



Role-Players Affecting Audit Firm Rotation in KwaZulu-Natal

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Abstract: This study aimed to provide insight into the key role-players in the rotation process from the perspective of accounting and auditing professionals. The study ultimately will provide guidance for auditors as they attempt to navigate the new mandatory audit firm rotation (MAFR) rule which is applicable to all Johannesburg Stock Exchange-listed companies from April 2023. The study builds on the knowledge of the interaction of auditors and firm managers. The study utilized a qualitative exploratory methodology in the form of in-depth interviews with selected industry players. The findings of the study reveal practices recommended by audit practitioners in order to deal with MAFR, such as improved training and more time being allowed to onboard clients. The participants further point out actions that can be performed by specific role-players. This study is unique in KwaZulu-Natal as it surveyed auditors and audit clients. The finding will change the way auditing professionals create their strategies to deal with MAFR. It also provides basis for understanding the dynamics of interpersonal relationships in an audit. The study 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. In addition, it has revealed the perceptions of audit clients

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1. Introduction

The Auditing Professions Act No 26 of 2005 mandates, the Independent Regulatory Board for Auditors (IRBA) to oversee the auditing profession for the public interest (Auditing Professions Act No 26 of 2005 section 3). As part of IRBA's mandate, it embarked on research in 2015, aimed to strengthen the independence of South African auditors (IRBA 2016a). On July 28, 2016, the IRBA announced the proposed implementation of mandatory audit firm rotation (MAFR). MAFR restricts the tenure of an audit; regulators internationally believe this would safeguard against threats to independence (Harber, Marx & De Jager, 2020).

The MAFR rule is not new. It has been implemented previously in developed and developing countries for a considerable length of time (Arrunada & Paz-Arez 1997). The regulator in Italy legislated MAFR for listed companies since 1974. The scope of that regulation in Italy has been

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expanding over the last 40 years. (Cameran, Prencipe & Trombetta 2016; Corbellaa, Florioa, Gotti, & Mastrolia 2015; South African Institute of Chartered Accountants 2017a). During the early 2000s, India implemented a four-year rotational regulation for banks; subsequently, all listed companies, provident trusts and state-owned companies were included into that provision (Cameran *et al.* 2016; Naresh Chandra Committee 2003).

During 1996 in Brazil, the government and the Brazilian auditing profession's regulatory body (Cadastro Nacional de Auditores Independentes) implemented MAFR for the banking sector. In 1999, the requirement was extended to all companies listed on the São Paulo Stock Exchange (the Bovespa stock exchange) and the Rio de Janeiro Stock Exchange (the Bolsa de Valores do Rio de Janeiro) (Cameran *et al.* 2016; SAICA 2017a). The regulator amended the rule an additional two times, which caused uncertainty in Brazilian capital markets. As a result, in 2008, the legislation was repealed altogether. The regulator found it challenging to determine the appropriate rotational period (SAICA 2017b). However, in 2012, the Brazilian regulator implemented the rotational rule for non-bank listed companies and companies with the public interest (SAICA 2017a). The case of Brazil indicates how the dysfunctional implementation of MAFR could lead to the failure of MAFR. Brazil highlights the significance of research into the implementation of MAFR within South Africa.

In 2006 South Korean companies listed on the Korea Securities Dealers Automated Quotations (KOSDAQ) were required to rotate audit firms every six years (Cameran *et al.* 2016). However, in 2010, the government abolished the rotational policy (Kwon, Lim, & Simnett 2014). The reasons advanced included the costs of this regulation were challenging to quantify, and that the benefits were initially overestimated (SAICA 2017a).

2. Mandatory Audit Rotation (Firm and Partner) and Its Effect on Audit Quality and Auditor Independence

In the South African context, the regulation of mandatory audit partner rotation (MAPR) is legislated (IRBA 2016a). Under MAPR, the audit firm retains the audit client, although the audit engagement partner will rotate “off” the client after a tenure of five years (SAICA 2016a).

Ball, Tyler, & Wells (2015) indicated that audit quality benefits from increased audit firm tenure, which supports MAPR as a viable option. However, the study also found that prolonged partner tenure negatively affected audit quality indicators (Ball, *et al.* 2015).

