

SCHEDULE 10

RECOGNISED SUPERVISORY BODIES

Section 1217

Part 1

Grant and Revocation of Recognition of a Supervisory Body

Application for recognition of supervisory body

1

- (1) A supervisory body may apply to the Secretary of State for an order declaring it to be a recognised supervisory body for the purposes of this Part of this Act ("a recognition order").
- (2) Any such application must be--
 - (a) made in such manner as the Secretary of State may direct, and
 - (b) accompanied by such information as the Secretary of State may reasonably require for the purpose of determining the application.
- (3) At any time after receiving an application and before determining it the Secretary of State may require the applicant to furnish additional information.
- (4) The directions and requirements given or imposed under sub-paragraphs (2) and (3) may differ as between different applications.
- (5) The Secretary of State may require any information to be furnished under this paragraph to be in such form or verified in such manner as he may specify.
- (6) Every application must be accompanied by--
 - (a) a copy of the applicant's rules, and
 - (b) a copy of any guidance issued by the applicant in writing.
- (7) The reference in sub-paragraph (6)(b) to guidance issued by the applicant is a reference to any guidance or recommendation--
 - (a) issued or made by it to all or any class of its members or persons seeking to become members,
 - (b) relevant for the purposes of this Part, and
 - (c) intended to have continuing effect,

including any guidance or recommendation relating to the admission or expulsion of members of the body, so far as relevant for the purposes of this Part.

Grant and refusal of recognition

2

- (1) The Secretary of State may, on an application duly made in accordance with paragraph 1 and after being furnished with all such information as he may require under that paragraph, make or refuse to make a recognition order in respect of the applicant.

(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.

(3) The Secretary of State may refuse to make a recognition order in respect of a body if he considers that its recognition is unnecessary having regard to the existence of one or more other bodies which--

- (a) maintain and enforce rules as to the appointment and conduct of statutory auditors, and
- (b) have been or are likely to be recognised.

(4) Where the Secretary of State refuses an application for a recognition order he must give the applicant a written notice to that effect--

- (a) specifying which requirements, in the opinion of the Secretary of State, are not satisfied, or
- (b) stating that the application is refused on the ground mentioned in sub-paragraph (3).

(5) A recognition order must state the date on which it takes effect.

Revocation of recognition

3

(1) A recognition order 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 is not satisfied in the case of the body to which the recognition order relates ("the recognised 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, 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.

(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.

(2) An order revoking a recognition order must state the date on which it takes effect, which must be after the period of three months beginning with the date on which the revocation order is made.

(3) Before revoking a recognition order the Secretary of State must--

- (a) give written notice of his intention to do so to the recognised body,
- (b) take such steps as he considers reasonably practicable for bringing the notice to the attention of the members of the body, and

- (c) publish the notice in such manner as he thinks appropriate for bringing it to the attention of any other persons who are in his opinion likely to be affected.
- (4) A notice under sub-paragraph (3) must--
- (a) state the reasons for which the Secretary of State proposes to act, and
 - (b) give particulars of the rights conferred by sub-paragraph (5).
- (5) A person within sub-paragraph (6) may, within the period of three months beginning with the date of service or publication of the notice under sub-paragraph (3) or such longer period as the Secretary of State may allow, make written representations to the Secretary of State and, if desired, oral representations to a person appointed for that purpose by the Secretary of State.
- (6) The persons within this sub-paragraph are--
- (a) the recognised body on which a notice is served under sub-paragraph (3),
 - (b) any member of the body, and
 - (c) any other person who appears to the Secretary of State to be affected.
- (7) The Secretary of State must have regard to any representations made in accordance with sub-paragraph (5) in determining whether to revoke the recognition order.
- (8) If in any case the Secretary of State considers it essential to do so in the public interest he may revoke a recognition order without regard to the restriction imposed by sub-paragraph (2), even if--
- (a) no notice has been given or published under sub-paragraph (3), or
 - (b) the period of time for making representations in pursuance of such a notice has not expired.
- (9) An order revoking a recognition order may contain such transitional provision as the Secretary of State thinks necessary or expedient.
- (10) A recognition order may be revoked at the request or with the consent of the recognised body and any such revocation is not subject to--
- (a) the restrictions imposed by sub-paragraphs (1), (1A) and (2), or
 - (b) the requirements of sub-paragraphs (3) to (5) and (7).
- (11) On making an order revoking a recognition order in respect of a body the Secretary of State must--
- (a) give written notice of the making of the order to the body,
 - (b) take such steps as he considers reasonably practicable for bringing the making of the order to the attention of the members of the body, and
 - (c) publish a notice of the making of the order in such manner as he thinks appropriate for bringing it to the attention of any other persons who are in his opinion likely to be affected.

