The Board
Independent Regulatory Board for Auditors
Building 2 Greenstone Hill Office Park
Emerald Boulevard
Modderfontein
Attention: Mr. Bernard Agulhas

E-mail: comments@irba.co.za

20 January 2017

Dear IRBA Board Members

Re: Consultation Paper: Mandatory Audit Firm Rotation

We welcome the opportunity as a major stakeholder for the auditing profession to provide our formal response on the Consultation Paper issued by the Independent Regulatory Board for Auditors (the “IRBA”) on 25 October 2016 (“the Consultation Paper”).

1. The South African Capital Markets
We believe that the audit plays a critical role in the effective functioning of the capital markets by building trust between companies and their shareholders and underpinning the delivery of reliable, relevant and timely information to them about the organisation in which they have invested. We also believe in, and support, the IRBA’s mission. We share with the IRBA the goals of protecting the financial interests of the South African public and international investors in South Africa.

We believe that in South Africa we have a properly functioning capital market. This is evidenced in the views given by the World Economic Forum (“WEF”) on South Africa on our highly regarded auditing and reporting standards, a strong JSE regulator, corporate boards that have a strong ability to carry out their responsibilities and most of all, a world class corporate governance framework.

2. Transformation
It is our understanding that the IRBA initially set out its objectives for considering MAFR with the following objectives: “Given the importance of responding to the need to strengthen auditor independence .... the main reasons why the Board must consider further measures are the following:

- It will strengthen auditor independence and so protect the public and investors, which is part of the IRBA’s strategy;
- It will address market concentration of audit services and create a more competitive environment, which will positively influence audit quality; and
- It will promote transformation by creating more opportunities for small and mid-tier audit firms to enter certain markets, provided they are competent to audit in those markets.”

The Consultation Paper subsequently states that “MAFR is not intended to address transformation, but rather to strengthen auditor independence.”. We agree with the IRBA in not considering MAFR as a measure to promote transformation. Having said that, we want to continue working with the IRBA and other important stakeholders to promote transformation of the profession in South Africa, as we believe there is more that can be done in working together to further transform.
3. Independence

It is evident from the Consultation Paper that the IRBA is concerned with the independence of auditors. In South Africa there are several positive measures in place that contribute to auditor independence. These include:

a. The IRBA Code of Professional Conduct;
b. Audit partner rotation as set out in the Companies Act, 2008, (“Companies Act”);
c. Cooling-off periods for the auditor as set out in the Companies Act;
d. Statutory obligation of the Audit Committee in terms of the Companies Act to ensure auditor independence;
e. Appointment of the auditor by shareholders at the annual general meeting as set out in the Companies Act;
f. Disclosure of audit tenure;
g. Additional disclosure which has now been brought into the Report on Corporate Governance for South Africa 2016, (“King IV”);
h. International Standards on Auditing; and
i. Revisions and additions to the auditor reporting standards which have resulted in a significantly expanded auditor report including the communication of Key Audit Matters.

To date we have not had sight of IRBA’s empirical evidence that demonstrates that these measures are not effective or provide the information as to how implementing MAFR will solve the perceived problem of independence.

We strongly encourage the IRBA to share the basis of its findings and research and how MAFR can solve the perceived problems of independence. In our letter to you dated 29 April 2016 we provided information demonstrating that MAFR does not improve auditor independence and audit quality.

In addition, and more recently, the regulator in Singapore, the Monetary Authority of Singapore (“MAS”), announced in September 2016 that it was discontinuing MAFR and had set out other proposed safeguards, instead of MAFR to enhance the independence and quality of audits. This included increased expectations of audit committees set out in Corporate Governance guidelines and increased scope of partner rotation and cooling off requirements amongst others. Both of these requirements already exist in South Africa.

