

09 February 2017

The Committee Secretaries

The Standing Committee on Finance

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CFO FORUM: SUBMISSION TO THE STANDING COMMITTEE ON FINANCE (SCoF)

Dear Ms Sepanya / Mr Wicomb

The CFO Forum (The Forum) is a high-level discussion group formed and attended by the Chief Financial Officers of major JSE listed and larger state-owned companies with broad sectoral coverage ranging from financial services, mining, retail, media, telecoms, medical services, agriculture and paper & packaging. Its aim is to contribute positively to the development of South Africa's policy and practice on financial matters that affect business, for example in the areas of: government regulatory issues and initiatives, taxation, financial reporting, corporate law and governance, capital market regulation and stakeholder communications for enterprises on behalf of its members, who represent a significant part of South African business. The Forum represents the top 100 JSE listed companies with a market capitalisation of R12 trillion.

The Forum was created in 2011.

ORAL SUBMISSIONS

The Forum welcomes the opportunity to provide written submissions to the SCoF on the Independent Regulatory Board for Auditors' (IRBA) consultation paper issued on 25 October 2016. In line with the requirement on the invitation, The Forum requests to be granted an opportunity to make oral submissions on **15 February 2017**.

OUR LETTERS RESPONDING TO THE IRBA CONSULTATION PAPER

Our letter dated **3 January 2017** responding to the IRBA's consultation paper ("the Paper") issued on 25 October 2016 is attached as Annexure A to this letter.

Also attached to this letter as appendices:

- The Forum's response to the IRBA's consultation paper – Measures to Strengthen Auditor Independence dated **7 June 2016** (Appendix B).
- The Forum's response to the Johannesburg Securities Exchange (JSE) – Response to the Consultation on Mandatory Audit Firm Rotation dated **21 September 2016** (Appendix C).

IRBA'S CONSULTATION PROCESS

The IRBA has stated the primary need of strengthening auditor independence, while also addressing transformation and the market concentration as the objectives of implementing Mandatory Audit Firm Rotation (MAFR).

The Forum supports any measures that are introduced to strengthen auditor independence and audit quality and concur that this is a critical objective. The Forum also supports the principle of Black Economic Empowerment and believes that it is an important transformation aspect within the South African audit profession. The Forum would also welcome increased competition in the audit profession in South Africa and therefore would welcome measures to reduce market concentration.

The Forum believes that while adoption of measures to address these objectives is important, equally important is an adoption of a transparent, robust, comprehensive and a persuasive process to present evidence and research to all affected stakeholders, prior to making a decision, which has a potential to have significant impact on the business environment.

To this end, we have concluded that the consultation process adopted by the IRBA should be prioritised and dealt with before dealing with specific comment on The Paper.

- The members of The Forum do not believe that there has been sufficient, transparent and appropriate consultation with all relevant stakeholders and affected parties prior to making a decision to implement MAFR (decision announced on 29 August 2016).
- In our letter to the JSE (***dated 21 September 2016***), we requested that the IRBA publishes a white paper that supports the rationale of its board in deciding to implement the MAFR. To this date, we believe that the stakeholders have not been provided with comprehensive evidence supporting the assertion that auditor independence is a significant concern and that the decision to implement MAFR will address this issue. In the absence of such a white paper to support the initial decision, we continue to believe that it is premature to comment on any transitional arrangements as subsequently requested by the IRBA in its 25 October 2016 paper. We also raised the concern raised by the CFO Forum members that the consultation process followed by the IRBA, appeared to lack transparency and integrity, and that despite engaging with a number of stakeholders, it appeared as if concerns of stakeholders had not been considered and that the outcome of the regulatory change proposed was predetermined.
- The South African Institute of Chartered Accountants (SAICA) facilitated 2016 Indaba with various stakeholders to create a platform for views to be heard directly from affected stakeholders. The SAICA publicly made available an overview report on **07 December 2016** of this engagement. During this engagement, there was criticism of the IRBA's consultation process:
 - A number of delegates expressed a view, which also had been previously raised by The Forum that, there had been insufficient consultation by the IRBA in taking the initial decision, which was announced on 29 August 2016, to implement MAFR for audit firms.
 - There was a strong view that the concerns that were raised by a variety of stakeholders in their previous interactions with the IRBA and the JSE, appeared to not have been taken into consideration. Also, there was no clear evidence of how the

IRBA had conducted research to address these concerns in its paper issued on 25 October 2016.

