



AUDITOR RESIGNATION – AUDITOR RESPONSIBILITIES

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INTRODUCTION

This helpsheet has been issued by ICAEW's Technical Advisory Service to help ICAEW members to understand the process an auditor should follow upon resignation from a **non-public interest** company.

Members may also wish to refer to the following related helpsheets:

- Auditor resignation – Company responsibilities
- Disengagement letters
- Disengagement checklist

ICAEW Audit and Assurance Faculty have published guidance on the need for a good quality auditor resignation statement:

- Auditor resignation statements: why clarity is vital

OVERVIEW

In order to understand the process to follow on ceasing to hold office, an auditor must establish:

1. Whether ceasing to hold office as an auditor amounts to a resignation? If it is **not** a resignation, there will be **no** s519 statement.
2. Are the reasons for ceasing to hold office exempt reasons or non-exempt reasons? If **exempt** reasons then there will **only** be a s519 statement if there are **matters** to report.
3. Are there matters or no matters to report to the members or creditors of a company? If there **are** matters to report there will **always** be a s519 statement.

The following sections of this helpsheet help to answer these questions. Once established, the answers to these questions inform the procedures to follow.

Auditors may be required to resign from an audit engagement as a result of sanctions, or alternatively may wish to resign as a result of reputational damage that continuing to act may cause. This is particularly prevalent following the Russian invasion of Ukraine and the resulting increased risk and sanctions. For consideration of these matters members may wish to refer to the following ICAEW article [Russia sanctions: Reputational risk cannot be overstated](#).

1. IS IT A RESIGNATION?

Ceasing to hold office at the end of a **period for appointing auditors** (in the case of a private company) or at the end of an accounts meeting (in the case of a public company), does not amount to resignation. Firms are, however, advised to send a **disengagement letter** to clarify to the client that the firm does not regard itself as still occupying the role of auditor.

Deemed reappointment

Under the Companies Act 2006 (CA06) section 487 (see **Glossary**), an auditor will cease to hold office at the end of the next period for appointing auditors unless re-appointed.

Where no auditor has been appointed by the end of the next period for appointing auditors, any auditor in office immediately before that time, is deemed to be re-appointed at that time, with a few exceptions.

One of the most common exceptions is where the auditor of a private company has been appointed by the directors. Where this is the case, the auditor will **not** be deemed reappointed (CA06 s487). As such, unless the auditor has been specifically reappointed, they will cease to hold office automatically at the end of the period for appointing auditors. Therefore, this does not amount to a resignation.

The other exceptions in CA06 s487 are:

- the company's articles require actual re-appointment, **or**
- the deemed re-appointment is prevented by the members under s488, **or**
- the members have resolved that he should not be re-appointed, **or**
- the directors have resolved that no auditor or auditors should be appointed for the financial year in question, **or**
- the auditor's appointment would be in breach of section 485C.

If there is **deemed reappointment**, then the auditor will need to **resign** (or be removed by the company under the Companies Act 2006 sections 510-513).

2. EXEMPT REASONS OR NON-EXEMPT REASONS?

An auditor must consider whether the reasons for resignation are 'exempt reasons'. The Companies Act 2006 section 519A(3) specifies that 'exempt reasons' are:

- (a) the auditor is no longer able to carry out statutory audit work with the meaning of Part 42 (section 1210(1));
- (b) 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);
- (c) The company is a subsidiary undertaking of a parent undertaking that is incorporated in the United Kingdom, 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; **or**

- (d) 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.

3. MATTERS OR NO MATTERS?

An auditor must consider whether there are matters connected with ceasing to hold office that the auditor considers need to be brought to the attention of members or creditors of the company. Where there are such matters, these must be included in the section 519 statement by virtue of the Companies Act 2006 section 519(3).

SUMMARY OF REQUIREMENTS

On resignation, the auditor **must** send a letter of resignation to the client (Companies Act 2006 section 516).

Additionally, an auditor **may** need to send a section 519 statement of circumstances or no circumstances to the company, Companies House and the appropriate audit authority (which is the ICAEW for non-public interest companies).