Transitional provision

4

A recognition order made and not revoked under--

- (a) paragraph 2(1) of Schedule 11 to the Companies Act 1989 (c 40), or

- (b) paragraph 2(1) of Schedule 11 to the Companies (Northern Ireland) Order 1990 (SI 1990/593 (NI 5)),

before the commencement of this Chapter of this Part of this Act is to have effect after the commencement of this Chapter as a recognition order made under paragraph 2(1) of this Schedule.

Orders not statutory instruments

5

Orders under this Part of this Schedule shall not be made by statutory instrument.

Part 2

Requirements for Recognition of a Supervisory Body

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.

Holding of appropriate qualification

6

(1) The body must have rules to the effect that a person is not eligible for appointment as a statutory auditor unless--

(a) in the case of an individual other than an EEA auditor, he holds an appropriate qualification,

(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 (SI 2005/18) and has fulfilled any requirements imposed pursuant to regulation 6 of those Regulations, or

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

(b) in the case of a firm which is not an EEA auditor--

(i) each individual responsible for statutory audit work on behalf of the firm is eligible for appointment as a statutory auditor, and

(ii) the firm is controlled by qualified persons (see paragraph 7 below).

(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.

(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.

(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.

(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.

(3) A firm which has ceased to comply with the conditions mentioned in sub-paragraph (1)(b) may be permitted to remain eligible for appointment as a statutory auditor for a period of not more than three months.

7

(1) This paragraph explains what is meant in paragraph 6(1)(b) by a firm being "controlled by qualified persons".

(2) In this paragraph references to a person being qualified are--

(a) in relation to an individual, to his holding--

(i) an appropriate qualification, or

(ii) a corresponding qualification to audit accounts under the law of an EEA State, or part of an EEA State, other than the United Kingdom;

(b) in relation to a firm, to its--

(i) being eligible for appointment as a statutory auditor, or

(ii) being 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.

(3) A firm is to be treated as controlled by qualified persons if, and only if--

(a) a majority of the members of the firm are qualified persons, and

(b) where the firm’s affairs are managed by a board of directors, committee or other management body, a majority of that body are qualified persons or, if the body consists of two persons only, at least one of them is a qualified person.

(4) A majority of the members of a firm means--

(a) where under the firm’s constitution matters are decided upon by the exercise of voting rights, members holding a majority of the rights to vote on all, or substantially all, matters;

(b) in any other case, members having such rights under the constitution of the firm as enable them to direct its overall policy or alter its constitution.

(5) A majority of the members of the management body of a firm means--

- (a) where matters are decided at meetings of the management body by the exercise of voting rights, members holding a majority of the rights to vote on all, or substantially all, matters at such meetings;
- (b) in any other case, members having such rights under the constitution of the firm as enable them to direct its overall policy or alter its constitution.

(6) Paragraphs 5 to 11 of Schedule 7 to this Act (rights to be taken into account and attribution of rights) apply for the purposes of this paragraph.

Auditors to be fit and proper persons

8

(1) The body must have adequate rules and practices designed to ensure that the persons eligible under its rules for appointment as a statutory auditor are fit and proper persons to be so appointed.

(2) The matters which the body may take into account for this purpose in relation to a person must include--

(a) any matter relating to any person who is or will be employed by or associated with him for the purposes of or in connection with statutory audit work;

(b) in the case of a body corporate, any matter relating to--

(i) any director or controller of the body,

(ii) any other body corporate in the same group, or

(iii) any director or controller of any such other body; and

(c) in the case of a partnership, any matter relating to--

(i) any of the partners,

(ii) any director or controller of any of the partners,

(iii) any body corporate in the same group as any of the partners, or

(iv) any director or controller of any such other body.

(3) Where the person is a limited liability partnership, in sub-paragraph (2)(b) "director" is to be read as "member".