An *alma mater* or employment affiliation occurs when an auditor leaves the employ of an audit firm and accepts employment at their former audit client (Lennox, Wu, & Zhang 2014). Stated differently, the new employer of the individual auditor may be a former audit client. Management should hire such individuals as these individuals are familiar with the accounting system and the related business in general. It is assumed that *alma mater* affiliations can not be removed entirely from the South African accounting sector. In addition, *alma mater* affiliations may affect audit committee members when they appoint audit firms (Lennox & Park, 2007).

Ahmed (2015) studied *alma mater* affiliations in Malaysia during 2015 by utilising a questionnaire circulated to professional investors and corporate loan officers. The findings of the study posit that participants perceive a threat to auditor independence when a former auditor is employed at the audit client. The significance of the perceived threat increases if the former auditor assumes a position of seniority or one that is involved in financial statement preparation (Ahmed, 2015). The perception

among investors was that the audit client now possessed insight into the procedures and techniques used by the auditors, and this equipped the audit client to conceal errors in the financial information under audit.

Daugherty, Dickins, Hatfield and Higgs (2013), studied partners' perceptions of MAPR and audit quality. Their findings demonstrated that partners felt auditor rotation increased auditor independence with a consequent loss in client-specific knowledge. Further, this study found an unintentional decrease in the audit quality when an audit partner audited an industry he had no prior experience auditing (Daugherty *et al.* 2013).

The IRBA indicated that the ten largest audit firms in South Africa audit or services 96% of the companies listed on the Johannesburg Stock Exchange (JSE). The IRBA perceives this market concentration as a threat to the stability of the country's economy (IRBA, 2017a). The intention of IRBA in proposing MAFR is that it is used as a tool that would increase the number of smaller audit firms tendering and competing for the audits of JSE listed companies — therefore promoting competition and inclusion in the market (Firth, Rui & Wu 2012). In contrast, the study revealed that MAFR might lead to higher market concentration as large audit clients tend to select one of the Big Four audit firms because their audit committees assume that mid-tier audit firms cannot deal with a large audit (European Commission 2010; Ewelt-Knauer, Gold & Pott, 2013).

DeFond, Wong, and Li (1999) investigated the relationship 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. The study concluded that larger audit firms are more likely to be independent than smaller audit firms. In the South African case, this finding indicated the possibility of a decrease in auditor independence when smaller audit firms audit the listed audit client market (DeFond *et al.*, 1999).

Harber's (2018) study made use of interviews with 14 audit partners in South Africa during 2016. The audit partners expressed scepticism regarding the IRBA's regulation of MAFR but took the view that MAFR is likely to improve audit quality. It was unclear to the participants if and how MAFR would decrease market concentration and increase transformation in the audit industry. It is noteworthy that there was disagreement between the participants concerning whether market concentration in the South African auditing sector was a concern. The majority of partners indicated that it is unlikely for the audit committees and shareholders of large listed companies to award their audits to small (and in certain instances mid-tier) audit firms. The participants from small audit firms admitted to not having the expertise to complete a listed company audit (Harber, 2018; Harber & Willows, 2016).

Harber and Willows (2016) found that audit partners felt that transformation needed to take place within the Big Four audit firms, their study found that the connection between the implementation of MAFR and transformation of the audit industry did not appear evident to participants (Harber & Willows, 2016).

In Harber and Marx (2020), a composite sample of audit partners, Chief Executive Officers and Chairpersons of audit committees were surveyed. Participants in this study responded that the level of audit quality and audit independence had not declined and that the measures to protect audit quality were sufficient. The participants also indicated that MAFR would result in unintended and unmanageable costs increases.

Shah (2018) researched all companies on the Bombay Stock Exchange (BSE) used a regression methodology in an attempt to investigate audit quality, MAFR and institutional ownership. The premise of the research (based on literature) was that institutional investors would recognise an increase in audit quality brought on by the implementation of MAFR and therefore increase their investments in the company. The study found that there was a statistically insignificant change to audit quality when MAFR was implemented. Thus study concluded that there was no relationship between MAFR and increased institutional investing (Shah, 2018).

In Firth, Rui, & Wu (2012), 213 mandatory rotations (both audit firm and audit partner) in the Chinese market were investigated from 1997 to 2005. This study used the probability of receiving a modified audit opinion (MAO) as a proxy for audit quality. This study found that the probability of receiving a modified audit opinion increased under audit partner rotation. Notably, the increase under MAFR proved insignificant for statistical purposes (Firth et al., 2012).

