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## FREQUENTLY ASKED QUESTIONS

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### **Strengthening auditor independence to enhance public investor protection through mandatory audit firm rotation (MAFR)**

#### **1. Why is the Independent Regulatory Board for Auditors (IRBA) leading this change in audit requirements and not government? Why now?**

IRBA is mandated by the South African government under the Auditing Profession Act (26 of 2005) to protect the financial interests of the public by ensuring that only suitably qualified individuals are admitted to the auditing profession and that registered auditors deliver services of the highest quality and adhere to the highest ethics standards, including independence. In line with the legislation, our objective is therefore to create a robust and relevant framework guiding the services of registered auditors (RAs), and which must respond to our dynamic environment.

The regulatory philosophy of the IRBA is to regulate the auditing profession in the best interest of the public as well as the local and international investor community, and at the same time recognise the importance of a sustainable and viable auditing profession in South Africa. To do this, the IRBA's approach to regulation implies having an agreed set of principles and values supported by well-developed and internationally recognised standards, clear laws and regulations which must be revised as necessary.

Following the audit failures globally and locally, regulators, oversight bodies and governments have refocused their attention on the role of auditors and how they report on company financial statements. Critical to reliable reporting is that the auditor is independent of those whom they audit. Inspections findings from audit regulators, including the IRBA, indicate that auditors do not always maintain such independence. This increases the risk that they may not report the true state of affairs of a company.

#### **2. On what basis can you substantiate a need for more stringent requirements in auditor independence?**

In 2013, at the request of the then Minister of Finance, the World Bank conducted and concluded its second Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing (A&A) for South

Africa. The ROSC made recommendations to strengthen accounting and auditing practices in South Africa towards enhanced competitiveness, governance and accountability in the private and public sectors.

Following these recommendations, on 21 July 2014, then Minister of Finance, Nhlanhla Nene, indicated during his budget speech in the National Assembly, that the Office of the Accountant-General would put forward plans to strengthen the regulatory environment in the audit and accounting industry. This resulted in an extended mandate for the IRBA which now comprises the Four Strategic Pillars as follows:

- Comprehensive regulator: To provide for a more comprehensive regulatory model that includes the regulation of Professional Accountancy Organisations (PAO).
- Independence: Strengthening both the independence of the IRBA and the independence of registered auditors.
- Leadership in Africa: Implementing programmes that will contribute to enhancing and improving overall reporting, governance and regulatory practices on the African continent.
- Transformation: Influencing the advancement of transformation in the profession.

As part of the mandate to strengthen the independence of auditors, a project to examine the ways in which this could be done was initiated in July 2015 and the resulting research on the options was presented to the board of the IRBA. At its meeting on 28 July 2016, the board resolved after due process and consultation that the appropriate measure to be introduced would be Mandatory Audit Firm Rotation. The Board had considered other possible solutions which included Mandatory Audit Tendering and Joint Audits.

The Board's decision to implement MAFR included the need to force a break in the current long relationships, some over 100 years, between some auditors and their clients.

### **3. Why did it become necessary to look at ways to strengthen auditor independence?**

The audit failures associated with Enron and large corporates in South Africa brought the independence of auditors and regulators into sharp focus. Furthermore, this same issue has become a focal point for governments and oversight structures around the world. In the changing business environment, investors and the public are also demanding more information and transparency and have become more aware of their rights, which need to be protected. All these developments have led international role players, including the European Union, to implement more robust measures with the aim of enhancing the independence of auditors as well as audit regulators.

More importantly, independence is a critical component of Audit Quality. Without the required independence, investors cannot have the assurance that the opinion expressed by the auditor is appropriate in order for them to take sound economic decisions. The auditor will arrive at the appropriate audit opinion if a high quality audit had been performed.

#### 4. What is the cost of a business collapse?

The cost of corporate collapses can be significant:

Corporation	Year	Audit Firm	Cost	Affected
Masterbond	1991	EY	R600m	Mainly pensioners affected
Lesuirenet	2000	Deloitte	R681m	One of the largest corporate failures in the country; rescued by Branson and Virgin Active
Saambou	2001	PwC/EY	R4bn	Was bought out by African Bank
UniFer	2002	Deloitte/EY	R984m	Losses to ABSA Bank
Rand Gold	2005/6	PwC		Massive fraud and accounting scandal
Fidentia	2007	Maddock Inc	R500m	Collapse of Living Hands Trust that supported 47000 widows and orphans
Sharemax	2010	ACT Audit Solutions	R2,2bn	Cost 33 000 pensioners their life savings
First Strut	2013	Indigo Chartered Accountants	R800m	Affect mainly major asset managers and banks
African Bank	2014	Deloitte	R7bn	R7bn market capitalisation wiped out and cost PIC R4bn in one day

#### 5. Why must South Africa look to international opinion and standards?

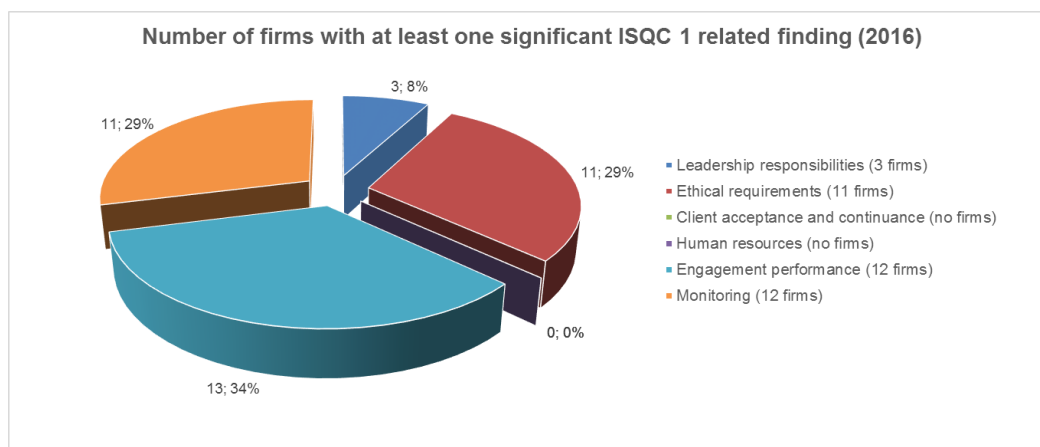
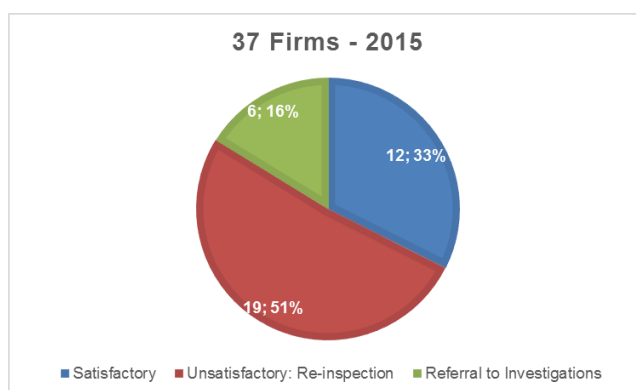
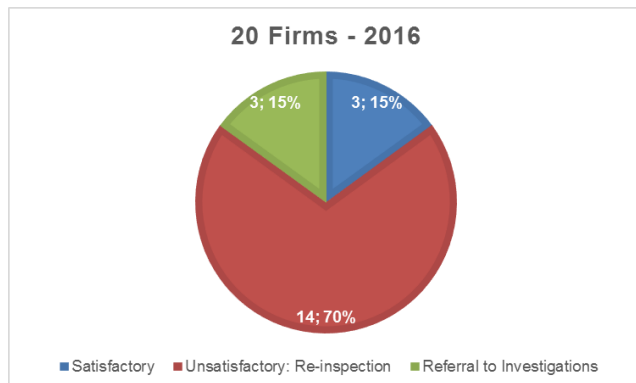
South Africa relies very much on external capital and one of the important components of creating an environment where foreign direct investment (FDI) can occur is a well-regulated and reliable capital market. This, in turn, requires a reputable audit profession to provide potential investors and capital providers with reliable and credible financial information on which investment decisions can be made. It therefore becomes crucial for the IRBA to ensure that the local profession continues to be recognised internationally.

