

Accounting and audit if there's no Brexit deal

Summary

How accounting, corporate reporting and audit would be handled if the UK leaves the EU with no deal.

Detail

If the UK leaves the EU in March 2019 without a deal, find out how this would affect:

- accounting and corporate reporting
- audit

A scenario in which the UK leaves the EU without agreement (a 'no deal' scenario) remains unlikely given the mutual interests of the UK and the EU in securing a negotiated outcome.

Negotiations are progressing well and both we and the EU continue to work hard to seek a positive deal. However, it's our duty as a responsible government to prepare for all eventualities, including 'no deal', until we can be certain of the outcome of those negotiations.

For two years, the government has been implementing a significant programme of work to ensure the UK will be ready from day 1 in all scenarios, including a potential 'no deal' outcome in March 2019.

It has always been the case that as we get nearer to March 2019, preparations for a 'no deal' scenario would have to be accelerated. Such an acceleration does not reflect an increased likelihood of a 'no deal' outcome. Rather it is about ensuring our plans are in place in the unlikely scenario that they need to be relied upon.

This series of technical notices sets out information to allow businesses and citizens to understand what they would need to do in a 'no deal' scenario, so they can make informed plans and preparations.

This guidance is part of that series.

Also included is an [overarching framing notice](<https://www.gov.uk/government/publications/uk-governments-preparations-for-a-no-deal-scenario/>) explaining the government's overarching approach to preparing the

UK for this outcome in order to minimise disruption and ensure a smooth and orderly exit in all scenarios.

We are working with the devolved administrations on technical notices and we will continue to do so as plans develop.

Purpose

This notice explains the implications for accounting, corporate reporting and audit in the unlikely event that the UK leaves the EU in March 2019 with no agreement in place. For the purpose of this notice, 'UK company' means a company incorporated in the UK and includes a subsidiary incorporated in the UK regardless of the nationality of its parent but does not include a UK branch of a company incorporated elsewhere. An 'EU company' means a company incorporated in the EU regardless of the nationality of its parent but does not include an EU branch of a company incorporated elsewhere. This notice covers:

- accounting and corporate reporting
- audit

Before 29 March 2019

The UK currently follows the EU rules and regulations that fall under the areas of accounting, corporate reporting and audit. These rules and regulations set out how companies and other legal entities report on their financial activity, corporate governance arrangements and how those reports are audited. This is reflected in UK law mainly through the Companies Act 2006 and regulations made under that Act.

For other types of legal entities which have their own specific legislation, this generally mirrors the legislation for companies (albeit with modifications) and therefore much of this notice will be relevant to these entities also. However, this notice is expressed in terms of the effect for companies as this is the most commonly used corporate form.

After March 2019 if there's no deal

The government will ensure that the UK continues to have a functioning regulatory framework for companies and that, as far as possible, the same laws and rules that are currently in place continue to apply. This will be done by using the powers in the EU

Withdrawal Act 2018 to correct deficiencies in our statute book arising from our exit from the EU.

The UK government will continue to work with the Scottish Government, Welsh Government and the Northern Ireland Civil Service, to ensure the future company law regime works across the UK.

Accounting and corporate reporting

The corporate reporting regime will be unchanged in many respects; however, certain changes are necessary to reflect that the UK is no longer a Member State.

Audit

The rules relating to audits of UK companies operating solely within the UK will be unchanged, but there will be additional requirements relating to the audits of UK companies operating cross-border, and to the provision of audit services cross-border.

The UK will unilaterally provide a transitional period in the field of audit until the end of December 2020. During this transitional period individuals will be able to continue to apply for their EU audit qualifications to be recognised in the UK and EU auditor registrations will continue to be recognised in the UK. Additionally, EU audit firms will continue to count towards the majority of appropriately qualified persons test for owning UK audit firms. These arrangements are set out in more detail in the sections below.

