

# technical factsheet 142

## Guidance on notification to appropriate audit authority on auditor ceasing to hold office

The Audit and Accounts provisions of the Companies Act 2006 came fully into force on 6 April 2008. The provisions include new requirements under sections 522 to 525 of the Act for auditors and companies to notify the 'appropriate audit authority' when an auditor ceases to hold office. The requirement to notify the 'appropriate audit authority' is placed separately on auditors and companies and therefore both need to discharge their notification obligation. It needs to be noted that there are significant differences between the requirements placed on auditors and those placed on companies.

This guidance is intended to provide support to auditors and companies in respect of the process of notification to the appropriate audit authority under companies legislation when an auditor ceases to hold office. The guidance also provides some examples and explanation in respect of statements of circumstances that auditors need to produce upon ceasing to hold office under section 519 of the Act.

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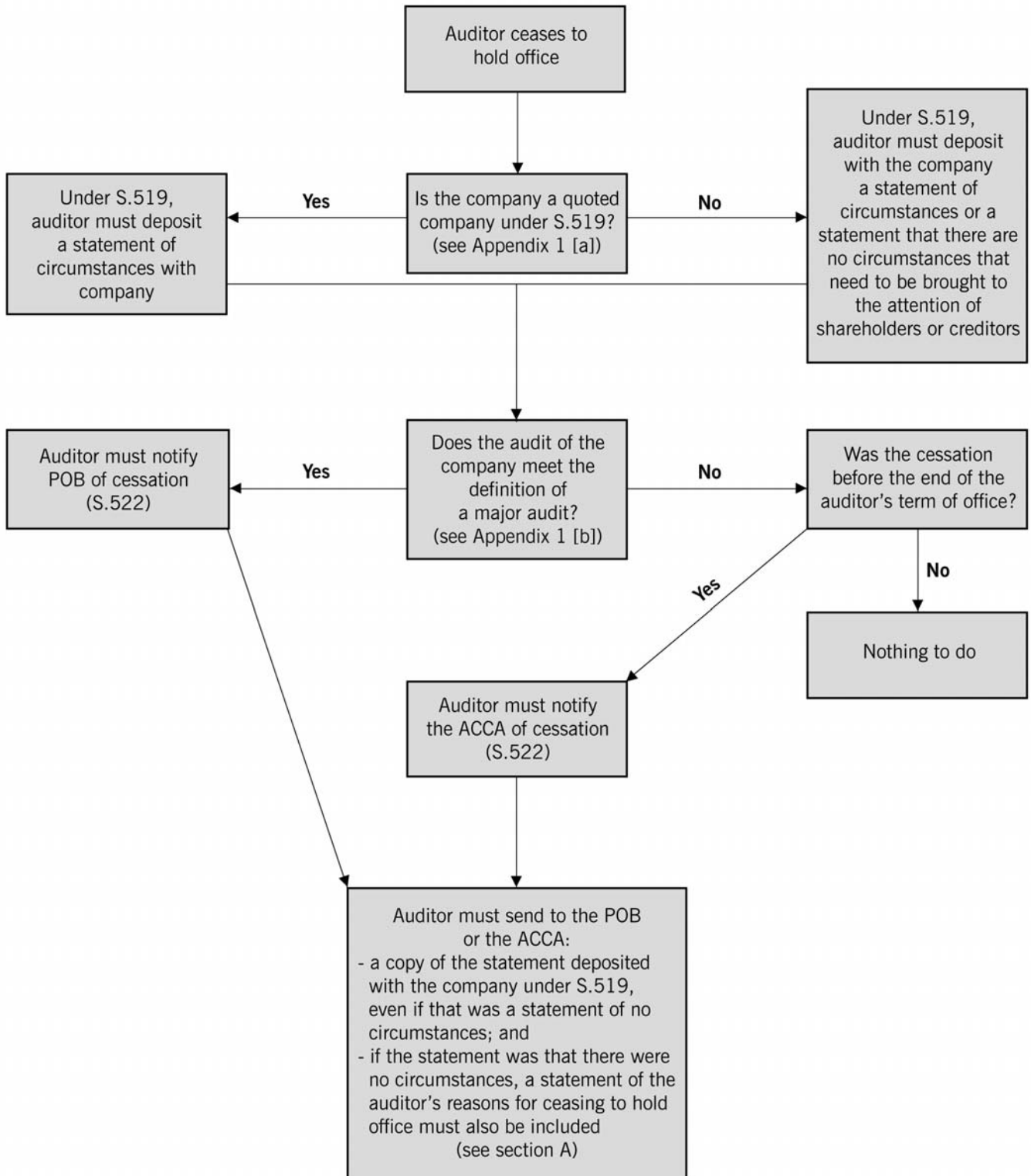
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**SECTION A. AUDITOR'S OBLIGATIONS**

