

Chartered Accountants Ireland or CCAB-I material

Technical Alerts

TA 04/2016 - Transposition of the EU Audit Regulation and Directive in the UK - Information for Members (Reviewed 2022)

Reviewed in 2022

This document was reviewed in 2022. The content remains the same as issued in 2016 and does not require updating in 2022.

Representation and Technical Policy

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Introduction

1. On 16 April 2014 the European Union issued its Audit Reform package comprising a Regulation and a Directive (together referred to as the Audit Regulation and Directive – 'ARD'). The Audit Directive, as amended, applies to all statutory audits. Directives must be transposed into the national law of Member States.

2. [Regulation \(EU\) No 537 of 2014 \('the Audit Regulation'\)](#) applies solely to the statutory audits of Public Interest Entities ('PIEs'). EU Regulations have direct legislative effect in Member States, though national legislation is required to transpose Member State options/derogations.

3. The Audit Regulation took effect from 17 June 2016 and EU Member States were required to adopt the appropriate legislative provisions to ensure that the Audit Directive and the relevant provisions of the Audit Regulation were in place and effective from 17 June 2016.

Transposition in the UK

4. [Statutory Instrument No 649 of 2016 – The Statutory Auditors and Third Country Auditors Regulations 2016](#) – ('SI 649') – was made on 15 June 2016 and gives legislative effect in the UK to the ARD, in conjunction with revised FRC ethical and auditing standards discussed below.

5. The auditing and ethical requirements of the ARD have been included in the revised International Standards on Auditing (UK) 2016 and the Revised Ethical Standard 2016 issued in June by the Financial Reporting Council ('FRC').

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6. This Technical Alert ('TA') focuses on a number of key aspects of the ARD transposition, namely:

- Auditing standards and ethical standards applying to all statutory audits;
- Audit report requirements;
- Key independence requirements for PIE audits; and
- Some new Audit Committee requirements.

The TA does not consider regulatory aspects of the legislation.

Auditing Standards and Ethical Standards applying to all statutory audits

7. The FRC continues, under the new regime, to be auditing and ethical standard setter for the UK. However, in accordance with the transposing legislation in Ireland (SI No 312 of 2016), the Irish Auditing and Accounting Supervisory Authority ('IAASA') assumes responsibility for the adoption of auditing and ethical standards applying to statutory audits in Ireland from 17 June 2016. As such, there will no longer be common standards, issued by the FRC, for both Ireland and the UK. (IAASA is due to consult on auditing and ethical standards for Ireland in Quarter 3 2016.)

8. For statutory audits in relation to **financial periods beginning before 17 June 2016**, the [International Standards on Auditing \(UK and Ireland\)](#) and [Ethical Standards \(ES\) 1 to 5 and the ES Provisions for Small Entities \('ES PASE'\)](#) will continue to be applicable (click on relevant link for access to the relevant standards).

9. For statutory audits in relation to **financial periods beginning on or after 17 June 2016**, the FRC has published:

- [International Standards on Auditing \(UK\)](#); and
- [Revised Ethical Standard 2016](#) ('ES 2016').

10. ES 2016 encompasses the relevant requirements of the Audit Regulation, including the transposition of both the Member State options and derogations adopted by the UK, and of the Audit Directive.

Audit reports (for periods commencing on or after 17 June 2016)

11. SI 649² and the International Standards on Auditing (UK) 2016 contain changes to the content and format of the audit report. These will apply to audit reports for **financial periods beginning on or after 17 June 2016**. Typically, therefore, these changes will apply to audit reports on financial statements for years ending 30 June 2017 and later.

12. **Members should, however, be aware that the requirements would apply to audit reports for short accounting periods beginning on or after 17 June 2016.**

13. Changes include:

- The insertion of a legal requirement to "identify the place of establishment of the statutory auditors who made the report";
- Changes to the wording of the opinion regarding consistency of the directors' report with the financial statements; and
- The insertion of a legal requirement for a statement on any "material uncertainty relating to events or conditions that may cause significant doubt about the entity's ability to continue as a going concern".