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, Francis, Marra & Pettinicchio, 2015). The implementation date was from 2006 and was applied prospectively (Kwon, Lim, & Simnet, 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 were vast and challenging to quantify, and the effectiveness of this measure was initially overestimated (SAICA, 2016b).

There is currently a dearth of literature on the matter of critical roles or actions that can be taken to make MAFR a workable solution in South Africa, that is what this research aims to address. This is of essential and practical concern as practitioners would require guidance on best practices in the near future and given the confidentiality and competition between audit firms; this guidance may be hard to obtain. The results of this research aim to address that need of practitioners, by disseminating such guidance in a matter that does not affect confidentiality.

3. Research Problem and Objectives

Mandatory audit firm rotation will be implemented in South Africa from April 1, 2023. Initial consultations with stakeholders have yielded mixed viewpoints (AngloGold Ashanti Limited, 2017; Deloitte, 2017; EY, 2017; KPMG, 2017; Omnia Holdings Limited, 2017; PWC, 2017; SAICA, 2016a; SAICA, 2017b). The first step in dealing with MAFR successfully is to understand the proposed action of the auditors and audit clients. Importantly, existing research does not identify strategies that influence the success or failure of audit firm rotation in KwaZulu-Natal. The study focuses on the province of KwaZulu-Natal because it has the third-largest Gross Domestic Product (GDP) in South Africa. The province has the largest port in Africa and large transportation and agricultural industries. The nature of this province necessitates a unique set of audit practices that, in the past, have not been thoroughly researched.

To identify the strategies that can be implemented to deal with MAFR, this study investigated the critical role-players in these strategies and the impact of their actions (new external audit firm, previous audit firm and audit client). The research examined both the key role-players and the impact of their actions.

The following research objectives were undertaken:

- a) To establish the role of the new external auditor in successful audit firm rotation in KwaZulu-Natal.
- b) To establish the role of the previous external auditor in successful audit firm rotation in KwaZulu-Natal.
- c) To establish the role of the audit client in successful audit firm rotation in KwaZulu-Natal.

4. Research Methodology

The experiences of the participants would illuminate the challenges and difficulties in the implementation of audit firm rotations. Analysis of the participants' responses produced information that established the reasons for the success of the implementation of audit firm rotation in KwaZulu-Natal.

4.1. Data Collection

In-depth interviews as a method of data collection are regarded as the most appropriate to collect data from the personal experience of an individual and is a universal data collection technique when researching in the field of auditing (Ackerman & Erasmus, 2018). However, a limitation to employing interviews for this study was the availability of audit professionals for interviews. This challenge was overcome using telephonic interviews. The interviewing technique used was semi-structured. The schedule developed to be used in this data collection was designed to yield feedback from audit practitioners that relate to the research objectives (Appendix one).

Questions 1 to 8 in the interview schedule were demographic questions; this data was collected for statistical purposes and to analyse the resulting data. Questions 9, 10 and 14 were used to understand the overall perception and view of participants about matters relating to the research objectives. These questions don't (on their own) address the research objectives; however they do help the researcher to understand the attitude of the interviewees toward the matters at hand. Questions 11,12 and 15 are used to directly address the research objectives. Questions 13 and 16 have not been analyzed in detail in this article; the data arising from these questions will be used to produce other research outputs.

Each interview lasted a duration of between one to one and a half hours. With the express consent of all interviewees, the interview was recorded for analysis purposes. As a result of the obvious confidentiality and ethical requirements, none of the audit firms, auditors' names, or audit client names were disclosed.

4.2. Sample Frame and Size

As of July 2018, according to the IRBA website, there were 431 Registered Auditors (RA) registered in the KwaZulu-Natal region (The IRBA is the only body in South Africa that can authorise licences to Registered Auditors), and these are the only practitioners who are accredited to sign off on annual financial statements of a public interest company (Auditing Professions Act No 26 of 2005). A database is administered by the IRBA and can be utilised as a sample frame for undertaking research. The IRBA did not respond to requests to utilise this database to select the interviewees. This set the population size for the auditors. 24 JSE listed companies that were identified to have registered offices in KwaZulu-Natal were contacted to obtain permission to include their staff in this study.

Auditors and audit clients would have a high degree of auditing skill and financial knowledge. In-depth interviews with such experts are recommended as a data collection method (Manson, 2010).

