

## SCHEDULE 1

Regulation 3(13)

### Requirements for professional ethics, independence, objectivity, confidentiality, auditing standards and audit reporting

#### 1. In this Schedule—

“A” means a person appointed as a statutory auditor,

“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, at least 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 at the level of material subsidiaries; or
- (c) the statutory auditor who signs the audit report

#### 2.—(1) Standards must ensure that—

- (a) A is subject to principles of professional ethics, covering at least A’s public-interest function, A’s integrity and objectivity and A’s professional competence and due care;
- (b) in carrying out statutory audit work, A—

- (i) maintains professional scepticism throughout the audit;
- (ii) maintains professional scepticism in particular when reviewing management estimates relating to fair values, the impairment of assets, provisions and future cash flow relevant to the audited person’s ability to continue as a going concern;
- (iii) recognises the possibility of a material misstatement due to facts or behaviour indicating irregularities, including fraud or error,

notwithstanding A’s past experience of honesty and integrity on the part of the audited person’s management and of the persons charged with the governance of the audited person.

(2) In this paragraph “professional scepticism” means an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud and a critical assessment of audit evidence.

(3) Standards must ensure that, during the relevant period A and any other individual in a position to influence the outcome of the statutory audit is independent of the audited person and not involved in the decision-taking of the audited person.

(4) In this paragraph “the relevant period” means—

- (a) the period covered by the financial statements to be audited; and
- (b) the period during which the statutory audit is carried out.

3.—(1) Standards must ensure that A takes all reasonable steps to ensure that, in carrying out statutory audit work, A’s independence is not affected by—

- (a) any existing or potential conflict of interest; or
- (b) any business or other direct or indirect relationship with A or a person having a relevant connection with A.

(2) For the purposes of this paragraph a person has a relevant connection with A if that person—

- (a) is a member of A’s network;

(b) is a manager, auditor, employee or other individual whose services are placed at A's disposal or under A's control; or

(c) is directly or indirectly linked to A by control.

(3) Standards must ensure that A records in the audit working papers all significant threats to A's independence and the safeguards applied to mitigate those threats.

(4) In this paragraph "audit working papers" means any documents which are or have been held by A and are related to the conduct of the audit.

**4.—**(1) Standards must ensure that A does not accept appointment as a statutory auditor (or, if already appointed, resigns from such an appointment) if there is any qualifying threat created by financial, personal business employment or other relationships between the audited person and—

(a) A,

(b) any member of A's network, or

(c) any individual in a position to influence the outcome of the statutory audit.

(2) In this paragraph "qualifying threat" means a threat of self-review, self-interest, advocacy, familiarity or intimidation which would cause an objective, reasonable and informed third party, taking into account any safeguards applied, to conclude that A's independence is compromised.

**5.—**(1) Standards must ensure that—

(a) none of the persons mentioned in sub-paragraph (2), and

(b) no trust whose managerial responsibilities are discharged by, or which is directly or indirectly controlled by, or which is set up for the benefit of, or whose economic interests are substantially equivalent to those of any person mentioned in paragraphs (a), (b) or (c) of that sub-paragraph,

holds or has a material and direct beneficial interest in, or engages in any transaction in any financial instrument issued, guaranteed or otherwise supported by any audited person within (in the case of a person mentioned in sub-paragraph (2)(a)) the area of statutory audit work in which that person is directly involved or (in the case of a person mentioned in sub-paragraph (2)(b), (c) or (d)) the area of statutory audit work in which the person mentioned in sub-paragraph (a) to whom they have the connection described in sub-paragraph (2)(b), (c) or (d) as the case may be is involved.

(2) This sub-paragraph applies to—

(a) A, a key audit partner of A, an employee of A or any other individual—

(i) whose services are placed at A's disposal or under A's control, and

(ii) who is directly involved in statutory audit work;

(b) a person who is the spouse, civil partner or dependent child of any person mentioned in paragraph (a);

(c) any other relative of any person mentioned in paragraph (a) who (at any time in the period from the start of the financial year in respect of which the audit is being carried out to the date on which the audit report is signed) has lived in the same household as that person for at least one year;

(d) a firm whose managerial responsibilities are discharged by, or which is directly or indirectly controlled by, any person mentioned in paragraphs (a), (b) or (c) or in which any such person has a beneficial or other substantially equivalent economic interest.

(3) Sub-paragraph (1) does not prevent the owning of interests indirectly through diversified collective investment schemes, including managed funds, such as pensions or life insurance.

