

**Supervision**

# Chapter 3

## Auditors

## 3.1 Application

- 3.1.1** **R** (1) Except as provided for in (2), this chapter applies to:
- every *firm* within a category listed in column (1) of the table in **■ SUP 3.1.2 R**; and
  - the external auditor of such a *firm* (if appointed under **■ SUP 3.3** or appointed under or as a result of a statutory provision other than in the Act);
- (2) This chapter does not apply in relation to a *firm's benchmark activities*.
- 3.1.1A** **G** For the avoidance of doubt, this chapter does not apply to the following *firms* if they do not hold *client money* or client assets and do not appoint an auditor under or as a result of a statutory provision other than in the Act:
- (1) *authorised professional firms*;
  - (2) *energy market participants*, including *oil market participants* to whom **■ IPRU(INV) 3** does not apply;
  - (3) *exempt insurance intermediaries*;
  - (4) *insurance intermediaries* not subject to **■ SUP 3.1.2 R(10)**;
  - (5) *investment management firms*;
  - (6) *home finance administrators*;
  - (7) *home finance intermediaries*;
  - (8) *home finance providers*;
  - (9) *personal investment firms*, including *small personal investment firms*;
  - (10) *securities and futures firms*; and
  - (11) *service companies*.
- 3.1.2** **R** Applicable sections (see **■ SUP 3.1.1 R**)
- This table and the provisions in SUP 3 should be read in conjunction with GEN 2.2.23 R to GEN 2.2.25 G. In particular, the PRA does not apply any of the

provisions in SUP 3 in respect of *FCA-authorized persons*. SUP 3.10 and SUP 3.11 are applied by the *FCA* only.

(1) Category of firm	(2) Sections applicable to the firm	(3) Sections applicable to its auditor
(1) <i>Authorised professional firm</i> which is required by <i>IPRU(INV)</i> 2.1.2R to comply with chapters 3, 5 or 13 of <i>IPRU(INV)</i> and which has an auditor appointed under or as a result of a statutory provision other than in the <i>Act</i> (Notes 1 and 6)	SUP 3.1 - SUP 3.7, SUP 3.11	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
(2) <i>Authorised professional firm</i> not within (1) to which the <i>custody chapter</i> or <i>client money chapter</i> applies	SUP 3.1 - SUP 3.7, SUP 3.11	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
(3) <i>Authorised professional firm</i> not within (1) or (2) which has an auditor appointed under or as a result of a statutory provision other than in the <i>Act</i>	SUP 3.1, SUP 3.2, SUP 3.7	SUP 3.1, SUP 3.2, SUP 3.8
(4) <i>Bank, building society or dormant account fund operator</i> which in each case carries on <i>designated investment business</i> (Notes 2A and 6)	SUP 3.1-SUP 3.7, SUP 3.11	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
(5) <i>Bank, building society or a dormant account fund operator</i> which in each case does not carry on <i>designated investment business</i> (Note 2A)	SUP 3.1 - SUP 3.7	SUP 3.1, SUP 3.2, SUP 3.8
(5A) <i>Credit union</i>	SUP 3.1 - SUP 3.7	SUP 3.1, SUP 3.2, SUP 3.8
(5B) <i>CASS debt management firm</i> unless subject to a <i>requirement</i> imposed under section 55L of the <i>Act</i> stating that it must not hold <i>client money</i> or such a <i>requirement</i> to the same effect	SUP 3.1 SUP 3.10 SUP 3.11	SUP 3.1 SUP 3.10
(5C) <i>CASS 7 loan-based crowdfunding firm</i>	SUP 3.1-3.7, SUP 3.11	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
(5D) A <i>CASS 13 claims management firm</i>	SUP 3.1-3.7, 3.11	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10

