

**MANDATORY AUDIT
FIRM ROTATION**

RESULTS REPORT

Analysis of the results to the SAICA survey on Mandatory Audit Firm Rotation (and other Related Measures) as Possible Means of Enhancing Auditor Independence



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CONTENTS

09 THEME 01

The extent to which respondents support or agree with the IRBA's stated objectives



17 THEME 02

Views on whether respondents believe that proposed measures such as MAFR, MAT and JAs/MJAs will achieve the intended objectives



25 THEME 03

Evaluation of the potential benefits or advantages, and potential challenges or concerns or disadvantages of the proposed measures



43 THEME 04

Views on whether or not there are net benefits to adopting MAFR (and/or MAT and JAs/MJAs)



48 THEME 05

Perspectives around existing measures and their contribution to ensuring adequate levels of auditor independence and audit quality



57 THEME 06

Views on enhancing existing measures, and possible alternative measures



66 THEME 07

Considerations relating to "What if" MAFR (and other related measures) are to be adopted



MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

INTRODUCTION AND SEGMENTATION OF RESPONDENTS

This results report should be read together with the SAICA discussion paper *Considering Mandatory Audit Firm Rotation (and other Related Measures) as Possible Means of Enhancing Auditor Independence*

The *discussion paper* was released on 6 July 2016 and was accompanied by a questionnaire to solicit members' input and views relating to the implications of the matters addressed therein. The questionnaire was administered by way of an online survey that was open from 6 July 2016 to 15 August 2016. The *discussion paper* was distributed to all SAICA members, associates and trainees, and was distributed on behalf of SAICA by some other organisations, including accredited universities, audit firms, companies and entities belonging to the SAICA CFO Forum, and the Institute of Directors of Southern Africa.

In the context of the holistic project of the Independent Regulatory Board for Auditors (IRBA) around strengthening auditor independence in South Africa, SAICA's objective is to ensure that there was broader awareness amongst all parties affected or impacted by the measures being considered and the potential

issues involved. The *discussion paper* is SAICA's contribution to raise awareness amongst all of its constituents around measures such as mandatory audit firm rotation (MAFR), mandatory audit tendering (MAT), and joint audits (JAs)/mandatory joint audits (MJAs); also in the context of measures that already exist in addressing auditor independence and audit quality, and other possible alternative measures. SAICA wishes to stimulate constructive debate around these topics and to solicit input from members to provide additional insights into views and perspectives within the South African context.

It should be noted that the *discussion paper* and its accompanying questionnaire were prepared and issued during a period before the decision by the IRBA to implement MAFR in South Africa was known. The IRBA's decision was announced on Monday, 29 August 2016. SAICA believes

that this results report will still be of value as it contributes to the existing body of knowledge on the topic of MAFR (and other related measures), including providing South African-specific views and perspectives. Furthermore, the responses to certain questions in the questionnaire provide information about matters of implementation, for example, preferences with respect to certain available options or models, as well as highlighting certain challenges and concerns that should be considered during the implementation phase to minimise any unintended consequences.

For purposes of this results report, respondents to the survey have been segmented. A prerequisite was that a respondent who wanted to participate in the online survey had to confirm that he/she had read the *discussion paper* beforehand.

RESPONDENTS

Total Responses **n = 1 487**

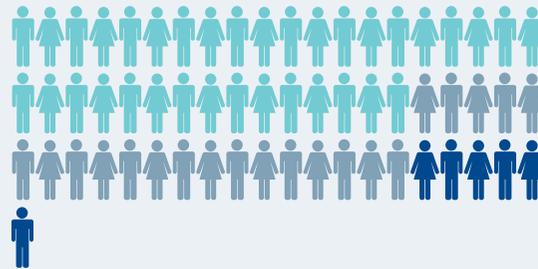
56% Chartered Accountants

41% Students/Trainees

3%
Other



61%
Members in
Public Practice



39%
Members **not** in
Public Practice



KEY

-  Large Firms **35%**
-  SMPs **20%**
-  Sole Proprietors **6%**

-  Preparers **19%**
-  External Users **4%**
-  Members of Boards **4%**
-  Audit Committees **3%**
-  Other **9%**

Throughout this results report, reference will be made to the following main segments or categories of respondents:

Respondents in Public Practice (in PP)

Comprising professionals (mostly chartered accountants and registered auditors) who place professional services, including audit and assurance services, at the disposal of the public for reward. This segment further distinguishes between the following sub-categories:

- Large firms
- Small and medium-sized practitioners (SMPs)
- Sole proprietors (or sole practitioners)

Respondents not in Public Practice (not in PP)

Comprising professionals (mostly chartered accountants) who work in, or are employed in business, i.e. professional accountants in business. This segment further distinguishes between the following sub-categories:

- Preparers of financial statements, including management, CFOs, board members, etc. (Preparers)
- External users of financial statements, i.e. investors, shareholders, financial analysts, other users of financial statements (External users)
- Members of boards of directors (Boards of directors)
- Members of audit committees (Audit committees)
- Other

Owing to the final number of respondents to the various profiling questions, the

following respondents were grouped into the “Other” category as part of the not in PP segment:

- Academia / Education institutions
- Consultants
- Professional accountancy organisations
- Regulator or Oversight body or Standard-setter
- Other interested parties, including executives, management, employees, independent parties and retired professionals

Student and trainees

This segment includes respondents that have identified themselves as CTA students or trainees, interns or students.

LIMITATIONS

The data analysis in relation to Students and trainees is limited. For purposes of this results report the decision was taken to focus primarily on respondents in PP and respondents not in PP, since they would be most directly affected by the introduction of the proposed measures to strengthen auditor independence in the short term and they have first-hand information and experience pertaining to the various issues involved.

The results are presented as perceptions and views that have been observed, and although not necessarily representative of a general or common view, it provides some valuable insights into the consideration of various measures and related issues presented in the *discussion paper*.

OPEN-ENDED QUESTIONS

The questionnaire also included a number of open-ended questions to gain some additional insight into the views and perceptions of respondents, respondents’ motivations or reasons, or their evaluations/assessments pertaining to certain matters or topics. Not all respondents chose to provide comments and in certain instances respondents seemed to provide comments that reconfirm his/her answer or the option they had selected as presented in the structured question(s), without necessarily expanding on the message. The number of comments per open-ended question varied.

Comments were grouped into the two main segments of respondents (in PP and not in PP) and thematic analyses were conducted to identify high level theme categories. Based on the occurrence of comments within these high level theme categories, individual comments were analysed further to identify more specific themes or messages. These are presented in the various sections of this results report, linked to the structured questions concerned. It should be noted throughout this report that the verbatim comments of respondents have not been included, but rather an integrated interpretation of the comments based on the identification of themes or messages.

MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

REPORT SECTIONS IN ACCORDANCE WITH RESULTS THEMES

The *discussion paper* together with the accompanying questionnaire,
addresses the following seven main themes





MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

THEME 01

The extent to which respondents support or agree with the IRBA's stated objectives

The extent to which respondents support or agree with the IRBA's stated objectives

The IRBA has indicated that in terms of their mandate to protect the financial interests of the investing public they are obliged to respond to the current global debates and recent legislative measures which have been implemented in respect of strengthening auditor independence. In this context and taking into account the specific circumstances in South Africa, the IRBA has stated its specific objectives relating to strengthening auditor independence, addressing market concentration of audit services and promoting transformation in the auditing profession.

In addressing these objectives, measures such as mandatory audit firm rotation (MAFR), mandatory audit tendering (MAT) and joint audits or mandatory joint audits (JAs/MJAs) are being considered for the audits of certain entities.

SAICA has clearly indicated that it supports these stated objectives. However, the measures adopted to achieve these objectives deserve careful consideration. Any potential measures adopted will have a significant impact on, among others, companies, the profession, investors, regulators and other stakeholders. The measures adopted should also be fit for purpose and unintended consequences should be considered carefully and minimised as far as possible.

The first group of questions posed at the start of the questionnaire focus on whether respondents in principle support or agree with the stated objectives of the IRBA, irrespective of any measures being proposed or considered. Respondents were requested to indicate their views by using a scale of 1 to 6, "where (6) means that you strongly support this as an objective and (1) means you do not support this as an objective".

Refer to Figures 1.1 to 1.3

"IRBA's STATED OBJECTIVES

Given the importance of responding to the need to further strengthen auditor independence the IRBA Board must consider further measures necessary to:

01
Strengthening auditor independence and so protecting the public and investors

02
Addressing market concentration of audit services and creating a more competitive environment

03
Promoting transformation by creating more opportunities for small and mid-tier audit firms



Figure 1.1
IN PUBLIC PRACTICE (IN PP)

Support for, or agreement with stated objectives (weighted average scores)



Figure 1.2
NOT IN PUBLIC PRACTICE (NOT IN PP)

Support for, or agreement with stated objectives (weighted average scores)



Figure 1.3
STUDENTS & TRAINEES

Support for, or agreement with stated objectives (weighted average scores)

OBJECTIVES

01

Strengthening auditor independence and so protecting the public and investors

02

Addressing market concentration of audit services and creating a more competitive environment

03

Promoting transformation by creating more opportunities for small and mid-tier audit firms

KEY



MEMBERS IN PUBLIC PRACTICE



Large Firms



SMPs



Sole Proprietors



MEMBERS NOT IN PUBLIC PRACTICE



Preparers



External Users



Members of Boards



Audit Committees



Other



STUDENTS & TRAINEES

Some observations from the results presented in Figures 1.1–1.3

- All of the segments/categories of respondents agree in principle with the IRBA's stated objectives.
- Across all segments /categories of respondents, the objectives are ranked as follows in order of priority:
 - (1) Strengthening auditor independence
 - (2) Promoting transformation in the auditing profession
 - (3) Addressing market concentration of audit services

The above references, (1), (2) and (3), will be used throughout this section to refer to the various objectives.

- Strengthening auditor independence is considered the most important objective relative to the other two objectives, especially amongst respondents not in PP.

Auditor independence is acknowledged as one of the foundations for providing external assurance; i.e. the auditor's opinion has value and is accepted as credible because it is performed by an independent assurance provider. Respondents not in PP attach the most value to this, since they ultimately rely on the auditor's report (i.e. they are the users of audit services).
- For respondents in PP, Large firms agree the strongest with objective (1) **[4.96]**, followed

by SMPs **[4.47]** and sole practitioners **[3.92]**. It is not unexpected that Large firms rate objective (1) higher than the other firms, since they are mostly involved in the type and size of audits where strict and more onerous independence requirements apply. All segments agree that all three of the objectives are important as indicated on the scale of 1 to 6.

- For respondents not in PP, Preparers and Boards of directors agree the strongest with objective (1) **[5.00 and 5.03 respectively]**, followed by the Other respondents sub-category **[4.86]**, External users **[4.60]** and Audit committees **[4.48]**.
- Overall, in relation to all three of the objectives, respondents not in PP rated the objectives higher than respondents in PP. This could reflect that the former segment is in a position to reflect more objectively on the matters concerned, including the fact that they would be impacted as the users of auditing services if these objectives are not adequately addressed by the auditing profession.
- The evaluation of the objectives by Students and trainees exhibits the same outcome amongst the three objectives; however, the

ratings are higher compared to those of respondents in PP and respondents not in PP – objectives (1), (2) and (3) receiving scores of **5.22, 4.91** and **4.66** respectively.

Again, this could be a reflection of the degree to which this segment of respondents are able to consider the matters more objectively, since they do not have the direct responsibilities and pressures of respondents in PP and they are not directly affected by the services of the auditing profession as are respondents not in PP.

The results observed above support an important point of departure, namely that although all of these objectives are considered to be important and should be addressed in the public interest within the South African context, the highest priority is to ensure the continued relevance and value of the external audit in the first instance in the absence of which the other objectives become irrelevant. If the other two objectives are pursued at the cost of the first objective, the auditing profession and the users of auditing services (and indeed, the economy at large) may be severely affected.

Respondents were given the opportunity to provide any further comments with respect to the stated objectives as covered in the structured

questions. The themes or messages below could be identified from the comments received.

Note:

Most of these themes or messages can also be linked to matters and issues covered in the remainder of the discussion paper and questionnaire, as presented in the sections that follow. Where certain themes or messages within the comments were repeated or reconfirmed by respondents/commentators under other sections of the questionnaire, they are not duplicated in this results report. This results report should be read and considered as a whole.

Common themes from comments provided by respondents in PP and respondents not in PP:

- Enhancing auditor independence is a sound objective – this must be the primary concern for the regulator, and should not be used as means to pursue other secondary objectives. If the appropriate objectives are not pursued, measures that are implemented could have the opposite effect on audit quality than was intended.
- Objectives such as transformation and market concentration should be addressed separately and not through regulator intervention that affect entities' choice of audit services provider, including when it is appropriate to change auditors. There are other mechanisms available to address the secondary objectives.
- The regulator's primary concern should be the quality of the audit firms' work and whether reports issued are appropriate in the circumstances.
- Free market forces should be allowed to work, enhanced by specific measures that already exist around market concentration (e.g. competition legislation) and transformation (e.g. BEE legislation and the CA Charter). Some doubts are expressed whether the measures being proposed will be more effective than the measures that already exist, as well as the steps and actions that have already been taken by the profession and within individual firms.
- One should not lose sight of the fact that most audit firms (large, mid-tier and small) are demonstrably committed to transformation and have already achieved significant positive outcomes. Although these efforts must continue, there is some doubt whether the proposed measures will make a significant contribution in this regard.
- The current market for audit services is indeed competitive and there is no need for regulatory intervention.
- More innovative solutions should be sought with respect to broadening the skills base and creating more opportunities for more professionals and professional firms, including with respect to auditing larger and more complex entities. Some examples mentioned include, collaboration by smaller and mid-tier firms through firm networks, Large firms collaborating with small and medium-sized firms, ensuring proper transfer of skills as part of joint audit arrangements and appropriately incentivising the use of small and medium-sized firms for, or on, certain audits.
- There already exist extensive measures with respect to ensuring and safeguarding auditor independence (and audit quality), i.e. current codes, standards and legislation are sufficient. More focus could be placed on how to improve the implementation and outcomes of existing measures.
- Current requirements around individual audit partner rotation are sufficient in contributing to adequate levels of auditor independence, including independence in appearance.
- Overregulation could further diminish the attractiveness of the auditing profession and have a negative effect on the number of auditors (i.e. not attracting sufficient numbers and high quality candidates to the profession).

In addition, the following view was identified from respondents in PP:

- There should also be a stronger focus on promoting the services of auditors and the benefits of auditing in the market place, including the overwhelmingly good work that is being done by many auditors. Attracting more people to the profession, taking into account that 'all of business' is competing for the same talent and skills.

Respondents not in PP added the following additional perspectives:

- Overregulation often results in the opposite than what was intended.
- Transformation and concentration will resolve itself over time and do not need the intervention (or additional intervention) by the auditing regulatory body.
- There already exist good and strong measures that address auditor independence.

If the issue is non-compliance by some auditors with standards and codes, that is the issue that needs to be addressed. In this regard there is a legitimate expectation that auditors must meet their professional responsibilities, including achieving better compliance. If certain auditors or audit firms are not up to standard it is appropriate that action should be taken against them, but there is doubt whether firm rotation will necessarily address compliance issues.

- The decision about which auditor to appoint and when to change auditors should be left to the audit committee that has legislated responsibilities with respect to oversight of auditor independence and audit quality; enhanced further by strong corporate governance principles and practices. In addition, audit committees should be held accountable for the discharge of these responsibilities.

- There are good reasons why a client has chosen a specific audit firm, and there are good reasons why specialisation and competitive advantages develop within a market – certain firms have distinguished themselves through their service offerings and the quality of their work. This freedom of choice should not be interfered with.
- A notion that the distinction that can be observed in business with respect to size of entities, industry, specialisation, geographical reach, etc., is naturally replicated in the auditing industry; i.e. different size firms, with different areas of focus and specialisation that are available to serve business. The demands of certain audits linked to the characteristics of the audited entities concerned have led to the growth and development of firms that can meet those demands.

OBSERVATIONS

RESULTS SUMMARY

The extent to which respondents support or agree with the IRBA's stated objectives



IRBA objectives ranked from most valued to least valued

RESPONDING ON A SCALE OF 1-6:
1 = I do not support this as an objective of the IRBA
6 = I strongly support this as an objective of the IRBA



LOWER AVERAGE SCORES

Directly affected by the services of the auditing profession, and thus less objective

IN A POSITION TO REFLECT OBJECTIVELY

Members not in PP are ultimately the ones relying on the auditor's report: they are the **users** of audit services



Strengthening **auditor independence** and so protecting the public and investors

4.96



Large firms are mostly involved in the type and size of audits where strict and more onerous independence requirements apply

02

Promoting **transformation** by creating more opportunities for small and mid-tier audit firms

03

Addressing **market concentration** of audit services and creating a more competitive environment

4.47



3.92



5.03



5.00



4.86



4.60



4.48

FURTHER COMMENTS



OVERREGULATION OFTEN RESULTS IN THE OPPOSITE OF WHAT WAS INTENDED.

TRANSFORMATION AND CONCENTRATION WILL RESOLVE ITSELF OVER TIME.

THERE ALREADY EXIST STRONG MEASURES THAT ADDRESS AUDITOR INDEPENDENCE.

