



Department for
Business, Energy
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Dear Sir/Madam

INFORMATION FOR AUDITORS AND AUDIT FIRMS REGARDING ARRANGEMENTS FROM 1 JANUARY 2021.

In February 2020, we sent a letter¹ providing information about the arrangements that apply to the audit sector in the UK during the Transition Period and to businesses being audited, following the UK's departure from the European Union on 31 January 2020. The Transition Period ends on 31 December 2020, and this letter explains the arrangements that will be in place for auditors and firms from 1 January 2021.

For further information, many of the issues covered by this letter are set out in a published webinar, which you can find by searching 'UK Transition Business Webinar: Accounting and Audit Framework' on YouTube or following the link in the footnote.² Broader Government guidance about the end of the transition period is also available at gov.uk/transition. You will also be able to find a list of Frequently Asked Questions at the end of this letter (Annex A).

Finally, please note that, unless stated otherwise, we would not expect any of the arrangements described in this letter to be impacted by the provisions of a future Free-Trade Agreement with the European Union. Readers should also note that, at the time of writing, the European Union has not reached 'equivalence' or 'adequacy' decisions in relation to the UK under Articles 45-47 of the Audit Directive³. If the European Union makes a positive equivalence decision, a UK auditor that registers as a third-country auditor in an EEA state

¹ <http://www.frc.org.uk/document-library/frc/2020/eu-exit-position-letters/audit-position-letter-feb-2020>

² <https://www.youtube.com/watch?v=l6a8QMM5JA4>

³ Directive 2006/43/EC, as amended.

may be exempt from quality assurance by the competent authority in that EEA state with respect to any audit work it has conducted for an entity that is both incorporated in the UK (or elsewhere outside the EEA) and lists its securities on a regulated market in that EEA state.

Recognition of UK qualifications in EEA states

If you are approved to conduct statutory audit work in an EEA state on the basis of a UK qualification, you will continue to be able to practise after 1 January 2021 if you also reside or exercise your right as a ‘frontier worker’ in that EEA state.⁴ If you do not fulfil these conditions, you may not be eligible to practise in the EEA state after the Transition Period on the basis of a UK qualification. This may vary on a case by case basis amongst different EEA states, so we advise that you contact the relevant EEA competent authority for further information. We also advise that you contact the relevant EEA competent authority if you think you may be eligible to exercise your right as a ‘frontier worker’ – we do not anticipate that many statutory auditors fall within this group, but any that do may be eligible to continue to practise on the basis of a UK qualification in an EEA state after 1 January even if they do not reside in that EEA state.

If you are not currently approved to conduct statutory audit work in an EEA state but wish to do so on the basis of a UK qualification after 1 January 2021, you may place an application before the end of the Transition Period with the relevant EEA competent authority to sit an aptitude test or complete and adaptation period. You may then sit the test or complete the period after 1 January 2021 in order to conduct statutory audit work in the relevant EEA state. Unless you are a ‘frontier worker’, residence in the relevant EEA state will normally be required to exercise this right, although this may vary on a case by case basis.

These arrangements are based on the ‘Withdrawal Agreement’⁵ negotiated between the UK and European Union, which sought to protect the rights of UK nationals who practised their profession in another jurisdiction while the UK remained a member of the European Union. After 1 January 2021, statutory auditors who are not covered by these arrangements may not be eligible to practise in an EEA state on the basis of a UK qualification. We will provide further information if this position changes as a result of negotiations between the United Kingdom and European Union or as a result of any future agreement between the FRC and competent authorities in EEA states to recognise one another’s qualifications. It is also worth noting that the provisions of the Withdrawal Agreement do not apply to third country nationals practising in an EEA state on the basis of a UK qualification. If you fall into this group, we advise you to contact the relevant EEA competent authority to establish what, if any, steps you may need to take to continue to be recognised to conduct audit work.

Please note that this section does not apply to individuals working in the Republic of Ireland (ROI) on the basis of UK qualifications. The statutory framework for this group is the

⁴ Article 9 of the ‘Withdrawal Agreement’ defines frontier workers as “...United Kingdom nationals who pursue an economic activity in accordance with Article 45 or 49 TFEU in one or more States in which they do not reside”.