- There was an overwhelming support of the view that in-depth and comprehensive research should be conducted on the feasibility, cost impact analysis and benefit analysis of introducing MAFR.
- Views were expressed that a change that has such far reaching and significant consequences as the MAFR should have been subjected to a robust public consultation process.
- Delegates were concerned about the lack of compelling evidence, supporting the concerns of the IRBA that there are significant concerns relating to auditor independence in South Africa.
- Delegates questioned the depth of the IRBA's inspection, review and consideration of concerns raised through submissions to the IRBA and the JSE.
- Delegates and specifically, the Standing Committee on Corporate Law (SCCL), requested that, due to the potential far reaching consequences of MAFR on companies, shareholder rights, investors and business management, the implementation thereof should be embodied in a statute. The statute that already deals with all these matters is the Companies Act of South Africa. Importantly, implementing MAFR through legislation such as the Companies Act, will ensure the necessary public consultation that needs to take place for a decision with such far reaching impact.
- The delegates at the 2016 Indaba agreed that the investors' views on MAFR were not adequately represented. As MAFR was highly likely to impact investors, more needed to be done to solicit the views of this critical group of stakeholders.
- On 9 February 2017, The CFO Forum attended a second Indaba on MAFR facilitated by SAICA (2017 Indaba) specifically with the Investor Community. During this engagement, the following observations were made regarding the consultation process:
 - The delegates noted that the lack of involvement from the Department of Trade and Industry (dti) in the decisions taken and in the consultation process, was quite a concern.
 - The investor community considers the dti to be custodian of the Act and Regulations (the Companies Act) which governs companies in South Africa. The investor community is not clear as to how the IRBA saw MAFR being implemented as the legislation governing auditors should not be used to implement changes that will have far reaching consequences for companies and impact on the rights of shareholders.
 - The investors concluded that it is their view that, the consultation process followed by the IRBA is flawed from a Promotion of Administrative Justice Act (PAJA) point of view and that the process the IRBA has followed, is procedurally unfair.

Overall, The Forum, echo's the views of other affected stakeholders, and is greatly concerned with the lack of a proper public consultation process, the insufficiency of evidence presented by the IRBA to support a proposal with such far reaching consequences and the lack of empirical evidence of the success of MAFR in jurisdictions where it has been implemented.

We believe that implementing MAFR without clearly demonstrating that auditor independence is a significant concern and that alternate measures have been considered and found lacking in addressing this issue, is potentially damaging and lacks due process. We are of the view that introducing MAFR without following due process, a measure that appears to be an experimental

and unproven process, on important institutions of the economy, could lead to significant unintended consequences.

PROTECTION OF INVESTING PUBLIC

We note that the IRBA has stated in its paper (page 5 of The Paper) that its ultimate responsibility is the protection of the investing public. The Forum shares this view and also notes that this is the view that is shared by the JSE and is one of the goals of the King Code on Corporate Governance.

1. From our letter to the IRBA dated **7 June 2016**, we have extracted the following observations we made relating to MAFR and the protection of the investing public:
 - We believe that corporate governance and effective risk management rely on multiple points of control being consistently applied at all levels throughout an organization. This begins with the selection of accounting policies and implementation of sound internal controls by management and ends with the oversight of the audit committee.
 - Investor protection is achieved when all of these points of control work together in a well regulated environment where transparent disclosure is provided to investors. A high quality independent audit is one very important part of the control framework. Furthermore companies listed in the United States are also subject to compliance with various sections of the Sarbanes Oxley Act (SOX) as well as having their audits being subject to review by the Public Company Accountants Oversight Board ("PCAOB").
 - We believe that investor protection may be achieved more efficiently in ways other than mandating audit firm rotation. Many of these tools for investor protection are already in place and include effective audit committees, mandatory audit partner rotation, auditor reporting, independent reviews of financial statements and independent practice reviews. We believe that more transparency around these practice reviews including the publishing of the detailed results of these reviews, as they have in the United States, could provide investors, as well as management and audit committees, with insight into the ability of individual firms to attract and retain audit staff with a high degree of professional and personal integrity, as well as the robustness of their internal independence and quality control processes
 - The overview report issued by SAICA on the Indaba also echoes the sentiment of transparency around findings – "The IRBA noted the calls at the Indaba for improved transparency and the IRBA is aware that a number of countries have already gone this route, not only to include the findings from inspections and the outcomes of investigations, but also naming the firms involved".
 - The investors at the 2017 Indaba also expressed a similar view – "The PCAOB publishes the inspection findings and that information is useful to audit committees when considering the independence of auditors. This is something that the IRBA does not do, when audit committees in South Africa are looking for this information it is not publicly available, if this information was made publicly available the audit committees then would take this into account when assessing the appointment or re-appointment of auditors".
2. The IRBA's paper, other than quoting the Public Investment Corporation (PIC), has not demonstrated that it has comprehensively consulted with the investing community in South Africa or globally. The CFO Forum, in its letter to the IRBA dated 3 January 2017 and also in its presentation at the SAICA November 2016 Indaba (2016 Indaba), reiterated that "while we cannot

