

PRA RULEBOOK: AUDITORS INSTRUMENT 2014

Powers exercised

- A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 137G (the PRA's general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 340(1) and (4) (Appointment: requirements on firms);
 - (4) section 340(3A) (Appointment: requirements as to co-operation); and
 - (5) section 340(6) and (7) (Appointment: qualifications of auditors).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: Auditors Instrument 2014

- D. The PRA makes the rules in Annex A and Annex B to this instrument.

Commencement

- E. This instrument comes into force on 19 June 2014.

Citation

- F. This instrument may be cited as the PRA Rulebook: Auditors Instrument 2014.

By order of the Board of the Prudential Regulation Authority
13 June 2014

Annex A

Insert the following new definitions in the Glossary Part of the PRA Rulebook.

guidance

means guidance given by the *PRA* in the form of supervisory statements or otherwise.

internal controls

means the whole system of controls, financial or otherwise, established by the management of a *firm* in order to:

- (1) carry on the business of the *firm* in an orderly and efficient manner;
- (2) ensure adherence to management policies;
- (3) safeguard the assets of the *firm* and other assets for which the *firm* is responsible; and
- (4) secure as far as possible the completeness and accuracy of the *firm's* records (including those necessary to ensure continuous compliance with the requirements or standards under the *regulatory system* relating to the adequacy of the *firm's* financial resources).

Statement of Principle

means one of the Statements of Principle issued by the *PRA* under section 64(1A) of *FSMA* (Conduct: statements and codes) with respect to the conduct of approved persons .

Annex B

In this Annex, the text is all new and is not underlined.

Part

AUDITORS

Chapter content

1. APPLICATION
2. APPOINTMENT OF AUDITORS
3. AUDITORS' QUALIFICATIONS
4. AUDITORS' INDEPENDENCE
5. FIRMS' COOPERATION WITH THEIR AUDITORS
6. NOTIFICATION OF MATTERS RAISED BY AUDITORS
7. DUTIES OF AUDITORS

Links

1 APPLICATION

- 1.1 This Part applies to:
- (1) every *firm*, except for an *incoming firm* that does not have a *top-up permission*; and
 - (2) the external auditor of such a *firm* (if appointed under 2 or appointed under or as a result of a statutory provision other than in *FSMA*).
- 1.2 In 1.1, where *firm* refers to a *managing agent*, it applies in respect of the *managing agent's* own business and in respect of the *insurance business* of each *syndicate* that the *managing agent* manages.

2 APPOINTMENT OF AUDITORS

- 2.1 A *firm* must:
- (1) appoint an auditor;
 - (2) when it becomes aware that a vacancy in the office of auditor will arise or has arisen:
 - (a) notify the *PRA*; and
 - (b) give reasons for the vacancy,without delay, using the form referred to in Notifications 10.3;
 - (3) appoint an auditor to fill any vacancy in the office of auditor;
 - (4) ensure that the replacement auditor can take up office at the time the vacancy arises or as soon as reasonably practicable after that; and
 - (5) when a new auditor is appointed:
 - (a) notify the *PRA* of that appointment; and
 - (b) advise the *PRA* of the name and business address of the auditor appointed and the date from which the appointment has effect,using the form referred to in Notifications 10.3.
- 2.2 Where a *firm* that is not under an obligation to appoint an auditor imposed by an *enactment* other than *FSMA* fails to appoint an auditor within 28 days of a vacancy arising, the *PRA* may appoint an auditor for that *firm* on the following terms:
- (1) the auditor to be remunerated by the *firm* on the basis agreed between the auditor and *firm* or, in the absence of agreement, on a reasonable basis; and
 - (2) the auditor to hold office until he resigns or the *firm* appoints another auditor.
- 2.3 A *firm* must comply with and is bound by the terms on which an auditor has been appointed by the *PRA*.

