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Dear Sir/ Madam

IMPORTANT INFORMATION FOR AUDITORS AND FIRMS IN PREPARATION FOR A POTENTIAL 'NO-DEAL' SCENARIO

This letter sets out key actions in relation to the future of audit regulation that auditors and audit firms need to take to get ready for the UK leaving the EU. The content of this letter and corresponding FAQs are only immediately relevant in a no-deal scenario but we urge you to follow the recommended actions, and note the content, so that you are prepared for the scenario of the UK leaving the EU at 11pm on 29 March 2019 without a deal. It specifically relates to the registration and recognition of UK and EEA auditors and to ongoing UK audits and should be read by auditors and firms. We recommend that clients of auditors and firms also pay close attention to the content of this letter and corresponding FAQs.

In October the Government published a [Technical Notice](#) covering the Accounting and Audit sector. You should read that Technical Notice as well as related important information contained in both the Structuring Your Business [Technical Notice](#), and the Providing Services [Technical Notice](#). In addition, you should read the Accounts and Reports (Amendment) (EU Exit) Regulations 2019¹ and the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019² and their accompanying Explanatory Memoranda. These statutory instruments remedy deficiencies in the law and mean that the UK will have a functioning legal framework for your sector at 11pm on 29 March 2019.

This letter summarises the key actions you might need to take to be able to continue to operate either in the UK or in EEA countries or both. Also attached are FAQs which provide more detail as well as a list of EEA competent authorities and contact details.

¹ <http://www.legislation.gov.uk/uksi/2019/145/contents/made>

² <http://www.legislation.gov.uk/uksi/2019/177/contents/made>

Recognition

If you are approved to conduct audit work in the EEA based on a UK audit qualification, then you need to urgently contact the competent authority in the EEA State(s) where you are currently approved to find out whether UK qualifications will continue to be recognised on and after 30 March. You need to do this for each EEA state where you have an approval.

There are different actions you might need to take depending on the requirements of the EEA State where you are approved to operate. These are:

Recognition continues: It could be that the EEA state where you are approved continues your approval. If this is the case, no further action is required by you in respect of this EEA state. You may want to consider communicating this to relevant clients.

Recognition ceases: It could be that the competent authority in the EEA state where you are currently approved will no longer recognise UK audit qualifications. If this is the case, then you will need to re-establish your eligibility to carry out statutory audit work in that EEA state. As part of this process you may either need to:

- complete a new aptitude test (because aptitude tests taken before exit day may no longer be recognised from 30 March 2019); or
- requalify, which is likely to require you to obtain the relevant qualification in that country by sitting some or all of the examinations and meeting any other requirements needed to obtain an audit qualification.

Pending decisions: In a situation where an approval decision is still likely to be under consideration by the competent authority on exit day, we recommend you urgently contact the competent authority in the EEA State(s) where you have made the application. The application may continue, or you may need to re-apply and obtain the relevant qualification in that country.

New applications: Any application to be a statutory auditor made to the competent authority of an EEA State on or after 30 March will need to be made on the basis that a UK audit qualification and aptitude test will no longer be recognised as equivalent to an EEA audit qualification.

On-going audits

If you are undertaking an audit of an EEA company where you expect to sign the audit report after exit day, we urge you to check with the competent authority in the country where the company is incorporated to see whether you can continue to do so in accordance with local law for such audits in that EEA State.

If you cannot, then you should check what steps you need to take for your audit opinion to be valid. If, after discussion with your audit client, it appears that there are no practical steps available that will allow you to sign a valid audit report, you may need to consider whether it will be in the best interests of your client to resign as auditor so that your client may appoint a new auditor that is registered as a statutory auditor in that country. This might be the firm in that country that is a member of your firm's network or another unrelated firm.

Third country auditors

If your audit firm carries out the audit of a non-EEA company (which after exit will include a UK incorporated company) that is listed on an EEA regulated market, then you will need to register as a third country auditor with the competent authority of that EEA State.

You should contact the competent authority urgently for further information about the application process, the information that you will be required to submit and the timescales i.e. the start date of the accounting period when your firm must be registered so that an audit report signed by your firm will be valid.

If you have access to a partner or network firm in the relevant EEA State or another EEA State, then passing the audit to them may also be an option.

The EU Audit Regulation

The EU Audit Regulation will continue to apply in the UK subject to certain amendments as “retained EU law”. It will continue to apply to businesses in the UK that are banks, building societies, insurers and issuers of securities that are admitted to trading on UK regulated markets. Businesses that previously were Public Interest Entities (“PIEs” - banks, building societies, insurers and issuers of securities on UK regulated markets) only because they issue securities that are admitted to trading on EEA regulated markets, and not UK regulated markets, will no longer be treated as PIEs for the purpose of the application of the EU Audit Regulation. This will affect the application of a range of measures, including mandatory retendering and rotation of auditor appointments, for financial years beginning on or after exit day.

