

THE AUDITOR'S CONSIDERATIONS WITH RESPECT TO LONG ASSOCIATION OF PERSONNEL WITH AN AUDIT CLIENT (INCLUDING PARTNER ROTATION)

This publication has been prepared by the Independent Regulatory Board for Auditors' (IRBA) Committee for Auditor Ethics (CFAE). It does not constitute an authoritative pronouncement from the IRBA, nor does it amend or override the International Standards on Auditing (ISAs); the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) (IRBA Code); the Companies Act No. 71 of 2008 (Companies Act); or the Auditing Profession Act No. 26 of 2005 (Auditing Profession Act). In addition, this publication is not meant to be exhaustive; therefore, reading it is not a substitute for reading the abovementioned pronouncements and the IRBA Code, as those are the authoritative texts.

INTRODUCTION

1. In South Africa, Section 92 of the Companies Act (S92) prescribes requirements for the rotation of auditors, while Section 540 of the IRBA Code (S540) prescribes requirements for the long association of personnel (including partner rotation). These requirements emanate from different authorities; therefore, the terminology used as well as the prescribed time-on and time-off periods differ, and that may cause an inconsistent understanding among users.

SCOPE

2. This alert describes considerations for registered auditors performing a long association assessment, specifically the concurrent application of S92 and S540.
3. However, this alert does not provide guidance on the application of the IRBA's Mandatory Audit Firm Rotation or Audit Tenure rules. For guidance on that, refer to the [IRBA website](#).
4. Also, this alert excludes the consideration of industry-specific laws and regulations that may apply to long association, such as Section 6(6) of the Banks Act, 1990; and the rotation requirements prescribed through audit clients' internal policies and by those charged with governance.

HOW TO USE THIS ALERT

6. The S92 and S540 requirements are not new. They have been effective for several years. Accordingly, this alert assumes users have some knowledge of current practice and available resources, including the:
 - Companies Act;

- South African Institute of Chartered Accountants ([SAICA Companies Act Guide](#));
- [SAICA frequently asked question for members and associates relating to the Companies Act](#);
- Auditing Profession Act;
- [IRBA Code](#); and
- International Ethics Standards Board for Accountants ([IESBA Long Association of Personnel with an Audit Client Staff Questions & Answers \(May 2019\)](#)) (IESBA FAQ).

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PART A: DEFINITIONS

Audit client ¹	<p>An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. (<i>See also paragraph R400.20.</i>)</p> <p><i>In Part 4A, the term “audit client” applies equally to “review client”.</i></p>
Audit team ²	<p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the audit engagement, including:</p> <ul style="list-style-type: none"> (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement. <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p> <p><i>In Part 4A, the term “audit team” applies equally to “review team”.</i></p>
Company	<p>A juristic person incorporated in terms of this Act (Companies Act), or a juristic person that, immediately before the effective date—</p> <ul style="list-style-type: none"> (a) was registered in terms of the— <ul style="list-style-type: none"> (i) Companies Act, 1973 (Act No. 61 of 1973), other than as an external company as defined in that Act; or (ii) Close Corporations Act, 1984 (Act No. 69 of 1984), if it has subsequently been converted in terms of Schedule 2; (b) was in existence and recognised as an ‘existing company’ in terms of the Companies Act, 1973 (Act No. 61 of 1973); or

¹ The IESBA issued revisions to the definition of listed entity and PIE on 11 April 2022, effective for audits of financial statements for periods beginning on or after 15 December 2024. These revisions, which included a revised “audit client” definition, are currently being localised by the IRBA before it issues and adopts them after the issue of this alert.

² The IESBA proposed revisions to the IRBA Code relating to the definitions of engagement team and group audits, and these include proposed revisions to the definition of audit team. The IESBA is mindful of the need to coordinate the effective date for the final provisions from the engagement team project with the effective date of ISA 600 (Revised), which is effective for audits of financial statements for periods beginning on or after 15 December 2023. The final engagement team provisions will be considered for localisation and adopted by the IRBA after the issue of this alert.

	was deregistered in terms of the Companies Act, 1973 (Act No. 61 of 1973), and has subsequently been re-registered in terms of this Act.
Engagement partner (EP)	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement quality reviewer (EQR) ³	A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
Group ⁴	All the components whose financial information is included in the group financial statements. A group always has more than one component.
Key audit partner (KAP) ⁵	The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending on the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.
Public interest entity (PIE) ⁶ <u>R400.8a SA</u>	<p>(a) A listed entity; or</p> <p>(b) An entity:</p> <p>(i) Defined by regulation or legislation as a public interest entity; or</p> <p>(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator; or</p> <p>(c) <u>Other entities as set out in paragraphs R400.8a SA and R400.8b SA.</u></p> <p>Firms <i>shall</i> determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:</p> <ul style="list-style-type: none"> • The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks, insurance companies, and pension funds. • <u>Number of equity or debt holders.</u>

³ From the quality management-related conforming amendments to the IRBA Code, effective as of 15 December 2022.

⁴ The IESBA proposed revisions to the IRBA Code relating to the definition of engagement team and group audits, and these include proposed revisions to the definition of group. The IESBA is mindful of the need to coordinate the effective date for the final provisions from this project with the effective date of ISA 600 (Revised), which is effective for audits of financial statements for periods beginning on or after 15 December 2023. The final provisions will be considered for localisation and adopted by the IRBA after the issue of this alert.