dispute the fact that the PIC is one of the largest investors in the JSE, we do not believe that the views of one shareholder holding 12.5% should present an overall view of the investment managing community". This sentiment was echoed by the majority of the stakeholders at the Indaba, and it was agreed that more needed to be undertaken to fully understand the views and concerns, if any, of shareholders and investors.

3. SAICA held the 2017 Indaba , specifically with the investor community, below we summarize the key points raised by the investors at the Indaba:

Independence and strengthening of audit quality

- The investors concurred that there has been no indication that there were significant threats to auditor independence in South Africa. Many of the industries within the investment communities are regulated by the Financial Services Board (FSB). The FSB approves the appointment of auditors, and if there was an issue with the independence of auditors, surely the FSB would have been notified.
- Furthermore the FSB has not indicated to the investment community that they have been formally made aware of the implications of MAFR or whether they have been formally consulted by the IRBA on MAFR. The World Economic Forum Global Competitiveness Index has ranked South Africa in terms of strength of audit and reporting standards as number 1 and 3 in respect of the company board. This surely demonstrates the strength of the current standards and regulatory environment.
- There was a view at the 2017 Indaba that it would really help with understanding the concerns of other stakeholders, if the PIC could make its views public instead of being quoted as this will help the investor community, understand the basis of concerns that the PIC is quoted as having relating to auditor independence.
- There was a call for the IRBA to make the results of its inspection reports public, and indicate to the investors, transparently, the audit independence and audit quality issues found through these inspections. This information being made available is critical to the audit committees and management; also a point was made that – "if through these inspections there are issues concerning independence of auditors, as an investment company, it would be critical that the investors are made aware of these, including disclosing the audit firm involved".
- The investors consider a number of factors when assessing the competency of the audit committee, including the competence of the audit committee chair. Assessing the competency of the audit committee is not an exact science; the investors analyze such issues as the mix of the audit committee, the professional background and reputation of the members, the tenure of the audit committee chair and audit committee members, the skills of the audit committee members.
- The investors do not consider only the audit tenure when considering independence of auditors and audit committees. "If there are reasons to question the independence, the audit tenure makes no difference, if there is a risk that independence might be compromised, action will be taken. If there are no independence concerns, then there is no reason why the relationship cannot be continued". There was a general consensus among the investors that there is no concrete evidence that audit tenure has a negative impact on auditor independence in the South African context, taking into account the existing measures in South Africa.
- The investors expressed a view that relationships are created between people, and coziness will be between people and not firms. "One has to bear in mind that staff within the audit firms

as well as within the clients change. Independence is a state of mind; it is not the firm doing the audit, but rather the people within the firm”.