If non-compliance by some auditors is the issue, it should be addressed as such.

AUDITOR COMMITTEES HAVE LEGISLATED RESPONSIBILITIES WITH RESPECT TO OVERSIGHT OF AUDIT INDEPENDENCE AND AUDIT QUALITY.

These governance structures should decide which auditor to appoint and when to change auditors. They should be held accountable for discharging these responsibilities.

THERE ARE GOOD REASONS WHY A CLIENT HAS CHOSEN A SPECIFIC AUDIT FIRM.

Specialisation and competitive advantages develop for good reasons. Certain firms have distinguished themselves through their service offerings and quality of work.

THE DEMANDS OF CERTAIN AUDITS LINKED TO THE CHARACTERISTICS OF THE AUDITED ENTITIES CONCERNED HAVE LED TO THE GROWTH AND DEVELOPMENT OF FIRMS THAT CAN MEET THOSE DEMANDS.

MOST AUDIT FIRMS ARE ALREADY COMMITTED TO TRANSFORMATION

Doubt that proposed measures will address this objective.

INDIVIDUAL AUDIT PARTNER ROTATION REQUIREMENTS SUFFICIENT

Contributes to adequate levels of auditor independence, including independence in appearance.

ENHANCING AUDITOR INDEPENDENCE IS A SOUND PRIMARY OBJECTIVE

Mechanisms should be fit for purpose.

COMPETITIVE NATURE OF AUDIT SERVICES MARKET IS POSITIVE

No need for regulatory intervention.

NEED FOR INNOVATIVE SOLUTIONS TO BROADEN SKILLS

- Collaborations by smaller and mid-tier firms.
- Large firms collaborating with small and medium-sized firms.
- Incentivising the use of smaller firms for certain audits.

OVERREGULATION COULD HARM AUDITING PROFESSION

... and have a negative unintended consequence.

FREE MARKET FORCES SHOULD BE ALLOWED TO WORK

... enhanced by existing measures:

- Competition legislation
- BEE legislation
- CA Charter

ADEQUATE EXISTING MEASURES

Focus on improving implementation and outcomes of existing measures (codes, standards, legislation)

THERE SHOULD BE STRONGER FOCUS ON PROMOTING AUDITOR SERVICES IN THE MARKETPLACE



MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

THEME 02

Views on whether respondents believe that proposed measures such as MAFR, MAT and JAs/MJAs will achieve the intended objectives

The extent to which respondents support or agree with the IRBA's stated objectives

At the end of the questionnaire, respondents were asked whether or not ("Yes" or "No") they believe that the possible measures being considered will achieve the intended objectives, in particular MAFR. These questions were deliberately included at the end of the questionnaire so that respondents would answer, after they had applied their minds to the various questions that dealt with the consideration of potential benefits or advantages, potential challenges or concerns or disadvantages, measures that already exist, and the consideration of possible alternative measures.

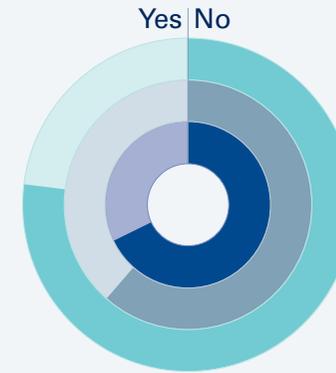
Refer to Figures 2.1 to 2.3

Objectives are presented as ranked under Theme 01.



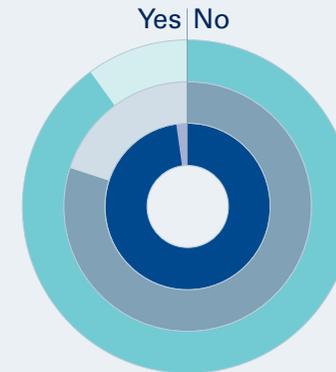
OBJECTIVE 01 (as ranked)

Will MAFR **further strengthen auditor independence and so protect the public and investors?**



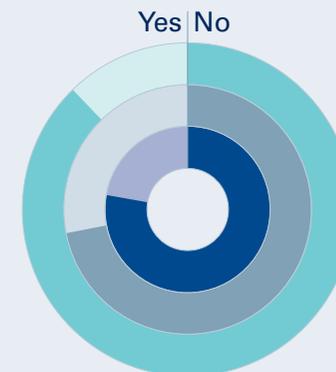
OBJECTIVE 02 (as ranked)

Will MAFR **promote transformation by creating more opportunities for small and mid-tier audit firms to enter certain markets?**



OBJECTIVE 03 (as ranked)

Will MAFR **reduce market concentration of audit services by creating a more competitive environment?**



KEY



Large Firms



SMPs



Sole Proprietors

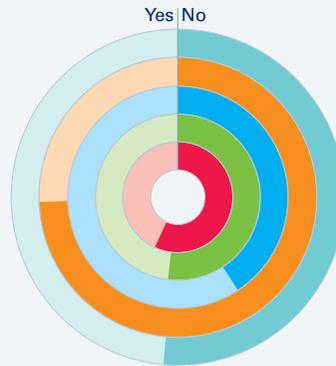
Figure 2.1
IN PUBLIC PRACTICE

Whether or not MAFR will achieve the intended objectives



OBJECTIVE 01 (as ranked)

Will MAFR **further strengthen auditor independence and so protect the public and investors?**



KEY



Preparers



External Users



Members of Boards



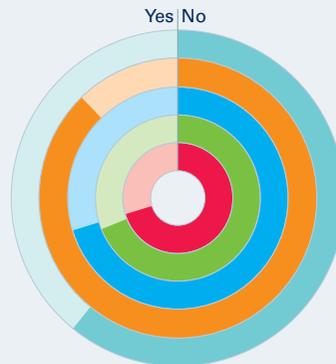
Audit Committees



Other

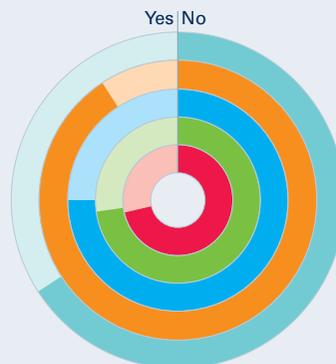
OBJECTIVE 02 (as ranked)

Will MAFR **promote transformation by creating more opportunities for small and mid-tier audit firms to enter certain markets?**



OBJECTIVE 03 (as ranked)

Will MAFR **reduce market concentration of audit services by creating a more competitive environment?**



OBJECTIVE 01 (as ranked)

Will MAFR **further strengthen auditor independence and so protect the public and investors?**



OBJECTIVE 02 (as ranked)

Will MAFR **promote transformation by creating more opportunities for small and mid-tier audit firms to enter certain markets?**



OBJECTIVE 03 (as ranked)

Will MAFR **reduce market concentration of audit services by creating a more competitive environment?**



Figure 2.3

STUDENTS AND TRAINEES

Whether or not MAFR will achieve the intended objectives

Figure 2.2

NOT IN PUBLIC PRACTICE

Whether or not MAFR will achieve the intended objectives

Some observations from the results presented in Figures 2.1–2.3

- Respondents in PP and respondents not in PP generally have a majority view that they do not believe that MAFR (and related measures such as MAT and JAs/MJAs) will necessarily achieve the stated objectives of the IRBA.
 - The views in favour of “No” are much more pronounced in the case of respondents in PP. Conversely, the “Yes/No” responses are closer together for certain respondents not in PP. Therefore, the latter category appears to be more accommodating of the possibility that the proposed measures could contribute positively to the achievement of the stated objectives.
 - The results from both segments/categories, i.e. respondents in PP and respondents not in PP, are also reflective of their evaluation of the various potential benefits or advantages, and potential challenges or concerns or disadvantages pertaining to the introduction of MAFR (and other related measures). Refer to results themes 03 and 04 which follow and provide more detail in this regard.
 - In relation to the achievement of objective 01, the views expressed are:
 - For respondents in PP [Yes: No]: Large firms [24:76], SMPs [38:62] and Sole practitioners [32:68]
 - For respondents not in PP [Yes: No]: Large firms [14:86], SMPs [26:74] and Sole practitioners [23:77]
 - In relation to the achievement of objective 02, the views expressed are:
 - For respondents in PP [Yes: No]: Large firms [10:90], SMPs [20:80] and Sole practitioners [3:97]
 - For respondents not in PP [Yes: No]: Preparers [29:71], External users [32:68], Members of Boards [29:71], Audit committees [13:88] and Other [39:61]
 - In relation to the achievement of objective 03, the views expressed are:
 - For respondents in PP [Yes: No]: Large firms [28:72], External users [26:74], Members of Boards [25:75], Audit committees [8:92] and Other [33:67]
 - The Audit committees respondents were the most pronounced in expressing their views that MAFR is not likely to achieve objective 01. The same trend is also observed in relation to objective 02 and objective 03.
 - Again, both categories of respondents differentiate clearly their view that MAFR may not necessarily contribute significantly to the achievement of the stated objective, in this instance relating to addressing market concentration of audit services.
 - Amongst respondents not in PP the sub-category “Other” respondents had the most “Yes” answers relating to the achievement of the stated objectives. This category includes academia, regulators, professional accountancy organisations and consultants.
 - The responses from the Students and trainees category exhibit completely opposite results compared to those in PP and not in PP. Students and trainees believe that MAFR will achieve the stated objectives, with results of [85:15] for objective 01, [72:28] for objective 02 and [69:31] for objective 03. This could be attributable to the same factors as mentioned in relation to results theme 01.
- Finally, the following open-ended question was

posed to respondents: “In your view, how can each of the stated objectives of the IRBA best be achieved? You may refer to measures or activities already discussed in the *discussion paper* or you may suggest any other measures or activities that should be considered.”

A significant portion of respondents that included comments referred back to the measures and activities that have been highlighted in the *discussion paper*; i.e. in terms of measures that already exist, further enhancing existing measures and possible alternative measures.

Suggestions linked to the primary objective of strengthening auditor independence

Messages that were common to both of the main categories of respondents:

- Introducing a form of oversight or monitoring of audit committees, including proactive monitoring, as well as reactive investigation when there are concerns around auditor independence or the discharging of audit committee responsibilities. There is also suggestion of a type of accreditation for audit committee members.
- Improving or strengthening the independence of audit committees, for example by way of monitoring and effective implementation of new corporate governance principles and

practices in King IV.

- Encourage greater shareholder involvement in relation to matters relating to the external audit and the auditor’s appointment, as well as the audit committee’s role and responsibilities.
- In addition to individual audit partner rotation, consider introducing a system of senior audit staff rotation for certain categories of audits.
- A sentiment that existing measures are more than adequate, if properly applied and enforced. The existing measures should also be brought to the public’s attention, since the public may not always be aware of these measures and how they contribute to ensuring audit quality.
- Suggestions around the use of audit quality indicators, including greater transparency around the outcomes of external regulator inspections and the disclosure of inspections results per audit firm.
- Linked to robust external inspections, there are comments that suggest greater oversight by the IRBA, extending inspections further in terms of high risk audits, extending or enhancing the capabilities of the regulator’s inspections division and specific focus on auditor independence.

From respondents not in PP:

- In addition to empowering audit committees, also ensure that management of entities are empowered (e.g. through training and awareness) about the role and functions of the audit committee and the importance of audit committee independence (i.e. positively influencing management’s behaviour in their interactions with the audit committee).
- Although not mentioned as a separate item, a number of comments eluded to enhanced training for auditors (i.e. adequate training programmes).

Suggestions linked to the other two objectives pertaining to promoting transformation and addressing market concentration

From respondents in PP and respondents not in PP:

- Further views around the following messages that have already been included as part of results to theme 01:
 - Additional thoughts with respect to considering more innovative solutions for broadening the skills base and creating more opportunities for small and medium-sized firms: more investment in small and medium-sized firms; mentor programmes; support with respect to investment in staff for targeted firms; assisting smaller

firms to better market themselves; and collaboration opportunities with larger firms, for example by way of joint audit arrangements (including, for example, incentives for voluntary joint audits). However, joint audits are not the only solution; other programmes can be implemented with respect to larger firms collaborating with small and medium-sized firms, for example programmes that involve sub-contracting certain work, sharing of staff, or exposing staff to certain clients in order to transfer skills and gain experience.

- Further to the earlier comment that the characteristics of business are replicated in the characteristics of audit firms that serve business, is the point that each level of firm has their own types of client they serve, and they should also have the free choice whether they wish to move into different markets, with the additional investment in resources and skills, including specialisation in certain instances, that will be required to be competitive in those markets. Each firm needs to manage its business model and the demands associated with it.
- A number of commentators reconfirmed

the view around allowing free market forces to operate, and added that regulatory intervention may create an artificial environment that could have the opposite effect than what was intended.

- A view that MAFR or MAT may create additional opportunities for small and medium-sized firms to also compete for audits of larger entities, provided they make the necessary investment in resources and skills to be able to grow and develop to meet the demands of such audits. Again, collaboration between larger firms and smaller firms is mentioned.
- Respondents indicating that it is not appropriate to suggest that transformation should specifically be driven by creating and advancing smaller firms as opposed to transformation throughout the profession, including transforming the larger firms. The focus should be on firms of all sizes doing their part for transformation – the commitment already exists and in a lot of instances the results are positive. These initiatives must continue and be expanded; however, some commentators expressed doubt whether measures such as MAFR will be able to contribute meaningfully in this regard. A number of commentators also expressed the view that the larger firms can make (and have

already made) significant contributions with respect to transformation.

From respondents in PP:

- A specific concern that should be addressed relates to the possible negative impact on audit quality when fees are a primary consideration for choosing between audit firms and fees are set with the objective of securing certain work (i.e. low-balling; the negative effects in an overly commoditised market).

OBSERVATIONS RESULTS SUMMARY

Will the proposed measures (MAFR, MAT and JAs/MJAs) achieve these objectives?

01

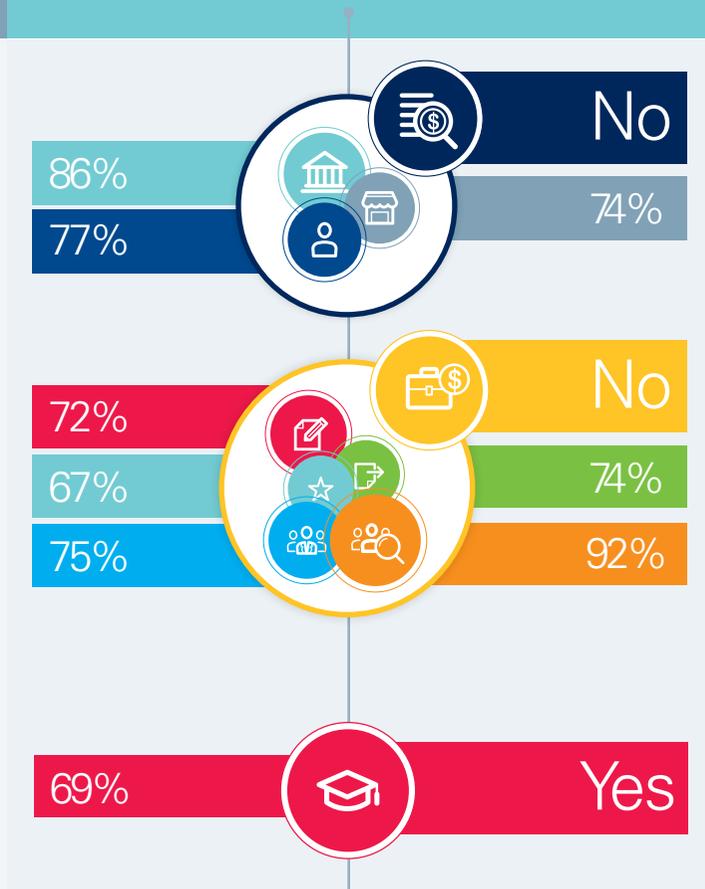
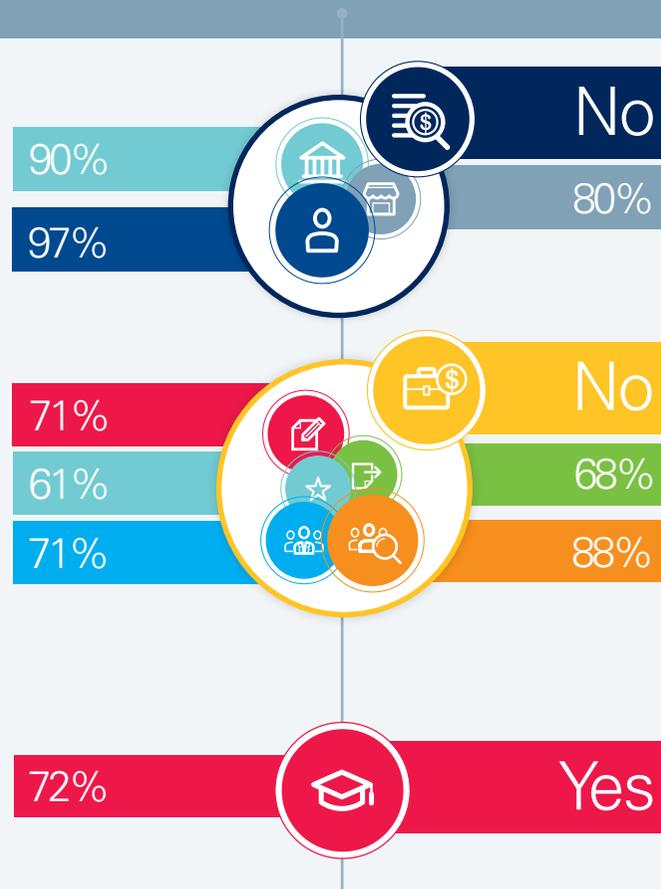
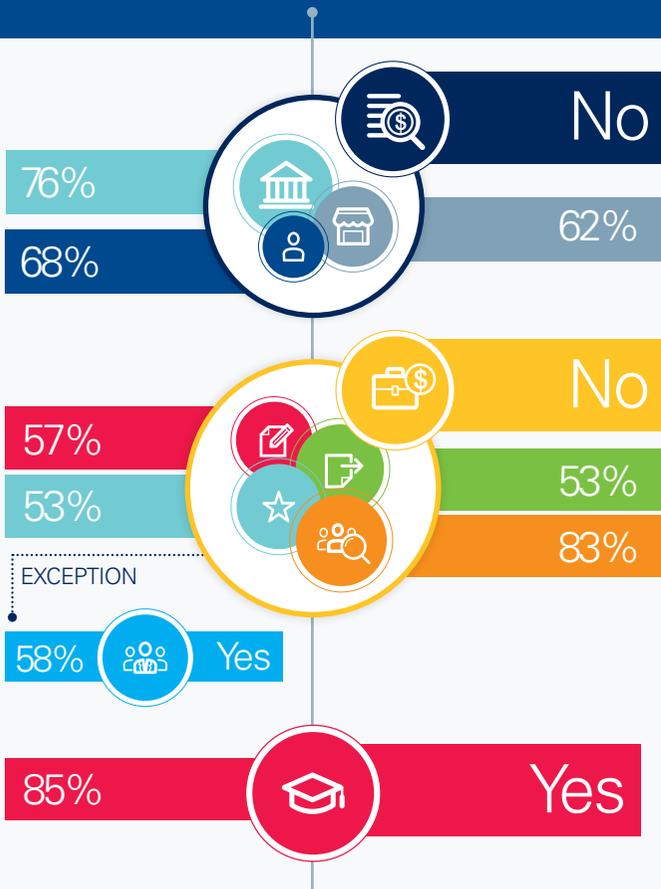
Strengthening auditor independence and so protecting the public and investors

