

## Frequently Asked Questions on Disclosure of Audit Tenure

Relevant Definitions	
As per Section 1 of the South African Companies Act 2008 (Act 71 of 2008)	
<b>Public Company</b>	means a profit company that is not a state-owned company, a private company or a personal liability company.
<b>State-owned Company</b>	<p>means an enterprise that is registered in terms of this Act as a company, and either—</p> <p>(a) falls within the meaning of “state-owned enterprise” in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999); or</p> <p>(b) is owned by a municipality, as contemplated in the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000), and is otherwise similar to an enterprise referred to in paragraph (a).”</p>
Definitions per the IRBA Code of Professional Conduct for Registered Auditors	
<b>Public Interest Entity (PIE)</b>	<p>(a) A listed entity;</p> <p>(b) An entity</p> <p style="padding-left: 20px;">(i) defined by regulation or legislation as a public interest entity; or</p> <p style="padding-left: 20px;">(ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.</p> <p>This definition should be read with Paragraph 290.26 of the IRBA Code of Professional Conduct.</p> <p>Please note that a revised definition of public interest entity will be effective on or after 1 July 2016.</p>

Relevant IRBA Communiqués	
<b>4 December 2015</b>	IRBA Strengthens Auditor Independence by Mandating Disclosure of Audit Tenure
<b>10 December 2015</b>	Further Clarification: IRBA Strengthens Auditor Independence by Mandating Disclosure of Audit Tenure

No.	Question	Suggested Answer
<b>1. Questions Regarding the Scope of the Tenure Rule</b>		
1.1.	For which entities are registered auditors required to disclose audit tenure in their audit reports?	<p>The Rule applies to audit reports issued on the Annual Financial Statements of all public companies – as defined in Section 1 of the Companies Act of 2008 – which also meet the definition of a public interest entity as per paragraphs 290.25 and 290.26 of the IRBA Code of Professional Conduct for Registered Auditors.</p> <p>Hence, if an audit client is a public company, a registered auditor would have to consider if the client meets the definition of a public interest entity and if audit tenure disclosure is required.</p>
1.2	Do the subsidiaries of these entities have to disclose audit tenure?	<p>It depends.</p> <p>If the subsidiary is a public company which also meets the definition of a public interest entity as per paragraphs 290.25 and 290.26 of the IRBA Code of Professional Conduct for Registered Auditors, disclosure of audit tenure will be required.</p>
1.3	Is disclosure of audit tenure required for a public interest entity that is not a public company, e.g. pension funds?	<p>Only an audit client that is a public company that also meets the definition of a public interest entity will be required to disclose audit tenure.</p>
1.4	<p>Is disclosure of audit tenure required for state-owned companies (as defined below)?</p> <p>“State-owned company” means an enterprise that is registered in terms of this Act as a company, and either—</p> <p>(a) falls within the meaning of “state-owned enterprise” in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999); or</p> <p>(b) is owned by a municipality, as contemplated in the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000), and is otherwise similar to an enterprise referred to in paragraph (a).”</p>	<p>As per the Companies Act 2008, public company means a profit company that is not a state-owned company, a private company or a personal liability company.</p> <p>State-owned companies do not meet the definition of public companies in the Companies Act.</p> <p>Disclosure is only for public companies, thus audit tenure disclosure will not be required.</p>