Fifteen audit practitioners were identified as possessing the skills sought after for this study. The criteria utilised in this identification was based on the number of previous audit firm rotations that the individual had been involved in. 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 15 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 problematic because it is challenging to identify all the audit clients that have rotated audit firms regularly in KwaZulu-Natal. All 24 audit clients were contacted. However, only three agreed to participate and had the required experience and were willing to participate in this study (audit client 1 (AC1) to audit client 3 (AC3)). The seven auditors and three audit clients compromised ten participants in this study.

4.3. Qualitative Descriptive Statistics

Prior to the commencement of each interview, the study's aim and the interview procedure were explained to the interviewee. All interviews were recorded on a digital voice recorder which was then transcribed, utilising the interviewer's notes as well as the audio recording of the interview. The interview was transcribed by an independent research assistant, with the ethical requirements and transcription procedures not only being demonstrated to the research assistant but also provided to the assistant in writing. Daugherty *et al.* (2013) promoted a style of transcription known as intelligent verbatim, which is the preferred style of transcription for academic research as it is compatible with Nvivo analysis (Daugherty *et al.* 2013). 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 meaningful results.

4.4. Ethical Considerations

Permission was sort and obtained from all involved audit firms and audit clients that consented to the contacting of individual participants. Informed consent was obtained from all individual participants, including specific consent for the audio recording of the interviews.

4.5. Demographic Data of Participants

The first eight questions concerned the demographic profile of the participants in this study. This was necessary in order 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. The following table summarises the characteristics of the participants.

Table 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	1	10%
	Total	10	100%
EDUCATION	Degree	1	10%
	Postgraduate Diploma or Honours degree	8	80%
	Doctoral Degree	1	10%
	Total	10	100%

In the above table, only two participants indicated that they are registered with IRBA, the reason for this is that the majority of the sample were senior audit managers and as senior audit managers the participants are not required to register with IRBA. Audit managers offer valuable insights as they are more aware of the details in rotating firms. The two audit partners (who also make up part of the sample) confirmed that in an audit rotation, the partner is required to assume a high-level role. One participant was not registered with IRBA or SAICA; this was a participant who was employed in a technical audit role. This participant is required to advise audit teams on audit legislative matters thus this person does not require registration. Many expert practitioners delay registration until absolutely vital.

5. Summary and discussion of interview findings

5. Findings and Discussion

The findings are presented and discussed thematically in accordance with the research objectives listed above.

5.1. Incumbent Auditor's Role in MAFR

Within a given audit team, there are usually different groups of people that have differing roles. As a result of the differing roles of these groups and the purpose that they occupy in an audit rotation, the roles of each group were analysed separately for this study.

Table 2 lists the participants' responses concerning research objective one.

Table 2. Participants' Responses Concerning Research Objective One

Audit team member	Percentage of participants that indicated this audit team member is	
	Influential to an audit firm rotation	Not influential to an audit firm rotation
Internal auditor	60%	40%
Audit trainees	60%	40%
Audit management	90%	10%
Made up of:		
Audit partner	70%	N/a
Audit manager	20%	N/a

5.1.1. The Internal Auditor of the Audit Client

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

Notably, out of the four that disagreed with the internal audit being a valuable role-player three were auditors, with two of these auditors indicating that not all audits are structured in such a way that a controlled reliance approach can be adopted. In one auditor's opinion, the majority of audits in the listed client market do not entirely rely on internal controls such as an internal audit.

The auditors 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, an outsourced internal audit function is viewed as a cost centre for management and may be unavailable at the same time as the external audit is taking place (Plant, Coetzee, Fourie & Steyn, 2013).

All four participants that responded in the negative indicated that internal audit functions are currently underutilised by external auditors, and this may have created complacency in the internal audit function. The external audit has become accustomed to not relying on the internal auditor, and therefore this function is less relevant to the audit firm changeover.

The six participants who responded that the role of the internal audit function is essential in an audit firm rotation all related this to the largest listed companies. It could be ascertained from their responses that the larger listed clients and the banks cannot be audited without a degree of reliance on the internal audit functions of these entities. The audit clients in the sample suggested 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 more in-depth knowledge of the audit client, the internal auditor should 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.

5.1.2. Audit Trainees

There was a mixed response (4, 6) to the significance of the audit trainees in the process of an audit firm rotation. The four participants that downplayed the relevance of the audit trainees, on the basis that they are not involved in decision-making. The audit trainees are not in a position to influence the audit firm rotation because the audit clients are understood to conduct their business in uniformly, regardless of the type of trainees assigned to the audit. One audit manager expressed that if an audit trainee had insight into the audit, it is often overlooked by management because of who is offering the insight. The audit managers mentioned that audit trainees need coaching and therefore, may absorb resources instead of adding value to the audit.

