SOUTH AFRICA: AN IMAGE CRISIS IN THE ACCOUNTANCY INDUSTRY

South African accountancy firms are broadly supportive of recent regulatory efforts to improve the perception of the profession, increase accountability and boost competition, writes *Paul Golden*

There is no hiding from the fact that public confidence in audit firms in South Africa remains below where it needs to be.

A number of market participants suggest this is at least partly due to perceptions of a lack of accountability.

Negativity from the general public and media towards audit firms could be due to the slow turnaround when it comes to investigations being concluded by regulatory authorities and action being taken against those responsible, accepts Michelle Olckers, co-CEO Mazars South Africa.

"However, one must understand that getting through the evidence in these cases takes a very long time and the sheer volume of scandals in South Africa creates a scenario where authorities find it almost impossible to work through the evidence and build cases for all of them," she says.

"On the other hand, when we deal with people who are closer to the audit profession – for example, audit committees – we often find a warmer reception and an appreciation for the efforts put into improving quality of audits, both before and after the major recent scandals."

Relationships between engagement partners and their clients would be the deciding factor in the potential loss of business, and firms operating in the market outside that contested by the Big Four do not appear to have been affected to any significant degree. That is the view of Colin Elsworth, director at MSI Global Alliance member firm Aitken Lambert Elsworth, who refers to various statements made by regulators in recent months designed to boost confidence in the profession.

"The first came from the Minister of Finance in his annual budget speech in February 2020, when he announced that he was setting aside funds to allow for an independent panel to review practices in the auditing profession," he says.

The former CEO of the Independent Regulatory Body for Auditors (IRBA) has also made various statements about the role the IRBA would play, indicating it would ensure that it maintained its independence and would demonstrate a strong oversight of auditors.

"Unfortunately the IRBA has now become embroiled in its own scandal by appointing a new CEO who has not been well received," adds Elsworth. "The reason for the disquiet is that the appointee is a former director of one of the listed companies under investigation by the authorities for suspected accounting irregularities."


Michelle Olckers, Mazars South Africa

NON-COMPLIANCE

Crowe southern Africa technical director Angella Mutonhora expresses confidence that the IRBA has managed to acquire more teeth when it comes to punishing non-compliance by registered auditors.

"By removing the cap on penalties it can now serve harsher punitive measures, which has upped its status given that the penalties issued on firms were disproportionate with the damage done," she says.

"Meanwhile, the South African Institute of Chartered Accountants has increased its investment in ethics education, and has become more transparent in how it embarks on the disciplinary process, with members that have been found to have transgressed the code of conduct being removed from the register."

Mutonhora is also encouraged by firms investing in quality improvement and monitoring, and producing 'transparency reports' where they disclose the results of regulatory and internal monitoring.

On the question of whether the planned implementation of mandatory audit firm rotation has benefited firms outside the top four – and especially locally owned firms – Abe Petersen, partner at MGI Worldwide with CPAAI member firm MGI Bass Gordon, says the move has had an indirect beneficial effect that may not have been initially envisaged.

"The spotlight has not only been placed broadly on audit tenure and the fact that a change of auditor could very well bring about an insightful new perspective," he explains.

Angella Mutonhora, Crowe

"It has also highlighted in the minds of audit committees and those charged with governance of private companies and groups that there are many other viable options for assurance service providers, which offer not only quality services but also a very reasonable value proposition when compared to the Big Four."

One of the provisions of the King Code of Corporate Governance is that the audit committee is required to appoint not only the audit firm, but the lead partner. PKF South Africa chair Theo Vermaak believes that this – compounded by the recent scandals – has resulted in the market recognising the value proposition and quality of mid-tier networks.

"It is, however, no secret that there are a number of studies that condemn mandatory audit firm rotation and point to a decrease in audit quality, among other criticisms," he continues.