Group audits

If you are a group auditor for a group that includes undertakings across both the EEA and the UK, including where the parent company is UK based, we do not anticipate any significant issues in relation to carrying out the group audit including the group auditor having full access to the working papers relating to the audits of the EEA subsidiaries during the course of the audit.

Nevertheless, we would urge you to check with the competent authorities in the EEA States where the subsidiaries are incorporated to understand whether there are any local restrictions, including on sharing information outside of the EEA (which after 29 March 2019 will include the UK). See FAQs for further information.

If the audits of the EEA subsidiaries are carried out by a UK audit firm, then there will be similar considerations around the validity of the audit report and possible solutions as discussed in the paragraph above on on-going audits.

Non-audit services on the “blacklist”³ under Article 5 of the EU Audit Regulation will now be prohibited for all overseas subsidiaries of UK PIEs. This means that, for firms in the same

³ The content of the black list of non-audit services is unchanged and is available in the second subparagraph of Article 5(1) of the EU Audit Regulation at the following link: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=en>

network as a UK auditor of a UK PIE that previously provided blacklisted services to non-EEA overseas subsidiaries, the services will be subject to the same prohibition.

Meanwhile non-audit services provided to an EEA parent undertaking of a UK PIE will not be included in this prohibition as they were previously. Only UK parent undertakings will be included.

These changes will take effect for financial years beginning on or after exit day.

Firm ownership

In line with the advice above on recognition, you should check with the competent authority whether individuals with a UK qualification will continue to count towards those individuals eligible to be counted among the required majorities of qualified owners and managers of the firm.

Where UK auditors are not eligible to be counted among the required majorities of qualified persons who own or manage an EEA audit firm, and the required majority of voting rights includes those held by UK auditors, a firm should urgently consider whether any restructuring is required if it is to continue to be an EEA audit firm.

EEA AUDITORS

Existing Registrations with UK recognised professional bodies

Existing statutory auditors who have registered with the UK recognised professional bodies based on having passed an aptitude test will have their registration continued.

New EEA Registrations with UK recognised professional bodies until 31 December 2020

If you are an EEA qualified auditor working in the UK and you are not already registered here as a statutory auditor, then you will benefit from the UK's decision to unilaterally offer a transitional period for recognition of EEA auditors until 31 December 2020.

This means that you will have until 31 December 2020 to begin the process of obtaining eligibility to practise in the UK by passing an aptitude test.

After 31 December 2020, EEA auditors will not have a continuing right to obtain eligibility by passing an aptitude test in the UK if they have not done so already.

Auditors from the Republic of Ireland will not be affected, and most will not need to sit an aptitude test as their audit qualification is recognised by professional bodies that are recognised in both the UK and Republic of Ireland. The only Republic of Ireland auditors that will need to sit an aptitude test are those that are qualified as members of CPA Ireland.

Firm ownership

All EEA auditors, including from the Republic of Ireland, will continue to be eligible to be included in a UK firm's required majorities of owners and managers after 29 March 2019, though EEA audit firms will not be counted in these majorities from 1 January 2021.

Audit Committees

All UK PIEs 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 but will continue to apply subject to two important changes:

- UK issuers of shares or debt securities that are only admitted to trading on EEA regulated markets will no longer be subject to this framework.
- The current exemption for those businesses with a parent that is also subject to the same requirement will continue to apply but only where the parent is incorporated in the UK. For subsidiaries that are issuers of securities on UK regulated markets the parent may be subject either to the FCA's or the PRA's rules. However, for those subsidiaries that are banks or insurers and qualify under the more limited exemption provided by the PRA, the parent must be subject to the PRA's rules.

Conclusion

We hope that you find the information in this letter helpful as you prepare for the UK leaving the EU; we understand that the actions described represent a significant impact on UK registered individuals and firms. It is worth emphasising, however, that the information contained in this letter is only immediately relevant in the situation that UK leaves the EU without having agreed a Withdrawal Agreement.

Despite that, we consider that it is important for individuals and firms to make plans without delay, based on the information in this letter, so that appropriate arrangements are in place if the UK leaves the EU without having agreed a Withdrawal Agreement.

Longer term, it is the UK's priority to reach stable, long term agreements with the EU, but it is unlikely that meaningful discussions can start prior to exit day and they will take some time to complete.

If you have any questions in relation to the content in this letter, we would encourage you to contact the recognised professional body that has registered you and/or your audit firm or you can email EUexit@frc.org.uk.

