UNIVERSITY OF KWAZULU-NATAL

STRATEGIES FOR DEALING WITH MANDATORY AUDIT FIRM ROTATION AS PROPOSED BY ACCOUNTING PROFESSIONALS IN KWAZULU-NATAL

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ABSTRACT

On 1 June 2017, the Independent Regulatory Board of Auditors (IRBA) approved the implementation of mandatory audit firm rotation (MAFR) for all Johannesburg Stock Exchange (JSE) listed companies. The IRBA is of the opinion that MAFR will increase audit quality, improve auditor independence, increase market competition, and increase the rate of transformation in the profession. The auditing and accounting professions have met this announcement with sustained resistance, with the charge being led by the South African Institute of Chartered Accountants (SAICA). Among the arguments of those who oppose the implementation are the perceived large costs that are incurred to on-board a new audit firm, the decreased institutional intelligence of the client by the new audit firm, and the loss of a strong working relationship between auditor and audit client. Many believe that the large audit firms stand to benefit significantly from the implementation of MAFR. This is mainly because audit clients will tend only to select large audit firms to perform their audit. The smaller market will have an increased audit firm rotation rate (turnover), meaning that large audit firms will also be able to target small audit clients. It is feared that these factors will concentrate the market further. This study aimed to provide insight into the key role-players and factors from the viewpoint of accounting professionals. The study utilised a grounded theory methodology, in the form of in-depth interviews with audit profession and industry experts. The results provide evidence of what accounting professionals think will lead to success once MAFR is implemented. This study is unique in South Africa as it surveyed auditors and audit clients. Although not a key aim, this study also sought to shed light on the perceived challenges that are facing the auditing profession in relation to the implementation of MAFR.

Keywords: Mandatory audit firm rotation (MAFR), auditor, audit client, previous audit firm, key factors, role-players

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BRICS	Brazil, Russia, India, China and South Africa
BSE	Bombay Stock Exchange
CFO	chief financial officer
CSRC	China, the China Securities Regulatory Commission
CTA	Certificate in the Theory of Accountancy
CVM	Comissão de Valores Mobiliários
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
EU	European Union
EY	Ernst and Young
GDP	gross domestic profit
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICAS	Institute of Chartered Accountants of Scotland
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IoDSA	Institute of Directors in Southern Africa
IRBA	Independent Regulatory Board of Auditors
ISA	International Standard for Auditing
JSE	Johannesburg Stock Exchange
KLSE	Kuala Lumpur Stock Exchange
KOSDAQ	Korea Securities Dealers Automated Quotations
KZN	KwaZulu-Natal
MAFR	mandatory audit firm rotation
MAO	modified audit opinion

MAR	mandatory auditor rotation
MCA	Ministry of Corporate Affairs
MOF	Ministry of Finance
PwC	PricewaterhouseCoopers
RA	Registered Auditors
RSA	Republic of South Africa
SAICA	South African Institute of Chartered Accountants
SASAC	State-owned Assets Supervision and Administration Commission
US	United States
WEF	World Economic Forum

CHAPTER 1
INTRODUCTION

1.1. Background to the research

Audit reports are vital to business and commerce in the modern world. Auditor independence is arguably the most important element to consider regarding the soundness of the auditor's report. Auditor independence will contribute to the credibility of a company's financial statements (Cameran, Prencipe & Trombetta, 2005). In addition, auditor independence is the most compelling way to illustrate to stakeholders that the auditor is performing audit tasks in an objective manner. This fundamental principle of independence means that the auditor has the ability to suppress biases when coming to a judgement (International Auditing and Assurance Standards Board (IAASB), 2016). There are broadly two types of independence, namely:

- Independence of mind – the mind of the auditor is free from influence to express a true option that is free from compromise.
- Independence of appearance – avoiding facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's integrity, objectivity or professional scepticism has been compromised.

Financial reporting is the presentation of financial information in a meaningful way to facilitate the use of this information (International Accounting Standards Board (IASB), 1989). Financial statements are the structured reports that are the cornerstone of financial reporting, although there is growing emphasis on non-financial data. Each financial statement focuses on a particular area of a business (current year performance, balances, cash flow etc.). They disclose quantitative and qualitative information (IASB, 1989). Legislation compels all companies with a public interest to produce financial statements (Republic of South Africa (RSA), 2008). All companies with a public interest, which includes all listed companies on the Johannesburg Stock Exchange (JSE), are required to have a financial statement audit, by an external auditor (JSE, 2015; RSA, 2008). A financial statement audit is when an audit practitioner obtains sufficient appropriate audit evidence to express a conclusion on the financial statements of that entity to enhance its degree of confidence (IAASB, 2011). This audit takes the form of a systematic verification of actual transactions and balances. As a result, it is critical that the auditor is independent in mind of the client. The auditor also needs to be independent of appearance, because if he were not, the audit opinion would be useless.

1.2. Emergence of MAFR in South Africa

In South Africa, the Independent Regulatory Board of Auditors (the IRBA) is legally mandated to oversee the auditing profession for the protection of the public interest. The IRBA itself acknowledges this and takes its mandate seriously:

> "The IRBA was established on 1 April 2006 in terms of Section 3 of the Auditing Profession Act, Act No. 26 of 2005, which replaced its predecessor body, the Public Accountants' and Auditors' Board, established in 1951" (IRBA, 2016b, p. 9; IRBA, 2005).

In the middle of 2015, the IRBA embarked on research into ways to strengthen the South African auditor's independence (IRBA, 2016a). Alternatives that were considered include but are not limited to mandatory audit tendering, mandatory joint audits, and other possible combinations (IRBA, 2016a). The IRBA took a decision on July 28, 2016 to implement mandatory audit firm rotation (MAFR).

> "MAFR refers to the rotation of the audit firm, i.e. a different audit firm is appointed after the prescribed rotation period and the new firm designates the new key audit partners, including the engagement partner for the audit" (SAICA, 2016a, p. 4).

1.3. An overview of existing literature on mandatory audit firm rotation

MAFR has been a popular topic through the world with many arguments for and against it. In South Africa on the one hand, the South African Institute of Chartered Accountants (SAICA) has asserted that the unquantifiable costs of MAFR outweigh the perceived benefits (SAICA, 2016a). SAICA has produced a study that was composed from a questionnaire that was circulated to all chartered accountants; however, other than the perception of those participants, there is no other study that

SAICA has produced to validate their claims of additional costs (SAICA, 2017, 2016a, 2016b, 2016c, 2016d). The IRBA has contested that the current regulatory environment is inadequate and open to abuse through the development of familiarity between auditors and their clients (SAICA, 2016a; IRBA, 2016b).

1.3.1. A brief history of mandatory audit firm rotation in other economies

MAFR has been in existence for a long time in both the developed and the developing world (Arrunada & Paz-Arez, 1997). The South African economy has the challenge of being a developing economy in Africa. It would thus be beneficial to look briefly into the experiences of countries that implemented MAFR, and in countries that are comparable with South Africa. The debate on MAFR has been raging from the late 1970s, with voices from academics, regulators and practitioners alike (Dattin, 2017). The debate is fuelled by the fact that the auditor's profitability is dependent on him obtaining and retaining clients. Audit clients are therefore often viewed as a long-term revenue streams in the absence of any restriction on audit tenure (Edwards, 2014). This has pitted the regulators and the practitioners on opposing sides with the academics being spilt.

Since mid-1974 in Italy, MAFR has been required for listed companies. The scope of companies that are included in this regulation has been steadily increasing over the last 40 years. The affected companies now comprise all listed companies and all with a public interest as defined by legislation (Corbellaa, Florioa, Gotti, & Mastrolia, 2015; Cameran, *et al*., 2005; SAICA, 2016b).

Poor business practices in Brazil during the late 1990s caused the government together with the Brazilian regulatory body (Cadastro Nacional de Auditores Independentes) to implement MAFR for the banking sector (Implemented in 1996). The requirement was later extended to all listed companies in 1999, with an enforcement date of 2001 (Cameran, *et al*., 2005; SAICA, 2016b). Implementation of this legislated requirement was a problem; the regulator amended the rule twice, which caused uncertainty in capital markets. As a result, in 2008 the requirement was repealed for all companies. The regulator seemed to struggle to determine the appropriate rotational period and the rule's scope (SAICA, 2017). However, in 2012, the Brazilian regulator implemented the rotational rule for non-bank listed companies and companies with a public interest (SAICA, 2016b). The case of Brazil indicated how poor implementation can spell disaster. Its example underlines the significance of research such as that undertaken in this study for the future of South African business

Companies that were registered on the Korea Securities Dealers Automated Quotations (KOSDAQ) were required in 2003 to rotate audit firms every six years, although there are some exceptions (Cameran, *et al*., 2005). The implementation date was from 2006, and was applied prospectively (Kwon, *,* Lim, & Simne*t*., 2014). After extensive research and anecdotal comments from stakeholders, the mandatory audit firm rotation policy was abolished in 2010 (Kwon, *et a*l, 2014). The reason advanced was that the costs were vast and difficult to quantify, and the effectiveness of this measure was initially overestimated (SAICA, 2016b).

In the early 2000s, India implemented a four-year rotation for banks and very soon, provident trusts and public sector companies were added to the provision (Cameran, *et al*., 2005; Naresh Chandra Committee, 2002). The Indian regulator saw so much value in the measure that it was extended to all listed companies – this was implemented in 2014 (SAICA, 2016b).

1.3.2. Arguments for and against mandatory audit firm rotation in South Africa

The IRBA in its press release that announced the MAFR implementation indicated that the primary reason for the implementation of MAFR was the strengthening of auditor independence (IRBA, 2016a, 2016b).

The IRBA also indicated other reasons for the implementation of MAFR. The other two objectives for implementation of MAFR are:

- Address the market concentration imbalance in the audit market (IRBA, 2016b);
- Promote transformation in the audit market (IRBA, 2016b)

The IRBA regularly performs inspections on the audit quality of various audit engagements and the results of their inspections have indicated that 43% of all engagements inspected had significant deficiencies in ethical requirements. The

IRBA asserted that the cause of these was a breakdown of auditor independence and a lack of compliance (IRBA, 2016b; IRBA, 2015). There are numerous reasons that can be forwarded for a lack of auditor independence, but all reasons have a causal link to audit firm tenure. In South Africa, many audit firm tenures span over 20 years (IRBA, 2016b).

Client familiarity and reliance on prior year audit work are deficiencies brought about by long audit firm tenure (Lu & Sivaramakrishnan, 2010). Many in fact fear that long audit tenures may result in the auditor being reluctant to question and re-question underhanded practices, or even being complacent with following up on adverse audit findings (Barton, 2002).

Following the SAICA's release of the SAICA administrated MAFR survey results (SAICA, 2016d), SAICA had an MAFR indaba (conference) on the 10^{th} of November 2016 and later released a report to all members about the results of the indaba. There were seven themes discussed and all seven portrayed MAFR in a negative light. SAICA cited that there was inadequate consultation around the implementation of MAFR (SAICA, 2016e). Regardless of the indaba, SAICA has failed to produce arguments that can be subjected to an objective peer review. This calls into duty the validity of SAICA's arguments.

1.4. Contribution of this study

This study contributes to the existing literature as it has analysed the best practices as proposed by the industry's members. The results of this analysis can assist other audit practitioners who face MAFR implementation, but do not have the resources to investigate the industry's best practice. For individual practitioners to be able to access the best practises is critical because it may result in improvement in the outcome of an audit rotation. This study sets the foundation for the understanding of strategies that can be used to deal with MAFR. In addition, there is no research on how this will affect the KwaZulu-Natal market.

1.5. Problem statement

Mandatory audit firm rotation will be implemented in South Africa from the April 1, 2023. This is a major change to the business and regulatory environment of South

Africa. Many auditors and audit clients will not be adequately prepared for the implementation of MAFR. Initial consultation with stakeholders has yielded mixed viewpoints although the voice against MAFR is ever present among practitioners (particularly members in the larger audit firms) (SAICA, 2016c) (KPMG, 2017; Deloitte & Touche, 2017; AngloGold Ashanti Limited, 2017; SAICA, 2017; PricewaterhouseCoopers (PwC), 2017; Omnia, 2017; Ernst & Young (EY), 2017). The first step in dealing with MAFR successfully is to understand the proposed strategies of the auditors and audit clients. As noted in Chapter 2 that follows, academic research has not found a clear answer in support or in rejection of MAFR (International Federation of Accountants (IFAC), 2017). In addition, existing research does not identify strategies that influence the success or failure of audit firm rotation in South Africa. If academic research were not to address this research gap, many business professionals would not understand how to tackle the implementation of MAFR.

1.6. Aim of the study

As a result of the lack of literature on the strategies that can be used to deal with MAFR, this study aimed to answer the following question: What are the strategies to be used by KwaZulu-Natal practitioners once MAFR is implemented?

1.7. Objectives of the study

In an effort to identify the strategies that can be implemented to deal with MAFR, this study looked at key role-players in these strategies and the impact of their actions (new external audit firm, previous audit firm and audit client). In addition, the study also looked at factors that will affect the strategies. The research will look at both the key role-players and the key factors thus; a picture of the strategy would emerge.

In light of the above, the following were the objectives of this research:

- To establish the role of the new external auditor in successful audit firm rotation in KwaZulu-Natal.
- To establish the role of the previous external auditor in successful audit firm rotation in KwaZulu-Natal.

- To establish the role of the audit client in successful audit firm rotation in KwaZulu-Natal.
- To establish the key factors in successful audit firm jjnrotation in KwaZulu-Natal.

1.8. Outline of the study

This chapter has introduced the study, including the research question and the motivation for this research. Chapter 2 introduces the underlying theories on which MAFR is based and looks at global trends. The chapter also debates global arguments raised by practitioners and regulators for and against MAFR. Chapter 3 details the methodology used in the study. Chapter 4 presents the results of the research. From these results, Chapter 5 draws conclusions and recommendations of the study. Furthermore, implications of the study and its contributions to the existing literature are discussed. That chapter finally sets out the limitations of the study and highlights potential areas of future research.

CHAPTER 2
LITERATURE REVIEW

2.1. Introduction

This literature review presents the relevance of auditor independence in the audit profession. The implementation of MAFR in developing and developed economies around the world as a measure to improve auditor independence is presented. This literature review also deals with the effects of MAFR in the countries where it has been implemented.

In the business environment, the owners of a company (the principal) will appoint a management team (the agent) to act on their behalf in leading and directing their company. This creates a situation in which there is a separation between the individuals owning a company and the individuals controlling a company (Fama & Jensen, 1983). The interaction between the agent and the principal is explained by the agency theory. Essentially, the agency conflict is the question of whether or not the shareholder can rely on what management is revealing regarding the shareholders' company (Ncolaescu, 2014).

This separation in control and ownership and the agency problems that could arise from it can be mitigated to some extent with the introduction of an independent third party. This is essentially what necessitates the auditor's role. The unfortunate problem is that management has significant influence over the auditor that is chosen (Hohenfels, 2016). This may not seem apparent given the measures that are in place when a company follows the best practice in governance such has the King IV (Institute of Directors Southern Africa (IoDSA), 2016).

This creates a breeding ground for a close relationship to form between the auditor and management of an entity (Harber, 2016a). These close relationships could ultimately be to the detriment of the shareholder.

On the other hand, an Australian study investigated the interaction between auditor-client tenure and audit quality. A regression model was utilised in that study. In that study the auditor-client relationship was defined in two ways: (1) the tenure of the individual person-to-person relationship between the audit partner and the audit client's chief financial officer (CFO); and (2) the audit firm tenure in relation to the audit client. The study found that the individual did reduce audit quality, but there was a significant correlation between the improvement of audit quality and longer audit firm tenure (Ball, Tyler, & Wells, 2015). This seems to indicate that there is benefit to be derived from the relationship with the auditor. This was previously indicated in a study by Wang and Tuttle (2009), in which they found that audit firm rotation made the auditor as well as the audit client adopt a less cooperative approach to the audit and auditor-client negotiations (Wang & Tuttle, 2009). This approach and perception of the audit would increase the impasses and stress for both parties.

The IRBA listed the following objectives for the implementation of MAFR:

1. The enhancing of auditor independence, which furthers their mandate of protecting the public's interests.

2. Engineering a correction for the market concentration of the audit services industry, particularly by the 'Big Four' firms This measure would potentially create more competitive environment.

3. Promote black-owned, mid-tier firms to transform the industry so that it is no longer a white male-dominated industry.