Implications

Accounting and corporate reporting

UK incorporated subsidiaries and parents of EU businesses will continue to be subject to the UK's corporate reporting regime. However, certain exemptions in the Companies Act 2006 relating to the preparation of individual accounts will no longer be extended to companies with parents or subsidiaries incorporated in the EU. For example, a UK company is currently exempted from having to prepare individual accounts if it is dormant, and part of a group of companies with an EU parent company that prepares group accounts. This exemption will only continue to apply after exit if the parent company is established in the UK.

UK businesses with a branch operating in the EU will become third country businesses and will be required to comply with specific accounting and reporting requirements for such businesses in the Member State in which they operate. Complying with the

accounting and reporting requirements of the Companies Act 2006 may no longer be treated by those Member States as sufficient.

UK companies listed on an EU market may also be required to provide additional assurance to the relevant listing authority that their accounts comply with International Financial Reporting Standards as issued by the International Accounting Standard Board. This will need to be done in accordance with EU third country requirements. In the short term, this could lead to changes to the compliance statements which are required within the annual accounts submitted to listing authorities.

As set out above there will be changes to reporting requirements which will have implications for how UK accounting and company secretariat service providers interact with their clients. This could lead to a need for changes to systems to capture additional information for reporting purposes as well as obtaining additional agreements and assurances from the relevant listing authorities ahead of their reporting date.

Audit

In order to be able to sign audit reports on behalf of an audit firm approved in the UK, the auditor must be in possession of a qualification recognised in the UK.

The UK will provide individual auditors with EU qualifications with a transitional period, from exit until the end of December 2020, during which they can apply to be recognised as auditors in the UK subject to passing an aptitude test. At the end of the transitional period EU auditors will cease to benefit from automatic recognition of their qualifications in the UK and may no longer be offered an aptitude test. However, EU qualified auditors who were recognised as a result of an aptitude test process, which is begun before the end of the transitional period, will continue to be recognised.

Auditors with Irish qualifications will not need to take an aptitude test as the Republic of Ireland uses audit qualifications granted by UK qualifying bodies.

As is currently the case, those with EU qualifications will count towards the required majority of appropriately qualified owners or managers of a UK audit firm, but only during the transitional period. After the end of the transitional period, only owners or managers with qualifications recognised in the UK will count towards the majority of appropriately qualified owners or managers of a UK audit firm. However, EU qualified individuals who were recognised as part of the management body before exit will continue to be recognised.

Audits of EU businesses seeking to raise capital by issuing shares or debt securities on a regulated market in the UK will need to be undertaken by an auditor registered with the Financial Reporting Council. The audits will need to be included in a cycle of inspections, in which the Financial Reporting Council will visit the registered auditor in the EU Member State where the business is incorporated until that Member State is recognised in the UK as having an equivalent audit regulatory framework.

EU audit firms will not be recognised among the required majority of suitably qualified owners as from the end of December 2020.

In a 'no deal' scenario an individual's UK audit qualification may no longer be recognised in an EU Member State. There are exceptions such as Ireland where qualifications used are those offered by UK qualifying bodies and so they will continue to be recognised as professional qualifications. Similar arrangements may apply for some UK qualifications in some other Member States.

Audits of UK businesses seeking to raise capital by issuing shares or debt securities on a regulated market in the EU will need to be undertaken by an auditor registered as a 'third country auditor' in the EU Member State in which the market operates. The audit will then be in scope of a cycle of inspections by the recognised authority for that market.

A UK audit firm that wishes to own part of, or be part of the management body of, an EU firm will no longer be recognised among the required majority of EU qualified owners or managers.

Actions for businesses and other stakeholders

Accounting and corporate reporting

Subsidiaries and parents of EU companies established in the UK will need to make themselves familiar with the exemptions in the Companies Act 2006 relating to accounting and reporting requirements that will no longer be extended to UK companies with parents or subsidiaries incorporated in the EU.

Branches of EU companies established in the UK will become subject to additional requirements under the overseas companies regime, and after exit will be subject to the same accounting and reporting requirements as non-EU companies that have a branch

here. The management of such branches should familiarise themselves with the additional reporting requirements that will be applicable to them.

UK businesses may wish to make themselves aware of the specific accounting and reporting requirements of any Member State in which they operate.

