

SCHEDULES

SCHEDULE 11

Article 33(5)

RECOGNITION OF SUPERVISORY BODY

PART I

GRANT AND REVOCATION OF RECOGNITION

Application for recognition of supervisory body

1.—(1) A supervisory body may apply to the Department for an order declaring it to be a recognised supervisory body for the purposes of Part III of this Order.

(2) Any such application—

(a) shall be made in such manner as the Department may direct, and

(b) shall be accompanied by such information as the Department may reasonably require for the purpose of determining the application.

(3) At any time after receiving an application and before determining it the Department 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) Any information to be furnished to the Department under this paragraph shall, if it so requires, be in such form or verified in such manner as it may specify.

(6) Every application shall be accompanied by a copy of the applicant's rules and of any guidance issued by the applicant which is intended to have continuing effect and is issued in writing or other legible form.

Grant and refusal of recognition

2.—(1) The Department may, on an application duly made in accordance with paragraph 1 and after being furnished with all such information as it may require under that paragraph, make or refuse to make an order (a "recognition order") declaring the applicant to be a recognised supervisory body for the purposes of Part III of this Order.

(2) The Department shall not make a recognition order unless it appears to it, from the information furnished by the body and having regard to any other information in its possession, that the requirements of Part II of this Schedule are satisfied as respects that body.

(3) The Department may refuse to make a recognition order in respect of a body if it considers that its recognition is unnecessary having regard to the existence of one or more other bodies which maintain and enforce rules as to the appointment and conduct of company auditors and which have been or are likely to be recognised.

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(4) Where the Department refuses an application for a recognition order it shall give the applicant a written notice to that effect specifying which requirements in the opinion of the Department are not satisfied or stating that the application is refused on the ground mentioned in sub-paragraph (3).

(5) A recognition order shall 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 Department if at any time it appears to it—

- (a) that any requirement of Part II of this Schedule is not satisfied in the case of the body to which the recognition order relates (“the recognised body”),
- (b) that the recognised body has failed to comply with any obligation to which it is subject by virtue of Part III of this Order, 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.

(2) An order revoking a recognition order shall state the date on which it takes effect and that date shall not be earlier than 3 months after the day on which the revocation order is made.

(3) Before revoking a recognition order the Department shall give written notice of its intention to do so to the recognised body, take such steps as it considers reasonably practicable for bringing the notice to the attention of members of the body and publish it in such manner as it thinks appropriate for bringing it to the attention of any other persons who are in its opinion likely to be affected.

(4) A notice under sub-paragraph (3) shall state the reasons for which the Department proposes to act and give particulars of the rights conferred by sub-paragraph (5).

(5) A body on which a notice is served under sub-paragraph (3), any member of the body and any other person who appears to the Department to be affected may within 3 months after the date of service or publication, or within such longer time as the Department may allow, make written representations to the Department and, if desired, oral representations to a person appointed for that purpose by the Department; and the Department shall have regard to any representations made in accordance with this sub-paragraph in determining whether to revoke the recognition order.

(6) If in any case the Department considers it essential to do so in the public interest it may revoke a recognition order without regard to the restriction imposed by sub-paragraph (2) and notwithstanding that no notice has been given or published under sub-paragraph (3) or that the time for making representations in pursuance of such a notice has not expired.

(7) An order revoking a recognition order may contain such transitional provisions as the Department thinks necessary or expedient.

(8) A recognition order may be revoked at the request or with the consent of the recognised body and any such revocation shall not be subject to the restrictions imposed by sub-paragraphs (1) and (2) or the requirements of sub-paragraphs (3) to (5).

(9) On making an order revoking a recognition order the Department shall give the body written notice of the making of the order, take such steps as it considers reasonably practicable for bringing the making of the order to the attention of members of the body and publish a notice of the making of the order in such manner as it thinks appropriate for bringing it to the attention of any other persons who are in its opinion likely to be affected.