SAICA and the IRBA have both centred their arguments along the lines of these objectives. In the discussions that ensued since the IRBA's call for comment, there has been little consultation of academic sources, except for a few studies (Harber, 2016b) (Harber & Willows, 2016). In an effort to portray these objectives from an academic viewpoint, the review of available literature is presented in line with the above stated objectives. It is hoped that presenting the literature in this way will act as a reference point when future scholars are investigating the academic evidence for the determination of this regulation

2.2. Mandatory audit firm rotation as it relates to auditor independence and audit quality

Independence is the cornerstone of the auditing profession. As a result, its enhancement remains foremost in the mind for IRBA (2016b). An auditor's independence is the most critical characteristic to consider when evaluating the credibility of the auditor's report. The current system that is in place to ensure good audit quality and increased independence is mandatory audit partner rotation.

On this matter, SAICA seemed to support the fact that there is an auditor independence problem in South Africa (SAICA, 2016a); however, later on SAICA members questioned whether there is actually an auditor independence problem (SAICA, 2016d). The members indicated that no evidence has been presented to support the lack of auditor independence. SAICA also called for more consultation before the implementation of MAFR, which seems to indicate that SAICA is in support of the current regulation of mandatory partner rotation at least for the present. This stance is perplexing as on the one hand, SAICA indicated there is a problem, yet on the other hand, the remedial action is not to be taken quickly and MAFR is not yet an option. It would be expected that swift action is taken to address a problem as critical as a lack of auditor independence.

2.2.1. Mandatory audit partner rotation

Under mandatory audit partner rotation, the audit firm keeps the audit client although the audit engagement partner has to rotate "off" the client every five years (SAICA, 2016c). The engagement partner is a very important person in the audit and all the audit decisions that involve judgement can be attributed to him/her (IAASB, 2009a). In addition, the audit partner also takes ultimate responsibility for the audit quality (IAASB, 2009b).

Once auditors have developed more than just a working relationship with management, there is an increased likelihood that they may acquiesce to the influence of the management. This sense of familiarity can persuade the auditor to more client-preferred treatment of material misstatements (Bamber & Iyer, 2007). The other possibility is that auditors are likely to give in to management's prodding. A further option is if the auditor were to raise an item of contention with management, and take a hard line on the matter that management did not prefer this could result in the loss of a significant amount of income for the auditor (Hennes, Leone, & Miller, 2014).

An external auditor's part in the corporate governance framework of a company is critical. The current regime in South Africa to manage auditor independence is mandatory audit partner rotation. Under this rule, audit partners must rotate off a client every five years. Longer auditor-client relationships have shown auditor complacency surrounding significant judgements made by management in their financial statements.

The IRBA introduced mandatory audit partner rotation as a measure to maintain auditor independence and bring a "fresh look" to audit engagements. This method of regulation was favourable because it maintained client knowledge and overall audit quality, which had already been developed and gathered by the incumbent audit firm. Mandatory audit partner rotation accounts for the development of familiarity between auditor and client. Additionally, it brings a renewed sense of scepticism to the auditor and management relationship (Laurion, Lawrence, & Ryans, 2017).

A study by Ball, Robin, and Wu (2015) indicated that indeed audit quality benefits from increased audit tenure, which supports the mandatory partner rotation as a viable option. The study found that long partner tenure had a negative effect on audit quality indicators (Ball, *et al*., 2015). This adds merit to the argument for mandatory partner rotation.

2.2.2. The views of the Independent Regulatory Board for Auditors

A few of the major concerns about auditor independence held by the IRBA are discussed next. The IRBA in their consultation paper on MAFR identified the threats to independence, as listed in Figure 2.1.

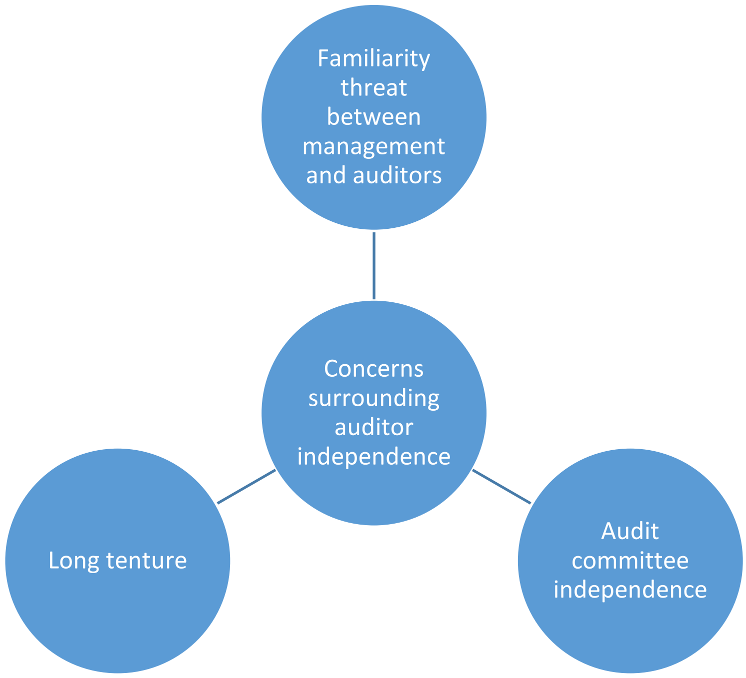


Figure 2.1 IRBA's concerns
Adapted from IRBA, 2016b.

The CFO of an audit client is usually in a position to exert significant influence over the preparation of the audit client's financial statements on which the audit firm will express an opinion. This threat to independence is compounded by the fact that the audit firm that is performing the audit previously often employed key staff members who are now employed in the finance department. This sort of threat, which is caused by association, can also be found when members of governing bodies or audit committees were previously affiliated to the incumbent audit firm (IRBA, 2016b, 2016c)

With regard to long audit tenure, the IRBA had made it mandatory that all auditor reports on annual financial statements contain a disclosure on the number of years the auditor has serviced a client. This would mean that potential investors and other users of the annual financial statements would be in a position to make an informed decision. This measure, however, did not treat the cause of the auditor independence problem, that being audit tenure. The IRBA asserted that long audit tenure could lead to threats to independence. The IRBA also produced the following table:

Table 2.1 Years of tenure

NAME OF COMPANY	AUDITOR	AUDIT TENURE
AUDIT TENURE EXCEEDING 20 YEARS		
AECI Limited	KPMG	91 years
AngloGold Ashanti Limited	EY	72 years
Alexander Forbes Group Limited	PwC	20 years
Astrapak Limited	Deloitte	21 years
Aveng Limited	EY	30 years
Basil Read Limited	PwC	29 years
Bell Equipment Limited	Deloitte	22 years
Brimstone Investment Corporation Limited	Deloitte	20 years
Combined Motor Holdings Limited	PwC	40 years
Group Five Limited	PwC	46 years
Hulamin Limited	PwC	66 years
Illovo Sugar Limited	Deloitte	39 years
JSE Limited	KPMG	35 years
Lewis Group Limited	PwC	25 years
Mr Price Group Limited	EY	34 years
MTN Group Limited	PwC	22 years
	SizweNtsalubaGobodo	13 years
Mondi Limited	Deloitte	48 years
Murray & Roberts Holdings Limited	Deloitte	114 years
Naspers Limited	PwC	101 years
Nedbank Limited	Deloitte & KPMG	42 years
PSG Group Limited	PwC	20 years
Santam Limited	PwC	87 years
Standard Bank Group Limited	KPMG & PWC	53 years
Sun International Limited	PwC	32 years
Shoprite Holdings Limited	PwC	34 years
The Foschini Group Limited	KPMG	45 years
Tongaat Hulett Limited	Deloitte	78 years
Tsogo Sun Holdings Limited	PwC	47 years
Wilson Bayly Holmes-Ovcon Limited	BDO	30 years
Woolworths Holdings Limited	EY	84 years

Adapted from IRBA, 2016b.

The JSE cited concerns about the tenure of audit firms. The IRBA cited the Public Investment Corporation as evidence (IRBA, 2016b).

It is interesting that Table 2.1, produced by the IRBA, does not account for the various mergers and acquisitions of audit firms over time. The audit firms in their current form have only been in existence for a short period of time (Cao, 2016).

All of the arguments that were presented by the IRBA have at their basis one key idea, namely that increased audit tenure negatively affects the independence of an audit in general.

In the report presented by the IRBA, there was no appeal made to academic literature (IRBA, 2016b). Hohenfels (2016) found that German investor confidence is lost once the audit tenure goes over 11 years. This indicates that the shareholder (investor) loses the same confidence in the efficacy of the audit firm after 11 years of audit tenure, because the investors reported a negative impact on audit quality at that time. Interestingly, that same study found that the confidence of that investor was the highest between year eight and nine of the audit tenure. Ball, *et al*. (2015) worked with a sample of 61 Austrian companies and found a positive correlation between audit quality and audit tenure up to six years. As a result, it seems that the IRBA's argument has some support in literature. The government has promulgated a ten-year rotational rule and this also is encouraged by literature (IRBA, 2016c).

2.2.3. The academic research into mandatory audit rotations (firm and partner)

It is extremely difficult to objectively quantify an auditor's independence so that it can be a measure for research purposes. Therefore, auditor independence proves to be challenging to research. As a result, in the literature most studies use audit quality as a surrogate for auditor independence. The understanding is that if the auditor is independent there is an increased probability of high audit quality. The majority of studies in this field used models in which discretionary accruals, going concern options, modified audit opinions, or financial statement restatements were used as proxies for audit quality. In many studies, a combination of these proxies was used (Tepalagul & Lin, 2015).

2.2.3.1. *Alma mater or employment affiliations between auditors and the audit clients.*

An *alma mater* or employment affiliation occurs when an auditor leaves the employ of an audit firm and is employed by one of that audit firm's clients (Lennox, 2005). In other words, the new employer of the individual auditor is the audit client. It makes sense for audit clients to hire such individuals because they are familiar with the accounting system and the business in general. A search was conducted to understand the prevalence of this behaviour in South Africa; however, due to a lack of research into the South African context, no academic literature in this regard was found.

Alma mater affiliations are common in South Africa since the majority SAICA trainees (graduates that have exited university with a Certificate in the Theory of Accountancy (CTA) and are eligible to write the SAICA Initial tests of competence examination) become auditors, yet these auditors expect to spend their entire career in a financial management sector (SAICA, 2017).

Auditors' perceptions on whether such affiliations affect the audit quality are mixed (Lennox, 2005), but the users of financial statements feel that there is a decrease in the quality of an audit with the existence of an *alma mater* affiliation.

A study performed in Canada and the United States utilised 3X1 factorial design on a sample of 140 audit managers. The study sought to understand whether their *alma mater* affliction of key staff such as the CFO would affect the audit manager's perception of the audit client. Seventy-six percent of the audit managers revealed that if the audit partner became the CFO at the audit client, there is unlikely to be a significant impairment requested by the auditors. The reasoning behind this is that the audit managers understood that this audit partner would process the impairment voluntarily. The auditor's level of confidence in the CFO indicates a familiarity bias. The study also investigated whether the audit manager's level of confidence during the audit would increase if an audit partner became CFO, but no statistically significant data was found to support or refute this claim. Regardless, this study indicated that there is some form of impairment in the objectivity of audit managers because of the *alma mater* affiliation. It is however interesting to note that the data does not clearly support the case for or against the existence of the *alma mater* affiliation (Favere-Marchesi & Emby, 2018).

A US study conducted in the late 1990s and early 2000s found that the majority (71,3%) of affiliations happen when an auditor is employed by their audit client. The study concluded that the probability of companies receiving clean audit opinions correlates to the executives being affiliated with audit firms currently performing the audit (Lennox, 2005). This finding concludes that affiliations between the auditor and the audit client executives can impair the audit quality; a view that is supported by the IRBA (2016b).

Work conducted by Ahmad (2015) in Malaysia utilised a questionnaire sent out to professional investors and corporate loan officers. The study discovered that there is a perceived threat to independence when an auditor is employed at the client that they have audited. This threat was perceived to be more significant when the person is changing employment as a position of seniority at the audit firm (for example, a senior manager, or audit partner). The study further examined the situation of when an auditor changes employment and assumes responsibilities of financial statement preparation at their audit client. The finding was that in that situation the independence of the engagement team is more likely to be affected than if the new employee was appointed to a non-finance role (Ahmad, 2015). The understanding among investors was that the audit client had insight into the procedures and techniques used by the auditors and this made the client better equipped to conceal items in the financial information being audited. The Malaysian case is similar to South Africa in many ways, the most important being that both countries are developing economies. As a result, it could be accepted that what is happening in Malaysia is likely to happen in South Africa.

It seems unlikely that *alma mater* affiliations can be removed entirely. It seems logical that a governing body member that is an alumnus of a specific audit firm would tend to promote their previous employer, if auditor rotations are ever discussed among the body. This tendency of governing body members to select audit firms with preference given to their previous employer has been proven in the United States (US) (Lennox & Park, 2007).

2.2.3.2 Long audit firm tenure as a negative effort on audit quality

There is very little literature to support the opinion that an increased audit firm tenure decreases the audit quality or the auditor independence. In fact, academic literature on auditor tenure as it relates to audit quality has generally concluded that long auditor tenure does not impair audit quality (Tepalagul & Lin, 2015). In fact, a strong link between audit firm tenure and conservatism or prudence exists for large audit clients. This link has not been found for smaller firms (Li, 2010).

Daugherty, Dickins, Hatfield and Higgs (2013) studied partners' perceptions of mandatory auditor rotation (MAR) as it relates to audit quality. Daugherty, *et al.* (2013) analysed the responses of 170 audit partners in the U.S. The sampling technique used was a convenience sampling method. This research showed that partners felt auditor rotation increased auditor independence although the partners felt that the rotation caused the loss of client-specific knowledge. It was also found that there was an unintentional decrease in the audit quality if the partner was required to audit a firm in a new industry. The reason for this decrease in quality was that the partner would require time to familiarise himself or herself with the new industry being audited (Daugherty, *et al*., 2013).

2.2.3.3 Perceptions of investors and users.

There is very little literature on the perception of investors and use of the financial statement as it relates to MAFR in South Africa. In general, this seems to be an under-researched topic in developing countries. Similarly, in the developed world there is still limited research on this topic.

2.3. Audit firm concentration, competition and transformation in the auditing industry

The last two objectives that are set out by the IRBA, that of increasing competition in the audit market and increasing the transformation of the industry are linked. The two objectives are dependent on each other for success. There is very likely research on the effects of MAFR as it relates to transformation and the bridging of the racial wage gap. As a result of the above reasons, these two objectives are considered together here.

The Big Four audit firms are widely accepted to be Deloitte, PricewaterhouseCoopers (PwC), KPMG and Ernst and Young (EY). Combined, these audit firms have the most revenue in the sector and have the most resources (Mohamed & Habib, 2010). The mid-tier firms are generally those that are able to handle large audits but do not have the same staff complement as the Big Four. The majority of mid-tier firms are international firms (Harber, 2016b). Small-tier firms are those that have less than five audit partners; they do not have the international footprint that the majority of mid-tier firms have.

The IRBA indicates that only 4% the JSE listed companies are audited by audit firms outside of the 10 largest audit firms. At the time of IRBA's statistic in 2016, there were 395 firms listed in the JSE. This market concentration is a threat to the stability of the country's economy (IRBA, 2016b). MAFR was presented as a tool to allow 'non-Big Four' audit firms to tender for, compete for, obtain the audits of these JSE listed companies, and thereby promote healthy competition and inclusion in the market. If auditors are not under pressure of market competition, they are not incentivised to self-regulate and thus maintain audit quality (Firth, Rui, & Wu, 2012). The reason for this is that there is no idea for an auditor to differentiate himself or herself in the market.

The argument that mandatory audit firm rotation will allow smaller audit firms an opportunity to grow is not always the case. Research suggests that MAFR may lead to higher market concentration because large audit clients tend to choose one of the Big Four audit firms when rotating to their next audit firm. The reason for this is that the audit committees of the larger audit client may view mid-tier audit firms as lacking in capacity to deal with a large audit (European Commission (EC), 2010; Ewelt-Knauer, Gold, & Pott, 2013).

Businesses are becoming more internationally focused and as a result, there are more companies requiring financial statement audits. Audit committees and shareholders of these companies want a recognisable "name" conducting the audit. A globally recognised auditor adds credibility and improves a company's ability to attract finance. The larger audit firms are perceived to have a specific level of audit quality and therefore they are more sought after. Therefore, the push for growth and globalisation creates substantial barriers for smaller audit firms to enter the audit market (Bowlin, Hobson, & Piercey, 2015; European Financial Reporting Advisory Group (EFRAG), 2009).