- As an audit partner signs off the audit report, the investors would assess discomfort where independence is concerned, at an individual partner and not audit firm level. Where there are independence issues with the partner, the remedy for such a situation already exists in that, that partner could be reported to the IRBA.
- In South Africa, the pool of available skills for audit committee members plays an important role, even though the preference would be that the Chairman of the Audit Committee and the CFO should not be from the same firm as the incumbent auditors, there is a preference for experience and skill, which is more important, over which audit firm the people come from. It would then be the audit committees’ responsibility to guard against any perceived independence issues. The key issue is that there needs to be safeguards around the individuals involved, e.g. the partner rotating off, the partner not having a personal financial benefit from the company audited or a personal relationship with the CFO or audit committee members, etc.
- Certain investors confirmed that they had not voted against the reappointment of external auditors over a significant period. Furthermore, that the independence of auditors had not been a particular concern of theirs or of the investors that they represented.
- There was an overwhelming view that even if there were independence issues with auditors, MAFR would not be the measure to correct these – “a thought that is often debated by the investors is that if there is a problem, do we then need another set of rules or more intrusive regulatory oversight?”
- Some of the investors at the 2017 Indaba pointed out that they have never voted against the re-appointment of auditors, this further strengthen the view that investors have not been concerned about auditor independence and audit quality in the companies that they have invested in.

MAFR as a measure to address IRBA’s other stated objectives

- The investors raised concerns around the true intentions of implementing a measure such as MAFR in South Africa, without presenting any compelling evidence supporting threats to auditor independence and threats to audit quality. There was a concern raised that in the absence of any compelling evidence, the process appears to be purely commercially motivated. The investors agreed that there is a need for transparency from the IRBA on its true priorities driving its agenda. Various investors expressed a view that there may be better ways of addressing transformation and market concentration in South Africa without imposing a significant additional regulation to the auditing industry and to business. There is a need for the IRBA therefore to present to the investors concrete in-depth study and evidence that MAFR will lead to better audit quality.
- When it comes to transformation, investors agreed that this is a significant concern across all business, in our country as well as in the audit profession. Investors look at transformation very vigorously when it comes to assessing appointment and re-appointment of auditors. The B-BBEE scorecards submitted by the Big 4 audit firms to the companies are all Level 1 or Level 2. The Big 4 audit firms often table to audit committees their transformation plans to further improve transformation within the firms. Also the Big 4 audit firms, have produced more Chartered Accountants than the medium and small firms. There was a strong view that MAFR would not address transformation concerns, but rather that it would derail the efforts of the Big



4 audit firms in driving transformation, by resulting in reduced resources and effort being spent on transformation as much of this would be redirected in the cost and preparation time involved in preparing for audit proposals, as well as could lead to window dressing rather than actual transformation.

- The investors raised a concern that market concentration will not be addressed by MAFR, as MAFR will result in audit rotation happening amongst “the Big 4” audit firms and not opening up opportunities for smaller firms. This was evident in research conducted in Europe on the introduction of MAFR.
- The investors also suggested that MAFR will only result in the same audit quality, if not lower quality, achieved at a much higher cost to the investor / shareholders, and also at the cost of management spending significant amounts of time on the audit process rather than on strategic goals of the entities.
- From an investor point of view (local and global investors), the focus is on a more profitable and stable economy and the implementation of MAFR could undermine this as management time and resources are spent on implementing MAFR as opposed to dealing with a challenging business environment.
- The investors called for compelling evidence to support that MAFR will be implemented in a way that will best serve the shareholders and at a cost that is not excessive.
- The concern was raised that “The IRBA has stated that they are acting on behalf of public interest, the public appears to have indicated that they are not in favour of this measure being implemented, if investors that are present here today do not represent public interest, then who is?”

The Forum is of the view that even though the IRBA has stated that its' primary objective is to protect the investing public; it appears that there has been no robust and transparent engagement with the investor community. Investor participants at the 2017 Indaba were of the view that there has not been a formal consultation process. Overall, even after the 2017 Indaba, we believe that the current situation may still be that the investor constituency has not been adequately involved in the process and that still more needs to be done to understand the views and perceptions of shareholders and investors.

During the 2016 Indaba, the delegates also raised the point that the member banks did not believe that the IRBA had sufficiently consulted with the investors other than the PIC. The Banking Association of South Africa (BASA) also noted that “while MAFR proposals refer to listed entities which would presumably include entities with listed debt and entities that only have listed debt, the IRBA was unable to demonstrate that it had consulted with debt providers”. This is another stakeholder over and above the investors which the IRBA cannot demonstrate it has consulted with, hence delegates at the 2016 Indaba called for a full stakeholder assessment and also transparency around the comments raised by each stakeholder group.

