



# irba

INDEPENDENT REGULATORY BOARD FOR AUDITORS

## Consultation Paper

Issued 25 October 2016





## NOTICE OF REQUEST FOR COMMENTS

### **Comments are requested by 20 January 2017**

Interested and Affected Parties (I&APs) are asked to submit their written comments via email to [comments@irba.co.za](mailto:comments@irba.co.za). Please submit comments in both PDF and Word format.

Please note that all submissions received will be published and attributed to the respective respondents, unless the Independent Regulatory Board for Auditors (IRBA) is expressly requested not to do so. The IRBA further reserves the right not to publish any submission received where it considers that it is not in the public interest to do so, such as where the submission appears to be libellous, offensive or not based on facts.

Should respondents wish to receive communication regarding this I&AP process or participate in any events considered necessary, the Board encourages I&APs to register as such on the IRBA website at [www.irba.co.za](http://www.irba.co.za).

Alternatively, if you do not wish to register online, you may request a registration form by emailing [IAPregistration@irba.co.za](mailto:IAPregistration@irba.co.za) whereupon you can complete, sign and return to [IAPregistration@irba.co.za](mailto:IAPregistration@irba.co.za).

# CONTENTS

|                               |   |
|-------------------------------|---|
| Foreword by the IRBA Chairman | 4 |
|-------------------------------|---|

## SECTION 1: HOW TO COMMENT

|                            |   |
|----------------------------|---|
| 1.1. Guidelines to comment | 7 |
|----------------------------|---|

## SECTION 2: INTRODUCTION AND BACKGROUND

|   |    |
|---|----|
| 2.1. Mandate and strategy of the IRBA                   | 9  |
| 2.2. Background   | 9  |
| 2.2.1. Events that continue to shape regulatory reforms | 10 |
| 2.2.2. Global developments                              | 10 |
| 2.2.3. Risk of failure of one of the major audit firms  | 10 |
| 2.3. Scope  | 12 |
| 2.4. Current measures in place                          | 13 |
| 2.4.1. The IRBA Code of Professional Conduct            | 13 |
| 2.4.2. Mandatory audit partner rotation                 | 13 |
| 2.4.3. Prohibition of non-audit services                | 13 |
| 2.4.4. Disclosure of audit tenure rule                  | 13 |

## SECTION 3: CONCERNS WITH THE INDEPENDENCE OF AUDITORS

|   |    |
|---|----|
| 3.1. Familiarity threats between CFOs and incumbent auditors                  | 15 |
| 3.2. Familiarity threat between audit committee chairs and incumbent auditors | 16 |
| 3.3. Inspection findings relating to ethical requirements                     | 16 |
| 3.4. Long audit tenure of audit firms   | 17 |
| 3.5. PIC concerns regarding independence of audit committee members           | 17 |
| 3.6. Audits taken back by the Auditor-General from other audit firms          | 17 |

## SECTION 4: INITIAL CONSULTATION PROCESS

|                                 |    |
|---------------------------------|----|
| 4.1. Process                    | 21 |
| 4.2. Timeframes                 | 21 |
| 4.3. Who was consulted          | 22 |
| 4.4. Feedback from stakeholders | 24 |

## SECTION 5: CONSIDERING STAKEHOLDERS' CONCERNS

|       |   |    |
|-------|---|----|
| 5.1.  | Which option would ensure that a 'fresh pair of eyes' from a new firm would look at the financial statements? | 27 |
| 5.2.  | Are the current measures not effective or enough?   | 27 |
| 5.3.  | Why not mandatory audit tendering?  | 27 |
| 5.4.  | Would audit quality suffer because knowledge of the client is lost? What about specialised industries?        | 27 |
| 5.5.  | Will costs to business and the costs of the audit increase?   | 28 |
| 5.6.  | Would MAFR remove the responsibility to appoint auditors from the audit committee?                            | 28 |
| 5.7.  | Would conglomerates which operate globally find it impractical to have different auditors?                    | 28 |
| 5.8.  | Are there too few firms with global footprints to rotate among?   | 29 |
| 5.9.  | Could the measure be seen as anti-competitive?  | 29 |
| 5.10. | Can MAFR address transformation?  | 29 |

## SECTION 6: REQUIREMENTS FOR MANDATORY AUDIT FIRM ROTATION

|      |                         |    |
|------|-------------------------|----|
| 6.1. | Requirements            | 32 |
| 6.2. | Effective date          | 32 |
| 6.3. | Transitional provisions | 32 |

## SECTION 7: QUESTIONS FOR CONSULTATION

### LIST OF FIGURES

|           |   |    |
|-----------|---|----|
| Figure 1: | Market concentration in South Africa                  | 12 |
| Figure 2: | Stakeholder response to Mandatory Audit Tendering     | 24 |
| Figure 3: | Stakeholder response to Mandatory Audit Firm Rotation | 24 |
| Figure 4: | Stakeholder response to Joint Audits                  | 24 |

### LIST OF TABLES

|          |  |    |
|----------|--|----|
| Table 1: | Countries that implemented MAFR  | 11 |
| Table 2: | Extract from the IRBA Inspections Report illustrating findings related to independence | 18 |
| Table 3: | Results from the audit tenure research   | 18 |
| Table 4: | Concerns raised for each measure   | 25 |
| Table 5: | Change in fees after rotation  | 28 |
| Table 6: | Global presence of major audit firms in South Africa                                   | 30 |

# Foreword

## by the IRBA Chairman

South Africa relies substantially 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 (Schoeman, Robinson and De Wet, 2000). 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 Independent Regulatory Board for Auditors (IRBA) to ensure that the local profession continues to be recognised internationally as one that delivers reliable and high-quality services that are regulated by world-class standards.

The Board is cognisant of international developments through its collaboration with oversight and regulatory bodies worldwide, and its participation in various international audit, ethics and education standard-setting boards.

Fuelled by global corporate and audit failures, which have ramifications for the South African market, investors and the public are also demanding more information and transparency and have become more aware of their rights, which need to be protected. The work of the International Integrated Reporting Council (IIRC) and others is advancing a “new normal” among investors and the public that requires of companies and auditors increased transparency, honesty and reporting that is more accessible than ever before. The tolerance for corruption is decreasing, while the demands for accountability and responsibility are on the rise.

All these developments have increased demands on auditors to be more independent and have led to increasing sanctions worldwide against those who fail to report irregular activities.

It has also led international role players around the world, including the European Union, to implement more robust measures with the aim of enhancing the independence of auditors as well as the independence of respective audit regulators in increased efforts to avoid regulatory capture.

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 economic decisions. The auditor will only arrive at the appropriate audit opinion if a high-quality audit has been performed.

In 2013, at the request of the then Minister of Finance, Pravin Gordhan, 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<sup>1</sup>. 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.

On 21 July 2014, the 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.

<sup>1</sup> <http://documents.worldbank.org/curated/en/661381468302454182/South-Africa-Reports-on-the-Observance-of-Standards-and-Codes-ROSC-accounting-and-auditing>

*“Fuelled by global corporate and audit failures, which have ramifications for the South African market, investors and the public are also demanding more information and transparency and have become more aware of their rights, which need to be protected.”*

- Rene Kenosi, Chairman

At the same time, the IRBA had tabled its strategic focus comprising Four Strategic Pillars<sup>2</sup> 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 which 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 research project to examine the ways in which this could be done was initiated in July 2015.

Initially, the IRBA conducted an exploratory study into Mandatory Audit Firm Rotation (MAFR), Mandatory Audit Tendering (MAT) and Joint Audits (JA) and the implementation of these worldwide. For any perceivable risks, the Board primarily looked at the key threats to independence that arose from inspections findings, as well as the length of audit tenure, and familiarity threats between auditors and audit committee chairs, and auditors and Chief Financial Officers (CFOs).

A stakeholder engagement process was followed including face-to-face meetings, questionnaires and roundtables with a range of key stakeholders whose inputs were collated, analysed and presented to the Board.

