



South African Reserve Bank

SARB's perspective on Mandatory Audit Firm Rotation

Standing Committee on Finance
17 March 2017



SARB mandate and role

- Mandate to maintain price stability with balanced and sustainable economic growth
- Objective as a regulator to promote the soundness of the domestic financial system in the interest of financial stability.
- SARB is a member of the Basel Committee on Banking Supervision (Basel Committee) – global standard setter for prudential regulations of banks.

Regulatory / supervisory perspective

- Audit quality and auditor independence is key to contribute to a sound and stable financial system.
- Registrar of Banks has charged the Audit Committees with the responsibility of monitoring and assessing independence of external auditors, as per section 64 of the Banks Act.
- Basel Committee in its guidance noted the Audit Committee to monitor and assess the independence of external auditors.
- The SARB requires auditors, in addition to the statutory audit of the financial statements, to also provide assurance on a number of prudential requirements and aspects that requires specific set of skills.

Regulatory / supervisory perspective cont.

- Registrar to approve the appointment of an auditor before they can take up office – section 61 of Banks Act, Office of the Registrar will do a fit and proper assessment.
- Registrar can also withdraw its approval if auditor found to be, amongst others:
 - unfit or incompetent
 - under investigation by IRBA
 - fails to disclose any direct or indirect interest which may constitute a conflict of interest
- SARB also approves the appointment of non-executive board members, serving on Audit Committees and can terminate such appointment if deemed necessary.
- SARB requires the chair of an Audit Committee to be independent non-executive.

Regulatory / supervisory perspective cont.

- Registrar's approval requires the Audit Committee to do a proper assessment of suitability of the auditor – MAFR should not impact the ability of Audit Committees to function independently and effectively impacting on their accountability.
- SARB requires joint auditors for its large banking groups to enhance audit quality and independence.
- Audit partner rotation as prescribed under the Companies Act is also followed.

MAFR consultation paper

- SARB believes that further research required to assess possible unintended consequences of adopting MAFR, compared to certain countries deciding not to adopt MAFR or retracted from initial adoption.
- Comprehensive research to be done to clearly articulate the benefits versus the cost or potential unintended consequences of adopting MAFR.
- Current requirements under section 90(2) of the Companies Act restricts audit firms that provided non-audit services 5 years preceding their appointment to become auditors and will therefore not be eligible to rotate – this requirement could create a shortage in audit firms available with the relevant skills and expertise to audit a large banking group – impacting on audit quality.

Conclusion

- SARB requests IRBA to consider whether adequate research has been done to assess the benefits versus costs or unintended consequences of adopting mandatory audit firm rotation – given that some countries have decided not to adopt or have retracted MAFR.
- MAFR requirements not to be imposed on banks, as joint audits are applied to enhance audit quality and independence together with stringent prudential requirements already imposed by the regulator on Audit Committees, chairs of Audit Committees and Auditors.
- MAFR requirements to be imposed through the Companies Act where other existing requirements pertaining to auditors and Audit Committees are housed and to address the requirements of section 90(2) in terms of a 5 year-cooling off period for non-audit services.



Thank you