Given the significant impact of MAFR on the investor community, we urge the IRBA to ensure that the concerns of this community have been addressed. A white paper supporting the decision to implement the MAFR should be exposed for public comment for a reasonable period to the investor community (locally and internationally). The IRBA must also provide evidence that it has addressed the concerns raised by various stakeholders that MAFR will have a negative impact on Foreign Direct Investment (FDI) Comment letter from the investor community should be a matter of public record. We also believe that the IRBA should also publish its response to comments and concerns raised by investors.

TRANSFORMATION AND MARKET CONCENTRATION

The Forum supports the principle of transformation and empowerment within the South African auditing profession. Measures to address these objectives, however, should be based on concrete research that proves that the proposed measures will address this important objective.

The Forum does not believe that the IRBA has provided compelling research and evidence that MAFR is the best solution to address transformation and market concentration. There have been significant concerns that have been raised that the IRBA has not demonstrated how these would be appropriately addressed by introducing MAFR

For example, the experience in Europe quoted at the 2016 Indaba was that *"The intention to address market concentration has had the opposite effect in that companies are either rotating among the big firms or rotation happens from smaller firms up to bigger firms but never the other way around."*

In the EU, Public Interest Entities (PIEs) are required to rotate and there are significant obligations on audit firms. Therefore, the smaller firms are resigning from the audit of PIEs because the costs and risks of auditing these companies are disproportionate to the benefits derived by these smaller firms."

The Forum also believes that it would have been beneficial for the statistics quoted by the IRBA relating to the number of black partners signing the JSE Listed companies audit reports to have been supported by for example information that will provide:

- An insight into the profile of an audit partner who meets the JSE accreditation requirements;
- An insight into the number of partners within the Big 4 audit firms who are accredited by the JSE to sign JSE listed companies audit reports.
- An insight into the % of black partners accredited by the JSE and how many of the accredited partners actually sign the JSE audit reports.

The information above would then provide Big Business with context to obtain a thorough understanding of what is the cause of the transformation concerns within the auditing profession and how we can work with the audit firms to solve these. It is likely that the results of the above will demonstrate the larger issue of transformation within the profession as well as the difficulties experienced by audit firms in retaining black partners due to the extensive opportunities that they are offered outside of the profession.

The Paper also attempts to illustrate that firms other than "the Big 4" also have international scale. The IRBA has not presented evidence to dispute the view that large audits and audits with global requirements will simply rotate amongst "the Big 4". The smallest of "the Big 4" firms has 174,000 employees worldwide whereas the largest of the smaller firms has 64,000 employees. That means the big auditing firms have almost three times the reach and capacity of the smaller firms. In our letter dated 3 January 2017, we also raised a point that the IRBA's paper has not provided a skills audit of the smaller firms to answer questions raised about the smaller firms' capabilities to audit entities with extremely complex operations such as the banks and other entities in the financial services environment.

We also pointed out the experience of the Netherlands that for the Netherlands the MAFR experience has not been positive. The Netherlands found itself struggling with a skills shortage and although they had expected MAFR to provide more work to the mid-tier audit firms, that work did not transpire. The majority of the work stayed with “the Big 4” as the mid-tier firms struggled more with the skills shortage than the bigger firms. The Paper also omits to discuss the experience of MAFR in the USA and Singapore where MAFR was withdrawn.

FURTHER IN DEPTH RESEARCH IS REQUIRED TO BE PRESENTED

In all engagements, through various platforms and various affected stakeholders, that The Forum has attended and participated in, there has been agreement and alignment that a comprehensive, independent research project on MAFR should be undertaken.

The affected stakeholders are calling for:

- Convincing evidence that proper research has been conducted which supports the assertion that auditor independence is a significant concern in South Africa and that the decision to implement MAFR will address this. In our letter to the IRBA dated **3 January 2017**, we state:
 - The IRBA has not presented convincing evidence that proper research has been conducted which supports the decision to implement the MAFR. The research reference that has been presented in The Paper is extremely limited and not sufficiently comprehensive. For such an important proposal, we would have expected additional references to research materials that would include:
 - Research from other accounting bodies.
 - Research from regulators.
 - Research from stock exchanges.
 - Research from academics.
 - The above list is not exhaustive; however we include it in our response to demonstrate the lack of detailed analysis presented by the IRBA in its paper. The Forum is for example aware that a comprehensive report on the potential effects of MAFR was prepared by the United States General Accounting Office for the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services. This report included a detailed analysis of MAFR which includes a discussion of the potential impact on audit related costs and fees. This report is not included in the IRBA paper.
 - The evidence that has been presented by the IRBA in The Paper is insufficient to support a proposal that has such far reaching consequences. Furthermore, we note that in its May 2016 consultation paper, the IRBA stated that “as most countries have only recently introduced these measures (MAFR), there is no empirical evidence yet to demonstrate that these measures are working or not, and the results of an empirical analysis from these countries are still pending”. We therefore believe that proposing such measures in South Africa when empirical evidence is lacking, without clearly demonstrating that alternate measures have been considered and found insufficient to address the identified risks, is potentially damaging and lacks due process. We still maintain that introducing what appears to be an experimental and unproven process on important institutions of the economy could lead to unintended consequences.