02

Promoting transformation by creating more opportunities for small and mid-tier audit firms

03

Addressing market concentration of audit services and creating a more competitive environment



FURTHER COMMENTS



01

Strengthening auditor independence and so protecting the public and investors



MONITORING OF AUDIT COMMITTEES

Including proactive monitoring, as well as reactive investigation. Accreditation for audit committee members.

STRENGTHENING THE INDEPENDENCE OF AUDIT COMMITTEES

Monitoring and effective implementation of new corporate governance principles and practices.

GREATER SHAREHOLDER INVOLVEMENT

In matters relating to the external audit and the auditor's appointment, as well as the audit committee's role and responsibilities.

EMPOWER MANAGEMENT OF ENTITIES THROUGH TRAINING AND AWARENESS

About the role and functions of the audit committee and the importance of audit committee independence, as well as the audit committee's role and responsibilities.

SENIOR AUDIT STAFF ROTATION

For certain categories of audits.

EXISTING MEASURES ARE ADEQUATE

If properly applied and enforced. Existing measures should be brought to the public's attention.

GREATER TRANSPARENCY AROUND THE OUTCOME OF INSPECTIONS

Disclosure of inspections results per audit firm.

GREATER OVERSIGHT BY THE IRBA

High risk audits, extending or enhancing the capabilities of the regulator's inspections division and specific focus on auditor independence.

ENHANCED TRAINING FOR AUDITORS

Through adequate training programmes.

02

Addressing market concentration of audit services and creating a more competitive environment

03

Promoting transformation by creating more opportunities for small and mid-tier audit firms

MAFR OR MAT MAY CREATE ADDITIONAL OPPORTUNITIES FOR SMALL AND MEDIUM-SIZED FIRMS

To also compete for audits of larger entities, provided they make the necessary investment in resources and skills to be able to grow and develop to meet the demands of such audits.

FOCUS SHOULD BE ON FIRMS OF ALL SIZES DOING THEIR PART FOR TRANSFORMATION

Respondents indicating that it is not appropriate to suggest that transformation should specifically be driven by creating and advancing smaller firms as opposed to transformation throughout the profession.

POSSIBLE NEGATIVE IMPACT ON AUDIT QUALITY WHEN FEES ARE A PRIMARY CONSIDERATION FOR CHOOSING BETWEEN AUDIT FIRMS

When fees are set with the objective of securing certain work.



MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

THEME 03

Evaluation of the potential benefits or advantages, and potential challenges or concerns or disadvantages of the proposed measures

Evaluation of the potential benefits or advantages, and potential challenges or concerns or disadvantages of the proposed measures

The *discussion paper* identifies a number of potential benefits or advantages, and potential challenges or concerns or disadvantages, respectively, of MAFR, including, as appropriate, MAT. In addition, considerations pertaining to JAs/MJAs are discussed, including some additional potential benefits or advantages and potential challenges or concerns or disadvantages related thereto.

The questionnaire solicited respondents' perceptions by requesting that each potential benefit or advantage, and each potential challenge or concern or disadvantage be allocated to one of the following categories:

1. An essential consideration that should receive high priority in making a decision about the proposed measure(s)
2. An important consideration
3. A less important consideration
4. Not particularly important and should receive a low priority in making a decision about the proposed measure(s)

Based on the scores assigned, it is possible to calculate a weighted average score with respect to each potential benefit or advantage, and each potential challenge or concern or disadvantage, indicating its relative importance. A score of 1 indicates the highest priority or importance.

The survey results are presented under the following sub-headings:

- a. Potential benefits or advantages of MAFR (and MAT, as may be appropriate)
- b. Potential challenges or concerns or disadvantages of MAFR (and MAT, as may be appropriate)
- c. Additional matters to consider in relation to JAs/MJAs

Refer to Figures 3.1 to 3.8

A

POTENTIAL BENEFITS OR ADVANTAGES OF MAFR (AND MAT, AS MAY BE APPROPRIATE)

The following 12 potential benefits or advantages were included in the questionnaire and are referred to by numbers 01 to 12 in Figures 3.1 and 3.2. The *discussion paper* discusses each of these in more detail, and also emphasises that the potential benefits or advantages, and potential challenges or concerns or disadvantages should be considered collectively, since there are often an advantage(s) and a disadvantage(s) around the same theme.

<p>01</p> <p>Addressing concerns linked to long-term audit tenure with respect to a reduction of audit quality over time</p>	<p>02</p> <p>It could have a positive impact on auditor independence in appearance</p>	<p>03</p> <p>It creates a sense of advancement of the public interest, because the requirements are legislated and apply to everyone equally</p>
<p>04</p> <p>Seen as a means of addressing concerns that those charged with governance may not always achieve an appropriate balance between the interests of the company and the public interest</p>	<p>05</p> <p>An additional safeguard against familiarity and self-interest threats that could lead to auditor bias or to complacency (which also detract from the proper exercise of professional scepticism)</p>	<p>06</p> <p>The audit is being performed through “another pair of eyes” – it brings a “fresh look” and renewed focus on the entity. It is seen as an opportunity to strengthen the exercise of professional scepticism</p>
<p>07</p> <p>The involvement of a new audit firm also refocuses the attention of management and those charged with governance (i.e. everybody rethinks and refocuses their efforts)</p>	<p>08</p> <p>Positive influence on auditor behaviour, knowing that tenure with respect to a specific audit client is limited and that another auditor will be evaluating or reviewing the auditor’s work</p>	<p>09</p> <p>Creating more opportunities for more audit firms to tender for audits – this stimulates competition and may reduce market concentration and promote transformation</p>
<p>10</p> <p>Creating more opportunities for more auditors to development the knowledge and skills that are required to be proficient in auditing large complex public interest entities</p>	<p>11</p> <p>Creating an incentive for smaller or mid-tier audit firms and even other established firms to invest (or invest more) in expanding their staff and resources</p>	<p>12</p> <p>Owing to increased competition for audits (i.e. increase in supply), increases in audit fees may be kept in check (or even reduce)</p>



2.77 Overall weighted average score



KEY

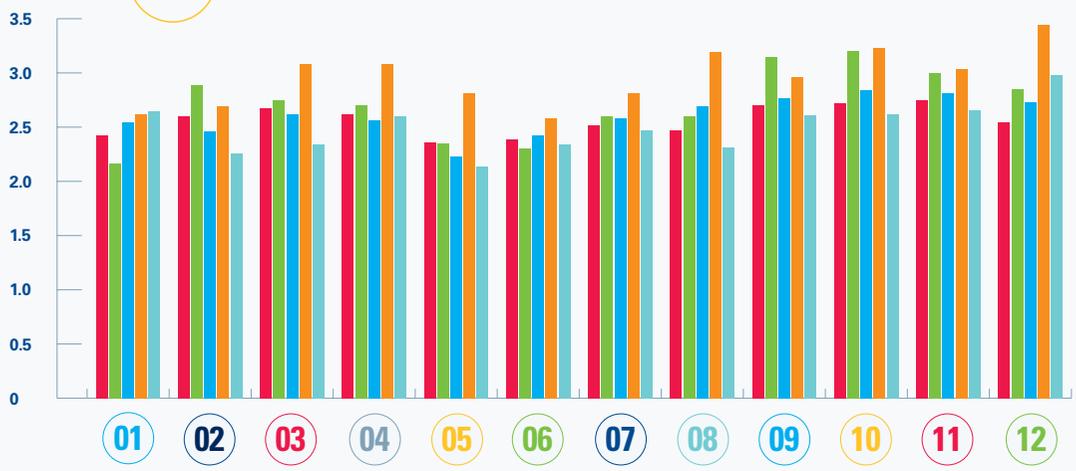
- Large Firms
- SMPs
- Sole Proprietors

Figure 3.1
IN PUBLIC PRACTICE (IN PP)

Evaluation of **potential benefits or advantages** of MAFR (and MAT, as may be appropriate) (weighted average scores – the lower the score the higher the perceived benefit or the more importance is attached to the particular factor)



2.67 Overall weighted average score



- Preparers
- External Users
- Members of Boards
- Audit Committees
- Other

Figure 3.2
NOT IN PUBLIC PRACTICE (NOT IN PP)

Evaluation of **potential benefits or advantages** of MAFR (and MAT, as may be appropriate) (weighted average scores – the lower the score the higher the perceived benefit or the more importance is attached to the particular factor)

Some observations from the results presented in Figures 3.1–3.2

- Overall, respondents not in PP attach a higher importance to the potential benefits compared to respondents in PP – total weighted average scores of **[2.67]** and **[2.77]** respectively. This may indicate that the former category could be more susceptible to considering the overall impact of the potential benefits in favour of introducing measures such as MAFR and MAT. However, also refer to the evaluation of potential challenges and concerns.
- Most of the factors across all of the categories of respondents have a weighted average score of between 2 and 3, which indicates that respondents agree that these factors are important considerations in making any decisions around the proposed measures.
- However, the following potential benefits were rated above 3, indicating their assessment as less important considerations:
 - By Large firms (in PP), External users (not in PP) and Audit committees (not in PP)
10. Creating more opportunities for more auditors to develop the knowledge and skills that are required to be proficient in auditing large complex public interest entities

11. Creating an incentive for smaller or mid-tier audit firms and even other established firms to invest (or invest more) in expanding their staff and resources

By Large firms (in PP), SMPs (in PP), Sole practitioners (in PP) and Audit committees (not in PP):

12. Owing to increased competition for audits (i.e. increase in supply), increases in audit fees may be kept in check (or even reduced)

By Large firms (in PP) and External users (not in PP):

09. Creating more opportunities for more audit firms to tender for audits – this stimulates competition and may reduce market concentration and promote transformation

By Audit committees (not in PP):

03. It creates a sense of advancement of the public interest, because the requirements are legislated and apply to everyone equally

04. Seen as a means of addressing concerns that those charged with

governance may not always achieve an appropriate balance between the interests of the company and the public interest

08. Positive influence on auditor behaviour, knowing that tenure with respect to a specific audit client is limited and that another auditor will be evaluating or reviewing the auditor's work

- In relation to respondents in PP, the following potential benefits can be distinguished as those that are included in the top 6 (i.e. top 50%), by weighted average score, in the prioritised list of each of the sub-categories (i.e. Large firms, SMPs and Sole practitioners):

02. It could have a positive impact on auditor independence in appearance

04. Seen as a means of addressing concerns that those charged with governance may not always achieve an appropriate balance between the interests of the company and the public interest

05. An additional safeguard against familiarity and self-interest threats that could lead to auditor bias or to complacency (which also detract from the proper exercise of professional scepticism)

06. The audit is being performed through “another pair of eyes” – it brings a “fresh look” and renewed focus on the entity. It is seen as an opportunity to strengthen the exercise of professional scepticism

- SMPs, in the in PP category, overall evaluated the factors as more important than compared to the evaluation by Large firms and Sole practitioners. This could be attributable to the fact that these firms could benefit from the additional tendering opportunities that will be created in a MAFR environment.
- In relation to respondents not in PP, the following potential benefits can be distinguished as those that are included in the top 6 (i.e. top 50%), by weighted average score, in the prioritised list of each of the sub-categories (i.e. Preparers, External users, Members of Boards, Audit committees and Other):

05. An additional safeguard against familiarity and self-interest threats that could lead to auditor bias or to complacency (which also detract from the proper exercise of professional scepticism)

06. The audit is being performed through “another pair of eyes” – it brings a “fresh look” and renewed focus on the entity. It is seen as an opportunity to strengthen the exercise of professional scepticism

07. The involvement of a new audit firm also refocuses the attention of management and those charged with governance (i.e. everybody rethinks and refocuses their efforts)

- In the not in PP category, Audit committees overall assigned less importance to the identified benefits compared to the other respondents in this category. Therefore “Audit committees”-respondents appear to be most sceptical of whether these potential benefits necessarily present a compelling argument for the introduction of MAFR; also if considered together with the potential challenges or concerns.

OBSERVATIONS

RESULTS SUMMARY

Potential benefits or advantages of MAFR
(and MAT, as may be appropriate)

2.77

Overall weighted average score, indicating that respondents in PP attach less value to these potential benefits compared to respondents not in PP.

HIGHEST VALUED POTENTIAL BENEFITS

02

It could have a positive impact on auditor independence in appearance

04

Seen as a means of addressing concerns that those charged with governance may not always achieve an appropriate balance between the interests of the company and the public interest

05

An additional safeguard against familiarity and self-interest threats that could lead to auditor bias or to complacency (which also detract from the proper exercise of professional scepticism)

06

The audit is being performed through “another pair of eyes” – it brings a “fresh look” and renewed focus on the entity. It is seen as an opportunity to strengthen the exercise of professional scepticism

Evaluated factors higher than Large firms and Sole practitioners, indicate that SMPs believe they could benefit from additional tendering opportunities.

Overall weighted average score

2.67

Lowest scores: it appears that Audit committee respondents are sceptical whether these potential benefits present a compelling argument for the introduction of MAFR

B

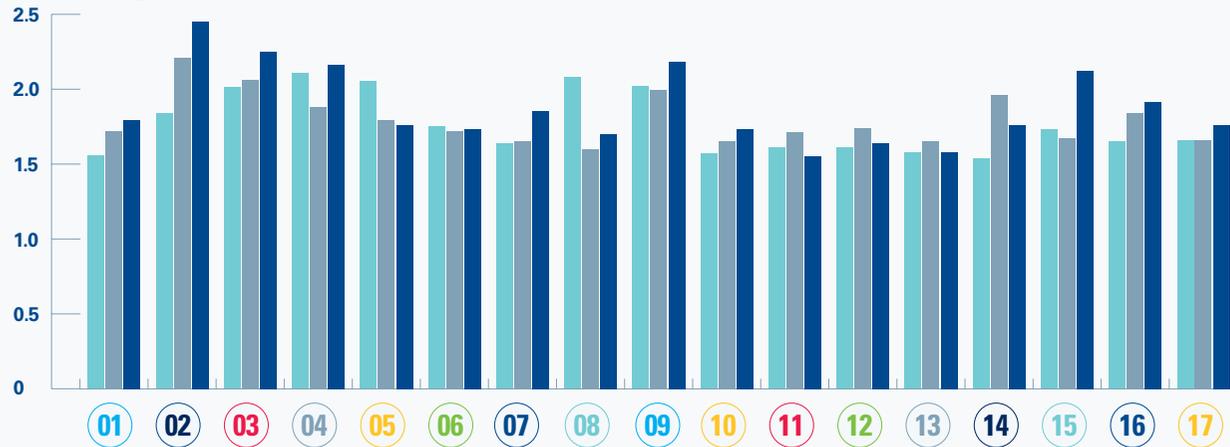
POTENTIAL CHALLENGES OR CONCERNS OR DISADVANTAGES OF MAFR (AND MAT, AS MAY BE APPROPRIATE)

The following 17 potential challenges or concerns or disadvantages were included in the questionnaire and are referred to by numbers 01 to 17 in Figures 3.3 and 3.4. The *discussion paper* discusses each of these in more detail, and also emphasises that the potential benefits or advantages, and potential challenges or concerns or disadvantages should be considered collectively, since there are often an advantage(s) and a disadvantage(s) around the same theme.

