MEDIA RELEASE

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SAICA

THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

Must I replace my auditor after five years of service?

The South African Institute of Chartered Accountants (SAICA) has advised those companies (including close corporations) that require an audit, that the designated auditor must be rotated after serving as their auditor for five consecutive financial years. This directive is in terms of section 92 of the Companies Act, 2008, which became effective as of 1 May 2011.

‘The timing of the first rotation depends on the month of the financial year-end. If it falls in the period from May to December, then the 2015 financial year would have been the last year for any designated auditor who had been in that position for at least five years (including 2015). If the year-end falls in the period from January to April; the 2016 financial year will be the last year,’ says Juanita Steenekamp, Project Director: Governance and non-IFRS reporting.

She noted that audit firm rotation is not required, but rather the rotation of the individual who was appointed as the designated auditor.

The auditor rotation requirement applies to all companies and close corporations that are required by the Act or the regulations to have their annual financial statements audited. It also applies to those companies and close corporations which have elected voluntarily to be audited and have incorporated this requirement in their Memorandums of Incorporation (MOI).

According to Steenekamp, one should note that ‘the rotation of auditors does not apply to companies that have voluntarily decided on an audit in terms of a shareholder or board decision - just as long as it’s not a requirement of their MOI.’

Steenekamp explains further: ‘The responsibility is on the affected organisation to discuss the rotation with their auditors, as it is important to note that the rotation requirement applies to the individual auditor only, and not to the firm of auditors. However, if the auditing firm has only one registered auditor, then the company will have to appoint a new audit firm.’ She adds that auditor rotation could lead to additional costs to the company, as the new auditor would be required to perform additional procedures on the opening balances of their new client; even within the same firm the process to hand over to the new designated auditor would require additional procedures and work effort. In some geographic areas it could also impact negatively on the availability of auditors, as some towns only have a limited number of registered auditors. Auditors practicing as sole practitioners will feel the brunt of this, and could lose long-term clients unless they bring in another registered auditor and expand their practice.

However, it is in the public interest for the registered auditor to be independent of mind and in appearance. A long association of an audit partner could adversely impact objectivity and professional scepticism, which are both important contributors to audit quality.

The responsibility to remove the current designated auditor from the Companies and Intellectual Property Commission (CIPC) records, falls on the company or close corporation, and not on the auditor as was the case under the previous Companies Act. The removal of the current individual designated auditor, as well as the lodging of the appointment of the new designated auditor with the CIPC need to be done within the required timeframes.

Registered auditors have a responsibility in terms of the codes of professional conduct of the Independent Regulatory Board of Auditors and SAICA. These require that the registered auditor must comply with the relevant laws and regulations and avoid any action that might discredit the profession. Registered auditors should consider bringing these requirements to their client's attention if the client is unaware of the requirements of Section 92.

'Finally, organisations should take note that registered auditors who have exceeded the five years' service, cannot continue to act as the auditor, as this would not be in compliance with the requirements of the Companies Act. The auditor might face disciplinary action from the audit regulator, and the company could also face consequences as the auditor does not meet the requirements to be appointed as the auditor. This could lead to questions with regards to the validity of the audit report,' adds Steenekamp.

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