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Dear Sir/ Madam

INFORMATION ON THE TRANSITION PERIOD FOR AUDITORS AND FIRMS

This letter sets out information for auditors and firms now that we have left the EU and are in a Transition Period (TP). The main thing to note is that there is no change for UK and EEA auditors and firms, and their clients, during the TP.

Last year the Government issued guidance and correspondence to business about the potential effects of a 'No Deal' on their sectors. Now that the UK has left the European Union (EU) with the Withdrawal Agreement that guidance and correspondence are no longer relevant. During this period the Government also laid necessary Statutory Instruments for the accounting and audit sector. These Statutory Instruments did **not** come into force on 31 January 2020 (Exit Day) and instead will come into force at the end of the TP.

The information covered below is relevant for the Transition Period (TP) only. Any changes that might come into effect after the end of the TP to reflect any agreement reached with the EU on our future trading relationship, will be issued as necessary.

Recognition

If you are approved to conduct audit work in the EEA based on a UK audit qualification, then you will be able to continue to practice, as you did before 31 January 2020, during the TP.

How UK auditors are recognised to conduct audit work in the EEA after the end of the TP is likely to be subject to negotiations with the EU. Further communication on any impacts to the recognition of UK auditors that might take effect after the end of the TP will be issued as necessary.

Ongoing audits

Audit reports on EEA companies that are due to be signed and published during the TP will not be affected. UK auditors will be able to sign-off these audits during the TP, as they did before 31 January 2020.

Third country auditors

Now that the UK has left the European Union the UK has become a ‘third country’ to the EU. However, for audit firms that carry out the audits of non-EEA companies (including UK companies) that are listed on an EEA regulated market, there will be no immediate requirement to register as a third country auditor. Audits that will be signed off and published during the TP can continue.

After the end of the TP audit firms carrying out the audits of non-EEA incorporated companies, including UK incorporated companies, with securities listed on an EEA regulated market, will need to register with the relevant EEA competent authority to become a third country auditor.

Audit firms affected may therefore wish to consider using the TP to contact the competent authority in the EEA country where the client has a listing for further information about the application process to become a registered third country auditor. We expect that this information will become available once audit equivalence assessments have concluded.

The EU Audit Regulation

The EU Audit Regulation will continue to apply in the UK during the TP, as it did before 31 January 2020.

After the end of the TP, the EU Audit Regulation will continue to apply, subject to certain amendments, as domestic, retained EU Law. Further information on how retained EU law will apply in the UK after the end of the TP will be issued in due course.

Group audits

During the TP there will be no change for group auditors of groups that include undertakings across both the EEA and the UK, including where the parent company is UK based. As indicated in the letter sent in February 2019, we do not anticipate any significant issues in relation to carrying out such group audits even after the end of the TP. This includes the group auditor having full access to the working papers relating to the audits of the EEA subsidiaries during the audit.

After the end of the TP, non-audit services on the list of prohibited services under Article 5 of the EU Audit Regulation will be prohibited for all overseas subsidiaries of UK Public Interest Entities (“PIEs”¹). Meanwhile, EEA auditors of EEA parent undertakings of UK PIEs will not be included in the prohibition, as they are now. Only auditors of UK parent undertakings will be included. These changes will take effect for financial years beginning after the end of the TP.

Firm ownership

During the TP, individuals with a UK qualification will continue to be counted among eligible qualified owners and managers of EEA based firms.

How UK qualified auditors and firms are counted among these required majorities of EEA audit firms may be subject to negotiations with the EU. Further communication on any impacts on ownership and management will be issued as necessary.

¹ “PIEs” - banks, building societies, insurers and issuers of securities on UK regulated markets (as set out in s.519A of the Companies Act 2006).

Existing Registrations with UK recognised professional bodies

Existing statutory auditors who have registered with the UK recognised professional bodies based on their having passed an aptitude test after obtaining an EEA qualification will continue to be registered after the end of the TP.

New EEA Registrations with UK recognised professional bodies after the end of the TP

EEA qualified auditors working in the UK who are not already registered here as a statutory auditor, will have until the end of the TP to begin the process of obtaining eligibility to practise in the UK by passing an aptitude test.

Most EEA auditors who have qualified in Ireland will not need to sit an aptitude test, even after the end of the TP, as their audit qualification is recognised by professional bodies that are recognised in both the UK and Ireland. The only auditors who may need to sit an aptitude test are those who are qualified as members of CPA Ireland.

Firm ownership

All EEA auditors and firms, including from Ireland, will continue to be eligible to be included in a UK firm's required majorities of owners and managers during the TP.

Audit Committees

All UK Public Interest Entities will continue to be subject to the requirements in the Disclosure and Transparency Rules issued by the Financial Conduct Authority (FCA), and other rules issued by the Prudential Regulation Authority (PRA), for an audit committee. This requirement originated from the Audit Directive and will continue to apply during the TP, in the same way as previously.

Conclusion

We hope that you find the information in this letter helpful as you use the TP to adjust to the UK no longer being a Member State of the EU.

You should also note that the UK will seek equivalence on accounting and audit, and adequacy in relation to audit from the EU Commission. The Political Declaration, agreed with the EU prior to the UK's departure, sets the expectation that assessments of equivalence and adequacy of accounting and audit should be concluded by June 2020, with the UK and EU assessing each other's equivalence and adequacy in parallel.

For areas that sit outside of these equivalences, possibly including the recognition of auditors and firm structures, the UK is now entering a phase of discussions with the EU on a Free Trade Agreement with the EU. Further information on what those talks may mean for the UK's accounting and audit sector will be issued in due course.

