

DECISIONS TAKEN BY THE FRC TO EXTEND THE MAXIMUM DURATION OF AN AUDIT ENGAGEMENT

The Companies Act 2006 provides that, upon a request by a public-interest entity (**'the applicant'**), the maximum engagement period for an auditor may be extended with the approval of the Competent Authority (the FRC) for up to two years. In a case where a 10-year audit engagement is being extended, the Competent Authority may only grant an extension if the appointment of the auditor for the first complete financial year following the end of that period is made following a selection procedure carried out in accordance with the relevant 'selection requirements'. In any case, the Competent Authority may only approve an extension if it is satisfied that exceptional circumstances exist. In no case can an extension be granted which would result in an overall audit engagement period exceeding 22 years.

Where the FRC decides to extend the maximum duration of an audit engagement, the FRC has committed to publishing those decisions in full, except where that would risk harming the commercial interests of an applicant. In those cases, the decision will be published in abridged form.

During the quarter ending 30 April 2018, the FRC received four further applications for the extension of an audit engagement, one of which (Deco Series plc) covered five linked entities.

The FRC made the following decisions in respect of those applications:

1. Credit Suisse International to extend KPMG's appointment by two years.

The FRC was unable to grant the application, as the request exceeded the maximum appointment duration permitted by the Companies Act noting that:

- ***Section 494ZA(2) of the Act only grants the FRC powers to approve an extension where the first financial year of the maximum engagement period begins on or after 17 June 2003. In this case, the first financial year of the engagement period was the period ending 31 December 1991.***
2. Deco Series plc to extend Deloitte's appointment by two years for: Deco Series 2005 – UK Conduit 1; Deco 8 – UK Conduit 2; Deco 11 – Conduit 3; Deco 6 – UK Large Loan 2; and Deco 12 – UK 4.

The FRC granted the application, concluding that:

- ***The application meets the requirements under s494ZA of the Act; and***
- ***The FRC is, on balance, satisfied that exceptional circumstances exist on the basis of the recent confirmations provided regarding management's intention to liquidate the entities that are the subject of this application once the loan notes they hold have been redeemed. Management has advised us that this will be completed within the two-year extension period requested.***

3. Sun Life Financial of Canada (UK) Limited to extend Deloitte's appointment by two years.

The FRC was unable to grant the application, as the request exceeded the maximum appointment duration permitted by the Companies Act noting that:

- ***Section 494ZA(2) of the Act only grants the FRC powers to approve an extension where the first financial year of the maximum engagement period begins on or after 17 June 2003. In this case, the first financial year of the engagement period was that commencing with the entity's incorporation in 1969.***

4. AA Underwriting Limited to extend EY's appointment by one year.

The FRC granted the application concluding that:

- ***The application meets the requirements under s494ZA of the Act; and***
- ***The FRC is, on balance, satisfied that exceptional circumstances exist as a result of the misaligned audit rotation requirements for AA Group companies which will be addressed by this application. These arise from the first-time application of the requirement of the Audit Regulation.***

Financial Reporting Council

15 May 2018