**A1. Flowchart of notification for audit firms upon ceasing to hold office**



## **A2. Statement of circumstances under Section 519 and statement of reasons under Sections 522 and 523 of the Act**

Section 519 of the Companies Act 2006 requires an auditor, upon ceasing to hold office, to deposit with the company a statement of circumstances connected with his ceasing to hold office. The statement is required in all cases of an auditor ceasing to hold office, be that of resignation, failure to seek re-appointment or any other situation, like for instance the case of removal from office.

However the requirements placed on auditors by Section 519 differ depending on the fact that the audited company is a quoted or an unquoted company.

For an unquoted company the auditor can decide whether a statement of circumstances that should be brought to the attention of shareholders or creditors is needed or if he considers that there are no matters to be raised, he must deposit a statement to that effect.

The fact that the auditor has deposited a statement of circumstances, or a statement that there are no circumstances, is important for the purpose of the change of auditor's notification to the appropriate audit authority for both audit firms and companies as it does affect what information they must submit.

The auditor of a quoted company has a duty to deposit a statement about the circumstances connected with his ceasing to hold office, even if they are of no particular relevance to shareholders or creditors, like for instance his failure to seek re-appointment by losing a tender for the audit.

If the auditor deposits a statement for an unquoted company that there are no circumstances in connection with his cessation that need to be brought to the attention of members or creditors, then sections 522 and 523 of the Act place a requirement, on the auditor and on the company respectively, to include in their notification to the appropriate audit authority a statement of the reasons for the auditor's ceasing to hold office. It follows that notwithstanding the fact that there could be no circumstances that the auditor considers worthwhile disclosing upon ceasing to hold office, it will always be possible to identify a less important set of reasons for the cessation, no matter how trivial, which both the auditor and the company will have to specify to the appropriate audit authority.

## **A3. Content and timing of notification**

Section 522 of the Act imposes a duty on an auditor to notify the appropriate audit authority upon ceasing to hold office.

- In the case of a major audit (see Appendix I) the appropriate audit authority to be notified is the Professional Oversight Board and the notification is due regardless of the reason for ceasing to hold office.
- In the case of an audit that is not a major audit the notification is due only if the auditor ceases to hold office before the end of his term of office. In such a case the appropriate audit authority to be notified by ACCA firms is ACCA.

The content of the notification by the auditor must include:

- information to the appropriate audit authority that he has ceased to hold office and
- a copy of the statement deposited with the company under section 519, even if that is a statement that there are no circumstances to draw attention to, and
- if the section 519 statement is that there are no circumstances, a statement of the auditor's reasons for ceasing to hold office.

The timing of the auditor's notification to either the POB or ACCA should be, for ACCA firms, at the same time as the section 519 statement is deposited with the company.

There is no statutory format for the auditor's or company's notification to be made to the POB or ACCA. However, it should be clear, whether this is sent electronically or by post, who has signed the notification, and in what capacity,

giving contact details in case of a query. The notification should include the year end of the company's last audited accounts, the company number and address of the registered office.

If the notification is sent by e-mail this should be in the form of an electronic copy of a letter.

#### **A4. Examples of statements of circumstances and notifications to audit authority**

##### **Report by auditor on ceasing to hold office to be sent to company (Statement of Circumstances {or Statement of no Circumstances})**

Under section 519 an auditor of an unquoted company on ceasing to hold office for any reason must deposit at the company's registered office either statement "A" or "B" below.

Where an auditor of a quoted company ceases to hold office for any reason he must deposit a statement "C" below.

#### **A**

##### **STATEMENT TO THE DIRECTORS OF XYZ LIMITED ON CEASING TO HOLD OFFICE AS AUDITOR**

In accordance with section 519 of the Companies Act 2006, we confirm that there are no circumstances in connection with our ceasing to hold office that need to be brought to the attention of members or creditors of the company.

