

## Auditor resignation (Lecture A801 – 10.52 minutes)

When an auditor ceases to hold office from a non-public interest entity (i.e. a private entity), there is a process which must be followed in order to ensure correct protocol is followed.

ICAEW has produced a helpsheet designed to assist audit firms in ensuring the correct process is followed which can be downloaded at <https://www.icaew.com/technical/tas-helpsheets/audit-and-assurance/auditor-resignation-auditor-and-company-responsibilities/auditor-resignation-auditor-responsibilities>

### 1.1 Company law requirements

Section 519 of Companies Act 2006 states:

*An auditor (“A”) of a non-public interest company who is ceasing to hold office must send to the company a statement of the reasons for doing so unless A satisfied the first or second condition.* S519 (2), CA 2006

*The first condition is that A is ceasing to hold office—* S519 (2A), CA 2006

(a) *in the case of a private company, at the end of a period for appointing auditors;*

(b) *in the case of a public company, at the end of an accounts meeting.*

*The second condition is that—* S519 (2B), CA 2006

(a) *A’s reasons for ceasing to hold office are all exempt reasons (as to which see section 519A(3)), and*

(b) *there are no matters connected with A’s ceasing to hold office that A considers needs to be brought to the attention of members or creditors of the company.*

When an auditor ceases to hold office, the first question that should be asked is whether the cessation of office amounts to a resignation. If the circumstances do not indicate a resignation, then a section 519 statement of circumstances will not be necessary.

The outgoing auditor must then consider whether the reasons for ceasing to hold office are exempt or non-exempt reasons. If the reasons are exempt reasons (see below) there will only be a s519 statement if there are matters to report. If there are matters to report, there will always be a s519 statement.

## 1.2 Exempt reasons or non-exempt reasons

Exempt reasons are dealt with in s519A(3) Companies Act 2006 and are as follows:

- The auditor is no longer able to carry out statutory audit work within the meaning of Part 42 (section 1210 (1)).
- The company is, or is to become, exempt from audit under section 477, section 479A or section 480, or from the requirements of this part under section 482, and intends to include in its balance sheet a statement of the type described in section 475(2).
- The company is a subsidiary undertaking of a parent undertaking that is incorporated in the UK, the parent undertaking prepares group accounts and the auditor is being replaced by an auditor who is conducting, or is to conduct, an audit of the group accounts.
- The company is being wound up under Part 4 of the Insolvency Act 1986 or Part 5 of the Insolvency (Northern Ireland) Order 1989 or a petition under Part 4 of that Act or Part 5 of that Order has been presented and not finally dealt with or withdrawn.

## 1.3 Auditor resigns from the client

When an auditor resigns, they must send a letter of resignation to the client as required under section 516 Companies Act 2006.

In addition, the auditor may need to send a section 519 statement of circumstances or no circumstances to the company. Where a statement of circumstances is required, the auditor must lodge a copy with Companies House and the appropriate audit authority for non-public interest companies (e.g. ICAEW or ACCA). The table below summarises the requirements:

Nature of reasons matters	Exempt reasons with no matters	Exempt reasons with matters	Non-exempt reasons and no matters	Non-exempt reasons with matters
Does the auditor send a s519 statement to the company?	No (CA 2006, s519(2B))	Yes, send a statement of reasons including matters for members and creditors (CA 2006, s519(3A))	Yes, send a statement of reasons with a statement that there are no matters that need to be brought to the attention of members or creditors (CA 2006,	Yes, send a statement of reasons including matters for members and creditors (CA 2006, s519(2B) and (3A))

s519(3B))						
Does the auditor need to send the s519 statement to the appropriate audit authority?	No (CA 2006, s522)	(CA 2006, s522)	Yes, at the same time as sending the s519 statement to the company and email a copy to the audit authority (e.g. ICAEW or ACCA)	Yes, at the same time as sending the s519 statement to the company and email a copy to the audit authority (e.g. ICAEW or ACCA)	Yes, at the same time as sending the s519 statement to the company and email a copy to the audit authority (e.g. ICAEW or ACCA)	Yes, at the same time as sending the s519 statement to the company and email a copy to the audit authority (e.g. ICAEW or ACCA)
Does the auditor file a copy of the s519 statement at Companies House?	No (CA 2006, s521)	(CA 2006, s521)	Yes, but the auditor must wait 21 days to see if the company makes an application to court. If no notice is received or if the courts decide the statement is not defamatory, the auditor must file the statement within seven days (CA 2006, s521(1))	No (CA 2006, s521(A1))	Yes, but the auditor must wait 21 days to see if the company makes an application to court. If no notice is received or if the courts decide the statement is not defamatory, the auditor must file the statement within seven days (CA 2006, s521(1))	Yes, but the auditor must wait 21 days to see if the company makes an application to court. If no notice is received or if the courts decide the statement is not defamatory, the auditor must file the statement within seven days (CA 2006, s521(1))

## 1.4 Content of the s519 statement

When a section 519 statement of circumstances is considered necessary, it must include the following (s519(3), CA 2006):

- The auditor's name and address
- The number allocated to the auditor on being entered into the register of auditors
- The company's name and registered number

S519(3A) of CA 2006 also requires details of matters which are connected with the auditor's ceasing to hold office which need to be brought to the attention of members or creditors to be included in the statement.

Auditors may wish to consider seeking legal advice to ensure that any statement is not defamatory as there is likely to be repercussions where a statement is defamatory. Where there are no matters connected with the auditor's ceasing to hold office which need to be brought to the attention of members or creditors, the s519 statement must include a statement to this effect (s519(3B), CA 2006).