⁵ ‘Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community’, January 2020. Available at <https://www.gov.uk/government/publications/agreement-on-the-withdrawal-of-the-united-kingdom-of-great-britain-and-northern-ireland-from-the-european-union-and-the-european-atomic-energy-communi>

responsibility of the ROI Government and we advise individuals seeking further information to contact the Irish Auditing and Accounting Supervisory Authority, who are responsible for implementing that framework alongside Recognised Accounting Bodies. However, it may be useful to note that we understand that individuals who are included, or who apply to be included, in the ROI audit register will continue to be able to sign the audit reports of ROI entities on a temporary basis until such time as a change is made in ROI legislation. Once that legislation is passed, we understand that UK statutory auditors may have their ROI audit registration removed and may need to re-apply for ROI audit registration. This re-registration will be conditional on individuals passing an aptitude test in ROI tax and law unless the test is waived by a Recognised Accounting Body on the basis of having sufficient recent experience conducting audits of ROI entities. Re-registration will also be conditional on there being an agreement between FRC and IAASA on reciprocal arrangements for recognition of UK and ROI qualifications.

Recognition of EEA qualifications in the UK

If you are approved and registered to conduct statutory audit work in the UK on the basis of an EEA qualification, you will continue to be able to practise after 1 January 2021.

If you are not currently approved to conduct statutory audit work in the UK but wish to do so on the basis of an EEA qualification after 1 January 2021, you should make an application to a UK Recognised Supervisory Body (RSB) before the end of the TP to sit an aptitude test. You may then sit the test after 1 January 2021 to obtain registration to conduct statutory audit work in the UK.

The arrangements described above deliver on the terms of the ‘Withdrawal Agreement’⁶ negotiated between the UK and European Union, which seeks to protect the rights of individuals who practised their profession in another jurisdiction prior to the UK’s departure from the European Union. They also go beyond those terms to provide continuity for UK audit firms by allowing any individuals who have signed UK audit reports on the basis of an EEA qualification to continue to sign UK audit reports without a requirement to reside (or be exercising their rights as frontier workers) in the United Kingdom.

After 1 January 2021, statutory auditors who are not covered by these arrangements will not be eligible to practise in the UK on the basis of an EEA qualification – as a result, individuals seeking to conduct statutory audit work must do so on the basis of qualifications provided by UK Recognised Qualifying Bodies (RQBs) or on the basis that their qualification is a third country qualification which is approved by the FRC. We will provide further information if this position changes as a result of negotiations between the United Kingdom and the European Union or as a result of any future agreement between the FRC and competent authorities in EEA states to recognise one another’s qualifications.

Please note that distinct arrangements apply to EEA auditors who have qualified in the Republic of Ireland (ROI). Within this group, those who currently conduct statutory audits in

⁶ ‘Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community’, January 2020. Available at <https://www.gov.uk/government/publications/agreement-on-the-withdrawal-of-the-united-kingdom-of-great-britain-and-northern-ireland-from-the-european-union-and-the-european-atomic-energy-communi>

the UK will continue to be able to do so, while the majority of those who do not currently conduct statutory audits in the UK may do so even without sitting an aptitude test. This is because their audit qualifications were awarded by professional bodies that are recognised in both the UK and ROI. The only auditors who will need to sit an aptitude test are those who qualified as members of CPA Ireland, which is not a UK Recognised Qualifying Body. Individuals in this group will only be able to have their qualification recognised for the purpose of becoming a UK statutory auditor if reciprocal arrangements for recognition of UK and ROI qualifications are in place between the FRC and IAASA. This may involve them having to sit an aptitude test.

Management and voting rights rules governing UK audit firms

After the Transition Period, UK audit firms will only continue to be approved by the Recognised Supervisory Bodies (RSBs) if **the majority of the voting rights are held by, and if the majority of a firm's management board consists of:**

- individuals with qualifications recognised by a UK Recognised Supervisory Body. This includes (a) individuals holding a UK audit qualification, (b) individuals holding an EEA qualification who, where recognised and (c) individuals holding an approved third country qualification who, where appropriate, have passed an aptitude test; and/or
- audit firms approved by UK RSBs.