Through our representation and participation in international forums, such as the International Forum for Independent Audit Regulators (IFIAR), the International Auditing and Assurance Standards Board (IAASB) and the International Accounting Education Standards Board (IAESB), we stay abreast of issues affecting the profession globally in order to evaluate and assess their relevance and impact on the South African environment and develop appropriate responses.

#### 6. In terms of the World Economic Forum's competitiveness rankings, South Africa is ranked number 1 for the strength of its audit reporting standards. Is IRBA not trying to fix something that isn't broken?

This ranking is a ranking based on the strength of the process to develop and issue auditing standards, so it reflects the strength of the IRBA's consultation, its comment process, its ability and the robustness of monitoring and inspections to assess compliance, and its capability to hold non-compliance accountable. South Africa was one of the first jurisdictions in the World to adopt International Standards on Auditing as far back as 2005, and its participation and contribution to international standard-setting makes it an ideal candidate for the ranking.

To establish a measure of the quality of audits, it is important to consider the results of the IRBA inspection programme which are reported annually in the Public Inspections Report. Unfortunately, we have seen declining quality year on year with increasing concerns that independence could be compromised.



## 7. How can MAFR aid in minimising corruption?

Independence is critical to the ability of external auditors to fulfil their duty to notify the IRBA of irregularities uncovered in the process of an audit as required by Section 45 of Auditing Profession Act 26 of 2005 (APA). The Reportable Irregularities (RIs) process is key in the fight against corporate fraud and corruption. The act further requires the audit regulator to refer RIs to the relevant authorities for further investigation. It is therefore in the public interest that the independence of auditors is safeguarded by the strictest of measures.

The sharp increase in inspections findings and decline in audit quality points to auditors exercising less than the required professional scepticism – this situation is highly likely to occur when the relationship between

the auditor and client is too cosy, and as audit tenure increases. This is also likely to impact whether or not RIs are reported to the IRBA as required by the act.

The IRBA Public Inspections Report 2016 reports that the Reportable Irregularities were identified on 48 voluntary audits during inspections in 2015/2016 that had not been reported to the IRBA.

#### **8. But there are so few disciplinary cases in South Africa, we hardly hear of audit firms being sanctioned?**

The IRBA disciplinary process allows for the investigation and summary of allegations to be presented to the audit firm for response. These investigations can be the result of a complaint by a member of the public, or from being referred by the inspections department or may arise as a *mero moto* case initiated by the IRBA itself. In the event that the allegations are not adequately addressed by the firm in the response process, the firm can accept the findings and settle by consent order. So not all matters will be referred for disciplinary hearing, although the auditor has pleaded guilty. A full list of consent orders is appended to this document.

#### **9. What did your research entail?**

The research project which commenced in April 2015 aimed to address three objectives:

- Primary: Strengthening auditor independence to enhance audit quality
- Secondary: Addressing audit market concentration; and
- Secondary: Promoting transformation in the profession.

Initially we conducted an exploratory study into countries that have implemented Mandatory Audit Firm Rotation (MAFR). We also reviewed other initiatives which included Mandatory Audit Tendering (MAT) and Joint Audits (JA). Thereafter we addressed requests from our board for further investigation and finally we conducted stakeholder engagement with a range of key stakeholders, whose inputs were analysed before compiling our final report. The board was presented with three options for consideration.

#### **10. What has the IRBA done thus far to strengthen and raise awareness of independence?**

In 2015, to address the threat associated with long audit firm tenure, the IRBA made the decision to require the mandatory disclosure of audit tenure, which is consistent with measures implemented in other jurisdictions. In terms of sections 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 review of this information revealed that in the most extreme case the audit firm tenure was 114 years, with others at 91, 66, 72, 48, 40 and 35 years.

A summary of JSE listed entities whose audit tenures exceed 50 years:

Audit tenure > 50 Years	Audit Firm	Audit tenure	2015 Audit fees
Murray & Roberts	Deloitte	114 years	R34 million
Naspers Limited	PWC	101 years	R135 million
Barloworld Limited	Deloitte	98 years	R61 million
AECI Limited	KPMG	91 years	Not disclosed
Santam Limited	PWC	87 years	R19 million
Woolworths Holdings Limited	EY	84 years	R24 million
Sappi Limited	Deloitte	80 years	R63 million (Approx)
Tongaat Hulett Limited	Deloitte	78 years	R15 million
Oceana Group	Deloitte	74 years	R7.9 million
Anglo Gold Ashanti	EY	72 years	R92 million (Approx)
Distell Group Limited	PWC	71 years	R9.2 million

Audit tenure > 50 Years	Audit Firm	Audit tenure	2015 Audit fees
Pioneer Food	PWC	69 years	R9.5 million
Crookes Brothers Limited	Deloitte	68 years	R2 million
Remgro Limited	PWC	68 years	R26 million
York Timber Holdings	KPMG	67 years	R3.6 million
Harmony Gold	PWC	66 years	R19 million
Hulamin Limited	PWC	66 years	R4.4 million
ELB Group Limited	KPMG	64 years	R5.1 million
Quantum Foods Holdings	PWC	53 years	R2.9 million
Standard Bank Group	KPMG and PWC	53 years	R137 million
Trans Hex Group Limited	PWC	51 years	R2.4 million