Among the participants that indicated that the audit trainees have essential roles, a common theme was the audit trainees’ proximity to the audit client. These participants cited that the audit trainees’ interaction with the audit client appears more relevant than their interaction with the audit management. Immediately after an audit firm rotation, the new audit partner would possess scant 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 added that in addition to the accelerated accumulation of audit client knowledge during the first year of the audit, the audit trainees were unable to develop strong working relationships with clients. 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. As a result, their presence is essential. All the auditors (participants) in this group indicated that they “cherry-pick” their audit trainees from all the available trainees when on-boarding new audit clients.

5.1.3. Audit Partner and Audit Manager

The audit partner and the audit manager were considered together for this study, as the responses of participants were found to refer to these two groups in an interchangeable manner. Table 3 indicates why audit management is perceived as necessary during a rotation.

Table 3. 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
A high degree of experience	<input type="checkbox"/>		<input type="checkbox"/>			<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Assumes audit risk	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>	
Audit manager acts as a filter to the audit partner	<input type="checkbox"/>				<input type="checkbox"/>					
Audit management is not influential to an audit firm rotation								<input type="checkbox"/>		

One participant indicated that the audit partner and manager do not have critical roles during an audit rotation. This participant was an audit client (AC1). The reason submitted for this view was that the audit partner and the audit manager do not have a particular physical presence at the audit client despite the audit client being new. Additionally, the audit partner will, for the most part, only be involved in the audit matters that require their professional opinion.

Nine participants agreed that the audit partner and audit manager are influential in an audit firm rotation. The audit partner has the most audit experience for dealing with a new audit client. As a result, when a contentious issue arises, the audit partner is often required to assist with the matter and then seek a resolution.

The three participants indicated that the audit partner is essential because of the audit partner's assumption of risk; they also expressed concern about the difference in risk assessment procedures and results between the audit firms. When the audit partner is unable to (or limited in) accurately assessing the audit client's inherent audit risks, this can complexify the process of an audit firm rotation and increase audit risks for the new audit partner.

The last two participants of the nine that responded in the affirmative stated that the audit manager was equally, as powerful as the audit partner. Both participants agreed that the audit manager is influential as managers tend to deal with the majority of the queries raised by the audit team and the audit client. In addition, the audit manager filters the queries and challenges before those are mentioned to the audit partner. The audit partner may view information from the audit manager as more reliable than information emanating from either the audit team members or the audit client. Consequently, the partner is more inclined to act based on the information received from the audit manager.

5.2. Previous Auditor's Role in MAFR

Two audit clients and six auditors (eight participants in total) interviewed agreed that the previous auditor's role in a rotation is of value. This finding was noteworthy because the previous auditors' role in the new audit is expected to diminish, given that they are rotating "off" the audit client. The one negative consequence that the previous auditor can assist in limiting is the loss of institution intelligence. Participants identified the loss of institutional intelligence as a determinant of the success of the MAFR regulation.

Table 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	<input type="checkbox"/>			<input type="checkbox"/>	<input type="checkbox"/>					
Able to reduce the loss of institutional intelligence	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Time spent onboarding the new auditor								<input type="checkbox"/>	<input type="checkbox"/>	
The previous audit firm is not influential to an audit firm rotation			<input type="checkbox"/>							<input type="checkbox"/>

In the small to medium audit market, the influence of the previous auditor is perceived to be more significant when compared to the large audit market. This is attributable to the higher levels of competition on the small to medium audit market as compared to the large audit market (or Big four). In the small audit sectors, the previous auditor (or an audit firm), as a matter of course, is requested to provide the audit client with a list of possible (alternative) audit firms that could take over the audit. The previous auditor would recommend auditors they have a relationship with. In this manner, agreements can be reached between auditors to share or swap clients in the market. The participants indicated that this collaboration between audit firms is a common occurrence.