(4) Standards must ensure that none of the persons mentioned in sub-paragraph (2), who—

- (a) owns financial instruments (except for interests of the kind mentioned in sub-paragraph (3)) of the audited person,
- (b) owns financial instruments (except for interests of the kind mentioned in sub-paragraph (3)) of any person related to the audited person, in circumstances where owning those instruments may cause, or may be generally perceived as causing, a conflict of interest, or
- (c) has a business or employment relationship with the audited person within the relevant period in circumstances that may cause, or may be generally perceived as causing, a conflict of interest,

participates in or otherwise influences the outcome of the statutory audit.

(5) In sub-paragraph (4), “the relevant period” has the same meaning as in paragraph 2(4).

(6) Standards must ensure A and any person mentioned in sub-paragraph (2) does not solicit or accept pecuniary or non-pecuniary gifts or favours from the audited person or from any person related to the audited person,

(7) In sub-paragraph (6) “pecuniary or non-pecuniary gifts” does not include gifts whose value an objective, reasonable and informed person would consider trivial or inconsequential.

6. Standards must ensure that if, during the period covered by the financial statements to be audited, the audited person is acquired by, merges with or acquires another person, A shall—

- (a) identify and evaluate any current or recent interests or relationships which could compromise A’s independence and ability to continue carrying out the statutory audit after the effective date of the merger or acquisition, and
- (b) as soon as possible, and in any event within three months—
  - (i) take such steps as may be necessary to terminate any current interests or relationships which would compromise A’s independence, and
  - (ii) where possible, adopt safeguards that minimise any threats to A’s independence arising from prior and current interests and relationships.

7.—(1) Standards must ensure that—

- (a) where A is an individual, A, and
- (b) where A is a firm, A’s key audit partner,

does not take up a relevant position with the audited person before the end of the cooling off period.

(2) Standards must also ensure that no person having a relevant connection with A takes up a relevant position with the audited person within one year of having been directly involved in the statutory audit of the audited person.

(3) In this paragraph—

“cooling off period” means—

- (a) in the case of a public interest entity, two years, and
- (b) in any other case, one year,

beginning with the day on which A ceased to be the audited person’s statutory auditor or (if A is a firm), A’s key audit partner ceased to be the key audit partner in connection with the statutory audit of the audited person;

“person having a relevant connection with A” means a person eligible for appointment as a statutory auditor, who is—

- (a) a partner (apart from a key audit partner) or employee of A, or
- (b) any individual whose services are placed at A’s disposal or under A’s control;

“relevant position” means—

- (a) any key management position,
- (b) membership of the audited person’s audit committee,
- (c) membership of any body performing equivalent functions to an audit committee in relation to the audited person,
- (d) any other position as director of the audited person or, where the audited person’s affairs are managed by a management body or other committee, membership of that management body or committee.

**8.—(1)** Standards must ensure that, before accepting an appointment as a statutory auditor, A assesses and records—

- (a) whether A is complying with the requirements of paragraphs 1 to 7 of this Schedule;
- (b) whether there are any threats to A’s independence and the safeguards applied to mitigate those threats;
- (c) whether A has such competent employees, time and resources as are needed to carry out the statutory audit in an appropriate manner;
- (d) where A is a firm, whether the key audit partner is approved as a statutory auditor in the Member State where the statutory audit is required to be carried out.

(2) Standards ensuring the matters mentioned in this paragraph may apply simplified requirements in relation to the statutory audit of companies to which the small companies regime applies under section 381 of the Act.

**9.—(1)** Standards must ensure adequate provision on confidentiality in relation to all information and documents to which A has access when carrying out a statutory audit, but such rules must not impede the enforcement of obligations under—

- (a) these Regulations,
- (b) the Audit Regulation, or
- (c) Parts 16 and 42 of the Act.

(2) Standards ensuring the matters mentioned in sub-paragraph (1) must not prevent A from transferring relevant documents concerning the statutory audit to an auditor of the consolidated accounts of a parent undertaking in a third country where such documents are necessary for auditing the accounts of that undertaking.

(3) Standards must ensure that, where A ceases to hold office as statutory auditor, A provides A’s successor as statutory auditor with access to all relevant information concerning the audited person, including information concerning the most recent audit.

(4) Standards ensuring the matters mentioned in sub-paragraph (1)—

- (a) must apply to A in respect of an audit engagement after A has ceased that engagement, and
- (b) must apply to A if he ceases to be eligible for appointment as a statutory auditor.

(5) Standards must ensure that 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.

(6) Standards must ensure that no firm is eligible for appointment as a statutory auditor unless the firm has arrangements to prevent any person from being able to exert any influence over the way in which a statutory audit is conducted in circumstances in which that influence would be likely to affect the independence or integrity of the audit.