## 11. What were some of the significant findings of the research?

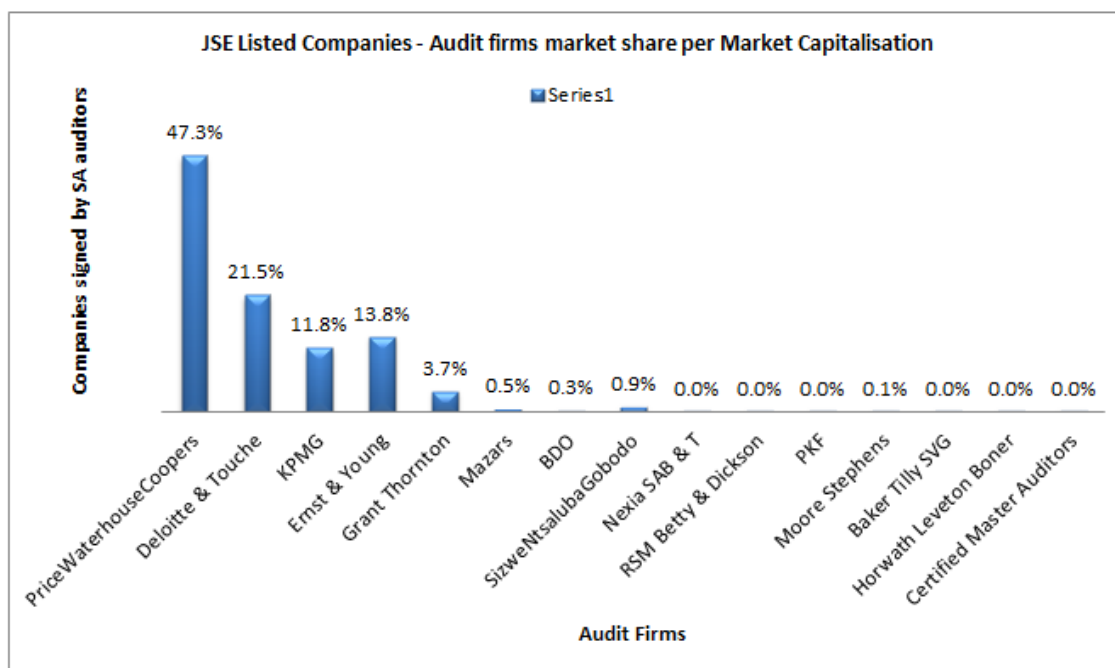
Besides long audit tenure one of the other significant findings was the *Familiarity threat between the CFO/Financial Director and incumbent auditors*. Our analysis revealed that 18% of the CFOs/FDs of the JSE Top 40 listed companies were previously employed by the audit firm that was listed as the appointed external auditor to that company in the annual report.

Another significant finding was that 25% Audit Committees of the JSE Top 40 listed companies are chaired by a member who were previously employed by the audit firm that is the appointed as external auditor to that company. This raises a *Familiarity threat between the Audit Committee and the Audit Firm*. In this regard, the PIC, which holds 12.5% of the market capitalisation of the JSE Top 40 listed companies, highlighted that it had voted against the reappointment of auditors where the audit firm had been auditing an entity for more than nine years as it believes that after nine years there is a familiarity threat, which may impair auditor independence, real or perceived.

A review of our Audit Firm Inspections in 2015 revealed significant deficiencies in 68% of firms inspected thereby significantly raising concerns regarding the independence of auditors. These inspections are performed in terms of Section 47 of the Auditing Profession Act. While a variety of deficiencies were identified, one of the root causes of these findings was the failure to maintain independence as an underlying principle for high audit quality.

## 12. What other findings emerged during the IRBA's research?

In terms of concentration of the market, our study found that more than 90% of the market capitalisation companies listed on the JSE whose audit reports are signed off by South African Engagement Partners are audited by a member of the Big Four.



Category of audit firms	Total audit fees spent by JSE listed companies	Market share
Big Four Firms PWC, Deloitte. KPMG and Ernst & Young	R3.6 billion	94%
Other audit firms	R226 million	6%
<b>Total</b>	<b>R3.8 billion</b>	<b>100%</b>

## 13. What are the concerns around transformation?

On the matter of the progress of transformation, or lack thereof, our study revealed that of the 353 companies whose audit reports were scrutinised, it was found that the audit reports of 72% of the companies listed on the JSE and were actively trading as at 31 December 2015 were signed off by white RAs. It was also found that 16% of the companies listed on the JSE and were actively trading as at 31 December 2015 were signed off by non-South African partners. Therefore, the audit reports of the remaining 12% of actively trading listed companies were signed off by South African non-white RAs of which only 3% were Black South African.

Race	Black	White	Indian	Coloured	Chinese	Foreign audit partners	TOTAL
PriceWaterhouseCoopers	3	55	4	2	-	12	76
Deloitte & Touché	5	47	4	-	-	11	67
KPMG	-	47	3	1	-	11	62
Ernst & Young	1	30	1	2	-	3	37
Grant Thornton	-	32	10	-	1	3	46
Mazars	-	14	4	-	-	2	20
BDO	-	10	2	-	-	4	16
Other SMEs firms		23	5	-	-	7	35
<b>Total</b>	<b>9</b>	<b>258</b>	<b>33</b>	<b>5</b>	<b>1</b>	<b>53</b>	<b>359</b>
<b>Percentage</b>	<b>3%</b>	<b>72%</b>	<b>9%</b>	<b>1%</b>	<b>-</b>	<b>15%</b>	<b>100%</b>

Further there are concerns relating to how few Registered Auditors are accredited by the JSE. The information below relates to the individual audit partners that are accredited to perform/sign off on the JSE listed companies.

Racial demographic of JSE Accredited Auditors	Number of JSE accredited auditors	Percentage per racial demographic
White	281	74%
Indian	62	16%
Coloured	10	3%
Chinese	1	-
Black	24	6%
<b>TOTAL</b>	<b>378</b>	<b>100%</b>

**14. If one reads through some of the submissions, there seems to be support for IRBA's aim to strengthen auditor independence, but there are concerns that MAFR is not the right way to do this. What led IRBA to believe that MAFR was in fact the right way to address this issue?**

The principles which the IRBA believes supports MAFR as a solution are: where there is competition quality improves, a fresh set of eyes on a new client will be more sceptical and able to challenge accounting practices and management judgements, and that long tenure and close relationships can lead to complacency, unconscious bias or familiarity that has the potential to create situations where independence is at the least perceived to be impeded and at worst lead to an inappropriate audit opinion. An inappropriate audit opinion could result in investors making the wrong investment decisions. The IRBA does not believe that partner rotation is sufficient as it has not received any complaints from audit firms or partners against a partner in the same firm where the partner delivered poor quality audits.

It is of critical importance that the auditor who performs checks on CFOs and Financial Directors on behalf of shareholders, remains completely independent of those CFOs and Financial Directors, and MAFR should provide the required assurance to audit committees and Those Charged with Governance that the risk that 'cosy' relationships could be developed is minimized.



**15. There seems to be some uncertainty as to what exactly the aim of the proposed Mandatory Audit Firm Rotation is. Is it only to strengthen auditor independence and enhance audit quality, or does it also aim to address transformation and market concentration?**

At the outset of the project in July 2015, the board was concerned about all three issues and the initial research and scoping phases included research into all three issues and a number of possible measures, being Mandatory Audit Firm Rotation, Mandatory Audit Tendering, Joint Audits or a combination of these. It has been clearly stated that strengthening independence is the primary objective with the others being secondary. That said, the market conflated the objectives and so the IRBA revised its view to address the single objective of strengthening independence when it issued its consultation paper. The objectives of competition and transformation will remain important for the board but will be addressed by complementary initiatives.

