STATUTORY INSTRUMENTS

2017 No. 516

AUDITORS

The Statutory Auditors and Third Country Auditors Regulations 2017

Made - - - - 30th March 2017

Laid before Parliament 5th April 2017
Coming into force in accordance with regulation 1(2) and (3)

The Secretary of State is a Minister designated(**1**) for the purposes of section 2(2) of the European Communities Act 1972(**2**) in relation to auditors and the audit of accounts.

The Secretary of State makes the following Regulations in exercise of the powers conferred by that section.

PART 1

Introductory

Citation, commencement, application and interpretation

1.—(1) These Regulations may be cited as the Statutory Auditors and Third Country Auditors Regulations 2017.

(2) These Regulations, apart from regulation 13(4)(b), come into force on 1st May 2017.

(3) Regulation 13(4)(b) comes into force on 1st October 2018.

(4) The amendments made by Part 2 have effect for financial years of building societies beginning on or after 17th June 2016.

(5) The amendments made by Part 3 and regulation 13(2) (and regulation 13(1) insofar as it relates to regulation 13(2)) have effect for financial years of friendly societies beginning on or after 17th June 2016.

(**1**) S.I. 2007/1679.
(**2**) 1972 c. 68. Section 2(2) was amended by section 27 of the Legislation and Regulatory Reform Act 2006 (c. 51) and by section 3 of, and Part 1 of the Schedule to, the European Union (Amendment) Act 2008 (c. 7). Other amendments have been made that are not relevant.

(6) The amendments made by regulation 12 have effect for financial years of companies beginning on or after 17th June 2016.

(7) The amendments made by regulation 15 have effect for financial years for Lloyd's syndicate and aggregate accounts beginning on or after 17th June 2016.

(8) The amendments made by these Regulations to Part 16 of the Companies Act 2006 do not have effect in relation to the application of any provision of that Part to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008(**3**).

(9) In this regulation—

"building society" means a building society within the meaning of the Building Societies Act 1986(**4**);

"company" means a company within the meaning of section 1(1) of the Companies Act 2006(**5**);

"financial year"—

(a) in relation to building societies, has the meaning given by sections 117 and 117A of the Building Societies Act 1986(**6**);

(b) in relation to friendly societies, has the meaning given by section 118 of the Friendly Societies Act 1992(**7**);

(c) in relation to companies, has the meaning given by section 390 of the Companies Act 2006;

(d) in relation to Lloyd's syndicate and aggregate accounts, has the meaning given by regulation 2(1) of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008(**8**);

"friendly society" means a friendly society within the meaning of the Friendly Societies Act 1992(**9**);

"limited liability partnership" has the meaning given by section 1 of the Limited Liability Partnerships Act 2000(**10**); and

"Lloyd's syndicate and aggregate accounts" means accounts required to be prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

(**3**) 2008/1911, amended by S.I. 2009/1342, 2009/1804, 2011/99, 2011/1043, 2012/1439, 2012/1741, 2012/2301, 2013/472, 2013/2005, 2014/1815 and 2016/575, and modified by S.I. 2011/245.
(**4**) 1986 c. 53. See in particular section 119 of that Act for the definition of building society, to which there are amendments but none is relevant.
(**5**) 2006 c. 46.
(**6**) Section 117 has been amended by paragraph 15 of Schedule 9 to the Financial Services (Banking Reform) Act 2013 (c. 33), and section 117A was inserted by paragraph 16 of Schedule 9 to that Act.
(**7**) 1992 c. 40.
(**8**) 2008/1950, amended by S.I. 2013/472.
(**9**) See in particular section 116 of that Act, to which there is an amendment but which is not relevant, for the definition of friendly society.
(**10**) 2000 c. 12.

PART 2

Amendments to Part 8 of the Building Societies Act 1986

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2.—(1) Part 8 of the Building Societies Act 1986 is amended as follows.

(2) In section 78 (auditor's report)(**11**)—

(a) for subsection (4) substitute—

"(4) The report must clearly state the opinion of the auditor as to whether the accounts—

(a) give a true and fair view—

(i) in the case of an individual balance sheet, of the state of affairs of the society as at the end of the financial year,

(ii) in the case of an individual income and expenditure account, of the income and expenditure of the society for the financial year, and

(iii) in the case of group accounts, of the state of affairs as at the end of the financial year and the income and expenditure for the financial year of the society and the subsidiary undertakings dealt with in the group accounts, so far as concerns members of the society,

(b) have been properly prepared in accordance with the relevant financial reporting framework, and

(c) have been prepared in accordance with the requirements of this Act (and, where applicable, Article 4 of the IAS Regulation).";

(b) in subsection (4A)—

(i) for the first occurrence of "opinion" substitute "report";

(ii) in paragraph (b), for "audit opinion" substitute "report";

(iii) in paragraph (c) for "as a going concern" substitute "to adopt the going concern basis of accounting";

(c) in subsection (6), for "(4)(b)" substitute "(4)(a)".