(1) Category of firm	(2) Sections applicable to the firm	(3) Sections applicable to its auditor
<b>(6)</b>	<i>Insurer, the Society of Lloyd's, underwriting agent or members' adviser, UK ISPV (Note 5)</i>	SUP 3.1, SUP 3.2, SUP 3.8
<b>(7)</b>	<i>Investment management firm, (other than an exempt CAD firm), personal investment firm (other than a small personal investment firm or exempt CAD firm), securities and futures firm (other than an exempt CAD firm or an exempt BIPRU commodities firm) or collective portfolio management firm that is an external AIFM which, in each case, has an auditor appointed under or as a result of a statutory provision other than in the Act (Notes 3 and 6)</i>	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
<b>(7A)</b>	<i>Investment management firm (other than an exempt CAD firm), personal investment firm (other than a small personal investment firm or exempt CAD firm), securities and futures firm (other than an exempt CAD firm or an exempt BIPRU commodities firm) or collective portfolio management firm that is an external AIFM not within (7) to which the custody chapter or client money chapter applies</i>	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
<b>(7B)</b>	<i>Collective portfolio management firm that is a UCITS firm or an internally managed AIF (Note 6)</i>	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
<b>(7C)</b>	<i>UK MiFID investment firm, which has an auditor appointed under or as a result of a</i>	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10

(1) Category of firm	(2) Sections applicable to the firm	(3) Sections applicable to its auditor
	statutory provision other than in the Act (Notes 3B and 6)	
<b>(7D)</b>	<i>Sole trader or partnership</i> that is a <i>UK Mi-FID investment firm</i> (other than an <i>exempt CAD firm</i> ) (Notes 3C and 6)	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
<b>(8)</b>	<i>Small personal investment firm</i> or <i>service company</i> which, in either case, has an auditor appointed under or as a result of a statutory provision other than in the Act	SUP 3.1, SUP 3.2, SUP 3.8
<b>(9)</b>	<i>Home finance provider</i> which has an auditor appointed under or as a result of a statutory provision other than in the Act	SUP 3.1, SUP 3.2, SUP 3.8
<b>(10)</b>	<i>Insurance intermediary</i> (other than an <i>exempt insurance intermediary</i> ) to which the <i>insurance client money chapter</i> (except for CASS 5.2 (Holding money as agent)) applies (see Note 4)	SUP 3.1, SUP 3.2, SUP 3.8, SUP 3.10
<b>(11)</b>	<i>Exempt insurance intermediary</i> and <i>insurance intermediary</i> not subject to SUP 3.1.2 R(10) which has an auditor appointed under or as a result of a statutory provision other than in the Act	SUP 3.1, SUP 3.2, SUP 3.8
<b>(12)</b>	<i>Home finance intermediary</i> or <i>home finance administrator</i> which has an auditor appointed under or as a result of a statutory provision other than in the Act.	SUP 3.1, SUP 3.2, SUP 3.8
Note 1 = This chapter applies to an <i>authorised professional firm</i> in row (1) (and its auditor) as if the <i>firm</i> were of the relevant type in the right-hand column of <i>IPRU(INV)</i> 2.1.4R.		
Note 2 [deleted]		

(1) Category of firm	(2) Sections applicable to the firm	(3) Sections applicable to its auditor
<p>Note 2A = For this purpose, <i>designated investment business</i> does not include either or both:</p> <p>(a) <i>dealing</i> which falls within the exclusion in article 15 of the <i>Regulated Activities Order</i> (Absence of holding out etc) (or agreeing to do so); and</p> <p>(b) <i>dealing in investments as principal</i> (or agreeing to do so):</p> <p>(i) by a <i>firm</i> whose <i>permission to deal in investments as principal</i> is subject to a <i>limitation</i> to the effect that the <i>firm</i>, in carrying on this <i>regulated activity</i>, is limited to entering into transactions in a manner which, if the <i>firm</i> was an <i>unauthorised person</i>, would come within article 16 of the <i>Regulated Activities Order</i> (Dealing in contractually based investments); and</p> <p>(ii) in a manner which comes within that <i>limitation</i>;</p> <p>having regard to article 4(4) of the <i>Regulated Activities Order</i> (Specified activities: general).</p>		
<p>Note 3 = This note applies in relation to an <i>oil market participant</i> to which <i>IPRU(INV) 3</i> does not apply and in relation to an <i>energy market participant</i> to which <i>IPRU(INV) 3</i> does not apply. In SUP 3:</p> <p>(a) only SUP 3.1, SUP 3.2 and SUP 3.7 are applicable to such a <i>firm</i>; and</p> <p>(b) only SUP 3.1, SUP 3.2 and SUP 3.8 are applicable to its auditor;</p> <p>and, in each case, only if it has an auditor appointed under or as a result of a statutory provision other than in the <i>Act</i>.</p>		
<p>Note 3A [deleted]</p>		
<p>Note 3B = <i>UK MiFID investment firms</i> include <i>exempt CAD firms</i>. An <i>exempt CAD firm</i> that has opted into <i>MiFID</i> can benefit from the audit exemption for small companies in the Companies Act legislation if it meets is an exempt investment firm as defined by article 8 of the <i>MiFI Regulations</i>. If a <i>firm</i> does so benefit then SUP 3 will not apply to it. For further details about <i>exempt CAD firms</i>, see PERG 13, Q58.</p>		
<p>Note 3C = A <i>sole trader</i> or a <i>partnership</i> that is a <i>UK MiFID investment firm</i> to which the <i>custody chapter</i> or <i>client money chapter</i> applies must have its annual accounts audited.</p>		
<p>Note 4 = The <i>client money</i> audit requirement in SUP 3.1.2 R(10) therefore applies to all <i>insurance intermediaries</i> except:</p> <ul style="list-style-type: none"> <li>• those which do not hold <i>client money</i> or other client assets in relation to <i>insurance distribution activities</i>; or</li> <li>• those which only hold up to, but not exceeding, £30,000 of <i>client money</i> under a statutory trust arising under CASS 5.3.</li> </ul> <p><i>Insurance intermediaries</i> which, in relation to <i>insurance distribution activities</i>, hold no more than that amount of <i>client money</i> only on a statutory trust are <i>exempt insurance intermediaries</i>.</p>		
<p>Note (5) = In row (6):</p>		
(a)	<p>SUP 3.1 - SUP 3.7 applies to a <i>managing agent</i> in respect of its own business and in respect of the <i>insurance business</i> of each <i>syndicate</i> which it manages; and</p>	
(b)	<p>SUP 3.1, SUP 3.2 and SUP 3.8 apply to the auditors of a <i>managing agent</i> and the auditors of the <i>insurance business</i> of each <i>syndicate</i> which the <i>managing agent</i> manages.</p>	