⁵ From the quality management-related conforming amendments to the IRBA Code, effective as of 15 December 2022.

⁶ The IESBA issued revisions to the definition of listed entity and PIE on 11 April 2022, effective for audits of financial statements for periods beginning on or after 15 December 2024. The IRBA is currently localising these revisions, and it will issue and adopt the localised provisions after the issue of this alert.

<p><u>R400.8b SA</u></p>	<ul style="list-style-type: none"> • Size. • Number of employees. <p><u>A registered auditor shall regard the following entities as generally satisfying the conditions in paragraph R400.8a SA as having a large number and wide range of stakeholders, and thus are likely to be considered as Public Interest Entities:</u></p> <ul style="list-style-type: none"> • <u>Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country.</u> • <u>Banks as defined in the Banks Act, 1990 (Act No. 94 of 1990), and Mutual Banks as defined in the Mutual Banks Act 1993, (Act No. 124 of 1993).</u> • <u>Market infrastructures as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012).</u> • <u>Insurers registered under the Long-term Insurance Act, 1998 (Act No. 52 of 1998) and the Short-term Insurance Act, 1998 (Act No. 53. of 1998), excluding micro lenders.</u> • <u>Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), that hold assets in excess of R15 billion.</u> • <u>Funds as defined in the Pension Funds Act, 1956 (Act No. 24 of 1956), that hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.</u> • <u>Pension Fund Administrators (in terms of Section 13B of the Pension Funds Act, 1956 (Act No. 24 of 1956)) with total assets under administration in excess of R20 billion.</u> • <u>Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002), with assets under management in excess of R50 billion.</u> • <u>Medical Schemes as defined in the Medical Schemes Act, 1998 (Act No. 131 of 1998), that are open to the public (commonly referred to as “open medical schemes”) or are restricted schemes with a large number of members.</u> • <u>Authorised users of an exchange as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012), who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.</u> • <u>Other issuers of debt and equity instruments to the public.</u> <p><u>If a firm considers an audit client that falls under one or more of the above categories not to be a public interest entity, the firm shall document its reasoning and its consideration of paragraph R400.8b SA.</u></p>
<p><u>Registered auditor</u> 400.3</p>	<p><u>An individual or firm registered as an auditor with the Regulatory Board.</u></p> <p>In this Part (Part 4A of the IRBA Code), the term “<u>registered auditor</u>” refers to individual <u>registered auditors performing professional services</u> and their firms.</p>

Related entity (RE)	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none">(a) An entity that has direct or indirect control over the client, if the client is material to such entity;(b) An entity with a direct financial interest in the client, if that entity has significant influence over the client and the interest in the client is material to such entity;(c) An entity over which the client has direct or indirect control;(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and(e) An entity which is under common control with the client (a “sister entity”), if the sister entity and the client are both material to the entity that controls both the client and the sister entity.
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PART B: CONCURRENT APPLICATION OF S92 and S540

7. The extracts from legislation and the IRBA Code reproduced below address the circumstances for the concurrent application of the rotation requirements in S92 and the long association requirements in S540. Registered auditors are required to comply with both requirements; therefore, for compliance, registered auditors need to holistically consider the requirements in both sections.

EXTRACT FROM THE COMPANIES ACT

S5(4) *“If there is an inconsistency between the Companies Act and the provisions of any other national legislation –*

- (a) the provisions of both Acts apply concurrently to the extent that it is possible to apply and comply with one of the inconsistent requirements without contravening the second ...”*

EXTRACT FROM THE IRBA CODE

Guide to the Code

South African Adaptations and Amendments to the Code:

South African laws and regulations may impose requirements that regulate the conduct of registered auditors and their clients. These requirements may be in addition to the content of the Code, or are more restrictive than the Code. A list of such laws and regulations is not provided in this Code, but a proper identification, understanding and application of such matters, is necessary. ^{Par 21}

Status of the Code

In terms of the powers granted to it by Sections 4 and 21 of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (Act), the Regulatory Board has published the Code of Professional Conduct for Registered Auditors (Revised November 2018) (“the Code”) to establish the fundamental principles of ethical conduct, provide a conceptual framework and include Independence Standards that assist registered auditors in complying with the ethical requirements of the Code and meeting their responsibility to act in the public interest.