Furthermore the regulator in Singapore found that international research does “not provide conclusive evidence linking mandatory firm rotation with an improvement in audit quality”, and that from their observations and feedback from stakeholders, “there are also negative consequences associated with frequent rotation of external auditors”. The MAS specifically noted that the time to gain familiarity with large and complex entities and the loss of cumulative audit knowledge, could result in poorer audit quality and heightened audit risks in the early years of appointment.

We would welcome the opportunity to work together with the IRBA and other stakeholders to develop less intrusive measures than MAFR to achieve on IRBA’s objectives of strengthening auditor independence. (Refer to Appendix 5 to this letter for less intrusive measures to strengthen auditor independence.)
4. **Audit market concentration**
As it relates to audit market concentration, we once again strongly encourage the IRBA to share the basis of its findings and research and how MAFR can solve market concentration concerns, and to consider the facts presented in our letter to you dated 29 April 2016, demonstrating that MAFR does not improve market concentration.

In addition, and in considering the impact of MAFR on the UK audit market, the anticipated introduction of MAFR has made no substantive change to the Big-four firm market share. “Despite changes to UK audit rules requiring more frequent audit tendering by listed companies, there has not been any substantive change in the share of FTSE 100 audits outside the Big-four firms. Even allowing for the audit switches which have been announced, but will not come through until subsequent year-ends, there has not been a radical shift.” (The FTSE 100 Auditors Survey)

5. **We are passionate about our profession**
At PwC, we want the best people to join the profession and we want to hire the best people into the firm. As such we want to grow the pool of audit resources and skills in the country. MAFR will have a negative impact on the ability of the profession to attract and retain the best talent, which will have a negative impact on audit quality.

In South Africa, where a skills shortage exists, market pressure will potentially create a significant need for resources that don’t exist. The frequent need to redeploy staff to new client accounts will require flexibility and additional resources, which could represent another threat to quality. There is a substantial human element in imposing MAFR.

At the Audit Committee Leadership Summit in 2014 (where European and North American Audit Committee Leadership Networks met), the view was expressed that mid-tier firms are facing the same staffing issues affecting larger firms, and they are also grappling with the challenges of developing many proposals. The environment has been a strain for even the biggest firms. “There’s a level of fatigue in the profession. A lot of emotional energy is burned on these proposals. There’s a limited capacity on the part of all firms.” This is not attractive to a new generation of auditors and financial professionals. This will only be exacerbated as accounting continues to be the top degree in demand by employers.

The impact on the transformation agenda could also be acute. In a market where the retention of skilled black professionals is a challenge, such measures may only serve to make the profession that much less attractive. With the increased pressure on audit fees and staff compensation, audit firms are already challenged to retain top talent with better prospects being offered in other markets and other industries.

6. **Other markets compared to South Africa**
In looking further at other markets and taking into account how developed our capital markets are, it is worth noting that of the top 20 markets ranked by financial market development by the WEF, of which South Africa is placed 11th, thirteen countries have decided not to adopt MAFR. Of the remaining six countries, five have had to adopt MAFR as a result of being part of the EU, all of whom had not applied MAFR before or had rejected it. The other one of the six was China.
Analysing this further, none of the top ten countries (i.e. all those ranked ahead of South Africa), including New Zealand, Singapore, Hong Kong, Australia, Canada and Switzerland apply MAFR, except for Finland, Norway and Sweden who are forced to apply MAFR by virtue of being part of the EU.

The point to make here is that, countries with a comparable capital market to South Africa have rejected MAFR. Furthermore, it is interesting to note that some of the countries that rank behind South Africa and that have decided to adopt MAFR, do not have a strong corporate governance framework and in some cases do not have audit committees, as we do in South Africa.

7. The importance of the audit committee
The Audit Committee fulfils an important role in a properly functioning capital market like South Africa in overseeing the external audit process and making the auditor appointment decision. MAFR undermines this responsibility and takes away the audit committee’s freedom to decide which accounting firm best meets the needs of the company and its shareholders. It conflicts with their statutory responsibilities under the Companies Act. As such MAFR reduces the audit committee’s ability to fully discharge its oversight responsibilities and in turn disenfranchises shareholders’ ability to obtain the highest quality audit in the most efficient way.