Under these arrangements, individuals may be recognised and participate in a majority on the basis of their EEA qualification if they have previously passed an aptitude test or if their qualification met requirements that meant no test was required.⁷ If they have not yet passed an aptitude test, they may participate in a majority if you make an application before the end of the Transition Period to sit a test and then pass it after the Transition Period has ended.

UK firms should also note that they will no longer be able to include EEA audit firms in the required majorities unless they are approved in the Republic of Ireland and registered with a UK Recognised Supervisory Body.

Management and voting rights rules governing EEA audit firms

After the Transition Period, the UK will be considered a 'third country' for the purposes of rules that require EEA audit firms to be managed by a 'majority' of EEA-approved auditors and firms. The same is true in respect of similar rules regarding voting rights on a firm's ownership body.

These changes may mean that an EEA-approved firm needs to restructure its management body and its allocation of voting rights among its owners if its current majorities rely on UK-approved firms or individuals holding UK-approved qualifications.

If you think you are impacted by these changes, we advise that you contact the relevant competent authority for the EEA firm to discuss how you or the firm may need to respond.

In the case of EEA firms in the ROI, our understanding of ROI legislation is that UK statutory auditors who pass a ROI aptitude test, will be able to count towards the required majorities for

⁷ It also includes individuals who have qualified in the Republic of Ireland, except for those who qualified with CPA Ireland. This is because their audit qualifications were awarded by professional bodies that are recognised in both the UK and ROI.

ownership and control purposes, though they need not also be ROI statutory auditors. UK statutory auditors who remain registered as ROI statutory auditors on a temporary basis until a change in ROI legislation (as mentioned above) may also be included in the required majorities for the time being.

Third country audit firms

After the Transition Period, a UK audit firm not approved in the EEA that carries out the audit of a non-EEA incorporated company (which will include a UK company) with securities admitted to trading on an EEA regulated market, will need to register with the relevant EEA competent authority as a third country auditor.

Audit firms affected should contact the competent authority in the country where the client is admitted to trading for further information about the application process to register as a third country auditor. It may be that registration is required in an EEA state for financial years beginning before the end of the Transition Period if audited accounts are due to be published after the end of the Transition Period.

Audit firms will need to register with the competent authority of each EEA state in which a client company has securities admitted to trading on a regulated market. Where multiple applications are required, each application will need to be made in line with the specific requirements of the relevant EEA competent authority.

Similarly, though only for financial years beginning after the Transition Period, an EEA audit firm that is not approved in the UK and that carries out the audit of a non-UK incorporated company with securities admitted to trading on a UK regulated market, will need to register with the Financial Reporting Council (FRC) as a third country auditor.

Details of the registration process are available on the FRC website at:

<https://www.frc.org.uk/auditors/professional-oversight/third-country-auditors>

EEA audit firms affected should contact the FRC for further information about the application process to register as a third country auditor.

On 10 November 2020 BEIS laid regulations⁸ before parliament granting audit regulatory equivalence to the EEA States. This means that less registration information will be required by the FRC and will mean that registered EEA auditors will not be required to be inspected by the FRC.

The EU Audit Regulation

The EU Audit Regulation (Regulation (EU) No. 537/2014, as amended) will continue to apply after the end of the Transition Period, subject to certain amendments, as domestic, retained EU Law.⁹ As previously, the Regulation will apply to audits of Public Interest Entities (PIEs), so it will continue to apply to businesses in the UK that are banks, building societies, insurers

⁸ The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) (No. 2) Regulations 2020 (SI 2020/1247)

⁹ Primarily amended by the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177), Part 4.

and issuers of securities that are admitted to trading on UK regulated markets. However, the definition of a PIE will change so that companies and other entities that were PIEs only because they issued securities on EU regulated markets and not on UK regulated markets, and which are not banks, building societies or insurers, will no longer be classified as PIEs for the purpose of the application of the EU Audit Regulation in the UK.

These changes will affect the application of a range of measures, including mandatory retendering and rotation of auditor appointments, for financial years beginning on or after 1 January 2021. It will also mean that some audit firms that are currently PIE audit firms for the purpose of the Regulation may no longer be PIE audit firms after the end of the Transition Period.