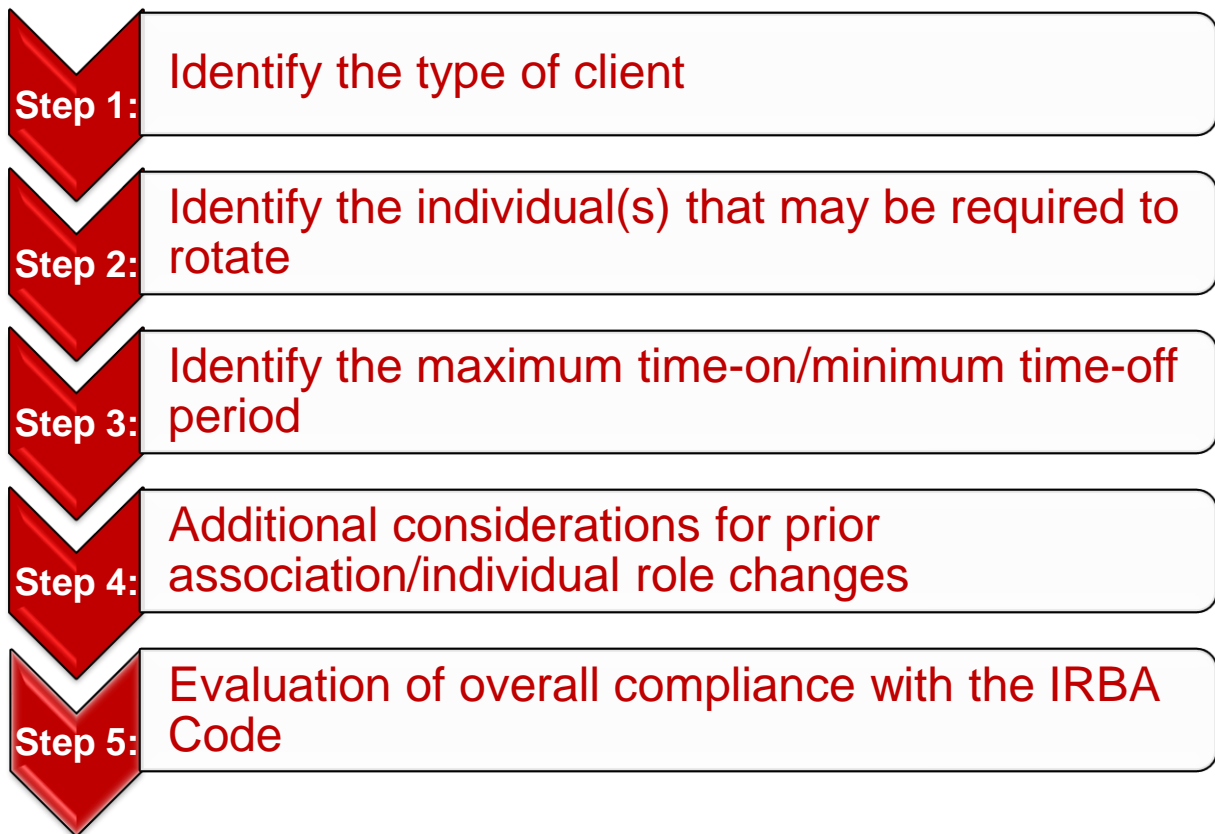
Complying with the Code

If there are circumstances where laws or regulations preclude a registered auditor from complying with certain parts of the Code, those laws and regulations prevail, and the registered auditor shall comply with all other parts of the Code. ^{R100.7}

The principle of professional behaviour requires a registered auditor to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Registered auditors in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation. ^{100.7 A1}

PART C: FIVE-STEP APPROACH TO IDENTIFY AND ASSESS THREATS TO INDEPENDENCE DUE TO LONG ASSOCIATION

8. Registered auditors may find this five-step approach useful in the concurrent application of S92 and S540 requirements. The five steps are as follows:



9. Further considerations for each step are provided below.

CONSIDERATIONS WHEN APPLYING THE FIVE-STEP APPROACH



Identify the type of client

- 1.1. Identifying the type of client assists the registered auditor to determine which requirements in S92 and/or S540 are applicable. For the purpose of applying both sections, audit clients may fall into one or more of the following categories:
 - 1.1.1. Companies;
 - 1.1.2. Entities that are not Companies i.e. a Sole Proprietor/Partnership/Trust/Division;
 - 1.1.3. Listed PIEs;
 - 1.1.4. Unlisted PIEs; and/or
 - 1.1.5. Non-PIEs.

Company

- 1.2. S92 refers to “company” and applies to the individual legal entity that is required to be audited.
- 1.3. Only S540 will apply (and S92 is not applicable); if:
 - 1.3.1. The client is *not a Company*.
 - 1.3.2. The Company is *not required to be audited*, i.e. only requires an independent review.

Audit Client

- 1.4. S540 refers to the “audit client”, which is not limited to the individual legal entity. *Audit client* is defined in the IRBA Code and distinguishes between a *listed* and an *unlisted* entity audit client.
- 1.5. A listed entity audit client includes all its related entities. An unlisted entity audit client includes those related entities over which the client has direct or indirect control.
- 1.6. The identification of related entities also includes a requirement in **R400.20** of the IRBA Code, which states that: “When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.”

PIE vs non-PIE

- 1.7. Whether an audit client falls within the definition of PIE determines which *parts* of S540 are applicable to the client. There are two main *parts*:
 - 1.7.1. The general provisions applicable to all entities set out in paragraphs 540.2 to R540.4; and
 - 1.7.2. The PIE-only provisions in paragraphs R540.5 to 540.20 A1.
- 1.8. The general provisions in paragraphs 540.2 to R540.4 apply to all audits. Audits of PIEs must comply with both the general and the PIE-only provisions.



Step 2:

Identify the individual(s) that may be required to rotate

Key Audit Partners (KAPs)

- 2.1. S92 prohibits an individual from serving as the auditor or designated auditor for more than five consecutive financial years. The individual is the individual registered auditor assigned by the firm that is responsible and accountable for that audit, in accordance with S44(1) of the Auditing Profession Act, i.e. the EP ([SAICA Companies Act Guide 10.3.1.11 and 10.3.5.8.](#)).
- 2.2. As it relates to PIEs, S540 extends the prescribed maximum time-on and minimum time-off periods to all KAPs. ^{R540.5 and R540.13}
- 2.3. A KAP is defined in the IRBA Code. Over and above the EP and the EQR, a KAP could be any other partner who makes key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.
- 2.4. In a group audit scenario, specifically, this might include audit partners who are responsible for significant subsidiaries or divisions.
- 2.5. Practically, this *can* also include any of the individuals identified in 2.9 below.