**16. What exactly is MAFR trying to address?**

The IRBA has outlined the findings from its analysis of the threats to auditor independence. (long audit tenure, familiarity threats CFO/Auditor and AC Chair/Auditor, inspections findings on ethics, independence concerns of non-executive directors and AC Committee members). In essence it is a response to independence concerns.

**17. If auditor independence is the issue, can IRBA offer evidence of specific instances where there have been clear breaches of independence, or is the alleged lack of independence based on anecdotes?**

It is speculation that independence is not a problem. No one is as familiar with the holistic view of the findings raised during the inspection of firms and engagements as is the IRBA. However, based on the increasing ratio of findings in the firms and engagements inspected, if extrapolated across listed entities, this raises concerns for the IRBA. Also note that independence is only one of the contributors to Audit Quality.

The sharp increase in inspections findings and decline in audit quality points to auditors exercising less than the required professional scepticism – this situation is highly likely to occur when the relationship between the auditor and client is too cosy, and as audit tenure increases. One of the most controversial aspects of the auditor independence debate is the role that appearance should play in setting standards and regulation. Standard-setters and regulators must consider the perceptions of investors and users of financial information as it is these very perceptions that will inform user reliance on financial statements and audit opinions, influence investment and improve capital market efficiency.

## **18. What is the IRBA finding through its inspections process?**

There is an overall regression in the inspection results compared to the previous year, with the number of unsatisfactory inspections of audit firms increasing by 27% for 2016 and the number of unsatisfactory engagement inspections increasing by almost 50%, based on the selected inspections performed.

These findings are in line with the global inspections survey results issued by the Independent Forum of Audit Regulators (IFIAR) on March 3, 2017, of which South Africa is one of more than 50 members. The IFIAR's latest annual Inspection Findings Survey shows a slight decline in inspection findings of six large global network firms. However, the high rates of findings continue to be of concern to regulators.

Locally, many of the selected inspections by the IRBA showed one or more significant findings with 15% (2015: 16%) of firms and 14% (2015: 6%) of engagement partners being referred by the Inspections Committee to the Investigating Committee of the Board. These referrals were as a result of fundamental or continued noncompliance with international auditing and financial reporting standards, the professional code or legislative requirements. The nature of these findings are also aligned to the IFIAR Survey findings in the critical area of firm-wide quality control where it had noted that too many audit firms continue to have high rates of inspection findings.

## **19. If it is about transformation, can IRBA show that the big four audit firms are in fact not transformed? (in terms of the law they appear to be) What about the CA Charter?**

MAFR is not primarily about transformation. The new CA Charter was issued last week, but the IRBA did not sign off on the charter.

Transformation must move beyond numbers and begin to truly empower black accountants and black-owned auditing firms, which includes providing equal opportunities to access the audit market. The harsh reality is that of the 4 283 registered auditors in South Africa, 74.8% are white and only 10.5% are black African. We believe that, while some initiatives have been implemented, more must be done. It is not just about increasing the number of black trainee accountants; it is about giving black accountants and auditors long-term prospects in the profession equivalent to that of their counterparts. It requires a cultural shift and a more inclusive approach which will provide black accountants with a positive experience at the firms and result in higher retention. The IRBA has conducted research into the firm experience of trainees and managers that suggests that the opportunity and access is not equitable for black auditors.

Also as long as there is no transformation amongst the governance structures who appoint auditors, the status quo will remain.

**20. Are there no other means of developing smaller audit firms by, for example, bringing them in on audits of subsidiaries within large firms? Has IRBA considered this?**

Certainly, this is acceptable to the IRBA should large listed firms opt to engage smaller firms on certain subsidiaries, as a starting point. Similarly, the role of joint audits in transferring skills is questionable as we have evidence that joint audits are in most cases token and the split of work and responsibility is not equitable and therefore the access to experience and development is not equitable. The real objective of empowering and capacitating smaller firms is therefore not really achieved.

**21. What does IRBA propose large multinationals do about their audit firms, since presumably these companies have to use a global audit firm (one of the big four) if they have operations in multiple jurisdictions?**

We have allowed six years before the effective date of implementation of the MAFR requirement. This takes into account the provisions of non-audit services limitations and cooling off periods and will allow firms to plan ahead by ensuring that those firms which it wishes to engage in future maintain sufficient independence. There are also a number of firms that are part of significant international networks. While this was also raised as a concern in other jurisdictions, MAFR was nevertheless subsequently implemented.

<b>Name of Firm</b>	
<b>Deloitte</b>	220,000 professionals in more than 150 countries and territories.
<b>EY</b>	212,000 employees in over 700 offices in 150 countries.
<b>KPMG</b>	KPMG employs 174,000 in 152 countries and in over 700 cities worldwide.
<b>PwC</b>	PwC has offices in 157 countries and more than 208,000 people,
<b>BDO</b>	The firm have representation in 154 territories, with 64,300 people
<b>Grant Thornton</b>	42,000 people in over 130 countries,
<b>RSM</b>	It has firms in 120 countries and a combined staff of over 38,000
<b>Howarth Leveton Boner</b>	Consists of more than 200 independent accounting firms in over 130 countries.
<b>Sizwe Ntsaluba Gobodo</b>	While rooted in Africa, its international links with leading global consulting and professional services firms enable it to meet the cross-border needs of its clients,
<b>Nkonki</b>	Nkonki Inc is a member firm of Kreston International Limited. Kreston covers over 100 countries and provides a resource of more than 20,000 professional and support staff.
<b>PKF</b>	Member firms operate under the PKF brand in 440 cities and operate in 150 countries across five continents.
<b>Nexia SAB&amp;T</b>	Nexia has more than 250 member firms operating 565 offices in over 120 countries.

**22. In terms of the some of the feedback there is concern about the cost of rotation, the lack of consultation, what some deem to be insufficient research and the impact on the industry. Some groups also suggest that the international situation does not prove that MAFR would improve independence and enhance quality. Have you received some positive feedback as well?**

During the process we have received extensive positive feedback and support from proponents of MAFR. We've also had criticism that ten years is too long a period and that waiting seven years to implement is not advisable.

The research and pre-scoping phase ran from July 2015 to May 2016. Concurrently, the IRBA identified and met with numerous key stakeholders and stakeholder groupings to get their input on the various options. This informed and supplemented the research and the stakeholder responses were included in the research report presented to the board. The consultation process has therefore been robust.

Regarding costs, we had requested information during the second phase comment period, however many of the submissions were unable to accurately quantify potential costs. We have been tracking audit fees on JSE listed companies. What we have seen is that costs do not increase substantially, either staying the same or reflecting a slight increase when a new firm was appointed.