No.	Question	Suggested Answer
1.5	Does disclosure of audit tenure only apply to JSE Inc. (Stock Exchange) listed entities?	Disclosure of audit tenure will be required for all public companies that meet the definition of public interest entity in the IRBA Code, and not only for listed entities.
1.6	Please advise where in the Companies Act of 2008 one would find the definition of public interest entities?	Please refer to the IRBA clarification communiqué issued on 10 December 2015, (attached for ease of reference) and the definitions above.
1.7	<p>Will this mandatory disclosure apply to:</p> <ul style="list-style-type: none"> <li>i. listed entity;</li> <li>ii. Entities with a PI Score &gt;350, requiring an audit in terms of the Act;</li> <li>iii. Voluntary audits in terms of the MOI; and</li> <li>iv. Voluntary audits in terms of shareholder resolution?</li> </ul>	<p>In line with the IRBA clarification communiqué issued on 10 December 2015:</p> <ul style="list-style-type: none"> <li>i. Yes. A listed company is a public company and meets the definition of a PIE.</li> <li>ii. It depends. See question 1.8 below.</li> <li>iii. No</li> <li>iv. No</li> </ul>
1.8	Does the requirement to disclose audit tenure apply to entities that have a PI score above 350?	<p>No, not automatically.</p> <p>If the entity is a public company which also meet the definition of a public interest entity as per paragraphs 290.25 and 290.26 of the IRBA Code of Professional Conduct for Registered Auditors, then disclosure of audit tenure will be required.</p>
1.9	Is disclosure of audit tenure required only of audit clients that are companies?	<p>Yes. All public companies – as defined in the Companies Act of 2008 – that meet the definition of a public interest entity as per the IRBA Code of Professional Conduct for Registered Auditors are required to disclose audit tenure.</p> <p>Thus disclosure of audit tenure does not apply to partnerships, trusts or joint ventures, etc.</p>
1.10	Does the domicile of the company have an impact on audit tenure disclosure?	No. The rule applies to audit reports issued on the annual financial statements of all public companies – as defined in Section 1 of the Companies Act of 2008 – which also meet the definition of a public interest entity as per paragraphs 290.25 and 290.26 of the IRBA

No.	Question	Suggested Answer
		<p>Code of Professional Conduct for Registered Auditors.</p> <p>If the company meets the requirement above, audit tenure will be required.</p>
1.11	Does audit tenure disclosure apply to debt issuers?	<p>The rule applies to audit reports issued on the annual financial statements of all public companies – as defined in Section 1 of the Companies Act of 2008 – which also meet the definition of a public interest entity as per paragraphs 290.25 and 290.26 of the IRBA Code of Professional Conduct for Registered Auditors.</p> <p>If the debt issuer meets the requirement above, audit tenure will be required.</p>
1.12	Does the rule apply if the debt issuer is also an SOE/SOC?	<p>No.</p> <p>As per the Companies Act 2008, public company means a profit company that is not a state-owned company, a private company or a personal liability company.</p> <p>State-owned companies do not meet the definition of public companies in the Companies Act.</p> <p>The Rule applies to audit reports issued on the Annual Financial Statements of all public companies – as defined in Section 1 of the Companies Act of 2008 – which also meet the definition of a public interest entity as per paragraphs 290.25 and 290.26 of the IRBA Code of Professional Conduct for Registered Auditors.</p> <p>Auditors are encouraged to disclose audit tenure even if they do not meet the above criteria.</p>
1.13	Does audit tenure apply to AGSA audits?	<p>No.</p> <p>As per the Companies Act 2008, public company means a profit company that is not a state-owned company, a private company or a personal liability company.</p> <p>State-owned companies do not meet the definition of public companies in the Companies Act.</p>

No.	Question	Suggested Answer
		The Rule applies to audit reports issued on the Annual Financial Statements of all public companies – as defined in Section 1 of the Companies Act of 2008 – which also meet the definition of a public interest entity as per paragraphs 290.25 and 290.26 of the IRBA Code of Professional Conduct for Registered Auditors.
<b>2. Questions Regarding Counting the Years of the Tenure Period</b>		
2.1	How would a change in the activities the audit client engages in affect the counting of the years relating to audit tenure?	The registered auditor should apply the application guidance provided in the IRBA communiqué issued on 4 December 2015 (attached for ease of reference), i.e. the longest length of tenure should be disclosed. The change of activities the audit client engages in will have no effect on the length of audit tenure disclosed.
2.2	Would a change in the name of the entity have a bearing on the audit tenure?	No. The spirit of the guidance provided in the IRBA communiqué issued on 4 December 2015 should be considered, i.e. the longest length of tenure should be disclosed.
2.3	Would a change in the management of the audit client have a bearing on the audit tenure?	No. The spirit of the guidance provided in the IRBA communiqué issued on 4 December 2015 should be considered, i.e. the longest length of tenure should be disclosed.
2.4	How would a change in the format through which an entity trades affect the disclosure of the tenure?	<p>According to the IRBA communiqué issued on 4 December 2015, the longest length of time of the tenure should be disclosed.</p> <p>For example, the fact that the Co A was only incorporated 20 years ago but traded as a partnership previously does not mean that Audit Firm X was auditor firm for those 20 years, if it was also the auditors of the partnership.</p> <p>The audit tenure counting will go back to when Audit Firm X was appointed to be the auditors.</p>

