

MAFR only the first step to transformation

The Independent Regulatory Board for Auditors (IRBA) told parliament that additional measures to drive transformation will be required to address government's concerns regarding de-concentration of the audit market.



Bernard Agulhas, CEO of the IRBA

The IRBA said that there had been criticism of the proposed mandatory audit firm rotation (MAFR), prescribed in terms of Section 10 of the Auditing Profession Act 2005 (Act 26 of 2005), that no audit firm may serve a public interest entity (PIE) client for longer than the prescribed 10-year limit. The rule was issued in response to concerns of declining audit quality, excessive tenures and increasing concerns around a lack of independence, both real and perceived, that could negatively impact the quality of the audit opinions.

Additional measures required

IRBA reported that it had agreed with the minister of finance, Malusi Gigaba, that while MAFR was best suited to address the independence of auditors by bringing an end to excessively long tenures of audit firms with their clients, it would not necessarily on its own facilitate the growth and participation of black audit firms in a market that has been historically dominated by the big four audit firms.

Therefore, prior to the 2023 implementation date, additional measures would be required to prevent the mere rotation of audits between the big four and ensure that meaningful black participation increases through equity ownership and that black-owned firms are grown and capacitated to take on the work of large listed entities.

It noted that there was a real need to:

- Increase the number of qualification routes to registered auditing by increasing the number of accredited professional bodies;
- Enhance long-term career prospects for black accountants in auditing;
- Improve the attraction, retention and progression approach for black auditors and ensure equitable opportunity and access on par with white counterparts;
- Advance the number of black partners in senior and executive roles;
- Increase the number of black partners with equity ownership in the audit firms;
- Crack down on and expose discriminatory recruitment practices that limit opportunities and career path possibilities

for black accountants;

- Create access to markets for black-owned firms and include these in mainstream auditing; and
- Hold broader governance structures accountable for transformation targets and goals through comprehensive regulation of the broader accounting environment.

Transparency reporting

The IRBA believes that the implementation of MAFR is a first step which will force a break in closed and restricted markets which will allow opportunities for black auditors to participate, but it also noted that greater transparency was required with regards to audit firm ownership, transformation policies and performance.

While transparency reporting is not yet required in South Africa, it may become a useful tool for audit committees and shareholders. The UK framework includes provision for audit firms to disclose, amongst others, descriptions of network relationships, a description of the governance structure of the firm, detailed explanations of internal quality control systems and an assessment of the effectiveness of quality control, descriptions of the firm's independence procedures and practices and confirmation that an internal review was conducted, the firm's annual financial statements and information on the remuneration of partners. In South Africa it could also include BEE ownership and employment equity reports.

IRBA said that transformation of the governance structures that select and appoint audit firms was also necessary to ensure diversity and that the selection and appointment of auditors was not restrictive, selective or influenced by the management of companies.

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