<b>Vodacom Limited</b>	31 March 2015	31 March 2014
✚ Audit fees	R26 million	R22 million
✚ Audit firm	PwC	Deloitte
<b>Sasol Limited</b>	30 June 2015	30 June 2014
✚ Audit fees	R87 million	R86 million
✚ Audit firm	PwC	KPMG
<b>Bidvest Limited</b>	30 June 2008	30 June 2007
✚ Audit fees	R44 million	R39 million
✚ Audit firm	Deloitte	KPMG
<b>Famous Brands Limited**</b>	28 February 2016	28 February 2015
✚ Audit fees	R4.6 million	R3.4 million
✚ Audit firm	Deloitte	RSM Betty

Some respondents who had recently rotated auditors described the process they followed to effectively manage the transition. Other jurisdictions have evidence that fees can decrease on rotation; this is most likely in the case of the audit firm rotation in conjunction with mandatory audit tendering and as firms compete to win the work.

In every jurisdiction, except Italy, the period for which MAFR has been implemented is too short to say empirically whether it works or not. In our review of G20 and International Forum of Independent Audit Regulators (IFIAR) member countries, 30 have or will implement MAFR. IFIAR has 52 members, who only qualify for membership if the regulator is truly independent of the profession. These regulators have a common objective of protecting investors and their independence supports their aim to act in the public interest.

The IRBA does not require empirical evidence when it needs to respond to the concerns and issues which compromise investor protection. It is also important to note that research alone does not inform regulation. Regulation is based on the needs of those who require the protection from the regulator.

**23. Opponents have said that this measure infringes the rights of shareholders or audit committees, does the IRBA agree?**

No, the IRBA works on behalf of the public and aims to protect investors who are shareholders.

We have taken this decision for shareholders because we believe it is the right thing to do to increase the level of protection afforded to them. We are upholding their right to limit the number of years an auditor may conduct the audit of the companies they invest in so that they are assured of independence and professional scepticism. The IRBA has for some time believed that shareholders in South Africa need to become more engaged when it comes to matters such as voting on the recommendations of Audit Committees, for example, the appointment of auditors.

The purpose of issuing the Audit Tenure Rule in December 2015, was to raise awareness around issues such as long audit tenure, and requiring disclosure to the shareholders to enable them to be more informed before voting at AGMs. In fact, since the IRBA announced its intention to limit the tenure of firms and required the disclosure of tenure, the shareholder voting at a number of AGMs has indicated that shareholders indeed see a problem with extended tenures and are now using their voting rights to try and force the change of auditors. We believe it is strengthening shareholder rights to hold management and audit committees more accountable and not just ratify repeated reappointments without considering the issue of independence.

Company	AGM Date	Auditor	Tenure	Vote Against Current year	Vote against Previous year
Lonmin PLC	26 Jan 17	KPMG	N/A	41.690%	1.39%
Reunert Ltd	13 Feb 17	Deloitte	31	36.950%	0.00%
Spar Group Ltd	07 Feb 17	Deloitte & Touché	49	35.930%	0.31%
Barloworld Limited	08 Feb 17	Deloitte & Touché	98	18.160%	0.01%
Woolworths	30 Nov 16	EY	84	18.620%	0.52%
Tiger Brands	21 Feb 17	EY	13	15.110%	0.47%
Astral Food Limited	09 Feb 17	PwC	16	16.950%	0.00%
Aspen	06 Dec 16	PwC	19	14.440%	0.00%
Pioneer Food Group	10 Feb 17	PwC	69	12.860%	0.00%
AngloAmerican Platinum	24 Apr 17	Deloitte & Touché	18	16.090%	4.35%
Nu-World Holdings	08 Feb 17	RSM South Africa	2	10.320%	9.21%
Rhodes Food Group	09 Feb 17	Deloitte & Touché	17	9.490%	0.00%
AngloGold Ashanti	16 May 17	EY	72	9.440%	0.16%

It is for the first time highlighting long tenures for shareholders, and audit committees are being required to respond to this “new” information which could impact auditor independence, and which should be considered when deciding on the appointment of auditors.

Companies (large & medium) which recently changed auditors:

- Sasol Limited
- Pick’n Pay Limited
- Vodacom Group Limited
- JSE Limited
- Barclays Limited
- Mondi Limited
- Massmart Holdings Limited
- Redefine Properties Limited
- Hyprop Investments Limited
- Famous Brand Limited
- Old Mutual Plc
- Pinnacle Holdings Limited
- EnX Limited

## **24. Who was consulted?**

The following stakeholders were identified and consulted as part of the study:

- Competition Commission of South Africa;
- Ministry of Finance/National Treasury;
- Financial Services Board;
- South African Institute of Chartered Accountants;
- South African Reserve Bank;
- ABASA and African Women Chartered Accountants;
- Association for Savings and Investment in South Africa;
- Johannesburg Stock Exchange;
- Companies and Intellectual Property Commission;
- Public Investment Corporation;
- Institute of Directors Southern Africa;
- Non-executive and executive directors of the Top 100 JSE listed companies;
- King Committee;
- Auditor-General of South Africa;
- Global Public Policy Committee; and
- The Top 15 audit firms in South Africa.

## 25. Which other jurisdictions implemented MAFR?

The following countries have/ or are implementing\* MAFR

IFIAR	G20	BRICS	Africa
Abu Dhabi	Argentina	Brazil	Kenya*
Albania	Brazil	Russia*	Mauritius
Chinese Taipei	China	India*	Morocco
Dubai	India	China	Mozambique
Indonesia	Indonesia	South Africa*	Nigeria
Korea	South Korea		Tunisia
Lichenstein	Saudi Arabia		
Norway	Italy*		
Singapore	United Kingdom*		
Thailand	Turkey*		
Italy*			
Netherlands*			
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Turkey*			
EU Members States* (22x)			

## 26. What were the counter arguments against MAFR?





### (a) MAFR removes the responsibility to appoint auditors from the audit committee

The audit committee will still appoint the auditor. At this stage, we have concerns that there exists a pattern of audit committee chairs and members being too close to some firms and appointing the same firm based on familiarity and on recommendation from management (who also may have connections to the audit firm). If this pattern persists, we cannot achieve government's objective to open the markets to all and provide equal opportunities to access the audit market.