14. There are also new requirements with regard to **PIE audit reports** contained in Article 10 of the Audit Regulation, which include the requirement to:

- State by whom the appointment of statutory auditor or audit firm was made (e.g. members of the company or Board of Directors);
- Indicate the date of appointment;
- Describe the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud and, where relevant, key observations with regard to those risks;
- Explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud;
- Confirm that the audit opinion is consistent with the auditor's report to the audit committee;
- Declare that prohibited NAS were not provided and that the statutory auditor or audit firm remained independent of the PIE in conducting the audit;
- Indicate any services, in addition to the statutory audit, which were provided by the statutory auditor or audit firm to the PIE and its controlled undertakings, which have not been disclosed in the management report or financial statements.

Key independence requirements for PIE audits

Mandatory audit firm rotation for PIE audits

15. The UK and Irish Governments have adopted different positions on mandatory audit firm rotation (MAFR) for PIE audits. The Audit Regulation sets a maximum period for audit tenure of 10 years (where joint auditors are not appointed), but with a Member State option that this period can be increased to a maximum of 20 years, subject to a public mandatory tendering process being conducted (Article 17). The UK has taken up the Member State option to extend the period to 20 years under Article 17(4) (whereas Ireland has implemented a 10 year maximum).

16. Article 41 of the Audit Regulation sets out the transition arrangements for audit/client relationships existing at 16 June 2014³. The transposition provisions differ depending on the length of the existing audit/client relationships at that date.

Key dates for rotation/tendering requirements

17. For UK PIEs, the following table sets out the rotation and/or tendering requirements for PIEs depending on the length of their pre-existing audit/client relationships.

18. Of particular note is that **PIEs whose audit/client relationships reached the initial maximum of 10 years between 16 June 2014 and 17 June 2016 must undertake the public tendering process required (see Sections 485A and 485B of the Companies Act 2006, as amended) to re-appoint the incumbent auditor, or to appoint a new auditor, for the first financial year commencing on or after 17 June 2016.**

Tender/Rotation required for F/Y commencing on/after:	Audit tenure pre- 16 June 2014	Commencement of audit/client relationship		Comment
		After:	Before:	
17 June 2016 (tender/rotation)	Less than 11 years	17 June 2003	16 June 2006	Where audit tenure reached ten years between 16 June 2014 and 17 June 2016, tender process required for re-appointment – Article 41(3)
To be determined based on start date (tender/rotation)	Less than 11 years	17 June 2006	16 June 2014	Tender process required for re- appointment on reaching 10 years from first audit of PIE – Article 41(3)
17 June 2023 (rotation)	Between 11 and 20 years	17 June 1994	16 June 2003	Rotation required per Article 41(2)
17 June 2020 (rotation)	20 years or more		16 June 1994	Rotation required per Article 41(1)

19.Examples:

A PIE whose audit/client relationship:

•***Reached 10 years*** for the audit of the financial statements for the ***year ended 30 June 2015***. ***The incumbent auditor would be permitted to complete the audit of the financial statements for the year ended 30 June 2016, but the public tender process would have to be completed to allow for that incumbent auditor to undertake the audit of the financial statements for the year ended 30 June 2017.***

•***Commenced in relation to the year ended 30 June 1994*** may continue to engage the same auditor until the completion of the audit of the financial statements for the year ended 30 June 2020.

•***Commenced in relation to the year ended 30 June 1995*** may continue to engage the same auditor until the completion of the audit of the financial statements for the year ended 30 June 2023.

20.Article 17(6) of Audit Regulation has been transposed in the UK in Sections 487A(5) and 491A(5) of the Companies Act 2006 (as inserted by SI 649), which provides for an extension of the maximum period of up to two years in exceptional circumstances with the approval of the FRC as competent authority.