In addition, mandatory audit firm rotations may be restricted to only the Big Four audit firms, since some audit committees may perceive that small to medium-sized audit firms lack the necessary resources, expertise and capacity to deal with smooth rotations of large companies (Institute of Chartered Accountants of Scotland (ICAS), 2012). Furthermore, the requirements to perform a statutory audit, on a listed company, are onerous. In South Africa, there is mandatory compliance with International Financial Reporting Standards (IFRS) and International Standard for Auditing (ISA) along with the regulatory and KING IV obligations to report. These circumstances mean that the audit is more tedious and therefore it creates supplier concentration (Quick & Schmidt, 2018).

In the early 2000s, DeFond, Wong, and Li (2000) conducted an investigation into the interplay between the audit industry concentration and auditor independence in China. One thousand, two hundred and twenty six listed companies on both the Shanghai and Shenzhen stock exchanges were observed. Multivariate panel data analysis was employed to analyse the audit opinions issued by the ten largest audit firms and this was compared to the smaller audit firms. The study concluded that larger auditors are more likely to be independent than smaller auditors. This study looked at situations when a smaller auditor is allowed to audit an entity that is disproportionately larger then itself. In the South African case, this finding would mean that there is a possibility of a decrease in auditor independence with the mass introduction of non-Big Four auditors into the listed audit client market (DeFond, *et al*., 2000).

In South Africa, Harber's (2016a) study was conducted by interviewing 14 audit partners in 2016. The audit partners viewed the IRBA's measures with scepticism; they indicated that MAFR is most likely to improve audit quality. The exact way in which MAFR is used to decrease market concentration and increase transformation in the audit industry was unclear to the participants. It was interesting to note that there was disagreement between the partners about whether market concentration was a concern. This study is important because no person interviewed preferred a change in regulation to MAFR. With regard to the market concentration, in general the partners concluded that it is unlikely for the audit committees and shareholders of large listed companies to award their audits to small (and in some cases even mid-tier) audit firms. The partners of the small audit firms even admitted to not having the expertise to complete a large listed company audit (Harber, 2016a; Harber & Willows, 2016).

Harber and Willows (2016) found that audit partners felt that transformation needed to take place within the Big Four, with some participants even suggesting that currently the Big Four may be employing the majority of the black professionals in the industry. The study found that the connection between the implementation of MAFR and transformation of the audit industry did not seem evident to participants (Harber & Willows, 2016).

It is interesting that many research has identified the global market concentration in the audit industry as a problem. Importantly, countries like Egypt and Malaysia are similar to South Africa because they are developing nations and struggle with economy problems similar to those of South Africa. A study in Egypt indicated that 83% of listed companies prefer that the audit firm be a Big Four firm (Mohamed & Habib, 2010). A 2013 study in Malaysia found that the Big Four audit firms were auditing 73% of the entities listed on the Kuala Lumpur Stock Exchange (KLSE). Little academic research supports MAFR as a remedy for market concentration in the audit industry. On whether or not market concentration is remedied by the introduction of MAFR, Velte and Stiglbauer (2013) said:

> "It is vague, how the EC's [European Commission's] reforms for a concentration decrease, e.g. the introduction of a mandatory audit firm rotation, are connected to an increased audit quality. Instead, significant increasing transaction costs could be related…to price dumping strategies (low-balling) and endanger the audit quality".

2.4. Mandatory audit firm rotation in other jurisdictions

MAFR has been in existence for some time in both the developed and the developing world (Arrunada & Paz-Arez, 1997). The South African economy has the challenge of being a developing economy in Africa. Despite this challenge, South Africa is one of the largest economies on the continent and until recently was ranked higher that other African countries for auditing and reporting standards (World Economic Forum (WEF), 2018). It would thus be beneficial to look into the experiences of countries that implemented MAFR, and that are comparable with South Africa.

A number of countries have implemented MAFR, with the following countries selected for review for this study: The first two countries selected were Italy and South Korea. Italy was one of the first countries to implement MAFR, which has been in effect in Italy since 1974 (Cameran, Prencipe, & Trombetta, 2016). The Italian regulation has had a number of changes, which have resulted in an advanced regulation being implemented currently (IFAC, 2017). South Korea also has a rotational rule that seems to be successful. Regardless of the fact that Italy and South Korea are considered developed countries and that Italy is in the European Union (EU), their cases are important to South Africa because the longevity of their implementation offers guidance for South Africa to develop a lasting solution.

The BRICS countries (Brazil, Russia, India, China, and South Africa) are an economic block comprising emerging and developing countries. These countries are similar on many important indicators such as population, gross domestic profit (GDP) and inequality. South Africa was invited to join the BRICS in 2010 (BRICS, 2018). All BRICS countries have implemented MAFR to some extent. Studying the example and experience of South Africa’s contemporaries is the best predictor of how MAFR will affect our economy. Reliable and usable scholarly work from Russia has been extremely hard to find and, because of this dearth of literature, Russia has been excluded from this review.

2.4.1. Italy

Since mid-1974, MAFR has been required for listed companies in Italy. The coverage of company types that are included in this regulation has been steadily increasing over the last 40 years. In the mid-1980s, the rotational rule became mandatory for all listed companies (Cameran, *et al*., 2005). Italian listed companies need to be subject to both a retention and a rotation rule. The rule requires companies to retain an auditor for the first three years. That means that once the audit firm is appointed they cannot be removed for three years, regardless of the audit opinion. There are some provisions to allow for removal in cases of negligence on the auditor's part. After the initial three years, the audit must be subjected to a tender process; the previous auditor's services can then be renewed for an additional three years. This renewal process can only happen twice with the same audit firm. This results in a potential audit tenure of nine years, after which the entity must employ a new audit firm (Corbellaa,Florioa, Gotti, & Mastrolia, 2015; Cameran, *et al*., 2005; SAICA, 2016b). In 2006, the three-year tendering rule was relaxed, although the nine-year mandatory rotation remains.

A recent study in Italy used a time series of 20 years (1985-2004) and had 1184 observations of the Milan Stock Exchange. The study found that auditors were less conservative in their estimates over the first two three-year periods. This means that the auditor was more likely to agree with management's estimates between years one to six of the auditor-client relationship. The study found that a possible reason for this is because the auditor wants to maintain good relations with management as the auditor might then be appointed to the audit again in the future, but in the third three-year period (from years 7 to 9 of the audit relationship) the auditor would have to be mandatorily rotated. This research seems to support the notion that the knowledge of a rotation makes the auditor act more independently.

2.4.2. South Korea

Companies that were registered on the Korea Securities Dealers Automated Quotations (KOSDAQ) were required in 2003 to rotate audit firms every six years, although with exceptions (Cameran, *et al*., 2005). The implementation date was from 2006, and was applied prospectively (Kwon, *et al*., 2014). After extensive research and anecdotal comments from stakeholders, the mandatory audit firm rotation policy was abolished in 2010 (Kwon, *et al*., 2014). The reason advanced was that the costs of constantly rotating audit firms were vast and difficult to quantify, and the effectiveness of this measure was initially overestimated (SAICA, 2016b).

2.4.3. Brazil

Fraud and corruption in Brazil during the late 1990s caused the government together with the Brazilian regulatory body (Comissão de Valores Mobiliários [CVM]) to implement MAFR for the banking sector (Implemented in 1996). The requirement was later extended to all listed companies in 1999, with the enforcement date of 2001 (Cameran, *et al*., 2005; SAICA, 2016b). Owing to perceived disadvantages with the five-year rotational period implementation, the requirement was repealed for all companies in 2008. However, in 2012, the CVM implemented the rotational rule for non-bank listed companies and companies with a public interest (SAICA, 2016b). The rule requires that if a company has an audit committee then the entity need only rotate every ten years. Without an audit committee, the company must rotate auditors every five years (Bronson, Harris, & Whisenant, 2016). This change may indicate that importance could be allocated to better corporate governance as opposed to auditor rotations. Brazil's example underlines the significance of research like this one in South Africa (Bronson, *et al*., 2016).

2.4.4. India

In April of 2017, the Indian government officially implemented mandatory audit firm rotation for all public interest companies and certain private companies (selection of private companies is determined by criteria in the Indian Companies Act) (The Companies Bill (Ministry of Corporate Affairs (MCA), 2012). The rotational period was for five years with a few exceptions for banks (4-year rotational period) and provident funds (2-year rotational period).

Shah (2018) used all companies on the Bombay Stock Exchange (BSE) with a regression methodology to look at audit quality, MAFR and institutional ownership. The hypotheses of the study tested whether the implementation of MAFR increased audit quality, and the corrolation between MAFR implementation with an increase in institutional ownership. The premise (based on literature) was that institutional investors would recognise the increased audit quality and therefore increase their investment. The study found that MAFR increased the quality of discretionary accruals, but there was insignficant evidence between the other proxies for audit quality and MAFR. Therefore it was concluded that there was an insignificant change to audit quality. The study also concluded that there was no relationship between MAFR and increased institutional investing (Shah, 2018).

2.4.5 China

China's unique ecomony and business environmnental features provide a setting in which it is possible to comprehensively understand the effect of audit firm rotation in an economy similar to South Africa. In mid 2003, the Ministry of Finance (MOF) of China, the China Securities Regulatory Commission (CSRC) and the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) together effectively placed a firm rotational requirement for all State-owned companies.

In Firth, Rui, & Wu, (2012), a time series from 1997 to 2005 was used – with a total of 213 mandatory audit firm rotations on the Chinese main-board. This study used the probability of receiving a modified audit opinion (MAO) as a proxy for audit quality. The study tested the probabiliy of receiving a MAO when there is no change in the audit parter or the audit firm as their control. The study investigated the probability of recieving a MOA under the case of audit partner rotation and under mandatory audit firm rotation. This study concluded that there was an increase in the probability of receiving a MAO under both audit partner and audit firm rotation. The increase under audit partner rotation proved to be significant statistically, but unfortunately the increase under MAFR proved insignificant for statisitcal purposes (Firth, *et al*., 2012).

2.5. Arguments for and against mandatory audit firm rotation

The IRBA regularly performs inspections on the audit quality of various audit engagements, with the results indicating that 43% of all engagements inspected had significant deficiencies with regard to the ethical requirements. The significant deficiencies are defined in International Standards on Auditing 220 as inadequate or insignificant audit evidence to support the audit opinion (IAASB, 2009b). The IRBA asserted that the cause of these deficiencies was a breakdown of auditor independence and a lack of legal compliance (IRBA, 2015, 2016b). There are numerous reasons that could be forwarded for a lack of auditor independence, but all reasons have a causal link to audit firm tenure.

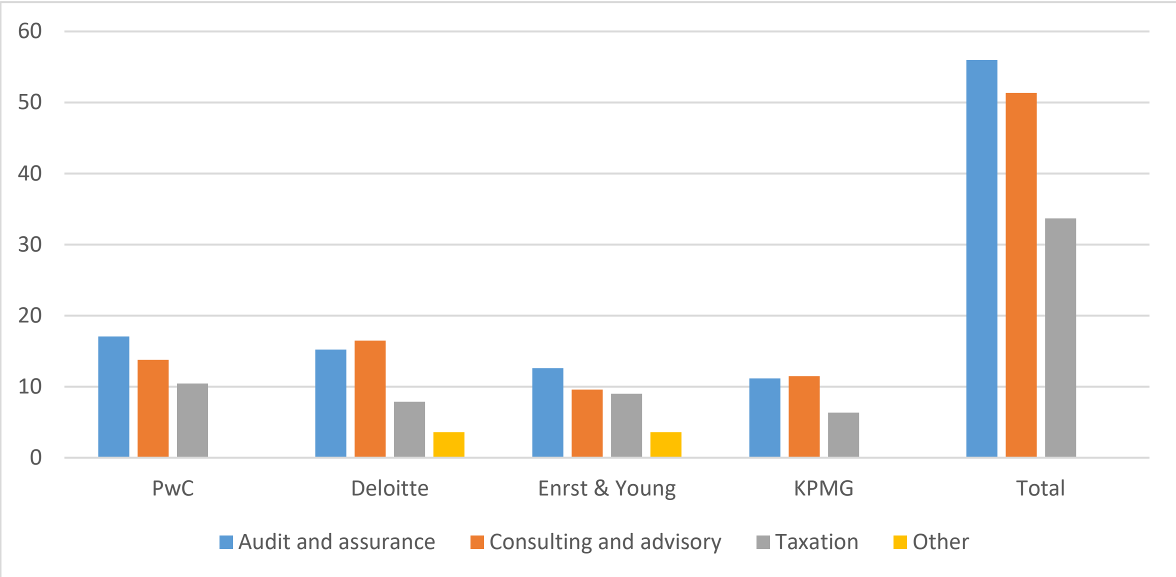
The IRBA does not release details of the inspection findings apart from a sanitised inspection report summary every two years. The release for this is the sensitive and confidential nature of the inspection reports and the companies involved.

Client familiarity and reliance on prior year audit work is an independence deficiency brought about by long audit firm tenure (Lu & Sivaramakrishnan, 2010). Many in fact fear that long audit tenures may result in the auditor being reluctant to effectively question suspicious accounting practices, or even being complacent in following up on adverse audit findings (Barton, 2002).

Some of the disadvantages of MAFR that have already been introduced are an increase in the transaction costs and low-balling when tendering for an audit. The arguments for and against MAFR are now reviewed. Kwon, *et al*. (2014) looked at 1306 companies on the KOSDAQ market, a regression analysis between the audit fees, auditing hours and the implementation of MAFR. It was found that there was statistcal significance to support an increase in the audit fees with the implementation of MAFR. In a South African study by Grant, Harber, and Minter (2018), voluntary audit rotations were investigated over a ten-year period. Grant, *et al*. (2018) selected a sample from the JSE by eliminating companies that had not changed their auditors within the ten years from 2000 to 2011. A regression was performed on the fees. Findings were that immediately after a rotation (year 1 after audit firm rotation), there was a decrease in the audit fees. Unfortunately, from year two or the second year after the rotation, the fees increased higher then the average increase in audit fees across the JSE. Therefore, the change in audit firm may have a short-term saving but in the longer term there is a loss. Both Kwon, *et al.* (2014) and Grant, *et al.* (2018) are recent studies that demonstrate the existence of higher costs after an audit rotation, which confirms the existing literature (Bronson, *et al*., 2016; Cao, 2016; Cameran, *et al*., 2016; Ewelt-Knauer, *et al*., 2013). These arguments are important for the framing and understanding of this research. These arguments are also used to inform the design of the research instruments as indicated in Chapter 3.

The debate on MAFR has been raging since the late 1970s, with voices from academics, regulators and practitioners alike (Dattin, 2017). The fact that the auditor’s profitability is dependent on the auditor obtaining and retaining clients, fuels this debate further. Statista GmbH is a German-based statistics and market research database and this company has long been collecting data on professional services firms in the accounting sectors. In 2018, Statista produced agraph (See Table 2.2) to illustrate the revenue streams of the four largest audit firms on a global scale. Similar statistics from a South African perspective have not been available (Statista, 2018).

Table 2.2 Revenue of the Big Four accounting/audit firms worldwide, by function (in billion US dollars), as at 30 June 2018



Adapted from Statista, 2018.

2.5.1. Improvement in the audit quality

Academic research reveals the positive benefits of mandatory firm rotation on the auditor's independence, especially in cases of high market concentration such as South Africa.

It seems logical that an increase in auditor tenure would result in a decrease in auditor independence. Jackson, Moldrich, and Roebuck (2008) discovered that an increased audit tenure increases the likelihood of expressing a going concern option (Jackson, *et al.*, 2008). The study did not draw conclusions on the validity of those going concern opinions. The research failed to find statistical significance for the relationship between discretionary accruals and audit tenure. These are proxies often used in literature for audit quality.

Previous studies prove that propensity to issue a going concern opinion to an entity in financial distress, the size of discretionary accruals and earning quality are some indicators of audit quality (Arrunada & Paz-Arez, 1997; Gunny & Zhang, 2013). Propensity to issue an invalid going concern opinion is clearly an indication of impaired auditor independence (Arrunada & Paz-Arez, 1997). Discretionary accruals are also referred as provisions or contingent liabilities, entities are not required to raise all liabilities, although unrecognised these may fall due in the future. The thought behind this measure is that the greater the number of discretionary accruals, the more objective the audit was (DeAngelo, 1981). Earnings quality is the ability to use reported earnings to predict future earnings (DeAngelo, 1981). These speak to the quality of audited financial statements. Numerous studies assess audit quality using these as a basis, with mixed results. Here in this paper, only a few are considered. Also, an increase in audit fees does not increase the audit quality.

