

These notes refer to the Companies (Audit, Investigations and Community Enterprise) Act 2004 (c.27) which received Royal Assent on 28 October 2004

COMPANIES (AUDIT, INVESTIGATIONS AND COMMUNITY ENTERPRISE) ACT 2004

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 1: Auditors, Accounts, Directors' Liabilities and Investigations

Chapter 1: Auditors

Summary and Background

Recognised supervisory bodies

Sections 1 and 2 - Additional requirements for recognition of supervisory bodies; arrangements to which additional requirements for recognition relate

22. *Section 1* amends Part 2 of Schedule 11 to the Companies Act 1989, which sets out the requirements that accountancy bodies must meet in order to be recognised as supervisory bodies for auditors. Specifically, the section places new requirements on the recognised supervisory bodies by making it a condition of recognition that they participate in independent arrangements for:
- the setting of auditing standards relating to professional integrity and independence (*subsection (2)*) and the setting of technical standards (*subsection (3)*);
 - the monitoring of audits of listed companies and other companies whose financial condition is of particular importance (*subsection (4)*); and
 - the investigation and taking of disciplinary action in relation to public interest cases (*subsection (5)*).
23. *Section 2* inserts a *new Part 3* into Schedule 11 to the Companies Act 1989. The new Part sets out the criteria which must be met by the independent standard setting, monitoring and disciplinary arrangements. The section seeks to ensure the independence of these arrangements by providing (in *new paragraph 21 of Schedule 11*) that the recognised supervisory bodies cannot be involved in the selection and appointment of those who carry out the standard setting (*new paragraphs 17 and 18*), monitoring (*new paragraph 19*) and disciplinary functions (*new paragraph 20*), nor can they be involved in the carrying out of those functions. *New paragraph 20* also provides for transparency in the disciplinary arrangements by requiring that independent disciplinary hearings must be held in public, unless that would not be in the interests of justice.
24. The practical effect of these sections is to make the recognised supervisory bodies subject to a more independent regulatory regime in respect of the setting, monitoring and enforcement of auditing standards.