Scope of Services restriction on auditing PIEs

21.Article 5 of the Audit Regulation sets out the non-audit services ('NAS') which, from 17 June 2016, ***auditors of PIEs, and the network of such auditors***, are no longer permitted to provide to ***a PIE, its parent undertaking or to its controlled undertakings within the European Union***. This prohibition applies to:

- a)The period between the beginning of the period audited and the issuing of the audit report; and
- b)The financial year immediately preceding the period referred to in point (a) in relation to designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

22. Article 5, containing the full list of prohibited services, is reproduced in [Appendix 1](#) to this TA.

23. There is derogation for the provision of certain of those services, as provided for in paragraph 5.168R of ES 2016, provided that:

- The services have no direct or, ***in the view of an objective, reasonable and informed third party, would have an inconsequential effect***, separately or in the aggregate on the audited financial statements;
- The estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee;
- The principles of independence laid down in Section 1 of ES 2016 are complied with: and
- ***For the purposes of the statutory audit of the financial statements, the audit firm would not place significant reliance on the work performed by the audit firm in performing these services.***

24. Members should note that the UK derogation has been transposed differently to the Irish derogation, with the points of difference highlighted above.

25. Paragraph 5.168R also states that the derogation may be applied to the following NAS:

- Tax services relating to—
 - (i) Preparation of tax forms,
 - (ii) Identification of public subsidies and tax incentives unless support from the statutory auditor or audit firm in respect of such services is required by law,
 - (iii) Support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law,
 - (iv) Calculation of direct and indirect tax and deferred tax, or
 - (v) Provision of tax advice;
- Valuation services, including valuations performed in connection with actuarial services or litigation support services.

26. If the intention is to continue as auditor to a PIE client, PIE auditors and their network firms will need to cease providing those services which are prohibited, and for which there is no derogation, with effect from the first financial year beginning on or after 17 June 2016 (and as noted above, not have provided any services in relation to designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems in the preceding financial year).

27. In accordance with Article 5(5) of the Audit Regulation, for services provided by the network to *controlled undertakings outside the EU*, a 'threats and safeguards' approach is required, although there are a limited number of prohibitions which still apply:

- Bookkeeping and preparing accounting records and financial statements;
- Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems; and
- Services that involve playing any part in the management of decision making of the audited entity.

70% cap on non-audit fees

28. Article 4(2) of the Audit Regulation provides that NAS fees should be capped at 70% of audit fees for three consecutive years. This requirement has been included in paragraph 4.34R of ES 2016, which states:

When the audit firm, ***or a member of its network***, provides to a public interest entity that it audits, its parent undertaking or its controlled undertakings, non-audit services other than those referred to in Article 5(1)⁴³ of the EU Audit Regulation:

(a) the total fees for such services provided to the **audited entity and its controlled undertakings** shall be limited to no more than 70% of the average of the fees paid in the last three consecutive financial years⁴⁴ for the audit(s) of the audited entity, of its controlled undertakings and of the consolidated financial statements of that group of undertakings; and

(b) the total fees for such services **provided by the audit firm** shall be limited to no more than 70% of the average of the fees paid **to the audit firm** in the last three consecutive financial years⁴⁵ for the audit(s) of the audited entity and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings.

⁴³ See paragraph 5.167R of Section 5 of Part B of this Ethical Standard.

⁴⁴ This requirement does not apply retrospectively. The cap is based on average audit fees for the three consecutive financial periods commencing on or after 17 June 2016. Following the appointment of a new auditor after that date the cap will apply from the fourth financial period of that engagement.

⁴⁵ The competent authority for this purpose is the Financial Reporting Council.

29. Members should be aware that the UK, in transposing the requirements of Article 4(2), has extended the restriction in Article 4(2) beyond the statutory auditor or audit firm to also include a member of the network of the statutory audit firm.

30. Thus, in the UK, fees for NAS provided to the PIE and its controlled undertakings by network firms are included in the calculation of the 70% cap.

