



Ministry of Housing,  
Communities &  
Local Government

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[www.gov.uk/mhclg](http://www.gov.uk/mhclg)

18<sup>th</sup> February 2019

Dear Clive,

## **NOTIFICATION OF LAYING OF AN EU EXIT STATUTORY INSTRUMENT FOR THE LOCAL AUDIT FRAMEWORK**

**I am writing to notify the Housing, Communities and Local Government Committee that I have today laid EU Exit secondary legislation to ensure the continuation of a functioning local audit regime in England.**

The Local Audit (England and Wales) (Amendment) (EU Exit) Regulations 2019 uses powers contained in the European Union (Withdrawal) Act 2018 to enact the policy approach in a 'no deal' scenario as set out in the technical notice<sup>1</sup> that was published on 13<sup>th</sup> September. If the UK does not enter an implementation period, this instrument will come into force when the UK leaves the European Union on 29<sup>th</sup> March this year.

The statutory instrument (SI) is drafted on the basis of a 'no deal' scenario and is needed to address deficiencies in legislation arising from EU Exit to provide continuity and consistency for the local audit regime, enabling it to remain largely aligned with the statutory (i.e. company) audit regime. At present, the UK audit regulatory framework provides preferential treatment to auditors from European Economic Area (EEA) States (meaning EU Member States or other EEA states) which will not continue after Exit Day, subject to a transitional period. The Department for Business, Enterprise and Industrial Strategy (BEIS) hold policy responsibility for the Companies Act 2006 and specifically on the qualifications and eligibility of statutory auditors in a post Brexit world. Our approach is to replicate that position for local auditors.

Our SI is consequential to amendments made to the statutory audit regime by the Statutory Auditors and Third Country Auditors (Amendment)(EU Exit) Regulations 2019 (SI2019/177 and laid by BEIS in December 2018. The regulations were subject to the

<sup>1</sup> <https://www.gov.uk/government/publications/trading-goods-regulated-under-the-new-approach-if-theres-no-brexite-deal/trading-goods-regulated-under-the-new-approach-if-theres-no-brexite-deal>

affirmative process because the amendments made were more substantial. Many businesses operate both in the UK and abroad meaning that their auditors are far more likely to be EEA or Third Country qualified. Unlike the local audit regime, the statutory audit regime has also been amended by EU Audit Directives and Regulations. Separate local audit arrangements operate in the devolved administrations.

The changes being implemented in this SI will ultimately place auditors from the EEA on the same footing as those from outside of the EEA ("third countries"), ensuring the UK continues to comply with the World Trade Organisation's most favoured nation rules. This SI will provide continuity and consistency with the audit framework that applied prior to EU exit. If it were not made by 29 March, EEA qualified auditors would continue to be eligible to audit the accounts of local public bodies whereas UK qualified auditors would not be similarly eligible to practice in the EU.

There is no information available on how many EEA qualified auditors are active in the local audit market, although only 6-7 of the largest audit firms currently hold contracts. However, we are keen to ensure a level playing field for both statutory and local auditors and audit firms post EU Exit.

To that end, the SI amends outdated references to European Economic Areas (EEA) and provides transitional arrangements to enable currently qualified EU auditors to continue to practice in the UK until 31 December 2020, whilst ensuring that longer term they meet new UK requirements. It also makes provision for ensuring that third country auditors wishing to work in the local audit framework are able to do so, subject to certain requirements being met.

This instrument will ensure that the regime continues to operate effectively after we have left the European Union and will provide legal certainty in the event that the UK does not enter an implementation period.

This Statutory Instrument is laid under the negative procedure and therefore will not be subject to debate.

If you would find further information helpful my officials would be happy to oblige. Please contact:



**RISHI SUNAK MP**