**10.—(1)** Standards must ensure that A—

- (a) has appropriate policies and procedures to ensure that no partner, director, member or shareholder of A or partner, director, member or shareholder of any affiliate of A intervenes in the carrying out of statutory audit work in any way which jeopardises A's independence and objectivity in carrying out such work;
- (b) has sound administrative and accounting procedures, internal quality control mechanisms (which are designed to secure compliance with decisions and procedures at all levels of A's working structure), effective procedures for risk assessment and effective control and safeguard arrangements for information processing systems;
- (c) has appropriate policies and procedures to ensure that A's employees and any other individuals, whose services are placed at A's disposal or under A's control and who are directly involved in statutory audit activities, have appropriate knowledge and experience for the duties assigned;
- (d) has appropriate policies and procedures to ensure that outsourcing of important audit functions is not undertaken in such a way as to impair the quality of A's internal quality control and the ability of the competent authority to supervise A's compliance with relevant requirements;
- (e) has appropriate and effective organisational and administrative arrangements to prevent, identify, eliminate or manage and disclose any threats to their independence as referred to in paragraphs 2(3) and 3 to 8;
- (f) has appropriate policies and procedures for carrying out statutory audits, coaching, supervising and reviewing the activities of A's employees and organising the structure of the audit file as referred to in paragraph 12(1)(f);
- (g) establishes an internal quality control system to ensure the quality of a statutory audit, which—
  - (i) covers at least the policies and procedures mentioned in paragraph (f); and
  - (ii) in the case of a firm, ensures that responsibility for the system lies with an individual who either holds an appropriate qualification or holds a corresponding qualification to audit accounts under the law of an EEA State, or part of an EEA State, other than the United Kingdom;
- (h) uses appropriate systems, resources and procedures to ensure continuity and regularity in carrying out A's statutory audit work;
- (i) has appropriate and effective organisational and administrative arrangements for dealing with and recording incidents which have, or may have, serious consequences, for integrity of A's statutory audit work;
- (j) has in place adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality (including provision that the amount of revenue that A derives from services other than statutory audit services must not form part of the performance evaluation and remuneration of any person involved in, or able to influence the carrying out of, the audit);
- (k) monitors and evaluates the adequacy and effectiveness of A's systems, internal quality control mechanisms and arrangements established in accordance with these Regulations, the Audit Regulation or Parts 16 or 42 of the Act and takes appropriate measures to address any deficiencies;
- (l) carries out an annual evaluation of the internal quality control system referred to in sub-paragraph (1)(g), keeps records of the findings of that evaluation and any proposed measure to modify the internal quality control system;

- (m) documents and communicates to A's employees (and where A is a firm, communicates to A's partners or members) the policies and procedures referred to in this sub-paragraph;
- (n) takes into consideration the scale and complexity of A's activities when complying with the requirements mentioned in this paragraph and is able to demonstrate to the competent authority that its policies and procedures are appropriate given the scale and complexity of those activities.

(2) The requirements of standards mentioned in sub-paragraph (1) may be simplified in relation to the statutory audit of companies which are exempt from the requirements of the Act relating to audit by virtue of section 477 of the Act.

(3) In this paragraph "affiliate", in relation to A, means any undertaking, regardless of its legal form, which is connected to A by means of common ownership, control or management.

**11.—**(1) Standards must ensure that, when A is a firm, A—

- (a) designates at least one key audit partner, and
- (b) applies as its main criteria in selecting a key audit partner—
  - (i) the need to secure the quality of the audit,
  - (ii) the need to secure A's independence and competence in carrying out the audit,
- (c) ensures the key audit partner is actively involved in carrying out the audit,
- (d) provides any key audit partner with sufficient resources and with personnel that have the necessary competence and capabilities to carry out their duties appropriately.

(2) Standards must ensure that A devotes sufficient time to the engagement and assigns sufficient resources to enable A to carry out A's duties appropriately.

**12.—**(1) Standards must ensure that A—

- (a) keeps records of any breaches (other than breaches which A reasonably considers to be minor breaches) of any relevant requirement;
- (b) keeps records of any consequences of any breach recorded in accordance with paragraph 12(1)(a), the measures taken to address such a breach and to modify A's internal quality control system;
- (c) prepares an annual report containing an overview of any measures taken under paragraph (b) and communicates that report internally;
- (d) documents any request for advice from an external expert, together with the advice received;
- (e) maintains a client account record, which includes in respect of every statutory audit—
  - (i) the audited person's name, address and place of business,
  - (ii) when the statutory auditor is a firm, the name of the key audit partner or, where there is more than one key audit partner, the names of all the key audit partners,
  - (iii) the fees charged for carrying out the statutory audit and for other services in any financial year;
- (f) creates an audit file for each statutory audit, which meets the requirements of sub-paragraph (2).
- (g) keeps records of any complaints made in writing about the performance of any statutory audit that A has carried out

