



Governance *in brief* BIS clarifies timelines for the new mandatory rotation requirements

Headlines

- BIS has issued supplementary information in relation to the framework for auditor tendering and rotation which has been developed in collaboration with both the FRC and the CMA.
- There is now clarity around the specific timelines for the transitional arrangements in the EU Audit Regulation.

Further to the BIS Discussion Paper on UK implementation of the EU Audit Regulation issued in December 2014 (see *Governance in brief – BIS and the FRC consult on options for UK implementation of the EU Audit Directive & Regulation issued in January 2015*), BIS has issued a supplementary information paper focusing on the framework for auditor tendering and rotation. This paper provides clarity on the precise timings of the transitional arrangements. This is particularly relevant for companies falling into the “less than eleven years” category where there had been some ambiguity around the financial periods affected.

The starting point

The starting point remains as before and is based on the number of years that a public interest entity (PIE) has engaged the same auditor as at 16 June 2014. The answer to this question places the PIE in one of three categories:

- 20 years or longer
- Eleven years or longer but less than 20 years
- Less than eleven years

The first transitional provision – 20 years or longer

The incumbent auditor is able to complete the audit of the last financial period starting before 17 June 2020 but cannot be reappointed for the following year. So for a December year end entity, the incumbent auditor can undertake the audit for the 31 December 2020 period but cannot undertake the 31 December 2021 audit.

The second transitional provision – eleven years or longer but less than 20 years

The incumbent auditor is able to complete the audit of the last financial period starting before 17 June 2023 but cannot be reappointed for the following year. So for a December year end entity, the incumbent auditor can undertake the audit for the 31 December 2023 period but cannot undertake the 31 December 2024 audit.

The third transitional provision – less than eleven years

This transitional provision applies to any audit engagement which commenced with an accounting year beginning between 17 June 2003 and 16 June 2014 where the auditors are still in place for the accounting year which includes 16 June 2016.

The transitional provision states that, for these entities, the incumbent auditor is permitted to complete the audit of ten financial years before a tender is required. As the UK is intending to take up the option to extend the maximum duration to 20 years, the incumbent is able to participate in the tender and may be appointed for up to another ten years.

For audit engagements that began between 17 June 2003 and 16 June 2006, where ten audits will have been completed before 17 June 2016, the incumbent auditor is permitted to complete the audit of any period beginning before 17 June 2016 but a tender must take place for the audit of the following financial period. So for a December year end entity, the incumbent auditor can undertake the audit for the 31 December 2016 period but cannot undertake the 31 December 2017 audit without a tender taking place.

Deloitte view

- We welcome the clarifications from BIS and believe that this will help companies to plan their transition to the new regime with more certainty.

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