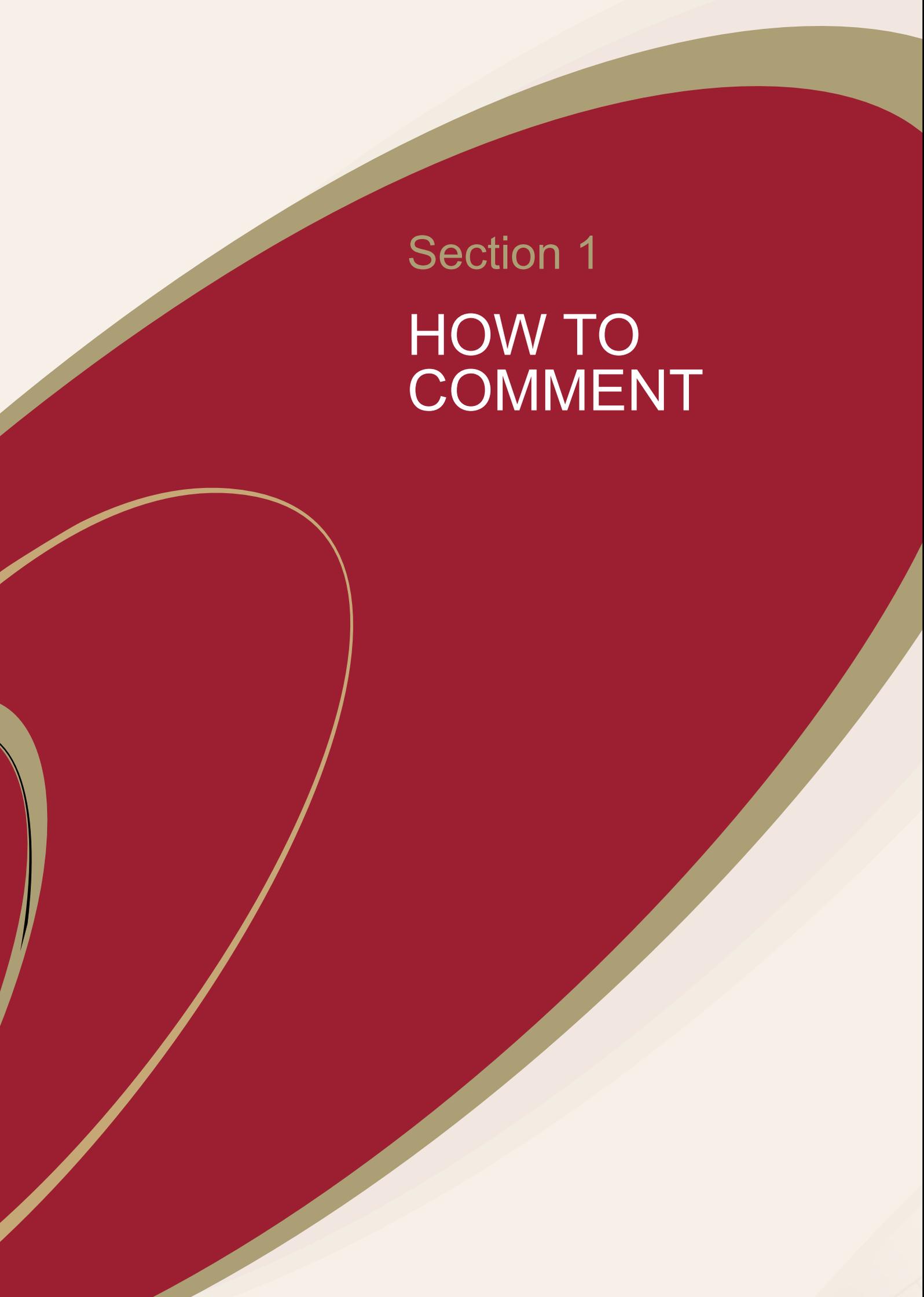
The Board considered three options before resolving that the appropriate measure to be introduced would be MAFR, with the possibility, in certain circumstances, to implement MAFR in conjunction with JA. MAT and JA were not considered adequate, on their own, or effective enough to respond to the potential risks presented by the research.

While the Board must consider the impact of its decisions on entities and the profession, its ultimate responsibility is to protect the investing public, and to contribute to ensuring a reliable financial market which will generate confidence and promote investment and growth.

The IRBA is committed to deliver on its statutory mandate, while recognising its responsibility to be responsive to its stakeholders. It is in this spirit that the Board appreciates your comments and inputs on the new requirements to strengthen auditor independence.

**Rene Kenosi (CA) SA**  
Chairman

2 <https://www.irba.co.za/upload/IRBA%20Strategic%20Plan%202016%20to%202021.pdf>

The background features a large, dark red, curved shape that resembles a stylized letter 'C' or a partial circle. This shape is set against a light cream or off-white background. The red shape has a thin, olive-green border. Inside the red shape, the text is centered. There is also a thin, olive-green line that curves around the left side of the red shape, partially overlapping it.

Section 1

# HOW TO COMMENT

## GUIDELINES TO COMMENT

The IRBA seeks comments from all stakeholders on this consultation paper on MAFR.

In particular, it is seeking views on whether the requirement for MAFR is clear and comprehensive, and also on how best it should be implemented to accomplish effectively the primary objective of strengthening auditor independence to enhance audit quality.

The IRBA considers the development of this requirement to be in the public interest as it aims to improve the protection of the investing public from potential audit failures that might result in substantial financial losses for investors.

Furthermore, in the interest of supporting current trends for investor transparency, and enhanced audit quality, it agrees that public interest companies and their independent external audit firms should be comfortable with the requirement to change audit firms from time to time, as prescribed by the Board, to ensure that there is no threat, actual or perceived, to independence, which may impair audit quality.

The consultation paper describes a number of variables around auditor independence and perceived lack of independence that might damage investor confidence in the veracity of audit opinions on financial statements of public interest companies and provides solutions through the proposed requirement to mitigate the risks that arise from the threats to independence. The consultation paper should be read in conjunction with the accompanying research in relevant sections.

The IRBA invites stakeholders, including investors and audit committees, to consider the best manner to implement MAFR to obtain the maximum public and investor interest benefits in line with the objective outlined above.

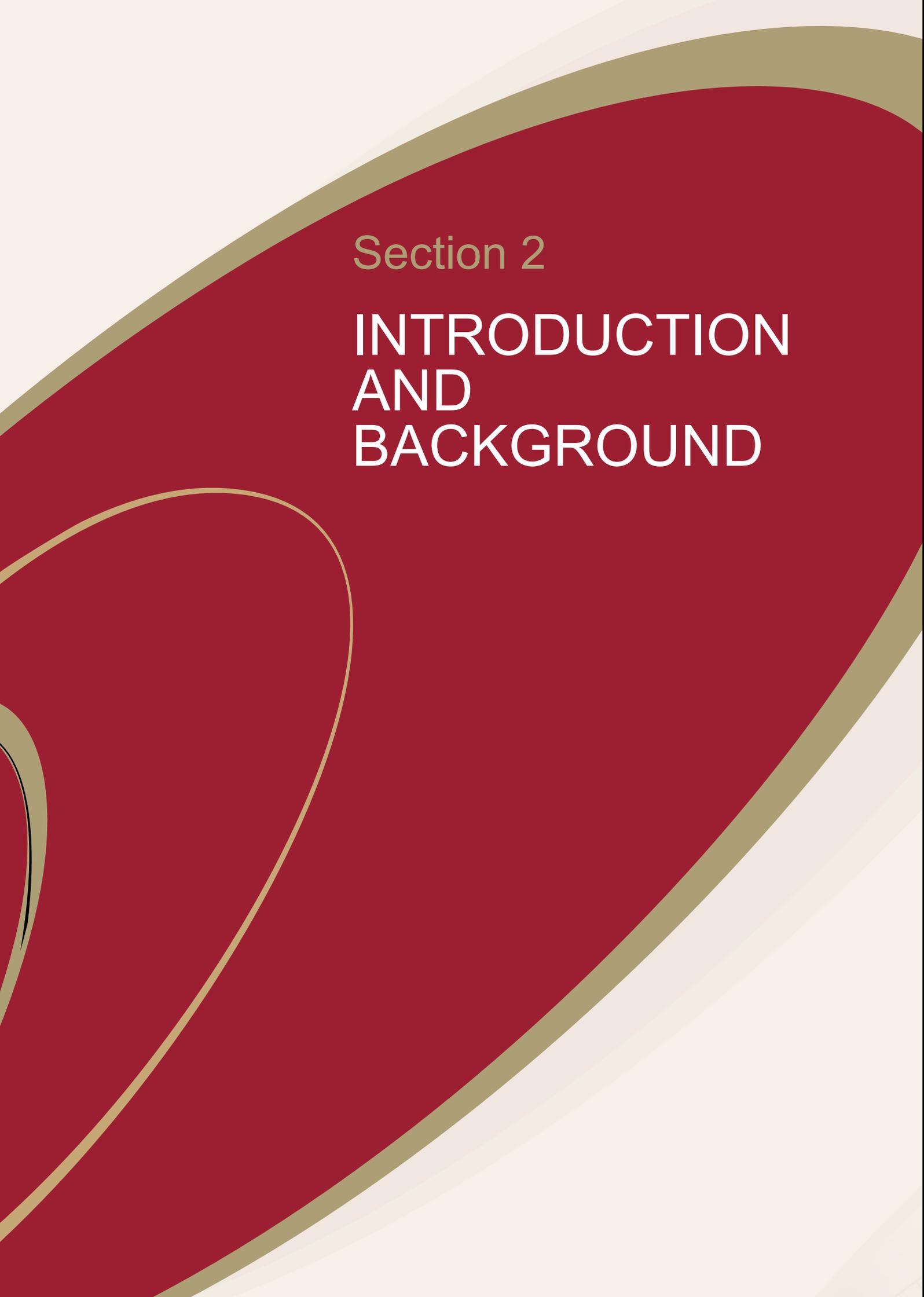
While the primary responsibility for performing quality audits rests with auditors, maximum audit quality is achieved in an environment where the audit committee is clear about its responsibilities and is enabled to work independently from the management of the company. At each stage of the audit process there must be provision for independence to ensure a healthy challenge between those charged with governance and those being governed.

In developing these requirements, the IRBA has identified, from a variety of differing viewpoints, depending on the interest of the stakeholder, what it considers to be an adequate middle ground that should satisfy the need for the protection of the investing public while also being practical for companies and audit firms to implement.

The IRBA welcomes views on the practical implementation of the requirement from the following categories of I&APs:

- Audit Firms
- Listed Companies
- Audit Committees
- Investors / Shareholders
- Regulators
- CFOs.

The deadline for submissions is **20 January 2017**. Please refer to the Notice of Request for Comments on page 1.

The background of the page is a light cream color. A large, abstract shape in a deep red color dominates the right and bottom portions of the page. This red shape is bordered by a thin, olive-green line. On the left side, there are several overlapping, curved shapes in shades of olive green and cream, creating a layered, organic effect. The text is positioned in the upper right area of the red shape.

Section 2

**INTRODUCTION  
AND  
BACKGROUND**

## 2.1. MANDATE AND STRATEGY OF THE IRBA

The IRBA was established on 1 April 2006 in terms of Section 3 of the Auditing Profession Act, Act No. 26 of 2005 (the Act), which replaced its predecessor body, the Public Accountants' and Auditors' Board, established in 1951. The objectives, as set out in Section 2 of the Act, are:

- To provide for the establishment of an Independent Regulatory Board for Auditors.
- To protect the public in the Republic by regulating audits performed by Registered Auditors.
- To improve the development and maintenance of internationally comparable ethics standards and auditing standards for auditors that promote investment and as a consequence employment in South Africa.
- To set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession.
- To provide for procedures for disciplinary action in respect of improper conduct.