In light of this, it is interesting to note that Geiger and Raghunandan (2002) found a relationship between audit tenure, discretionary accruals, propensity to issue going concern opinions and earnings quality. They further concluded that audit firm rotation might affect one variable of audit quality, but not audit quality as a whole (Geiger & Raghunandan, 2002). Research in other parts of the world supports these results (Chen, Jin, & Lin, 2004; Ncolaescu, 2014).

With the implementation of MAFR, the IRBA, just like other regulators, may anticipate positive market reactions due to the perceived audit quality and the improved independence in appearance (Ewelt-Knauer, *et al*., 2013). However, research proves that investors are not concerned with audit tenure as much as perceived. In addition, evidence proves that in other jurisdictions the markets have reacted negatively to MAFR (Reid & Carcello, 2017). Investors and stakeholders in countries with advanced shareholder/stakeholder protection do not primarily rely on an external audit for protection of their interests (Reid & Carcello, 2017). The jury is still out, as to whether South Africa’s investor protection legislation is sufficient.

2.5.2. Decrease in audit fees

It would be logical to assume that the increase in activity in the audit market would increase the competition among audit firms (SAICA, 2016a), resulting in a decrease of audit fees. Under a voluntary rotation regime, it has been found that the audit fees increase on an annual basis (Ncolaescu, 2014). The forcing of audit clients to find new auditors after a specific period may change the audit tendering process dramatically. Low-balling is an instance in which the auditor is tendering deliberately under tenders or quotes in the tender process (Arrunada & Paz-Arez, 1997). The low-baller aims for their tender to be the most attractive to the client. The assumption is that the client will contract with the lowest priced audit firm. In the initial years of the audit, the firm will invest significantly in the audit client. In the later years of the audit relationship, (that is the relationship between the auditor and the audit client), the auditor will aim to recoup the initial outlay of resources through inflated audit fees. The later years of the audit relationship are fees recovered. This may be because the auditor is not to be concerned about the rapport with the client; the auditor knows that soon the client will be forced to look for another audit firm. This practice simply moves the initial setup costs from the first year of the audit relationship (when they are incurred) to later years (Arrunada & Paz-Arez, 1997; SAICA, 2016a). Ncolaescu (2014). It may be concluded that audit fees under the mandatory rotation rule increase collectively when compared to a voluntary rotation system (Ncolaescu, 2014).

This has not been reconciled with the fact that an audit committee is unlikely to accept higher audit fees easily (Imhoff, 1978) and as mentioned above, an increase in the audit fees is not indicative of an increase in audit quality (Cameran, *et al.*, 2016). In addition, the application of auditing standards related to using the working papers of the previous auditor is dealt with in Section 4.4.

2.5.3. Matching of audit costs with audit benefits

There are other non-quantifiable costs, such as the loss of audit client knowledge when one audit firm replaces another. This audit client knowledge is the professional relationship and understanding that the audit firm possesses in relation to the audit client (Ruiz-Barbadillo, Gómez-Aguilar, & Carrera, 2009). The cost to the audit client's staff is that the new audit firm may deem it necessary for them (the audit client's staff) to re-provide supporting evidence that the previous auditor would have possessed. This situation can decrease the audit client staff's morale. There is also the opportunity cost of not being able to specialise in a particular sector because of consistent rotation. In some cases, individual auditors may relocate or change employer in order to obtain better industry exposure (Arrunada & Paz-Arez, 1997).

2.6. Conclusion

In this chapter, the academic literature available was reviewed. Research into the current regulation of mandatory audit partner rotation was presented and it was found that the effects are limited. MAFR's effect of auditor independence was found to be positive. The IRBA's views were analysed and the conclusion was that a strong argument is being made for the need to improve auditor independence in South Africa. The IRBA, because of their mandate, has presented MAFR as a solution. The disadvantages of long auditor tenure were explored and multiple negative effects were confirmed. The link between MAFR, a reduction of market concentration, and the transformation of the audit industry was found to be very weak. Next, a review of MAFR in selected countries was conducted. In addition, broad arguments that have entered the debate on MAFR were presented.

The literature that was reviewed indicated that there is a lack of academic research on MAFR, especially in South Africa. There seems to be a lack of academic research on the opinions of academics and audit clients in particular. As a result, this study included those groups in addition to auditors. Furthermore, the majority of research deals with the effect of MAFR implementation, with little research addressing the plans or factors that can result in the successful implementation of MAFR. This study was tailored to uncover the possible strategies and plans that can result in MAFR being a success.

CHAPTER 3
RESEARCH METHODOLOGY

3.1. Introduction

In Chapter 2, the recent literature on audit rotations was reviewed. The literature review was conducted in a descriptive manner. The chapter reviewed the effects of and reasons for MAFR and the arguments put forward by its proponents and opponents.

The literature review found that an abundance of academic literature focused on the effects of MAFR. However, little research was found on the factors and actions of role-players that would make MAFR a workable solution. In addition, the details of MAFR in a South African context only became apparent after the IRBA had announced the rotational rule in 2016 (IRBA, 2016b). There seems to be a lack of research on volunteer audit rotations and the strategies that prove successful under current regulation. As a result, there is a need to undertake research in this field.

This research addresses the successfulness of audit rotations and will contribute towards the existing literature. Audit firm rotation research falls within the ambit of business research. Business research is undertaken because there is an unresolved problem in the industry (Bryman & Bell, 2011). Business research is geared toward concluding on findings that would yield workable solutions to a problem (Bryman & Bell, 2011).

The lack of evidence that MAFR would lead to an increase in auditor independence, audit quality and competition in the audit market, is simply in opposition to the spirit of the legislation. This study made use of the grounded theory method set out by Sekaran and Bougie (2013) to solve the perceived problems with audit firm rotations – with the intention for this to result in a contribution to the existing knowledge. Having identified the broad problem area above, the next step was to formulate a problem statement.

3.2. Objectives of the study

In an effort to identify the strategies that can be implemented to deal with MAFR, this study looked at key role-players in these strategies and the impact of their actions (new external audit firm, previous audit firm and audit client). In addition, the study also looked at factors that will affect the strategies. In considering both the key role-players and the key factors, it was expected that a picture of the strategy would emerge.

In line with the above, the research objectives is here restated::

- To establish the role of the new external auditor in successful audit firm rotations in KwaZulu-Natal.
- To establish the role of the previous external auditor in successful audit firm rotations in KwaZulu-Natal.
- To establish the role of the audit client in successful audit firm rotations in KwaZulu-Natal.
- To establish the key factors in successful audit firm rotations in KwaZulu-Natal.

3.5 Grounded theory

The grounded theory methodology enables a researcher to understand the perspectives of the participants on the area that is being studied. The grounded theory methodology allows the researcher to engage with the participants, because this methodology values the descriptive narrative of the participant (Marshall & Rossman, 2015).

Grounded theory methodology was discovered in the 1960s. It is formally from the fields of medical science. This methodology does not seek to achieve generalisability by finding a research sample that represents the population. Instead, it aims to understand and explain a given phenomenon with the use of empirical data (Gorra, 2007).

3.5.1 Stages in grounded theory methodology

Grounded theory most commonly uses the in-depth interview to collect data. The sampling method that is utilised is called theoretical sampling. This is when the researcher decides on specific criteria that are used to select the sample. In this study, the number of audit firm rotations that participants were involved in, was used as the selection criteria (Charmaz, 2014).

As grounded theory is an iterative process, the data was being analysed as it was being collected (Gorra, 2007). Once the interviews are transcribed, the researcher must code the interviews. Open coding was used in this study. Open coding is a process in which the researcher reads the transcript on a line-by-line basis, and places conceptual labels on ideas that reoccur. Detailed line-by-line coding helps the researcher open up the data to interpretation (Sekaran & Bougie, 2013). This coding process was repeated twice to refine the codes and to limit perception bias. This second look at coding is called focused coding (Gorra, 2007).

After coding a number of transcripts, the researcher would notice that the codes have similar characteristics or themes. These are called concepts. As the concepts begin to grow, they are grouped into categories. There is rarely quantifying of data in the grounded theory; however, counting the number of frequencies of a given category can reflect what is in the minds of the participants. These categories are then used to develop an understanding of the subject matter. This understanding is referred to as a theory. This relationship is depicted in Figure 3.1.

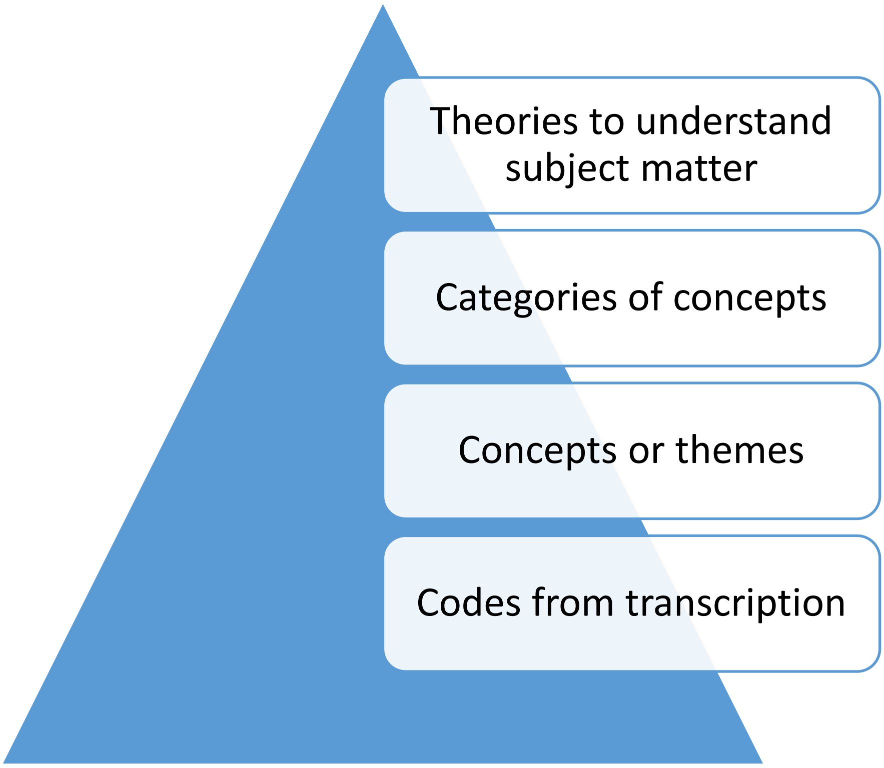


Figure 3.1 The stages in the grounded theory
(Adapted from Gorra, 2007)

3.6. Research design

The research design is the plan for the collection and analysis of the data. These processes are informed by the research objectives (Ruiz-Barbadillo, *et al*., 2009). The experiences of practitioners would illuminate the challenges and difficulties in the implementation of audit firm rotations. The practitioners would indicate the unexpected problems that would arise in this difficult time. Analysis of this produces information that establishes the reasons for the success of the implementation of audit firm rotation in KwaZulu-Natal.

3.6.1. Why KwaZulu-Natal?

KwaZulu-Natal (KZN) as a province is the second largest contributor to the South African GDP. KZN contributed 16% to the South African GDP in 2016 (Statistics South Africa, 2017). Whereas the Gauteng province is dominated by the financial services and mining sectors, the KZN market is weighted towards the manufacturing sector (Trade and Investment KZN, 2017). These particular characteristics of KZN mean that the study of the KZN economy is important and that evidence from other provinces may not necessarily hold true in KZN. By this study, investigating KZN will expand the current literature and contribute in a meaningful way to the understanding of MAFR in South Africa.

3.7. Qualitative research

In this section, the qualitative research design is discussed. The focus is on data collection, interview structure and design, sample and population size and statistical analysis.

3.7.1. Data collection

In-depth interviews are a data collection tool that allows the researcher to obtain lessons and insights from the personal experiences of the interviewees. This method of data collection is the most appropriate to obtain data from the personal experience of an individual. However, a drawback of employing interviews for this study is that audit professionals do not have time in their schedule for an interview and the participants are in different geographic locations across KZN. This was overcome by means of telephonic interviews (Rajaram, 2016).

3.7.2. Interview instrument

An interview was a well-suited way to obtain research data from busy audit professionals that would meet the research objectives of this study. The interview used was a semi-structured interview. The schedule developed to be used in this data collection was designed to yield feedback from audit practitioners that relate to the research objectives.

All the interviews were conducted in person or telephonically. Each interview lasted between one to one and half hours. With the express consent of all interviewees, the interview was recorded for analysis purposes. As a result of the obvious confidentially and ethical requirements, none of the audit firms, auditors' personal names, or audit client names will ever be disclosed in this or any other research output that uses those recordings as data. Furthermore, those recordings will only be used for purposes of academic research.

Open-ended questions were utilised in the interviews as this allowed participants to answer questions freely, which helped yield rich honest responses. Questions 1 to 6 obtained demographic information from interviewees. The rest of the questions were based on the results of the literature review.

Table 3.1 Demonstration of how the questions in the questionnaire are aligned to the research objectives

Objectives	**Question**
To establish the role of the incumbent external auditor in successful audit firm rotation in KwaZulu-Natal. To establish the role of the previous external auditor in successful audit firm rotation in KwaZulu-Natal To establish the role of the audit client in successful audit firm rotation in KwaZulu-Natal.	Question 11. What role does the following play in an audit rotation: a. Audit team b. Risk assessment c. Previous Auditors d. The audit client? Question 12. What do you believe is the greatest determinant of a successful or “smooth” rotation? Please explain your choice.
To establish the key factors in successful audit firm rotation in KwaZulu-Natal	Question 12. What do you believe is the greatest determinant of a successful or “smooth” rotation? Please explain your choice. Question 13. Can you provide your opinion on the following alternatives? a. Mandatory Audit Tendering (MAT), as opposed to MAFR. b. Joint Audits (Joint Audit Firms). c. Rotating the senior management of the audit team, not simply the engagement partner. Question 14. Do you foresee any direct and indirect consequences, including any unintended consequences, of IRBA moving towards MAFR? Question 15. What strategies would you implement in order to deal with MAFR?

(researcher composed)

3.7.3. Sample frame and size

The interviews in this study were intended to stimulate discussion around the topic of MAFR. The personal experience of the audit practitioners offers particular insights into the factors that will result in success for audit practitioners. The population that was analysed in this study was professionals involved in audit that would be affected by the implementation of MAFR. Qualitative research offers a subjective opinion of a fewer number of people although the data collected is more persuasive (Rajaram, 2016). As a result of the MAFR rule being applicable to JSE listed entities only, another characteristic of the population was that the professionals must have had experience in conducting audits on JSE listed entities (Harber, 2016b).

Judgement in the selection of audit professionals was utilised. When extracting data from knowledgeable experts a purposive sampling technique is the most effective (Harber, 2016b).

3.7.3.1 Population

The IRBA is the only body in South Africa that can offer licences to Registered Auditors (RA), and these are the only practitioners who can sign off on annual financial statements of a public interest company (RSA, 2008). A database is administered by the IRBA and can be utilised as a sample frame for undertaking research. A full database of RAs is not available to the public, although searching for registration status of an RA can be attempted on the IRBA website. The IRBA office was directly contacted, and as of July 2018, there were 431 RAs registered in the KwaZulu-Natal region. The IRBA did not respond to requests to utilise this database to select the interviewees. This set the population size for the auditors.

As the MAFR regulation is limited to JSE listed audit clients, the population for the sample of audit clients was to be the total number of JSE listed clients in KwaZulu-Natal. In order to determine if a company is a KwaZulu-Natal JSE listed company the registered office of the company was considered as the determining factor. A thorough evaluation of the JSE website was conducted, looking specifically for the registered offices that are situated in KwaZulu-Natal. As at July 2018, 24 companies were identified. All companies were contacted to obtain permission to include their staff in this study.

3.7.3.2. Factors considered in determining the sample size

With qualitative research, unlike quantitative research, there is no definite equation to determine the sample size. Charmaz (2014) and Charmaz (2006), who has contributed to the discussion on qualitative sample sizes, indicated that studies that have modest aims would be able to achieve a representative sample quicker than a study that does not (Charmaz, 2006, 2014). For example, investigating the general impact of MAFR on the South African economy in general would require a larger sample size than this study, which investigated the strategies used in the KwaZulu-Natal market.

Glaser and Strauss (1967) introduced the idea that a qualitative sample size needs to be based on saturation of the data (Glaser & Strauss, 1967). To this end, they added that saturation could be identified when adding more interviewees to a study does not add new perspectives to the research data.

In this study, saturation became evident by the general agreement between participants on the topics discussed, despite the fact that the interviews were conducted separately and the results were kept confidential. It is also interesting to know that many of the determinations or findings, which are presented in Chapter 4, were agreed on by over 50% of participants. In addition, when analysing the sixth interview of the auditors and the second interview of the audit clients, the responses seemed very similar in essence. Saturation in this study could be demonstrated by the fact that the context and real meaning of the topics discussed were gauged from each interviewee (as will be discussed in Chapter 4).