31. NAS, other than those specifically prohibited, are excluded from the calculation of the cap where they are required by EU law or UK law.

32. The cap does not appear to be retrospective, such that it only applies from the first financial year beginning on or after 17 June 2016.

33. However, PIE auditors will need to consider if the level of fees for NAS being provided to PIE audit clients is such that the 70% cap is likely to be breached after three years of consecutively auditing the PIE client.

34. This would also be an issue that needs careful consideration by the audit committees of such PIEs.

35. To date, the FRC has issued two 'Staff Guidance Notes' relating to the independence requirements in the UK:

- 01/2016 Provision of non-audit services to non-EU subsidiaries; and
- 02/2016 Playing any part in management or decision making.

[They can be accessed by clicking on this link.](#)

Audit committee requirements

36. In the UK, the audit committee requirements of the ARD are included in the UK Corporate Governance Code ('the Code'), Section C.3. Requirements are also included in the Financial Conduct Authority's Disclosure Guidance and Transparency Rules Sourcebook (DTR).

37. Article 39(1) of the Audit Directive introduced a number of new requirements for the audit committee of PIEs. Of particular note is that as from 17 June 2016:

- The members of the audit committee as a whole shall have **competence relevant to the sector** in which the PIE is operating; and
- The chairman of the audit committee shall be appointed **by its members** and shall be independent of the audited entity.

38. Paragraph C.3.1. of the Code contains the requirement that "the audit committee as a whole shall have competence relevant to the sector in which the company operates". A similar requirement is contained in the DTR 7.1.1A.

39. DTR 7.1.2A requires that the chairman of the audit committee be appointed by the members of the audit committee (or by the administrative or supervisory body of the issuer).

40. Relevant extracts from the Code and the DTR relating to Audit Committee requirements are reproduced in [Appendix 2](#) to this TA.

Appendix 1 – Article 5 of the Audit Regulation (NAS Prohibition)

Article 5 Prohibition of the provision of non-audit services

1. A statutory auditor or an audit firm carrying out the statutory audit of a public-interest entity, or any member of the network to which the statutory auditor or the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union any prohibited non-audit services in:

- (a) the period between the beginning of the period audited and the issuing of the audit report; and
- (b) the financial year immediately preceding the period referred to in point (a) in relation to the services listed in point (e) of the second subparagraph.

For the purposes of this Article, prohibited non-audit services shall mean:

- (a) tax services relating to:
 - (i) preparation of tax forms;
 - (ii) payroll tax;
 - (iii) customs duties;
 - (iv) identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;
 - (v) support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;
 - (vi) calculation of direct and indirect tax and deferred tax;
 - (vii) provision of tax advice;
- (b) services that involve playing any part in the management or decision-making of the audited entity;
- (c) bookkeeping and preparing accounting records and financial statements;
- (d) payroll services;
- (e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
- (f) valuation services, including valuations performed in connection with actuarial services or litigation support services;
- (g) legal services, with respect to:
 - (i) the provision of general counsel;
 - (ii) negotiating on behalf of the audited entity; and
 - (iii) acting in an advocacy role in the resolution of litigation;
- (h) services related to the audited entity's internal audit function;
- (i) services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;
- (j) promoting, dealing in, or underwriting shares in the audited entity;
- (k) human resources services, with respect to:
 - (i) management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
 - searching for or seeking out candidates for such position; or
 - undertaking reference checks of candidates for such positions;
 - (ii) structuring the organisation design; and
 - (iii) cost control.

2. Member States may prohibit services other than those listed in [paragraph 1](#) where they consider that those services represent a threat to independence. Member States shall communicate to the Commission any additions to the list in [paragraph 1](#).

3. By way of derogation from the second subparagraph of [paragraph 1](#), Member States may allow the provision of the services referred to in points (a) (i), (a) (iv) to (a) (vii) and (f), provided that the following requirements are complied with:

- (a) they have no direct or have immaterial effect, separately or in the aggregate on the audited financial statements;
- (b) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee referred to in Article 11; and

(c) the principles of independence laid down in Directive 2006/43/EC are complied with by the statutory auditor or the audit firm.

