

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 may be extended with the approval of the Competent Authority 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 31 October, the FRC received two applications:

- An application from Allianz Holdings plc in respect of four UK public interest entities: Allianz Insurance plc; British Reserve Insurance Company Limited; Trafalgar Insurance Public Limited Company; and AGF Insurance Limited to extend the maximum duration of KPMG's appointment as auditor by one year; and
- An application from Micro Focus International plc to extend the maximum duration of PwC's appointment as auditor by two years.

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

1. **For Allianz Holdings plc** (in respect of Allianz Insurance plc; British Reserve Insurance Company Limited; Trafalgar Insurance Public Limited Company; and AGF Insurance Limited)

The FRC granted the extension requested concluding that:

- ***The application demonstrates that measures are in place to carry out a selection and appointment exercise in accordance with the requirements of the Companies Act 2006 at the end of the extended engagement period in relation to the UK PIEs which are the subject of the application; and***
- ***It was satisfied that exceptional circumstances exist on the basis that the extent of the new requirements imposed by the Audit Regulation and the consequential amendments to the Act are not such that they are regularly, routinely or normally encountered. Whilst the applicant should have known that the entities within the scope of the application would be subject to the new audit term and tendering requirements since 2014, those entities are unlisted insurers and are dealing with the requirements of the Audit Regulation for the first time. The FRC also took into consideration the efforts undertaken at group level to accelerate the timetable for selecting a new group auditor from 2018 to accommodate the requirements of the Regulation at the group level.***

2. For Micro Focus plc

The FRC granted the extension requested concluding that:

- *The application demonstrates that measures are in place to carry out a selection and appointment exercise in accordance with the requirements of the Companies Act 2006 at the end of the extended engagement period in relation to the UK PIE which is the subject of the application; and*
- *The FRC is satisfied that exceptional circumstances exist on the basis that the proposed merger of Micro Focus International plc and Hewlett Packard Enterprises Software Business Segment, announced in September 2016 and the resulting business disruption are not regularly, routinely or normally encountered. The FRC does not accept that the proposed merger would result in limited information to support a tender and competition and choice. However, the FRC agrees that given the scale and complexity of the transaction relative to the original business, the potential impact of the business disruption may be contrary to the interests of the shareholders if an audit tender were required.*

Financial Reporting Council

15 November 2016