Morse (2000), together with a number of other research, indicated that the data collection methods are key in the determination of the sample size (Morse, 2000; Lee, Woo, & Mackenzie, 2002; Jette, Grover, & Keck, 2003). Lee, *et al*. (2002) further suggested that the studies that utilise in-depth interviews would be able to use smaller sample sizes (Lee, *et al*., 2002).

In-depth interviews were conducted in this study and therefore the study benefitted from gaining saturation quickly. In addition, the grounded theory methodology utilised to study the phenomenon of MAFR implementation made it easy to identify the saturation point.

Since qualitative studies are based on determining factors, many studies are reluctant to indicate specific sample sizes for qualitative research (Mason, 2010). Many studies find this lack of guidance a frustration, as they believe such guidance would be valuable in suggesting and justifing sample sizes (Guest, Bunce, & Johnson, 2006). This study assessed how professionals that are involved in audits are dealing with the phenomenon of MAFR. This study also used the grounded theory metholodogy. For this type of study, Creswell (1998, p. 64) indicated that between five and 30 interviewees are sufficent. Morse (1994, p. 225) recommended no less then six and up to 30 interviews. It should be noted, however, that both authors stressed that these numbers are not “set in stone”, rather they must be used as loose guidelines (Creswell, 1998; Morse, 1994).

This study included a total sample of ten interviewees. Seven interviewees were auditors (population 431) and three were audit clients (population 24). As a result of the analysis, as presented in Chapter 4, saturation was assumed to be achieved.

3.7.3.3. Sample selection

In order to understand an individual’s experience within an area of research, in-depth interviews with experts is recommended as a data collection method (Marshall & Rossman, 2015). An auditor and audit clients, being experts in this area of research, would have a high degree of auditing skill and financial knowledge. Most importantly, experts in this study have been involved in multiple audit rotations. Such an experienced accounting practitioner would have adequate first-hand knowledge on what the key roles and factors are to a smooth and easy audit firm rotation. With the number of audit firm rotations set to increase, this knowledge is invaluable.

As demonstrated in Chapter 2, the rate of audit firm rotations is very low throughout South Africa including KwaZulu-Natal. As such, various audit firms were directly contacted, to enquire of the number of audit firm rotations the firm had been involved in, and their willingness to participate in this study. From the firms that agreed, 36 auditors who were most involved in and experienced with these above-mentioned audit firm rotations were contacted in order to understand their skills and experience, and thus assess if they would be willing to participate in this study. The criteria utilised in the assessment were purely based on the number of previous audit firm rotations that the individual had been involved in. Fifteen audit practitioners were identified as having the skills sought after for this study. These were the practitioners that were involved in the highest number of audit firm rotations, in their respective audit firms. Only seven out of these fifteen agreed to participate in this study (auditor 1 [A1] to auditor 7 [A7]).

Identifying and attracting audit clients to participate in this study proved to be very difficult, because there is no way of identifying all the audit clients that have rotated audit firms recently or regularly for that matter. After contacting SAICA and JSE limited, in an effort to identify audit clients that would be affected by MAFR, 24 audit clients in the KwaZulu-Natal region were identified after a search of the JSE website. All these audit clients were contacted; however, only three agreed to participate in this study (audit client 1 [AC1] to audit client 3 [AC3]).The seven auditors and three audit clients made ten participants in this study.

3.7.4. Qualitative statistical analysis

Before each interview commenced, the study's aim and the interview procedure were explained to the interviewee. All interviews were recorded on a digital voice recorder. The interviews were transcribed, making use of the interviewer's notes as well as the audio recording of the interview. The interview was transcribed by a paid research assistant, with the ethical requirements and transcription procedures not only being demonstrated to the research assistant but also given to the assistant in writing. Daugherty, *et al*. (2013) promoted a style of transcription called intelligent verbatum, which is the preferred style of transcription for academic research as it is very compatible with Nvivo analysis (Daugherty, *et al*., 2013; Gorra, 2007). Therefore, this style was utilised in this study. The transcriptions were then analysed to determine possible themes that emerged from the practitioners' responses. The common themes were summarised with the use of word frequency tables and word trees. Nvivo software was utilised during open coding and categorising. The software was used to produce results that are more meaningful.

The Nvivo software helped to manage and analyse the interview data. For example, once the interviews had been coded, all the code references could be viewed together for clear interpretation.

3.8. Validity and reliability

Validity addresses the need for the research instrument to measure concepts that are relevant to the answering of the research questions (Leedy & Ormrod, 2001).

Content validity deals with how well the instruments can act as a representative sample for what is being measured (Leedy & Ormrod, 2001). The interview schedule was assessed for content validity and these were found to have high content validity.

Construct validity deals with how the instruments measure an event that cannot be directly observed, but is known to exist (Leedy & Ormrod, 2001). The interview schedule was reviewed by the supervisor of this study. Five academics from the School of Management, Information Technology Systems, and Governance at the University of KwaZulu-Natal reviewed the interview schedule. These academics have had extensive experience in conducting research with the use of interviews. The academics were asked to review the interview schedule generally but pay specific attention to understandability, ambiguity, and grammatical correctness.

All participants were sent a copy of the transcription so that they could review and confirm that the transcription accurately reflects the interview.

3.9. Ethical considerations

A letter of permission was obtained from all audit firms and all audit clients that were used for contacting the individual participants. The letters cannot be disclosed due to confidentiality reasons. The ethical clearance reference number is HSS/0808/018M; this was obtained from the ethics office at the University of KwaZulu-Natal (Appendix A). Informed consent was obtained from all individual participants. Specific consent was obtained for the audio recording of the interviews. All interviewees were assured of anonymity and the aim and objectives of the study were explained before the interviews.

3.10. Conclusion

In this chapter, grounded theory was discussed and its suitability for the phenomenon under study: the strategies that can be implemented in KwaZulu-Natal to deal with MAFR. This chapter also discussed the sample determination and its appropriateness. An outline of the method used to analyse this data collected was defended. In Chapter 4, the results of that analysis are presented. In addition, that chapter will discuss the gleanings from the understanding of the data.

CHAPTER 4
PRESENTATION AND ANALYSIS OF THE QUALITATIVE RESEARCH RESULTS

4.1. Introduction

The research methodology for this study was outlined in the previous chapter. An argument was made for the proposed qualitative approach utilised in this research. In this chapter, the results of the research findings are presented and analysed. The study encompassed individual, in-depth interviews with accountants in practice, both in audit services and financial management sectors. These sectors were selected as they are the most affected when there are audit firm rotations. This places practitioners from these sectors in a position to identify and address matters that may arise in an audit firm rotation. Therefore, this qualitative research was grounded in studying specialist knowledge of a small group of individuals that understand auditing in South Africa well. All of the participants have been involved in a minimum of four rotations within their career, with the average number of rotations for the sample group selected being 14,3.

The analysis of the research data was performed by paying careful attention to the research objectives. This was done to ensure that the data presented below could be related back to the research objectives to ensure that the link between these is clear. The role of the incumbent auditor was explored which included the understanding of the auditor independence and the individual groups in the audit team of the incumbent audit. The role of the previous auditor and the audit client were then analysed. The above-mentioned analyses are presented in this chapter as well as other factors that were identified by the experts. However, firstly the demographic details of the participants are presented in order to place the results that are to follow in better context.

4.2. Demographic data of participants

As per the interview schedule (Appendix B), the first eight questions concerned the demographic profile of the participants in this study. This was done to understand the skill, experience, and perspectives of the various participants. These questions sought to obtain the age, gender, years of experience, and the number of rotations in which the participants had been involved.

Table 4.1 Demographic profile of study participants

CHARACTERISTIC		FREQUENCY	PERCENTAGE
AGE	25-34	7	70%
	35-44	2	20%
	45-54	1	10%
	Total	**10**	**100%**
GENDER	Female	3	30%
	Male	7	70%
	Total	**10**	**100%**
RACE	African	3	30%
	Indian	4	40%
	White	3	30%
	Total	**10**	**100%**
PROFESSIONAL BODY ACCREDITATION	Institute of Internal Auditor (IIA)	1	10%
	Independent Regulatory Board for Auditors (IRBA)	2	20%
	South African Institute of Chartered Accountants (SAICA)	6	60%
	Not applicable (see below)	1	10%
	Total	**10**	**100%**
EDUCATION	Degree	1	10%
	Postgraduate Diploma or Honours degree	8	80%
	Doctoral Degree	1	10%
	Total	**10**	**100%**

(researcher composed)

As per Table 4.1, the majority of the participants were between the ages of 25 to 34. Given this age, this group is most likely to be affected by the MAFR because at the time of implementation this group is lightly to be in leadership roles. The majority of participants were male, however, there seemed to be an even split between the races. One participant responded not applicable to professional body accreditation, as the position that this participant holds does not require a professional body accreditation. This participant works at an audit firm therefore this study classifies the participant as an auditor. The educational experience of the participants indicated that the vast majority (9/10) had a post-graduate qualification at the time of the study.

4.2.1. Experience of participants

The experience of the participants for this study is displayed in Table 4.2.

Table 4.2 Participants' experience

Participant	Number of audit firm rotations completed	Audit services sector	Years of experience in the accounting profession
Auditor 1 (A1)	4	Small-tier	6 years
Auditor 2 (A2)	7	Big Four	19 years
Auditor 3 (A3)	25	Medium-tier	16 years
Auditor 4 (A4)	30	Medium-tier	13 years
Auditor 5 (A5)	9	Small-tier	9 years
Auditor 6 (A6)	20	Big Four	10 years
Auditor 7 (A7)	30	Big Four	22 years
Audit Client 1 (AC1)	10	JSE Listed audit client (Big Four auditor)	6 years
Audit Client 2 (AC2)	4	JSE Listed audit client (Big Four auditor)	6 years
Audit Client 3 (AC3)	4	JSE Listed audit client (Big Four auditor)	6 years
Average	*14.3*	*N/a*	*11.3*

(researcher composed)

As demonstrated by Table 4.2, the average number of rotations among the participants was 14.3 audit firm rotations. This number is significant given the poor number of rotations in South Africa. The average years of practice in the accounting profession was 11.3 years, with the least experience participant having work for six years as an accountant. Among the auditors there was an even split between the different audit firm tiers (3 auditors from the Big Four, with 2 each from medium and small tier firms). As explained in Chapter 3, it was extremely difficult to find audit clients that have the required skills and that were willing to participate in this research. Therefore, the only audit clients that were utilised were individuals from JSE listed entities. Consequently, because of the significant experience in the audit services market or with auditors, it is logical that these interviewees would enable an understanding of the key roles and salient factors that affect an audit firm rotation. It was also logical the participants would be able to assist in identifying interventions that can make the audit firm rotation process easier.

4.3. Incumbent auditor's role in MAFR

Within a given audit team there are usually different groups of people that have differing roles. A traditional audit team comprised the engagement partner, the engagement manager, audit trainees and the auditor's experts or internal audit of the client. As a result of the differing roles of these groups and the purpose that they play in an audit rotation, the roles of each group were analysed separately for this study.

Table 4.3 lists the participants' answers in relation to research objective one, which was to establish the role of the new external auditor in successful audit firm rotation in South Africa.

Table 4.3 Participants' responses in relation to research objective one

Audit team member	Percentage of participants that indicated this audit team member is		Discussed in
	Influential to an audit firm rotation	Not influential to an audit firm rotation	
Internal auditor	6	4	4.3.1
Audit trainees	6	4	4.3.2
Audit management	9	1	4.3.3
Made up of:			
Audit partner	*7*	*N/a*	*4.3.3*
Audit manager	*2*	*N/a*	*4.3.3*

(researcher composed)

4.3.1. Internal audit of the audit client

Most of the participants (6/10) agreed that the internal audit of the client was an important role-player in on-boarding a new audit firm.

Surprisingly, out of the four that disagreed with the internal audit being a valuable role-player three were auditors, with two auditors indicating that not all audits are structured in such a way that a control reliance approach can be adopted. The risk assessment procedures of the auditor would determine if an auditor would rely on the internal controls. In one auditor's opinion (A6), the majority of audits even in the listed client market do not fully rely on internal controls like an internal audit. When audit management chooses not to rely on internal controls this means that there is decreased importance placed on the work of the internal audit function of the audit client.

One of the auditors (A2) in the sample indicated the reason why the internal audit function is not important in an audit firm rotation is that not all listed or public interest companies will have their own internal audit function. This auditor added that when the internal audit function is outsourced at the audit client it can decrease the effectiveness of the internal audit function and therefore less reliance can be placed on the work of the internal auditors. In addition, when the internal audit function is outsourced, this function is viewed as a cost centre for management and therefore may not be available at the same time as the external audit as management may need to incur additional fees for the services of an internal auditor. Therefore, in a sense the use of the internal audit function (and other internal controls) by the external auditor is actually not an option, and the function is unavailable or weak. A number of smaller listed clients rely on the external auditor for credibility. Many of these smaller firms have the internal audit function to comply with governance requirements only and the external auditor provides sufficient integrity for management.

All four participants that answered in the negative mentioned that internal audit functions are currently underutilised by external auditors, and this may have created complacency in the internal audit function, as they are not pushed by the external auditors to increase their standards. On the other hand, the external audit has become accustomed to not relying on the internal auditor and therefore this function is irrelevant to the audit firm changeover.

The six participants who answered that the role of the internal audit function is important in an audit firm rotation all related this to the very largest listed companies, for example the banking sector. It seems from their responses that the larger listed clients and the banks cannot be audited without some reliance on the internal audit functions of these entities. The audit clients in the sample seem to suggest that the internal auditor has a better understanding of the business and its processes than the external auditor does. This is especially true at the beginning of the relationship between the audit firm and its audit client. As a result of this deeper knowledge of the audit client, the internal auditor needs to be included in the work of a new external auditor from the beginning. The audit clients indicated that from their perspective, the internal auditor is another "line of defence", and as a result, the work of the external and internal auditor should be fully integrated to avoid duplication of work. One auditor (A3) brought to light the concerns in section 90 of the Companies Act of 2008 (RSA, 2008); this is important as the auditor cannot place "too much" reliance on the work of the internal auditor.

4.3.2. Audit trainees

There was a mixed response (4:6) to the importance of the audit trainees in the process of an audit firm rotation. Three auditors and one audit client (4 participants in total) indicated that the audit trainees are not important with regard to a firm rotation. Four auditors and two audit clients (6 participants in total) expressed the importance of the audit trainees to be moderate to high.

The participants (the four mentioned above) downplayed the importance of the audit trainees, on the basis that they are not involved in the decision-making. It was submitted that the audit trainees are (considered) not experienced enough to offer an opinion to the management of the audit. The audit trainees are said not to influence the audit firm rotation because the audit clients seem to go about their business in the same way, regardless of the type of trainees assigned to the audit. One audit manager expressed that even if an audit trainee had insight into the audit, it is sometimes overlooked by management because of who is offering the insight. The audit managers mentioned that audit trainees need a fair amount of coaching and therefore may absorb resources instead of adding value to the audit. This group of dissenters was sceptical of the skill and ability of the audit trainees.

Among the second group of participants indicated that the audit trainees have important roles in an audit firm rotation, a common theme was the audit trainees' proximity to the audit client. These participants sited that the audit trainees' interaction with the audit client seems more important than their interaction with the audit management. Audit trainees are said to be important because they deal directly with the audit client. Thus, the audit trainees are well positioned to identify and access audit risks much faster than for example the partner. The reason for this is that immediately after an audit firm rotation the new audit partner would have little knowledge of the environment and the risks that are present at the new audit client. The audit trainees are physically at the client on a daily basis and therefore gain audit client knowledge faster than the audit management.

One audit client (AC1) added that in addition to the accelerated accumulation of audit client knowledge in the first year of the audit, the audit trainees are unable to develop strong working relationships with clients. However, sometimes such close relationships can be negative or cause conflicts of interest and thus undermine the auditor's independence. The general theme that emerged from this group was that the audit client's perception of the audit firm is developed and then managed by the audit trainees and therefore they are important. All the auditors (participants) in this group indicated that they actually "cherry pick" their audit trainees from all the available trainees when attempting to on-board a new audit client. What is interesting is that the majority of the auditors that dissented also admitted that it would be beneficial during an audit firm rotation if each audit trainee were picked (and trained) to on-board a new client.

