

# Listed entities auditors rotation unaffected by Covid-19

The uncertainty of Covid-19 and its effect on the market during 2020 has had little impact on entities' decisions regarding the rotation of auditors in compliance with Mandatory Audit Firm Rotation (MAFR).



58	4920.24	425.29	662.12	766.58	1087.45	367.01	378.09	4764.65
64	375.34	627.53	841.23	304.79	325.12	3466.38	1244.59	1567.69
92	575.69	266.11	319.94	2450.54	3391.33	1006.7	509.1	592.9
77	329.27	1931.18	2292	723.39	959.57	450.14	359.04	378.18
66	1658.03	726.14	716.24	473.51	388.43	311.64	238.78	302.77
76	644.01	364.86	334.64	167.97	209.55	273.31	123.76	71.24
	334.82	217.14	189.42	141.83	181.53	22.88	7.03	17.68
	212.52	166.68	114.78	55.12	47.32	0	1.7	5.82
	2.77	54.6	60.32	4.25	11.68	8.39	6.05	10.25
	3.48	1	1.55	6.21	3.25	0	15.26	129.85
	4.18	56	8.25	25.6	3.96	6.6	0.5	0
	75	3	10	5.86	4	4	0	22
	9	18.44	20.77	4	0.37	0	2.47	14213
	2	3	1.5	0	0.3	1.21	13686.73	2
	0	0	0.5	2.36	1.21	12625.01	2180.86	382
	3.11	2.7	53.32	12994.89	12.52	1210.19	3779.39	77
	1.13	13359.77	14016.76	1046.6	44	2956.12	60	6
	121.65	925.61	1232.46	3445.21	5744.81	443.92	645.75	3
	17	2045	445.02	491.75	1830.55	554.11	2268.69	1
	89	3001.89	8323.28	7228.76	1914.77	847.94	1067.62	
	34	432.52	8953.85	1878.12	979.59	558.06	645.75	
	85	9144.23	1675.65	853.35	515.79	402.73	329.75	
	62	1492.9	860.27	511.83	403.78	35.36	74.88	
	54	651.67	911.7	396.62	87.88	1.88	0.37	
	5.8	417.45	482.46	390.96	42.64	17.86	2.5	
		419.47	80.6	42.64				
		345.55						

Source: ©Andriy Popov [123rf](#)

The Independent Regulatory Board for Auditors (IRBA) found that January to June 2020 is comparable to the preceding six months at 16 rotations for each half year and doubled in the period from July to December 2020 during the extended lockdown to 31 rotations.

This trend has continued with 26 rotations occurring in the first half to June 2021.

"It is clear from our analysis that the horse has bolted on MAFR. The IRBA expects the pace of rotations to continue to pick up significantly in 2022 in order to meet the 1 April, 2023 deadline," says Imre Nagy, acting CEO of the IRBA.

## Early adoption of the MAFR

At June 2020, 25% of JSE-listed entities had rotated audit firms - driven by early adoption of compliance to the Mandatory Audit Firm Rotation (MAFR) - this has now almost doubled to 48% of entities having rotated - or issued notice of intent to rotate - at least once as at end August 2021.

A total of 17 entities have rotated more than once.

Of all rotations, 46% of these cite MAFR compliance since June 2017 as the main reason for rotating auditors.

MAFR and compliance to the rule remains the leading reason for changing external audit firms, with the next most cited reason being a tender process at 12%.

Terminations either by mutual agreement or from the entity comes in at 11%, while resignation of auditors accounts for 10%. Audit firm mergers amongst mid-tier firms accounts for 11%.

## **Last minute risk**

“Listed entities which leave rotation until the last minute stand to face the risk of being unable to appoint a preferred audit firm due to potential ineligibility as a result of potential conflicts of interest,” says Nagy.

“During 2022 we may see a new development as mid-tier firms pick up a greater number of rotations. The IRBA would welcome this development as it would address concerns around concentration,” Nagy adds.

## **The MAFR**

In June 2017, IRBA issued a rule prescribing that auditors of public interest entities (PIEs) in South Africa must comply with MAFR with effect from 1 April 2023 (PwC SA). In compliance with section 10(1)(a) of the Auditing Profession Act, IRBA has published the rules on MAFR for auditors of all PIEs.

### *Requirements*

- An audit firm, including a network firm as defined in the IRBA Code of Professional Conduct for Registered Auditors, shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive financial years.
- Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years.\*

The IRBA is a public protection statutory body established to protect the financial interests of the public by ensuring registered auditors and their firms deliver services of the highest quality.

\*RSM Global South Africa

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