The strategic focus of the IRBA is 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 (RAs) deliver services of the highest quality and adhere to the highest ethics standards. In line with the legislative mandate of the IRBA, its objectives are therefore to create the framework and principles that contribute to the protection of the public which relies on the services of RAs. Furthermore, the IRBA strives to create an enabling environment that allows audit firms to grow and contribute to the protection of the public. It also issues a Code of Professional Conduct for auditors which addresses, inter alia, the independence of auditors from their clients.

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.

The recommendations in the ROSC, together with other strategic developments, support the IRBA's Four Pillar Strategy.

This consultation paper addresses the pillar of independence.

## 2.2. BACKGROUND

The World Economic Forum's ranking of South Africa as number 1 in the world for its audit and reporting standards for seven consecutive years confirms the IRBA's recognition as a world-class standard setter and regulator.

Furthermore, the representation and participation by the IRBA in international forums such as the International Forum of Independent Audit Regulators (IFIAR), the International Auditing and Assurance Standards Board (IAASB) and the International Accounting Education Standards Board (IAESB), among others, ensures that the IRBA stays abreast of issues affecting the profession globally in order to evaluate and assess its relevance and impact on the South African environment, and develop appropriate responses.

The IRBA's representation on these bodies also provides it with the opportunity to influence international developments.

It therefore becomes crucial for the IRBA to ensure that the local profession continues to be recognised internationally, which in turn creates the required confidence in our financial markets and generates investment. It is in the context of ensuring that the IRBA contributes meaningfully to these conversations that this initiative commenced. The initiative, in particular, responds to the following concerns which have challenged governments and regulators globally since the financial crisis:

- Events that continue to shape regulatory reforms
- Global developments, and
- Risk of failure of one of the major audit firms.

*“If we never ask for change, we will change nothing. The IRBA has a responsibility to respond to market concerns, whether real or perceived, and takes its role to protect the public interest seriously. The resistance is fierce and covert, yet any measures to strengthen auditors’ independence should be welcomed by those charged with governance.”*

- Abel Dlamini, Deputy Chairman

### **2.2.1. Events that continue to shape regulatory reforms**

High-profile cases associated with Enron, WorldCom, Parmalat, Tyco International, Royal Dutch Shell, Siemens, (Ashwin 2015: 31) and locally with corporations such as Leisurennet, Randgold and Regal Bank have made auditors a focal point for governments and oversight structures. Coupled with the earlier comment that investors and the public are also demanding more information and transparency and have become more aware of their rights to be protected, these developments are resulting in global role players revisiting measures to address concerns around the independence of auditors.

### **2.2.2. Global developments**

The European Parliament and the Council of the European Union issued in April 2014 *‘Directive 2014/56/EU amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts as well as Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities’*. Member States were required to implement the new requirements by 17 June 2016, when the Directive and the Regulation became applicable (EuropeanUnion, 2014).

The objectives of the Regulation as per paragraph 34 are *“clarifying and better defining the role of statutory audit regarding public-interest entities, improving the information that the statutory auditor or the audit firm provides to the audited entity, investors and other stakeholders, improving*

*the communication channels between auditors and supervisors of public-interest entities, preventing any conflict of interest arising from the provision of non-audit services to public-interest entities, mitigating the risk of any potential conflict of interest due to the existing system whereby the auditee selects and pays the auditor or the familiarity threat, facilitating the switching of, and the choice of a statutory auditor or an audit firm to public-interest entities, broadening the choice of statutory auditors and audit firms for public-interest entities and improving the effectiveness, independence and consistency of the regulation and oversight of statutory auditors and audit firms providing statutory audits to public-interest entities including as regards cooperation at Union level”* (EuropeanUnion, 2014).

The IRBA must respond to the current global developments and recent legislative measures that have been implemented in respect of strengthening auditor independence.

**Refer to Table 1 for a list of countries that have implemented MAFR to strengthen auditor independence.**

### **2.2.3. Risk of failure of one of the major audit firms**

In 2016 alone all the “Big 4” firms globally have been fined, sued or settled court cases with amounts running up to billions of dollars.

Given the global concentration of listed companies audited by the “Big 4”, any failure of a firm, as happened with Arthur Andersen, will necessarily permeate other economies and jurisdictions, given the global presence of multinational

**Table 1: Countries that implemented MAFR**

| NAME OF COUNTRY          | MAFR ENFORCEMENT DATE    | TERMS OF ROTATION   |
|--------------------------|--------------------------|---|
| Brazil                   | 1999                     | Five (5) years' mandatory firm rotation. However, since 2011 an amendment to the requirement provided that if the audited company has a Statutory Audit Committee, then the rotation of the audit firm may be extended to 10 years.   |
| China                    | 2010                     | Five (5) years' mandatory firm rotation and every three years the audit must undergo a tendering process.   |
| European Union Countries | 2016 (June)              | Ten (10) years' mandatory rotation, which can be extended to 20 years if the audit undergoes a public tendering process. Furthermore, it can be extended to 24 years after the initial 10 years, if joint auditors are appointed.   |
| India                    | 2013                     | Ten (10) years' mandatory firm rotation, made up of two five-year terms.  |
| Netherlands              | 2012 - Effective in 2016 | Eight (8) years' Mandatory Audit Firm Rotation and restricts non-audit services. After rotation, there is a two-year cooling-off period before the firm can be hired again. Furthermore, this rule will be implemented retrospectively. The effective date for mandatory firm rotation in the Netherlands is 1 January 2016. Companies that will have had the same auditor for eight consecutive years on that date will need to change firms before that date. |
| Korea                    | 2006                     | Seven (7) years' mandatory firm rotation.   |
| Turkey                   | 2014                     | Seven (7) years' Mandatory Audit Firm Rotation.   |
| Italy                    | 1974                     | Nine (9) years' mandatory firm rotation and three years' auditor (Incumbent) rotation. However, the individual terms may be renewed every three years and be extended up to a maximum firm tenure of nine years.  |
| Mauritius                | 2016                     | The national regulator announced that it will introduce a Mandatory Audit Firm Rotation policy for seven years for all listed companies.  |

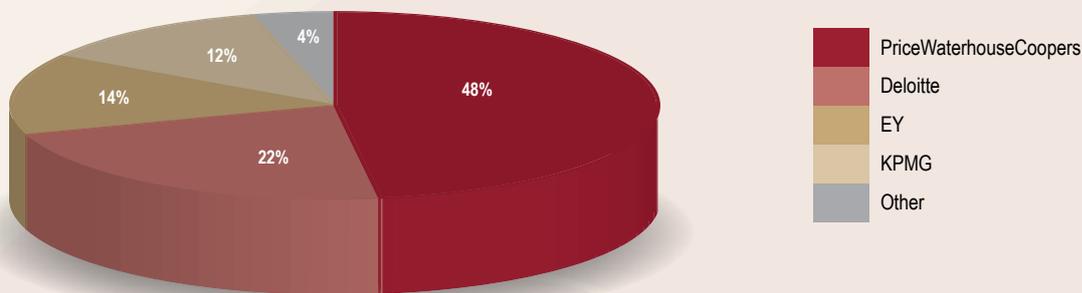


Figure 1: Market concentration of listed companies in South Africa\*

corporations. According to the Financial Times (London) “only two FTSE 100 companies are not audited by the Big Four: Sports Direct, which retained the services of Grant Thornton after earning promotion to the FTSE 100 in 2013, and Randgold Resources, which has used BDO since 2007.”<sup>3</sup>

The IRBA concerns in this regard are not unique; Financial Times (London) quoted the Institute of Chartered Accountants England and Wales (ICAEW) as follows: “At the end of 2014, the Big Four audited 95 per cent of the world’s 500 largest companies.”<sup>4</sup>

With these levels of concentration, both globally and locally, the loss of one auditing firm would have a serious impact on many of the world’s largest and most complex listed entities.

Within a South African context, these concerns become real since audit firms that are not members of the “Big 4” networks may not receive opportunities to acquire the required experience to replace any of the global networks should there be another audit failure. Global companies that are large, complex and often in specialised industries are audited primarily by one of the “Big 4”. The potential collapse of one of these firms could therefore possibly disrupt stability in the financial market and damage investor confidence.

In the National Treasury Policy Document, titled *A Safer Financial Sector to serve South Africa Better* (2011)<sup>5</sup>, proposed reforms include strengthening regulatory

frameworks. At a policy level government has said “South Africa will adopt a system-wide approach to financial stability and regulation, bolster the supervision of individual institutions and ensure better coordination and information sharing.” In addition, it has said “While financial stability lies with the Reserve Bank, other regulators must also take into account the financial stability implications of their activities, and assess all systemic risks potentially arising from any institutions that they may be supervising.”

From this perspective, the current landscape is a major concern to the IRBA as the regulator of the audit industry.

**Refer to Figure 1 for JSE market concentration.**

### 2.3. SCOPE

The scope of the initiative to strengthen auditor independence initially considered the following three measures (while providing the opportunity for further measures to be suggested):

- Mandatory Audit Firm Rotation (MAFR)
- Mandatory Audit Tendering (MAT), and
- Joint Audits (JA).

The various concerns and issues raised during the stakeholder dialogue sessions in the initial consultation phase directed the research and provided views and perspectives for consideration and exploration.

3 <https://www.ft.com/content/a5ba734a-b577-11e5-8358-9a82b43f6b2f>

4 <https://www.ft.com/content/a5ba734a-b577-11e5-8358-9a82b43f6b2f>

5 <http://www.treasury.gov.za/twinpeaks/20131211%20-%20Item%202%20A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

\* Concentration measured by share of market capitalisation on the Johannesburg Stock Exchange.