No.	Question	Suggested Answer
2.5	<p>It is listed under “Additional guidance” in the communication that “in the case of audit firm mergers/de-mergers or change in name, the longest length of tenure should be disclosed.” How is the longest length determined?</p> <p>The question can be illustrated by the following example: Client X has been audited by the audit firm for 20 years. However, the audit firm used to be firm ABC but merged five years ago with firm DEF and signs the audit report as DEF. So, does this imply that the disclosed longest tenure in the audit report should read that “DEF has been the auditor of client X for 20 years” or should it read that “ABC has been the auditor of client X for 15 years and DEF has been the auditor of client X for five years”?</p>	<p>According to the IRBA communiqué issued on 4 December 2015, the longest length of time of the tenure should be disclosed. Thus 20 years should be disclosed. It would not be permissible to disclose the year in which the audit firm was appointed, without also disclosing the number of years which the firm had been the auditor (audit tenure).</p>
2.6	<p>Can the registered auditor offer an explanation on the length of tenure in the audit report?</p>	<p>The registered auditor should disclose audit tenure in accordance with the wording in the IRBA communiqué issued on 4 December 2015 and in compliance with the rule.</p> <p>Auditors should not dilute the impact of the disclosure by offering additional information that could confuse the reader. Therefore, auditors should not include details of the firm’s partner rotation policy and current engagement partner’s tenure on the engagement, as this will defeat the objective the rule is intended to achieve.</p> <p>The objective of the Rule is to raise transparency regarding the firm’s tenure and not that of the individual auditor.</p>
2.7	<p>What should an audit firm do if there is a difficulty in obtaining evidence of the accuracy of audit tenure?</p>	<p>The registered auditor will have to be diligent and use his/her professional judgment. Information on the appointment and changes in auditors can be obtained from the Companies and Intellectual Property Commission (CIPC) or company secretarial records.</p>

No.	Question	Suggested Answer
		It is not acceptable for “no disclosure” to be made.
2.8	How do short breaks of service (<1 year) affect the disclosure of audit tenure?	<p>This will depend on the circumstances. According to the IRBA Communiqué issued on 4 December 2016, the audit tenure should reflect the number of years the audit firm/sole practitioner continuously served as the auditor.</p> <p>However, if there were changes in statutory appointments of auditors during a period but the firm continued to sign off on the financial statements for consecutive years, then any break in service should be ignored, otherwise it would be misleading to the reader.</p>
<b>3. Questions on which Reports a Registered Auditor is Required to Disclose Audit Tenure</b>		
3.1	Can voluntary disclosure be made?	Yes. The registered auditor is encouraged to consider voluntary disclosure of audit tenure.
3.2	Is the disclosure of audit tenure required for ISA 800/805/810/ISRE 2410 (interim), provisional, preliminary/proforma/abridged reports?	No. According to the IRBA communiqué issued on 4 December 2015, the rule applies to audit reports issued on the annual financial statements.
3.3	Is disclosure required in an integrated report <IR>, where the <IR> does not contain the statutory financial statements?	No. According to the IRBA communiqué issued on 4 December 2015, the rule applies to audit reports issued on the annual financial statements.
<b>4. Monitoring of Compliance with the IRBA Rule</b>		
4.1	How will the IRBA be monitoring the disclosure of audit tenure?	<p>The IRBA will monitor compliance with the disclosure of audit tenure rule in the same manner it monitors compliance to standards, the IRBA Code of Professional Conduct for Registered Auditors and compliance with Section 90(2) of the Companies Act.</p> <p>It will also be alert to complaints received by its Investigations Department.</p>