4.3.3. Audit partner and audit manager

The audit partner and the audit manager were considered together in this study, because the responses of participants were found (in general) to refer to these two groups in an interchangeable manner. The interview schedule (see Appendix B) contained specific questions that enquired about auditor independence in South Africa. However, an interesting observation was that when discussing the audit partner, participants had the tendency to comment on the independence of auditors.

The cause of this data anomaly could be the media reports regarding accounting and auditing irregularities. These reports surfaced only a few months before the interviews were conducted. As a result of this observation, this section deals with auditor independence in South Africa as well as the role and the effect of the partner and manager on the audit.

Table 4.4 Reasons for the importance of audit management in an audit firm rotation

Reasons for influence on audit firm rotations	A1	A2	A3	A4	A5	A6	A7	AC1	AC2	AC3
High degree of experience	✔		✔			✔	✔			✔
Assumes audit risk	✔	✔		✔	✔		✔		✔	
Audit manager acts as a filter to the audit partner	✔				✔					
Audit management is not influential to an audit firm rotation								✔		

(researcher composed)

Only one participant indicated that the audit partner and manager do not have a critical role to play in an audit rotation. This participant was audit client one (AC1). The reason submitted for this decision was that the audit partner and the audit manager do not have a high physical presence at the audit client even when the audit client is new. The partner and manager therefore are unfamiliar with the client for the first few years of being appointed. In addition, the audit partner will for the most part only be involved in the audit matters that require their technical opinion.

The other nine participants agreed that the audit partner and audit manager are very influential people in an audit firm rotation. The relationship of the audit partner and audit manager is nuanced and interdependent. Five positive replies focused on the fact that the audit partner has the most experience, in the subject of auditing, as compared to the rest of the team. The audit partner has the most audit experience for dealing with a new audit client and therefore, when a contentious issue arises, the audit partner is often required to weigh in on the matter and then seek a resolution. The audit partner is also perceived to have the most technical ability on the team and therefore they need to deal with technical matters. In comparison to what was indicated by AC1 (above), there was agreement between the two lines of reasoning.

Furthermore, the respondents submitted reasons that surrounded the fact that the audit partner assumes the risk in the audit. In a statutory audit, the audit partner that signs an audit report can be held legally liable for errors and negligence, even if these were not on the part of the audit partner or even the audit team (IRBA, 2005). As the individual that is assuming the risk in an audit engagement, the audit partner is professed to be internally motivated to look more carefully at the risks that a new client may pose. This may be done through the audit acceptance procedures that the audit partner undertakes, or the risk assessment procedures that are performed after acceptance of an audit client. As pointed out by many participants, the problem with these procedures and measures is the standardisation of these procedures across audit firms. Each audit firm operates under a unique, firm-specific audit methodology, which may mean that even though all firms are required to comply with the International Standards for Auditing (ISAs), the procedures performed by two given firms may be very different. Thus, hypothetically, two partners from different audit firms may accept identical clients but these partners may allocate these clients different risk ratings based on the risk assessment procedures and preliminary engagement activities employed, and these procedures are dictated by the firm’s audit methodology. Consequently, even though these three participants indicated that the audit partner is important because of the audit partner's assumption of risk, they stressed that the audit partner may be disadvantaged due to the difference in the risk rating of an audit client. When the audit partner is unable to or limited in accurately assessing the audit client inherent in a given audit client, this can make the process of an audit firm rotation extremely difficult and very risky for the new audit partner

The last two participants of the nine that answered in the affirmative actually stated that the audit manager was equally if not more powerful than the audit partner. Both participants agreed that the audit manager is influential because managers tend to deal with the majority of the queries raised by the audit team and the audit client. In addition, the audit manager actually filters the queries and challenges before these are mentioned to the audit partner. In this role of acting like a filter for the audit partner, it is suggested that the audit manager can even create a perception of the audit and the audit client in the mind of the audit partner. The audit partner views information from the audit manager as more reliable than information that is coming from either the audit team members or especially the audit client. Consequently, the partner is more inclined to act based on the information received from the audit manager. This situation is amplified with a new audit client, as the audit partner would have a very weak relationship with and a limited understanding of the audit client.

All nine participants indicated that the audit management group (audit manager and audit partner) is a key role-player in an audit rotation because they are involved in audit decision-making. As explained above, the audit manager is viewed as the filter to the audit partner and the audit partner being the risk-taker is responsible for the final decision. The decisions that are envisaged are not only at the auditor's approach to auditing the new client but also at the conclusion and evaluation stages of the audit.

It was interesting to note that the majority of audit clients that participated felt that there was a problem with auditor independence in mind, yet the majority of the auditors that participated felt there was no problem

4.3.4. The state of auditor independence in South Africa

When the topic of new or incumbent auditors was raised with the participants, all seemed to merge this topic with the state of auditor independence in South Africa. As indicated, this could have resulted because of the recent media reports surrounding the time of the interviews. Conversely, this indicates that the rotation of an audit firm is linked in the minds of the sample population with the topic of auditor independence.

All participants (10/10) agreed that "auditor independence in the eyes of the public" (independence in appearance) had been lost. The reasons submitted were that the recent media reports had painted the auditing profession in a very bad light. The unanimous nature of this response reveals a firm conclusion that the auditor's integrity in the eyes of the public seems to be lost. The research has chosen to refrain from commenting on the media reports around the issues of auditor independence, because these matters are still currently under investigation and it would be premature to comment on such a topic.

In contrast to those responses, when participants were asked about the auditor's independence of mind there was a fractured response, which was particularly interesting. All audit clients (AC1, AC2 and AC3), together with one auditor (A5), indicated that they believe that the auditing profession has lost its independence of mind. The majority of this group (A5, AC2 and AC3) indicated that the lack of auditor independence stems from the fact that the audit client is paying that auditor an audit fee. The auditor is expected to be independent and act objectively in relation to the audit client yet there is clearly a conflict of interests present within the auditor. This is because if the audit firm does not keep the audit client happy it may lose the revenue associated with that client. These participants however offered no solution to this perceived conflict of interest when enquired. This problem does seem to be entrenched in the auditor-audit client relationship and the agency problem. The other participant that indicated that the auditor is dependent of mind (AC1) could not specify the exact reason for this perception. It was interesting to note that on the topic of independence of mind all the audit clients (and one auditor) felt the same way, with the majority of the auditors feeling the exact opposite way.

This understanding is critical with the implementation of MAFR situations like the rotation of an audit firm because of dissatisfaction that could be more commonplace. Currently, the investing community would view a sudden change of audit firm with some suspicion; once the regulation is implemented, such rotation may be viewed as slightly less concerning.

Factors that affect auditor independence are listed in Figure 4.1 below.

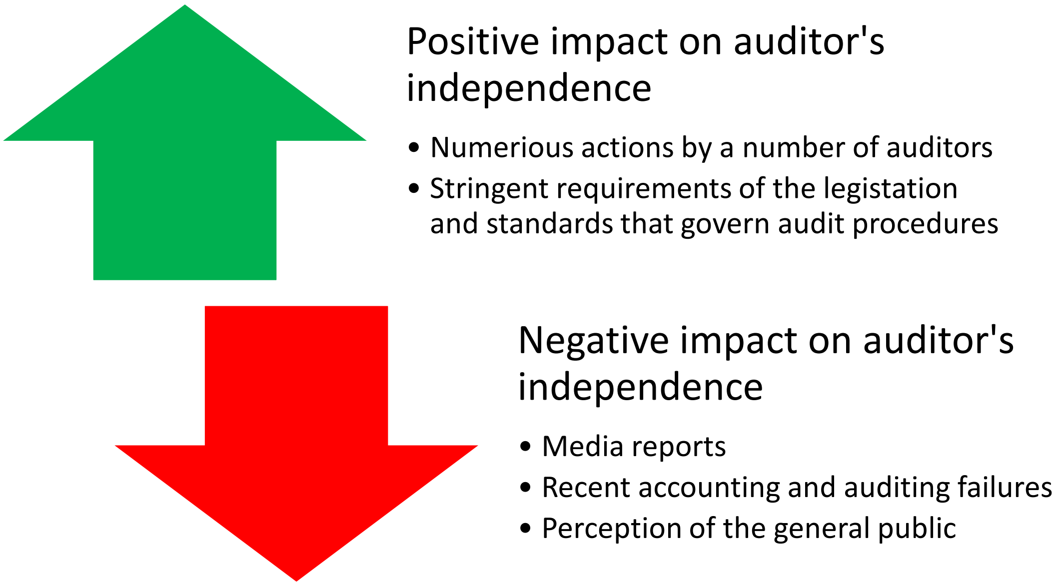


Figure 4.1 Impact factors on auditor independence
(researcher composed)

The other six auditors conceded that in South Africa the auditor may have lost the independence in appearance, but they denied (some vehemently so) that the auditing profession has lost its independence of mind. These auditors contested that independence in appearance can be lost by the actions of a few “bad apples”. On the other hand, they submitted that countless individual auditors are acting objectively and with integrity and that these “good” actions provide evidence for the auditor’s independence of mind. Four of these six auditors mentioned the robustness of the audit procedures that meet the requirements of the audit firms’ methodology, legislation and the ISAs. They indicated that if these were to be performed correctly, the objective of independence would be achieved. A4 astutely recognised that these audit procedures and requirements required a person of integrity and only then would they work as intended. A7 summed the comments of this group up well when he said that the IRBA has not demonstrated the lack of auditor independence sufficiently and therefore doubt on this matter will continue, especially in auditors that are exercising caution in their work.

4.3.5. Mandatory audit partner rotation as a driver for auditor independence

Currently, in South Africa, mandatory audit partner rotation is enforced to maintain and increase auditor independence. This regulation, which is found in section 90 of the Companies Act of 2008 (RSA, 2008), requires that the audit partner of an audit engagement is rotated every five years with a three-year cooling off period, before that partner can be reappointed. With this regulation, the audit firm maintains the relationship with the audit client, but it results in the partner that is responsible for the audit being changed.

When participants were asked if they thought that this regulation achieves auditor independence, 20% of them said they did not feel that this regulation works in the South African context. They went so far as to indicate that there needs to be a change in the current legislation. Their reasoning is that audit partners tend to share information and experience with other audit partners within the same audit firm and that this knowledge sharing process is a formal process that generally takes place when one partner hands over to another partner. This informal knowledge sharing may lead to the new partner being influenced (advertently or inadvertently) by the old partner's ideas about the audit client. This is especially the case when a junior partner is replacing a senior partner or even the managing partner. Furthermore, the relationship between partners of the same audit firm is generally the same as business partners as these people are in business together. A given partner would have a monetary incentive as well as an incentive to protect his business partner and friend. Therefore, a new audit partner may not disclose discovered shortcomings of their fellow previous partner immediately after a partner rotation. The course of action for an audit partner in this case may very well be to correct the error in the current period.

The participants that asserted that mandatory partner rotation increased auditor independence were divided on the extent to which it is effective. The only two in this sub-group were audit clients who suggested that the impact of partner rotation although positive is small or even negligible. The reasons for this were very similar to the reasoning of those that disagreed with the positive impact (mentioned above). The other six in this group were all auditors (a part from A3 who was in the group that denied an impact) who agreed that the impact of audit partner rotation is material. A1 mentioned that audit partners actually hold each other accountable; they do not want their audit firm to be in the spotlight for irregular action as that action may result in their business suffering great financial loss. This participant indicated that if a new audit partner discovered the errors of a previous audit partner, the new audit partner would request clarity on the matter, effectively holding the previous audit partner to account.

The most prominent response when arguing for the merits of mandatory partner rotation was that a new audit partner on an audit brings a fresh perspective to the audit. A2 said it best as, “ethics is determined by multiple people looking at that thing”. This is achieved with partner rotation with a new “pair of eyes” and it is possible that questions that were overlooked or judgements that were just assumed would be unearthed. A5 even mentioned that having a new audit partner is like having a new audit engagement altogether. The change of the audit partner limits the possibility of a long-term relationship with an audit client, which is one of the things the IRBA noted in its Consultation Paper on MAFR (this was discussed in Chapter 2) (IRBA, 2016b). All the auditors that agreed with mandatory audit partner rotation improving auditor independence also admitted that these benefits are contingent on the individual risk preferences and personalities of the audit partners. Each audit partner just like each human has risk preferences; similarly, the audit partners that are risk averse would scrutinise an inherited audit engagement, which would not necessarily be the case if the new audit partner is not as risk averse as the previous one. Audit quality control partners as envisaged in the ISA also play a pivotal role in an audit and even a change in this partner can have a large impact on the audit. Another important consideration is that IFAC actually prescribes audit partner rotation instead of audit firm rotation in their public response to the IRBA’s call for comments on MAFR in 2016 (IFAC, 2017). The IFAC demonstrates that mandatory audit partner rotation is internationally accepted as a method to increase auditor independence.

4.4. Previous auditor’s role in MAFR

The majority of professionals (8) interviewed agreed that the previous auditor’s role in a rotation is important. Two audit clients and six auditors were among the interviewees that felt this way. This finding was interesting because the previous auditors' role in the new audit is expected to diminish given that they are rotating off the audit client. The previous auditor's impact on an audit firm rotation, however, can be limited as the new and most influential role-players to the success of a rotation seem to be the new audit firm (see Section 4.2 above) and audit client (see Section 4.4 below for discussion of audit client's role). The one negative consequence that the previous auditor can help to limit is the loss of institution intelligence. Participants identified the loss of institutional intelligence as a determinant of the success of the MAFR regulation (see Table 4.5 below).

Table 4.4 Effect of the previous audit on an audit firm rotation

Reasons for influence on audit firm rotations	A1	A2	A3	A4	A5	A6	A7	AC1	AC2	AC3
Determining the new audit firm	✔			✔	✔					
Able to reduce loss of institutional intelligence	✔	✔		✔	✔	✔	✔	✔	✔	
Time spent onboarding the new auditor								✔	✔	
Previous audit firm is not influential to an audit firm rotation			✔							✔

(researcher composed)

The influence of the previous audit firm in the small to medium tier audit market seems to be amplified. The perception of participants that operate in the small to medium sector of the audit services sector is that they believe that there is a higher level of competition, which causes the market to react very differently to the Big Four sector. In the small audit sectors, for example, the previous auditor is, as a matter of course, requested to provide the audit client with a list of possible (alternative) audit firms that would take over the audit. In this way, the previous auditor can recommend an incumbent (new) audit firm that will cooperate with them and thus share or swap clients between themselves. The participants indicated that this sort of collaborating between audit firms is very common.

Those who advocated for the importance of the previous audit firm all focused their reasoning around the importance of client knowledge sharing between the previous auditor and the incumbent auditor, particularly during the incumbent auditor's planning of the audit. It is clear that there has to be knowledge shared between the incumbent auditors and the previous auditor. The underlying reason for this emphasis is the time it takes to on-board a new client (or new auditor). As indicated in Chapter 2, in countries where MAFR has been implemented, there is significant money and time spent to on-board the new audit clients (or audit firms if looked at from the audit clients' perspective). Both the audit client's management and the new audit firm are required to invest money and time during this on-boarding process. In this case, the previous auditors would have gathered an understanding of the audit client and the audit risks presented in the audit during their tenure. Therefore, to limit the cost of a rotation, the previous auditor should be used to assist with the onboarding. This is somewhat the case currently, the previous auditor generally meets the incumbent auditor, and limited access to the prior year audit file can sometimes be granted to the incumbent auditor.

The audit client's main concern with regard to the previous auditor and incumbent auditor relationship is the time invested in the previous auditor and the fact that this should not be lost. The audit client's expectation is that the previous auditor will communicate effectively with the incumbent auditor and there will be a thorough exchange of knowledge, and that this would require less investment time into the incumbent. The audit client participants admit that this rarely seems to be the case and often the audit client is required to reproduce documents and answer questions that were asked by the previous auditor. This can contribute to the stress and frustration of the audit client.

The two participants that disagreed with the importance of the previous auditor's role indicated that the previous auditor still has a limited role to play in a rotation. However, they said the previous auditor is not critical to the success of an audit rotation, although the previous auditor would need to be used during the pre-engagement and risk assessment procedures. They (the previous audit firm) are valuable purely because of their superior knowledge of the client. Audit planning, risk assessment, and pre-engagement activities are important and take place at the beginning of every audit but these processes are iterative. These participants thus argued that the nature of the planning process means that the previous auditor's involvement is generally limited to the beginning of an audit, and yet even then the planning may later change, resulting in a decrease in the impact of the previous auditor.

In addition, a situation could arise in which an incumbent auditor discovers an error of judgement on the previous auditor's part, in the prior years' financial statements. Therefore, in order to maintain independence gained from the audit firm rotation, the involvement of the previous audit firm needs to be limited in the current audit.