## 2.4. CURRENT MEASURES IN PLACE

### 2.4.1. The IRBA Code of Professional Conduct

In terms of Sections 4 and 21 of the Auditing Profession Act, 2005 (Act No. 26 of 2005), the IRBA published the Code of Professional Conduct for Registered Auditors (the Code) to establish the fundamental principles of ethical conduct and provide a conceptual framework that assists RAs in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. In terms of Section 290.4 of the Code, with regards to audit engagements, it is in the public interest, and therefore, required by the Code, that members of audit teams, firms and network firms shall be independent of audit clients.

The IRBA is obliged further by Section 48 to consider and, where it appears justified, investigate and deal with any complaint, charge or allegation of improper conduct against a RA that may be laid before it, and is empowered to impose any of the prescribed sanctions set out in Section 51(3) and Disciplinary Rules 8.1 and 8.2, in respect of any improper conduct. The acts or omissions included in the Code are not intended to be a complete list of acts or omissions that might constitute improper conduct on the part of a RA and are punishable in accordance with the provisions of the Act and Disciplinary Rules.

The Code of Professional Conduct is available on the IRBA website.<sup>6</sup>

### 2.4.2. Mandatory audit partner rotation

In South Africa, one of the current legislated measures to maintain auditor independence is that the individual engagement partner must be rotated.

In terms of Section 92 of the Companies Act, Act 71 of 2008, which was signed by the President on 8 April 2009 and gazetted in Gazette No. 32121 (Notice No. 421), the same individual (engagement partner) may not serve as the auditor or designated auditor of a company for more than five consecutive financial years, while the IRBA Code of Professional Conduct (referred to above) requires the audit partner to be rotated every seven years.

### 2.4.3. Prohibition of non-audit services

Section 90 of the Companies Act contains provisions applicable to an auditor engaged to perform a statutory audit of a company or a Close Corporation (CC). These provisions must be complied with in addition to those of the Code.

In summary, Section 90(2) prohibits an auditor to provide audit and certain specified services to the same client. In order to clarify whether the prohibitions in Section 90(2) (b) apply to the firm appointed as the auditor or only to the individual Registered Auditor appointed as the designated auditor, the SAICA and IRBA Boards jointly agreed in 2012 to approach Senior Counsel for an opinion.

The Senior Counsel opinion stated that the provisions of Section 90(2)(b) regarding the disqualification to be appointed as auditor in respect of audit and certain non-audit services apply to both the firm appointed as auditor and the individual RA.

### 2.4.4. Disclosure of audit tenure rule

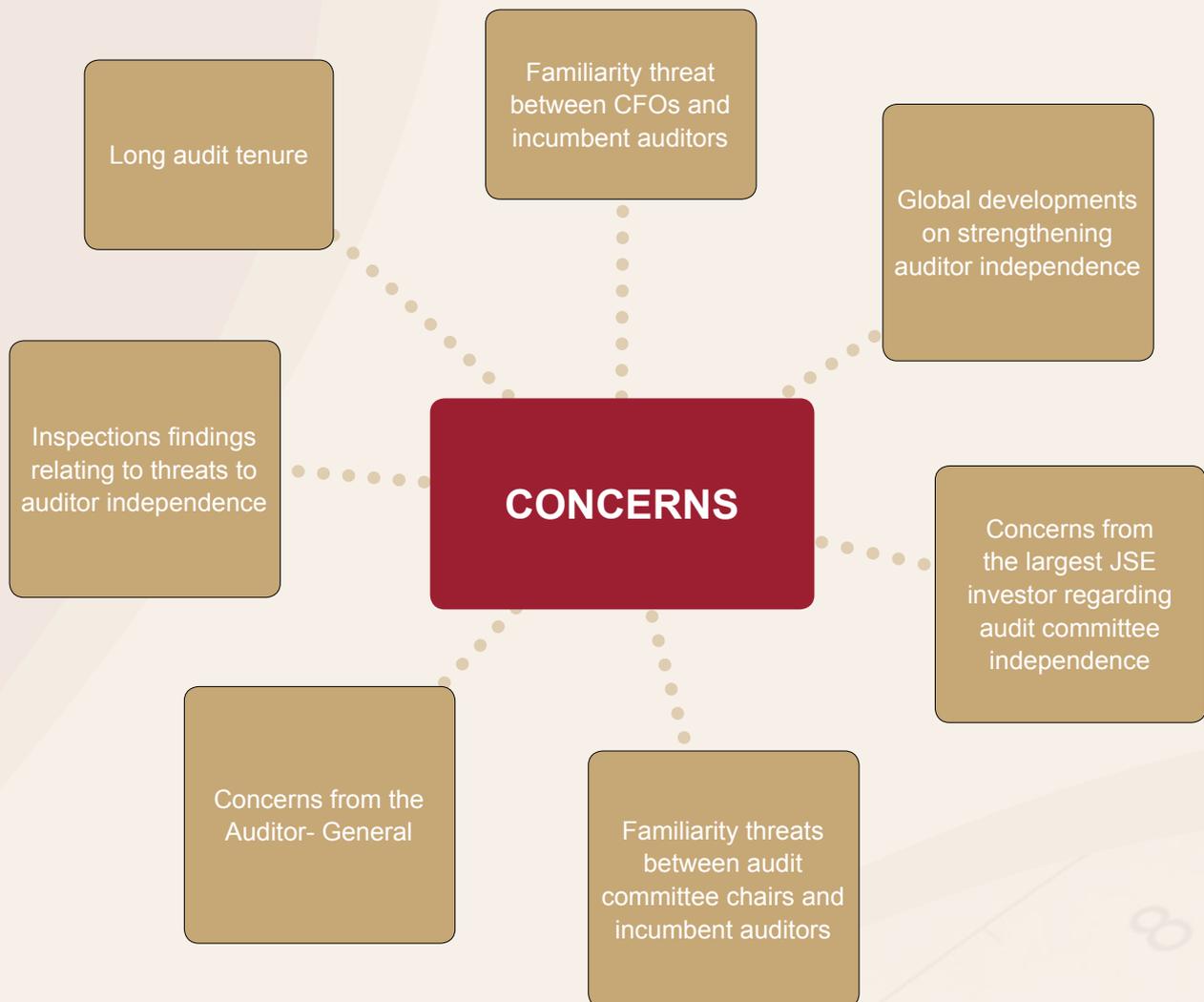
Long audit tenure by the firm as well as by members of the engagement team may also create potential threats to independence. The threat is particularly prevalent where the same personnel are used on an audit engagement over a long period.

To highlight this threat associated with long audit firm tenure, the IRBA, 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 No. 39475 of 4 December 2015 that makes it mandatory that all auditors' reports on Annual Financial Statements of all public companies shall disclose the number of years that the audit firm / sole practitioner has been the auditor of the entity (audit tenure). The Board made the decision to require the mandatory disclosure of audit tenure in the context of strengthening auditor independence and transparency, which is consistent with measures implemented in other jurisdictions.

<sup>6</sup> [https://www.irba.co.za/upload/Rules%20and%20IRBA%20Code%20\(Revised%202014\)%20Issued%2017%20March%202014.pdf](https://www.irba.co.za/upload/Rules%20and%20IRBA%20Code%20(Revised%202014)%20Issued%2017%20March%202014.pdf)

Section 3

**CONCERNS  
WITH THE  
INDEPENDENCE  
OF AUDITORS**



This section will cover the following threats and concerns relating to the independence of auditors:

- Familiarity threat between CFOs and incumbent auditors
- Familiarity threat between audit committee chairs and incumbent auditors
- Inspection findings relating to ethical requirements
- Long audit tenure of audit firms
- PIC concerns regarding the independence of audit committee members, and
- Audits taken back by the Auditor-General from other audit firms.

### 3.1. FAMILIARITY THREATS BETWEEN CFOS AND INCUMBENT AUDITORS

3.1.1. Independence serves as the cornerstone of the auditing profession and remains front of mind for the IRBA. The independence of auditors is a relevant matter in evaluating the reliability of the auditor's report.

Independence is defined in the IRBA Code of Professional Conduct (the Code) as comprising two elements, independence of mind and independence in appearance.

- Independence of mind is the state of mind that permits the expression of a conclusion without being affected by influences that compromise

professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

- Independence in appearance is the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's integrity, objectivity or professional scepticism has been compromised. (IRBA)

3.1.2. Threats to independence arise when there is a close relationship between the external auditor and the management of a client.

The Chief Financial Officer (CFO) or Financial Director (FD) of a client is usually in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the audit firm will express an opinion.

A threat to independence may arise when the CFO or FD of a company has previously been employed by the firm that is currently appointed as the auditor of that company. A study was performed to determine the percentage of companies listed on the Johannesburg Stock Exchange (JSE) whose CFO/FD was previously employed by the audit firm appointed as the external auditors of that company. The results of the study were that the CFOs/FDs of 18% of the JSE Top 40 listed companies were previously employed by the audit firm that is currently appointed as external auditor to that company, therefore creating a threat, real or perceived, to the independence of the auditor appointed.

3.1.3. While these findings suggest a threat to independence, the significance of the threat may be influenced by a number of factors, including the CFO's duration of employment at the audit firm, the level of seniority held by the CFO at the audit firm, as well as the length of time that has passed since the CFO left the audit firm prior to joining the company.

## 3.2. FAMILIARITY THREAT BETWEEN AUDIT COMMITTEE CHAIRS AND INCUMBENT AUDITORS

3.2.1. Another situation that creates a threat to independence is where a former partner or member of the audit team joins the board of an audit client, for example as a member of the audit committee.