[Signature]  
John Smith (Senior Statutory Auditor)  
For and on behalf of ABC LLP, Statutory Auditor

Address  
Date

#### **B**

##### **STATEMENT TO THE DIRECTORS OF XYZ LIMITED ON CEASING TO HOLD OFFICE AS AUDITOR**

In accordance with section 519 of the Companies Act 2006, the circumstances connected with our ceasing to hold office were as follows

[Signature]  
John Smith (Senior Statutory Auditor)  
For and on behalf of ABC LLP, Statutory Auditor

Address  
Date

#### **C**

##### **STATEMENT TO THE DIRECTORS OF XYZ PLC ON CEASING TO HOLD OFFICE AS AUDITOR**

In accordance with section 519 of the Companies Act 2006, the circumstances connected with our ceasing to hold office were as follows

[Signature]  
John Smith (Senior Statutory Auditor)  
For and on behalf of ABC LLP, Statutory Auditor

Address  
Date

##### **Auditor notification to appropriate audit authority of ceasing to hold office**

The following are examples of letters of notification that an auditor would submit to the appropriate audit authority.

To: Appropriate Audit Authority

Notification under section 522 of the Companies Act 2006 by [insert auditor name]

1. On x June 200z we, [insert auditor name], have ceased to hold office as auditor of [insert company name, registered number and registered office address]. The last audited financial statements of the company were those for the year ended x December 200z.

We have deposited with the company a statement of circumstances in connection with our ceasing to hold office that we consider need to be brought to the attention of members or creditors of the company. A copy of that statement is enclosed.

2. On x June 200z we, [insert auditor name], have ceased to hold office as auditor of [insert company name, registered number and registered office address]. The last audited financial statements of the company were those for the year ended x December 200z.

We have deposited with the company a statement that there are no circumstances in connection with our ceasing to hold office that we consider need to be brought to the attention of members or creditors of the company. A copy of that statement is enclosed.

The reason(s) for our ceasing to hold office was/were for [insert appropriate reason: e.g. normal commercial reasons, tender not accepted etc.].

3. On x June 200z we, [insert auditor name], have ceased to hold office as auditor of [insert company name, registered number and registered office address]. The last audited financial statements of the company were those for the year ended x December 200z.

We have deposited with the company a statement of circumstances in connection with our ceasing to hold office. A copy of that statement is enclosed.

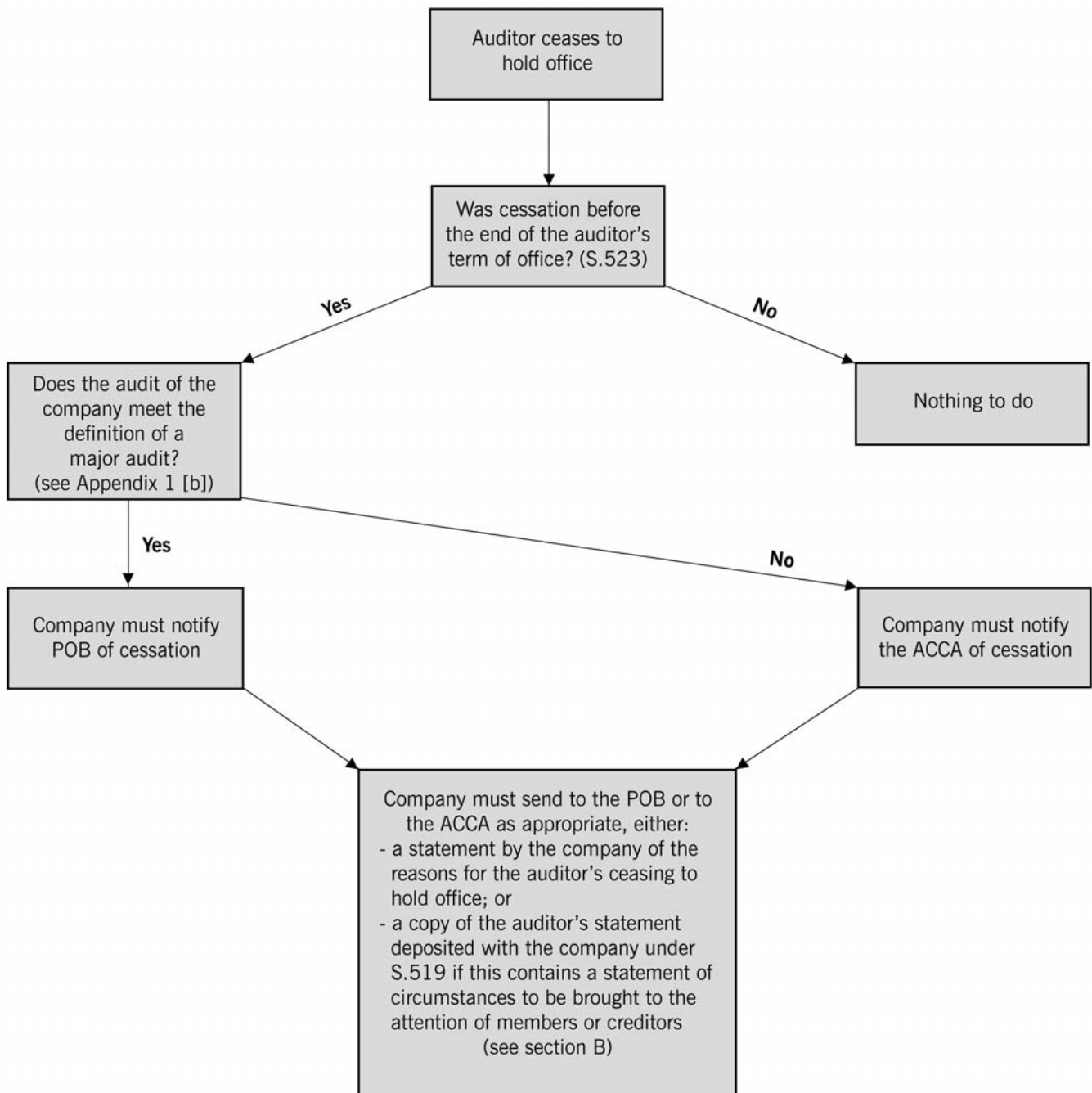
For and on behalf of [insert auditor name]  
[Signature]