8. IRBA’s findings on independence
A question was raised at the MAFR Indaba as to whether all the IRBA’s findings that are being attributable to independence are in fact strictly independence issues. It was agreed that it is critical to the profession that there be more transparency around the quality and nature of the findings of these inspections. We would encourage the IRBA to publish the information relating to the extent and magnitude of IRBA’s inspections and how these inspections provided substantive evidence of deficiencies, which led to the conclusion that auditor independence is significantly threatened in South Africa.

9. Questions for consultation
We have set out in Appendix 1 our comments to the questions you have asked. We would like to highlight that it is difficult to comment on these questions substantively, as we have not been provided with the research that evidences that the current independence measures in South Africa are not working and the research that provides evidence that MAFR will solve the issues that the IRBA is concerned about.

As an example, it is difficult to comment on whether or not MAFR should be extended beyond listed companies, when the IRBA has not provided its research as to where these type of issues exist.

In addition, we have set out our detailed comments on the Consultation Paper in Appendix 2.

10. Conclusion
We believe that in South Africa we have a properly functioning capital market. The audit plays a critical role in the effective functioning of the capital markets by building trust between companies and their shareholders.

We at PwC are determined to respond positively to changing needs and opportunities that strengthen our capital markets, whilst at the same time not compromising on audit quality. Independence is an important factor in achieving this.
We do not believe that MAFR increases auditor independence or enhances audit quality. There is no empirical evidence that it does. In addition, it does not improve market concentration. MAFR has been implemented and repealed in many other markets, due to not achieving on these objectives and in having unintended consequences including having counter effects than intended.

We also believe that as the Companies Act regulates the appointment and removal of auditors, audit partner rotation, and the responsibilities of the Audit Committee, the Companies Act is the most appropriate statute to also consider the implementation and regulation of MAFR. As such, any consideration of MAFR in South Africa should be led by the Specialist Committee on Company Law (“SCCL”). This would require a proper consultation process being part of a Parliamentary process, with a public hearing open to impacted and affected parties. This would also include a vote on the amendments through the National Assembly and National Council of Provinces. We believe this is appropriate considering the significant impact of MAFR on our capital markets.

The IRBA has not yet provided the research that evidences that the current independence measures in South Africa are not working and the research that provides evidence that MAFR will solve the issues that the IRBA is concerned about. We would like to encourage the IRBA to work with the SCCL in moving forward with the consideration of MAFR in the Companies Act. We would welcome the opportunity to contribute and work together with you and other important stakeholders, including investors.

We would be pleased to discuss any aspect of our response or answer any further questions that the IRBA may have.

Yours faithfully

Dion Shango
Chief Executive Officer
Appendix 1 – Response to questions for consultation

We have set out in this appendix our comments to the questions you have asked. We would like to highlight that it is difficult to comment on these questions substantively, as we have not been provided with the research that evidences that the current independence measures in South Africa are not working and the research that provides evidence that MAFR will solve the issues that the IRBA is concerned about.

Q1: Explain the practical implementation and implications of MAFR on the listed company / audit firm.

In our letter to you dated 29 April 2016, we set out many of the practical implementation and implications of MAFR.

Q2: Quantify the potential costs of implementing MAFR in the listed company / audit firm.

If MAFR is implemented, affected entities will presumably put audits out for tender when the time to replace the incumbent auditor draws near. Tender/ proposal costs vary depending on many factors, including the size and complexity of the entity.

In our experience, the total transition costs (proposal costs plus costs to perform the audit) of a new listed audit client have equated to more than the first year’s audit fee.