A study was performed to determine the percentage of companies listed on the JSE whose audit committee chairman was previously employed by the audit firm appointed as the external auditors of that company. A positive match was defined as a company whose audit committee chairman was previously employed by the audit firm currently appointed as the external auditor of a company.

The results of the study found that 25% of the JSE Top 40 listed companies have appointed as chairman of their audit committee members individuals who were previously employed by the audit firm that is currently appointed as external auditor to that company, therefore creating a threat, real or perceived, to the independence of the auditor appointed.

3.2.2. While these findings suggest a threat to independence, the significance of the threat may be influenced by a number of factors, including the audit chair's duration of employment at the audit firm, level of seniority at the audit firm, as well as the length of time that has passed since the audit chair left the audit firm prior to joining the company.

## 3.3. INSPECTION FINDINGS RELATING TO ETHICAL REQUIREMENTS

3.3.1. Concerns regarding the independence of auditors have also increased following results of inspections of audit firms as conducted by the IRBA.

Inspections are performed by the IRBA in terms of Section 47 of the Auditing Profession Act.

3.3.2. Results of the 2015 inspections indicate significant deficiencies in 43% of firms inspected<sup>7</sup>.

<sup>7</sup> <https://www.irba.co.za/upload/Public-Inspections-Report-2015.pdf>

The root cause identified for a number of these findings was the failure to strengthen and maintain independence as an underlying principle for high audit quality.

- 3.3.3. These findings are in line with the International Forum of Independent Audit Regulators (IFIAR) survey.

**Refer to Table 2 for examples from the IRBA Inspections Report.**

### 3.4. LONG AUDIT TENURE OF AUDIT FIRMS

- 3.4.1. Long audit tenure by the firms as well as by members of the engagement team may also create potential threats, real or perceived, to independence and pose a risk to audit quality.
- 3.4.2. To address the threats associated with long audit firm tenure, the IRBA, 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 No 39475 of 4 December 2015 which makes it mandatory that all auditor's reports on Annual Financial Statements of all public companies shall disclose the number of years which the audit firm/sole practitioner has been the auditor of the entity (audit tenure).
- 3.4.3. A study was performed to determine the audit tenure being disclosed in published audit reports of companies listed on the JSE since the commencement of this requirement.

**Refer to Table 3 for some periods of audit tenure.**

### 3.5. PUBLIC INVESTMENT CORPORATION CONCERNS REGARDING INDEPENDENCE OF AUDIT COMMITTEE MEMBERS

- 3.5.1. Concerns regarding the independence of audit committee chairmen have also been raised recently by stakeholders such as the Public Investment Corporation (PIC).

3.5.2. The PIC is the largest investor in the JSE Top 40 listed companies and has approximately 12.5% of the listed companies' market capitalisation. The mandate of the IRBA is to protect the investing public and as such concerns from a major investor such as the PIC must be taken seriously.

3.5.3. The PIC also stated that in the past and on a continuous basis, it had voted against the reappointment of auditors where the said audit firm had been auditing an entity for more than nine years.

3.5.4. The PIC believes that after nine years there is a familiarity threat, real or perceived, which may impair auditor independence.

### 3.6. AUDITS TAKEN BACK BY THE AUDITOR-GENERAL SOUTH AFRICA (AGSA) FROM OTHER AUDIT FIRMS

3.6.1. The Auditor-General of South Africa (AGSA) initiated a process of taking back some of the schedule 4(3) State Owned Entities (SOEs) which it previously opted not to audit.

3.6.2. The AGSA raised concerns about the ethical conduct and independence of some audit firms from which it retracted some of these entities' audits.

3.6.3. The AGSA qualified some of these audit reports and in some instances issued a disclaimer of opinion for these retracted entities, while the previous auditors issued unmodified opinions.

3.6.4. These audit report modifications were in most instances as a result of errors and misstatements that existed in the prior years, but which the preceding audit firm did not report.

3.6.5. It should be noted that the AGSA complies with the same auditing standards applied by private sector auditors, i.e., the International Standards on Auditing (ISA) and therefore there is no reason that they should come to a different opinion, unless there has been specific circumstances which resulted in a modification.

**Table 2: Extract from the IRBA Inspections Report illustrating findings related to independence**

|  |
|--|
| <ul style="list-style-type: none"> <li>Numerous contraventions of Section 90(2) of the Companies Act were identified, especially where firms have implemented inappropriate network structures or practices to continue providing prohibited services for their audit clients.</li> <li>An audit report was signed off by a partner for the 10th consecutive time with no documented consideration of ethical requirements.</li> <li>There were no formal policies in place for monitoring identified business relationships.</li> <li>The firm's annual independence declarations did not include confirmation of financial and other beneficial interests by the partners' and staff's immediate family members.</li> </ul> <p>Extract from the Inspections Report</p> |
|--|

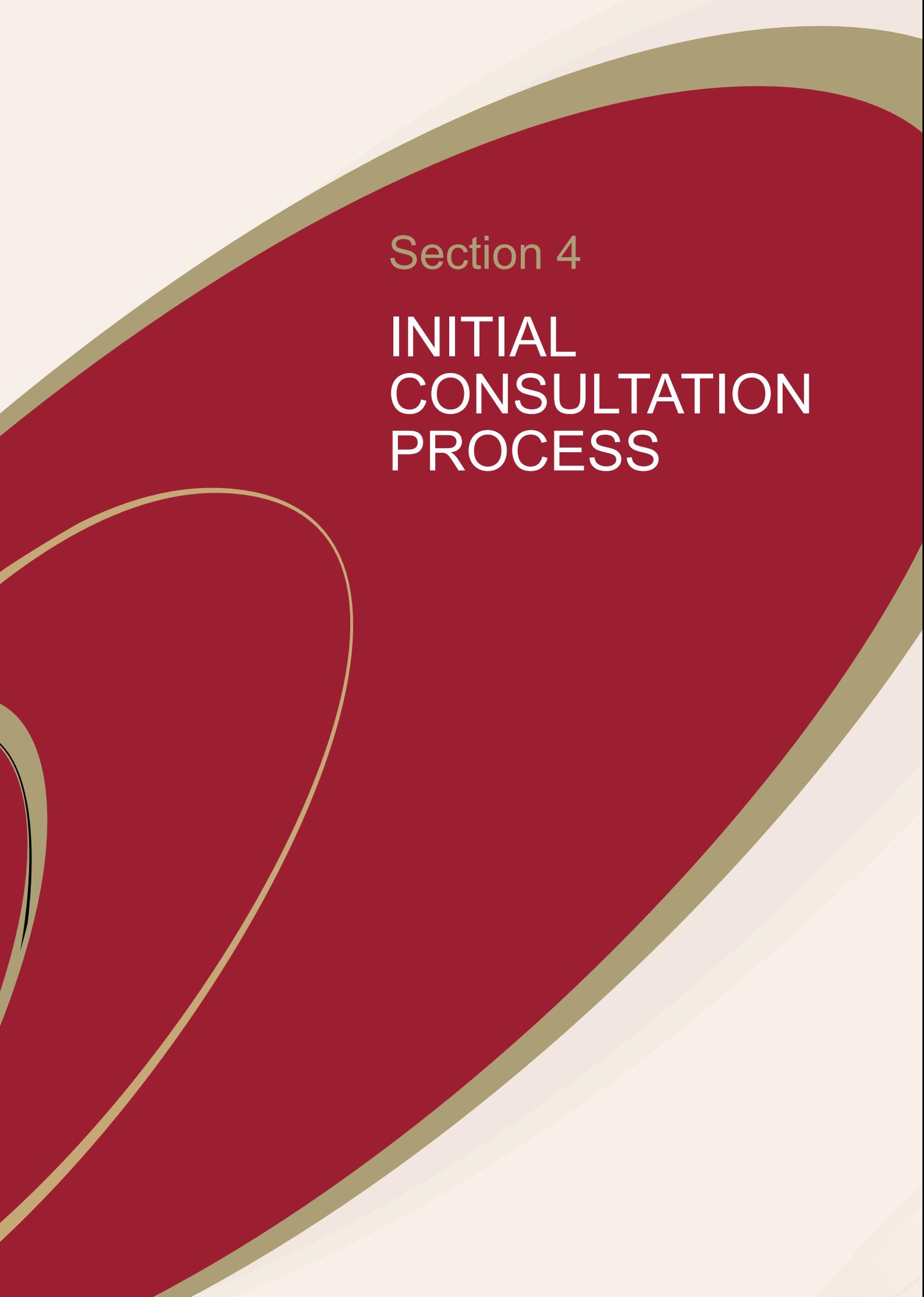
**Table 3: Results from the audit tenure research updated to include results reported to October 2016**

| NAME OF COMPANY                          | AUDITOR             | AUDIT TENURE |
|--|---------------------|--------------|
| <b>AUDIT TENURE EXCEEDING 20 YEARS</b>   |                     |              |
| AECI Limited                             | KPMG                | 91 years     |
| AngloGold Ashanti Limited                | EY                  | 72 years     |
| Alexander Forbes Group Limited           | PwC                 | 20 years     |
| Astrapak Limited                         | Deloitte            | 21 years     |
| Aveng Limited                            | EY                  | 30 years     |
| Basil Read Limited                       | PwC                 | 29 years     |
| Bell Equipment Limited                   | Deloitte            | 22 years     |
| Brimstone Investment Corporation Limited | Deloitte            | 20 years     |
| Combined Motor Holdings Limited          | PwC                 | 40 years     |
| Group Five Limited                       | PwC                 | 46 years     |
| Hulamin Limited                          | PwC                 | 66 years     |
| Illovo Sugar Limited                     | Deloitte            | 39 years     |
| JSE Limited                              | KPMG                | 35 years     |
| Lewis Group Limited                      | PwC                 | 25 years     |
| Mr Price Group Limited                   | EY                  | 34 years     |
| MTN Group Limited                        | PwC                 | 22 years     |
|  | SizweNtsalubaGobodo | 13 years     |
| Mondi Limited                            | Deloitte            | 48 years     |
| Murray & Roberts Holdings Limited        | Deloitte            | 114 years    |
| Naspers Limited                          | PwC                 | 101 years    |
| Nedbank Limited                          | Deloitte & KPMG     | 42 years     |
| PSG Group Limited                        | PwC                 | 20 years     |
| Santam Limited                           | PwC                 | 87 years     |
| Standard Bank Group Limited              | KPMG & PWC          | 53 years     |
| Sun International Limited                | PwC                 | 32 years     |
| Shoprite Holdings Limited                | PwC                 | 34 years     |
| The Foschini Group Limited               | KPMG                | 45 years     |
| Tongaat Hulett Limited                   | Deloitte            | 78 years     |
| Tsogo Sun Holdings Limited               | PwC                 | 47 years     |
| Wilson Bayly Holmes-Ovcon Limited        | BDO                 | 30 years     |
| Woolworths Holdings Limited              | EY                  | 84 years     |