Those who advocated for the importance of the previous audit firm centred their reasoning around the importance of client knowledge sharing between the previous auditor and the incumbent (new) auditor. There has to be knowledge shared between the incumbent auditors and the previous auditor. The audit client's management and the new audit firm are required to invest money and time during this onboarding process. However, the previous auditors would have acquired an understanding of the audit client and the audit risks involved. In order to limit the cost of rotation, the previous auditor should be utilised to assist with the onboarding process. Currently, the previous auditor generally meets the incumbent auditor, when limited access to the prior year audit file can be granted to the incumbent auditor. However, participants added that insufficient knowledge exchange took place during such meetings.

The audit client expects that the previous auditor would communicate effectively with the incumbent auditor with a comprehensive exchange of knowledge. The audit client participants admit that this rarely is to be the case and often, the audit client is required to reproduce documents and answer questions that were asked by the previous auditor. They added that this contributes to the stress and frustration of the audit client.

The two participants that disagreed with the significance of the previous auditor's role indicated that the previous auditor still occupies a limited role during a rotation. However, they indicated that the previous auditor is not critical to the success of an audit rotation, although the previous auditor would need to be utilised during the pre-engagement and risk assessment procedures. Participants pointed out that the previous auditor's involvement should be limited in the interests of audit quality and professional scepticism.

5.2.1. The Relationship between the Incumbent and Previous Audit Firms

Participants responded unanimously (10/10) that the relationships between the incumbent auditors and the previous auditors are currently weak or lacking, with information transfer being inadequate. Participants identified the different audit methodologies utilised by the different auditors as a stumbling block. Auditors' view their audit methodology as their trade secret and are reluctant to share information about their methodology with other auditors.

The International Standards on Auditing (ISA) specifies that the incumbent auditor should seek the advice of the previous auditor before accepting 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 auditor getting to decide what will be disclosed and how this information will be disclosed. Participants generally agreed that this relationship and information transfer is more effective when both the previous and incumbent auditors are members of the Big Four firms.

Participants indicated that the difference in audit methodologies could prove to be markedly different. The auditor interviewees demonstrated in their responses that there was a lack of trust between audit firms. This revealed that auditors are not confident about the objectivity, independence, or competence of their fellow auditors.

5.3. The Audit Clients 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 audit firm rotation. The study participants indicated that the impact of such individuals is negligible in comparison to the impact of top management at the audit client on an audit firm rotation. This perception is unusual, as junior and middle management staff members at the audit client usually are the individuals that will interact with the auditor on a daily basis. The reason for the lack of significance of this group is their 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 junior and middle management.

Table 5. Factors Affecting the Role of the Audit Client

The factors determining the 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%
Stress and frustration of the audit client audit staff.	70%	30%
Time and involvement of audit client top management in the audit rotation	100%	0%

5.3.1. The Audit Committee of the Audit Client

Eight participants cited that the role of the audit committee in an audit rotation is essential to its success. The audit committee represents the shareholders' interests in a particular manner. 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 (Institute of Directors in Southern Africa 2016). Participants stated that, in the past, the audit committees have been more focused on the reputation or "brand name" of an audit. When MAFR is implemented, there is an understanding that this will change and cause audit committees to interrogate the work that is being done by the auditor more rigorously. The role of the audit committee, as pictured by the participants is one of an intermediary between the audit client and auditor. Four of these participants indicated that currently, most audit committees are not satisfactorily involved in the on-boarding process of a new audit firm. The participants expressed that the audit committee has traditionally taken a "high level" approach to the on-boarding of a new audit firm.

5.3.2. The Audit Client's Stress and Frustration During an Audit Rotation

Participants were not explicitly requested to comment on the perceived stress and frustration of the audit client's staff during an audit firm rotation, yet 70% of all participants commented thereon. All the audit clients that were interviewed as well as 57% of the auditors mentioned this aspect (there were four auditor participants and three audit clients – to comprise the seven).

The audit clients indicated that their frustration emanated from the fact that when there is a new audit firm to come on board, the workload of the audit client's staff does not decrease. There is no relief to accommodate the extra workloads that a new audit firm would pose. The stress that can be felt by the audit clients can lead to the audit client missing other work deadlines as well as discontent at work.

Secondly, from the perspective of the audit client, the new auditor would request information that could appear to be a proliferation of audit documentation. The previous auditor, during the prior audit, would have acquired audit evidence about processes and transactions. Consequently, if the new auditor were to request similar information to that of the previous auditor, the audit client would have provided the information twice. This second request by the new auditor, for the same information, can be frustrating to the audit client. Audit clients also indicated that when the new auditors requested the same information as the previous auditor did, the information generally originated from the prior fiscal year. Audit clients added that obtaining such information can prove challenging as such information is archived.