<p>01 Research that suggests that audit quality could be most vulnerable early on in the auditor-client relationship (i.e. in the first number of years), including the risk of audit failures</p>	<p>02 It disempowers those charged with governance by diluting the responsibilities of the audit committee to take entity-specific decisions relating to the appointment of the auditor and audit quality oversight</p>	<p>03 Shareholders' rights may be adversely affected, because they ultimately appoint or reappoint the auditor on an annual basis</p>
<p>04 MAFR has been linked as a factor that may increase audit market concentration (linked to large corporations tending to choose audit firms they perceive to be of the stature and possessing the competence to match the demands of their corporations)</p>	<p>05 The audit firms that are eventually appointed may very well still be from the bigger/larger firm constituency, owing to the demands of these audits, as well as auditor accreditation requirements and/or the internal requirements of multinational or other large groups</p>	<p>06 Companies' choice of audit firm (including taking decisions in the best interests of the company and its stakeholders) may be adversely affected where there is a limited number of audit firms that are of critical size, capacity and capability, coupled with the effect of independence rules prohibiting the provision of non-audit services, including cooling-off periods</p>
<p>07 The choice of available audit firms may be inhibited further in South Africa in the context of the effects of section 90(2) of the Companies Act</p>	<p>08 It could stifle the development of smaller or mid-tier audit firms in terms of them not being willing to (or not being able to) make the necessary investment in staff and other resources, knowing that firm tenure on certain large clients will be limited</p>	
<p>09 The underlying reasons for a large listed company or public interest entity changing their auditors may not be interrogated to the same extent, when changes in auditors become a norm in a MAFR environment</p>	<p>10 A change of audit firm is coupled with a loss of accumulated knowledge about the client and its environment (audit quality may benefit from client knowledge that has been accumulated over a number of years). The frequency of these changes would increase in an MAFR environment.</p>	<p>11 It places onerous demands on the company being audited – its investment (or re-investment) in time and resources (including senior management and audit committee members) to familiarise the auditor with the business</p>
<p>12 Increased audit tendering activities increase costs for the companies affected – additional expenses, including costs passed on by the audit firms and the cost of managing and administering the tender process</p>	<p>13 Challenges for multinational companies and other large groups that require consistency of auditors within the group, in terms of the same audit firm serving all or most of the components in the group, across various jurisdictions</p>	<p>14 Increasing the cost of doing business for audit firms – tendering is expensive (in particular if a firm is unsuccessful) and increased costs could reduce the firm's investment capacity</p>
<p>15 Owing to increased competition for audits, audit fees may reduce, but this could be at the cost of audit quality</p>	<p>16 Possible negative consequences for audit quality overall, in terms of diverting (senior) resources away from existing audit engagements, i.e. the additional time and resources required to manage rotations and tenders</p>	<p>17 Disruptions MAFR may cause for an audit firm's professional staff complement (even leading to loss of staff) – rotating clients not being replaced by other "equal" clients, or senior or specialist staff leaving to join another firm</p>



1.81 Overall weighted average score



KEY



Large Firms



SMPs



Sole Proprietors

Figure 3.3
IN PUBLIC PRACTICE (IN PP)

Evaluation of **potential challenges or concerns or disadvantages** of MAFR (and MAT, as may be appropriate) (weighted average scores – the lower the score the higher the perceived threat or the more importance is attached to the particular factor)



1.98 Overall weighted average score



Preparers



External Users



Members of Boards



Audit Committees



Other

Figure 3.4
NOT IN PUBLIC PRACTICE (NOT IN PP)

Evaluation of **potential challenges or concerns or disadvantages** of MAFR (and MAT, as may be appropriate) (weighted average scores – the lower the score the higher the perceived threat or the more importance is attached to the particular factor)

Some observations from the results presented in Figures 3.3–3.4

- Overall, respondents in PP attach a higher importance to the potential challenges or concerns compared to respondents not in PP – total weighted average scores of **[1.81]** and **[1.98]** respectively.
- If considered in conjunction with the results related to the potential benefits presented in Figures 3.1 and 3.2, it would appear that respondents in PP are more sceptical about the potential benefits and more concerned about the potential challenges compared to respondents not in PP. Still, both categories attach more importance to the effects of the potential challenges or concerns than to the effects of the potential benefits. Also refer to the overall assessment by respondents in theme 04 that follows.
- For respondents in PP, the weighted average score of the individual challenges or concerns range between **[1.54]** to **[2.45]**, and amongst respondents not in PP, between **[1.31]** to **[2.67]**. This indicates that across all categories of respondents the potential challenges or concerns as presented in the *discussion paper* are considered to be essential considerations or at least important considerations in making any decisions around proposed measures such as MAFR and MAT.
- In relation to respondents in PP, the following potential challenges or concerns can be distinguished as those that are included in the top 9 (i.e. top 50+%), by weighted average score, in the prioritised list of each of the sub-categories (i.e. Large firms, SMPs and Sole practitioners):
 - 10.** A change of audit firm is coupled with a loss of accumulated knowledge about the client and its environment (audit quality may benefit from client knowledge that has been accumulated over a number of years). The frequency of these changes would increase in an MAFR environment.
 - 11.** It places onerous demands on the company being audited – its investment (or re-investment) in time and resources (including senior management and audit committee members) to familiarise the auditor with the business
 - 13.** Challenges for multinational companies and other large groups that require consistency of auditors within the group, in terms of the same audit firm serving all or most of the components in the group, across various jurisdictions
 - 17.** Disruptions MAFR may cause for an audit firm’s professional staff complement (even leading to loss of staff) – rotating clients not being replaced by other “equal” clients, or senior or specialist staff leaving to join another firm
- In relation to respondents not in PP, the following potential challenges or concerns can be distinguished as those that are included in the top 9 (i.e. top 50+%), by weighted average score, in the prioritised list of each of the sub-categories (i.e. Preparers, External users, Members of Boards, Audit committees and Other):
 - 1.** Research that suggests that audit quality could be most vulnerable early on in the auditor-client relationship (i.e. in the first number of years), including the risk of audit failures
 - 10.** A change of audit firm is coupled with a loss of accumulated knowledge about the client and its environment (audit quality may benefit from client knowledge that has been accumulated over a number of years). The frequency of these changes would increase in a MAFR environment.
 - 11.** It places onerous demands on the company being audited – its investment (or re-investment) in time and resources (including senior management and audit committee members) to familiarise the auditor with the business

12. Increased audit tendering activities increase costs for the companies affected – additional expenses, including costs passed on by the audit firms and the cost of managing and administering the tender process

13. Challenges for multinational companies and other large groups that require consistency of auditors within the group, in terms of the same audit firm serving all or most of the components in the group, across various jurisdictions

14. Increasing the cost of doing business for audit firms – tendering is expensive (in particular if a firm is unsuccessful) and increased costs could reduce the firm's investment capacity

- Challenges or concerns: #10 (loss of accumulated knowledge about the client), #11 (the audit client's investment in time and resources to familiarise the auditor with the client) and #13 (challenges for multi-national companies or other large groups) are ranked consistently as major threats across all of the categories of respondents – those in PP and those not in PP. This indicates that practicalities (i.e. actual implementation issues) will have to receive careful consideration if MAFR (and other related measures) are adopted.

All respondents agree that the challenges outweigh the benefits and the practicalities and implementation issues will have to receive careful consideration

OBSERVATIONS

RESULTS SUMMARY

Potential challenges or concerns or disadvantages of MAFR (And MAT, as may be appropriate)

1.81

Overall weighted average score. It appears that respondents in PP are more sceptical about the potential benefits and more concerned about the potential challenges compared to respondents not in PP

HIGHEST VALUED POTENTIAL CHALLENGES

Overall weighted average score

1.98

- 01 Research that suggests that audit quality could be most vulnerable early on in the auditor-client relationship (i.e. in the first number of years), including the risk of audit failures
- 10 A change of audit firm is coupled with a loss of accumulated knowledge about the client and its environment (audit quality may benefit from client knowledge that has been accumulated over a number of years). The frequency of these changes would increase in an MAFR environment
- 11 It places onerous demands on the company being audited – its investment (or re-investment) in time and resources (including senior management and audit committee members) to familiarise the auditor with the business
- 12 Increased audit tendering activities increase costs for the companies affected – additional expenses, including costs passed on by the audit firms and the cost of managing and administering the tender process
- 13 Challenges for multinational companies and other large groups that require consistency of auditors within the group, in terms of the same audit firm serving all or most of the components in the group, across various jurisdictions
- 14 Increasing the cost of doing business for audit firms – tendering is expensive (in particular if a firm is unsuccessful) and increased costs could reduce the firm’s investment capacity
- 17 Disruptions MAFR may cause for an audit firm’s professional staff complement (even leading to loss of staff) – rotating clients not being replaced by other “equal” clients, or senior or specialist staff leaving to join another firm

Consistently rank as major threats across all categories of respondents

C

ADDITIONAL MATTERS TO CONSIDER IN RELATION TO JAs/MJAs

As mentioned in the *discussion paper*, JAs are a reality of practice (internationally and in South Africa), although mandatory JAs are less common. If used, JAs will normally be found in the case of financial institutions and very large multinational companies or groups where, due to size, location, scope and complexity, the demands on the auditor are such that it is believed that they can best be achieved by

involving more than one audit firm. This is often motivated by the lack of capacity of a single firm to meet the demands of such audit clients during a particular audit cycle.

Since MJAs may be considered as a measure on its own, or JAs could be combined with other measures such as MAFR and MAT, it is appropriate to consider additional matters related to JAs/MJAs.

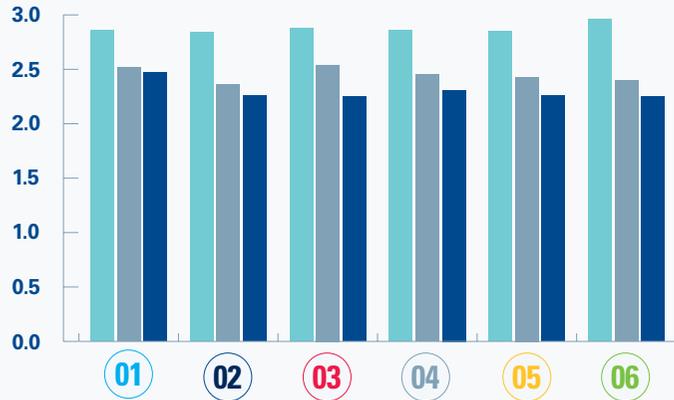
The following six additional **potential benefits of advantages** of JAs/MJAs were included in the questionnaire and are referred to by numbers 01 to 06 in Figures 3.5 and 3.6.

<p>01</p> <p>An additional safeguard against familiarity and self-interest threats that may be created by long association of audit staff with an audit client (including advantages relating to enhanced audit quality)</p>	<p>02</p> <p>Shared knowledge of the client and the fact that the work performed by each auditor is reviewed by the other auditor could further improve audit quality</p>	<p>03</p> <p>The joint responsibility of the joint auditors may contribute to higher levels of diligence by each auditor and increased levels of professional scepticism</p>
<p>04</p> <p>Harnessing the benefits of the joint views, knowledge and skills of the joint auditors, as well as benefits relating to the audit work being periodically rotated between the joint auditors</p>	<p>05</p> <p>It could potentially address the concern of a loss of accumulated client knowledge that has been linked to MAFR, since the knowledge of the client is retained between the joint auditors</p>	<p>06</p> <p>The joint auditors have access to a larger pool of support and other specialised resources (i.e. their combined support and resources)</p>



2.54

Overall weighted average score



KEY



Large Firms



SMPs



Sole Proprietors

Figure 3.5
IN PUBLIC PRACTICE (IN PP)

Evaluation of **additional potential benefits or advantages** of JAs /MJAs (weighted average scores – the lower the score the higher the perceived benefit or the more importance is attached to the particular factor)



2.59

Overall weighted average score



Preparers



External Users



Members of Boards



Audit Committees



Other

Figure 3.6
NOT IN PUBLIC PRACTICE (NOT IN PP)

Evaluation of **additional potential benefits or advantages** of JAs /MJAs (weighted average scores – the lower the score the higher the perceived benefit or the more importance is attached to the particular factor)

The following six additional potential challenges or concerns or disadvantages of JAs/MJAs were included in the questionnaire and are referred to by numbers 01 to 06 in Figures 3.7 and 3.8

01

Concerns around the sufficient sharing of responsibilities on the joint audit, especially if the joint auditors differ in terms of their capacity, skills and capability

02

The splitting or allocation of work to the various joint auditors could increase the risk of material misstatements or significant deficiencies not being detected (owing to different firm methodologies and other challenges when dealing with audit staff that are not all from the same firm)

03

Auditor/joint-auditor communication with those charged with governance, including the audit committee, could be more complicated in terms of co-ordinating communications and a common message

04

There is duplication of audit work effort in JAs, in particular in relation to senior staff involvement by both firms on certain areas of the audit and the review of audit work by both firms (does this result in a commensurate increase in audit quality?)

05

A JA costs more than the same audit being performed by a single audit firm

06

If JAs are combined with other measures such as MAFR or MAT, it could complicate the co-ordination of the appointment of auditors, especially co-ordination across multinational companies and other large groups



1.80 Overall weighted average score



KEY



Large Firms



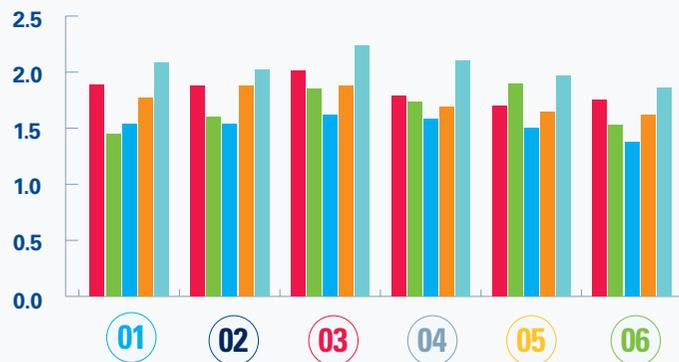
SMPs



Sole Proprietor



1.77 Overall weighted average score



Preparers



External Users



Members of Boards



Audit Committees



Other

Figure 3.7
IN PUBLIC PRACTICE (IN PP)

Evaluation of **additional potential challenges or concerns or disadvantages** of JAs/MJAs – the lower the score the higher the perceived threat or the more importance is attached to the particular factor)

Figure 3.8
NOT IN PUBLIC PRACTICE (NOT IN PP)

Evaluation of **additional potential challenges or concerns or disadvantages** of JAs/MJAs – the lower the score the higher the perceived threat or the more importance is attached to the particular factor)

Some observations from the results presented in Figures 3.5–3.8

- In general, the two categories of respondents are more consistent in terms of their views with respect to the potential effects of JAs/MJAs compared to their evaluation of MAFR (and MAT) in sub-sections (a) and (b). This can be observed in the differences between the total weighted average scores for the two categories, namely in PP and not in PP – [2.54] and [2.59], respectively in relation to the potential benefits, and [1.80] and [1.77] respectively in relation to the potential challenges or concerns.
- For both categories (in PP and not in PP), all of the individual potential benefits or advantages have weighted average scores of between 2 and 3; and most of the individual potential challenges or concerns or disadvantages have weighted average scores of between 1 and 2.
- The results show a fair degree of consistency between the views of respondents in PP and respondents not in PP in their evaluation of individual factors. Overall, the respondents in PP and the respondents not in PP attach more importance to the effects of the potential challenges or concerns than to the effects of the potential benefits.
- The following potential benefits can be

distinguished as those that are included in the top 3 (i.e. top 50%), by weighted average score, in the prioritised list of each of the sub-categories of respondents:

For respondents in PP (i.e. Large firms, SMPs and Sole practitioners)

02. Shared knowledge of the client and the fact that the work performed by each auditor is reviewed by the other auditor could further improve audit quality

05. It could potentially address the concern of a loss of accumulated client knowledge that has been linked to MAFR, since the knowledge of the client is retained between the joint auditors

For respondents not in PP (i.e. Preparers, External users, Members of Boards, Audit committees and Other)

05. It could potentially address the concern of a loss of accumulated client knowledge that has been linked to MAFR, since the knowledge of the client is retained between the joint auditors

- The following potential challenges or concerns can be distinguished as those that are included in the top 3 (i.e. top 50%), by weighted average score, in the prioritised list

of each of the sub-categories of respondents:

For respondents in PP (i.e. Large firms, SMPs and Sole practitioners)

05. A JA costs more than the same audit being performed by a single audit firm

06. If JAs are combined with other measures such as MAFR or MAT, it could complicate the co-ordination of the appointment of auditors, especially co-ordination across multinational companies and other large groups

For respondents not in PP (i.e. Preparers, External users, Members of Boards, Audit committees and Other)

06. If JAs are combined with other measures such as MAFR or MAT, it could complicate the co-ordination of the appointment of auditors, especially co-ordination across multinational companies and other large groups

- As was observed in relation to the evaluation of the potential benefits and potential challenges or concerns relating to MAFR (and MAT), Large firms within the category of respondents in PP are more sceptical about the potential benefits and more concerned about the potential challenges or concerns

of JAs/MJAs compared to SMPs and Sole practitioners.