**Table 3: Results from the audit tenure research updated to include results reported to October 2016 (continued)**

| AUDIT TENURE BETWEEN 10 BUT NOT MORE THAN 19 YEARS |                |          |
|--|----------------|----------|
| ABSA Bank Limited                                  | PwC            | 11 years |
| ADvTECH Limited                                    | Deloitte       | 14 years |
| Anglo American Platinum Limited                    | Deloitte       | 18 years |
| ArcelorMittal South Africa Limited                 | Deloitte       | 11 years |
| Barclays Africa Group Limited                      | PwC            | 11 years |
| Capitec Bank Holdings Limited                      | PwC            | 15 years |
| Grindrod Limited                                   | Deloitte       | 12 years |
| Growthpoint Properties Limited                     | KPMG           | 15 years |
| FirstRand Limited                                  | PwC            | 18 years |
|  | Deloitte       | 6 years  |
| Imperial Holdings Limited                          | Deloitte       | 16 years |
| Kaydav Group Limited                               | Grant Thornton | 11 years |
| Merafe Resources Limited                           | KPMG           | 12 years |
| Metair Investments Limited                         | PwC            | 18 years |
| Mpact Limited                                      | Deloitte       | 12 years |
| Sabvest Limited                                    | Deloitte       | 15 years |
| Sanlam Limited                                     | EY             | 18 years |
| Stefanutti Stocks Holdings Limited                 | Mazars         | 10 years |
| Telkom SOC Limited                                 | EY             | 18 years |
| Wesizwe Platinum Limited                           | KPMG           | 12 years |
| Zeder Investment Limited                           | PwC            | 10 years |
|  |                |          |
| AUDIT TENURE BELOW 10 YEARS                        |                |          |
| Ádcock Ingram Holdings Limited                     | EY             | 8 years  |
| African Oxygen Limited                             | KPMG           | 9 years  |
| Anchor Group Limited                               | Grant Thornton | 2 years  |
| Andulela Investment Holdings Limited               | BDO            | 6 years  |
| Calgro M3 Holdings Limited                         | PwC            | 9 years  |
| Curro Holdings Limited                             | Deloitte       | 5 years  |
| Exxaro Resources Limited                           | PwC            | 5 years  |
| Gold Fields Limited                                | KPMG           | 6 years  |
| Howden Africa Holdings Limited                     | EY             | 4 years  |
| Massmart Holdings Limited                          | EY             | 4 years  |
| Master Drilling Group Limited                      | Grant Thornton | 4 years  |
| Royal Bafokeng Platinum Limited                    | PwC            | 7 years  |
| Randgold & Exploration Company Limited             | KPMG           | 9 years  |

1. Sources: <https://www.jse.co.za/current-companies/companies-and-financial-instruments>
2. <http://www.sharedata.co.za/v2/scripts/Shares.aspx>
3. Company's 2016 Annual Reports

The background of the page features abstract, flowing shapes in a deep red and an olive green color. The red shapes are more prominent, creating a sense of movement and depth. The text is centered within the red area.

Section 4

**INITIAL  
CONSULTATION  
PROCESS**

#### 4.1. PROCESS

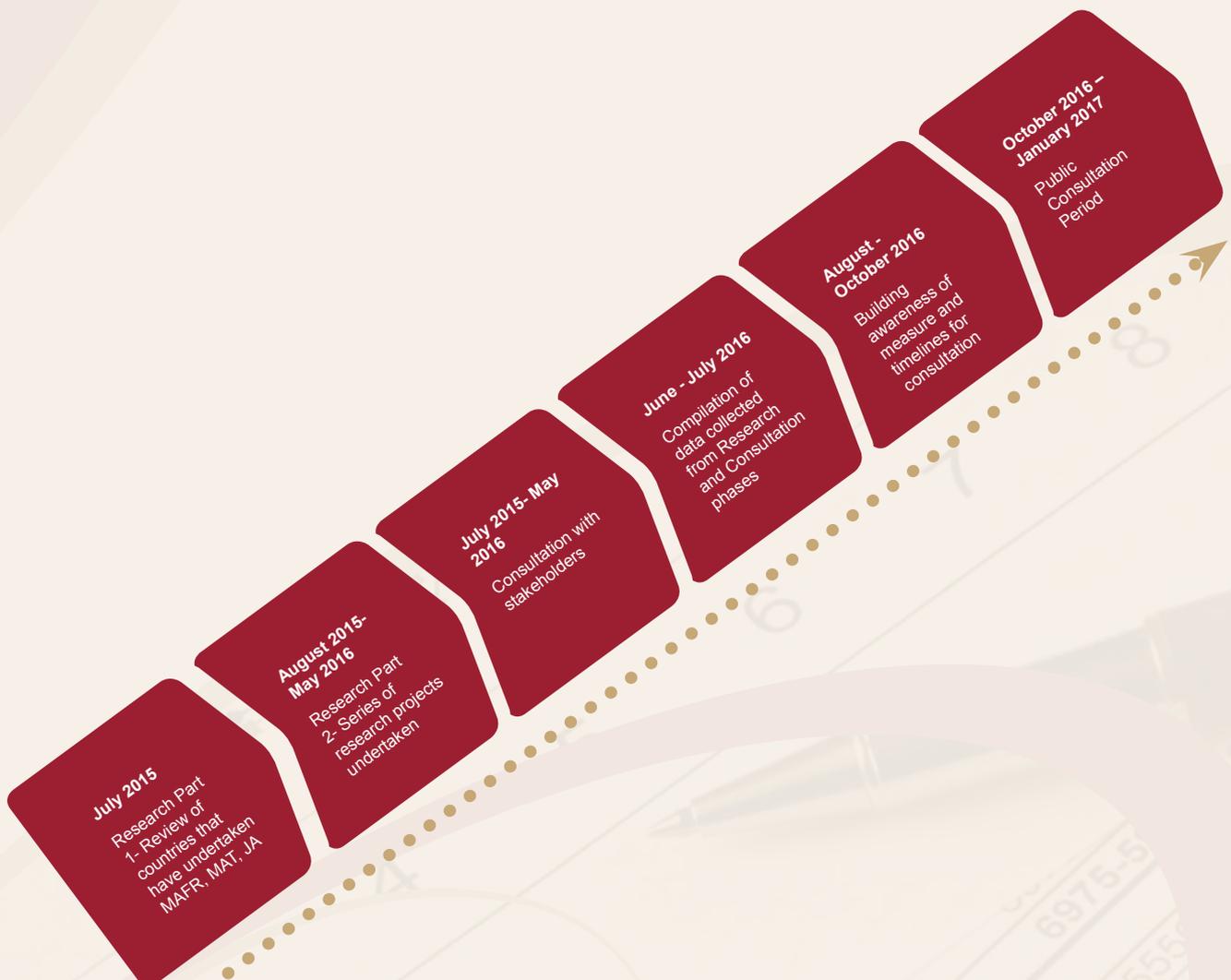
**Phase 1 - Research Part 1** - Part 1 of the research comprised an initial exploratory study into countries that have implemented MAFR, MAT or JA. The research findings were presented to the Board at a workshop held in July 2015.

**Phase 2 - Research Part 2** - Part 2 of the research undertook specific research activities as requested by the Board.

**Phase 3 - Consultation** - Phase 3 of the project was the consultation process undertaken to engage in dialogue with a broad range of stakeholders. A list of all stakeholders consulted is included in Section 4.3. The results of this consultation were collated, analysed and presented to the Board to inform its decision.

#### 4.2. TIMEFRAMES

To ensure that the views of those affected by proposed regulations of the IRBA are thoroughly considered a rigorous due process was followed as demonstrated below.



