Irba audit plan 'dilutes rights'

Christine Ramon, CEO of the Chief Financial Officers Forum, says mandatory audit firm rotation, as espoused by the Independent Regulatory Board for Auditors (Irba), undermines the rights of shareholders and disregards existing legislation that already safeguards the independence of audit firms.

Bernard Agulhas, CEO, Irba

Legislation such as the Companies Act enforces rotation of audit partners and imposes various limitations on audit firms concerning the companies they audit, Ramon says.

Meanwhile, shareholders are able to vote on the re-election of a company's audit committee at annual general meetings and can vote against reappointment if they have any concerns.

Independent research is needed on the effect that mandatory rotation will have on the economy, particularly as it has been implemented and then later repealed in a number of countries, Ramon says.

Her comments on Friday came amid Irba plans to require listed companies to change external audit firms every 10 years by 2023 to strengthen their independence from clients. Irba's 2016 inspections report shows three out of 20 firms and 33 out of 275 audit partners were referred to its investigating committee over issues such as incorrect audit opinion and independence breaches.

Irba CEO Bernard Agulhas said on Friday the board was concerned long audit tenures held by the big four accounting firms concerning listed companies they audited compromised their "professional scepticism". This undermined audit quality and investor protection. To this end, a far greater proportion of shareholders had voted against the reappointment of audit firms following compulsory audit tenure disclosure, Agulhas said.

Ramon said Parliament's standing committee on finance had urged Irba not to rush the process and to focus on quality consultation. Consultation had thus far centred on how best to implement mandatory audit firm rotation and not whether it was appropriate, she said.

Leon Campher, CEO of the Association for Savings and Investment SA, said last week Irba had provided no firm evidence indicating that a lack of independence among major audit firms was widespread. If Irba found instances of a lack of independence among auditors, it was "entirely within its rights as regulator to deal with it firmly".

Company nomination committees were required by corporate governance rules to ensure that audit committees had the requisite skills, independence and knowledge to work effectively, he said.

The World Economic Forum ranks SA third out of 138 countries for the efficacy of its company boards. The nation's auditing and reporting standards are ranked number one globally.

Parties opposed to Irba's move want the statutory Specialist Committee on Company Law to take over the process of improving audit independence, replacing Irba.

Source: *Business Day*