The following point is made in the SAICA MAFR Indaba discussion points: “The two international guests at the Indaba, who both spoke from EU experience, highlighted significant costs linked to tendering activities owing to MAFR requirements in the EU. An initial estimate of these costs is set at 16 billion Euro. This feedback highlights the need to learn from others and to undertake comprehensive research to fully understand the current circumstances within the target environment and the implementation of MAFR in that environment, including the cost-benefit proposition.”

In the UK, the economic impact assessment undertaken by the Department for Business, Innovation & Skills in the UK in 2015, in relation to implementing the EU audit legislation, indicated an estimation of costs for an auditor bidding for a tender to range between GBP 30,708 for a small company to GBP 5,478,204 for a very large company. Further details are set out in the table below:

<table>
<thead>
<tr>
<th>Size of Company</th>
<th>Number of PIEs</th>
<th>Annual Audit Fee (GBP)</th>
<th>Cost of tender to PIE (GBP)</th>
<th>Cost of tendering to auditor (GBP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large</td>
<td>15</td>
<td>19,640,652</td>
<td>365,214</td>
<td>5,478,204</td>
</tr>
<tr>
<td>Large</td>
<td>174</td>
<td>3,432,500</td>
<td>63,912</td>
<td>975,946</td>
</tr>
<tr>
<td>Medium</td>
<td>599</td>
<td>460,088</td>
<td>54,782</td>
<td>146,085</td>
</tr>
<tr>
<td>Small</td>
<td>877</td>
<td>36,955</td>
<td>9,524</td>
<td>30,708</td>
</tr>
<tr>
<td>Total</td>
<td>1,665</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table: Costs of tendering auditor appointments to auditors and PIEs by size

In the US, an extract from the United States General Accounting Office’s Report in 2003 to the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services,
November 2003 relating to the required study on the potential effects of mandatory audit firm rotation, stated that:

“Utilizing the predominant responses from Tier 1 firms, we estimate the additional first year audit costs following a change in auditor to likely range from 21 percent to 39 percent more than annual costs of recurring audits of the same client. In addition, we estimate the additional firm marketing costs under mandatory audit firm rotation to likely range from 6 percent to 11 percent of the firm’s initial year audit fees.

Based on the predominant responses from Fortune 1000 public companies, we also estimate the additional public company selection costs to range from 1 percent to 14 percent of the new auditor’s initial year audit fees and possible additional public company support costs to range from 11 percent to 39 percent of the new auditor’s initial year audit fees. Utilizing these ranges, we estimate that following a change in auditor under mandatory audit firm rotation, the possible additional first year audit-related costs could range from 43 percent to 128 percent higher than the likely recurring audit costs had there been no change in auditor.

We also calculated a weighted average percentage for each additional cost category using all responses from Tier 1 firms and Fortune 1000 public companies (as opposed to the predominant responses only). Using the resulting weighted averages for all responses, we calculated the potential additional first year audit-related costs to be 102 percent higher than the likely recurring audit costs had there been no change in auditor. This illustration is intended only to provide insights into how Tier 1 firms and Fortune 1000 public companies reported that mandatory audit firm rotation could affect the initial year audit costs and is not intended to be representative.”

**Q3: Should the scope of MAFR be extended beyond listed companies to other entities that operate in the public interest?**

In the absence of empirical evidence to support the contention that additional measures to address auditor independence are required, which evidence should include an indication of the categorisation/type of entities where such measures are required to be implemented, we are not in a position to express a view on this question.

**Q4: Please share any other comments you have on the implementation of MAFR.**

Please refer to the forepart of our letter.
Appendix 2 – Comments on Consultation Paper
MANDATORY AUDIT FIRM ROTATION
IRBA Consultation paper
(Note: these are limited comments on some of the information presented in the Consultation Paper.)

1. **Overall comments:**
   - The subject of MAFR has a very significant impact on our capital markets. Any consultation paper that contains only one view – that MAFR should be implemented, is incomplete.
   - The research conducted by the IRBA should be included in the Consultation Paper. The research should demonstrate how the proposed solution will address a perceived independence problem.