Yours Sincerely,

Debbie Gillatt
Stephen Haddrill

Debbie Gillatt (Director, Business Frameworks)
Stephen Haddrill (Chief Executive, FRC)

Frequently Asked Questions (FAQs)

As with the content of the letter above the following answers are only applicable in a no-deal scenario where the UK leaves the EU without having agreed a Withdrawal Agreement. Whilst it remains the UK's aim to secure a deal with the EU, we would urge individuals and firms affected by the content of these FAQs to take the recommended actions, and seek further relevant advice if necessary, as soon as possible.

UK auditors

1. I am already recognised and approved to practise as an auditor in the EEA. Will that continue after 29 March 2019?

We recommend that you check with the competent authority in each EEA State where you are approved to practise. In the event of no agreement between the UK and EU on a transition period, it will be for the competent authority in each EEA state to decide whether and on what terms UK statutory auditors who have received recognition as a statutory auditor in an EEA state on or before 29 March 2019 will retain that status after 29 March 2019.

2. If it is likely that I will no longer be recognised as a statutory auditor in the EEA after 29 March 2019 what should I do?

You will need to decide whether to seek recognition as a statutory auditor in the country that you intend to practise in from 30 March 2019.

Depending on the extent to which your UK qualification is recognised in the relevant EEA State, you may need to sit an aptitude test or 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 that EEA State.

If this is not a practical course of action, then you may need to cease signing audit reports of entities incorporated in that EEA State and to advise your clients accordingly.

If you have not already enquired about audit registration in the EEA State(s) you practise in, we recommend you do so without delay.

3. How should I work with my firm as part of the registration process?

Your application for registration will need to be linked to the registration of the firm that you sign audit reports on behalf of (as now). We encourage you to work closely with your firm during the registration process.

4. How long will registration take? How much will it cost?

This will differ between EEA States. We have provided a list of each competent authority and their contact details at the end of this document. We would advise you to check with the competent authority in the EEA State you currently practise in or intend to practise in.

5. Do I need to do this for each EEA State I practise in?

Yes, you will need to make an application as a statutory auditor to each EEA State you intend to practise in (if that EEA State ceases to recognise audit reports signed by UK auditors after 29 March 2019).

As per question 2 above 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 that EEA State.

UK audit firms will also need to register as third country auditors in each EEA state where they have non-EEA clients (including UK incorporated clients) that are listed on an EEA regulated market.

6. I have an ongoing audit with an EU client - if I'm not recognised to practise what should I do?

Firstly, you should check with the competent authority in the EEA State that you are working in to understand whether they have put in place any special arrangements for UK auditors undertaking ongoing audits. For example, they may continue to recognise the validity of audit reports signed by UK statutory auditors covering accounting periods that commenced prior to exit day.

In the event that there are no special arrangements in place, and your registration is no longer recognised, you need to seek registration as a statutory auditor in that EEA State. The steps required to re-qualify in this way will depend on the extent to which a UK audit qualification is recognised in that EEA State (see question 2 above).

In the short term, if your firm is unable to sign an audit report prior to exit day, you should discuss the position with your client. It may be necessary for the client to appoint a different firm as auditor or for the audit to be passed to your firm's network firm in the EEA state concerned or in another EEA state.

Group audits

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

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 work 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. Accordingly, if there are such restrictions, then the group auditor should consider whether it is necessary to review and summarise the evidence on the group auditor's own file.

The audit reports on the accounts of the EEA components will need to be signed by an EEA audit firm.

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

Where there is an EEA statutory auditor who is group auditor of a group with subsidiaries in the UK, it will consider the UK auditor of these subsidiaries as third country auditors.

For that reason, the Audit Directive requires an evaluation and review of the UK auditor's work by the group auditor (which would be normal practice in any case).

9. 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 PIE?

Non-audit services on the "blacklist" under Article 5 of the EU Audit Regulation will now be prohibited for all overseas subsidiaries of UK PIEs. This means that, for firms in the same network as a UK auditor of a UK PIE that previously provided blacklisted services to non-EEA subsidiaries, those non-EEA services will be subject to the same prohibition.

Meanwhile EEA auditors and EEA parent undertakings of UK PIEs will not be included under these prohibitions as they were previously. Only UK parent undertakings will be included. These changes will take effect for financial years beginning on or after exit day.

Firm recognition

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

Yes. Individual EEA auditors will continue to count towards those eligible to control UK audit firms after EU Exit. The UK is granting this to EEA auditors on a unilateral basis. However, there will be no provision for EEA audit firms to be eligible to control UK audit firms after 31 December 2020.

Working in the Republic of Ireland

11. Will I have to register to be able to work in the Republic of Ireland?

Yes. Despite the Common Travel Area agreement, UK auditors including those with a residential address in Northern Ireland will need to register with the Irish Auditing & Accounting Supervisory Authority (IAASA) and pass an aptitude test in Irish tax and law.