4. A statutory auditor or an audit firm carrying out statutory audits of public-interest entities and, where the statutory auditor or the audit firm belongs to a network, any member of such network, may provide to the audited entity, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in [paragraphs 1 and 2](#) subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied in accordance with Article 22b of Directive 2006/43/EC. The audit committee shall, where applicable, issue guidelines with regard to the services referred to in [paragraph 3](#).

Member States may establish stricter rules setting out the conditions under which a statutory auditor, an audit firm or a member of a network to which the statutory auditor or audit firm belongs may provide to the audited entity, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in [paragraph 1](#).

5. When a member of a network to which the statutory auditor or the audit firm carrying out a statutory audit of a public-interest entity belongs provides any of the non-audit services, referred to in [paragraphs 1 and 2](#) of this Article, to an undertaking incorporated in a third country which is controlled by the audited public-interest entity, the statutory auditor or the audit firm concerned shall assess whether his, her or its independence would be compromised by such provision of services by the member of the network.

If his, her or its independence is affected, the statutory auditor or the audit firm shall apply safeguards where applicable in order to mitigate the threats caused by such provision of services in a third country. The statutory auditor or the audit firm may continue to carry out the statutory audit of the public-interest entity only if he, she or it can justify, in accordance with Article 6 of this Regulation and Article 22b of Directive 2006/43/EC, that such provision of services does not affect his, her or its professional judgement and the audit report.

For the purposes of this paragraph:

(a) being involved in the decision-taking of the audited entity and the provision of the services referred to in points (b), (c) and (e) of the second subparagraph of [paragraph 1](#) shall be deemed to affect such independence in all cases and to be incapable of mitigation by any safeguards.

(b) provision of the services referred to in the second subparagraph of [paragraph 1](#) other than points (b), (c) and (e) thereof shall be deemed to affect such independence and therefore to require safeguards to mitigate the threats caused thereby.

Appendix 2 – Audit Committee requirements in the UK Corporate Governance Code and the DTR

Extracts from the UK Corporate Governance Code – Audit Committees

A.1.2	<p>The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees.³ It should also set out the number of meetings of the board and those committees and individual attendance by directors.</p> <p><i>³ Provisions A.1.1 and A.1.2 overlap with FCA Rule DTR 7.2.7 R; Provision A.1.2 also overlaps with DTR 7.1.5 R (see Schedule B)</i></p>
C.3:	<p>Audit Committee and Auditors¹⁵</p> <p><i>¹⁵ "Guidance on Audit Committees" suggests means of applying this part of the Code. Copies are available from the FRC website.</i></p>
Main Principle	<p>The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.</p>

Code Provisions	
C.3.1	<p>The board should establish an audit committee of at least three, or in the case of smaller companies¹⁶ two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience. The audit committee as a whole shall have competence relevant to the sector in which the company operates.¹⁷</p> <p><i>¹⁶ See footnote 6. [⁶ A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.]</i></p> <p><i>¹⁷ This provision overlaps with FCA Rule DTR 7.1.1A R (see Schedule B).</i></p>
C.3.2	<p>The main role and responsibilities of the audit committee should be set out in written terms of reference¹⁸ and should include:</p> <ul style="list-style-type: none"> •to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them; •to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems; •to monitor and review the effectiveness of the company's internal audit function; •to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor; •to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; •to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and •to report to the board on how it has discharged its responsibilities. <p><i>¹⁸ This provision overlaps with FCA Rules DTR 7.1.3 R (see Schedule B).</i></p>
C.3.3	<p>The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. ¹⁹</p>