2. **Specific comments**

   **Global developments**
   **Page 10, Section 2.2.2**
   In this section, although titled “Global developments” the IRBA refers only to developments in the EU. Other developments around the world have not been considered or discussed in the paper.
   In addition, the IRBA includes Table 1: “Countries that implemented MAFR”, (which in itself is inaccurate – refer to following comment) and does not include a table of:
   a) Countries that considered and rejected MAFR with the reasons why (this would include the US, Canada, Australia and New Zealand).
   b) Countries that implemented MAFR and later rejected it and the reasons for doing so (this would include Korea, Singapore and Spain).

   The paper does not address why MAFR would be appropriate for our capital market compared to other markets, in particular considering where we stand in terms of governance, efficacy of boards and strength of auditing and reporting standards.

   **Page 11 Table 1: Countries that implemented MAFR**
   The table presented is inaccurate. More specifically:
   - Brazil – MAFR for financial services entities was discontinued by the Brazilian Central Bank.
   - China – MAFR is only applicable for state owned and financial institutions
   - Korea should not be included in the Table 1. MAFR was repealed entirely in Korea in 2009.
Risk of failure of one of the major audit firms

Page 12 – Section 2.2.3
It is misleading to quote The Institute of Chartered Accountants in England and Wales (ICAEW) from the Financial Times article, in the context that the IRBA has done, in particular as we understand that as the ICAEW is opposed to MAFR, is supportive of companies making their own choices in the market, and the ICAEW does not talk down the Big 4.

Page 12 – Figure 1: Market concentration of listed companies in South Africa
We would be keen to understand why the analysis has been prepared this way and how this analysis has been determined. Depending on what the IRBA is wanting to demonstrate, the graph will always show the big four having a greater portion of the market on this basis, as the JSE Top 40 make up over 80% of the market capitalisation of the over 360 listed companies. The JSE Top 40 are all multinationals.

In addition, we believe it to be more appropriate to show the analysis by number of companies that would have to deal with a change in auditor.

The IRBA Code of professional conduct
Page 13 – Section 2.4.1
While the IRBA is responsible for regulating the auditors, the IRBA is entering into an area that is effectively regulating companies and the decisions they make. Since the Companies Act regulates the appointment and removal of auditors and regulates audit partner rotation and the requirements of Audit Committees, the Companies Act is the most appropriate statute to regulate MAFR.

Prohibition of non-audit services
Page 13 – Section 2.4.3
The Consultation Paper is silent on the “cooling-in” period referred to in Section 90(2). It would be appropriate for the Consultation Paper to consider this, appreciating that no other market in the world has such a requirement that precludes companies from appointing auditors in such situations.

Familiarity threat between audit committee chairs and incumbent auditors
Page 16 – Section 3.2
This is an interesting point that is made in the context of MAFR. It would be more useful if the Consultation Paper addressed:

1. How this compares to other capital markets?
2. How MAFR will reduce this perceived threat to independence?
3. Who would the IRBA want to see in these roles, considering the experience that such a person currently brings to this position?

Once again the IRBA is moving into an area where it is wanting to regulate the appointment of the directors of a company, which is set out in the Companies Act.
Inspection findings relating to ethical requirements

Page 16 and 17 – Sections 3.3

It would be interesting to understand how the perceived independence issues identified in the Consultation Paper, reflect in the IRBA’s inspection report and how these perceived independence issues could be solved, taking into account the root cause identified as described in the paper.

It is our understanding that there are engagement findings and firm inspection findings. We could not agree the 43% referred to, to the IRBA’s public inspections report. It is our understanding that none of the engagement findings relate to perceived independence issues.

Page 18 and 19 Table 3: Results from the audit tenure research updated to include results reported to October 2016

This table is included in the section of the Consultation Paper that deals with “Concerns with the independence of Auditors”. It would be interesting to understand how many of the companies listed here have auditors that have had an independence issue on these respective companies.