## Appendix A

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### INDEPENDENT REGULATORY BOARD FOR AUDITORS

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#### IRBA STRENGTHENS AUDITOR INDEPENDENCE BY MANDATING DISCLOSURE OF AUDIT TENURE

Johannesburg / 04 December 2015

The Regulatory Board, in terms of Section 9 and 10 read with sections 1, 2 and 3 of the Auditing Profession Act, Act 26 of 2005, published a Rule in the Government Gazette Nr 39475 of 04 December 2015 which makes it mandatory that all auditor's reports on Annual Financial Statements shall disclose the number of years which the audit firm / sole practitioner has been the auditor of the entity (audit tenure). A predecessor audit firm in this context refers to an audit firm where there has been mergers/de-mergers or other combinations in the audit firm and an audit firm shall therefore include a predecessor audit firm.

Audit tenure refers to the length of the auditor-client relationship. Thus tenure includes the period that the predecessor audit firms (where there has been mergers/de-mergers or other combinations in the audit firm) issued audit reports on the entity.

This rule applies to audit reports issued on the Annual Financial Statements of all public interest entities, as defined in the Companies Act of 2008 and prescribed by the Regulatory Board from time to time, for periods ending on or after 31 December 2015.

The Regulatory Board made the decision to require the mandatory disclosure of audit tenure in the context of strengthening auditor independence which is consistent with measures implemented in other jurisdictions. This disclosure of audit tenure will lead to transparency of association between audit firms and audit clients.

The IRBA will monitor compliance with the above rule for auditor's reports on all Annual Financial Statements of public interest entities for periods ending on or after 31 December 2015.

#### **Additional Guidance:**

- All audit firms and sole practitioners are required to comply with the new disclosure requirement.
- The audit tenure should reflect the number of years the audit firm/sole practitioner continuously served as auditor.
- In the case of audit firm mergers/ de-mergers or change in name, the longest length of tenure should be disclosed.
- Where the client is a company, information on the appointment and changes in auditors can be obtained from the Companies and Intellectual Property Commission (CIPC) or company secretarial records.



- In the case of companies, as the appointment and continuation of auditors is the responsibility of the audit committee, auditors are advised to bring the requirement of this rule to the attention of the audit committee.

An illustrative example of this requirement in terms of SAAPS 3 *Illustrative Reports*, (Revised November 2013), is provided below:

### **Independent Auditor's Report**

*To the Shareholders of ABC Limited*

#### **Report on the Financial Statements**

We have audited the financial statements of ABC Limited set out on pages ...to ..., which comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Limited as at 31 December 20X1, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

*Other reports required by the Companies Act*

As part of our audit of the financial statements for the year ended 31 December 20X1, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

**Report on Other Legal and Regulatory Requirements**

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that XX firm/ sole practitioner has been the auditor of XX client for X years.

*Auditor's Signature*

Name of individual registered auditor

Capacity if not a sole practitioner: e.g. Director or Partner

Registered Auditor

Date of the auditor's report

Auditor's address

**Bernard Peter Agulhas**

**Chief Executive Officer**

***About the IRBA***

*The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.*

## Annexure B

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### INDEPENDENT REGULATORY BOARD FOR AUDITORS

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#### **Further Clarification: IRBA Strengthens Auditor Independence by Mandating Disclosure of Audit Tenure**

Johannesburg / 10 December 2015

Reference is made to the communiqué titled "*IRBA Strengthens Auditor Independence by Mandating Disclosure of Audit Tenure*" issued on 4 December 2015, regarding the publication of a Rule in the Government Gazette Nr 39475 of 4 December 2015.

We clarify that this rule applies to audit reports issued on the Annual Financial Statements of all public companies – as defined in the Companies Act of 2008 – that meet the definition of a public interest entity as per the IRBA Code of Professional Conduct for Registered Auditors.

**Bernard Peter Agulhas**  
**Chief Executive Officer**

#### ***About the IRBA***

*The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.*