Feedback on impact analysis - providing statutory audit and other non-audit services to the same client

The South African Institute of Chartered Accountants ("SAICA") and the Independent Regulatory Board of Auditors ("the IRBA") have conducted research to determine the impact of the interpretation by Senior Counsel of Section 90(2)(b) of the Companies Act, 2008 ("the Act") on Registered Auditors.

Section 90 of the Act contains provisions applicable to an auditor engaged to perform a statutory audit of a company or a close corporation (CC). These provisions must be complied with in addition to those of IRBA's Code of Professional Conduct for Registered Auditors ("the Code"). In summary, Section 90(2) prohibits an auditor to provide audit and certain specified services to the same client.

Section 90 became effective on 1 May 2011. Although compliance with the Section 90(2)(b) is not currently monitored by IRBA and the Companies and Intellectual Properties Commission ("CIPC"), registered auditors are nevertheless required to comply with the Code in respect of the provision of audit and other services. IRBA will be monitoring compliance with section 90(2) with effect from 1 January 2014.

In performing the impact analysis an internal online methodology was followed. Separate questionnaires were developed for SAICA members and IRBA registered auditors.

The sample consisted of 877 SAICA members and 168 IRBA members. Data was collected from 14 May – 31 May 2013. In terms of the sample the e-mail was sent to 26 335 SAICA members of which 877 completed the survey (3.33% hit rate). An e-mail was sent to 2 179 firms registered with IRBA of which 168 firms completed the survey (7.7% hit rate).

In terms of the analysis of the data the following was deduced:

- High levels of awareness were reported. An area of concern in terms of awareness is auditors that work in a company or close corporation that is audited.
- It would seem as if the prohibition affects most of the respondents. Members who are less affected include auditors who are also audit committee members and those who work in a company or close corporations being audited.
- An overall negative effect of the prohibition of Section 90(2) is apparent. Negative effect is reported on most registered auditors.
- The effect is more significant if the auditor also performs other services. SAICA respondents as well as registered auditors from IRBA feel that the independence of the auditor will not be affected by the provision of these other services. SAICA respondents indicate that the quality of the audit and of the financial statements will improve, while the registered auditors from IRBA expressed a concern that the audit and financial statements will deteriorate by the provision of these other services.
- Respondents indicate that overall they believe there will be a decrease in the annual intake of trainees (1 – 3 trainees) as well as a decrease in existing staff numbers (1 – 5 staff members) in firms when only audits are performed on all clients.
- If firms were only permitted to perform other services to clients and not any statutory audits, there will be a decrease in the annual intake of trainees (1 – 5 trainees) as well as a decrease in existing staff numbers (1 – 10 staff members).
- Besides providing statutory audits, firms also prepare and to a lesser extent, maintain financial statements for their clients. Firms providing statutory audits also perform the duties of an accountant and/or bookkeeper and certain related secretarial work.
- Most respondents report that of the prohibition of Section 90(2) will have an effect on their number of clients in the business, but the majority indicates that Section 90(2) will impede the growth of their business.
- Section 90(2) applies to registered auditors and members of a company/close corporation that is audited mostly because of the audit requirement on their MOI. To amend their MOI is also their preferred course of action to address the prohibition of Section 90(2) which is reported as most difficult to change.
- Those who are not only required to be audited by their MOI prefer to capacitate existing staff to perform the bookkeeping accounting and related secretarial services

that the company/close corporation auditor can no longer provide which is reported as being most difficult to change.

- Changing service providers, either contracting someone else to do the other services or another auditor is perceived to increase costs.
- All respondents are aware of and are affected by the change imposed by Section 90(2) prohibiting the statutory auditor from also providing other services.
- Respondents currently provide a variety of services to clients.
- Respondents currently receive a variety of services from providers.
- Section 90(2) has an overwhelmingly negative effect on the following aspects:
    - Growth of the business
    - Number of existing staff
    - Annual intake of first year trainees
    - Overall costs
    - The firm’s annual revenue

SAICA and the IRBA would like to thank members for taking time to complete the survey. It indicates a high level of awareness of the impact of section 90(2).

In conclusion members need to be aware that based on the impact analysis the CIPC has agreed to provide a final extension of the monitoring of compliance to 31 December 2013. The IRBA will be releasing some practical transitional implementation guidance that will be of value to registered auditors. SAICA members and registered auditors should also take note that section 90(2)(b) will be enforced 2 years and 8 months after the effective date of the Companies Act, which has allowed sufficient time for members and registered auditors to plan for this occurrence. We encourage members affected by the legislation to gain an understanding of the requirements and to implement the necessary actions to ensure compliance with the Companies Act.

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