(1) Category of firm	(2) Sections applicable to the firm	(3) Sections applicable to its auditor
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Note 6 = Where SUP 3.11 applies to a *firm*, and SUP 3.10 applies to the auditor of that *firm*, those sections apply whether or not that *firm's permission* prevents it from holding *client money* or *custody assets* and whether or not it holds *client money* or *custody assets*. A *collective portfolio management firm* that is an *internally managed AIF* is required to appoint an auditor under FUND 3.3.6R (2) (Annual report of an AIF) because the *AIFM* is also an *AIF*.

**3.1.2A** **G** If a *firm* falls within more than one row in column (1) of the table in ■ SUP 3.1.2 R, ■ SUP 3.1.1 R requires the *firm* and its external auditor to comply with all the sections referred to in column (2) or (3).

**Incoming firms**

**3.1.3** **R** This chapter applies to an *incoming EEA firm* (and the auditor of such a *firm*) only if it has *atop-up permission*.

**3.1.4** **G** The application of ■ SUP 3.10 to the auditor of an *incoming EEA firm* with a *top-up permission* is qualified in ■ SUP 3.10.3 R.

**3.1.5** **R** This chapter does not apply to an *incoming Treaty firm*, which:

- (1) does not have a *top-up permission*; and
- (2) is not required to comply with the *client asset rules*.

**3.1.6** **G** The application of ■ SUP 3.7 to an *incoming Treaty firm* or an auditor of such a *firm* is further qualified in ■ SUP 3.7.1 G.

**Auditors of lead regulated firms**

**3.1.7** **G** The application of ■ SUP 3.10 to the auditor of a *lead regulated firm* is qualified in ■ SUP 3.10.3 R.

**3.1.8** **G** [deleted]

**Material elsewhere in the Handbook**

**3.1.9** **G** A *firm* which is mentioned in ■ SUP 3.1.10 G should see the Prudential Standards part of the *Handbook* for further provisions on auditors as set out in ■ SUP 3.1.10 G.

**3.1.10** **G** **Other relevant sections of the Handbook (see ■ SUP 3.1.9 G)**

<i>Friendly society</i>	<i>IPRU(FSOC)</i>
<i>Insurer (other than a Solvency II firm or a friendly society)</i>	<i>IPRU(INS)</i>

<i>Investment management firm, personal investment firm, securities and futures firm and collective portfolio management firm (other than IFPRU investment firms and BI-PRU firms)</i>	<i>IPRU(INV)</i>
<i>Society of Lloyd's and Lloyd's managing agents</i>	<i>IPRU(INS)</i>