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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations amend section 1242 of, and Schedule 10 to, the Companies Act 2006 (“the Companies Act”), and the Statutory Auditors and Third Country Auditors Regulations 2007 (“SATCAR”). The Regulations give effect to Commission Decision 2011/30/EU of 19th January 2011 (O.J. L15, 20.1.2011, p.12) (“the Commission Decision”) on the equivalence of certain third country public oversight, quality assurance, investigation and penalty systems for auditors and audit entities and a transitional period for audit activities of certain third country auditors and audit entities in the European Union. That Decision was made under Article 46(2) of Directive [2006/43/EC](#) on statutory audits of annual accounts and consolidated accounts (O.J. L157, 9.6.2006, p.87) (“the Audit Directive”).

Regulation 4 amends section 1242(4) of the Companies Act to enable the Secretary of State to disapply the provisions requiring participation by auditors in arrangements for independent monitoring of audits by means of inspections and for independent investigations for disciplinary purposes where the audit is of a company or class of company incorporated in a third country whose securities are listed in the UK and relates to a financial period commencing on or after 2nd July 2010. This amendment is necessary to give effect to the provisions of Articles 1 and 2.1 of the Commission Decision.

Regulation 5 amends Schedule 10 to the Companies Act to provide that the audits by statutory auditors (as defined in section 1210 of the Companies Act) of companies incorporated in a third country whose securities are listed in the UK may be subject to inspection. This amendment is necessary for the full implementation of the Audit Directive and the Commission Decision.

Regulations 2, 3 and 6 make consequential amendments.

Regulation 7 amends the provisions of SATCAR on the registration of auditors of companies incorporated in a third country whose securities are listed in the UK. The amendments remove the category of exempt third country auditor introduced into SATCAR by the Statutory Auditors and Third Country Auditors (Amendment) (No. 2) Regulations 2008 (S.I. 2008/2639) and require all applicants for entry on the register of third country auditors to provide specified information. They introduce a category of “equivalent third country” to give effect to Article 1 of the Commission Decision and amend the list of specified third countries. The amendments allow the designated body (the Professional Oversight Board of the Financial Reporting Council) to give effect to the provisions of the Commission Decision. The registration requirements of SATCAR are subject to the Secretary of State's powers of direction under section 1239(7) of the Companies Act.

Regulation 9 makes transitional provision.

Regulation 8 makes minor consequential amendment to the Statutory Auditors (Delegation of Functions etc) Order 2008 (S.I. 2008/496).

A transposition note has been prepared which sets out how Directive [2006/43/EC](#) is transposed into UK law, updated to reflect the implementation of Commission Decision 2011/30/EU. An Impact Assessment of the effect of the implementation of Directive [2006/43/EC](#) on the costs of business, charities or voluntary bodies was also prepared. Both are available from the Department for Business, Innovation and Skills, 1 Victoria Street, London, SW1H 0ET. They are also available electronically at [www.bis.gov.uk](http://www.bis.gov.uk). Copies have also been placed in the libraries of both Houses of Parliament. Otherwise, an Impact Assessment has not been produced for these Regulations as they have only a negligible impact on the costs of business, charities or voluntary bodies. The transposition note is annexed to the Explanatory Memorandum which is published alongside the instrument on [www.legislation.gov.uk](http://www.legislation.gov.uk).

**Changes to legislation:**

There are currently no known outstanding effects for the The Statutory Auditors and Third Country Auditors (Amendment) Regulations 2011.