Feedback from stakeholders

Page 25 – Table 4: Concerns raised for each measure

Not all concerns raised have been added nor addressed, in particular the impact that MAFR would have on the profession, and the impact on a company while undertaking a complex transaction or reorganisation

Would audit quality suffer because knowledge of the client is lost? What about specialised industries?

Page 27 – Section 5.4

IRBA’s view here is inconsistent with global experience and global sentiment. Studies have shown that audit failures are more prevalent during the first three years of an audit engagement, indicating a significant learning curve in the first years of the engagement for the external auditor, especially with large public companies.

Will costs to do business and the costs of the audit increase?

Page 28 – Table 5: Change in fees after rotation

The table presented is incomplete as it only shows where audit fees have increased where there has been a change in auditor. It does not include examples of where the audit fee decreases. In addition it does not answer the question in 5.5 on whether the costs of doing the audit increase. It is our understanding that the costs to audit firms to take on a new audit increase significantly.
Would conglomerates that operate globally find it impractical to have different auditors?

Page 28 – Section 5.7

The question has not been answered in the Consultation Paper and is dismissive of the practical realities that exist for conglomerates that function in many territories, whether or not just in Europe.

Reference list

Page 36

There are many other resources to be considered in formulating a consultation paper on MAFR. In particular, there are over 45 studies providing empirical evidence and over 15 opinions on MAFR. In addition, many other regulators have performed their market analysis, including the PCAOB, which the IRBA should consider.

We respectfully point out that the IRBA relies, as motivation for the implementation of MAFR on a dissertation prepared by V.A Ashwin on "The relationship between corporate governance and financial performance of companies listed on the JSE Ltd" and references the paper as a doctoral dissertation. With respect, the IRBA’s reliance is misplaced, as the minor dissertation was prepared as part of a coursework module in the conduct of a Master’s degree in Financial Management, and not as part of a doctoral thesis. The credibility and reliance on this Consultation Paper could be questioned, especially in the face of the magnitude of other research conducted, both locally and internationally.
Appendix 3 – The administrative fairness of IRBA’s decision

The IRBA has made clear its intention to publish MAFR as a rule, binding all registered auditors, through its legislative powers, and that, after publication of the rule, MAFR will be in operation in South Africa (as of April 2023). It specifies its objectives of MAFR as strengthening auditor independence to enhance audit quality.

The IRBA was established in terms of the Auditing Profession Act 26 of 2005 (“the APA”) and its functions include taking steps to promote the integrity of the auditing profession by prescribing standards of professional conduct, competence and ethics (Section 4 of the APA). Section 10 of the APA provides IRBA with the power to make rules with regard to any matter that is required or permitted in terms of the APA, and any other matter, for the better execution of the APA, or function in terms of the APA or power provided for in the APA.

South African administrative law regulates the exercise of powers by public bodies or bodies that perform public powers. Often, the powers exercised by public bodies, are delegated from one of the spheres of government in terms of the doctrine of the separation of powers (in simple terms, the ability to make law, the ability to execute law and the ability to interpret and judge on law). IRBA thus has a delegated authority to make rules that will enhance the profession it is responsible to regulate in terms of the APA.

However, in exercising this function, it must act in a lawful, reasonable and procedurally fair manner. Its actions have to comply with the provisions of the Promotion of Administrative Justice Act 3 of 2000. If it fails to, its actions may be subject to judicial review as it is not fair administrative action.

It is the reasonableness of IRBA’s decision that we believe falls short of the required standard.

For administrative action to be reasonable, it has to comply with the following requirements:

- the information available must support the decision made;
- the decision be supported by sound reasons;
- the decision make logical sense in relation to the available information;
- the adverse effect of the decision be proportionate to the objective sought to be achieved; and
- there not be a less restrictive means to achieve the purpose of the decision.

From the evidence provided by the IRBA, including the Consultation Paper published, there is no empirical evidence that logically supports IRBA’s belief that MAFR will strengthen auditor independence.