### (b) Costs to business and costs of the audit will increase

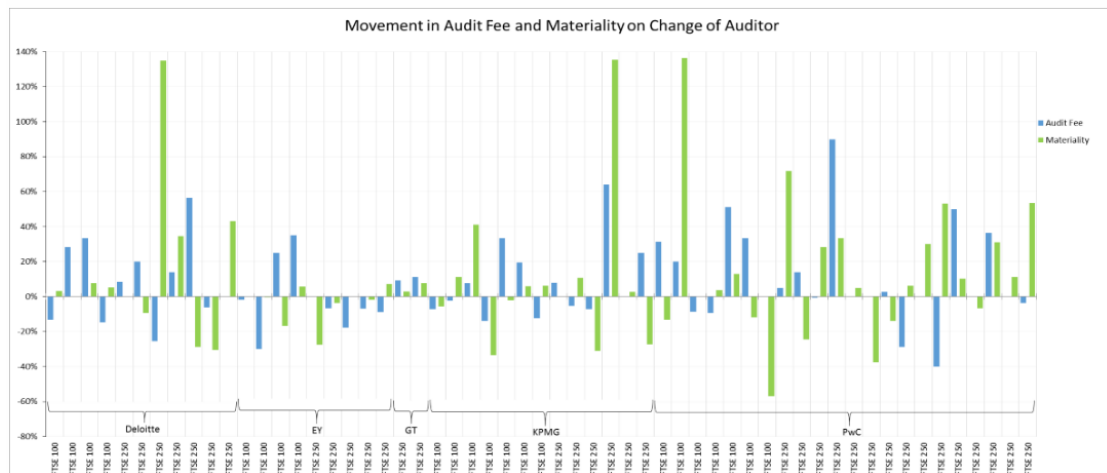
Tendering and marketing are normal costs of business. As far as audit costs are concerned, the following table provides examples of the change in audit costs when there had been a change in audit firms:

Description		
1. Vodacom Limited	<b>31 March 2015</b>	<b>31 March 2014</b>
🚩 Audit fees	R26 million	R22 million
🚩 Audit firm	PwC	Deloitte
2. Sasol Limited	<b>30 June 2015</b>	<b>30 June 2014</b>
🚩 Audit fees	R87 million	R86 million
🚩 Audit firm	PwC	KPMG
3. Bidvest Limited	<b>30 June 2008</b>	<b>30 June 2007</b>

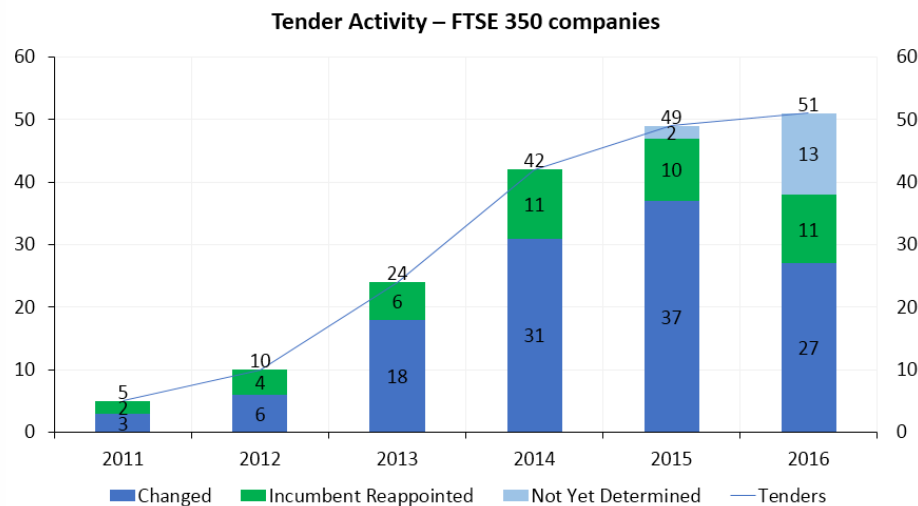
 Audit fees	R44 million	R39 million
 Audit firm	Deloitte	KPMG
4. Famous Brands Limited**	<b>28 February 2016</b>	<b>28 February 2015</b>
 Audit fees	R4.6 million	R3.4 million
 Audit firm	Deloitte	RSM Betty

\*\* In terms of the Directors Report of Famous Brands Limited, there were a number of acquisitions which took place during the current year on which the new auditors got appointed and this had an impact on the audit fee.

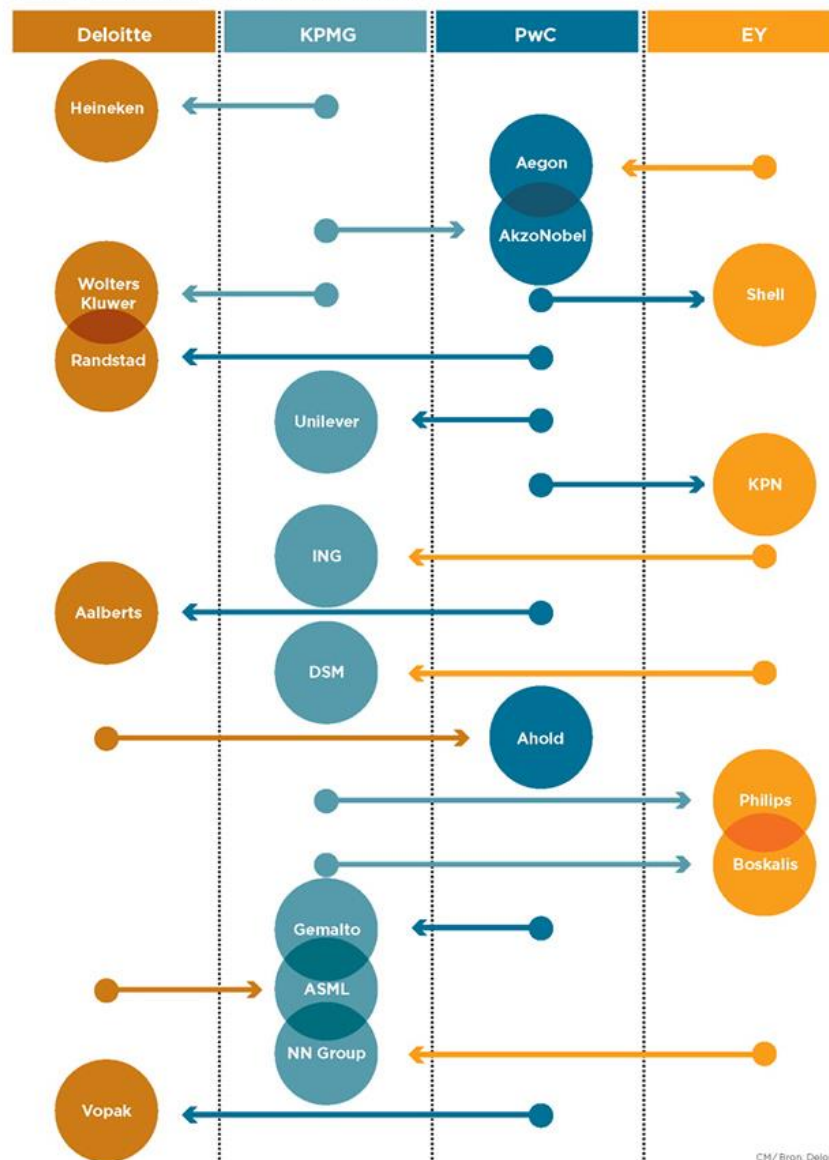
## Impact on audit fees (UK)



## Impact on market concentration (UK)







**(c) It takes many years to build up knowledge of your client/ expertise in specialised industries**

The auditing standards require auditors to have a thorough knowledge of their clients before they commence with the audit – it does not provide for the auditor to build up knowledge over a number of years, otherwise there will be a risk that the audit opinion in the first year could be incorrect. Some firms have indeed built up industry knowledge in specialised industries, but our research indicates that the market is large enough for those skills and expertise to be applied at different clients in the same industry. We encourage firms to be provided with opportunities to build up these skills. This does not mean that the IRBA encourages firms to audit clients for which they do not have the relevant skills – when an auditor registers with the IRBA, they are competent to audit, so there is no difference in skills and competences of registered auditors. We appreciate that certain industries require specialised skills – in these situations the auditing standards require the auditor to consider whether they have appropriate skills before accepting, and deciding whether to continue with an audit assignment. Acceptance and continuance of engagements are therefore prescribed in the auditing standards.