(2) The requirements for an audit file are that—

- (a) it documents at least the matters recorded in accordance with paragraph 8;

- (b) in relation to a statutory audit of a public interest entity, it documents the matters recorded in accordance with Articles 6, 7 and 8 of the Audit Regulation;
- (c) it contains any other data and documents that are important in supporting the audit report;
- (d) in relation to a statutory audit of a public interest entity, it contains any other data and documents that are important in supporting the report to the audit committee required under Article 11 of the Audit Regulation;
- (e) it contains any other data and documents that are important for monitoring compliance with relevant requirements and other applicable legal requirements;
- (f) it is closed not more than sixty days after the date the audit report is signed in accordance with section 503 of the Act.

(3) The requirements of standards mentioned in sub-paragraph (1)(a) to (c) and (g) may be simplified in relation to the statutory audit of companies exempt from the requirements of the Act relating to audit by virtue of section 477 of the Act.

**13.** Standards must ensure that remuneration received or receivable by a statutory auditor in respect of statutory audit work—

- (a) is not influenced or determined by the statutory auditor providing other services to the audited person, or
- (b) cannot be based on any form of contingency.

**14.** Standards must ensure that the scope of statutory audit work does not include, save to the extent required by the audit reporting requirements, assurance on the future viability of the audited person or on the efficiency or effectiveness with which the directors or those concerned in the management of the audited person have conducted or will conduct its affairs.

**15.—(1)** Standards must ensure that, in the case of a statutory audit of the consolidated accounts of a group of undertakings—

- (a) the group auditor bears full responsibility for the audit report,
- (b) where applicable, the group auditor bears full responsibility for ensuring the requirements of Articles 10 and 11 of the Audit Regulation are met,
- (c) the group auditor—
  - (i) evaluates and reviews the audit work carried out by any statutory auditors, EEA auditors or third country auditors for the purpose of the group audit, and
  - (ii) documents the nature, timing and extent of the work so carried out, including, where applicable, the group auditor's review of the relevant parts of the audit documentation,
- (d) any documentation retained by the group auditor is such as to enable the competent authority (or, where appropriate, the recognised supervisory body of which the group auditor is a member) to review the work of the group auditor,
- (e) for the purposes of the group auditor's review mentioned in sub-paragraph (1)(c)(i), the group auditor—
  - (i) requests the agreement of the statutory auditor, EEA auditor or third country auditor to the transfer of relevant documentation during the conduct of the audit of consolidated financial statements as a condition of the group auditor relying on the work of the statutory auditor, EEA auditor or third country auditor, and
  - (ii) if unable to request or secure the agreement mentioned in sub-paragraph (1)(e)(i), takes appropriate measures (including carrying out additional statutory audit work directly or outsourcing such work) and informs the competent authority (or

where appropriate, the recognised supervisory body of which the group auditor is a member),

(2) Standards must ensure that a group auditor, who is subject to a quality assurance review or an investigation concerning the statutory audit of the consolidated financial statements of a group of undertakings—

- (a) complies with any request by the competent authority for relevant documentation retained by the group auditor and concerning the audit work performed by the respective statutory auditors, EEA auditors or third country auditors for the purposes of the group audit (including any working papers relevant to the group audit);
- (b) in cases where the competent authority is unable to obtain documentation from the relevant competent authorities of a third country, complies with any request for additional documentation relating to audit work performed by third country auditors for the purposes of the group audit (including working papers relevant to the group audit);
- (c) in order to comply with any request under sub-paragraph (2)(b), the group auditor—
  - (i) retains copies of such documentation,
  - (ii) obtains the agreement of third country auditors to the group auditor having unrestricted access to such documentation on request,
  - (iii) retains documentation to show that the group auditor has undertaken the appropriate procedures in order to gain access to the audit documentation and evidence supporting the existence of any impediments to access, or
  - (iv) takes any other appropriate action.

**16.**—(1) In relation to the audit of public interest entities, standards must ensure that A keeps key audit documents and information for at least five years following the creation of such documents and information.

(2) In this paragraph, “key audit documents and information” means—

- (a) the documents and information referred to in Articles 4(3), 6, 7, 8(4) to (7), 10, 11, 12(1) and (2), 14, 16(2), (3) and (5) of the Audit Regulation,
- (b) information recorded in accordance with the requirements of paragraphs 8, 10, 12 and 15 of this Schedule, and
- (c) the audit report.