Audit Team Members

- 2.6. The general provisions of paragraphs 540.2 to R540.4 state that a familiarity threat might be created as a result of an individual's long association with the audit client as an *audit team* member.
- 2.7. The term audit team is defined in the IRBA Code. The definition extends the long association assessment beyond the EP for non-PIEs and even beyond KAPs for PIEs.
- 2.8. The practical implication of the above is for the registered auditor to identify and consider other audit team members whose long association might create a threat to independence.
- 2.9. Other audit team members that may create threats to independence due to long association include, but are not limited to:
 - 2.9.1. Actuarial or valuation specialists;
 - 2.9.2. Technical accounting or auditing consultants;
 - 2.9.3. Industry-specific experts;
 - 2.9.4. Tax partners;
 - 2.9.5. IT partners;
 - 2.9.6. An assistant to an EQR; and/or

2.9.7. Other specialists.

This list of other team members is not exhaustive, and a rotation of the above-listed individuals is not automatically required in all practical instances.

- 2.10. Having firm policies and procedures in place that assist the registered auditor to identify and consider threats to independence due to long association created by other audit team members that extend beyond the EP and/or other KAPs may assist the registered auditor in complying with the general provisions of paragraphs 540.2 to R540.4.



Identify the maximum time-on/minimum time-off period

Summary of the prescribed provisions and the entities to which they apply:

	Applicable to:	Maximum Time-on Period	Minimum Time/Cooling-off Period
S92	Individual auditor or designated auditor. S92(1)	Five consecutive financial years ⁷ . S92(1)	Two consecutive financial years. S92(2)
S540	Individuals on PIE audit clients who acted in a combination of KAP roles, specifically including EP and EQR roles. R540.5	Seven cumulative years ⁸ . R540.5	<ol style="list-style-type: none"> 1. Five consecutive years, if an individual acted as the EP for seven cumulative years. R540.11. 2. Three consecutive years, if an individual acted as the EQR for seven cumulative years. R540.12 3. Two consecutive years, if an individual acted as a KAP for seven cumulative years. R540.13 4. Five consecutive years, if the individual acted in a combination of KAP roles AND served as the EP for four or more cumulative years. R540.14 5. Three consecutive years, if the individual acted in a combination of KAP roles AND served as the EQR for four or more cumulative years (subject to point 6). R540.15 6. Five consecutive years, where the individual has acted in a combination of EP and EQR roles for four or more cumulative years, AND has been the EP for three or more years. R540.16

⁷ More information on how to calculate the five consecutive financial years can be found in the [SAICA Companies Act Guide](#), Section 10.3.5.

⁸ More information on how to calculate the seven cumulative years can be found in the [IESBA FAQ](#).

			<p>7. Three consecutive years, where the individual has acted in a combination of EP and EQR roles for four or more cumulative years, in the case of any other combination. ^{R540.16}</p> <p>8. Two consecutive financial years, if the individual acted in any combination of KAP roles, other than those addressed in points 4-7. ^{R540.17}</p>
	Individuals on non-PIE audit clients.	None.	S540 does not prescribe maximum time-on and minimum time-off periods for individuals on non-PIE audits. The registered auditor is required and has the responsibility to determine, through their internal policies or procedures, what maximum time-on and minimum time-off periods will be of a sufficient duration to address the threats to independence due to long association through a consideration of the general provisions of paragraphs 540.2 to R540.4.

Types of Entities	Applicable Provisions
PIE Companies	<ul style="list-style-type: none"> • S92 requirements above. • S540 requirements above. • General provisions of paragraphs 540.2 to R540.4.
Non-PIE Companies	<ul style="list-style-type: none"> • S92 requirements above. • General provisions of paragraphs 540.2 to R540.4.
PIEs that are not Companies	<ul style="list-style-type: none"> • S540 requirements above. • General provisions of paragraphs 540.2 to R540.4.
Non-PIEs that are not Companies	<ul style="list-style-type: none"> • General provisions of paragraphs 540.2 to R540.4.



Additional considerations for prior association/individual role changes

- 4.1. For PIEs, the registered auditor is required to give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement prior to the individual becoming a KAP,^(R540.10) as there might be situations where the registered auditor, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a KAP to continue in that role, even though the length of time served as a KAP is less than seven years^(540.10 A1).
- 4.2. For all other clients, the general provisions of paragraphs 540.2 to R540.4 list the prior association with the client and the nature of the roles performed on the engagement team as factors that may increase the level of threat to independence due to long association.
- 4.3. The practical implication of the above is for the registered auditor to identify and consider individual role changes within the audit team and consider each member's association to the audit client in different roles in aggregate to evaluate, as this may influence the registered auditor's determination of what constitutes an appropriate time-on or time-off period.
 - 4.3.1. For PIEs, if the level of the threat warrants it, it could indicate a need to apply an earlier than prescribed rotation requirement.
 - 4.3.2. For non-PIEs, it could influence the determination of what constitutes an appropriate time-on or time-off period, in accordance with paragraph R540.5.
- 4.4. This consideration emphasises that the registered auditor needs to think beyond the maximum time-on and the minimum time-off periods; and consider other factors that may increase the level of the threat to independence to such a level that a shorter time-on or longer time-off period may be required to lower the threat to independence to an acceptable level.