- The supporting information and back up research in support of the IRBA's views on independence and audit quality in South Africa to be made available. This would include a greater transparency with respect to the IRBA's inspection findings.
- Evidence supporting that the current measures in place, are inadequate to address auditor independence.
- The supporting information and back up research in support of the IRBA's views to be made available. This would include a greater transparency with respect to the IRBA's inspection findings.
- An in depth analysis, and comprehensive research of the cost implications of MAFR on business in monetary terms and also an in depth analysis of the investment time that will be spent by both the auditors and key management personnel of entities being audited. International delegates at the SAICA November Indaba spoke of the European Union experience with MAFR. They highlighted significant cost implications as a result of MAFR. Initial assessment estimate of these costs is around EUR16 billion.
 - At the 2016 Indaba, BASA raised a concern that the costs are expected to be substantial for the banks; therefore the association expects the IRBA to have seriously considered cost implications in its determination whether to enforce MAFR on listed banks with joint auditors. MAFR will also involve significant amount of management and auditor time being dedicated to the audit process, the cost of lost time can therefore not be ignored when establishing the overall cost associated with implementing MAFR. To date the IRBA has not sufficiently demonstrated that there is evidence to support its representations on Table 5 "Change in fees after rotation" in its consultation paper.
 - BASA also noted that the operations of listed banks are extremely complex and the incumbent audit firm will need to spend a significant amount of time obtaining an understanding of the entity's intricate business operations. Also during the handover period it will be necessary for the bank to involve three audit firms in all areas of the audit, which is anticipated to significantly increase the cost of the audit. There is also the further cost of aligning the auditing processes of both the existing and incumbent auditors.
 - The member banks, through research conducted anticipate that the audit fees following a change in auditor is expected to amount up to approximately 1 times the annual audit fee of the existing auditor.
- Also the Banks are already subject to joint audits and are already restricted to two firms because of the limitation on the performance of non-audit services, as well as extremely complex business operations. The IRBA has not demonstrated how it has consulted with the South African Reserve Bank (SARB) to address issues that have been raised by the banks.
- Evidence supporting the fact that the concerns raised by large multinational companies to the practicality of MAFR on companies that operate across various jurisdictions. These entities, some of which operate in over 130 entities, have specific needs in terms of their professional services providers.
- Evidence supporting the fact that the IRBA has appropriately addressed the concerns raised by entities with dual listing requirements (for example US Listing), these entities are compelled by the Securities and Exchange Commission (SEC) requirements to be audited by audit firms which have been registered by the PCAOB. US listed companies manage their risk by appointing audit firms that have been reviewed by the PCAOB. Currently only the Big Four audit firms have been reviewed by the PCAOB. The IRBA has not advised how this concern has been or will be addressed.

- Evidence supporting the fact that concerns raised by entities that have to abide to US Listing requirements have been addressed.
- Evidence supporting that the views of international investors have been sought and their concerns addressed.