UK businesses listed on an EU market may wish to make themselves aware of EU third country requirements for listed entities.

UK legal, accounting and company secretariat service providers to UK or EU businesses with operations and listings in both the UK and the EU will need to ensure that their clients are aware of the additional reporting requirements as well as the need to obtain additional agreements and assurances.

Audit

Individuals with EU qualifications who are not yet recognised by the UK will want to make themselves aware of further details on the transitional period for automatic recognition of audit qualifications and the continued availability of the aptitude test, as referenced above. The test is available from recognised supervisory bodies for auditors ([the Institute of Chartered Accountants in England and Wales](<https://www.icaew.com/>), [the Institute of Chartered Accountants of Scotland](<https://www.icas.com/>), [the Association of Chartered Certified Accountants](<https://www.accaglobal.com/uk/en.html>) and [Chartered Accountants Ireland](<https://www.charteredaccountants.ie/>.) Individuals who are already recognised do not need to take any further action.

EU businesses operating in the UK seeking to raise capital by issuing shares or debt securities on a regulated market in the UK may wish to consider securing the services of an auditor registered with the Financial Reporting Council.

An EU audit firm wanting to be an auditor of an EU business with debt or equity traded on a UK market will need to register as a ‘third country auditor’ in the UK.

Holders of a UK audit qualification who want to provide audit services in a Member State will need to understand how their qualifications will be recognised in that Member State. This will govern their ability to sign audit reports on behalf of an audit firm approved in that Member State, and their ability to be recognised as part of the required majority of EU qualified members of the ownership or management body of an audit firm.

UK businesses who wish to raise capital by issuing shares or debt securities on a regulated market in the EU may wish to consider securing the services of a 'third country auditor' registered in the relevant Member State.

An audit firm wanting to be an auditor of a UK business with debt or equity traded on an EU market will need to register as a third country auditor in the Member State in which the securities market is situated or operates.

More information

For more information, please also see:

- [Companies House](<https://www.gov.uk/government/organisations/companies-house>) for information on companies and other corporate entities, including how to set up a company, filing requirements and publication requirements.
- [Overseas Companies in the UK Registration and Disclosure Obligations](<https://www.gov.uk/government/publications/overseas-companies-in-the-uk-registration-filing-and-disclosure-obligations>) for information on the registration and disclosure requirements for overseas companies in the UK.
- The technical notice on [Structuring your business] [ADD LINK]
- The technical notice on [Providing services including that of a qualified professional] [ADD LINK]

This notice is meant for guidance only. You should consider whether you need separate professional advice before making specific preparations.

It is part of the government's ongoing programme of planning for all possible outcomes. We expect to negotiate a successful deal with the EU.

The UK government is clear that in this scenario we must respect our unique relationship with Ireland, with whom we share a land border and who are co-signatories of the Belfast Agreement. The UK government has consistently placed upholding the Agreement and its successors at the heart of our approach. It enshrines the consent principle on which Northern Ireland's constitutional status rests. We recognise the basis

it has provided for the deep economic and social cooperation on the island of Ireland. This includes North-South cooperation between Northern Ireland and Ireland, which we're committed to protecting in line with the letter and spirit of Strand two of the Agreement.

The Irish government have indicated they would need to discuss arrangements in the event of no deal with the European Commission and EU Member States. The UK would stand ready in this scenario to engage constructively to meet our commitments and act in the best interests of the people of Northern Ireland, recognising the very significant challenges that the lack of a UK-EU legal agreement would pose in this unique and highly sensitive context.

It remains, though, the responsibility of the UK government, as the sovereign government in Northern Ireland, to continue preparations for the full range of potential outcomes, including no deal. As we do, and as decisions are made, we'll take full account of the unique circumstances of Northern Ireland.

Norway, Iceland and Liechtenstein are party to the Agreement on the European Economic Area and participate in other EU arrangements. As such, in many areas, these countries adopt EU rules. Where this is the case, these technical notices may also apply to them, and EEA businesses and citizens should consider whether they need to take any steps to prepare for a 'no deal' scenario.