(3) In section 78A (signature of auditor's report)(**12**)—

(a) omit subsection (2A);

(b) after subsection (3) insert—

"(4) Where more than one person is appointed as auditor, the report must be signed by all those appointed.".

(4) In section 78C (names to be stated in copies of auditor's report filed or published)(**13**), in subsection (1A), for "individual" substitute "person".

(5) In section 79 (auditor's duties and powers)(**14**), in subsections (1)(a) and (2)(a) for "proper" substitute "adequate".

(**11**) Section 78 was amended by S.I. 1995/3233, 2004/3380, 2008/1519 and 2016/649; there are other amendments but none is relevant.
(**12**) Section 78A was inserted by S.I. 2004/3380 and then substituted by S.I. 2008/1519. It was amended by S.I. 2016/649.
(**13**) Section 78C was inserted by S.I. 2008/1519, and amended by S.I. 2013/496 and 2016/649.
(**14**) Section 79 was amended by S.I. 2001/2617, 2008/1519 and 2016/649; there are other amendments but none is relevant.

(6) In Schedule 11 (auditors: appointment, tenure)(**15**)—

(a) omit paragraph 3A;

(b) in paragraph 3B—

(i) in sub-paragraph (2)(b), omit from ", including the following" to the end;

(ii) in sub-paragraph (3), omit "or directors";

(iii) in sub-paragraph (4)(a), at the end insert "drawn from those auditors who have participated in a selection procedure under sub-paragraph (3),";

(iv) in sub-paragraph (4)(c), for "paragraph 3A" substitute "Article 16(6) of the Audit Regulation";

(v) for sub-paragraphs (5) to (7) substitute—

"(5) The directors must include in their proposal—

(a) the recommendation made by the audit committee in connection with the appointment, and

(b) if the proposal of the directors departs from the preference of the audit committee—

(i) a recommendation for a candidate or candidates for appointment drawn from those auditors who have participated in a selection procedure under sub-paragraph (3), and

(ii) the reasons for not following the audit committee's recommendation.

(6) Where the audit committee recommends re-appointment of the society's existing auditor or auditors, and the directors are in agreement, sub-paragraphs (3) and (4)(a) and (b) do not apply.";

(c) in paragraph 3C—

(i) in sub-paragraph (3), at the end insert ", from which their proposed auditor or auditors must be drawn";

(ii) for sub-paragraphs (4) to (6) substitute—

"(4) Sub-paragraph (3) does not apply in relation to a proposal to re-appoint the society's existing auditor or auditors.";

(d) after paragraph 3C insert—

"**3D.**—(1) A person who has been, or will have been, auditor of a building society in respect of every financial year comprised in the maximum engagement period may not be appointed as auditor of the society in respect of any financial year which begins within the period of 4 years beginning with the day after the last day of the last financial year of the maximum engagement period.

(2) A person who is a member of the same network as the auditor mentioned in sub-paragraph (1) may not be appointed as auditor of the society in respect of any financial year which begins within the period of 4 years mentioned in that sub-paragraph.

(3) In this paragraph "network" means an association of persons, other than a firm, co-operating in audit work by way of—

(a) profit-sharing;

(b) cost-sharing;

(**15**) Paragraphs 3A to 3C, 5A and 5B of Schedule 11 were inserted by S.I. 2016/649; there are other amendments to Schedule 11 but none is relevant.

(c) common ownership, control or management;

(d) common quality control policies and procedures;

(e) common business strategy; or

(f) use of a common name.

3E.—(1) Where a person is auditor of a building society in respect of consecutive financial years, the maximum engagement period of the person as auditor of the society—

(a) begins with the first of those years (see the appropriate entry in the first column of the following Table), and

(b) ends with the financial year specified in the corresponding entry in the second column of the Table:

First financial year of the maximum engagement period	**Last financial year of the maximum engagement period**
A financial year of the society beginning before 17 June 1994	The last financial year of the society to begin before 17 June 2020.
A financial year of the society beginning— (a) on or after 17 June 1994, and (b) before 17 June 2003	The last financial year of the society to begin before 17 June 2023.
A financial year of the society beginning— (a) on or after 17 June 2003, and (b) before 17 June 2016	*No qualifying selection procedure* Where neither the first financial year of the maximum engagement period nor any subsequent financial year is one in respect of which the auditor has been appointed following the carrying out of a qualifying selection procedure, the later of- (a) the last financial year of the society to begin before 17 June 2016, and (b) the last financial year of the society to begin within the period of 10 years beginning with the first day of the first financial year of the maximum engagement period. *No qualifying selection procedure within 10 years* Where the last day of the last financial year of the society to begin within the period of 10 years beginning with the first day of the last financial year of the