

# STRENGTHENING AUDITOR INDEPENDENCE

## Mandatory Audit Firm Rotation

Standing Committee on Finance  
15 February 2017



*"The collapse of Enron feels like a tiny pebble in the road compared with the financial cataclysm five years later. But when it comes to Arthur Andersen's failures during that crisis (the auditor got too chummy with the executives it was supposed to be policing), it still reverberates.*

London  
**Evening  
Standard**



## The role of Audit and Regulation

- By promoting integrity in Financial Reporting and building a basis for providing confidence, auditors reduce financing costs and contribute to the efficiency of capital markets, thereby promoting economic growth.



- This means that investors should be able to rely on assurance provided by auditors. Reliance is strengthened when there is oversight, creates confidence in the financial markets, stimulates investment and creates employment.

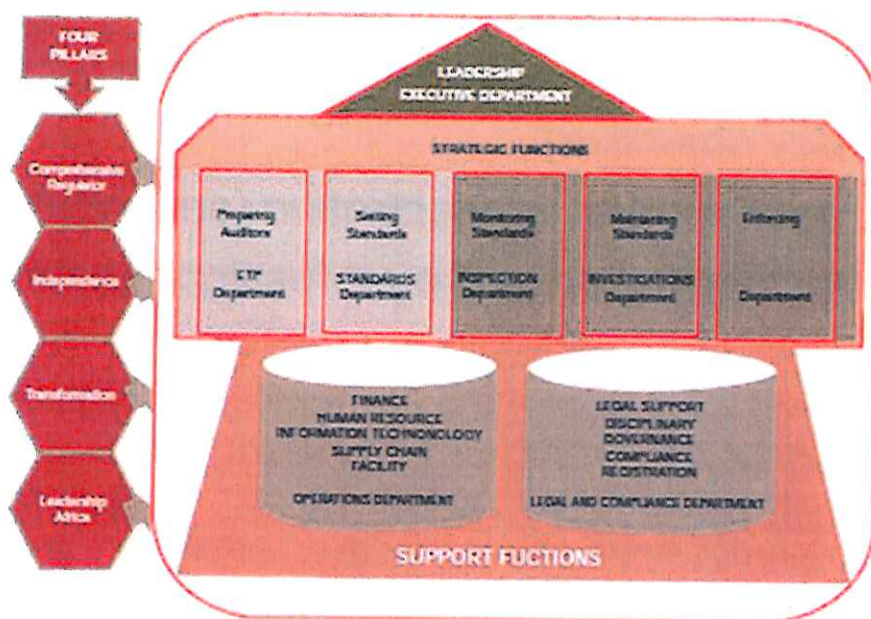


## Regulatory Philosophy

- Balanced regulation ('right-touch' regulation)
- Promotion of accountability
- Promotion of transparency
- Facilitation of access to markets
- Creation of equal opportunities
- Indigenisation



## The IRBA 4 Pillar Strategy



## Governance and Independence

- Government and parliament
- Auditors and CFOs
- Auditors and audit committees
- Audit Committees and CFOs
- Independence of the IRBA Board and its statutory committees



## What are our concerns in the SA context?

- Strengthening auditor independence to enhance audit quality (primary objective)
- Addressing audit market concentration (secondary); and
- Promoting transformation in the profession (secondary).



## A case in point ...

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**Accountancy**  
**Accountancy's Big Four need more competition**  
 The case shows the auditing oligopoly requires an overhaul  
 FT View



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There has been plenty of blame to go around for the financial crisis and the scandals it exposed. Most of this has befallen the bankers, but

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**The beach-house lawyer calling big auditors to account**  
 AUGUST 23, 2016

**More on this topic**  
 Suggestions below based on Accountancy

**The beach-house lawyer calling big auditors to account**  
 Steven Thomas's pursuit of PwC has made him the go-to guy in emerging world of auditor liability

A clubby oligopoly that is

<https://www.ft.com/content/7f4b0b0e-09e7-11e6-ae5b-47c59d5a28b>

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## A fresh pair of eyes

- Current worldwide concerns around corruption, transparency, governance and accountability
- Re-invigorates the audit approach
- Perceived independence of auditors
- Illicit financial flows



## The Audit Tenure Rule

In 2015, the IRBA issued its rule requiring **Mandatory Audit Tenure Disclosure** in terms of section 10(3) of the APA, (*Government Gazette No. 39475, 4 December 2015*).