	<p>19 See footnote 7. [⁷The requirement to make the information available would be met by including the information on a website that is maintained by or on behalf of the company.]</p>
C.3.4	<p>Where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.</p>
C.3.5	<p>The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.</p>
C.3.6	<p>The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.</p>
C.3.7	<p>The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors.²⁰ If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.</p> <p>20 This overlaps with Part 3 of <i>The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014</i> and the requirements of Chapter 2 of Part 16 of the <i>Companies Act 2006</i> as inserted by the <i>Statutory Auditors and Third Country Auditors Regulations 2016</i> on the appointment of auditors to public companies that are Public Interest Entities.</p>
C.3.8	<p>A separate section of the annual report should describe the work of the committee in discharging its responsibilities.²¹ The report should include:</p> <ul style="list-style-type: none"> •the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed; •an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;²² and •if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded. <p>21 This provision overlaps with <i>FCA Rules DTR 7.1.5 R and 7.2.7 R</i> (see <i>Schedule B</i>)</p>

22 This overlaps with Part 4 of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

DTR 7.1 Audit committees - Audit committees and their functions

<p>DTR 7.1.1 R 17/06/2016</p>	<p>An issuer must have a body or bodies responsible for performing the functions set out in DTR 7.1.3 R.</p>
<p>DTR 7.1.1A R 17/06/2016</p>	<p>(1)A majority of the members of the relevant body must be independent. (2)At least one member of the relevant body must have competence in accounting or auditing, or both. (3)The members of the relevant body as a whole must have competence relevant to the sector in which the issuer is operating. [Note: article 39(1) of the Audit Directive]</p>
<p>DTR 7.1.2 G 17/06/2016</p>	<p>The requirements for independence and competence in accounting and/or auditing may be satisfied by the same members or by different members of the relevant body.</p>
<p>DTR 7.1.2A R 17/06/2016</p>	<p>The chairman of the relevant body must be: (1)independent; and (2)appointed by the members of the relevant body or by the administrative or supervisory body of the issuer. [Note: article 39(1) of the Audit Directive]</p>
<p>DTR 7.1.3 R 17/06/2016</p>	<p>An issuer must ensure that, as a minimum, the relevant body must: (1)monitor the financial reporting process and submit recommendations or proposals to ensure its integrity; (2)monitor the effectiveness of the issuer's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the issuer, without breaching its independence; (3)monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the Financial Reporting Council under article 26(6) of the Audit Regulation; (4)review and monitor the independence of the statutory auditor in accordance with paragraphs 2(3), 2(4), 3 to 8 and 10 to 12 of Schedule 1 to the Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) and article 6 of the Audit Regulation, and in particular the appropriateness of the provision of non- audit services to the issuer in accordance with article 5 of the Audit Regulation; (5)inform the administrative or supervisory body of the issuer of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the relevant body was in that process; and</p>

	<p>(6)except when article 16(8) of the Audit Regulation is applied, be responsible for the procedure for the selection of statutory auditor(s) and recommend the statutory auditor(s) to be appointed in accordance with article 16 of the Audit Regulation.</p> <p>[Note: article 39(6) of the Audit Directive]</p>
<p>DTR 7.1.5 R 17/06/2016</p>	<p>An issuer must make a statement available to the public disclosing which body carries out the functions required by DTR 7.1.3 R and how it is composed.</p> <p>[Note: article 39(4) (part) of the Audit Directive]</p>
<p>DTR 7.1.6 G 29/06/2008</p>	<p>An issuer may include the statement required by DTR 7.1.5 R in any statement it is required to make under DTR 7.2 (Corporate governance statements).</p>
<p>DTR 7.1.7 G 01/02/2015</p>	<p>In the FCA's view, compliance with provisions A.1.2, C.3.1, C.3.2, C.3.3 and C.3.8 of the UK Corporate Governance Code will result in compliance with DTR 7.1.1 R to DTR 7.1.5 R.</p>

¹ Certain firm-wide requirements apply from 17 June 2016.

² See Schedule 3, Part 3, [paragraph 13](#)

³ The date of the Audit Regulation