

Interpretation of MAFR and Audit Tenure

- 1. Auditor A has been appointed as auditor of a group of companies for more than 10 years. This group was listed via the creation of a new listed holding company. This listed holding company was then audited for a single year by auditor B, while the substantial operations (>90%) was still audited by Auditors A for that year, and Auditor A then also took over the audit of the listed holding company after that 1 year. In evaluating MAFR, should Auditor A look at only the period from appointment as auditor of the new listed company, or from when they started auditing the old group prior to the listing and the 1-year audit of the holding company by Auditor B?**

When a previously unlisted client lists, you do not determine date of appointment from date of listing, you determine date of appointment from the earliest date of appointment as per the annual declaration. Similarly, if a client reaches the threshold to be a PIE, you will count from the earliest date of appointment. Also when two firms merge and the first date of appointment with the original firm applies. Therefore, all years of service with a company must be counted and disclosed in terms of the audit tenure rule in line with the IRBA communique issued on 4 December 2015.

The intention of mandatory audit firm rotation is to address the risk of long association.

With regards to the holding company being audited by another firm for a period of time, as noted in the disclosure of audit tenure and frequently asked questions on the disclosure of audit tenure communique issued on 29 February 2016, the objective of the rule is to disclose the length of time which the audit firm had been involved with the client. It is therefore irrelevant whether the client had changed the format through which it traded, or in this case, the fact that the holding company was audited by another firm for a period of a year, and the substance over form principle should be applied.

In order to corroborate the responses above, please refer to the frequently asked questions on audit tenure issued on 29 February 2016, FAQ 2.1, 2.3, 2.4, 2.8, (a copy of which is attached).

- 2. Strict reading of the MAFR rule leads me to believe the answer is the period as auditor of the holding company only, but that seems to defeat the purpose of the rule. In substance Auditor A has been the auditor for many years, most of the lifespan of the operations of this group. I am sure that the audit firm should take into account the long association risk, but the audit committee would possibly look at the strict application of the rule, and there is no additional guidance in this scenario that I have been able to find from IRBA etc.**

All years of service with a company must be counted and disclosed in terms of the audit tenure rule and if it exceeds 10 years as at the effective date of 1 April 2023, then the auditor is not eligible to continue and a new firm of auditors must be appointed in terms of the rule on mandatory audit firm rotation.