4.4.1. The relationship between the incumbent and previous audit firms

A very interesting finding was that in the interview schedule (Appendix B) there was no specific question enquiring about the state of the relationship between the previous auditor and the incumbent auditor. Yet, even though their thoughts were not sought, six participants commented on this matter of their own will. The other four were allowed to comment freely at first, and then given the semi-structured nature of the interview, the interviewer requested their comments on the state of the previous audit and incumbent auditor relationship. The fact that six participants were not prompted, but felt it was important enough to raise, indicates the significance of this matter in the minds of experts interviewed.

The unanimous (10/10) response to the relationship between the incumbent auditor and the previous auditor was that the relationship is poor or lacking and the information transfer that is supposed to happen is inadequate. All audit firms have developed their own audit methodology, which guides the audit firm employees on how to conduct an audit, and it is the most valuable intellectual property of the audit firm. An audit methodology secures an audit firm's existence and survival. Thus, there are a number of internal firm specific rules that regulate the exchange of information in the previous auditor and incumbent auditor relationship. These rules are in place to ensure that a competing audit firm that happened to be an incumbent audit firm on a previous audit client is unable to decipher the audit methodology.

The ISA specifies that the incumbent auditor should seek the advice of the previous auditor before taking on a new audit client. This meeting is contingent on whether or not the audit client will allow the incumbent auditor to meet the previous auditor, with the previous audit getting to decide what will be disclosed and how this information will be disclosed. Although this is a standard practice, the information that is transferred seems not to meet the needs of all the stakeholders. Participants generally agreed that this relationship and information transfer seems to be more effective when both the previous and incumbent auditors are members of the Big Four firms. The reason that was submitted for this was that the employees of the Big Four have an understanding that the other audit firm will cooperate should help be required in the future.

The fact that audit firms seem to guard their audit methodology so tightly seems odd, given that all audit firms in the development of their audit methodology are applying the same set of standards for the performance of an audit, with the standards being those of the ISA. Surprisingly, participants indicated they believe that the difference in audit methodologies can prove to be so different that even if the previous auditor had gathered audit evidence on a specific balance, there is a possibility that the collected audit evidence (that was collected using the previous auditors' methodology) may not be sufficient or appropriate to satisfy the incumbent auditor's methodology. There is an additional concern surrounding this dysfunctional relationship, as A5 articulated; "Why would an [incumbent] auditor need to do so much work on the opening balances when the previous auditor already audited them? …Why can an [incumbent] auditor not just rely on the work of the previous auditor?" All of the auditor interviewees demonstrated in their responses that there was a lack of trust between audit firms. This may reveal that auditors are not confident about the objectivity, independence, or competence of their fellow auditor, just because of a difference of methodology.

4.5. The audit client's role in MAFR

All the participants in this study downplayed the importance, skill, efficiency and/or education of junior and middle management at the audit client in determining the success of an audit firm rotation. It would seem plausible that competence and skill of these staff members would affect the efficiency and quality of an audit, although the study participants indicated that the impact of such individuals is negligible in comparison to the impact of top management on an audit firm rotation. This is unusual as these junior and middle management staff members at the audit client are generally the individuals that will interact with the auditor on a daily basis. The reason for the lack of importance of this group is their apparent lack of decision-making power at the audit client. In addition, the auditor participants feel that they will still be able to extract the appropriate information irrespective of the type of junior and middle management. One area that was not explored by the participants was the impact that such staff can have on the decisions of the top management. Table 4.6 sets out this finding as well as the other findings discussed in this section.

Table 4.5 Factors affecting the role of the audit client

Factor determining effect of an audit firm rotation	Agree (%)	Disagree (%)
Experience and qualifications of the junior and middle management	0%	100%
Effectiveness of the audit committee at the audit client	80%	20%
Made up of: *Involvement of the audit committee in onboarding a new audit firm.*	*40%*	*n/a*
Stress and frustration of the audit client.	70%	30%
Time and involvement of top management at the audit client	100%	0%

(researcher composed)

4.5.1. Audit committee of the audit client

Eight participants mentioned that the role of the audit committee in an audit rotation is critical to its success. The audit committee represents the shareholders' interests in a very special way. The audit committee is tasked in the King IV report to oversee the auditor's independence and to inspect and review the quality of the audit (IoDSA, 2016). It was submitted that in the past the audit committees have sometimes been more focused on the reputation or brand name of an audit. When MAFR is implemented, there is hope that this will change and that audit committees will start to look more closely at the work that is being done by the auditor. The role of the audit committee as pictured by the participants is one that is dynamic and almost that of an intermediary between the audit client and auditor. Four of these participants indicated that currently most audit committees are not as involved in the on-boarding process of a new audit firm. The participants stated that the audit committee has traditionally taken a very "high level" approach to the on-boarding of a new audit firm. These participants felt that the audit client's audit committee should assist the new audit firm to achieve the effectiveness of the audit firm rotation. This envisaged role needs to be embarked on thoughtfully, given that objectivity of the auditor needs to be maintained even from the audit committee. It was stated in Chapter 2 that this MAFR regulation would be assumed to decrease the autonomy and use of the audit committee. Furthermore, it is clear that the participants still see an important role for the audit committee.

4.5.2. The audit client's stress and frustration during an audit rotation

The relationship between an auditor and an audit client can be a strenuous one. The auditor generally visits the audit client to perform the audit at the year-end, which is the busiest time for the finance staff of the audit client. The auditor would question numerous judgements, estimates and amounts (rightfully so) that may have their origin in the prior months or years in order to arrive at an opinion. Any of this could result in a tenuous relationship. Participants were not specifically requested to comment on the changes to this audit client/auditor relationship, yet 70% of all participants commented on it. All the audit clients that were interviewed as well as 57% of the auditors mentioned this aspect (i.e. there were 4 auditor participants and 3 audit clients – to make up the seven).

The audit clients indicated that their frustration emanates from the fact that even when there is a new audit firm to on-board, the workload of the audit client's staff does not decrease. There is no relief to accommodate the extra work that a new audit firm would pose to the audit client staff. Consequently, the additional work and time investments that are needed to on-board a new audit firm is in addition to the normal workloads and deadlines that are commonplace at the year-end. This additional work can even be said to decrease the quality of life for staff at the audit client because there is little rest from their work. The stress that can be felt by the audit clients can lead to the audit client missing other work deadlines and to general discontent at work.

Secondly, from the perspective of the audit client, there will be requests from the new auditors that could seem to be a proliferation of audit documentation. The previous auditor during the prior audit would have enquired audit evidence about processes and transactions that appeared to be risky in an audit sense. If the new auditor were to assess the risks around these processes and transactions in the same way, then the new auditor would request the same information that the previous auditor would have already requested. This second request by the new auditor, for the same information, can be very frustrating to the audit client. This is because generally, if the information requested does not relate specifically to the current year, the audit client would have some difficulty obtaining the records from the archives, and this would add an additional task to the audit client staff's workload.

As mentioned above, all audit firms have a unique audit methodology that can be very different from each other. If the staff of the audit client has grown accustomed to providing audit documentation in a specific way or format to the previous auditors that matches or suits the previous auditor's methodology, the change of audit methodology can frustrate the client. Many entities would orientate their finance department and processes in a way that enables staff to extract the information that would meet the needs of their auditor. In South Africa, given the lack of audit firm rotation before the implementation of this regulation (please see Chapter 2 for a discussion of this), this kind of legacy would be the present. The audit client will be requested by the new audit firm to provide information in different ways to those they are used to and this would require the audit client to possibly change their processes.

4.5.3. Time and involvement of top management at the audit client

As mentioned above, the participants in the study did not feel that the junior or middle management even in the finance department had an effect on the success of a rotation. The participants did specify that the role and responsibilities of the top management at the audit client had a very different outcome.

Participants indicated that currently the role of the top management is not as critical to the outcome of an audit. In many cases, top management only gets involved in a few matters. This would need to change if audit firm rotations are to be more effective. The top management needs to be more involved and available to address the questions and queries of the new auditors. The time of top management is very valuable and hard to come by, yet in cases when top management at the audit client has been invested in the audit firm rotation process all participants reported vastly improved results.

Out of the ten participants surveyed, all indicated that the presence of top management in the audit process is beneficial. Six participants indicated that the impact of top management on an audit is significant; however, the other four participants suggested that the participation of top management in an audit firm rotation is more than significant. The involvement of top management into the audit was suggested by A4 to actually reduce the *alma mater* threat mentioned in Chapter 2 (Section 2.2.1). This is achieved in the follow way – once the top management is involved with the audit they will build trust and a relationship of understanding that they have been used to getting from their *alma mater* firm. This is interesting because as seen in Section 2.2.1, the *alma mater* threat to independence can actually prevent an audit firm from being appointed let alone be involved in the audit.

At the audit client, top management would have the most experience working in new and difficult situations; as a result, these people would be the best personnel to include in the audit rotation proceedings. Their expertise, knowledge of the business and problem-solving ability would reduce the onboarding times materially.

4.6. Key factors that are affecting the success of audit firm rotation in South Africa

Table 4.7 below indicates the percentage of auditors and audit clients that mentioned key factors. In this table, the sample is segregated into their position and occupation.

Table 4.7 Other key factors affecting audit firm rotations

Other key factors to audit firm rotations	Percentage of auditor participants that raise this factor (out of seven)	Percentage of audit client participants that raise this factor (out of three)
Timing of the audit (all three perspectives)	100%	0%
Audit firm size in relation to audit client size	14%	100%
Maintenance and transfer of institutional intelligence	71%	100%

(researcher composed)

4.6.1. The timing of the audit rotations

Four participants mentioned that the timing of the audit is very important to the smoothness of a rotation, and an additional three participants mentioned that the timing of the proposed audit tenure is important (total of seven). Only auditors, the majority of the participants, mentioned that this is important; however, that does not generally represent the entire population. The auditors looked at timing of rotations from three perspectives.

The first perspective was the timing of appointing the auditor in relation to the year-end of the audit client. There is a school of thought that if an audit client's management wants to manipulate the outcome of an audit, the audit client will wait until the last possible moment before they announce that they would want to change an auditor. This can create a situation in which the new audit firm is appointed later in the financial year of the audit client. The new audit firm would be unable to complete the audit to the highest standards possible because they would be under pressure to complete the audit within the specified deadlines. These participants added a proviso that the practice described above is most common among clients that are not public interest entities (i.e. entities that are not subject to the MAFR regulation currently). This practice is feared to become more prevalent with the introduction of MAFR. The argument is that if audit firm rotations are painted in a favourable light then this may pose a loophole that governing bodies can attempt to exploit. The time between an audit firm's first appointment and the year-end is critical; the length of this period will determine whether the audit firm would be able to perform an interim audit or early verification procedures, which could reduce the burden at the year-end audit. Early verification procedures comprise audit work that is performed immediately before the year-end, in which the auditor would perform an audit for the first eleven months for example, so that after year-end there is just one month more to audit. The one positive is that the appointment of the auditor is not entirely out of the control of the audit firm. This is because the audit firm can decline to be appointed late. The ticking matter though is when competition is tough and margins are low, it may be difficult for an audit firm to decline new business.

Secondly, each audit firm has yearly cycles, for example, the busiest periods for a hypothetical audit firm may be the months of June and December to February. If a new audit client were to have a year-end that falls within that time the audit firm may struggle to accumulate resources, most importantly staff for the audit. If an audit client were to be accepted and then require the audit work to be performed during a busy time, the audit firm may have to involve other audit firms or hire additional staff and these costs would impact the audit fees.

Finally, the audit participants questioned the ten-year period that has been gazetted in parliament (The IRBA, 2016a). There was suspicion around where this time was short enough to maintain independence, and yet long enough to limit the negative impacts of MAFR. As the purpose of this study was not to focus on the negative impacts around MAFR, this matter is not discussed further.

4.6.2. Audit firm size in relation to audit client

The theme of the audit firm's size was one that seemed to come up regularly when the participants were required to discuss other factors affecting the smoothness of a new audit firm. This theme seemed to manifest in two smaller themes or sub-themes, namely capacity of the audit firm and audit fee pressure.

As the expert participants were conceptualising the idea of the MAFR regulation, many questioned the ability of the audit firms in the small to medium market in dealing with the amount of audit rotations. It should be noted that the current regulation does not envisage that all companies are to mandatorily rotate audit firms, but the likely scenario is that this legislation may be expended to all companies. This scenario was presented to the participants. Participants indicated that as the smaller firms move to a larger market the ability of the audit firm to satisfy the audit client becomes imperative. Audit client participants indicated that smaller audit firms would not have the geographical footprint to handle the larger clients. In addition, the smaller firms are not considered able to handle the large technical matters that may arise in an audit of a JSE listed entity. On the other hand, the Big Four firms have vast resources in the areas of accounting and auditing technical advice and these resources are perceived to improve the quality of an audit. Most disturbing is that the participants indicated that the smaller audit firms seem more likely to be overpowered by an anchor audit client, which can result in the audit firm compromising on audit quality or independence. The participants suggested that the Big Four firms should only be allowed to be appointed to audit the larger audit clients, medium audit firms should only audit medium-sized audit clients, and the same should apply to the small firms and small audit clients. This reasoning is not what is envisaged by the IRBA (IRBA, 2016b). The IRBA clearly indicated that they believe that MAFR will increase competition in the audit services sector. However, participants suggested that the MAFR solution would ring-fence audit firms to audit clients. They added that this is beneficial as it limits the dangers of a mismatch between the audit firm size and the audit client.

Furthermore, participants expressed that the success of audit rotations would improve if a decrease in the staff turnover at the audit firms were observed. The participants suggested that with the current high turnover in the audit firms, a more independent relationship is being created between the auditors and management.

4.6.3. Maintenance and transfer of institutional intelligence

Participants argued that the biggest setback of the implementation of MAFR was the loss of institutional intelligence by the audit firm. The audit firm of a specific audit client is expected to create, maintain, and improve their understanding of the audit client and its environment. When audit firms rotate, very little institutional intelligence is transferred to the new audit firm. This loss is what contributes to the majority of the costs of on-boarding new audit firms. The majority of the practitioners (8/10) indicated that learning how to manage the loss of the institutional intelligence is the best determinant to the success of the MAFR regulation.

Participants indicated that this institutional intelligence is multi-layered. A1 explained that the institutional intelligence is not only limited to one client. It can relate to the industry knowledge of an entire audit firm. Some audit firms may have the majority of the companies in a given industry, which places them in a good position for understanding the industry. Furthermore, with MAFR this type of specification would be hard to attain (as explained in Chapter 2).

A3 indicated that the loss of institutional intelligence also includes the loss of a working relationship between the audit firm and the audit client. This is a contentious matter as the relationship between the audit firm and the audit client can evolve into something that can jeopardise the auditor's independence. Therefore, there is an extremely fine balance between the right working relationship and a detrimental working relationship.

4.6.4. Market concentration in the audit services market

All the participants indicated, in line with the IRBA, that there is a problem with the audit market concentration, particularly in the large listed client or Big Four segment of the market. The participants expressed the need for change in this sector. For them this change would mark a success in terms of the MAFR regulation. The majority of participants (7/10), however, indicated that they could not identify exactly how this change would be brought about. These seven indicated they suspect that in the large listed audit client sector or the Big Four sector, clients may just rotate between the Big Four audit firms. They indicated it would be very unlikely for a large listed client to leave the top six audit firms. This is purely because of the ability and capacity that these firms have. A4 even went so far as to indicate that this concentration is advantageous, because this ensures that none of the smaller audit firms are overburdened (thus avoiding mismatch of size – see Section 4.5.2), and it ensures that these audit clients receive the busy service.

With regard to the MAFR regulation on the concentration of the medium and small audit services sector, nine participants replied that it would have a negative effect on concentration. Interestingly, all the participants that operated in this sector believed that there was sufficient competition in this sector and there was no problem to be fixed. The participants indicated that the proposed current regulation only applies to listed audit clients and therefore the auditors in these sectors (medium and small sectors) are unlikely to attract new listed audit clients as a result of MAFR. These participants did indicate that with the increased rotation, it is more likely for the Big Four audit firms to want to seek a more secure client base. These clients would be the clients that are serviced by the medium and small audit services sectors. This would increase the competition in a sector where the competition is already high. A2 believed that the MAFR regulation will result in the Big Four becoming stronger and the smaller firms will suffer.

4.7. Conclusion

The results of the study were presented in this chapter, with care taken to present the results in a way that makes it easy to link them back to the research objectives of this study. The roles of the audit firm or auditor, the audit client, the previous auditor and the key factors determining success of MAFR were analysed. In the next and final chapter, the recommendations of the study are explored and concluding remarks are made.