In the meantime, if you have any questions in relation to the content of this this letter or would like to offer any thoughts on the issues raised, you can email companylaweuexit@beis.gov.uk.

Yours sincerely,

Debbie Gillatt, Director, Business Frameworks, BEIS
Sir Jon Thompson, Chief Executive Officer, FRC

Frequently Asked Questions (FAQs)

UK auditors

1. I am already recognised and approved to practise as an auditor in the EEA. Will that continue after the end of the Transition Period (TP)?

There will be no change to your status during the TP. The status of UK auditors after the end of this period is likely to be subject to negotiations. Further information will be issued on the status of UK auditors' recognitions after the end of the TP, as necessary.

2. If it is likely that I will no longer be recognised as a statutory auditor in the EEA after the end of the TP what should I do?

We do not yet know how UK auditors will be recognised in the EEA after the end of the TP. This is likely to be subject to negotiations with the EU.

3. If I do need to register after the end of the TP what will this involve? How long will registration take? How much will it cost?

We do not yet know how UK auditors will be recognised in EEA States after the end of the TP. However, in the scenario that UK auditors are not automatically recognised after the end of the TP then it could be the case that you will need to make an application as a statutory auditor in each EEA State you intend to practise in. This could require you to sit an aptitude test, complete an adaption period, or you may be required to re-qualify by sitting some, or all, of the examinations and meeting any other requirements needed to obtain an audit qualification in the relevant EEA State. However, we do not know if this will be required because agreement between the UK and EU on the status of UK auditors working cross-border could be agreed during the TP. Further information will be issued on the status of UK auditors' recognitions after the end of the TP, as necessary.

4. Would I need to do this for each EEA State I practise in?

Yes, you would need to make an application as a statutory auditor to each EEA State you intend to practise in for the situation where agreement between the UK and EU on the status of auditors working cross-border is not reached during the TP.

Group audits

5. I am a group auditor of a UK parent with EEA subsidiaries. Will the group audit be affected?

During the TP there will be no change to how group audits are conducted. Even after the end of the TP we do not consider that the UK's exit from the EU should significantly hinder the ability of a UK audit firm to be the auditor of a group with EEA components and to access the audit working papers relating to the audits of the EEA components.

There might be restrictions relating to confidentiality in the local law of individual EEA states, on transferring information outside the EEA. We suggest that if you are a group auditor you may want to use the TP to check with relevant competent authorities on whether there are any such local restrictions.

After the end of the TP the audit reports on the accounts of the EEA components will need to be signed by an EEA audit firm as they were before 31 December 2020.

6. I am a group auditor of an EEA parent with UK components. Will the group audit be affected?

During the TP there will be no change to how group audits are conducted. After the end of the TP, where there is an audit of an EEA group with subsidiaries in the UK, the UK auditor of these subsidiaries will be considered as third country auditors.

For that reason, the EU Audit Directive will require an evaluation and review of the UK auditor's work by the group auditor.

7. Will there be any change to the non-audit services that my firm and the other members of its network may provide to the subsidiaries and parents of a UK Public Interest Entity (PIE)?

During the TP there will be no change.

After the end of the TP it is likely to be the case that non-audit services on the "blacklist" under Article 5 of the EU Audit Regulation will be prohibited for all overseas subsidiaries of UK Public Interest Entities ("PIEs" - banks, building societies, insurers and issuers of securities on UK regulated markets). This means that, for firms in the same network as a UK auditor of a UK PIE which provides blacklisted services to non-EEA subsidiaries, those non-EEA services will be subject to the same prohibition after the end of the TP.

After the end of the TP EEA auditors of EEA parent undertakings of UK PIEs will not be included in this prohibition. Only auditors of UK parent undertakings will be included. These changes are likely to take effect for financial years beginning on or after the end of the TP.

Firm recognition

8. Will EEA auditors continue to be counted in a UK firms' majority for ownership and control purposes?

Yes. Individual EEA auditors and firms will continue to count towards those eligible to control UK audit firms during the TP.

Working in Ireland

9. Will I have to register to be able to work in Ireland?

Not during the TP.

After the end of the TP UK auditors, including those with a residential address in Northern Ireland, may need to obtain a separate registration in Ireland and pass an aptitude test in Irish tax and law to be able to work in Ireland. However, this is likely to be subject to negotiations with the EU during the TP.

10. I qualified in Ireland. Do I still need to pass an aptitude test to continue working in the UK?

Most audit qualifications in Ireland are recognised in the UK. For other auditors the aptitude test will continue to be made available during the TP. The only auditors that may need to sit an aptitude test are those that are qualified as members of CPA Ireland.

EEA auditors

11. I have already had my qualification recognised in the UK. Will this recognition still stand?

During the TP there will be no change to how EEA auditors are recognised in the UK. In addition, existing registrations of individual EEA auditors as UK statutory auditors will continue even after the end of the end of the TP.

How EEA auditors who want to gain recognition in the UK are recognised after the end of the TP will be subject to negotiations between the UK and EU. Further information will be issued on the status of UK and EEA auditors' recognitions after the end of the TP as necessary.

12. UK auditors are currently in my EEA firm's ownership and management structure. What happens now?

During the TP no changes will need to be made to your structure: UK auditors will count in your firm's required majority throughout the TP.

How UK auditors are counted after the end of the TP is likely to be subject to negotiations between the UK and EU. Further communication on any impacts on ownership and management will be issued as necessary.