, descriptions, disclosures etc for the purposes of section 1224A) is amended as follows.

(2) For paragraph 16 substitute—

“16. The competent authority.”.

(3) In paragraph 80, for the words “audit working papers” in both places where they appear substitute “audit working papers and investigation reports”.

**Draft Legislation:** This is a draft item of legislation. This draft has since been made as a UK Statutory Instrument: *The Statutory Auditors and Third Country Auditors Regulations 2016 No. 649*