James Simpson (Partner/Manager)  
[insert contact details]

In the case of a group of companies, where the auditor of the parent company and of the subsidiary companies are the same and cease the appointment at the same time, the auditor and the companies can meet their obligations by a single statement accompanied by a list of the companies to which it applies, which should also, if appropriate, give explanation if different reasons for the cessation apply to different companies.

**SECTION B. COMPANY'S OBLIGATIONS**

**B1. Flowchart of notification for companies upon change of auditor**



## **B2. Content and timing of notification**

Section 523 of the Act imposes a duty on a company to notify the appropriate audit authority when an auditor ceases to hold office before the end of his term of office.

The requirement placed on the company is therefore narrower than that placed on the auditor, as it is only applicable in the case of an auditor ceasing before the end of his term of office.

- In the case of a major audit (see Appendix I) the appropriate audit authority to be notified is the Professional Oversight Board.
- In the case of an audit that is not a major audit the notification must be made to the ACCA or any other relevant Recognised Supervisory Body.

The notification made by the company must include:

- information to the appropriate audit authority that the auditor has ceased to hold office and
- a statement by the company of the reasons for his ceasing to hold office, or
- a copy of the statement deposited with the company under section 519 if this contains a statement of circumstances connected with his cessation that need to be brought to the attention of members or creditors of the company.

The company must notify the appropriate audit authority not later than 14 days after the date on which the auditor's statement under section 519 has been deposited at the company's registered office.

There is no statutory format for the auditor's or company's notification to be made to the POB or the ACCA. However, it should be clear, whether this is sent electronically or by post, who has signed the notification, and in what capacity, giving contact details in case of a query. The notification should include the year end of the company's last audited accounts, the company number and address of the registered office.

If the notification is sent by e-mail this should be in the form of an electronic copy of a letter.

## **B3. Examples of notifications to audit authority**

### **Company notification to appropriate audit authority of change of auditor**

The following are examples of letters that an audit company client would submit to an appropriate audit authority:

To: Appropriate Audit Authority

Notification under section 523 of the Companies Act 2006 by [insert company name, registered number and registered office address]

1. On x June 200z [insert auditor name] ceased to hold office as auditor of the company. The last audited financial statements of the company were those for the year ended x December 200z. [Insert auditor name] deposited with this company a statement of circumstances in connection with them ceasing to hold office that they considered need to be brought to the attention of members or creditors of the company. A copy of that statement is enclosed.
2. On x June 200z [insert auditor name] ceased to hold office as auditor of the company. The last audited financial statements of the company were those for the year ended x December 200z. The reason for them ceasing to hold office was for normal commercial reasons.