Evaluation of overall compliance with the IRBA Code

- 5.1. Part 1 of the IRBA Code lists attributes that distinguish the profession from other professions, including but not limited to:
 - 5.1.1. An acceptance of the responsibility to act in the public interest. ^{100.1}
 - 5.1.2. A purpose to instil confidence. ^{100.2}
 - 5.1.3. An expectation of high-quality standards of ethical behaviour. ^{100.3}
 - 5.1.4. A requirement to comply with the IRBA Code. ^{R100.6.}
- 5.2. Compliance with the IRBA Code means:
 - 5.2.1. Upholding the fundamental principles and compliance with the specific requirements of the IRBA Code. ^{100.6 A1}
 - 5.2.2. Giving appropriate regard to the aim and intent of the specific requirements. ^{100.6 A2}
- 5.3. Thus, complying with the requirements, the registered auditor needs to objectively evaluate whether the conclusion reached with regard to long association is appropriate by considering:
 - 5.3.1. The letter versus the spirit of the IRBA Code.
 - 5.3.2. Stakeholders' expectations regarding the firm's independence, especially in relation to PIE clients.
 - 5.3.3. The principle of independence of mind and independence in appearance.
- 5.4. This can be achieved through the proper application of the conceptual framework which requires the registered auditor to ^{R120.5:}
 - (a) Have an inquiring mind;
 - (b) Exercise professional judgement; and
 - (c) Use the reasonable and informed third party test described in paragraph 120.5 A6.

PART D: FUTURE CONSIDERATIONS

International Standard on Quality Management (ISQM) 2 and the EQR Cooling-off Requirements⁹

10. In accordance with paragraph 540.12 A1¹⁰, the partner rotation requirements in S540 are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the EP can assume the role of EQR.
11. Consideration of the required cooling-off period prescribed by ISQM 2 is relevant, however, when an individual changes their role from EP to EQR at the audit client.
12. Regardless of the time-on period served, the EP is required to serve a time-off period of at least two years, prior to stepping into the role of EQR, subject to the registered auditor's own internal policies. These two years are excluded from the time-on period calculation (as the individual is cooling off); however, this does not restart the time-on period for the purposes of calculating the time-on period served in a combination of KAP roles at the audit client.

Expiration of the "Sunset Clause"¹¹

13. The IRBA, in January 2018, adopted the amendments relating to Long Association of Personnel with an Audit or Assurance Client made to the IESBA Code of Ethics for Professional Accountants (IESBA Code) and issued during 2017.¹²
14. The amendments included a provision in paragraph R540.19 of the current IRBA Code (applicable only to PIEs) that allows a jurisdiction to substitute the cooling-off period of five years for EPs with a shorter cooling-off period established by law or regulation, or by a body authorised or recognised by law or regulation, that is not less than three years, provided that the time-on period in that jurisdiction does not exceed seven years (the "jurisdictional provision").
15. This jurisdictional provision was introduced for a transitional period of five years from when the revised long association provisions became effective, i.e., for audits of financial statements for periods beginning on or after 15 December 2018. The jurisdictional provision is, therefore, due to expire for audits of financial statements for periods beginning on or after 15 December 2023.
16. The practical implication of the transitional provision in South Africa is as follows:
 - 16.1 For PIEs that are required to comply with the Companies Act, the transitional jurisdictional provision allowed registered auditors to substitute the cooling-off period of five consecutive years with the higher of the legislatively required cooling-off periods, which are two years in accordance with the Companies Act

⁹ ISQM 2 is effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.

¹⁰ Revisions to the IRBA Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers. Consequential amendments to Section 540, effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.

¹¹ Also refer to the IESBA Long Association Post Implementation Review (LAPIR) project - Phase 1.

¹² [BOARD NOTICE 18 OF 2018](#)

or three years as specified in the IRBA Code. Thus, it has been substituted with three years.