### 4.3. WHO WAS CONSULTED

The IRBA identified key stakeholders in the auditing profession, who were consulted during the process. The purpose of the consultation was to solicit views on the measures that could be implemented to strengthen auditor independence to enhance audit quality and the potential impact that these measures could have on each category of stakeholder. Below is a list of stakeholders that the IRBA engaged with during the process:

- Competition Commission of South Africa
- Ministry of Finance / National Treasury
- Financial Services Board
- South African Institute of Chartered Accountants
- South African Reserve Bank
- ABASA
- 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 South Africa
- Auditor-General of South Africa
- Global assurance leaders of Deloitte, EY, PwC, KPMG, Grant Thornton and BDO
- PwC
- Deloitte
- KPMG
- EY
- BDO
- Grant Thornton
- SizweNtsalubaGobodo
- Nexia SAB&T
- Nolands Inc
- Nkonki
- RSM Betty & Dickson
- Horwath Leveton Boner

The Johannesburg Stock Exchange hosted roundtable discussions on 8-9 June 2016 wherein the IRBA was afforded an opportunity to solicit views and comments from non-executive and executive directors of JSE-listed companies, including:

- FirstRand Limited
- Naspers Limited
- Delta Property Fund Limited
- JSE Limited
- Discovery Limited
- Nedbank Limited
- MMI Holdings Limited
- Murray & Roberts Holdings Limited
- Netcare Limited
- Stefanutti Stocks Holdings Limited
- Liberty Holdings Limited
- African Rainbow Minerals Limited
- Combined Motor Holdings Limited
- Standard Bank Group Limited
- Vukile Property Fund Limited
- Mondi Limited
- AngloGold Ashanti Limited
- Middle East Diamond Resources Limited
- Kumba Iron Ore Limited
- ABSA Bank Limited
- Hyprop Investments Limited
- Imperial Holdings Limited
- Super Group Limited
- Impala Platinum Holdings Limited
- Allied Electronics Corporation Limited
- Mr Price Group Limited
- Sasol Limited
- Wilson Bayly Holmes-Ovcon Limited
- MTN Group Limited
- SA Corporate Real Estate Limited
- Telkom SOC Limited
- Safari Investment Limited
- Barloworld Limited
- Phumelela Gaming & Leisure Limited
- Sanlam Limited

During the initial consultation process, responses were received from 38 respondents:

- Minister of Finance
- Financial Services Board
- SAICA
- South African Reserve Bank
- Association for Savings and Investment South Africa
- African Women Chartered Accountants
- Johannesburg Stock Exchange
- Companies and Intellectual Property Commission
- Public Investment Corporation
- Institute of Directors Southern Africa
- CFO Forum
- Auditor-General of South Africa
- PriceWaterhouseCoopers
- Deloitte
- KPMG
- EY
- Grant Thornton
- Mazars
- BDO
- SizweNtsalubaGobodo
- Nexia SAB&T
- RSM Betty & Dickson
- Nkonki Inc
- Baker Tilly SVG
- Horwath Leveton Boner
- Nolands Inc
- Allied Electronics Corporation Limited
- Woolworths Holdings Limited
- Standard Bank Group Limited
- Mondi Limited
- Naspers Limited
- FirstRand Limited
- Barclays Africa Group Limited
- AngloGold Ashanti Limited
- Super Group Limited
- Vodacom Limited
- Imperial Holdings Limited
- MMI Holdings Limited

Subsequent to the announcement of the decision to implement MAFR, the IRBA received 63 written submissions from JSE-listed companies which outlined transitional arrangements to be considered during this consultation process.

#### 4.4. FEEDBACK FROM STAKEHOLDERS

Responses from stakeholders on whether the proposed measures would achieve the objective of strengthening auditor independence to enhance audit quality were summarised and segmented according to size and the constituencies they represent.

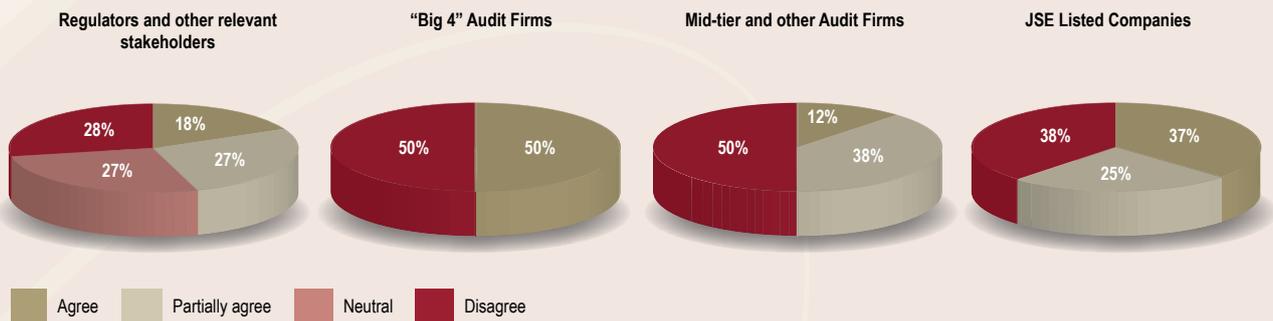


Figure 2: Stakeholder response to Mandatory Audit Tendering

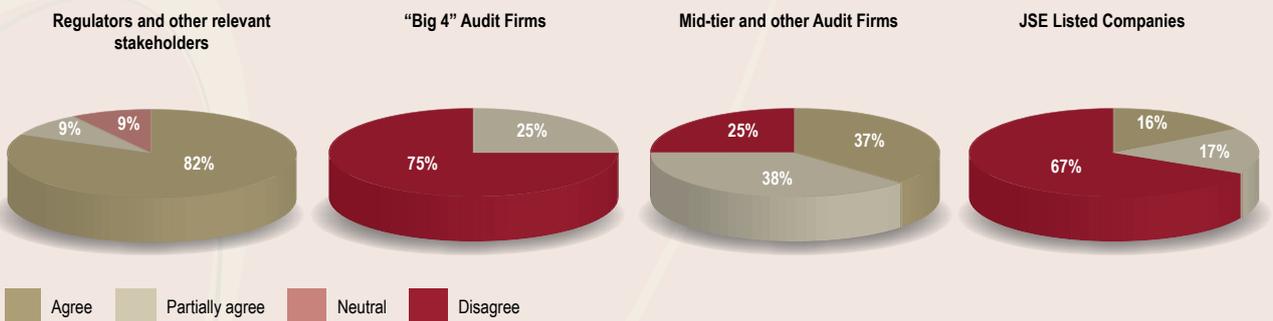


Figure 3: Stakeholder response to Mandatory Audit Firm Rotation

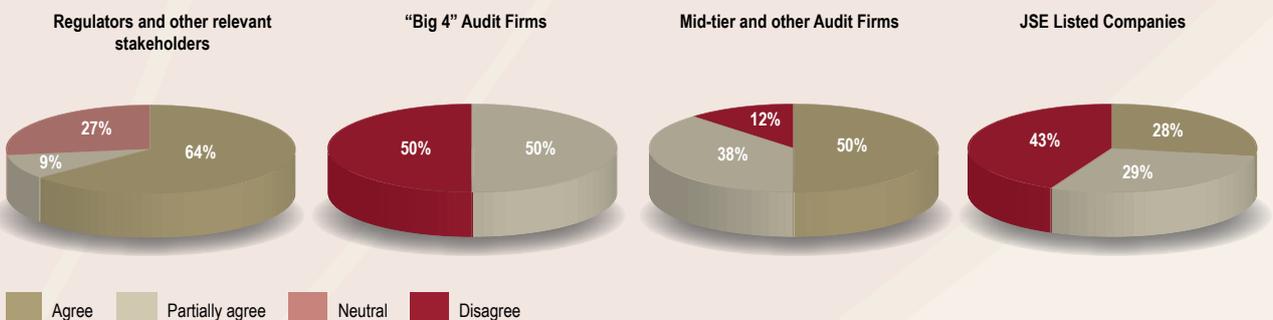


Figure 4: Stakeholder response to Joint Audits

The table below identifies the themes collated from the concerns raised by the stakeholders with regards to all the proposed measures to strengthen auditor independence.

**Table 4: Concerns raised for each measure**

| MANDATORY AUDIT TENDERING                             | MANDATORY AUDIT FIRM ROTATION                         | JOINT AUDITS                                      |
|---|---|---|
| Tender process costs                                  | Switching costs                                       | Cross review costs                                |
| Loss of accumulated knowledge                         | Loss of accumulated knowledge                         | Administration of work allocation                 |
| Lowballing  | Lowballing  | Lack of accountability                            |
| Potential decrease in audit quality                   | Potential decrease in audit quality                   | Different audit methodologies between audit firms |
| Circular rotation among the “Big 4” audit firms       | Circular rotation among the “Big 4” audit firms       |   |
| Undermine audit committees’ right to appoint auditors | Undermine audit committees’ right to appoint auditors |   |
| Reduce competition                                    | Reduce competition                                    |   |
| Reappointment of current audit firm                   |   |   |
| Migration of audit teams between audit firms          |   |   |

## Section 5

# CONSIDERING STAKEHOLDERS' CONCERNS

### 5.1. WHICH OPTION WOULD ENSURE THAT A 'FRESH PAIR OF EYES' FROM A NEW FIRM WOULD LOOK AT THE FINANCIAL STATEMENTS?

The primary consideration of the Board was to weigh which of the options, as a primary solution, would best bring about the application of a 'fresh pair of eyes', from a different audit firm, to enhance auditor independence and break long-standing relationships that could impair independence, whether real or perceived. As MAT could potentially result in the same firm being appointed indefinitely, MAFR was the viable option.

### 5.2. ARE THE CURRENT MEASURES NOT EFFECTIVE OR ENOUGH?

Currently the IRBA Code of Professional Conduct and the Companies Act (in the case of companies) require the rotation of audit partners after seven and five years respectively. However, the IRBA does not consider these provisions to be sufficient since it has 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.

The Board is certain there remains room for improvement in auditor independence and the market has not voluntarily embraced this as seen in the long tenures and close relationships that the research uncovered. As it is not being done voluntarily, the way to draw attention to this and ensure that it is complied with is to make it mandatory.

### 5.3. WHY NOT MANDATORY AUDIT TENDERING?

The Board considered the possibility of Mandatory Audit Tendering as the primary solution to address auditor independence but discarded this option as there arose various possibilities of unintended consequences. The ones discussed and tabled were:

- Reappointment of the same audit firm with no real intention to introduce a 'fresh pair of eyes'.

- A tender process is not facilitated by the audit firms and is the responsibility of the company that may have an interest in retaining the same auditors for various reasons which would be contrary to enhancing auditor independence.