3. On x June 200z [insert auditor name] ceased to hold office as auditor of the company. The last audited financial statements of the company were those for the year ended x December 200z.  
The reason for them ceasing to hold office was that we were unable to reach agreement on the accounting treatment of [tangible fixed assets/stocks/income recognition/related parties adjust as required].

For and on behalf of [insert company name]  
[Signature]

James Simpson (Director/Secretary)  
[insert contact details]

ACCA UK Advisory Service has prepared a simple *'Guide to changing your auditors'* for non-major audit companies which also includes an outline of the procedure to remove existing auditors. The guide can be used by company auditors as a tool to be handed out to new clients and can be accessed by clicking here:  
<http://www.accaglobal.com/uk/members/technical/audit/guidance/auditguides>.

## SECTION C. NOTIFICATION CONTACT DETAILS

Notification can be sent via e-mail or letter as follows

If notification is to ACCA	If notification is to the POB
Ethics and Regulation Department ACCA 29 Lincoln's Inn Fields London WC2A 3EE	Change of Auditor Notifications Professional Oversight Board 5 <sup>th</sup> Floor, Aldwych House London WC2B 4HN
E-mail: <a href="mailto:auditorchange@accaglobal.com">auditorchange@accaglobal.com</a>	E-mail: <a href="mailto:auditorchange@frc-pob.org.uk">auditorchange@frc-pob.org.uk</a>
Tel: 0207 059 5990	
Fax: 0207 059 5957	

For company's notifications the appropriate audit authority could also be one of the following:

The Chartered Institute of Chartered Accountants in England and Wales (ICAEW)  
Chartered Accountant's Hall  
PO Box 433  
London EC2P 2BJ  
Tel +44 (0)20 7920 8100  
Fax +44 (0)20 7920 0547  
[www.icaew.com](http://www.icaew.com)

The Institute of Chartered Accountants in Ireland (ICAI)  
CA House  
83 Pembroke Road  
Dublin 4  
Tel +353 1 637 7200  
Fax +353 1 668 0842  
[www.icaei.ie](http://www.icaei.ie)

The Institute of Chartered Accountants of Scotland (ICAS)  
CA House  
21 Haymarket Yards  
Edinburgh EH 12 5BH  
Tel +44 (0)131 347 0100  
Fax +44 (0)131 347 0105  
[www.icas.org.uk](http://www.icas.org.uk)

## APPENDIX I

### (a) Definition of quoted company

The definition of a quoted company is not expressly formulated in the 2006 Companies Act's chapter that deals with statements by auditors on ceasing to hold office. A definition of a quoted company is contained in a different chapter of the audit provisions of the Act, under section 531, which in turn makes reference to the definition formulated in section 385 under the accounts provisions of the Act. In practice there is no tailored definition of quoted company for the circumstances of an auditor's cessation but a definition needs to be derived from section 385.

Under section 385 a company is a quoted company if its equity share capital is included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000, which relates to the London Stock Exchange not the AIM, or if it is officially listed in an EEA state or on the New York Stock Exchange or the Nasdaq.

As the definitions in section 385 and 531 are not designed for the case of an auditor ceasing to hold office, it could be unclear whether a company that was listed at the last balance sheet date and was subsequently de-listed should be regarded as quoted at the date of the auditor cessation. The prevalent opinion in these circumstances is that the company should be regarded as quoted for the purposes of section 519 if it is listed on the date of the auditor ceasing to hold office.

An unquoted company means a company that is not a quoted company.

### (b) Definition of major audit

Section 525(3) provides that the Professional Oversight Board (POB), as the body to which the Secretary of State has delegated functions under section 1252, may issue guidance on what is meant by a "major audit" for notification purposes. The POB has issued such guidance that can be accessed at <http://www.frc.org.uk/pob/regulation/notification.cfm>.

The note from the POB's document that provides statutory guidance on the interpretation of the term "major audit" is reproduced below:

"The audits of the following UK companies should be considered as "major audits" for the purposes of determining the notification requirements. These follow, where possible, the scope of inspections by the POB's Audit Inspection Unit (AIU) in relation to companies, though there are some important differences that are explained below.

For the avoidance of doubt, companies incorporated in the Crown Dependencies (Guernsey, Isle of Man, Jersey) are not UK incorporated companies.