Group Audits

During the Transition Period there has been 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. We do not anticipate any significant issues in relation to carrying out such group audits after the end of the Transition Period. This applies both for audits of accounts for financial years beginning before the end of the Transition Period and for financial years beginning after that, so that the group auditor has access to the working papers relating to the audits of the EEA subsidiaries during the audit. However, group auditors should take steps to make sure this access is maintained during the course of the group audit and should take advantage of this ability to access working papers at that stage. After the audit has been completed, the Financial Reporting Council or a group auditor may have difficulty obtaining additional audit working papers for the purpose of an inspection or investigation of the group audit, if additional audit working papers from the audit of an EEA subsidiary are requested and if a positive adequacy decision has not been taken by the EU.

After the end of the Transition Period, non-audit services on the list of prohibited services under Article 5 of the Audit Regulation will continue to be prohibited from being provided to all overseas subsidiaries of UK Public Interest Entities (PIEs) under the amended definition – see above. However, provision of non-audit services to EEA parent undertakings of UK PIEs will not be included in the prohibition, as they are now. Only UK parent undertakings of UK PIEs will be included. These changes are due to an amendment to the domestic, retained EU Audit Regulation, which will take effect for financial years beginning after the end of the Transition Period.

Audit Committees

All UK Public Interest Entities (PIEs) (under the amended definition set out in the ‘EU audit regulation’ section of this letter) will continue to be subject to the requirements of either or both of the Disclosure Guidance and Transparency Rules issued by the Financial Conduct Authority (FCA), and other rules issued by the Prudential Regulation Authority (PRA). These requirements, which originated from the Audit Directive will continue to apply after the Transition Period, subject to certain amendments. The amendments mostly relate to exemptions for UK subsidiaries of EEA parents in certain circumstances. While exemptions will continue to be available for UK listed companies that are subsidiaries of UK parents in

certain circumstances, they will not be available where the subsidiary has an EEA parent. Further information is available from the FCA and PRA.

Audit exemptions

UK registered large or medium sized subsidiaries, or small subsidiaries that are not eligible for the small companies audit exemption, with an immediate EEA parent will need to have their accounts audited for financial years that begin on or after 1 January 2021. This is because the subsidiaries audit exemption will no longer be available.¹⁰ These subsidiaries should also check whether they will maintain their eligibility for exemption from producing group accounts for financial years beginning on or after 1 January 2021. Intermediate UK parent companies with an immediate EEA parent may need to produce their own group accounts and file them with Companies House. This is unless they benefit from the exemption by other means - for example, because their EEA parent produces group accounts that are equivalent to those required by UK law. Further information relating to the UK's accounting and corporate reporting framework for financial years beginning on or after 1 January 2021 is set out in a separate letter.¹¹

Conclusion

We hope that you find the information in this letter helpful as you prepare for the end of the Transition Period. As referenced above the UK is seeking equivalence decisions on accounting and audit, and an adequacy decision on audit from the European Commission. As more information relating to those decisions emerges further guidance will be issued as required.

In the meantime, if you have any questions in relation to the content of 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 Jonathan Thompson, Chief Executive Officer, FRC

¹⁰ Section 479A of the Companies Act 2006, which previously granted the exemption to subsidiaries with a parent undertaking established under the law of an EEA state, is amended to restrict it to those with a parent undertaking established in any part of the UK for financial years beginning after the end of the Transition Period.

¹¹ <https://www.gov.uk/government/publications/uk-accounting-and-audit-framework-from-1-january-2021>

Annex A – Frequently Asked Questions (FAQs)

UK Auditors and Firms

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?

If you are approved to conduct audit work in an EEA state on the basis of a UK qualification, you will continue to be able to practise after 1 January 2021 if you also reside in that EEA state or are exercising your rights as a 'frontier worker' but not otherwise. However, additional arrangements may vary on a state by state basis, so we advise you to contact the EEA competent authority for further information.

2. When does my firm need to register as a Third Country Auditor in an EEA state?

We advise you to contact the relevant EEA competent authority as soon as possible as the requirements may vary between different EEA states. Our understanding is that in most cases firms will need to be registered by the date when they sign their audit report including for the audits of accounting periods starting before the end of the Transition Period. You should also bear in mind that the application process may take some time to complete.