- Within the category of respondents not in PP, it is mostly Members of Boards and Audit committees that are more sceptical about the potential benefits and more concerned about the potential challenges or concerns of JAs/MJAs.

OBSERVATIONS RESULTS SUMMARY

Additional matters to consider in relation to JAs /MJAs

Overall weighted average score

2.54

More sceptical about potential benefits and more concerned about the challenges than SMPs and Sole proprietors.



02

HIGHEST VALUED POTENTIAL ADDITIONAL BENEFITS

Shared knowledge of the client and the fact that the work performed by each auditor is reviewed by the other auditor could further improve audit quality

05

It could potentially address the concern of a loss of accumulated client knowledge that has been linked to MAFR, since the knowledge of the client is retained between the joint auditors

2.59

Overall weighted average score

HIGHEST VALUED POTENTIAL ADDITIONAL CHALLENGES

05

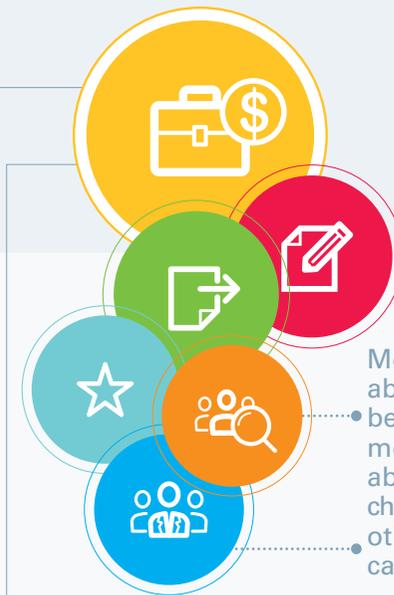
A JA costs more than the same audit being performed by a single audit firm

06

If JAs are combined with other measures such as MAFR or MAT, it could complicate the co-ordination of the appointment of auditors, especially co-ordination across multinational companies and other large groups

Overall weighted average score

1.80



More sceptical about potential benefits and more concerned about the challenges than other not in PP categories.

1.77

Overall weighted average score



MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

THEME 04

Views on whether or not there are net benefits for
adopting MAFR (and/or MAT and JAs /MJAs)

Views on whether or not there are net benefits to adopting MAFR (and/or MAT and JAs/MJAs)

After respondents had applied their minds to the evaluation of the individual benefits or advantages, and individual challenges or concerns or disadvantages as presented in the *discussion paper*, they were requested to indicate their overall evaluation with respect to which they believe are dominant, namely the potential benefits or the potential challenges or concerns.

Figures 4.1 and 4.2 summarise the results

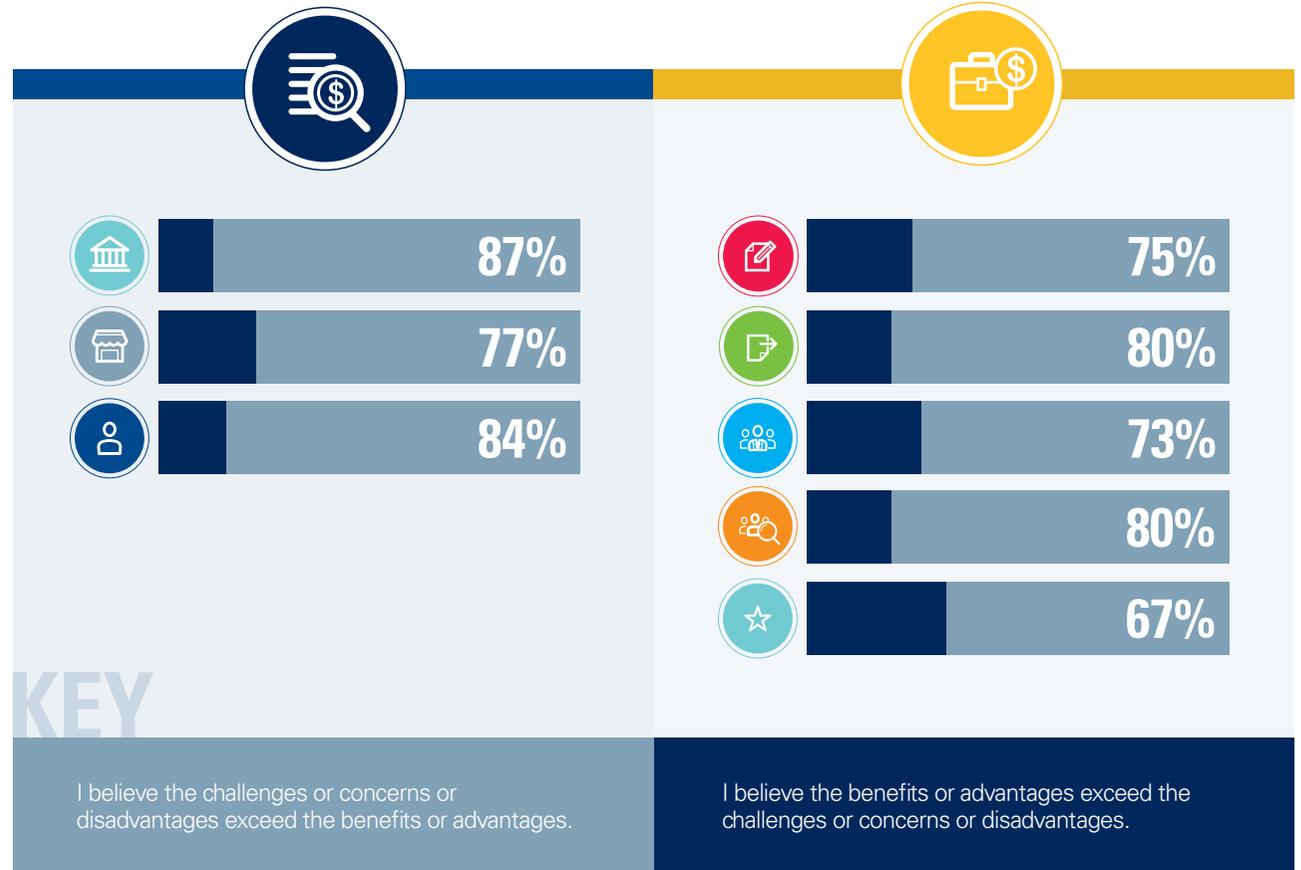


Figure 4.1
IN PUBLIC PRACTICE (IN PP)

Overall evaluation in terms of **potential benefits or advantages, and potential challenges or concerns or disadvantages**

Figure 4.2
NOT IN PUBLIC PRACTICE (NOT IN PP)

Overall evaluation in terms of **potential benefits or advantages, and potential challenges or concerns or disadvantages**

Some observations from the results presented in Figures 4.1–4.2

- Consistent with the results that have been observed in relation to theme 03, the views of the respondents in PP are more pronounced with respect to the challenges or concerns or disadvantages exceeding the benefits or advantages, compared to respondents not in PP. This is not unexpected, since the in PP segment, and in particular the larger firms, will be the ones that are most directly affected by any changes.
- These results reflect respondents' views on the balance of all of the factors that have been presented – positive and negative, considered in conjunction. Even though the results of the evaluation of the individual factors concerned, as presented under theme 03, were within relatively narrow ranges, the overall evaluation shows a clear differentiation in respect of the views of respondents about whether or not there are net benefits for adopting MAFR (and/or MAT and JAs/MJAs) in South Africa. Furthermore, the conclusion is the same across all the various sub-categories of respondents within the two main segments.
- It is clear that, although still in the minority, there are more SMP firms that believe that the benefits or advantages exceed the challenges or concerns or disadvantages, compared to the Large firms and Sole practitioners.

This could be attributable to the fact that these firms could benefit from the additional tendering opportunities that will be created in an MAFR environment.

Respondents had the opportunity to indicate whether, in their view, there may be any other potential benefits or advantages, or challenges or concerns or disadvantages that have not been included in the *discussion paper*. An analysis of the responses indicates that some respondents provided comments that reconfirm those factors (benefits and challenges or concerns) that have already been covered by the structured questions under theme 03. Nevertheless, the following additional challenges or concerns could be identified (no additional benefits were identified):

Raised by respondents in PP and respondents not in PP:

- Efficiencies in the audit that come after the first number of years on an audit client, and that further improve over time, could be lost to the disadvantage of both the auditor and the audit client (therefore, in addition to a loss of accumulated client knowledge, efficiencies may also be lost).
- Questions around the effect on professional indemnity insurance in terms of the ability of smaller firms to obtain sufficient insurance

cover and the cost of insurance, if they were to make use of the additional tendering and engagement opportunities that are expected in an MAFR environment.

- The proposed measures will add a further level of complexity to staff development within audit firms, i.e. developing young and promising audit staff with a certain portfolio in mind, succession planning, as well as possible negative consequences for partners in terms of remuneration linked to a certain portfolio.
- Some commentators referred to a point made in relation to theme 01 as a potential disadvantage for the auditing profession as a whole, namely that MAFR (and other related measures) may discourage potential candidates to enter the profession; it may have an adverse effect on the attractiveness of the auditing profession (also taking into account the onerous demands that already exist). Furthermore, promising young talent already in the profession (trainees and managers) may elect to leave the profession.

Respondents not in PP also raised the following challenges or concerns:

- The timing of a change in auditors may not take into account actual practical issues

being faced by the audited entity which may require stability at a particular point in time, for example when the entity is engaged in a transaction(s) that may bring significant changes in composition and structure, or when the entity is engaged in implementation of a significant change in accounting policy or new financial reporting requirements.

- A view that although changes in audit firms occur naturally in the market place, a forced change of auditors is different, since in the case of the former the client has considered all relevant factors in its circumstances at a

particular point in time (i.e. the pros and cons) and has concluded that the change will be worth it; whereas a forced change may not be worth it (i.e. may not be in the best interests of the entity and its stakeholders).

Introduction to the remaining results themes

The *discussion paper* proceeds to consider the basic overall outcomes in respect of whether or not there are net benefits for adopting MAFR (and/or MAT and JAs/MJAs), and suggests:

- If “yes”, one has to consider what will be the best model for South Africa in order to

maximise any potential benefits and minimise any risks or concerns.

- If “no”, one has to consider what the alternatives are and how to address the need to demonstrate that there are sufficiently robust measures in place to meet expectations related to ensuring auditor independence and consistent high audit quality.

The results of the survey presented for themes 05 to 07 provide further information and perspectives in this regard.

OBSERVATIONS

FURTHER COMMENTS

ADDITIONAL CHALLENGES/ CONCERNS IDENTIFIED



LOSS OF ACCUMULATED KNOWLEDGE & EFFICIENCIES

To the disadvantage of both the auditor and the audit client

ADVERSE EFFECT ON THE ATTRACTIVENESS OF THE AUDITING PROFESSION

Furthermore, promising young talent already in the profession (trainees and managers) may elect to leave the profession

THE TIMING OF A CHANGE IN AUDITORS

May not take into account actual practical issues being faced by the audited entity which may require stability at a particular point in time

EFFECT ON PROFESSIONAL INDEMNITY INSURANCE

in terms of the ability of smaller firms to obtain sufficient insurance cover that are expected in an MAFR environment

LEVEL OF COMPLEXITY TO STAFF DEVELOPMENT

Developing young and promising audit staff with a certain portfolio in mind, succession planning, as well as possible negative consequences for partners in terms of remuneration linked to a certain portfolio

CHANGES IN AUDIT FIRMS OCCUR NATURALLY: FORCED CHANGE IS DIFFERENT

May not be in the best interests of the entity and its stakeholders



MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

THEME 05

Perspectives around existing measures and their contribution to ensuring adequate levels of auditor independence and audit quality

Perspectives around existing measures and their contribution to ensuring adequate levels of auditor independence and audit quality

Measures such as MAFR, MAT and JAs/MJAs are being considered in addition to measures that already exist; i.e. the focus is on further strengthening auditor independence, as well as pursuing the other stated objectives relating to the promotion of transformation in the auditing profession and addressing market concentration of audit services.

There can be little doubt regarding the importance of auditor independence in contributing to overall audit quality, which in turn is essential for the continued relevance and value of the external audit. Audit quality and the highest standard of professional ethics and conduct must always trump any other interests, since these directly relate to investor protection and the protection of the public interest.

Respondents were requested to indicate the extent to which they believe each of the identified measures that already exist contribute to ensuring adequate levels of auditor independence and audit quality, using a scale of 1 to 6: Where 6 means that this measure or item is absolutely essential and 1 means that this measure or item makes a very limited contribution.

The following 12 measures that already exist were included in the questionnaire and are referred to by numbers 01 to 12 in Figures 5.1 and 5.2. Refer to the *discussion paper* which discusses each of these measures in more detail.

<p>01</p> <p>Independence requirements of the IRBA Code of Professional Conduct</p>	<p>02</p> <p>Legislated independence requirements (e.g. section 90(2) of the Companies Act)</p>	<p>03</p> <p>Mandatory audit partner rotation</p>
<p>04</p> <p>The roles and responsibilities of an independent audit committee relating to the appointment of the auditor and oversight of the external audit</p>	<p>05</p> <p>Audit committee reporting</p>	<p>06</p> <p>The ultimate appointment of the auditor by the shareholders of a company</p>
<p>07</p> <p>The annual appointment or re-appointment of the auditor of a company</p>	<p>08</p> <p>The disclosure of audit tenure in the auditor's report in accordance with the IRBA Audit Tenure Rule</p>	<p>09</p> <p>The performance of an objective engagement quality control review (EQCR) for certain qualifying entities</p>
<p>10</p> <p>The audit firm's internal monitoring reviews (e.g. post-issuance reviews)</p>	<p>11</p> <p>External inspections at firm level and at engagement level as performed by the IRBA</p>	<p>12</p> <p>Auditor accreditation requirements by certain regulators for auditors of certain entities (e.g. for the auditors of listed entities in terms of the JSE Limited Listings Requirements)</p>



4.39

Overall weighted average score

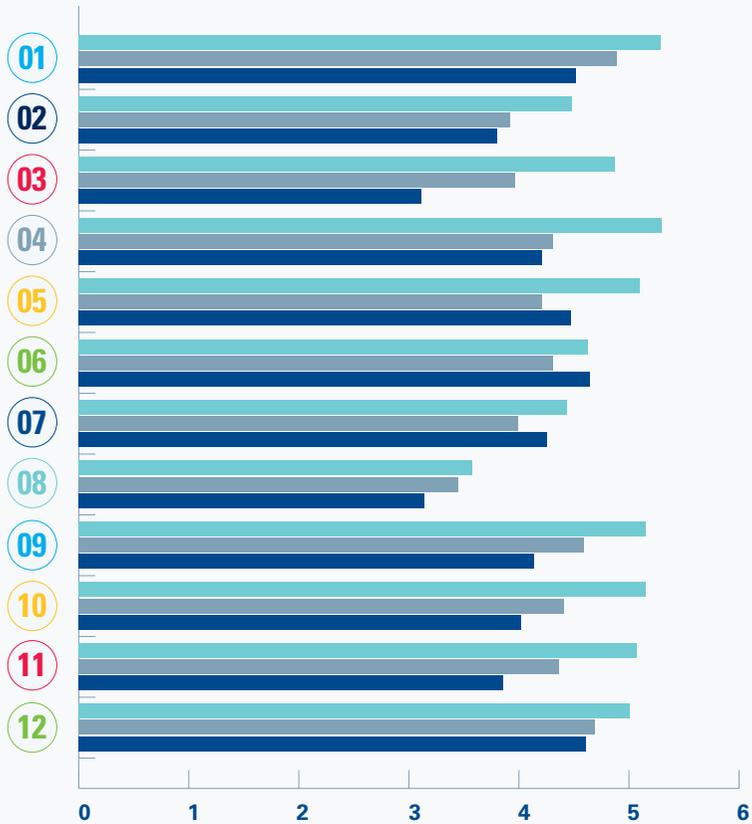


Figure 5.1
IN PUBLIC PRACTICE (IN PP)

Extent to which existing measures contribute to auditor independence and audit quality (weighted average scores)