The following table summarises the requirements with respect to the section 519 statement of circumstances or no circumstances. Auditors should look at the appropriate column based on conclusions reached in earlier sections of this helpsheet.

Nature of reasons and 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 CA06 s519(2B)	Yes, send a statement of reasons including matters for members and creditors CA06 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 CA06 s519(3B)	Yes, send a statement of reasons including matters for members and creditors CA06 s519(2B) and (3A)
Does the auditor need to send the s519 statement to the appropriate audit authority?	No CA06 s522	Yes, at the same time as sending the s519 statement to the company. Email ICAEW at auditorchange@icaew.com CA06 s522	Yes, at the same time as sending the s519 statement to the company. Email ICAEW at auditorchange@icaew.com CA06 s522	Yes, at the same time as sending the s519 statement to the company. Email ICAEW at auditorchange@icaew.com CA06 s522
Does the auditor file a copy of the s519 statement at Companies House?	No CA06 s521	Yes, but wait 21 days to see if the company makes an application to the court. If no notice received or if the courts decide the statement is not defamatory, then the auditor has 7 days to file the statement CA06 s521(1)	No CA06 s521(A1)	Yes, but wait 21 days to see if the company makes an application to the court. If no notice received or if the courts decide the statement is not defamatory, then the auditor has 7 days to file the statement CA06 s521(1)

CONTENTS OF A SECTION 519 STATEMENT

In all cases where a section 519 statement is required, it must include the following administrative details:

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

Where there are matters connected with the auditor ceasing to hold office that the auditor considers need to be brought to the attention of members or creditors of the company, the statement must include details of those matters (CA06 s519(3A)).

Depending on the nature of the matters to be included in the section 519 statement, auditors may wish to seek legal advice to ensure that the wording used is not defamatory. If the client applied to the court under section 520 and the court is satisfied that the auditor is using the provisions of section 519 to secure needless publicity for a defamatory matter, then the court could order the company's costs to be paid by the auditor.

Alternatively, where the auditor considers that none of the reasons for ceasing to hold office, and no matters connected with ceasing to hold office, need to be brought to the attention of members or creditors of the company, the section 519 statement must include a statement to this effect (CA06 s519(3B)).

RESIGNATION FROM AN UNINCORPORATED CHARITY OR CIO

When resigning as auditor from an unincorporated charity or Charitable Incorporated Organisation (CIO) the above rules regarding section 519 statements will not apply, instead the auditor must refer and follow **Statutory Instrument 2008/629 The Charities (Accounts and Reports) Regulations 2008 para 35**, which refers only to the requirement for a statement of circumstances (or no circumstances) to be sent to the Trustees.

Where there are circumstances, these statements must also be sent to the Charity Commission.

There is no requirement to inform ICAEW.

IF IN DOUBT SEEK ADVICE

ICAEW members, affiliates, ICAEW students and staff in eligible firms with **member firm access** can discuss their specific situation with the Technical Advisory Service on +44 (0)1908 248 250 or via **webchat**.

GLOSSARY

Period for appointing auditors (CA06 s485)

The 'period for appointing auditors' is defined in the Companies Act 2006 section 485 as the period of 28 days beginning with:

- (a) the end of the time allowed for sending out copies of the company's annual accounts and reports for the previous financial year (see section 424), **or**
- (b) if earlier, the day on which copies of the company's annual accounts and reports for the previous financial year are sent out under section 423.

Deemed re-appointment (CA06 s487)

Where no auditor has been appointed by the end of the next period for appointing auditors, any auditor in office immediately before that time is deemed to be re-appointed at that time, unless –

- (a) he was appointed by the directors, **or**

- (b) the company's articles require actual re-appointment, **or**
- (c) the deemed re-appointment is prevented by the members under s488, **or**
- (d) the members have resolved that he should not be re-appointed, **or**
- (e) the directors have resolved that no auditor or auditors should be appointed for the financial year in question, **or**
- (f) the auditor's appointment would be in breach of s485C.

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