1. All UK incorporated companies with equity and /or debt securities admitted to the official list (within the meaning of part 6 of the Financial Services and Markets Act 2000) on the date on which the auditors cease to hold office. Where the listed equity or listed debt has been issued by a separate entity within a group structure, the audit of the any group accounts including the entity should be considered as a major audit. This includes PLUS-listed companies.

This matches the AIU scope.

2. All UK incorporated AIM or PLUS-quoted companies

The AIU scope is restricted to companies with a market capitalisation in excess of £100million. We have concluded, however, that for the purpose of the notification requirement it is more appropriate to use a simpler requirement and we have therefore included all such companies.

The requirement to notify POB thus applies in relation to all companies who are listed on AIM or on the PLUS-quoted market on the date on which the auditors cease to hold office.

3. Unquoted companies, which have either:

- a) Group turnover in excess of £500million; or
- b) Group long term debt in excess of £250million and turnover in excess of £100million.

This category is intended to include companies or groups of companies that are privately owned, whether directly or through another UK or overseas investment vehicle, or trust. It is also intended to include those companies owned by private equity funds or other institutions. It is not intended to include subsidiaries of any other category in this list.

This matches the AIU scope. The requirement to notify POB applies in respect of companies who meet one of the above criteria, as shown in the last set of audited accounts.

4. Unquoted companies or groups which are subsidiaries of foreign parent companies where the turnover of the UK group or company is in excess of £1,000 million.

This category is intended to cover major subsidiaries of overseas groups. If there are a number of separate subsidiaries trading in the UK and no UK group consolidated accounts are produced, this measure should be applied on an individual company basis.

This matches the AIU scope. The requirement to notify POB applies in respect of companies who meet above criterion, as shown in the last set of audited accounts.

5. Charitable companies with income exceeding £100million

This matches the AIU scope. The requirement to notify POB applies in respect of companies who meet the above criterion, as shown in the last set of audited accounts.

6. Subsidiary companies of the above.

A subsidiary company of any of the above companies may be treated as a “major audit”. This avoids the need in the case of groups to notify different audit authorities in respect of different companies in the group.”

## APPENDIX II

### Excerpts from Companies Act 2006

Sections 385, 519, 522, 523, 525 and 531 of The Companies Act 2006 are reproduced below.

#### 385 Quoted and unquoted companies

- (1) For the purposes of this Part a company is a quoted company in relation to a financial year if it is a quoted company immediately before the end of the accounting reference period by reference to which that financial year was determined.
- (2) A “quoted company” means a company whose equity share capital —
  - (a) has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 (c 8), or
  - (b) is officially listed in an EEA State, or
  - (c) is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.

In paragraph (a) “the official list” has the meaning given by section 103(1) of the Financial Services and Markets Act 2000.

- (3) An “unquoted company” means a company that is not a quoted company.
- (4) The Secretary of State may by regulations amend or replace the provisions of subsections (1) to (2) so as to limit or extend the application of some or all of the provisions of this Part that are expressed to apply to quoted companies.
- (5) Regulations under this section extending the application of any such provision of this Part are subject to affirmative resolution procedure.
- (6) Any other regulations under this section are subject to negative resolution procedure.

#### 519 Statement by auditor to be deposited with company

- (1) Where an auditor of an unquoted company ceases for any reason to hold office, he must deposit at the company’s registered office a statement of the circumstances connected with his ceasing to hold office, unless he considers that there are no circumstances in connection with his ceasing to hold office that need to be brought to the attention of members or creditors of the company.
- (2) If he considers that there are no circumstances in connection with his ceasing to hold office that need to be brought to the attention of members or creditors of the company, he must deposit at the company’s registered office a statement to that effect.
- (3) Where an auditor of a quoted company ceases for any reason to hold office, he must deposit at the company’s registered office a statement of the circumstances connected with his ceasing to hold office.
- (4) The statement required by this section must be deposited —
  - (a) in the case of resignation, along with the notice of resignation;
  - (b) in the case of failure to seek re-appointment, not less than 14 days before the end of the time allowed for next appointing an auditor;
  - (c) in any other case, not later than the end of the period of 14 days beginning with the date on which he ceases to hold office.
- (5) A person ceasing to hold office as auditor who fails to comply with this section commits an offence.

- (6) In proceedings for such an offence it is a defence for the person charged to show that he took all reasonable steps and exercised all due diligence to avoid the commission of the offence.
- (7) A person guilty of an offence under this section is liable —
  - (a) on conviction on indictment, to a fine;
  - (b) on summary conviction, to a fine not exceeding the statutory maximum.