KEY



Large Firms



SMPs



Sole Proprietors



4.63

Overall weighted average score

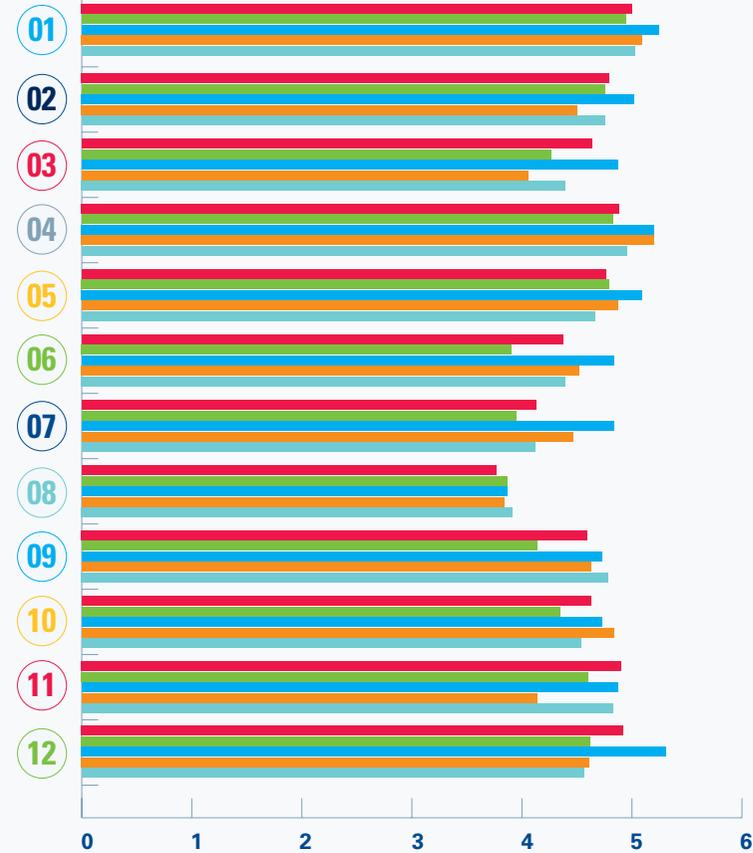


Figure 5.1
IN PUBLIC PRACTICE (IN PP)

Extent to which existing measures contribute to auditor independence and audit quality (weighted average scores)

KEY



Preparers



External Users



Members of Boards



Audit Committees



Other

Some observations from the results presented in Figures 5.1–5.2

- A weighted average score of 4 and above, would indicate a predominantly positive view in terms of the relative importance of a measure in its contribution to auditor independence and audit quality.
A weighted average score of between 3 and 4 still indicates a positive evaluation, but obviously there were more individual respondents who evaluated the particular measure's contribution as less important.
- None of the existing measures were evaluated below a weighted average score of 3 by any sub-category of respondents within the two main categories. Overall, the importance of these measures in terms of contributing to auditor independence and audit quality is acknowledged.
- Respondents not in PP rate these existing measures higher than their counterparts in PP (i.e. higher weighted average scores overall). This indicates that perceptions around these measures are important and that the users of audit services attach a high importance to the effectiveness of these measures in ensuring auditor independence and audit quality. The auditing profession should ensure that these measures are not compromised, since this could have an adverse effect on the perceptions of auditor independence and audit quality.
- Within the category of respondents in PP, Large firms generally evaluate these measures higher than SMPs and Sole practitioners. This result is not unexpected, since the larger firms mostly audit entities where more onerous independence requirements and quality control measures apply (i.e. listed entities and other public interest entities), and they are likely more sensitive to the issues involved.
- For respondents in PP, the following existing measures received a weighted average score of 5+ within at least one of the sub-categories of respondents. Furthermore, the measures are listed here in descending order of priority based on the average for each of the measures across the sub-categories of in PP respondents:
 - 01. Independence requirements of the IRBA Code of Professional Conduct**
 - 12. Auditor accreditation requirements by certain regulators for auditors of certain entities (e.g. for the auditors of listed entities in terms of the JSE Limited Listings Requirements)**
 - 09. The performance of an objective engagement quality control review (EQCR) for certain qualifying entities**
 - 04. The roles and responsibilities of an independent audit committee relating to the appointment of the auditor and oversight of the external audit**
 - 05. Audit committee reporting**
 - 10. The audit firm's internal monitoring reviews (e.g. post-issuance reviews)**
 - 11. External inspections at firm level and at engagement level as performed by the IRBA**
- For respondents not in PP, the following existing measures received a weighted average score of 5+ within at least one of the sub-categories of respondents. Furthermore, the measures are listed here in descending order of priority based the average for each of the measures across the sub-categories of not in PP respondents:
 - 01. Independence requirements of the IRBA Code of Professional Conduct**
 - 04. The roles and responsibilities of an independent audit committee relating to the appointment of the auditor and oversight of the external audit**

05. Audit committee reporting

12. Auditor accreditation requirements by certain regulators for auditors of certain entities (e.g. for the auditors of listed entities in terms of the JSE Limited Listings Requirements)

2. Legislated independence requirements (e.g. section 90(2) of the Companies Act)

- “The disclosure of audit tenure in the auditor’s report” (08) consistently received the lowest rating across all categories of respondents. This relates to respondents in PP [3.14 to 3.57] and respondents not in PP [3.78 to 3.93]. Overall, there is agreement that this measure is still important, but it received a lower rating compared to the other measures.

Respondents were also requested to reflect on the effectiveness of these measures, specifically in the context of recent external inspections findings. The following question was posed: Do you agree that reported inspections findings based on external inspections performed by regulators and oversight bodies (in South Africa and internationally) raise legitimate questions or concerns whether some of the existing measures are effective and that more robust measures may have to be considered?

Refer to Figures 5.3 and 5.4

Respondents not in PP continue to believe existing measures regarding the role and responsibilities of an independent audit committee is important to ensure adequate levels of independence and audit quality

Some observations from the results presented in Figures 5.3–5.4



- Both of the main categories of respondents (in PP and not in PP) agree in principle that more robust measures may have to be considered - **60%** and **69%** in total, respectively.
- Overall respondents not in PP are more concerned about the message being communicated by external inspection findings, compared to respondents in PP. Again, this speaks of the importance of perceptions amongst users of audit services and ensuring that the effectiveness of existing measures is not compromised.
- The only sub-categories of respondents that provided a majority “No” answer, indicating that they do not believe that external inspections findings are necessarily persuasive in this regard, are Members of Boards (56% “No”) and Audit committees (52% “No”). These are the main groups charged with governance by the shareholders and having responsibilities relating to oversight of the external audit. The results may reflect that they are in particular required to apply their minds to matters of auditor independence and audit quality, and that they understand that numerous relevant factors, of which external inspections findings is just one, have to be considered in this regard.

Respondents had the option to indicate a conditional “Yes” or a conditional “No”, and to provide further comments in relation to their answers. The following themes or messages could be identified from the comments received:

From respondents in PP and respondents not in PP (these messages were common to both of the main categories of respondents):

- There exists doubt whether measures such as MAFR (and other related measures) will make any significant contribution to reduce inspections findings; i.e. adding another requirement will not necessarily address findings that are mostly compliance based, it will simply add an additional layer of compliance. There are also some calls for stricter enforcement of measures that already exist, including stricter sanctions by the regulator.
- Inspections findings may indicate that some individual auditors and firms have not applied certain measures correctly, but that does not mean that the measures themselves are inherently deficient, or that more measures are required.
- Auditing is not an exact science, owing to the application of a risk-based approach in the circumstances of a particular client and the exercise of professional judgement. These

realities should be adequately taken into account during the inspections process and contextualised when reporting on inspection findings.

- Perceptions that external inspections has become an overly compliance driven process, hence reported inspections findings may create a misperception around actual levels of audit quality, since most findings will not necessarily affect the appropriateness or otherwise of the auditor’s opinion in the circumstances of a particular client.

In addition from respondents in PP:

- Commentators seem to agree that if there are fundamental shortcomings in terms of addressing the risks of material misstatement in the circumstances of a particular client, there is no excuse – audit quality must be maintained.
- A number of commentators called for better contextualisation of reported inspections findings (in terms of the public reporting of inspections results) otherwise unwarranted negative perceptions may be created regarding auditor independence and audit quality.

OBSERVATIONS

RESULTS SUMMARY

HIGHEST VALUED EXISTING MEASURES



Higher average scores when compared with SMPs and Sole proprietors, due to the fact that these firms mostly audit entities where more onerous independence requirements and quality control measures apply.

- 01** Independence requirements of the IRBA Code of Professional Conduct
- 12** Auditor accreditation requirements by certain regulators for auditors of certain entities (e.g. for the auditors of listed entities in terms of the JSE Limited Listings Requirements)
- 09** The performance of an objective engagement quality control review (EQCR) for certain qualifying entities
- 04** The roles and responsibilities of an independent audit committee relating to the appointment of the auditor and oversight of the external audit
- 05** Audit committee reporting
- 10** The audit firm's internal monitoring reviews (e.g. post-issuance reviews)
- 11** External inspections at firm level and at engagement level as performed by the IRBA

- 01** Independence requirements of the IRBA Code of Professional Conduct
- 04** The roles and responsibilities of an independent audit committee relating to the appointment of the auditor and oversight of the external audit
- 05** Audit committee reporting
- 12** Auditor accreditation requirements by certain regulators for auditors of certain entities (e.g. for the auditors of listed entities in terms of the JSE Limited Listings Requirements)
- 02** Legislated independence requirements (e.g. section 90(2) of the Companies Act)



Higher rated scores than respondents in PP. This indicates that perceptions around these measures are important and that the users of audit services attach a high importance to the effectiveness of these measures in ensuring auditor independence and audit quality

OBSERVATIONS

FURTHER COMMENTS



DOUBT WHETHER MAFR (AND OTHER RELATED MEASURES) WILL MAKE CONTRIBUTION TO REDUCE INSPECTIONS FINDINGS

Adding another requirement will not necessarily address findings that are mostly compliance based.

Calls for stricter enforcement of measures that already exist.

PERCEPTIONS THAT EXTERNAL INSPECTIONS HAVE BECOME A COMPLIANCE DRIVEN PROCESS

Hence reported inspections findings may create a misperception around actual levels of audit quality

BETTER CONTEXTUALISATION OF REPORTED INSPECTIONS FINDINGS

Otherwise unwarranted negative perceptions may be created regarding auditor independence and audit quality.

AUDITING IS NOT AN EXACT SCIENCE

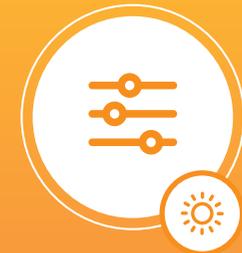
Realities should be adequately taken into account during the inspections process and contextualised when reporting on inspections findings.

INCORRECTLY APPLIED MEASURES

Does not mean that the measures themselves are inherently deficient, or that more measures are required

AUDIT QUALITY MUST BE MAINTAINED

If there are fundamental shortcomings in terms of addressing the risks of material misstatement in the circumstances of a particular client, there is no excuse



MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

THEME 06

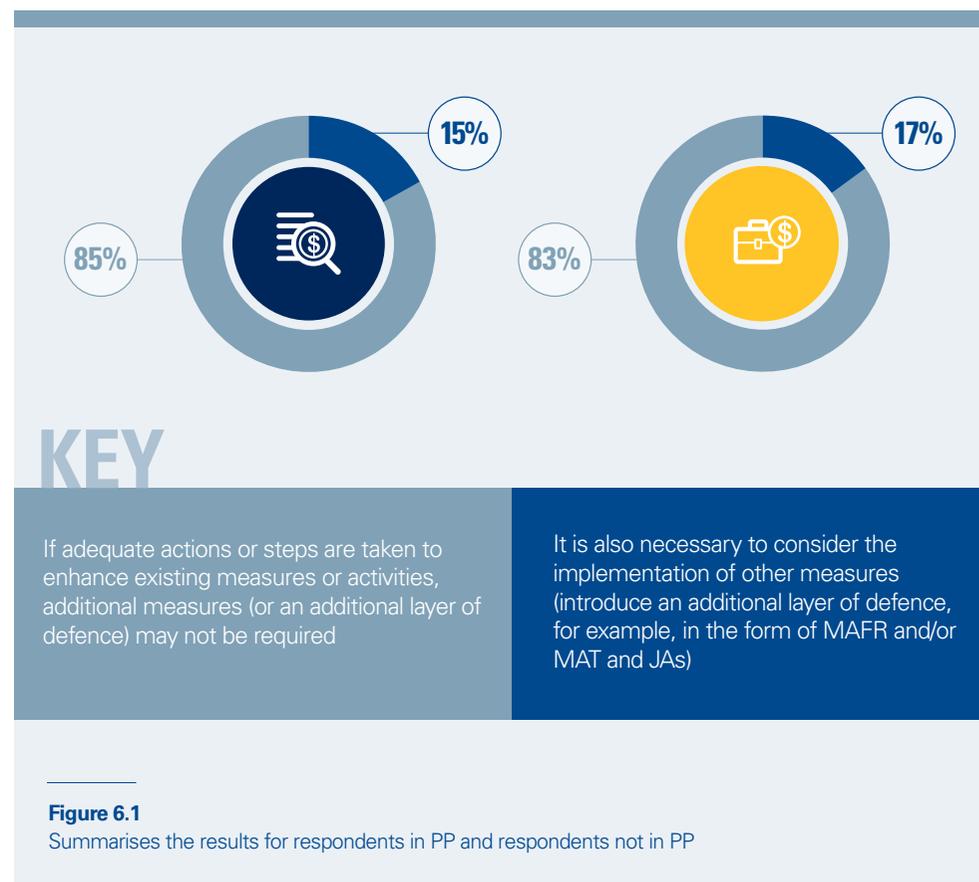
Views on enhancing existing measures,
and possible alternative measures

Views on enhancing existing measures, and possible alternative measures

This section in the *discussion paper* focuses on considering what could be done to harness the full benefits and intended objectives of existing auditor independence requirements and quality control measures, against the background of the preceding discussions and in the context of what has happened in other jurisdictions - i.e. highlighting what already exists and how existing measures could be enhanced or expanded.

Respondents were asked for their overall assessment in this regard: “Which of the following best describes your view in terms of the measures or activities that are available or required in terms of ensuring adequate levels of auditor independence and audit quality?”

- If adequate actions or steps are taken to enhance existing measures or activities, additional measures (or an additional layer of defence) may not be required
- It is also necessary to consider the implementation of other measures (introduce an additional layer of defence, for example, in the form of MAFR and/or MAT and JAs)



These results are consistent with those presented in Figures 4.1 and 4.2, where respondents in PP and not in PP indicated their views that the potential challenges or concerns related to the introduction of measures such as MAFR, MAT and JAs/MJAs exceed the potential benefits. Here, respondents indicate a preference for rather considering an approach of taking actions or steps to enhance measures or activities that already exist. The answers of respondents in PP and respondents not in PP are also closer than before.

The results in Figure 6.1, together with the trends that have been observed in some of the other results preceding this section, bring the following question to the fore: Is there a need for more to be done; for additional measures to be implemented and that will bring commensurate additional value and benefits in relation to auditor independence and, ultimately, audit quality? The answer appears to be “Yes”, there is more to be done; however, careful consideration should be given to which measures to implement and how they should be implemented.

Respondents have also indicated sensitivities to possible unintended consequences of measures such as MAFR and/or MAT and JAs.

The *discussion paper* presents the following 10 measures/activities, or actions in relation to existing measures/activities that could be considered:

<p>01</p> <p>Robust external inspections performed by the regulator together with a process of root cause analysis and remedial actions with respect to inspections findings</p>	<p>02</p> <p>Strengthening best practice for audit committees in discharging their responsibilities relating to auditor independence and audit quality oversight</p>	<p>03</p> <p>Ensure strong and capable audit committees, with members that have the requisite competencies</p>	<p>04</p> <p>Ensure that audit committees are empowered (sufficiently informed) to consider auditor independence in all its aspects. This could include encouraging audit committees to consider firm rotation or audit tendering or the appointment of joint auditors</p>	<p>05</p> <p>Pursue additional measures to strengthen transparency in terms of reporting/disclosing audit quality indicators (i.e. to better inform audit committees)</p>
<p>06</p> <p>Introduce measures to enhance audit committee reporting (including recommended practice in terms of the King IV Report)</p>	<p>07</p> <p>The implementation of the new and revised auditor reporting standards in terms of which a long-form auditor’s report is issued, that provides more transparency about the audit that has been performed</p>	<p>08</p> <p>The continued application of mandatory individual audit partner rotation (in the context that this may already bring a number of benefits and minimise some of the concerns or consequences of other measures)</p>	<p>09</p> <p>Consider other measures to address market concentration, including discouraging business practices that limit clients’ choice of audit firms and actively promoting audit firms outside of the normal big firms or firm networks</p>	<p>10</p> <p>Considering ways to strengthen the exercise of professional scepticism during an audit of financial statements (influencing auditor behaviour in terms of the exercise of sufficient levels of professional scepticism).</p>

Respondents were requested to rate each of the above measures or activities by allocating it to one of the following categories:

1. An essential measure or activity that should receive high priority in its contribution to strengthening auditor independence and enhancing audit quality
2. An important measure or activity
3. A less important measure or activity
4. Not particularly important and should receive a low priority in its contribution to strengthening auditor independence and enhancing audit quality

Based on the scores assigned, it is possible to calculate a weighted average score with respect to each identified measure or activity, indicating its relative importance. A score of 1 indicates the highest priority or importance.