3 AUDITORS' QUALIFICATIONS

- 3.1 Before a *firm* appoints an auditor, it must take reasonable steps to ensure that the auditor:

- (1) has the required skill, resources and experience to perform its functions under the *regulatory system* commensurate with the nature, scale and complexity of the *firm's* business and the requirements and standards under the *regulatory system* to which it is subject; and
 - (2) is eligible for appointment as an auditor under any applicable laws.
- 3.2 A *firm* must not appoint as auditor a *person* who is disqualified under Part XXII of *FSMA* (Auditors and Actuaries) from acting as an auditor either for that *firm* or for a relevant class of *firm*.
- 3.3 A *firm* must take reasonable steps to ensure that an auditor, which it is planning to appoint or has appointed, provides information to the *PRA* about the auditor's qualifications, skills, experience and independence in accordance with the reasonable requests of the *PRA*.

4 AUDITORS' INDEPENDENCE

- 4.1 A *firm* must take reasonable steps to ensure that the auditor which it appoints is independent of the *firm*.
- 4.2 If a *firm* becomes aware at any time that its auditor is not independent of the *firm*, it must take reasonable steps to ensure that it has an auditor independent of the *firm*. The *firm* must notify the *PRA* if independence is not achieved within a reasonable time.

5 FIRMS' COOPERATION WITH THEIR AUDITORS

- 5.1 A *firm* must cooperate with its auditor in the discharge of the auditor's duties under this Part. In complying with this rule, and in each case subject to section 413 of *FSMA* (Protected items):
- (1) a *firm* must give its auditor a right of access at all times to the *firm's* accounting and other records, in whatever form they are held, and *documents* relating to its business; and
 - (2) a *firm* must allow its auditor to copy *documents* or other material on the premises of the *firm* and to remove copies or hold them elsewhere, or give the auditor such copies on request.
- 5.2 A *firm* must take reasonable steps to ensure that:
- (1) each of its:
 - (a) *appointed representatives*;
 - (b) suppliers under a *material outsourcing* arrangement; and
 - (c) *tied agents*,
 where applicable, gives the *firm's* auditor the same rights of access to their own books, accounts and vouchers, and entitlement to information and explanations from their officers as are given in respect of the *firm* by section 341 of *FSMA* (Access to books etc); and
 - (2) all its employees cooperate with its auditor in the discharge of the duties of the auditor under this Part,

in each case subject to section 413 of *FSMA* (Protected items).

6 NOTIFICATION OF MATTERS RAISED BY AUDITORS

- 6.1 A *firm* must notify the *PRA* if the *firm* expects, or knows, that the auditor will qualify the report on the audited annual financial statements or include any emphasis of matter.

7 DUTIES OF AUDITORS

- 7.1 An auditor of a *firm* must cooperate with the *PRA* in the discharge of its functions under any *relevant legislation* including by attending such meetings and supplying such information as the *PRA* reasonably requests about the firm to enable the *PRA* to discharge its functions under any *relevant legislation*.
- 7.2 An auditor of a *firm* must give a *skilled person* appointed by the *firm* or appointed by the *PRA* in respect of the *firm* all assistance that *person* reasonably requires.
- 7.3 An auditor of a *firm* must be independent of the *firm* when performing duties in respect of that *firm*.
- 7.4 An auditor of a *firm* must take reasonable steps to be satisfied that no conflict of interest exists in respect of that *firm* from which bias may reasonably be inferred. The auditor must take appropriate action where this is not the case.
- 7.5 An auditor must notify the *PRA* without delay if the auditor:
- (1) is removed from office by a *firm*;
 - (2) is formally notified of such removal from office;
 - (3) resigns before the term of office expires;
 - (4) is not re-appointed by a *firm*; or
 - (5) is disqualified from being the auditor of:
 - (a) any *undertaking* or particular class of *undertaking*; or
 - (b) any *firm* or particular class of *firm*.
- 7.6 In the circumstances set out in 7.5, the auditor must notify the *PRA* without delay:
- (1) of any matter connected with the removal or ceasing of the office of auditor that the auditor thinks ought to be drawn to the *PRA*'s attention; or
 - (2) that there is no such matter.