**522 Duty of auditor to notify appropriate audit authority**

- (1) Where —
  - (a) in the case of a major audit, an auditor ceases for any reason to hold office, or
  - (b) in the case of an audit that is not a major audit, an auditor ceases to hold office before the end of his term of office,the auditor ceasing to hold office must notify the appropriate audit authority.
- (2) The notice must —
  - (a) inform the appropriate audit authority that he has ceased to hold office, and
  - (b) be accompanied by a copy of the statement deposited by him at the company's registered office in accordance with section 519.
- (3) If the statement so deposited is to the effect that he considers that there are no circumstances in connection with his ceasing to hold office that need to be brought to the attention of members or creditors of the company, the notice must also be accompanied by a statement of the reasons for his ceasing to hold office.
- (4) The auditor must comply with this section —
  - (a) in the case of a major audit, at the same time as he deposits a statement at the company's registered office in accordance with section 519;
  - (b) in the case of an audit that is not a major audit, at such time (not being earlier than the time mentioned in paragraph (a)) as the appropriate audit authority may require.
- (5) A person ceasing to hold office as auditor who fails to comply with this section commits an offence.
- (6) If that person is a firm an offence is committed by —
  - (a) the firm, and
  - (b) every officer of the firm who is in default.
- (7) In proceedings for an offence under this section it is a defence for the person charged to show that he took all reasonable steps and exercised all due diligence to avoid the commission of the offence.
- (8) A person guilty of an offence under this section is liable —
  - (a) on conviction on indictment, to a fine;
  - (b) on summary conviction, to a fine not exceeding the statutory maximum.

### **523 Duty of company to notify appropriate audit authority**

- (1) Where an auditor ceases to hold office before the end of his term of office, the company must notify the appropriate audit authority.
- (2) The notice must —
  - (a) inform the appropriate audit authority that the auditor has ceased to hold office, and
  - (b) be accompanied by —
    - (i) a statement by the company of the reasons for his ceasing to hold office, or
    - (ii) if the copy of the statement deposited by the auditor at the company's registered office in accordance with section 519 contains a statement of circumstances in connection with his ceasing to hold office that need to be brought to the attention of members or creditors of the company, a copy of that statement.
- (3) The company must give notice under this section not later than 14 days after the date on which the auditor's statement is deposited at the company's registered office in accordance with section 519.
- (4) If a company fails to comply with this section, an offence is committed by —
  - (a) the company, and
  - (b) every officer of the company who is in default.
- (5) In proceedings for such an offence it is a defence for the person charged to show that he took all reasonable steps and exercised all due diligence to avoid the commission of the offence.
- (6) A person guilty of an offence under this section is liable —
  - (a) on conviction on indictment, to a fine;
  - (b) on summary conviction, to a fine not exceeding the statutory maximum.

### **525 Meaning of "appropriate audit authority" and "major audit"**

- (1) In sections 522, 523 and 524 "appropriate audit authority" means —
  - (a) in the case of a major audit [(other than one conducted by an Auditor General)] —
    - (i) the Secretary of State, or
    - (ii) if the Secretary of State has delegated functions under section 1252 to a body whose functions include receiving the notice in question, that body;
  - (b) in the case of an audit [(other than one conducted by an Auditor General)] that is not a major audit, the relevant supervisory body;
  - [(c) in the case of an audit conducted by an Auditor General, the Independent Supervisor.]

*"Supervisory body" has the same meaning as in Part 42 (statutory auditors) (see section 1217).*
- (2) In sections 522 and this section "major audit" means a statutory audit conducted in respect of —
  - (a) a company any of whose securities have been admitted to the official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000 (c 8)), or
  - (b) any other person in whose financial condition there is a major public interest.
- (3) In determining whether an audit is a major audit within subsection (2)(b), regard shall be had to any guidance issued by any of the authorities mentioned in subsection (1).

**531 Meaning of “quoted company”**

- (1) For the purposes of this Chapter a company is a quoted company if it is a quoted company in accordance with section 385 (quoted and unquoted companies for the purposes of Part 15) in relation to the financial year to which the accounts to be laid at the next accounts meeting relate.
- (2) The provisions of subsections (4) to (6) of that section (power to amend definition by regulations) apply in relation to the provisions of this Chapter as in relation to the provisions of that Part.