We do not understand the basis for IRBA’s statement “Consistent with global inspections results, our latest inspections findings include independence issues as one of the top five findings amongst the audits of financial statements”. On the basis of IRBA’s published facts, less than 5 % of all investigations initiated related to allegations of breaches of independence, and we could only find 12 sanctions imposed for a breach of independence in the period 2001 – 2016. From our perspective, this does not alone warrant a conclusion that the current measures in place do not work.

1 C Hoexter Administrative Law in South Africa 2 ed (2012)
Currently the IRBA Code of Professional Conduct and the Companies Act (in the case of companies) requires the rotation of audit partners after seven and five years respectively. In addition, both the IRBA Code of Professional Conduct and the International Ethics Standards Board for Accountants prescribe rules that guard against independence and threats of familiarity.

The IRBA however, has the following to say about these: “However, the IRBA does not consider these provisions to be sufficient since it has not seen situations where partners from the same firm report each other should their partner have given an incorrect opinion or missed important facts during an audit. The Board is certain there remains room for improvement in auditor independence and the market has not voluntarily embraced this as seen in the long tenures and close relationships that the research uncovered. As it is not being done voluntarily, the way to draw attention to this and ensure that it is complied with is to make it mandatory.”

Such a statement does not lend itself to interpret a lack of independence between auditor and client, but potentially rather, a conflict of interest between the interests of one partner’s professional obligations and duty to his fellow partner and firm. We are not convinced that the information in the IRBA’s possession supports the decision to implement MAFR, or that it is reasonable to conclude that it will strengthen auditor independence, let alone the question whether or not there is a failure by the current measures to protect auditor independence. The information available does not seem to support the decision made, nor is the decision based on sound reasons. Given the low instances of independence breaches documented and sanctioned by the IRBA, the adverse effect of MAFR does not appear proportionate to the objective it seeks to achieve, and the purpose may be achieved by less restrictive means, yet probably more impactful.
Appendix 4 – Countries ranked by WEF

The following are the top 20 countries ranked by financial market development by the WEF, and their position on MAFR.

<table>
<thead>
<tr>
<th>Country</th>
<th>Position</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>1</td>
<td>Considered MAFR and rejected</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>Considered, implemented and repealed</td>
</tr>
<tr>
<td>US</td>
<td>3</td>
<td>Considered MAFR and rejected</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4</td>
<td>Considered MAFR and rejected</td>
</tr>
<tr>
<td>Finland</td>
<td>5</td>
<td>Did not apply MAFR – now apply by virtue of being under the EU</td>
</tr>
<tr>
<td>Australia</td>
<td>6</td>
<td>Considered MAFR and rejected</td>
</tr>
<tr>
<td>Canada</td>
<td>7</td>
<td>Considered MAFR and rejected</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8</td>
<td>Do not have MAFR</td>
</tr>
<tr>
<td>Norway</td>
<td>9</td>
<td>Did not apply MAFR – now apply by virtue of being under the EU</td>
</tr>
<tr>
<td>Sweden</td>
<td>10</td>
<td>Did not apply MAFR – now apply by virtue of being under the EU</td>
</tr>
<tr>
<td>South Africa</td>
<td>11</td>
<td>Do not have MAFR – now considering</td>
</tr>
<tr>
<td>Panama</td>
<td>12</td>
<td>Do not have MAFR</td>
</tr>
<tr>
<td>Malaysia</td>
<td>13</td>
<td>Considered MAFR and rejected</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>14</td>
<td>Did not apply MAFR – now apply by virtue of being under the EU</td>
</tr>
<tr>
<td>China</td>
<td>15</td>
<td>Do apply MAFR</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>16</td>
<td>Did not apply MAFR – now apply by virtue of being under the EU</td>
</tr>
<tr>
<td>Japan</td>
<td>17</td>
<td>Do not have MAFR</td>
</tr>
<tr>
<td>Guatemala</td>
<td>18</td>
<td>Do not have MAFR</td>
</tr>
<tr>
<td>Israel</td>
<td>19</td>
<td>Considered MAFR and rejected</td>
</tr>
<tr>
<td>Germany</td>
<td>20</td>
<td>Did not apply MAFR – now apply by virtue of being under the EU</td>
</tr>
</tbody>
</table>
Appendix 5 – Other less intrusive measures to MAFR