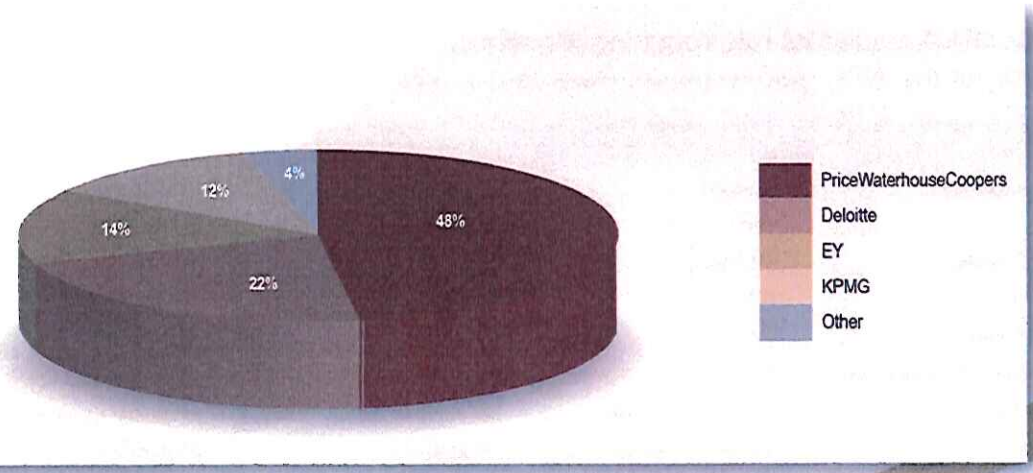
Top 10 companies. Audit tenure > 50 Years	Audit Firm	Audit tenure	2015 Audit fees
Murray and Roberts	Deloitte	114 years	R34 Million
Naspers	PwC	101 years	R135 Million
Barloworld Limited	Deloitte	98 years	R61 million
AECI Limited	KPMG	91 years	Not Disclosed
Santam Limited	PwC	87 years	R19 million
Woolworths Holdings Limited	EY	84 years	R24 million
Sappi Limited	Deloitte & Touché	80 years	R63 million (approx.)
Tongaat Hullet	Deloitte & Touché	78 years	R15 million
Anglo Gold Ashanti	EY	72 years	R92 million (approx.)
Distell Group Limited	PwC	71 years	R9.2 million



## Shareholder Effect

Company	AGM Date	Auditor	Tenure	Vote Against Current year	Vote against Previous year
Lonmin PLC	26 Jan 17	KPMG	N/A	41.690%	1.39%
Spar Group Ltd	07 Feb 17	Deloitte & Touché	49	35.930%	0.31%
Barloworld Limited	08 Feb 17	Deloitte & Touché	98	18.160%	0.01%
Woolworths	30 Nov 16	EY	84	18.620%	0.52%
Astral Food Limited	09 Feb 17	PwC	16	16.950%	0.00%
Aspen	06 Dec 16	PwC	19	14.440%	0.00%
Pioneer Food Group	10 Feb 17	PwC	69	12.860%	0.00%
Nu-World Holdings	08 Feb 17	RSM South Africa	2	10.320%	9.21%
Rhodes Food Group	09 Feb 17	Deloitte & Touché	17	9.490%	0.00%
Octodec Investments Limited	27 Jan 17	Deloitte & Touché	25	7.720%	0.03%

## Audit market share for listed companies

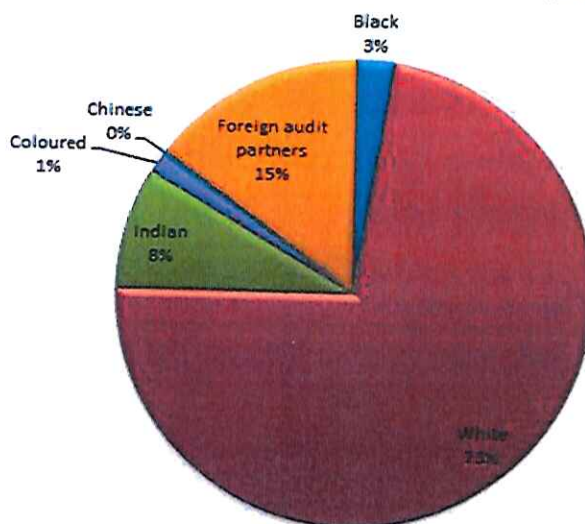


\* Concentration measured by share of market capitalisation on the Johannesburg Stock Exchange.