3. Would my firm need to make multiple applications to register for different EEA States?

Yes, a firm will need to seek registration as a third country auditor in each EEA state where it has audit clients that are listed on a regulated market in that EEA state. We expect that some larger UK firms will need to make applications to a number of different EEA competent authorities for registration as a third country auditor.

Group audits

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

We do not anticipate that the end of the Transition Period will hinder the ability of a UK audit firm to be the auditor of a group with EEA subsidiaries or to access the audit working papers relating to the audits of the EEA subsidiaries.

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 check with the relevant competent authorities on whether there are any such local restrictions.

Firms may also want to consider whether restrictions may apply as a result of GDPR considerations after 1 January 2021. This will depend on whether a 'data adequacy' agreement has been reached between the UK and EU. The Government will publish further

information on this matter in due course and useful information is provided by the ICO at <https://ico.org.uk/for-organisations/data-protection-at-the-end-of-the-transition-period/>

5. I am the UK auditor of UK subsidiaries of a group with an EEA parent company and EEA group auditors. Will I be able to continue as auditor of the UK subsidiaries?

After the end of the Transition Period, where there is an audit of an EEA group with subsidiaries in the UK, a UK auditor will continue to be required to audit these subsidiaries but will be considered as a third country auditor in the EEA.

6. 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)?

After the end of the Transition Period 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 that wish to provide blacklisted services to non-EEA subsidiaries, those non-EEA services will be subject to the same prohibition after the end of the Transition Period that already applies for EEA subsidiaries.

After the end of the Transition Period 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 will take effect for financial years beginning on or after the end of the Transition Period.

Firm recognition

7. Will EEA auditors continue to be counted in a UK firm's majority for ownership and control purposes?

Individuals may participate in a majority on the basis of an EEA qualification if they have previously passed an aptitude test in the UK or if their qualification met requirements that meant no test was required. If you have not yet passed an aptitude test, you may participate in a majority if you make an application before the end of the Transition Period to sit a test and then pass after the Transition Period has ended.

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

No. UK firms will no longer be able to include EEA audit firms in the required majorities unless they're both approved in the Republic of Ireland and registered with a UK Recognised Supervisory Body.

Working in the Republic of Ireland

9. I hold a UK qualification and sign audits in the Republic of Ireland. Will I have to register to be able to work in the Republic of Ireland?

The framework for recognising qualifications in the Republic of Ireland is the responsibility of the ROI Government and is administered by the Irish Auditing and Accounting Supervisory Authority (IAASA), alongside Recognised Accountancy Bodies. We advise that you contact IAASA if you require further information.

However, it may be useful to note that we understand that individuals who are included in the ROI audit register will continue to be able to sign the audit reports of ROI entities on a temporary basis until such time as a change is made in ROI legislation. Individuals may also apply for registration until then on the same basis as at present. Once that legislation has passed, auditors practising on the basis of UK qualifications may have their registration removed and may need to re-apply for registration. Re-registration may be conditional on passing an aptitude test unless the test is waived on the basis of having sufficient recent experience conducting audit work within ROI.

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

Most audit qualifications in the Republic of Ireland are recognised in the UK and, as a result, most individuals who currently conduct audits in the UK will continue to be able to do so. Members of CPA Ireland will need to pass an aptitude test. In addition, for CPA Ireland members to have their qualification recognised for the purpose of becoming a UK statutory auditor, reciprocal arrangements for the recognition of UK and ROI qualifications will need to be in place.

EEA auditors

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

Yes. If you are approved and registered to conduct audit work in the UK on the basis of an EEA qualification, you will continue to be able to practise after 1 January 2021.

12. Auditors with qualifications recognised by UK RSBs are currently in my EEA firm's ownership and management structure. What happens after the Transition Period?

Under EU rules, an EEA audit firm is required to be managed and have voting rights held by a 'majority' of EEA-approved auditors and firms. If the UK auditors do not make up part of the 'majority' of your firm's ownership and management structure, your firm will not need to make any changes.

Otherwise, we advise that you consult the relevant competent authority to discuss whether your firm will need to reallocate voting rights or amend its management structure. The exact requirements may vary on a state by state basis, depending on how a Member State and its competent authority has implemented European law.