There are less intrusive measures to consider than MAFR, to achieve on IRBA’s objectives of strengthening auditor independence. As such, we would support:

Stronger national regulator of the profession
- Better coordination and communication between the IRBA, auditors and audit committees – to build a more mutual, consistent and effective approach; for example:
  - Allowing further opportunity for auditors to raise any concerns about risk and financial reporting developments with regulators.
  - The IRBA providing information to the market to help identify systemic issues.
  - Putting in place protocols to mitigate the impact of a large accounting firm collapse.
- More consistency in national external audit inspection requirements – to drive higher quality and stricter oversight and to allow greater comparability of public inspection results of audit firms by market participants.
- Exploration of ways to facilitate closer involvement of the IRBA and supervisors in the audit committee’s appointment of the auditor under certain exceptional defined circumstances.

Transparency about the audit and the auditors
- By the auditor to the audit committee – about the general conduct of the audit (including: process, methodology, scope and materiality, accounting estimates and judgements made by management, fraud and other risks) – approaches suggested in the current reviews of auditor reporting standards being undertaken by the International Auditing and Assurance Standards Board (IAASB) and the IRBA.
- By the audit committee to the public – about the oversight of the audit and the nature of information provided, including:
  - How it evaluates the performance of the auditor, the criteria and timetable it uses for assessing whether to reappoint the auditor, the basis on which it recommends the auditor for appointment/ reappointment, how it decides which non-audit services the auditor can provide for what fee, and how the auditor complies with the rules and laws on independence.
  - Additional relevant financial reporting and disclosures, for example, about matters that could affect the going concern assumption such as evaluation of key risks.
- By the audit firm to the public – about quality (including: quality-control arrangements, compliance with independence requirements, application of objectivity and professional scepticism) and disclosure of more relevant commentary on companies such as the operation of risk controls.

Increased adoption of ‘best practice’ for audit committee oversight of the performance of the audit
Experience shows that adopting ‘best practice’ requirements that underpin strong and effective audit committees in overseeing the performance of the audit does enhance audit quality by addressing perceptions of lack of independence, objectivity and scepticism by the auditor due to over-familiarity or complacency due to long tenure. Examples of measures which audit committees (or their equivalent) could adopt to improve their oversight of the performance of the audit include:

- Making mandatory annual assessments (which include review of the independence of the auditor’s relationship with management) complemented by periodic comprehensive reviews to allow assessment of key factors over time. An example of the latter are the requirements
introduced by the Canadian Public Accountability Board (CPAB) requiring at least a five-yearly comprehensive periodic review of the external auditor.

- Introducing an audit committee charter, with criteria for appointing auditors, periodically reviewing the market and considering any need for change, and reviewing and approving all non-audit services.
- Evaluating recent changes to accounting standards by regulators (and making sure they are applied).
- Assessing overall results of the auditor’s internal and external audit inspections.
- Monitoring the effectiveness of the auditor’s internal quality control and risk management systems.
- Drawing up minimum mandatory competency requirements for audit committees.

Incentivizing investors to become more active in the area of audit firm appointment

We would encourage greater investor engagement in the audit appointment process. As an example, a group of institutional investors in the UK called the Institutional Investor Committee have released guidance for audit committees setting out their expectations during the audit tendering process. In addition, a Stewardship Code for investors encourages investors to enter into dialogue on auditor appointment and independence issues. Since the auditors are appointed for the benefit of investors, having this party engaged, may lead to improved accountability. The South African capital markets should consider a similar initiative, which we would be supportive of.