

Audit firm rotation gets the nod

Parliament's finance committee is not convinced that the introduction of mandatory audit firm rotation will advance transformation of the accounting profession as claimed, but has decided to support the Independent Regulatory Board for Auditors' (Irba's) decision on the basis that the case for it is stronger than the case against it.



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But, while endorsing the measure, albeit in a lukewarm fashion, the committee came down hard on Irba for what it believed was inadequate consultation before it decided to introduce it as of April 2023.

Finance Minister Malusi Gigaba has endorsed the Irba decision, which is strongly opposed by the chief financial officers of the top 100 companies listed on the JSE. It is also opposed by the Association for Savings and Investment SA, the Institute of Directors, the King Committee and the Audit Committee Forum.

The main grounds for opposition are the disruptive effects of the rule, the cost of implementing it, the removal of choice from audit committees and the unlikelihood that it will achieve its purpose of strengthening auditor independence. There is already a requirement of auditor rotation, but not audit firm rotation. A common argument is that more research needs to be undertaken on the implications of implementing such a policy, which has been rejected elsewhere in the world.

Throughout the finance committee's deliberations on the proposal, chairman Yunus Carrim called on Irba to make concessions as the gap between its policy decision and its opponents was too wide.

The committee's report on the Irba decision - adopted this week - said it was "probably correct that Irba had decided it was going ahead with mandatory audit firm rotation rules before it began the consultation process. While Irba certainly had several meetings with stakeholders, the quality of its negotiations process is questionable.

"The committee believes that Irba should have postponed the implementation of the mandatory audit firm rotation rules and engaged further with stakeholders. We regret that Irba and the minister did not heed our request," it said.

There should have been a concerted and meaningful attempt by Irba to reach a minimum degree of consensus.

Responding to the committee's report, Irba CEO Bernard Agulhas said the body was comfortable that its extensive two-and-a-half-year consultation process was "more than adequate". It was pleasing that a number of listed companies had recently rotated or indicated their intention to rotate early.

The committee said it was opposed to the monopolisation and market concentration in the auditing sector, where the four big firms - PwC, Deloitte, KPMG and EY - audited more than 90% of JSE-listed companies.

It fully supported the transformation of the sector including through "creating more space for smaller and medium-sized companies and ensuring the growth of companies that are owned by blacks, particularly African people and women".

Source: *Business Day*

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