|  |
| --- |
| **INDEPENDENT REGULATORY BOARD FOR AUDITORS** |

|  |
| --- |
| **The IRBA announces Mandatory Audit Firm Rotation**  Johannesburg / 5 September 2016  Dear Registered Auditors  The Independent Regulatory Board for Auditors (IRBA) announced this week that it will begin a process to implement Mandatory Audit Firm Rotation (MAFR) for audit firms to strengthen the auditors' independence from clients. The Board's decision to pursue MAFR is aligned to our objective to enhance audit quality, which ultimately contributes to public and investor protection.  The decision follows a year long process of extensive research and industry consultation both locally and abroad on how best to enhance audit firm independence and the implementation of MAFR does not exclude the possible inclusion of additional measures such as mandatory audit tendering or joint audits, as a combination with firm rotation, in certain circumstances.  Worldwide, notably in the UK and EU, as well as in some of the BRICS countries, governments and regulators are taking steps to focus on the independence of auditors, specifically through MAFR, as critical to the credibility and transparency of audited accounts, thereby enhancing public and investor confidence in the accuracy of financial reporting.  **Concerns with independence issues**  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.  Investor protection is facilitated when financial statements are reliable, credible and trustworthy - a crucial component of creating the necessary confidence in financial statements, and consequently the financial markets, is the knowledge that the auditors are independent when they report to the shareholders.  **Lack of Transformation and Competition**  In a South African context, during our research the IRBA identified the lack of economic transformation, and domination by certain firms within the profession. Out of the 353 audit partners who sign off on the financial statements of all JSE listed companies, only nine are Black African and over 90% are audited by a few firms.  These facts were of grave concern to the Board as an important part of its mandate is to focus on the transformation of the profession, in line with government's economic and transformation policies for economic inclusion.  **The IRBA's Mandate**  We accept that any change to the status quo will be met with some resistance. However, the ultimate mandate of the IRBA is to enhance and ensure investor protection.  It is the regulator's responsibility to continually enhance the regulatory environment in a way which delivers a business environment which bolsters investor confidence, provides financial stability, delivers economic growth and drives job creation.  **The way forward**    The IRBA intends to further consult with stakeholders and intends to ask questions around the details of implementation. We appreciate that both companies and their audit firms will need to make plans to adopt the change into their procurement and must ensure that implementation takes place in the most effective manner.    **Bernard Peter Agulhas**  **Chief Executive Officer**  ***About the IRBA***  *The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.* |