**(d) There are already current measures which are effective**

Currently the IRBA Code of Professional Conduct and the Companies Act (in the case of companies) require rotation of audit partners after 7 and 5 years respectively. However, the IRBA does not consider these provisions to be sufficient since we have not seen situations where partners from the same firm report each other should their partner have given an incorrect opinion or missed important facts during an audit. Furthermore, the Companies Act regulates companies and directors, not auditors and auditor independence.

**(e) Conglomerates which operate globally will find it impractical to have different auditors**

In Europe alone, based on the 8<sup>th</sup> Directive issued by the European Commission, each country in Europe will have, not only different provisions to strengthen auditor independence (had to be in each country's laws by 16 June 2016), but different measures to enforce independence. Conglomerates are therefore already responding to these global developments.

**(f) There are only a few firms who have a global infrastructure to support international conglomerates**

The following table indicates that most firms in SA are part of global networks:

Name of Firm	
Deloitte	Deloitte has more than <b>220,000</b> professionals at member firms delivering services in audit, tax, consulting, financial advisory, risk management and related services in more than <b>150 countries</b> and territories.
EY	The organisation operates as a network of member firms that are separate legal entities in individual countries. It has <b>212,000</b> employees in over 700 offices in <b>150 countries</b> .
KPMG	KPMG employs <b>174,000</b> people and has three lines of services: audit, tax and advisory. Its tax and advisory services are further divided into various service groups. <b>KPMG offices</b> are located in <b>152 countries</b> and in over 700 cities <b>worldwide</b> .
PwC	PwC has offices in <b>157 countries</b> and more than <b>208,000</b> people, and is among the leading professional services networks in the world.
BDO	BDO is an international network of public accounting, tax and advisory firms that perform professional services. The fee income of the member firms in the BDO network, including the members of its exclusive alliances, was \$7.30 billion in 2015. These firms have representation in <b>154 territories</b> , with <b>64,300</b> people working out of over 1,400 offices worldwide.
Grant Thornton	Grant Thornton is a global organisation of member firms with <b>42,000</b> people in over <b>130 countries</b> , with the scale to meet changing needs.
RSM South Africa	RSM is the 6th largest global audit, tax and consulting network. It has firms in <b>120 countries</b> and is in each of the Top 40 major business centres throughout the world. It has a combined staff of <b>over 38,000</b> in over 760 offices across the Americas, Europe, MENA, Africa and Asia Pacific.
Howarth Leveton Boner	Crowe Horwath International, ranked among the Top 10 global accounting networks, consists of more than 200 independent accounting and advisory services firms in over <b>130 countries</b> . Crowe Horwath member firms are known for their local knowledge, expertise and experience balanced by an international reputation for the highest quality of service.
SizweNtsalubaGobodo	While rooted in Africa, its international links with leading global consulting and professional services firms enable it to meet the cross-border needs of its clients,

	providing a broader footing across diverse industry sectors and valuable insights into their operations in the global economy.
Nkonki	In order to keep up with meeting the international demands of its clients, Nkonki Inc is a member firm of Kreston International Limited. Kreston International Limited is a global network of independent accounting firms. Founded in 1971, Kreston provides reliable and convenient access to quality services through member firms located around the globe. Currently ranking as the 13th largest accounting network in the world, Kreston covers over <b>100 countries</b> and provides a resource of more than <b>20,000 professional</b> and support staff.
PKF	PKF International (previously known as Pannell Kerr Forster) is a global network of accountancy firms. Member firms operate under the PKF brand in 440 cities and operate in 150 countries across five continents. In 2010, PKF International was ranked the 10th largest global accounting network, with an aggregate fee income of \$2.6 billion for member firms in the year ended June 2010.
Nexia SAB&T	Nexia has more than 250 member firms operating 565 offices in over 120 countries.

**(g) Could the measure be seen as anti - competitive?**

We have consulted with the Competition Commission and they did not regard any of the measures as anti – competitive. The IRBA considers MAFR as an important measure to increase competition over time and thereby improve audit quality.

**27. How will MAFR be implemented and will there be further consultation?**

The Board took the principle decision to implement MAFR in July 2016. It embarked on a process of public participation and engagement to consult further on how it should implement its decision without disrupting business. The consultation process opened on 25 October 2016 and closed at the end of January. There were specific questions raised by the IRBA during this process regarding cost of implementation, scope and practicalities for business. The information provided in written comment letters was considered by the board in formulating the final rule. This was the second round of engagement with stakeholders and was open to all to participate. A total of 72 comment letters were received. In discussion with Treasury, the IRBA was encouraged to consult further. At the presentation of the IRBA annual report to the Standing Committee on Finance, the IRBA also presented an update on the process of Mandatory Audit Firm Rotation. The Chairman of SCoF agreed to host parliamentary hearings on MAFR to support the process of consultation. Two hearings were conducted on 15 February and 17 March, broadening the consultation further.

The board took a resolution on the final rule on 28 March and this decision was communicated to the Minister during May. While there will be no further consultation on the rule, between now and the effective date of 1 April 2023, the IRBA will embark on a roll-out programme whereby it will engage with international regulators, business and the profession to establish best practice guidelines in terms of preparing for rotation.

**28. Will mandatory audit firm rotation only be applicable to listed companies?**

The board's initial proposal had recommended listed companies as the starting point, but we have had feedback since we published the comment paper that it should be extended to Public Interest Entities. In the final rule PIE's have been included in the scope.

**29. What about State Owned Entities that meet the definition of Public Interest Entity (PIE)? How will it apply to them?**

In terms of section 4(3)(a) and (b) of the Public Audit Act, 2004 (Act No.25 of 2004), the Auditor-General of South Africa (AGSA) may audit and report on the accounts, financial statements and financial management of any public entity listed in the PFMA and any other institution not mentioned in section 4(1) of the Act and which is:

- funded from the National Revenue Fund or a provincial revenue fund or by a municipality; or
- authorised in terms of any legislation to receive money for a public purpose.

The mandate of the IRBA is to regulate registered auditors; it does not have jurisdiction over the AGSA. Audits performed by the AGSA include audits performed by registered auditors on a contracted in basis and audits performed on behalf of the AGSA.

