

*These notes refer to the Companies Act 2006 (c.46)
which received Royal Assent on 8 November 2006*

COMPANIES ACT 2006

EXPLANATORY NOTES

COMMENTARY

Schedule 11: Recognised Professional Qualifications

Part 2: Requirements for recognition of a professional qualification

Chapter 3: Auditors General

Section 1226: Auditors General: eligibility for appointment as a statutory auditor

1567. *Subsection (1)* defines an “Auditor General” for the purposes of this Part as the Comptroller and Auditor General, the Auditor General for Scotland, the Auditor General for Wales or the Comptroller and Auditor General for Northern Ireland. *Subsections (2) and (3)* explain that an Auditor General is eligible for appointment as a statutory auditor, unless his eligibility has been suspended by the Independent Supervisor under section 1234.

Section 1227: Individuals responsible for audit work on behalf of Auditors General

1568. This section provides that an Auditor General must ensure that the individuals within his charge, who are carrying out statutory audits on the Auditor General’s behalf, are, in their own right, eligible for appointment as a statutory auditor by virtue of the qualifications and requirements that are set out in Chapter 2.

Section 1228: Appointment of the Independent Supervisor

1569. *Subsections (1) and (2)* provide that the Secretary of State must appoint a body to be the Independent Supervisor of Auditors General in respect of the exercise of statutory audit functions. *Subsection (3)* provides for the appointment of the Independent Supervisor to have the effect of making it subject to the obligations of the Freedom of Information Act 2000. *Subsections (4), (5) and (6)* provide that a body may be appointed as Independent Supervisor of an Auditor General if it is a corporate body or unincorporated association that is willing to carry out the function, that has arrangements in place that will ensure the supervision is carried out effectively, and that will exercise such functions and requirements that may be laid down in the Secretary of State’s order appointing it. The appointed Independent Supervisor must perform its function on a UK-wide basis for all four Auditors General in accordance with section 1229(1).

Section 1229: Supervision of Auditors General by the Independent Supervisor

1570. This section sets the framework for the supervision arrangements to be carried out by the Independent Supervisor. *Subsection (2)* provides that the Independent Supervisor must establish arrangements with one or more third parties to carry out aspects of the supervisory function. *Subsection (3)* provides that the arrangements with a third party cover standards on professional integrity and independence, as well as the technical standards for statutory audit work; monitoring performance; investigating matters

arising from that performance; and as necessary holding disciplinary hearings and deciding whether any disciplinary action should be taken. *Subsections (6) and (7)* make provisions relating to the payment of fines under the disciplinary arrangements.

Section 1230: Duties of Auditors General in relation to supervision arrangements

1571. *Subsection (1)* makes it a duty for each Auditor General to comply with the standards set by, as well as the monitoring arrangements and decisions of, the independent supervision arrangements. It also provides in *subsection (2)* for each Auditor General to pay the proportion of the costs of the independent supervisory arrangements that may be notified to the Auditor General in writing. *Subsection (3)* provides that the payment of such costs is to be regarded as expenditure of the National Audit Office in the case of the Comptroller and Auditor General, and as expenditure of the Northern Ireland Audit Office in the case of the Comptroller and Auditor General for Northern Ireland. In the case of the Auditor General for Scotland, under section 13 of the [Public Finance and Accountability \(Scotland\) Act 2000 \(asp 1\)](#) the expenses of the Auditor General are paid by Audit Scotland. In the case of the Auditor General for Wales, under section 93 of the Government of Wales Act 1998 the expenses of the Auditor General are met by the Assembly.

Section 1231: Reports by the Independent Supervisor

1572. This section provides that the Independent Supervisor must provide at least one report each calendar year to the Secretary of State and to the First Minister in Scotland, The First Minister and the Deputy First Minister in Northern Ireland and the Assembly First Minister in Wales. The Secretary of State must then lay the report before each House of Parliament.

Section 1232: Matters to be notified to the Independent Supervisor

1573. This section makes it a legal requirement for an Auditor General to notify the Independent Supervisor in writing of events that the Independent Supervisor may specify and is consistent with the requirement for other statutory auditors as contained in section 1223.

Section 1233: The Independent Supervisor's power to call for information

1574. This section makes provision enabling the Independent Supervisor to require an Auditor General to provide information. It enables the Independent Supervisor to specify the period within which the information must be provided and how the information must be verified. This section is consistent with the requirement for other statutory auditors as contained in section 1224.

Section 1234: Suspension notices

1575. This section provides the Independent Supervisor with the power to suspend an Auditor General's eligibility for appointment as a statutory auditor if, for example, he falls short of the standards laid down for performance of statutory audit work. It also sets out the provisions as to how the suspension will be effected, and the considerations pertaining to the decision to suspend. It provides for a process leading up to the issuing of a suspension notice, including the hearing of representations from the Auditor General in question.

Section 1235: Effect of suspension notices

1576. This section provides that an Auditor General must not act as a statutory auditor of a particular person if he is suspended in relation to that person. If the suspension starts during his term of office, the Auditor General must resign as a statutory auditor immediately, and tell the audited person that he has resigned. *Subsection (3)* makes it clear that the criminal offences in section 1213 (ineligibility for appointment as a

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statutory auditor) do not apply to an Auditor General who is ineligible by virtue of a suspension notice.

Section 1236: Compliance orders

1577. This section provides the power for the Independent Supervisor to take an Auditor General to court if he fails to comply with any obligation imposed by or by virtue of this Part of the Act. The court may direct the Auditor General to take such steps as it thinks fit to ensure compliance.

Section 1237: Proceedings involving the Independent Supervisor

1578. This section provides that where the Independent Supervisor is an unincorporated association it may take proceedings in the name of the body corporate under which it is constituted.

Section 1238: Grants to the Independent Supervisor

1579. This section amends section 16(2) of the C(AICE) Act 2004. The effect of the amendment is that the body that carries out the functions of the Independent Supervisor is eligible for grants from the Secretary of State under section 16 of that Act to meet the expenditure of the body and any subsidiary. It also means that the body may be exempt from liability in damages under section 18 of the Act.