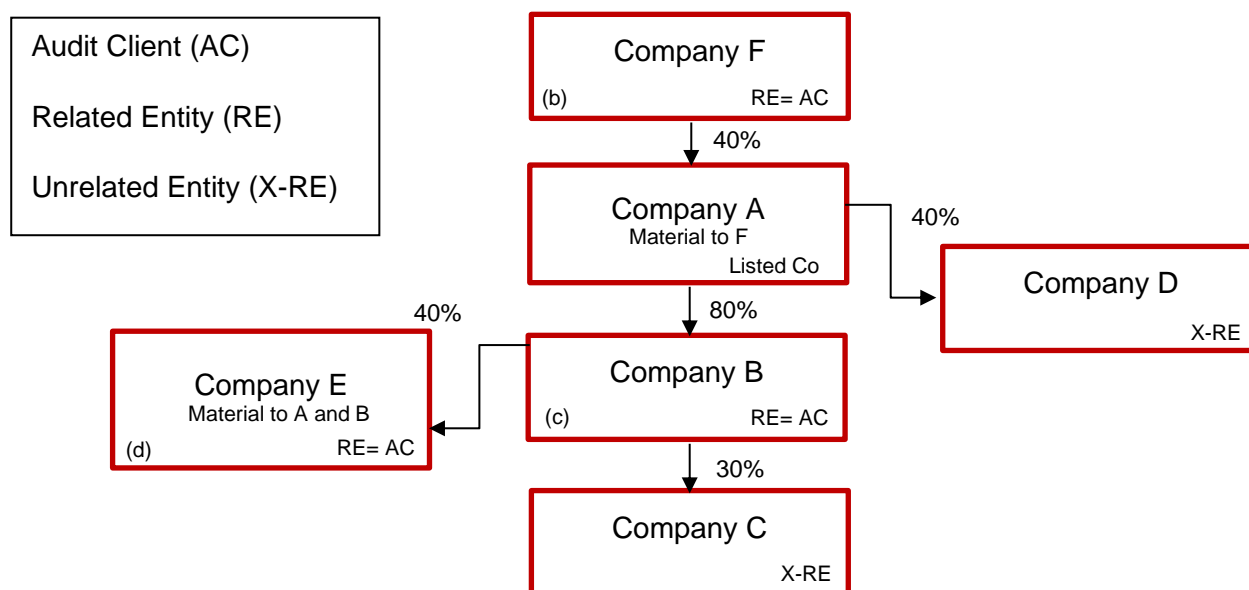
- 16.2 For PIEs that are not subject to the Companies Act (e.g., pension funds and medical schemes), R540.19 was not available as a jurisdictional provision. Registered auditors have already been required to implement the five-year cooling-off period, as there is no industry-specific legislative or regulatory provision; and these entities therefore do not qualify for the transitional jurisdictional provision.
- 16.3 Given the IRBA's adoption of Parts 1, 3, 4A and 4B of the IESBA Code and its prescription as the IRBA Code in South Africa, including the subsequent amendments, the five-year cooling-off period will apply to all PIEs upon the expiry of the transitional provision from 15 December 2023.

PART E: ILLUSTRATIVE EXAMPLES

The examples that follow illustrate how to apply the five-step approach in the following two scenarios:

1. Listed PIE Group; and
2. Non-PIE Group.

Example 1: Listed PIE Group



Example scenario: Signing the audit reports of different companies within a Listed PIE Group

Assume an EP has signed the Listed PIE Group Audit Report for five consecutive financial years. Should the EP sign the group reporting and/or statutory audit reports of any of the other companies within the Listed PIE Group after year five?

Step 1: Identify the type of client

- The client in this scenario is Company A (the listed company) and its related entities (Companies B, E and F) (the Group audit client or Group A).
- Each company in the Listed PIE Group also represents an individual audit client (from a statutory reporting perspective). Companies B, C, D, E and F are assumed to be unlisted. These companies have no direct or indirect control over any of the other companies in the Listed PIE Group. Therefore, audit clients B, C, D, E and F do not have any related entities.
- Company A is a PIE. Group A is also a PIE (because Company A is listed). Assume none of the other companies in the Listed PIE Group are PIEs.

Step 2: Identify the individual(s) that may be required to rotate

- In this scenario, the only individual mentioned is the EP.
- The registered auditor identifies other KAPs that are required to rotate. ^{R540.5 and R540.13}
- The registered auditor also considers the general provisions of paragraphs 540.2 to R540.4 to identify other audit team members whose long association may create a threat to independence.

Step 3: Identify the the maximum time-on/minimum time-off period

- In this scenario, Group A is a PIE that consists of individual companies. Thus, the applicable provisions are:
 - S92 requirements.
 - S540 requirements.
 - General provisions of paragraphs 540.2 to R540.4.

S92

- S92 refers to “company” (in this scenario, Company A). S92 allows the EP to sign off Company A’s audit report for a maximum of five consecutive financial years. Group A’s financial statements incorporate Company A’s financial statements; therefore, the maximum of five consecutive financial years extends to Group A’s audit report.
- S92 does not prescribe requirements for Groups. It therefore does not prohibit the EP from signing the audit reports of any of the other companies in the Listed PIE Group, for either group reporting or statutory reporting purposes, after year five.
- S92 is applied separately to Companies B, C, D, E and F; therefore, the EP is allowed to also sign off the statutory audit reports for Companies B, C, D, E and F for a maximum of five consecutive financial years each.

S540

- S540 allows the EP to sign the audit report for Company A, and also for Group A, for seven cumulative years.
- To determine if S540 allows the EP to sign off the group or statutory audit reports of any of the other companies in the Listed PIE Group after year five, the registered auditor must identify which of these EP roles constitute a KAP role from Group A’s perspective:
 - If the EP moves into a KAP role, the EP is limited to an additional two years in that KAP role because the seven-year maximum time-on period applies to the combination of KAP roles in respect of Group A.
 - If the EP moves into a non-KAP role, there is no prescribed maximum time-on period. The registered auditor then determines what maximum time-on and minimum time-off periods will be sufficient to address the threats to independence due to long association through the consideration of the general provisions of paragraphs 540.2 to R540.4 and firm policies and procedures.