All audit firms have unique audit methodologies that can be 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 manner 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, this legacy is present. The audit client will be requested by the new audit firm to provide information differently to the way they are used to, and this would require the audit client to possibly change their internal processes.

5.3.3. 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 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 different outcome.

Participants indicated that, currently, the role of top management is inadequate to affect the outcome of an audit rotation. In numerous cases, top management only gets involved in relatively few matters. This will need to change if audit firm rotations are to be more productive. Top management needs to be more involved and available to address the questions and queries of the new auditors. In cases when top management at the audit client has been involved 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 in the audit was suggested by A4 to reduce the *alma mater* threat mentioned in literature. This is achieved in the following manner 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 the *alma mater* threat to independence can prevent an audit firm from being appointed, or involved in the audit.

At the audit client, top management would have the most experience working in new and challenging situations, and 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.

6. Key Factors Affecting Audit firm Rotation

The findings of the study 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. A number of fundamental 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 prepared.

6.1. Specific Training to Prepare Role-Players for MAFR

Audit trainees at the audit firm and the junior and middle management at the audit client would be required to perform the fieldwork following an audit firm rotation. As such, these individuals need to be upskilled with problem-solving 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 people are in the majority in this process (in terms of the actual number of staff) and that they are dealing with the challenges daily, it would improve the onboarding process if they possess the requisite skills.

6.2. Establishment of Standards for Knowledge Sharing between the Previous Audit Firm and the New Audit Firm

The theme that surfaced 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 adequately robust to ensure that there is sufficient information transferred to limit the loss of institutional intelligence. Finally, if the relationship and what must be shared is regulated, it will ensure that the same quantity and quality of audit information is shared.

6.3 Increase the Onboarding Time

The on-boarding process of a new audit firm was criticised continuously by participants. The costs and time involved were found by participants to be unsatisfactory. In order to limit the anguish during on-boarding, it should be extended to two to three years. As an audit client is nearing the 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.

7. Limitations of This Study

7.1. Sample Dynamics

Firstly, the sample size of ten is small; thus, the results gleaned can not be extrapolated to the rest of the population. 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 a disproportionate weighting between audit participants and audit client participants. The audit clients that participated were limited to JSE-listed entities. This was palliated 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.

7.2. Absence of Literature in the South Africa Context

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

7.3. Areas for Future Research

The perspectives of the investors and shareholders would need to be further assessed. Additional research can be conducted on the audit client perspective, ensure to survey a mixed group of individuals. Also ensuring that 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.

The research objectives that were set out were achieved. The study methodology was effectively applied regardless of the limitations that were noted. The study aimed to conceptualise which strategies and tactics were being used to make current audit firm rotations work.

8. Conclusion

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 revealed the perceptions of audit clients. This study has yielded recommendations that are feasible and beneficial to implement in the audit services market with the implementation of MAFR.

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11. Appendix one

Questionnaire On The Strategies For Dealing With Mandatory Audit Firm Rotation Proposed By Accounting Professionals

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 productive. In addition, the terms new client audits plans and audit changeover plans are equivalent. The words strategy and plans are used interchangeability.

The incumbent audit firm is the audit firm that is taking on the new client. Audit clients may refer to this person as the "new auditors". The term "Incumbent auditor" is equivalent.

The 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 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+

1. 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?
2. Can you provide your opinion on the current regulation of partner rotation?
3. What role does the following play in an audit rotation:
 - 3.1. Audit team
 - 3.2. Risk assessment
 - 3.3. Previous Auditors
 - 3.4. The Audit Client
4. What do you believe is the greatest determinant of a successful or “smooth” rotation? Please explain your choice.
5. Can you provide your opinion on the following alternatives?
 - 5.1. Mandatory Audit Tendering (MAT), as opposed to MAFR
 - 5.2. Joint Audits (Joint Audit Firms)
 - 5.3. Do you foresee any direct and indirect consequences, including any unintended consequences, of IRBA moving towards MAFR?
6. Do you foresee any direct and indirect consequences, including any unintended consequences, of IRBA moving towards MAFR?
7. What strategies would you implement in order to deal with MAFR?
8. IRBA believes that MAFR will address the market concentration of audit services and create a more competitive environment, which will positively influence audit quality. Do you agree?

IRBA believes that MAFR will assist in addressing the transformation of the auditing profession. Do you agree?