### 5.4. WOULD AUDIT QUALITY SUFFER BECAUSE KNOWLEDGE OF THE CLIENT IS LOST? WHAT ABOUT 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 few years could be incorrect.

Some firms have indeed built 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.

In terms of the International Standard on Auditing (ISA) 260, there should be an effective two-way communication between the auditor and those charged with governance. This will assist the auditor in obtaining from those charged with governance information relevant to the audit. This will further assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements.

The Board appreciates that certain industries require specialised skills and in these situations the auditing standards require the auditor to consider whether they have appropriate skills before accepting or deciding whether to continue with an audit assignment.

Similarly, in the event that a new CEO is appointed to a company, there is no minimum allowance for a lengthy learning curve. Given the above, the quality of an audit from the first year should be robust.

**Table 5: Change in fees after rotation**

| DESCRIPTION                        |                  |                  |
|------------------------------------|------------------|------------------|
| Vodacom Limited                    | 31 March 2015    | 31 March 2014    |
| • Audit fees                       | R26 million      | R22 million      |
| • Audit firm                       | PwC              | Deloitte         |
| Sasol Limited                      | 30 June 2015     | 30 June 2014     |
| • Audit fees                       | R87 million      | R86 million      |
| • Audit firm                       | PwC              | KPMG             |
| Bidvest Limited                    | 30 June 2008     | 30 June 2007     |
| • Audit fees                       | R44 million      | R39 million      |
| • Audit firm                       | Deloitte         | KPMG             |
| Famous Brands Limited <sup>8</sup> | 28 February 2016 | 28 February 2015 |
| • Audit fees                       | R4.6 million     | R3.4 million     |
| • Audit firm                       | Deloitte         | RSM Betty        |

Source: Annual Reports

## 5.5. WILL COSTS TO DO BUSINESS AND THE COSTS OF THE AUDIT INCREASE?

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

## 5.6. WOULD MAFR REMOVE THE RESPONSIBILITY TO APPOINT AUDITORS FROM THE AUDIT COMMITTEE?

The audit committee will still appoint the auditor. At this stage, the Board has 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).

It is nevertheless the ultimate responsibility of shareholders to approve and adopt the recommendations of audit committees and their role in the appointment of auditors. Shareholders need to become more engaged around issues of independence.

## 5.7. WOULD CONGLOMERATES THAT OPERATE GLOBALLY FIND IT IMPRACTICAL TO HAVE DIFFERENT AUDITORS?

In Europe alone, based on the 8th Directive issued by the European Commission, each country will have, not only different provisions to strengthen auditor independence (which 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.

<sup>8</sup> 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 were appointed and this had an impact on the audit fee.

## 5.8. ARE THERE TOO FEW FIRMS WITH GLOBAL FOOTPRINTS TO ROTATE AMONG?

There are more than a few firms that have a global infrastructure to support international conglomerates and the research shows that there would be sufficient room for rotation even outside the “Big 4” firms in certain circumstances.

In SA, there are 11 firms with global networks or associations.

Audit committees therefore should plan ahead to limit the non-audit work of firms that they might require to participate in tenders for subsequent appointment as auditors.

**Refer to Table 6 which summarises the global presence of major audit firms in South Africa.**

## 5.9. COULD THE MEASURE BE SEEN AS ANTI-COMPETITIVE?

The IRBA has consulted with the Competition Commission, which did not regard any of the measures as anti-competitive. The IRBA considers MAFR as an important measure to increase competition and thereby improve audit quality.

In terms of unintended consequences relating to cartels, collusion, price-fixing, pre-tendering agreements and similar anti-competitive behaviour, the Competition Commission is alert to this and will monitor the situation.

## 5.10. CAN MAFR ADDRESS TRANSFORMATION?

MAFR is not intended to address transformation but rather to strengthen auditor independence.

However, the slow pace of transformation as highlighted in our demographic and professional landscape study, certainly raised some serious concerns.

The IRBA supports the fact that creating the opportunity for access to work as companies become due for rotation, will help more firms participate in a more meaningful way. It concedes that the MAFR rule on its own will not achieve all the transformation objectives required in the South African context; however, it can contribute to building capacity.

It is for this reason that the IRBA will remain committed to, and actively participate in the CA Charter process as the scorecard will help to deliver shorter-term transformation within the profession, as the reality of nine black African partners out of 353 signing off on listed companies signals a lack of significant transformation.

In addition, the IRBA has established projects and initiatives in line with its transformation pillar.

**Table 6: Global presence of major audit firms in South Africa**

| NAME OF FIRM           |   |
|------------------------|---|
| Deloitte               | Deloitte has more than 220,000 professionals at member firms in more than 150 countries and territories.  |
| EY                     | The organisation operates as a network of member firms with over 212,000 employees in 28 regions across the Americas, EMEIA, Asia Pacific and Japan..   |
| KPMG                   | KPMG employs 174,000 people and has three lines of services: audit, tax, and advisory. KPMG offices are located in 152 countries and over 700 cities worldwide.   |
| PwC                    | PwC has offices in 157 countries and more than 208,000 people.  |
| BDO                    | BDO is an international network firm and has representation in 150 countries, with 64,300 people working out of over 1,400 offices worldwide.   |
| Grant Thornton         | Grant Thornton is a global organisation of member firms with 42,000 people in over 130 countries.   |
| RSM Betty              | RSM operates in 120 countries in each of the top 40 major business centres throughout the world. It has a combined staff of over 38,000 in over 760 offices across the Americas, Europe, MENA, Africa and Asia Pacific.   |
| Howarth Leventon Boner | Crowe Horwath International consists of more than 200 independent accounting and advisory services firms in over 130 countries around the world.  |
| 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 client operations in the global economy. |
| Nkonki                 | Nkonki Inc is a member firm of Kreston International Limited. Kreston International Limited is a global network of independent accounting firms in over 100 countries with resources of over 20,000 professional and support staff.   |
| PKF                    | PKF International is a global network of accountancy firms. Member firms operate under the PKF brand in 440 cities and operate in 150 countries across five regions.  |
| Nexia SAB&T            | Nexia has more than 250 member firms operating 565 offices in over 120 countries.   |

Source: Company websites

## Section 6

# REQUIREMENTS FOR MANDATORY AUDIT FIRM ROTATION

|          |        |
|----------|--------|
| 37439-51 | 6975-5 |
| 53415-67 | 4555   |
| 32-42    | 45     |
| 2-42     |        |

## 6.1 REQUIREMENTS

- 6.1.1 An audit firm shall not serve as the registered auditor of a listed company for more than 10 consecutive financial years.
- 6.1.2 Thereafter, the audit firm will only be eligible for reappointment as registered auditor after the expiry of at least five financial years.

## 6.2 EFFECTIVE DATE

The requirement is effective for financial years commencing on or after 1 April 2023. Therefore, if the audit firm has served as the registered auditor of a listed company for 10 or more consecutive financial years before the financial year commencing on or after 1 April 2023, then the audit firm will be required to rotate.

## 6.3 TRANSITIONAL PROVISIONS

- 6.3.1 If at the effective date, the listed company has appointed joint auditors and both has had audit tenure of 10 years or more, then only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required. This provision will only be applicable at the effective date.
- 6.3.2 Thereafter, if a listed company has appointed two or more audit firms as joint auditors, the listed company may manage the audit firm rotation in such a manner that all of the joint auditors do not relinquish office in the same year.

## Section 7

# QUESTIONS FOR CONSULTATION



A faint, light-colored background image of a table with numerical data is visible in the bottom right corner. The table has several rows and columns, with some numbers clearly legible.

|          |        |
|----------|--------|
| 37439-51 | 6975-5 |
| 53415-67 | 4555   |
| 332-42   | 45     |
| 2-42     |        |

Based on initial consultation and feedback from the listed entities, the IRBA has formulated the following areas for feedback.

**Q1: Explain the practical implementation and implications of MAFR on the listed company / audit firm.**

**Q2: Quantify the potential costs of implementing MAFR in the listed company / audit firm.**

**Q3: Should the scope of MAFR be extended beyond listed companies to other entities that operate in the public interest?**

**Q4: Please share any other comments you have on the implementation of MAFR.**



# FOR MORE INFORMATION

## ASSISTANCE WITH COMMENTARY PROCESS

comments@irba.co.za

## GENERAL QUERIES

board@irba.co.za

## REFERENCE LIST

Schoeman, N. J., Robinson, Z. C., & De Wet, T. J. (2000). Foreign direct investment flows and fiscal discipline in South Africa. *South African Journal of Economic and Management Sciences*, 3(2), 235-244.

Ashwin, V. A. (2015). *The relationship between corporate governance and financial performance of companies listed on the JSE Ltd* (Doctoral dissertation). University of Johannesburg.

European Union, C. o. t. (2014). Directive 2014/56/EU amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts

### COPYRIGHT NOTICE

This publication is protected by the copyright laws of the Republic of South Africa. The use of any content in this publication for commercial purposes is a breach of copyright. The content in this publication and research contained herein is owned by the Independent Regulatory Board for Auditors, except where referenced to and quoted from third party research.

Content may be retrieved and displayed, printed or reproduced in an unaltered form only for personal, non-commercial use or use within your organisation. All other rights are reserved.

The logo of the IRBA is not to be reproduced or used in any manner, on any website or on any other publication without exception.



**Physical Address**

Building 2  
Greenstone Hill Office Park  
Emerald Boulevard  
Modderfontein

**GPS Co-ordinates**

26°7'0"S, 28°8'54"E

**Postal Address**

P.O. Box 8237  
Greenstone  
1616

**Contact Number**

+27 87 940 8800

**Email enquires**

[board@irba.co.za](mailto:board@irba.co.za)