Concurrent Application Conclusion

- In reference to Company A, the stricter time-on period is five consecutive financial years, as prescribed in S92. Therefore, the EP is required to rotate at the end of year five and may not continue to sign the audit report of Company A or Group A after year five.
- In reference to whether the EP may sign the group reporting and/or statutory audit reports of any of the other companies within the Listed PIE Group after year five, this scenario is not addressed in S92; therefore, the registered auditor applies the S540 provisions as follows:
 - If the EP, after year five, moves into a KAP role from the perspective of Group A, the EP's time-on period is restricted to two additional years. The five-year time-on period allowed per company (statutory opinion) under S92 becomes irrelevant, as the same EP usually performs the statutory and group audits and signs both the statutory and group audit opinions. Much of the same audit work also supports the two different opinions.
 - If the EP, after year five, moves into a non-KAP role from the perspective of Group A, an appropriate time-on period is determined through the consideration of the general provisions of paragraphs 540.2 to R540.4. In that instance, this "appropriate time-on period" is restricted to five consecutive financial years, in accordance with S92, because the entities are all companies (statutory audit opinions are subject to the five-year limit that extends to the group reporting opinions because of the reason provided in the previous bullet point).

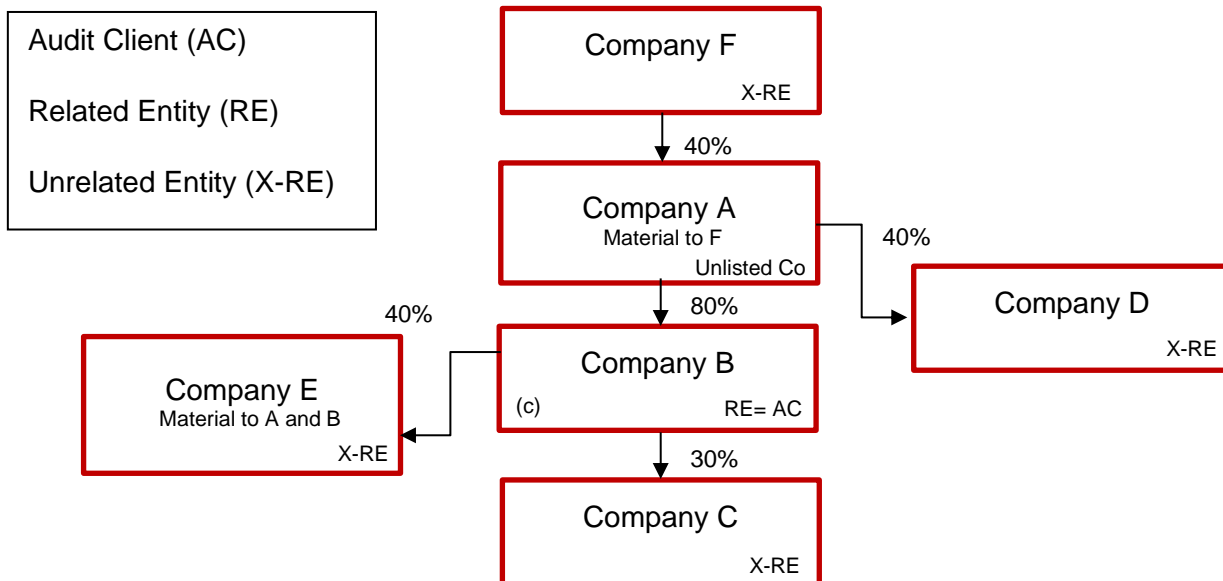
Step 4: Additional considerations for prior association/individual role changes

- The above scenario assumes the EP has had no prior association with Group A.
- If the EP had prior association with Group A before becoming the EP to sign off Group A's audit report or that of any of the other companies in Group A, this association and the specific role fulfilled by the individual during this association is required to be identified by the registered auditor to consider if it may necessitate an earlier rotation to reduce threats to independence. ^{R540.10 and 540.10 A1}

Step 5: Evaluation of overall compliance with the IRBA Code

- This step is for the registered auditor to consider – through the application of an inquiring mind, the exercise of professional judgement and the application of the reasonable informed third party test (as described in paragraph 120.5 A6) – whether any of the facts and circumstances surrounding the EP's current or planned future involvement with Group A bring into question the EP's independence in the context of the registered auditor's overall responsibility to comply with the IRBA Code.

Example 2: Non-PIE Group



Example scenario: Signing the audit reports of different companies within a non-PIE Group

Assume an EP has signed the non-PIE Group Audit Report for five consecutive financial years. Should the EP sign the group and/or statutory audit reports of any of the other companies within the non-PIE Group after year five?

Step 1: Identify the type of client

- The client in this scenario is Company A (an unlisted company) and its related entity (Company B) (the Group audit client or Group A).
- Each company in the non-PIE Group also represents an individual audit client (from a statutory reporting perspective). Companies B, C, D, E and F are assumed to be unlisted. These companies have no direct or indirect control over any of the other companies in the non-PIE Group. Therefore, audit clients B, C, D, E and F do not have any related entities.
- Company A is not a PIE; therefore, Group A is also not a PIE. Assume none of the other companies in the non-PIE Group are PIEs.

Step 2: Identify the individual(s) that may be required to rotate

- In this scenario, the only individual identified is the EP.
- The registered auditor considers the general provisions of paragraphs 540.2 to R540.4 to identify other audit team members whose long association may create a threat to independence.

Step 3: Identify the maximum time-on/minimum time-off period

- In this scenario, Group A is a non-PIE that consists of individual companies. Thus, the applicable provisions are:

- S92 requirements; and
- General provisions of paragraphs 540.2 to R540.4.