(4) In sub-paragraph (2)(b) and (c) "controller", in relation to a body corporate, means a person who either alone or with an associate or associates is entitled to exercise or control the exercise of 15% or more of the rights to vote on all, or substantially all, matters at general meetings of the body or another body corporate of which it is a subsidiary.

Professional integrity and independence

9

(1) The body must have adequate rules and practices designed to ensure that--

(a) statutory audit work is conducted properly and with integrity, . . .

(b) persons are not appointed as statutory auditors in circumstances in which they have an interest likely to conflict with the proper conduct of the audit,

(c) persons appointed as statutory auditors take steps to safeguard their independence-in accordance with the standards mentioned in sub-paragraph (3A),

(d) persons appointed as statutory auditors record the matters required to be recorded in accordance with those standards.

(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.

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

(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;

(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.

(4) The rules referred to in sub-paragraphs (1A) and (3)(b) 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 is not to be regarded as an officer of the audited person for the purposes of sub-paragraph (1A) (a) and (b).

Technical standards

10

(1) The body must have rules and practices as to--

- (a) the technical standards to be applied in statutory audit work, and
- (b) the manner in which those standards are to be applied in practice.

(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.

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 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) 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.

(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 independence requirements

10C

(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) 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).

Procedures for maintaining competence

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.

Monitoring and enforcement

12

(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.
- (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) 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) 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.

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.

Investigation of complaints

15

- (1) The body must have effective arrangements for the investigation of complaints against--
 - (a) persons who are eligible under its rules for appointment as a statutory auditor, and
 - (b) the body in respect of matters arising out of its functions as a supervisory body.
- (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.

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.

Transfer of papers to third countries

16A

(1) The body must have adequate rules and practices designed to ensure that a person eligible under its rules for appointment as a statutory auditor transfers audit working papers and investigation reports to a third country competent authority only in accordance with the requirements of--

- (a) paragraph 16AA (transfer to approved third country competent authority), or
- (b) paragraph 16AB (transfer for purposes of investigation).

(2) 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 must refuse to transfer audit working papers and investigation reports to a third country competent authority if the Secretary of State directs under section 1253E(6) that such a transfer should not take place.

Transfer to approved third country competent authority

16AA

The requirements of this paragraph are that--

- (a) the transfer is to an approved third country competent authority, and
- (b) the Secretary of State has approved the transfer.

Transfer for purposes of investigation of auditor

16AB

(1) The requirements of this paragraph are that--

- (a) the transfer to the third country competent authority is made for the purposes of an investigation of an auditor or audit firm, and
- (b) the following conditions are met.

(2) The first condition is that the authority has requested the audit working papers and investigation reports for the purposes of an investigation which has been initiated by itself or another third country competent authority established in the same third country.

(3) The second condition is that the audit working papers and investigation reports relate to audits of companies that--

- (a) have issued securities in that third country, or
- (b) form part of a group issuing statutory consolidated accounts in that third country.

(4) The third condition is that, where the authority has made the request for the audit working papers and investigation reports directly to the statutory auditor, the authority has given the Secretary of State advance notice of the request, indicating the reasons for it.

(5) The fourth condition is that the authority has entered into arrangements with the Secretary of State in accordance with section 1253E.

Meeting of claims arising out of audit work

17

- (1) The body must have adequate rules or arrangements designed to ensure that persons eligible under its rules for appointment as a statutory auditor take such steps as may reasonably be expected of them to secure that they are able to meet claims against them arising out of statutory audit work.
- (2) This may be achieved by professional indemnity insurance or other appropriate arrangements.

Register of auditors and other information to be made available

18

The body must have rules requiring persons eligible under its rules for appointment as a statutory auditor to comply with any obligations imposed on them by--

- (a) requirements under section 1224 (Secretary of State's power to call for information);
- (b) regulations under section 1239 (the register of auditors);
- (c) regulations under section 1240 (information to be made available to the public).

Taking account of costs of compliance

19

The body must have satisfactory arrangements for taking account, in framing its rules, of the cost to those to whom the rules would apply of complying with those rules and any other controls to which they are subject.

Promotion and maintenance of standards

20

The body must be able and willing--

- (a) to promote and maintain high standards of integrity in the conduct of statutory audit work, and
- (b) to co-operate, by the sharing of information and otherwise, with the Secretary of State and any other authority, body or person having responsibility in the United Kingdom for the qualification, supervision or regulation of auditors.

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.

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.

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.