

## **Accounting and audit in a no-deal Brexit** (Lecture A646 – 5.52 minutes)

The last 'major' regulatory change was by virtue of The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI 2015/980) which made changes to the Companies Act 2006 for the transposition of the EU Accounting Directive into company law. Since then, the most frequently asked question is what will happen in the world of accounting and auditing when Britain leaves the EU in March 2019?

At the time of writing, there is still uncertainty as to how the accounting and auditing professions will be affected following Brexit. There are lots of 'suspicions' as to what may happen, but it is not worth speculating on such matters as there are likely to be further announcements in the coming months about how the profession will work after Britain leaves the EU.

On 12 October 2018, the Department for Business, Energy and Industrial Strategy published some guidance on what would happen to accounting and audit if there is no Brexit deal. The idea of the guidance is to set out information which allows businesses and citizens to understand what they would need to do in a no deal situation to make informed plans and preparations.

Currently, the UK follows the EU rules and regulations in the areas of accounting, corporate reporting and audit. This regime is mainly reflected in the Companies Act 2006 and the Regulations made under that Act. There are, however, some entities which have their own specific legislation and the guidance acknowledges that this will be of relevance to such entities also.

### **No Brexit deal**

If, after March 2019, there is no deal, the government has stated that they will continue to have a functioning regulatory framework for companies and that the same laws and rules which are currently in place will continue to apply (by virtue of powers in the EU Withdrawal Act 2018 to correct deficiencies in law arising from Brexit). This will be done in conjunction with the governments in Scotland, Wales and Northern Ireland.

### **Accounting and corporate reporting**

The guidance confirms that UK incorporated subsidiaries and parents of EU businesses will continue to be subject to the UK's corporate reporting regime. There are, however, certain exemptions in the Companies Act 2006 in respect of the individual accounts which will no longer be extended to companies with parents or subsidiaries incorporated in the EU. The guidance cites an example of a UK company which is exempt from the requirement to prepare individual accounts where 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 be available after Britain's departure from the EU if the parent company is established in the UK.

If a UK business has a branch operating in the EU, then it will become a third country business and will be required to comply with specific accounting and reporting requirements for such businesses in the Member State in which they operate. Member States may no longer regard compliance with the accounting and reporting requirements of the Companies Act 2006 as sufficient.

A UK company which is listed on an EU market may need to provide additional assurance to the relevant listing authority that their financial statements comply with IFRS as issued by the IASB, which will need to be done in accordance with EU third country requirements. The guidance confirms that in the short term, this could lead to changes to the compliance statements within the financial statements that are submitted to the listing authorities.

There will be changes to reporting requirements which will impact on how UK accounting and company secretarial service providers interact with their clients. In this respect, systems may need to be changed to capture additional information for reporting purposes and obtaining additional agreements and assurances from the relevant listing authorities prior to their reporting date.

### **Audit**

The guidance confirms that the UK will provide individual auditors with EU qualifications with a transitional period, from the date of exit until the end of December 2020. During this transitional period, the auditor can apply to be recognised in the UK provided they pass an aptitude test. After the end of December 2020, EU auditors will cease to benefit from automatic recognition of their qualifications in the UK and may not be offered an aptitude test. This will not affect auditors with Irish qualifications as the Republic of Ireland uses audit qualifications granted by UK qualifying bodies.

Currently, those with EU qualifications count towards the required majority of appropriately qualified owners or managers of a UK audit firm. This will only apply during the transitional period. Post-transition, 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. EU qualified individuals that were recognised as part of the management body prior to exit will continue to be recognised.

Audits of an EU business which is seeking to issue shares or debt securities on a UK-regulated market must be carried out by an auditor registered with the Financial Reporting Council (FRC). Such audits will be included within inspections carried out by the FRC who 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. Conversely, where a UK business is seeking to issue shares or debt securities on a regulated market in the EU, the audit will need to be undertaken by an auditor registered as a 'third country auditor' within the EU Member State in which the market operates.

That audit will then fall under the remit of inspections by the recognised authority for that market.

Where there is no deal, a UK audit qualification may not be recognised in an EU Member State (with the exception of Ireland). 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.

## **Conclusion**

As the departure date from the EU moves ever closer, understandably more people are asking questions about what will happen. The guidance does state that a no deal scenario is unlikely given the mutual interests of the UK and the EU in securing a negotiated outcome and the guidance aims to prepare companies for a no deal scenario.