S92

- S92 refers to “company” (in this scenario, Company A). S92 allows the EP to sign off Company A’s audit report for a maximum of five consecutive financial years. Group A’s financial statements incorporate Company A’s financial statements; therefore, the maximum of five consecutive financial years extends to Group A’s audit report.
- S92 does not prescribe requirements for Groups. It therefore does not prohibit the EP from signing the audit reports of any of the other companies in the non-PIE Group, for either group reporting or statutory reporting purposes, after year five.
- S92 is applied separately to Companies B, C, D, E and F; therefore, the EP is allowed to also sign off the statutory audit reports for Companies B, C, D, E and F for a maximum of five consecutive financial years each.

S540

- S540 does not prescribe a maximum time-on or minimum time-off period for individuals on non-PIE audit clients. The registered auditor determines what maximum time-on, and minimum time-off periods will be sufficient to address the threats to independence due to long association through the consideration of the general provisions of paragraphs 540.2 to R540.4 and firm policies and procedures.
- To determine if S540 allows the EP to sign off the group or statutory audit reports of any of the other companies in the non-PIE Group after year five, the registered auditor considers the same general provisions of paragraphs 540.2 to R540.4.

Concurrent Application Conclusion

- In reference to Group A, an appropriate time-on period is determined through the consideration of the general provisions of paragraphs 540.2 to R540.4. In that instance, this “appropriate time-on period” is restricted to five consecutive financial years, in accordance with S92, because Company A is a company.
- In reference to whether the EP may sign the group reporting and/or statutory audit reports of any of the other companies within the non-PIE Group after year five, this scenario is not addressed in S92; therefore, the registered auditor applies the S540 provisions that allow the determination of what constitutes an appropriate time-on/time-off period through the consideration of the general provisions of paragraphs 540.2 to R540.4. In such an instance, this “appropriate time-on period” is restricted to five consecutive financial years, in accordance with S92, because the entities are all companies (statutory audit opinions are subject to the five-year limit that extends to the group reporting opinions, as the same EP usually performs the statutory and group audit and signs both the statutory and group audit opinions). Much of the same audit work also supports the two different opinions.

Step 4: Additional considerations for prior association/individual role changes

- The above scenario assumes the EP has had no prior association with Group A.

- Prior association may increase the level of the threat to independence due to long association and could influence the determination of what constitutes an appropriate time-on or time-off period, in accordance with Step 3.

Step 5: Evaluation of overall compliance with the IRBA Code

- This step is for the registered auditor to consider – through the application of an inquiring mind, the exercise of professional judgement and the application of the reasonable informed third party test (as described in paragraph 120.5 A6) – whether any of the facts and circumstances surrounding the EP’s current or planned future involvement with Group A bring into question the EP’s independence in the context of the registered auditor’s overall responsibility to comply with the IRBA Code.

PART F: TECHNICAL REFERENCES

Appendix 1: Companies Act Extract Section 92

92. Rotation of auditors

- (1) The same individual may not serve as the auditor or designated auditor of a company for more than five consecutive financial years.
- (2) If an individual has served as the auditor or designated auditor of a company for two or more consecutive financial years and then ceases to be the auditor or designated auditor, the individual may not be appointed again as the auditor or designated auditor of that company until after the expiry of at least two further financial years.
- (3) If a company has appointed two or more persons as joint auditors, the company must manage the rotation required by this section in such a manner that all of the joint auditors do not relinquish office in the same year

Appendix 2: IRBA Code Extract Section 540

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Introduction

- 540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 540.2 When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material¹³

All Audit Clients

- 540.3 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member with:
- (a) The audit client and its operations;
 - (b) The audit client's senior management; or
 - (c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

¹³ *To be read in conjunction with Section 92 of the South African Companies Act, 2008 (Act No 71 of 2008) for the audits of companies in South Africa.*

- 540.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.
- 540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
 - How long the individual has been an engagement team member, and the nature of the roles performed.
 - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
 - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.
 - The closeness of the individual's personal relationship with senior management or those charged with governance.
 - The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.
- (b) In relation to the audit client:
- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
 - Whether there have been any recent changes in senior management or those charged with governance.
 - Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.
- 540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.
- 540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement over a long period of time would be rotating the individual off the audit team.
- 540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:
- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.

- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Provide quality control for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for performing¹⁴ the engagement quality control review; or
- (c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.6 A1 For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.14.

R540.7 As an exception to paragraph R540.5, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged

¹⁴ This paragraph is subject to Revisions to the IRBA Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers. Consequential amendments to Section 540, effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.

with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.7 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.8 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

R540.9 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.5, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.¹⁵

Other Considerations Relating to the Time-on Period

R540.10 In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement prior to the individual becoming a key audit partner.

540.10 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

R540.11 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

¹⁵ The Regulatory Board has not provided such exemption from partner rotation or specific alternative safeguards.

R540.12 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R540.13 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

Service in a combination of key audit partner roles

R540.14 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

540.14 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).¹⁶

R540.15 Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R540.16 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall:

(a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or

(b) Be three consecutive years in the case of any other combination.

R540.17 If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.14 to R540.16, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R540.18 In determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

¹⁶ This paragraph is subject to Revisions to the IRBA Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers. Consequential amendments to Section 540, effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.

Shorter Cooling-off Period Established by Law or Regulation

R540.19 Where a legislative or regulatory body (or organisation authorised or recognised by such legislative or regulatory body) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.

Restrictions on Activities During the Cooling-off Period

R540.20 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or provide quality control for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement.

540.20 A1 The provisions of paragraph R540.20 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).