Refer to Figures 6.2 and 6.3

Figure 6.2
IN PUBLIC PRACTICE (IN PP)

Ranking of possible actions that could be taken in relation to existing measures or activities (weighted average scores – the lower the score the higher the perceived value or the more importance is attached to the particular measure or activity)

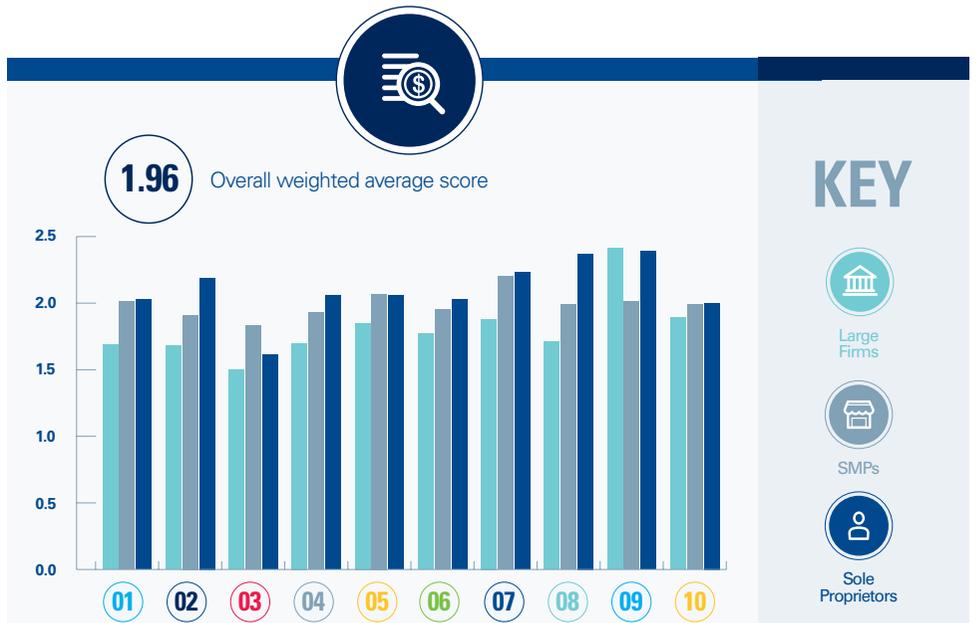
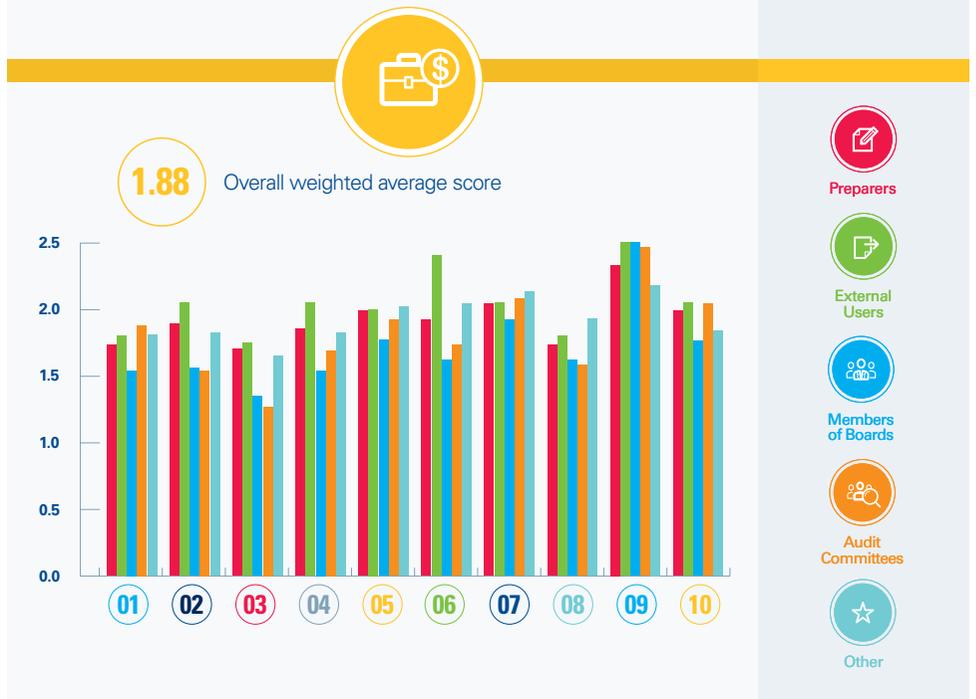


Figure 6.3
NOT IN PUBLIC PRACTICE (NOT IN PP)

Ranking of possible actions that could be taken in relation to existing measures or activities (weighted average scores – the lower the score the higher the perceived value or the more importance is attached to the particular measure or activity)



Some observations from the results presented in Figures 6.2 and 6.3

- Based on weighted average scores, each one of the 10 measures or activities presented in the *discussion paper* are considered across all categories of respondents (in PP and not in PP) to be an essential measure or an important measure. Evaluations are within a range of **[1.50]** to **[2.41]** for respondents in PP and **[1.27]** to **[2.50]** for respondents not in PP. Therefore, the actions or steps inherent within these measures or activities should receive due consideration in relation to any decisions around further strengthening auditor independence (and further enhancing audit quality).
- In the category respondents in PP, Large firms throughout attach more importance to the measures or activities than SMPs and Sole practitioners (except with respect to measure 09). Again, this may reflect the fact that Large firms are probably the most directly affected, since they are mostly involved in larger audits with more onerous independence requirements and higher levels of focus and diligence in considering matters relating to independence and audit quality. However, all of the scores are in a relatively narrow range; therefore all three the sub-categories of respondents attach a relative high level of importance to these measures or activities.
- Measures 09 (i.e. consider other measures to address market concentration, including discouraging business practices that limit clients' choice of audit firms and actively promoting audit firms outside of the normal big firms or firm networks) was considered more important by SMPs, compared to Large firms and Sole proprietors. As noted before, this could be a reflection that SMPs may benefit by additional opportunities that could be created by removing perceived barriers to entering certain markets.
- In the category respondents not in PP, Members of boards and Audit committees, combined, attach more importance to the measures or activities than the other sub-categories of respondents (except with respect to measure 09). This makes sense, since these are the groups charged with governance by the shareholders and that have direct responsibilities pertaining to oversight of the external audit, including auditor independence and audit quality. Again, all of the scores are in a relatively narrow range; therefore all five the sub-categories of respondents attach a relative high level of importance to these measures or activities.
- For respondents not in PP, the following

measures or activities are considered most important (top 50%) on the basis of identifying those ranked in order of priority for each sub-category of respondents and which appear simultaneously in the priority list of every one of the sub-categories:

01. Robust external inspections performed by the regulator together with a process of root cause analysis and remedial actions with respect to inspections findings

02. Strengthening best practice for audit committees in discharging their responsibilities relating to auditor independence and audit quality oversight

03. Ensure strong and capable audit committees, with members that have the requisite competencies

04. Ensure that audit committees are empowered (sufficiently informed) to consider auditor independence in all its aspects. This could include encouraging audit committees to consider firm rotation or audit tendering or the appointment of joint auditors

08. The continued application of mandatory individual audit partner rotation (in the context that this may already bring a number of benefits and minimise some

of the concerns or consequences of other measures)

- For respondents in PP, the following measures or activities are considered most important (top 50%) on the basis of identifying those ranked in order of priority for each sub-category of respondents and which appear simultaneously in the priority list of every one of the sub-categories:
 - 01. Robust external inspections performed by the regulator together with a process of root cause analysis and remedial actions with respect to inspections findings**
 - 02. Strengthening best practice for audit committees in discharging their responsibilities relating to auditor independence and audit quality oversight**
 - 03. Ensure strong and capable audit committees, with members that have the requisite competencies**
 - 04. Ensure that audit committees are empowered (sufficiently informed) to consider auditor independence in all its aspects. This could include encouraging audit committees to consider firm rotation or audit tendering or the appointment of joint auditors**

06. Introduce measures to enhance audit committee reporting (including recommended practice in terms of the King IV Report)

- There is a high level of correlation between the views of respondents not in PP and respondents in PP around their views on the importance of measures 01 to 04. The continued relevance and importance of external inspections and appropriate remedial action is acknowledged. Furthermore, there is consensus that auditor independence and audit quality are enhanced within an environment of strong corporate governance, including strong audit committees and transparency of audit committee oversight.

In addition to the identified measures pertaining to strengthening the audit committee's role with respect to external audit oversight, **63%** of respondents in PP and **66%** of respondents not in PP indicated that they believe that mandatory periodic formal assessment by the audit committee could contribute to strengthening auditor independence and enhancing audit quality. The *discussion paper* introduced this as an additional option that could be considered in terms of requiring the audit committee to

perform a periodic formal assessment of the external auditor and the audit outcomes, based on identified audit quality and related indicators (over and above the annual auditor appointment process).

Respondents were requested to indicate whether they believe that there are any other measures or activities that should also be considered. A limited number of respondents provided additional comments in this regard, and most of their comments were around measures or themes that have already been addressed. However, the following themes or messages could be identified from the comments received:

From both respondents in PP and respondents not in PP:

- Commitment to independence and quality is very much about the individual's attitude and mind-set, and the firm's organisational attitude(s). Behaviour should be influenced, for example, through focused training programmes, exposure to different environments, improving the business acumen of auditors, and renewed focus on the "tone at the top" (i.e. firm culture and firm governance).
- Further to the previous point, views that firms should strengthen their internal processes –

renewed focus on key quality control policies and procedures, including independence requirements, internal monitoring procedures and remedial actions, and improved engagement quality control reviews. Linked to this is a sentiment to guard against these matters being a “tick box exercise”, but rather fundamental behavioural aspects (i.e. driving the right behaviour).

Additional from respondents in PP:

- It is possible that a re-evaluation of education and training programmes may also be required in terms of the knowledge and skills required for today’s practitioner and future practitioners. Furthermore, the profession should continue to identify and be responsive

to the training needs of its members; in particular addressing areas of shortcomings or specific in-practice issues and challenges, including the development and issuing of guidance to members.

- A view that there should be a number of approved or accredited training providers that provide mandatory programmes with respect to certain identified topics, for example, ethics and independence requirements, and exercising professional skepticism during an audit of financial statements.

Additional from respondents not in PP:

- Robust external inspections by the regulator should be further enhanced by the public disclosure of inspections results per firm. Similarly, the names of those firms that have passed their external inspections should also be disclosed.

OBSERVATIONS RESULTS SUMMARY

63%

Believe that mandatory periodic formal assessment by the audit committee could contribute to strengthening auditor independence and enhancing audit quality.

66%

HIGHEST VALUED MEASURES OR ACTIVITIES

01

Robust external inspections performed by the regulator together with a process of root cause analysis and remedial actions with respect to inspections findings

02

Strengthening best practice for audit committees in discharging their responsibilities relating to auditor independence and audit quality oversight

03

Ensure strong and capable audit committees, with members that have the requisite competencies

04

Ensure that audit committees are empowered (sufficiently informed) to consider auditor independence in all its aspects. This could include encouraging audit committees to consider firm rotation or audit tendering or the appointment of joint auditors

06

Introduce measures to enhance audit committee reporting (including recommended practice in terms of the King IV Report)

The continued application of mandatory individual audit partner rotation (in the context that this may already bring a number of benefits and minimise some of the concerns or consequences of other measures)

01

02

03

04

08

Attach more importance to the measures throughout, since they are mostly involved in larger audits with more onerous independence requirements and higher levels of focus and diligence in considering matters relating to independence and audit quality.

Attach more importance to the measures. These are the groups charged with governance by the shareholders and that have direct responsibilities pertaining to oversight of the external audit, including auditor independence and audit quality.

OBSERVATIONS

FURTHER COMMENTS



INSPECTIONS SHOULD BE ENHANCED BY PUBLIC DISCLOSURE OF RESULTS

Similarly, the names of those firms that have passed their external inspections should also be disclosed.

COMMITMENT TO INDEPENDENCE AND QUALITY IS VERY MUCH ABOUT THE INDIVIDUAL'S ATTITUDE

... and the firm's organisational attitude. Behaviour should be influenced through

- Focused training programmes
- Exposure to different environments
- Improving the business acumen of auditors
- Renewed focus on the "tone at the top"

RE-EVALUATION OF EDUCATION AND TRAINING PROGRAMMES

... in terms of the knowledge and skills required for today's practitioner and future practice
Profession should continue to identify and be responsive to the training needs of its members

FIRMS SHOULD STRENGTHEN THEIR INTERNAL PROCESSES

Renewed focus on key quality control policies and procedures, including

- Independence requirements
- Internal monitoring procedures and remedial actions
- Improved engagement quality control reviews

ACCREDITED TRAINING PROVIDERS TO PROVIDE MANDATORY PROGRAMMES

... with respect to certain identified topics



MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

THEME 07

Considerations relating to “What if” MAFR (and other related measures) are to be adopted

Considerations relating to “What if” MAFR (and other related measures) are to be adopted

Respondents were requested to provide input with respect to appropriate rotation periods and the scope and application of rotation requirements in a “What if” scenario, as well as considering different models combined with other related measures (i.e. different options or alternatives).

The results presented in this section cannot be considered in isolation, since the questions that were presented to respondents were specifically in the context of a “What if” scenario. Some of the comments received indicate that respondents are concerned that their responses may be misinterpreted and, therefore, they reconfirmed certain views already expressed in relation to other questions in the survey, and did not respond.

The results are presented in relation to the following five considerations, in the context of “What if”:

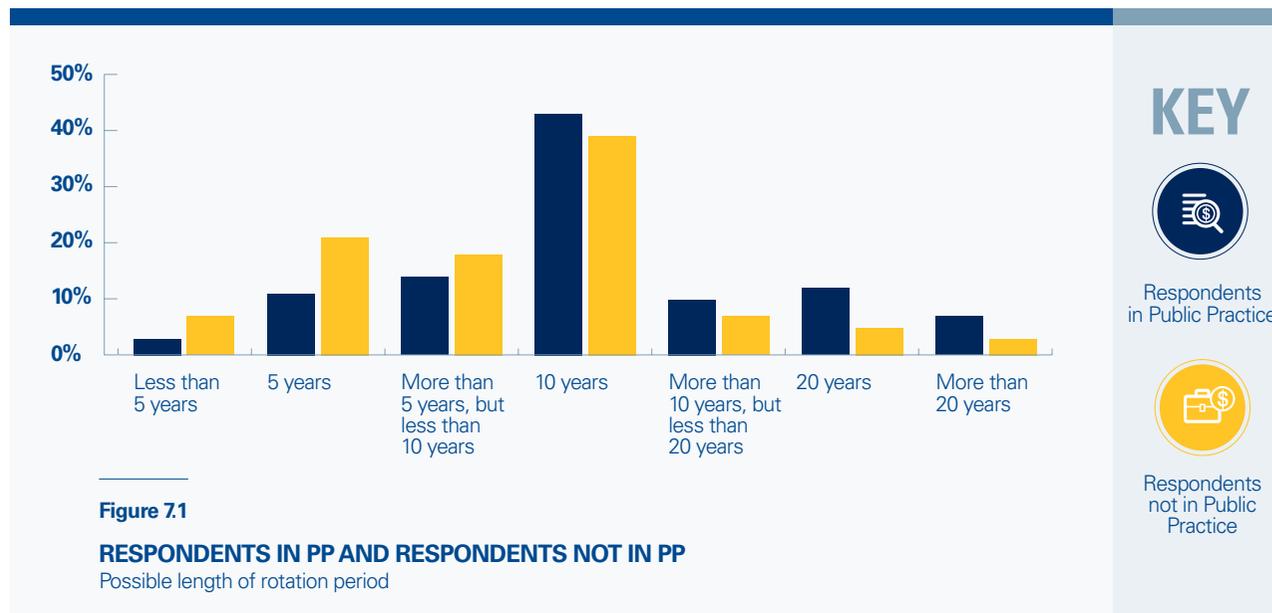
1. What do you consider to be an appropriate rotation period for MAFR?
2. The audits of the financial statements of which entities should be subject to MAFR?
3. Whether or not a model similar to the one that has been adopted in the EU should be considered
4. Consideration of different options with respect to the possible adoption of MAT
5. Consideration of different options with respect to the possible adoption of JAs/MJAs

Refer to the results presented in Figures 7.1 to 7.5

A

WHAT DO YOU CONSIDER TO BE AN APPROPRIATE ROTATION PERIOD FOR MAFR?

- Overall, respondents are consistent in indicating that **10 years** is the preferred rotation period. **43%** of respondents in PP and **39%** of respondents not in PP indicated a preference for a 10-year rotation period.
- The selection of 10 years might very well have been affected by the requirements that have recently been introduced in the EU (and rotation periods that apply in some other jurisdictions). Furthermore, it is worth noting that proposed changes to the International Ethics Standards Board (IESBA) Code of Ethics in relation to long association of personnel with an audit client also give recognition to a rotation period of at least 10 years, to provide relief with respect to certain cooling-off periods applicable to key audit partners.
- Practically, for audits of companies in terms of the Companies Act, a 10-year rotation period would imply two individual audit engagement partner tenure periods, in the context that individual audit partner rotation is required after 5 years.
- If one takes this same principle of at least two individual audit partner cycles forward to entities other than companies under the Companies Act, an appropriate rotation period could be 14 years, since the IESBA



- Code of Ethics requires the rotation of key audit partners after 7 years.
- A relatively significant portion of respondents in PP (**22%**) also indicated their preference for rotation periods of more than 10 years, and up to 20 years. Again, these results could be reflective of the model in the EU, where the basic rotation period of 10 years can be extended under certain circumstances. There is less support for rotation periods in this range amongst respondents not in PP (**12%**).
- It is clear that rotation periods of less than 5 years and more than 20 years have little support amongst respondents in PP and

- respondents not in PP (**7% or less** in both categories).
- The following additional themes or messages could be identified from the further/open comments provided by respondents:

From both respondents in PP and respondents not in PP:

- Rotation periods should be considered carefully, since some of the potential challenges or concerns that have been highlighted in the *discussion paper* may be exacerbated if the rotation period is too short.
- The notion that the same rotation period

does not necessarily have to apply to all affected entities; i.e. different rotation periods could apply to different classes or categories of entities, for example taking into account laws and regulations, industry-specific characteristics and public interest considerations.