## Racial demographics of audit partners signing off on listed companies - %

Audit Partners signing on ALL JSE listed companies



## Independence

- Audit failures and global financial crises drive focus on the independence of auditors and the responsibility of regulators
- Increased demands for transparency from investors
- Drive for high audit quality
- Governments and regional trade structures such as the EU are taking legislative steps and focusing on who is accountable for the public protection
- Stricter measures are the order of the day
- Aligning to international practice

## Key milestones

### Scoping:

- Research Part 1 : July 2015
- Research Part 2 : August 2015 – May 2016
- Consultation with stakeholders : July 2015 – May 2016
- Compilation of data collected from research and consultation phases : June – July 2016

### Public Participation and Consultation:

- Building awareness of measure and timelines for consultation: August – October 2016
- Public Consultation: October 2016 – January 2017
- Finance Ministry and National Treasury kept informed of the process



## The MAFR Requirement

- On 29 August 2016, the IRBA made its announcement to require audit firms to comply with **Mandatory Audit Firm Rotation (MAFR)**
- Proposed requirements on which comment were sought:
  - An audit firm shall not serve as the registered auditor of a listed company for more than 10 consecutive financial years.
  - Thereafter, the audit firm will only be eligible for reappointment as registered auditor after the expiry of at least five (5) financial years.
  - The requirement is effective for financial years commencing on or after 1 April 2023.

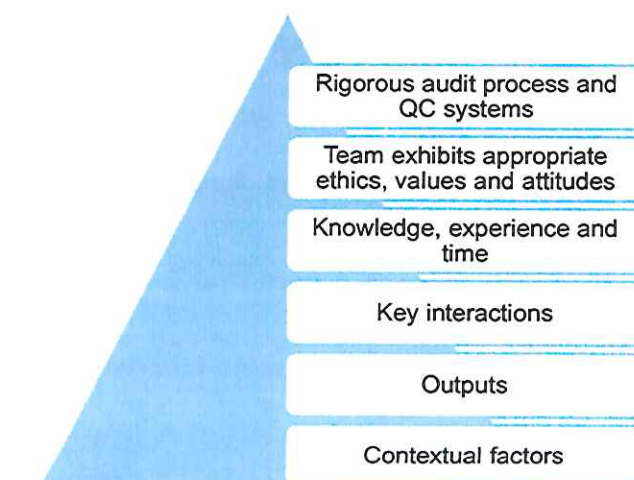




## Countries which have / are implementing\* MAFR

IFIAR	G20	BRICS	Africa
Abu Dhabi	Argentina	Brazil	Kenya*
Albania	Brazil	Russia*	Mauritius
Chinese Taipei	China	India	Morocco
Dubai	India	China	Mozambique
Indonesia	Indonesia	South Africa*	Nigeria
Korea	South Korea		Tunisia
Lichenstein	Saudi Arabia		
Norway	Italy*		
Singapore	United Kingdom*		
Thailand	Turkey*		
Italy*			
Netherlands*			
United Kingdom*			
Turkey*			
EU Members States* (22x)			

## Audit Quality



## World leader in Audit Regulation

- The world's number one for the strength of its auditing and reporting standards
- As measured by the World Economic Forum's Global Competitiveness Report (*published 28 September 2016*)
- Seventh consecutive year that the country holds this position
- Signals robust standards setting process (due process), sound inspections method (monitoring) and consequences for non-compliance (accountability)
- The IRBA will remain a proactive regulator to retain its global ranking



## Cost of Rotation

- International trends show minor change in audit fees
- Time and effort spent with new auditors
- Processes in place by the client and the audit firm 1 year in advance
- Only happens every 10 years

## Impact of audit fees on previous audit firm rotations in South Africa

<b>Vodacom Limited</b>	31 March 2015	31 March 2014	31 March 2013
• Audit fees	R26 million	R22 million	R22 million
• Audit firm	PwC	Deloitte	Deloitte
<b>Sasol Limited</b>	30 June 2015	30 June 2014	30 June 2014
• Audit fees	R87 million	R86 million	R77 million
• Audit firm	PwC	PWC & KPMG	KPMG
<b>Pick 'n Pay Limited</b>	28 Feb 2016	28 Feb 2015	28 Feb 2014
• Audit fees	R6.1 million	R7.4 million	R7.6 million
• Audit firm	EY	KPMG	KPMG
<b>Famous Brands Limited</b>	28 February 2016	28 February 2015	28 February 2014
• Audit fees	R4.6 million	R3.4 million	R3.2 million
• Audit firm	Deloitte	RSM South Africa	RSM South Africa



## International Companies already affected by rotation globally





## Towards 2023

### Landscape

- Monitor costs and implementation
- Work with the Competition Commission to monitor cartels
- Capacity building of mid-tier firms
- Two new stock exchanges opening - more opportunities for audit firms and growing professional opportunity

### Audit Firms

- Forward planning for 2023
- First mover advantage
- Employment patterns – proper planning by audit firms
- Transition period
- Use of advanced technology and big data



## Future regulatory considerations

- Oversight of audit committees
- All auditor requirements brought back into the APA
- Transparency reporting by audit firms
- Increased penalties
- Increased disclosure by Audit Committees



**THANK YOU**