CHAPTER 5
CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

In Chapter 4, the results of the in-depth interviews with accounting practitioners were presented and analysed. The research data were also used to expand the current understanding of the roles of the players in an audit firm rotation and factors that affect that process.

In this chapter, the research results are summarised and conclusions provided on each objective of the study. Further, proposed recommendations are provided. These recommendations are a mixture of transformations proposed by the participants and required changes deducted through the data analysis process. Ensuring that the MAFR regulation is a sustainable and workable solution is critical as the regulation will be implemented regardless of whether individual practitioners take time to investigate the required changes. Most importantly though is that if changes are not made, the survival of auditing as a viable business may be threatened due to the already heavy pressure on the audit services market.

5.2. Conclusions from the study

The study found, that members in the accounting practice generally do not support the MAFR regulation, with many indicating that there is little or no evidence of a link between MAFR and remedying the market concentration in the audit services market. The verdict on the link between improving auditor independence and the proposed MAFR regulation was perceived by participants as being a lot stronger.

5.2.1. Role of the incumbent (new) audit firm in audit firm rotation

The roles of the individual role-players that may make up the audit team of the incumbent audit were analysed individually. The internal audit function was analysed as part of this team as the internal audit function does provide some audit evidence and work for the incumbent auditor. There was a mixed reception to the importance of the internal audit function in an audit firm rotation. Few audit clients have a strong and effective audit function. For the one that do have such a function, including internal auditors in the onboarding of new audit firms is vital. The superior audit client knowledge of the internal audit function would assist to new audit firm to come “up to speed at the audit client much faster.”

The audit trainees may not have decision-making power at the audit firm; often trainees absorb time and resources because of their inexperience. However, the audit trainees interact with the audit client on a daily basis. The audit trainees create and maintain the perception of the audit client about the new audit firm. In this sense they are very important, because they determine the efficiency and effectiveness with which the audit can be conducted.

The power and influence dynamics between the audit partner and the audit manager proved very interesting. Some participants suggested that because the audit partner is the highest decision maker on an audit team, it follows that they are the most influential. Others indicated that the audit manager is most powerful, given their roles as a filter for the audit partner. Regardless of which group is more influential, an almost unanimous finding was that these people’s skills are critical to the smoothness of an audit firm rotation.

The independence of the incumbent auditor and the current legislation of mandatory audit partner rotation were explored. Participants felt that the independence in appearance had been totally lost. There were mixed perceptions about the independence in mind. It was interesting to note that the majority of audit clients felt that there was a problem with auditor independence in mind, yet the majority of the auditors that participated felt there was no problem. The current regime of mandatory audit partner rotation was found to aid the situation although its impact was felt to be limited.

5.2.2. Role of the previous audit firm in an audit firm rotation

The majority of the participants agreed that the audit firm rotation requires the cooperation of the previous audit firm and the new audit firm. This ensures that there is little of no loss of institutional intelligence. Most importantly, if this relationship between the new audit firm and the previous audit firm is functional, then there are material cost savings that can be made. It was noted that the importance of the previous audit firm is highlighted in the small and medium tier audit firms, and the type of audit client that this market attracts relies heavy on the previous audit firm to assist with the selection of the new auditor (please see Section 2.3).

5.2.3. Role of the audit client in the audit firm rotation

Interestingly, it was found that the audit client members that interact the most with the audit team, namely junior and medium management, were actually not important to the participants. The participants actually felt that these individuals were superfluous to the audit firm rotation process. Participants went on to indicate that the qualification level of such individuals is irrelevant to the audit firm rotation.

An important finding of this objective was the work and time that are expected from the staff at the audit client. The staff members lamented the hours and patience that it takes to on-board a new audit firm. The staff complained that on-boarding a new audit firm during the financial year-end is very stressful and thus it negatively affects the quality of work performed by both the audit client and the audit firm. Finding ways to limit or eliminate this stress is key to making this regulation a success.

Another factor discussed by participants was the involvement of the top management of the audit client in the audit firm onboarding process. The participants found that in the past these top management members would leave the onboarding to other members of staff that were ranked lower in the audit client organisation hierarchy. This was said to be inefficient.

5.2.4. Other key factors affecting audit firm rotations

The timing of the audit proved to be very important for the audit participants. The most important aspect of the timing of the audit was that when the audit firm is appointed this could be viewed as a ploy by the audit client management to affect the quality of the audit.

The participants next turned their attention to loss of institutional intelligence. It was indicated that if this problem could be resolved then the regulation stood a better chance of being beneficial and with minimum costs.

5.3. Recommendations for a good audit firm rotation

The findings of the studies indicate multiple areas that the participants identified in which positive changes are being made towards having efficient and effective audit firm rotations in the future. Some key changes need to be made in order to improve the process so that when the date of implementation arrives the auditors as well as the audit clients would be ready.

5.3.1. Specific training to prepare role-players for MAFR

Audit trainees on the audit firm side and the junior and middle management on the audit client side would be the ones that are required to do all of the fieldwork following an audit firm rotation. As such, these individuals need to be upskilled with problem-solving skills and decision-making skills. This will ensure that less reliance is placed on the audit management and top management at the audit client. Furthermore, given that these are the people that are in the majority in this process (in terms of actual number of staff) and that, they are dealing with the challenges on a daily basis; it would improve the onboarding process if they have the requisite skills.

5.3.2. Establishment of standards for knowledge sharing between the previous audit firm and the new audit firm

The theme that came up the most regularly in the study was the loss of institutional intelligence when there is an audit firm rotation. The other theme that often appeared was the apparent lack of meaningful communication between the previous and new audit firm. The regulator needs to establish standards for the minimum information that must be shared from the previous audit firm with the new audit firm. These requirements need to be robust enough to ensure that there is sufficient information transferred so as to limit the loss of institutional intelligence. Finally, if the relationship and what must be shared is in a sense legalised it will ensure that the same quantity and quality of audit information is shared.

5.3.3. Increase the on-boarding time

The on-boarding of a new audit firm was criticised continuously by participants. The costs and time involved were found by participants to be distasteful. In order to limit the anguish during this time, it should be extended to two to three years. As an audit client is nearing time for a rotation, the client should contract for a joint audit between its current audit firm (soon to be previous) and the proposed audit firm that is earmarked to take over the audit engagement. This will allow the new audit firm to ensure that it covers all the audit risks and has access to the audit evidence of all material transactions and judgements.

5.4. Limitation of this study

5.4.1. Sample dynamics

Although grounded theory research does not seek to achieve generalisability through using a representative sample, the sample size of ten is still small. This was partially mitigated through ensuring the rigorousness of the data collection and analysis. The study analysed the data first. A second research expert reviewed the data analysis to ensure that the results clearly represented the sample.

Secondly, there was an unequal weighting between audit participants and audit client participants. The audit clients that participated were limited to JSE listed entities. This was mitigated by ensuring that the experience and skill of those that participated were of a high standard. Also, care was taken to ensure that the auditors were well represented in terms of the audit tiers.

5.4.2. Absence of literature in the South Africa context

There was very little research on MAFR from the South African perspective. The small number of studies that were available were utilised, with a description review that comprised mainly international research.

5.5. Areas for future research

The perspectives of the investors and shareholders would need to be assessed. Additional research can be conducted on the audit client perspective, making sure to survey a mixed group of individuals. Also ensuring that a larger sample size is utilised.

The actual economic effects of MAFR need to be analysed once the regulation has been implemented. This would approximate the costs that are associated with MAFR.

5.6. Conclusion

The research objectives that were set out in Chapter 2 were achieved. The study methodology was effectively applied regardless of the limitations that were noted. The aim of the study was to understand what strategies and tactics are being used to make current audit firm rotations work.

This research utilised a mixed sample of auditors and audit clients, which is unlike other research that has been conducted in South Africa. The contribution of this research is twofold. Firstly, it contributes to the existing literature in that it focuses on the actual roles of the key groups and key factors in the audit firm rotation process. Secondly, it has discovered the perceptions of audit clients. This study has yielded recommendations that are feasible and beneficial to implement in the audit services market when the implementation of MAFR begins.

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APPENDIX A: ETHICAL CLEARANCE

UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI

05 September 2018

Mr Yoshin Chetty (209507230)
School of Accounting, Economics & Finance
Westville Campus

Dear Mr Chetty,

Protocol reference number: HSS/0808/018M
Project title: Strategies for dealing with mandatory Audit Firm rotation proposed by audit and academic professionals in KwaZulu-Natal

Full Approval – Expedited Application

In response to your application received on 03 July 2018, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number. PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

....

Professor Shenuka Singh (Chair)

/ms

Cc Supervisor: Mr Jugjith Deodutt
Cc Academic Leader Research: Professor Josue Mbonigaba
Cc School Administrator: Ms Seshni Naidoo

Humanities & Social Sciences Research Ethics Committee
Professor Shenuka Singh (Chair)/Dr Shamila Naidoo (Deputy Chair)
Westville Campus, Govan Mbeki Building
Postal Address: Private Bag X54001, Durban 4000
Telephone: +27 (0) 31 260 3587/8350/4557 **Facsimile:** +27 (0) 31 260 4609 **Email:** ximbap@ukzn.ac.za / snymanm@ukzn.ac.za / mohunp@ukzn.ac.za
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APPENDIX B: INTERVIEW SCHEDULE

UNIVERSITY OF KWAZULU-NATAL
SCHOOL OF ACCOUNTING, ECONOMICS and FINANCE
Masters Thesis in Accounting
Researcher: Mr. Y. Chetty (033 260 5005)
Supervisor: Mr. J. Deodutt (031 260 7074)
Research Office: Ms. M. Snyman (031 260 8350)
Dear Respondent,
I, Yoshin Chetty a Master of Accounting student, at the School of Accounting, Economics and Finance at the University of Kwa-Zulu-Natal. You are invited to participate in a research project entitled STRATEGIES FOR DEALING WITH MANDATORY AUDIT FIRM ROTATION PROPOSED BY ACCOUNTING PROFESSIONALS.

The aim of this study is to establish factors relating to execution of an audit firm rotation that influences the successful rotation. Through your participation, I hope to understand the perceptions of what are the determinants of success of an audit rotation. The results of this study are intended to contribute to knowledge of how to make rotations move efficient and effective in light of coming audit rotation legislation.
Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey/focus group. Confidentiality and anonymity of records identifying you as a participant will be maintained by the School of Accounting, Economics and Finance at the University of Kwa-Zulu-Natal.
If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.
The survey should take you about 15 minutes to complete. I hope you will take the time to complete this survey.

Sincerely

Investigator's signature________________________________
Date_________________
This page is to be retained by participant

Please complete the section below:

I ………………………………………………………………. (full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.
I understand that I am at liberty to withdraw from the project at any time, should I so desire.

Additional Consent for Interview

I hereby provide consent for my interview to be audio-recorded YES / NO

Signature of Participant………………………………….………

Date…………………………………………………………..……..

<u>QUESTIONNAIRE ON THE STRATEGIES FOR DEALING WITH MANDATORY AUDIT FIRM ROTATION PROPOSED BY ACCOUNTING PROFESSIONALS</u>

The following questionnaire is designed to investigate the opinions of accountants in the Kwa Zulu-Natal province about what determines the success of an audit firm rotation or changeover. This is becoming more important given the new ruling by the IRBA that requires mandatory audit firm rotation from 1 April 2023. Your Response will be kept entirely confidential at all times. Please respond by placing an X in the block pertaining to the relevant answer.

Definitions used in the questionnaire.

Audit rotation is the changing of a company's audit firm to improve auditor independence in audit engagements, improve audit quality or to lower audit fees.

Audit rotation strategy or plan is a strategy or plan implemented by the audit firms, individual auditors or audit clients to make the swap between audit firms more effective. In addition, the terms new client audits plans and audit changeover plans are equivalent. The words strategy and plans are used interchangeability.

Incumbent audit firm is the audit firm that is taking on the new client. Audit clients my refer to this person as the "new auditors". The term "Incumbent auditor" is equivalent.
Previous audit firm is the audit firm that has lost the audit and no more performs the audit. The term "previous auditor" is equivalent.

SECTION A: PERSONAL DETAILS OF RESPONDENT (Indicate your response with a cross **X**)

1. What is your gender?

Male	Female	Other

2. What is your age group?

18-24	25-34	35-44	45-54	55-65	Older than 65

3. To which race do you belong?

African	Indian	Coloured	White	Other

4. How many years of experience do you have as an accounting professional (including articles and lecturing)?

0-2	3-5	6-10	11-20	More than 20

5. What is the highest tertiary qualification, that current you hold?

Degree/ Diploma	Postgraduate degree/diploma	Master's Degree	Doctoral Degree	Other

6. Which professional body are you affiliated to?

South African Institute of Chartered Accountants (SAICA)	Chartered Institute of Management Accountants (CIMA)	Association of Chartered Certified Accountants (ACCA)	Independent Regulatory Board for Auditors (IRBA)	South African Institute of Professional Accountants (SAIPA)	Institute Of Internal Auditors (IIA)	Other or none please specify:

7. What best describes your occupation?

Financial Manager/ Accountant	Auditor	Academic	Management accountant	Management consultant	Entrepreneur	Other please specify:

7.1. If you answered "auditor" in 7 above please answer: which of the following best describes the category of audit you are involved in:

Statutory annual financial statement audits	Information Technology audit	Performance audits	Internal audits	Environmental audits	Other please specify:

8. Indicate the number of audit firm rotations (audits in which one audit firm was replacing a previous audit firm) you have been involved in any way:

None	1-4	5-10	11-20	21-30	30+

9. In your opinion, what is the current state of auditor independence in South Africa, as you perceive it, and is there a need for IRBA to step in and strengthen auditor independence?
10. Can you provide your opinion on the current regulation of partner rotation.
11. What role does the following play in an audit rotation:
    11.1. Audit team
    11.2. Risk assessment
    11.3. Previous Auditors
    11.4. The Audit Client
12. What do you believe is the greatest determinant of a successful or "smooth" rotation? Please explain your choice.
13. Can you provide your opinion on the following alternatives?
    13.1. Mandatory Audit Tendering (MAT), as opposed to MAFR
    13.2. Joint Audits (Joint Audit Firms)

13.3. Do you foresee any direct and indirect consequences, including any unintended consequences, of IRBA moving towards MAFR?

14. Do you foresee any direct and indirect consequences, including any unintended consequences, of IRBA moving towards MAFR?
15. What strategies would you implement in order to deal with MAFR?
16. IRBA believes that MAFR will address market concentration of audit services and create a more competitive environment, which will positively influence audit quality. Do you agree?
17. IRBA believes that MAFR will assist in addressing the transformation of the auditing profession. Do you agree?

APPENDIX C: TURNITIN REPORT

STRATEGIES FOR DEALING WITH MANDATORY AUDIT FIRM ROTATION AS PROPOSED BY ACCOUNTING PROFESSIONALS

ORIGINALITY REPORT

6%	4%	2%	3%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to University of KwaZulu-Natal Student Paper	1%
2	www.saaa.org.za Internet Source	1%
3	open.uct.ac.za Internet Source	1%
4	www.irba.co.za Internet Source	<1%
5	Submitted to University of Witwatersrand Student Paper	<1%
6	virtusinterpress.com Internet Source	<1%
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APPENDIX D: PROOF OF EDITING CERTIFICATE

PROOF OF EDITING CERTIFICATE

TO WHOM IT MAY CONCERN

<u>Language editing</u>

I, Jeanne Enslin, acknowledge that I did the language editing of Yoshin Chetty's dissertation submitted in partial fulfilment of the requirements for the degree of Master of Accounting in Financial Accounting (MACC).

The title of the dissertation is:

STRATEGIES FOR DEALING WITH MANDATORY AUDIT FIRM ROTATION AS PROPOSED BY ACCOUNTING PROFESSIONALS IN KWAZULU-NATAL

If any significant text changes are made to the electronic document that I sent to Yoshin on 22 January 2109, I cannot be held responsible for any errors that are made. The quality of the final document, in terms of language and technical aspects, remains the student's responsibility.

Detailed feedback of all the language editing done has been provided to Yoshin in writing and is evident in the dissertation in track changes with comments.

Jeanne Enslin
Language editor
082-6961224.

<u>Technical editing</u>

I, Ronel Gallie, acknowledge that I did all aspects of the technical formatting, checking of reference list and cross-referencing of Yoshin Chetty's dissertation submitted in partial fulfilment of the requirements for the degree of Master of Accounting in Financial Accounting (MACC). Detailed feedback about the work done has been provided to Yoshin.

Ronèl Gallie
Technical editor
084 7780 292

J H Enslin BA (US); STD (US); Hons Translation Studies (UNISA)