In addition from respondents not in PP:

- A suggestion that a staggered approach should be adopted in terms of the effective date for certain categories of entities, in order to limit the effect on business and on audit firms (also taking into account the availability of qualifying audit firms), otherwise a relatively large number of audits may have to rotate simultaneously in the market place which could cause some instability.

Many respondents did not comment on this question as they indicated that they did not wish to expand on implementation when they did not agree with the proposed measures in the first instance

B

THE AUDITS OF THE FINANCIAL STATEMENTS OF WHICH ENTITIES SHOULD BE SUBJECT TO MAFR?

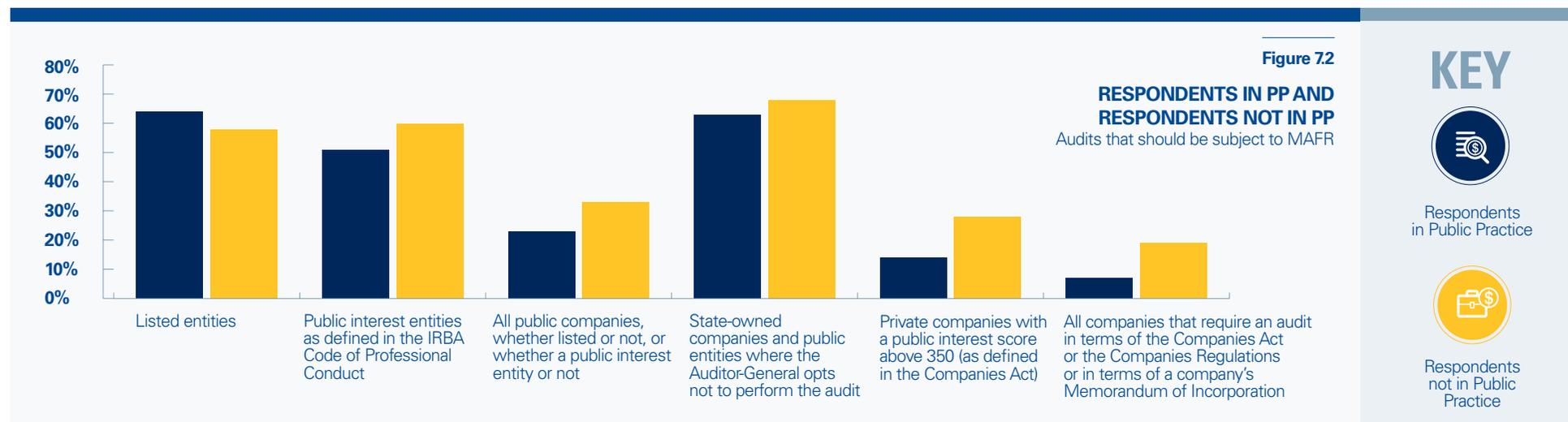
- Three categories of entities are clearly distinguished from the other categories, by both respondents in PP and respondents not in PP, namely:
 - Listed entities – 64% and 58% respectively
 - Public interest entities as defined in the IRBA Code of Professional Conduct – 51% and 60% respectively
 - Stated-owned companies and public entities where the Auditor-General opts not to perform the audit – 63% and 68% respectively
- Although some respondents expressed

support to extend MAFR beyond those entities identified above, they are clearly in the minority. None of the following categories of entities were selected by more than 33% of any of the respondents (responses ranged between 7% and 33%):

- All public companies, whether listed or not, or whether a public interest entity or not
- Private companies with a public interest score above 350 (as defined in the Companies Act)
- All companies that require an audit in terms of the Companies Act or the

Companies Regulations or in terms of a company's Memorandum of Incorporation

- The *discussion paper* also mentions that generally in those instances where MAFR have been implemented, as in the case of the EU, it only applies to listed entities and other entities that are classified as public interest entities. This is a sensible approach in the context of protecting the financial interests of investors and the public interest pertaining to those types or classes of entities that would normally be expected to have the most significant impact in this regard.



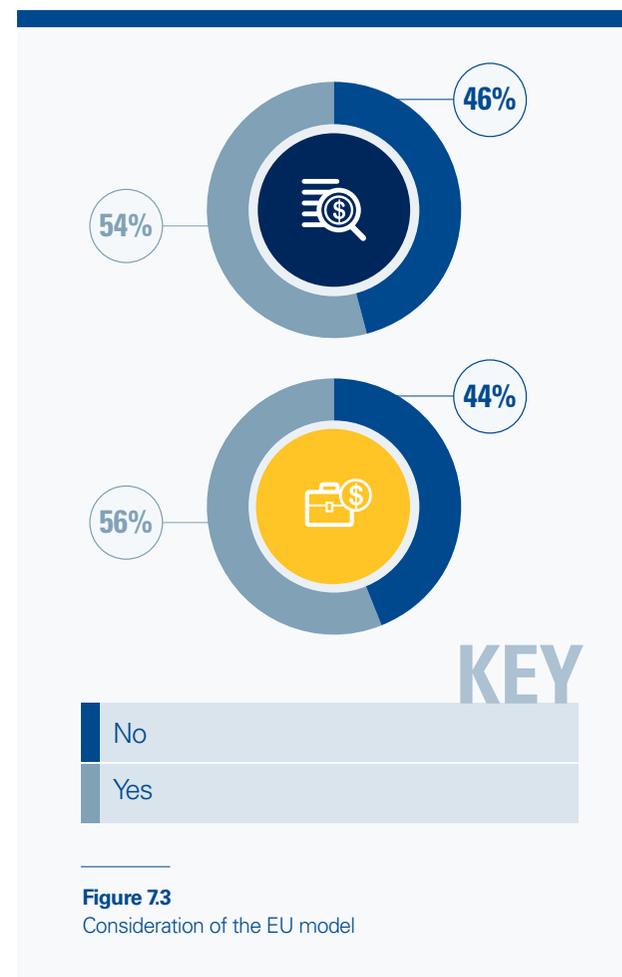
C

WHETHER A MODEL SIMILAR TO THE ONE THAT HAS BEEN ADOPTED IN THE EU SHOULD BE CONSIDERED

- The results for respondents in PP and respondents not in PP are closely aligned, with 54% “Yes” and 56% “Yes”, respectively. The split between the “Yes” and “No” answers could be regarded as relatively close to 50:50 and therefore not clearly differentiating a preference. This uncertainty may be as a result of the trends observed in relation to the other themes in the *discussion paper* and questionnaire in that respondents may not be fully convinced regarding the appropriateness of introducing measures such as MAFR (and other related measures).
- Furthermore, one should also take into account that the requirements in the EU only became effective in June 2016 and that there is no evidence available yet regarding the effectiveness of these measures, including any positive trends or any challenges or unintended consequences.

- Additional comments provided by respondents mostly confirm the interpretation of the results as described above. The following message could also be deduced from both categories of respondents:

The regulator should guard against simply adopting a particular model used in another jurisdiction(s) for South Africa. Our circumstances are different and whatever model is implemented should be fit for purpose within the South African context, taking into account, amongst other factors, the size of our audit market, different classes or categories of audited entities, relevant laws and regulations, measures that already exist, the nature and characteristics of audit firms at different tiers and other secondary objectives, for example, creating more opportunities for more audit firms to enter certain markets.



D

CONSIDERATION OF DIFFERENT OPTIONS WITH RESPECT TO THE POSSIBLE ADOPTION OF MAT?

Respondents were asked to rank the following options in order of preference (1 to 3, with 1 indicating your first choice), if the adoption of MAT was to be considered in South Africa.

1. Implement MAT as an alternative to MAFR (i.e. as a measure on its own)
2. Implement MAT in combination with MAFR (e.g. as is the case in the EU)
3. Implement MAT in combination with mandatory periodic formal assessment by the audit committee (e.g. MAT after a specified period, and in the intervening period, periodic formal assessment by the audit committee)

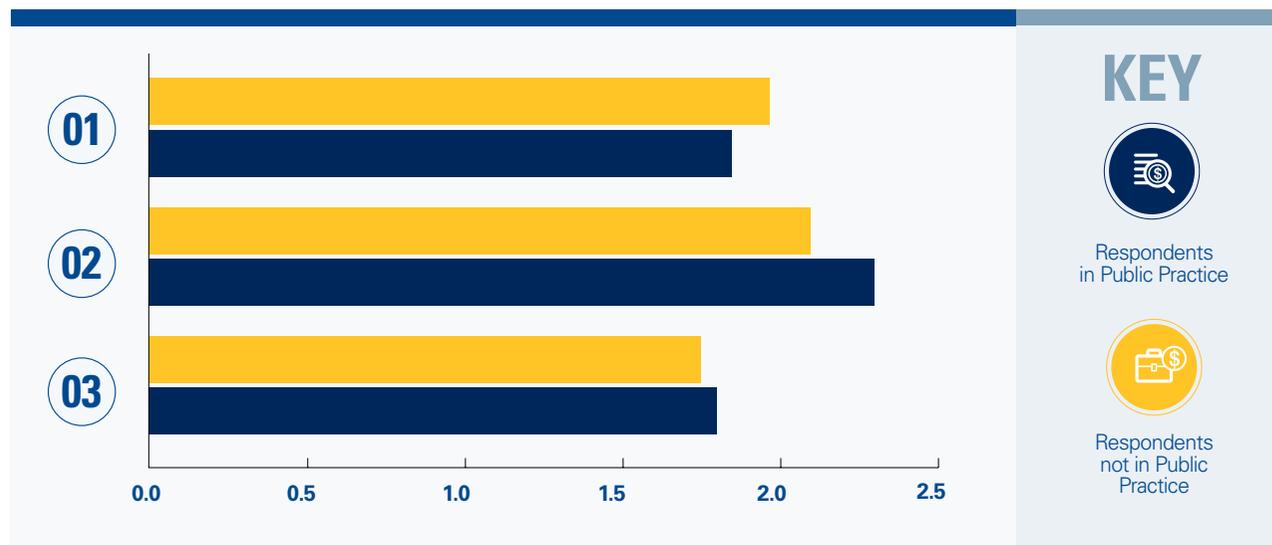


Figure 74
Evaluation of some options for adopting MAT (ranked, with 1 indicating the highest priority)

- Generally MAT is preferred above JAs / MJAs (refer to Figure 7.5) as a possible measure in relation to strengthening auditor independence and enhancing audit quality, based on the number of respondents that chose the “N/A” option in the questionnaire indicating that they do not agree with a particular option.

- The three options that were presented to respondents were ranked as follows in order of priority, by both respondents in PP and respondents not in PP:



- It is important to remember that the *discussion paper* and the related questionnaire were issued and completed before the IRBA’s announcement that MAFR will be implemented in South Africa. Respondents’ evaluation may very well be different had they known about the decision. As it stands, the results are probably more reflective of a context where MAT is considered a possible alternative measure to MAFR.

E

CONSIDERATION OF DIFFERENT OPTIONS WITH RESPECT TO THE POSSIBLE ADOPTION OF JAs/MJAs?

Respondents were asked to rank the following options in order of preference (1 to 4, with 1 indicating your first choice), if the adoption of JAs/MJAs was to be considered in South Africa.

1. Implement JAs/MJAs as an alternative to MAFR or MAT (i.e. as a measure on its own)
2. Implement JAs/MJAs in combination with MAFR, with the condition that the joint auditors may not rotate at the same time (i.e. both measures are required for certain identified entities)
3. Implement JAs/MJAs in combination with mandatory periodic formal assessment by the audit committee (e.g. MAT after a specified period, and in the intervening period, periodic formal assessment by the audit committee)
4. Do not introduce JAs/MJAs as such, but use the appointment of joint auditors as a means of extending any mandatory rotation or tendering period, should MAFR or MAT be introduced (e.g. as is the case in the EU)

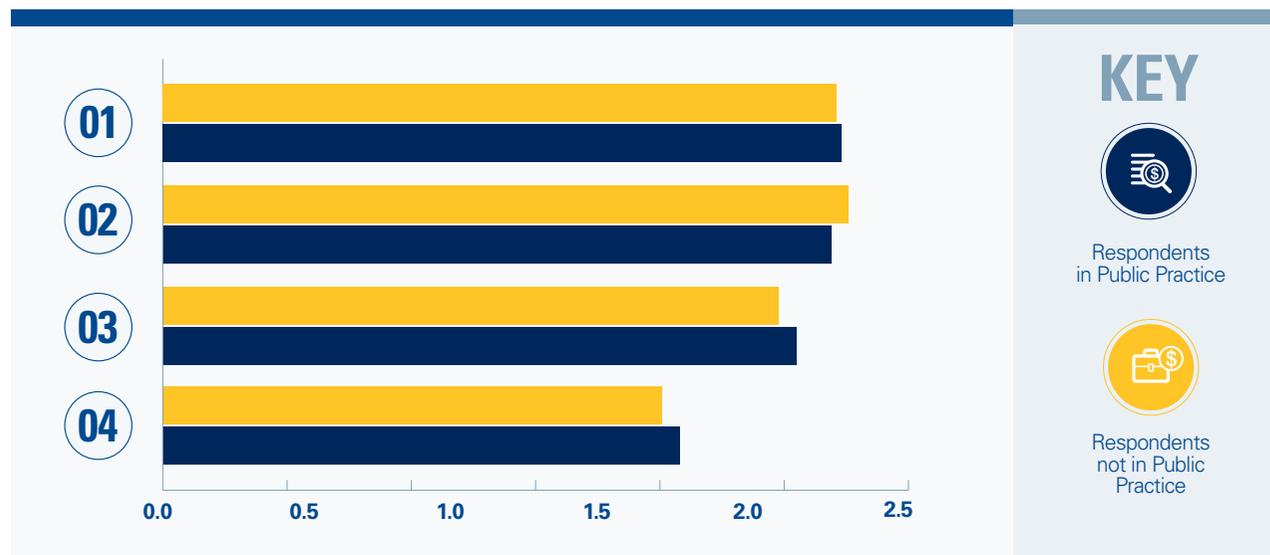


Figure 75
Evaluation of some options for adopting JAs/MJAs (ranked, with 1 indicating the highest priority)

- MAT is preferred to JAs/MJAs amongst respondents in PP and respondents not in PP, based on the number of respondents that chose the “N/A” option in the questionnaire, indicating that they do not agree with a particular option.
- The four options that were presented to respondents were ranked as follows in order of priority:

By respondents in PP:

- 04 03 02 01

By respondents not in PP:

- 04 03 01 02

- As stated in relation to the results in Figure 7.4, the results observed in Figure 7.5 may very well be different had respondents already known about the IRBA’s decision to implement MAFR. As it stands, the results are probably more reflective of a context where JAs/MJAs are considered to be a possible alternative measure to MAFR.

MANDATORY AUDIT FIRM ROTATION
RESULTS REPORT

IN CLOSING

There can be no doubt that the announcement by the IRBA to implement MAFR in South Africa is the most significant jurisdictional-specific development in auditing in recent history

SAICA supports the overall objectives of the IRBA pertaining to further strengthening auditor independence, addressing market concentration and promoting transformation. While it is important that all of these objectives should be addressed within the South African context, SAICA has also called for a measured approach in considering how these objectives will be best achieved, including the consideration of different options or possible alternatives that are available. This is the reason why SAICA called for input on its discussion paper *Considering Mandatory Audit Firm Rotation (and other Related Measures) as Possible Means of Enhancing Auditor Independence*.

There has not been universal acceptance or rejection of MAFR (and other related measures), and there has been implementation of such measures in other jurisdictions with mixed results. The implementation in the EU, effective from 17 June 2016, will still have to prove its impact and consequences over time – both positive and negative. This results report contributes to the existing body of knowledge on the topic of MAFR (and other related measures) and provides South African-specific views and perspectives, including highlighting some matters that should be considered as part of any implementation process.

Although individual results vary with respect to the seven main themes that are covered, there is consistency overall in respondents' expressing support for the IRBA's objectives, but expressing majority views that MAFR may not necessarily achieve the intended objectives. Possible challenges or concerns or disadvantages exceed the potential benefits or advantages, and there should be a greater focus on enhancing measures that already exist rather than adding additional measures such as MAFR and/or MAT and JAs. The issues involved in implementing a measure such as MAFR are complex and cannot necessarily be reduced to a quantitative "Yes" or "No" answer. Instead, also require the consideration of qualitative matters, including potential benefits and unintended consequences for a variety of stakeholders that will be affected, including, companies, the auditing profession, investors, regulators and other stakeholders.

SAICA will continue to engage with the IRBA in understanding why IRBA believes the proposed measures will achieve the intended objectives. SAICA has urged its members and associates to be responsive to future engagement with stakeholders on the impact of the IRBA's announcement on the auditing profession and on business (i.e. the users of audit services).

SAICA wishes to thank all respondents for their time taken and valuable input



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