

Process for applications to extend the maximum duration of the audit engagement

1. Sections 487 and 489 of the Companies Act 2006 and Article 16 of the EU Audit Regulation (EU537/2014) place time limits on the length of an audit engagement ('the maximum engagement period') in relation to public-interest entities. Public-interest entities must retender every ten years, and (where a retender has taken place) the duration of the audit engagement must not exceed twenty years without the approval of the Competent Authority.
2. The Companies Act 2006 provides¹ 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'². 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.
3. Further information on the framework for auditor tendering and rotation (including transitional provisions for those public-interest entities who have engaged the same auditor for at least 11 years as at 16 June 2014) can be found in the guidance note *Auditor Regulation – Supplementary Information: Q&A on the implications of the EU reforms (retendering and rotation)* published by the Department for Business Innovation and Skills.
4. This Process Note gives applicants guidance on the information to be provided with applications, sets out the process which the FRC (as the Competent Authority) will follow in considering applications, and describes the mechanism by which applicants may seek a review of a decision by the FRC not to grant an extension.
5. The FRC will keep this Process Note under review and will update it as appropriate.

Process

Information to be provided with applications

6. Any such request by the applicant should be directed to the FRC's Audit and Assurance Policy Team. The request must be provided in writing and must set out a detailed explanation for the reason for the request, including the following:
 - a. Relevant background information:
 - i. The date of the initial audit engagement;

¹ At section 487(1D) in respect of private companies and 491(1D) in respect of public companies.

² The selection requirements are set out at section 485A(4) and (5) if the company has an audit committee, and at section 485B(4) of the company does not have an audit committee.

- ii. The number of consecutive years the statutory auditor has conducted the statutory audit
 - iii. of the applicant; and
 - iv. An explanation of the services that have been provided to the applicant by the statutory auditor or audit firm during the course of the audit engagement.
- b. The request for an extension:
- i. Where the request follows a 10 year audit engagement, how the applicant believes that it has carried out a selection procedure in accordance with the selection requirements;
 - ii. An explanation of why the applicant considers the extension to be necessary;
 - iii. What the impact, if any, would be if the extension were not granted;
 - iv. What alternatives have been considered and discounted;
 - v. How long the extension is being requested for and why;
 - vi. When the applicant became aware of the circumstances giving rise to the application;
 - vii. How the applicant believes that the circumstances behind their request are 'exceptional'; and
 - viii. Whether any previous requests have been made by the applicant in relation to the engagement and, if so, what the outcomes were and why any issues giving rise to the applications have not been resolved.

FRC decision-making process

7. Applications for extensions should be sent by the applicant to the Audit and Assurance Policy Team as soon as reasonably practicable.
8. The Audit and Assurance Policy Team will take into account all information provided with the request and may seek further information from the applicant where it considers it necessary.
9. The Audit and Assurance Policy Team will consider all requests and will make a recommendation to the Executive Director of Audit where it considers it has sufficient information.
10. The Executive Director of Audit will consider the application and recommendation and make a decision. Where necessary, the Executive Director of Audit may request further information from the applicant, the Audit and Assurance Team or any other person (s)he considers appropriate prior to making a decision.
11. The FRC will provide a decision to the applicant within 28 days of receipt of the request unless the applicant is informed otherwise.

12. The FRC will not allow an extension unless it is satisfied that there is an 'exceptional basis' for an exemption. The FRC's guidance on how it will decide whether there is an 'exceptional basis' for an exemption is set out below.
13. If the FRC allows an extension, it will only do so for the minimum amount of time that it considers necessary in the circumstances. If an extension is granted for less than the maximum of two years, the applicant may request a further extension. Any extension will not take the total length of the extension granted beyond two years.

Reviews

14. Applicants will be entitled to a review of a decision not to grant an extension. Applications must be made within 14 days of the decision. Applicants will not be able to make more than one request for a review.
15. The Chair of the Conduct Committee will appoint the reviewer/s from the independent non-executive members of the Conduct Committee (which may include the Chair himself), and may appoint one, two or three members to carry out the review, depending on the issues and requirements of the case.
16. The reviewer/s will only grant a review of a decision not to grant an exemption if satisfied that the decision was manifestly ill-founded.
17. Reviews will be concluded within 28 days of the request for a review. The request for a review will either be dismissed or lead to the matter being sent back to the decision maker for reconsideration.
18. In the event that the matter is sent back to the decision maker for reconsideration, the decision maker will be provided with the reasons for the matter being referred for reconsideration. Any such reconsideration will take place within 14 days of being ordered.

Publication

19. Decisions as to whether an extension should be granted will be published in accordance with the FRC's publications policy³.

Approved by the Board with effect from 17 June 2016

Guidance Notes

'Exceptional circumstances'

The applicable legislation does not give further guidance on what might amount to 'exceptional circumstances' for granting an extension. In deciding whether or not there exceptional circumstances exist, the FRC will be guided by the Court of Appeal's articulation of 'exceptional' in *R v Kelly (Edward)* [2000] QB 198:

³ *Policy on publication of decisions to exempt auditors and audit firms from the cap on non-audit fees, decisions to extend the maximum duration of an audit engagement, and determinations of the start date of an audit engagement in cases of uncertainty.*

'We must construe 'exceptional' as an ordinary, familiar English adjective, and not as a term of art. It describes a circumstance which is such as to form an exception, which is out of the ordinary course, or unusual, or special, or uncommon. To be exceptional a circumstance need not be unique, or unprecedented, or very rare; but it cannot be one that is regularly, or routinely, or normally encountered.'