

13 February 2017

Hon. YI Carrim, MP
Chairperson: Standing Committee on Finance (SCoF)
Parliament of the Republic of South Africa

Submitted electronically to: Committee Secretaries, Ms Teboho Sepanya at tsepanya@parliament.gov.za, and Mr Allen Wicomb at awicomb@parliament.gov.za

Dear SCoF Members

SUBJECT: SUBMISSION ON MANDATORY AUDIT FIRM ROTATION (MAFR)

In its Discussion Paper, the IRBA give guidance on how to moment and directs commentators to how clear the requirement of MAFR are and how best to implement the requirements. There is no engagement with regard to whether MAFR is an appropriate way to go and what research was undertaken to come to such a conclusion.

GLOBAL VIEW

A table of countries that implemented MAFR is included in the IRBA's paper. The raw data is provided in the table without evaluating the situation in the countries concerned, e.g.

Brazil	-	Nothing is shared about how it is currently working and what the experiences in Brazil are.
China	-	Current developments in China regarding the attempt to transform the profession are not being shared.
EU	-	Too early to cite. Implementation is still being managed and therefore no meaningful experience. Several member countries have implemented and repealed it before e.g. Spain and Greece.

INSPECTION FINDINGS RELATING TO ETHICAL REQUIREMENTS

The IRBA indicates that 43% of firms inspected indicate significant deficiencies. It would be useful to know what percentage relate to the Big Four and more importantly, what action did the IRBA take as there are currently mechanisms available to IRBA that don't seem to be used.

PIC CONCERN

It is stated that the PIC is concerned and has often voted against appointment of auditors. One fails to see why the PIC would be cited as a reason for introduction of MAFR because as an investor, like

all shareholders, they have a right to vote against appointment of auditors or audit committee chairs and if shareholders/investors are unhappy, they will not approve such appointments. It is a right and a mechanism that the shareholders already have and I submit that this right correctly belongs to the shareholders and not some mechanical system.

AUDITS TAKEN BACK BY THE AGSA

The inference here is that audit firms that previously did SOE audits did not carry out proper audits. Again, if one goes through the disciplinary cases of the IRBA, one battles to see any cases at all dealing with such a phenomenon. It would be interesting to know what actions were taken against such auditors and their firm because there are already measures in place to deal with such cases. If this "incompetency" is left unattended to, all it means is that MAFR will move the deck chairs on a sinking Titanic.

TABLE ON AUDIT TENURE

There are at least 13 audit tenures below to 10 years. It means that the audit committee had objectively considered reason to change auditors, not because of arbitrarily imposed limits, and the shareholders agreed. Why is it implied then that the system is broken???

FEEDBACK FROM STAKEHOLDERS

While the pie graphs provide useful information it would be useful to have a pie chart specifically for investors as this measure purports to be protecting and serving their needs.

CONCLUSION

The primary issue facing the profession is transformation and not auditor independence. South Africa has been voted first for 7 years running by WEF for financial reporting. South Africa would never be anywhere near the top ten if there was a serious auditor independence issue. Financial reporting is a process that includes preparers of financial statements, auditors, audit committees, boards and audit regulators. It cannot be that only audit regulators are working well and the whole system is broken and yet South Africa ranks NUMBER 1.

I would welcome an opportunity to interact with the committee and have a face to face verbal interaction on the 15th of February 2017 as suggested by the committee.



IGNATIUS SEHOOLE CA(SA)