However, there are instances where the AGSA opts not to perform an audit of an entity referred to in section 4(3). In these cases, the entity or auditee appoints a registered auditor to conduct the audit and in these instances the 10-year mandatory audit firm rotation rule will apply to that audit firm. The implementation of MAFR will also not absolve the entity or auditees' duty to consult the AGSA on the appointment of those auditors which is provided for in section 25 of the Public Audit Act.

## IRBA: Investigations Department

<b>IRBA News Edition 34 - April to June 2016</b>		
Discharge	rule 3.5.1.1	2 matters
Consent order	Matter 1 – audit	Fine of R100 000 with R50 000 suspended for 3 years, R5 000 costs, general publication
Consent order	Matter 2 – audit	Fine of R100 000 with R20 000 suspended for 3 years, no costs, general publication
Consent order	Matter 3 – code	Fine of R50 000 with R25 000 suspended for 3 years, R5 000 costs, general publication
Consent order	Matter 4 – audit	Fine of R20 000 with R10 000 suspended for 3 years, no costs, general publication
Consent order	Matter 5 – companies act	Fine of R100 000 with R60 000 suspended for 3 years, no costs, general publication
Consent order	Matter 6 – companies act	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 7 – assurance	Fine of R100 000 with R50 000 suspended for 3 years, no costs, general publication
Consent order	Matter 8 – assurance	Fine of R25 000 with R12 500 suspended for 3 years, no costs, general publication
Consent order	Matter 9 - code	Fine of R20 000 with R10 000 suspended for 3 years, no costs, general publication
Consent order	Matter 10 – audit	Fine of R100 000 with R50 000 suspended for 3 years, no costs, general publication
Consent order	Matter 11 – companies act	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 12 – tax act	Fine of R40 000 with R20 000 suspended for 3 years, no costs, general publication
Consent order	Matter 13 – code	Fine of R40 000 with R20 000 suspended for 3 years, no costs, general publication
Consent order	Matter 14 – audit	Fine of R40 000 with R20 000 suspended for 3 years, no costs, general publication
Consent order	Matter 15 – code	Fine of R40 000 with R20 000 suspended for 3 years, no costs, general publication
Consent order	Matter 16 – audit	Fine of R100 000, no costs, general publication]

Consent order	Matter 17 – assurance	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 18 – assurance	Fine of R60 000 with R45 000 suspended for 3 years, no costs, general publication
Consent order	Matter 19 – audit	Fine of R80 000 with R60 000 suspended for 3 years, no costs, general publication
Consent order	Matter 20 – companies act	Fine of R40 000 with R20 000 suspended for 3 years, no costs, general publication
Consent order	Matter 21 – companies act	Fine of R80 000 with R60 000 suspended for 3 years, no costs, general publication
Consent order	Matter 22 – audit	Fine of R40 000 with R20 000 suspended for 3 years, no costs, general publication

<b>IRBA News Edition 35 - July to September 2016</b>		
Discharge	Rule 3.5.1.1.	5 matters
Discharge	Rule 3.5.1.5	2 matters
Consent order	Matter 1 – audit	Fine of R80 000 with R40 000 suspended for 3 years, R5 000 costs, general publication
Consent order	Matter 2 – audit	Fine of R100 000 with R50 000 suspended for 3 years, R5 000 costs, general publication
Consent order	Matter 3 – audit	Fine of R60 000 with R25 000 suspended for 3 years, no costs, general publication
Consent order	Matter 4 – code	Fine of R100 000 with R25 000 suspended for 3 years, R5 000 costs, general publication
Consent order	Matter 5 – audit	Fine of R50 000, R5 000 costs, general publication
Consent order	Matter 6 - assurance	Fine of R20 000 with R10 000 suspended for 3 years, no costs, general publication
Consent order	Matter 7 – audit	Fine of R100 000, no costs, general publication, with full amount postponed until such time that respondent re-registers with the IRBA
Consent order	Matter 8 – audit	Fine of R200 000 with R50 000 suspended for 3 years, no costs, general publication
Consent order	Matter 9 – code	Fine of R20 000 with R10 000 suspended for 3 years, no costs, general publication



Consent order	Matter 10 – code	Fine of R60 000 with R40 000 suspended for 3 years, no costs, general publication, plus previously suspended fine of R25 000
Consent order	Matter 11 – estates act	Fine of R40 000 with R20 000 suspended for 3 years, R5 000 costs, general publication
Consent order	Matter 12 – code	Fine of R20 000 with R10 000 suspended for 3 years, no costs, general publication
Consent order	Matter 13 – audit	Fine of R200 000 with R60 000 suspended for 3 years, no costs, general publication
Consent order	Matter 14 – code	Fine of R20 000 with R10 000 suspended for 3 years, no costs, general publication
Consent order	Matter 15 – code	Fine of R40 000 with R30 000 suspended for 3 years, R5 000 costs, general publication
Consent order	Matter 16 – companies act	Fine of R100 000 with R50 000 suspended for 3 years, no costs, general publication
Consent order	Matter 17 – audit	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 18 – audit	Fine of R80 000 with R30 000 suspended for 3 years, no costs, general publication
Consent order	Matter 19 – audit	Fine of R50 000 with R25 000 suspended for 3 years, no costs, general publication
Consent order	Matter 20 – audit	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication

<b>IRBA News Edition 36 - October to December 2016</b>		
Discharge	Rule 3.5.1.3	2 matters
Consent order	Matter 1 – audit	Fine of R180 000 with R80 000 suspended for 3 years, no costs, general publication
Consent order	Matter 2 – audit	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 3 – companies act	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 4 – companies act	Fine of R20 000 with R10 000 suspended for 3 years, no costs, general publication

Consent order	Matter 5 – audit	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 6 – audit	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 7 – companies act	Fine of R80 000 with R40 000 suspended for 3 years, no costs, general publication
Consent order	Matter 8 – audit	Fine of R80 000 with R20 000 suspended for 3 years, no costs, general publication plus previously suspended fine of R15 000, with full amount postponed until such time that respondent re-registers with the IRBA
Consent order	Matter 9 – audit	Fine of R50 000 with R25 000 suspended for 3 years, no costs, general publication, with full amount postponed until such time that respondent re-registers with the IRBA
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Consent order	Matter 15 – code	Fine of R50 000 with R40 000 suspended for 3 years, no costs, general publication
Referred to a disciplinary hearing		1 matter

#### More about the IRBA:

The IRBA is a public protection statutory body established to protect the financial interests of the public by ensuring registered auditors and their firms deliver services of the highest quality. It upholds audit firm independence to ensure that audit quality is such that it enhances the accuracy and credibility of financial performance reporting. In this way, the IRBA has an important role to play in building the reputation of South Africa as an investment market for both local and global investors and driving economic growth for the country.



As an internationally recognised regulator of the auditing profession and other assurance services relevant to the South African environment, it has been recognised by the World Economic Forum as the top independent audit regulator worldwide for seven consecutive years for the strength of its audit controls and standards. The IRBA also registers suitably qualified accountants as auditors, who must adhere to the highest ethics standards, and promotes the auditing profession through the effective regulation of assurance conducted in accordance with internationally recognised standards and processes.

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