12. I qualified in the Republic of Ireland. Do I still need to do an aptitude test to continue working in the UK?

Not if your qualification has been awarded by a professional body that is recognised in both the UK and Ireland. Most audit qualifications in the Republic of Ireland are recognised in the UK. For other auditors the aptitude test will continue to be made available.



EEA auditors

13. I have already had my qualification recognised in the UK. Will this recognition still stand on 30 March 2019?

Yes. Existing registrations of individual EEA auditors as UK statutory auditors will continue after the UK's exit from the EU. The UK is also providing unilateral transitional arrangements for EEA qualified auditors to become UK statutory auditors by beginning an aptitude test process before 31 December 2020.

From 1 January 2021 new arrangements will be put in place that reflect that EEA states will be third countries to the UK. However, we hope that mutual recognition agreements will be put in place that will facilitate the process of recognition of qualifications between the UK and EEA states.

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

You need to check with your firm to understand what, if any, restructuring arrangements have been put in place to ensure it continues to comply with the requirements in the Audit Directive (that EEA auditors are a majority of members of the management board and hold a majority of voting rights).

Firms registered in an EEA State should consider whether that registration will be affected if the voting rights of UK auditors are no longer counted as part of the required majorities of owners and managers of the firm. This is because UK statutory auditors will no longer count towards these required majorities after exit day.

Annex- Competent Authorities

Competent Authority	Website ⁴
The Austrian Auditing Oversight Authority	https://www.bmf.gv.at/finanzmarkt/Abschlussprueferaufsichtsbehoerde
Belgian Audit Oversight College	https://www.fsma.be/en/belgian-audit-oversight-college
Commission for public oversight of statutory auditors Bulgaria	http://www.cposa.bg/en/
Ministry of Finance of the Republic of Croatia	http://www.mfin.hr/en
Cyprus Audit Oversight Board	http://www.cypaob.gov.cy/mof/ede/ede.nsf/index_en/index_en?OpenDocument
Public Audit Oversight Board of the Czech Republic	https://www.rvda.cz/en
Danish Business Authority	https://danishbusinessauthority.dk/
Estonian Auditing Oversight Board	https://ajn.ee/et
Finnish Patent and Registration Office – Auditor Oversight Unit	https://www.prh.fi/en/index.html
Haut Conseil du Commissariat aux Comptes France	http://www.h3c.org/accueil.htm
The German Chamber of Public Accountants/Wirtschaftsprueferkammer	http://www.bafa.de/DE/Home/home_node.html
Gibraltar Financial Services Commission	https://www.fsc.gi/
Hellenic Accounting and Auditing Standards Oversight Board	http://www.elte.org.gr/index.php?lang=en
Auditors' Public Oversight Authority - Ministry for National Economy of Hungary	http://www.mkvk.hu
Audit Oversight Board Iceland	http://www.endurskodendarad.is/
Irish Auditing and Accounting Supervisory Authority	https://www.iaasa.ie/
Commissione Nazionale per le Società e la Borsa Italy	http://www.consob.it/
Ministry of Finance of Latvia Commercial Companies Audit Policy and Oversight Unit	http://www.fm.gov.lv/en/s/auditing/
Financial market authority Liechtenstein	https://www.fma-li.li/en/
Authority of Audit, Accounting, Property Valuation and Insolvency of Lithuania	http://www.bankrotodep.lt/en/Home/
Commission de Surveillance du Secteur Financier Luxembourg	http://www.cssf.lu/en/
Accountancy Board Malta	https://accountancyboard.gov.mt/
The Netherlands Authority for the Financial Markets	https://www.afm.nl/en
Finanstilsynet Norway	https://www.finanstilsynet.no/en/
Audit Oversight Commission Poland	https://www.mf.gov.pl/
Comissão do Mercado de Valores Mobiliários Portugal	https://www.cmvm.pt/pt/Pages/home.aspx
Authority for Public Oversight of the Statutory Audit Activity Romania	http://csippc.ro/
Auditing Oversight Authority Slovakia	http://www.udva.sk/sk/urad
Agency of Public Oversight of Auditing Slovenia	http://www.anr.si/en/About_the_Agency/
Instituto de Contabilidad y Auditoría de Cuentas Spain	http://www.icac.meh.es/
Swedish Inspectorate of Auditors	https://www.revisorsinspektionen.se/en/English/

⁴ Taken from publicly available sources

UK Recognised Supervisory Bodies	
Association of Chartered Certified Accountants	
Institute of Chartered Accountants in England and Wales	
Institute of Chartered Accountants in Ireland (Chartered Accountants Ireland)	
Institute of Chartered Accountants of Scotland	