A number of stakeholders have raised a concern that, MAFR has been implemented in a number of jurisdictions, mostly recently in the European Union (EU); however there are also other jurisdictions where it has been considered, but not implemented, and yet others that have implemented MAFR only having to withdraw or repeal it later. As stated previously we are concerned that the experiences of the other jurisdictions which had implemented and yet repealed MAFR have not been taken into consideration by the IRBA. On the basis that empirical evidence is lacking on the success of MAFR, the actual experience of these jurisdictions is important to South Africa in order to fully assess the impact of implementing MAFR. The SAICA, Indaba Overview (issued on 7 December 2016) presents tables below to fully demonstrate international experience with MAFR:

Table 1: Countries with Mandatory Audit Firm Rotation for some entities

Country	Companies	Scope of requirement	
Belarus	Banks	Three-year rotation.	
Bolivia	Financial Institutions and Listed companies	Six-year rotation.	
	Insurance and reinsurance companies & Pension Funds	Three-year rotation.	
Brazil	Non-bank listed companies	Five-year rotation.	Began in 2012.
	Company has a statutory audit committee	10-year rotation.	
Cambodia	Financial institutions	Three-year rotation.	
China	State-owned entities and financial institutions	Five-year rotation. Tendering every three years.	
Croatia EU	Banks	Seven-year rotation.	
	Insurance and leasing companies	Four-year rotation.	
Ecuador	Financial institutions	Five-year rotation.	
	Insurance companies	Six-year rotation.	
Georgia	PIE	10-year rotation.	
Iceland EU	Financial institutions and insurance companies	Five-year rotation.	
India (2014)	Listed companies and some unlisted	10-year rotation with 5 year cooling off period.	

Country	Companies	Scope of requirement
India	Banks and insurance companies	Four-year rotation.
	Provident trusts	Two-year rotation.
	Public sector entities	Four or five-year rotation.
Indonesia (2016)	Financial Institutions and Listed companies	10-year rotation. Two year cooling off period.
Indonesia	Central bank	Five-year rotation.
	Public and private companies	Six-year rotation. However, many firms "reconstitute" every six years.
Israel	Government companies	Two three-year rotation periods with possible extension in certain circumstances.
Italy EU	Listed companies and public interest entities	Nine-year rotation.
Kuwait	Listed companies	Four-year rotation.
	Government and quasi-government institutions	Six-year rotation.
Laos	Banks	Three-year rotation.
	Listed companies	Three-years with possible extension of one year in certain circumstances.
Macedonia	Banks and insurance companies	Five-year rotation.
Morocco	Banks	Six-year rotation.
	Listed companies	12-year rotation.
Mozambique	Credit and financial institutions	Five-year rotation.
Nigeria	Regulated private companies	10-year rotation. 7-year cooling-off period.
Netherlands EU	PIE	Eight-year rotation.
Oman	Listed companies, government controlled companies, and private joint stock companies	Four-year rotation.
Pakistan	Financial institutions and insurance companies	Five-year rotation.
Palestine – West Bank and Gaza	Banks and microfinance institutions	Five-year rotation of audit partner (if it is not possible to rotate the partner, the audit firm must rotate).

Country	Companies	Scope of requirement
Paraguay	Financial institutions, insurance and reinsurance companies and listed companies	Three-year rotation.
Peru	Government entities	Two-year rotation.
Poland EU	Insurance companies	Five-year rotation.
Portugal EU	Listed companies	Eight to nine-year rotation recommended on a "comply or explain" basis.
Qatar	Banks	Five-year rotation.
	Qatar shareholding companies, whether listed or not.	Three-year rotation is a recommended best practice.
Russia	Banks	Five-year rotation – legislation submitted.
Saudi Arabia	Joint stock listed companies	Five-year rotation.
	Banks	Upon request from the central bank, ensure partner rotation instead
Serbia	Banks and Insurance companies	Five-year rotation with 10 years allowed when combined with partner rotation.
Slovenia EU	Public companies	Five-year partner or firm rotation recommended.
	Insurance and investment management companies	Five-year rotation required.
Tunisia	Financial sector companies	Two three-year rotation periods.
	Listed and non-listed companies	Three three-year rotation periods for firms with fewer than three partners. Five three-year rotation periods for firms with more than three partners, which have partner rotation.
Turkey	Public Firms listed on Borsa Istanbul	Seven-year rotation (max 7 out of 10 years).
Ukraine	Banks	Seven-year rotation.
	National Bank	Five-year rotation.
Uzbekistan	All companies that require an audit	Three-year rotation.

Country	Companies	Scope of requirement
	(including financial institutions, joint stock companies, insurance companies, and not-for-profit organizations)	
Venezuela	Banks	Three-year rotation. Began in 2014.
Vietnam	Banks	Five-year rotation.