PART II

REQUIREMENTS FOR RECOGNITION

Holding of appropriate qualification

4.—(1) The body must have rules to the effect that a person is not eligible for appointment as a company auditor unless—

- (a) in the case of an individual, he holds an appropriate qualification;
- (b) in the case of a firm—
 - (i) the individuals responsible for company audit work on behalf of the firm hold an appropriate qualification, and
 - (ii) the firm is controlled by qualified persons (see paragraph 5).

(2) This does not prevent the body from imposing more stringent requirements.

(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 company auditor for a period of not more than 3 months.

5.—(1) The following provisions explain what is meant in paragraph 4(1)(b)(ii) by a firm being “controlled by qualified persons”.

(2) For this purpose references to a person being qualified are, in relation to an individual, to his holding an appropriate qualification, and in relation to a firm, to its being eligible for appointment as a company auditor.

(3) A firm shall 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 the members 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) The provisions of paragraphs 5 to 11 of Schedule 10A to the 1986 Order (rights to be taken into account and attribution of rights) apply for the purposes of this paragraph.

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Auditors to be fit and proper persons

6.—(1) The body must have adequate rules and practices designed to ensure that the persons eligible under its rules for appointment as a company 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 company audit work; and
- (b) in the case of a body corporate, any matter relating to any director or controller of the body, to any other body corporate in the same group or to any director or controller of any such other body; and
- (c) in the case of a partnership, any matter relating to any of the partners, any director or controller of any of the partners, any body corporate in the same group as any of the partners and any director or controller of any such other body.

(3) In sub-paragraph (2)(b) and (c) “controller”, in relation to a body corporate, means a person who either alone or with any associate or associates is entitled to exercise or control the exercise of 15 per cent. 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

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

- (a) that company audit work is conducted properly and with integrity, and
- (b) that persons are not appointed company auditor in circumstances in which they have any interest likely to conflict with the proper conduct of the audit.

(2) The body must also have adequate rules and practices designed to ensure that no firm is eligible under its rules for appointment as a company auditor unless the firm has arrangements to prevent—

- (a) individuals who do not hold an appropriate qualification, and
- (b) persons who are not members of the firm,

from being able to exert any influence over the way in which an audit is conducted in circumstances in which that influence would be likely to affect the independence or integrity of the audit.

Technical standards

8. The body must have rules and practices as to the technical standards to be applied in company audit work and as to the manner in which those standards are to be applied in practice.

Procedures for maintaining competence

9. The body must have rules and practices designed to ensure that persons eligible under its rules for appointment as a company auditor continue to maintain an appropriate level of competence in the conduct of company audits.

Monitoring and enforcement

10.—(1) The body must have adequate arrangements and resources for the effective monitoring and enforcement of compliance with its rules.

(2) The arrangements for monitoring may make provision for that function to be performed on behalf of the body (and without affecting its responsibility) by any other body or person who is able and willing to perform it.

Membership, eligibility and discipline

11. 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 company auditor, and
- (c) the discipline it exercises over its members,

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

Investigation of complaints

12.—(1) The body must have effective arrangements for the investigation of complaints—

- (a) against persons who are eligible under its rules to be appointed company auditor, or
- (b) against the body in respect of matters arising out of its functions as a supervisory body.

(2) The arrangements may make provision for the whole or part of that function to be performed by and to be the responsibility of a body or person independent of the body itself.

Meeting of claims arising out of audit work

13.—(1) The body must have adequate rules or arrangements designed to ensure that persons eligible under its rules for appointment as a company 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 company 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

14. The body must have rules requiring persons eligible under its rules for appointment as a company auditor to comply with any obligations imposed on them by regulations under Article 37 or 38.

Taking account of costs of compliance

15. 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

16. The body must be able and willing to promote and maintain high standards of integrity in the conduct of company audit work and to co-operate, by the sharing of information and otherwise, with

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the Department and any other authority, body or person having responsibility in the United Kingdom for the qualification, supervision or regulation of auditors.