Table 2: Countries where mandatory firm rotation was repealed in whole or in part

Country	Companies	Scope of requirement	Reason abolished
Argentina		Repealed in 2016.	In favour of partner rotation. Aligned with IESBA
Austria EU	Banks, large, listed and insurance companies	Enacted in 2001 and effective beginning in 2004, repealed in 2004 before implemented.	Cost exceeded benefit
Brazil	Banks	Regulations enacted in 1996 and applicable to audits starting in 2001, repealed in 2008;	See above for non-bank listed company requirement.
Canada	Banks	Required until 1991.	Abolished in favour of partner rotation. Lack of cost-effectiveness (Fontaine,2015)
Costa Rica		Required in 2005, repealed and rejected in 2006 and 2007.	Reversed in 2010 and reinstated again.
Czech Republic		Applied between 1992 and 1995.	Abolished as part of deregulation of the market in moving from a command economy.
Greece EU		Abandoned since 1994.	
Latvia EU	Banks	In 1998, 1999 and 2000, repealed in 2002.	
Pakistan	Listed companies	Required in 2002, but was reversed in 2003-04.	See above for financial institutions and insurance companies.
Philippines		Had plans to adopt but abolished all plans in 2013.	Not feasible, not enough audit firms to implement successfully.
Singapore	Domestic Banks	Required in 2002. Suspended in 2008.	Initially due to worldwide financial

Country	Companies	Scope of requirement	Reason abolished
		Proposal made to abolish in September 2016.	crisis. Based decision now on studies performed.
Slovak Republic EU	Banks	Required in 1996, repealed in 2000.	
South Korea	Listed companies	Adopted in 2003 and effective beginning in 2006, repealed in 2009.	Does not improve audit quality.
Spain EU	Listed companies and large companies	Required in 1988, repealed in 1995 before implementation.	Negative effect on quality of audits. Disturbed audit market structure
Turkey	Banks	Eight-year rotation.	Repealed in 2011. New rules enacted in 2014.
	Insurance companies	Seven-year rotation.	
	Energy companies and all listed companies	Five-year rotation, unless the company and audit firm meet certain criteria, in which case partner rotation sufficient.	
Uganda		Abolished	

Table 3: Countries that considered MAFR and did not adopt

Country	Companies	Decision
US	Public companies	No grounds for enhancement of auditor independence. GAO performed study. House of Representatives voted 321:61 against MAFR.
Australia		Not in favour of MAFR.
New-Zealand		Not in favour of MAFR.
Japan		Considered and decided NO: Four reasons: 1. Decrease audit quality. 2. Lack of knowledge of new client's business and industry. 3. Increase audit costs. 4. Not required by other major countries (at that time).
EU Countries before implementation of MAFR in 2016		
Germany	Banks	German Bank promoted in 1995 with no success. Introduced partner rotation instead.
UK		Considered and decided NO: 1. Quality of audits decrease. 2. Cost of audit increase.
France		Considered and decided NO: 1. Quality of audits decrease. 2. Cost of audit increase. 3. Lack of knowledge of new client's business and industry.

The Forum and other affected stakeholders have expressed great concern around the availability of research to support the assertions made by the IRBA, the availability of supporting evidence to support that MAFR is the best measure to address issues identified, the lack of visibility of significant issues raised by the various stakeholders and how these have been addressed. The IRBA's approach when it comes to presenting information has not been transparent; this opens up an opportunity for the intentions of the IRBA to be brought into question. While this is concerning due to lack of due process, there may be the consequences of bringing the integrity of the profession into question.

Conclusion

The CFO Forum supports the three stated objectives of the IRBA and supports the IRBA in its primary objective of protecting the investing public.

It is our view however, that any measure to achieve the above should be subject to a robust, fair and transparent process affording all affected stakeholders an opportunity to air their concerns, challenges and views which should then be addressed in a formal, transparent and fair process.



Our greatest concern is around implementing a measure that will have significant unintended consequences, not only on the auditing profession, but on big business and the investing community.

We thank the SCoF for the opportunity to participate in this process, and trust that our comments will assist the IRBA in their continued endeavour of improving investor protection through regulation of audit firms.

Yours sincerely

A handwritten signature in black ink, appearing to read 'KC Ramon', written in a cursive style.

KC Ramon
Chairperson of the CFO Forum