"We believe that joint audits offer a better solution in at least some cases. Whether firms other than the Big Four will ultimately benefit from mandatory rotation remains to be seen, but we have seen an increase in tender opportunities for listed entity audits."

Roshan Morar, MD at Allinial Global member firm Morar Incorporated, reckons mandatory audit firm rotation will help to level the playing field for locally owned firms who in the past lost out to bigger rivals. He suggests long-term economic relationships with a specific company can compromise the independence of the audit process and that having new auditors is an opportunity for both parties to ensure greater accountability.

"The early adoption of mandatory audit firm rotation by many clients has resulted in our firm being invited to an increasing number of requests for proposal," says BDO South Africa CEO Mark Stewart. However, he adds that he has not seen any evidence to suggest that there is a decrease in market concentration, which is one of the objectives of the initiative.

"Our own regulator commented recently that other measures would need to be considered to reduce concentration, which would include a focus on joint audits and encouraging smaller firms to collaborate to perform larger audits," Stewart notes.

Anoop Ninan, co-CEO at Mazars South Africa, agrees that there has been a shift in the market where audit committees of companies who have Big Four auditors are more open to proposals from firms outside that group.

"We have definitely seen an increase in requests for proposals for audit, tax and advisory services across all sectors over the past 12 months," he says. He also agrees that in circumstances where the audit committee feels that a challenger firm does not have the experience in that sector, they should consider joint audits.

All firms are locally owned – firms that are part of international networks and use international brands are still owned by local partners or shareholders, and a distinction should not be made in that way, suggests Ninan.

"What is important here is giving exposure to the challenger7 firms," he says. "A few of the mid-tier firms have been investing in resources to increase capacity and expertise to handle certain clients in more specialised industries. We have seen some benefit from this – especially in the financial services sector – and we look forward to what we expect to be even more movement in the market as we get closer to mandatory firm rotation."

QUALITY INDICATORS

In December 2019, the IRBA launched its feedback report on audit quality indicators. Stewart describes this as a useful development, given that most firms want to meet quality standards expected by clients and regulators.

"The audit quality indicators are particularly useful in benchmarking key indicators, and have forced our own firm to consider back-office systems that will provide critical information at the touch of a button," he says. "This additional cost of managing quality is significant, but the information derived from these systems will allow us to focus on areas where there may be gaps in audit quality management, and allow us to take necessary corrective action to improve audit quality."

Petersen suggests that audit quality indicators provide a depth of information and data that audit committees of primarily larger listed corporates could use in their role of promoting greater transparency and independence around the audit and assurance service providers engaged.

Roshan Morar, Morar Incorporated

"This could indirectly have a beneficial impact on medium sized practices, as the Big Four may start to focus on a certain class of core engagements, and even shed non-core clients such as private companies," he says.

The audit quality indicators placed an administrative burden on the Big Four firms, and it is hard to believe they welcomed this request for information, suggests Elsworth, who adds: "The most interesting part of the report was the significant under-recovery of fees – which was not addressed by the IRBA and probably should have been – as it shows that auditors are not being adequately compensated for audits. This may be the root cause of many audit failures."

Mutonhora describes the audit quality indicators as a welcome development since they gave guidance to typical indicators a firm might have as a way to manage their risk. She also notes that the new quality standard that is set to come into effect in 2022 (ISQM1) will put more emphasis on the relationship between risk and quality. "The IRBA has been proactive in providing examples of possible metrics we can use," she adds. "For some firms this was uncharted territory."

According to Vermaak the IRBA report was extremely insightful and provided a useful benchmarking tool for firms, helping to drive the quality conversation by emphasising the need to focus on a variety of quality indicators not previously reported on and potentially not monitored by many firms.

He believes it will help to educate the market and encourage audit committees and others to better evaluate audit firms before appointing them, based on measures beyond what many would traditionally have considered as part of 'quality'. ■

SOUTH AFRICA

NETWORKS & ASSOCIATIONS: FEE DATA

	Rank	Name	Fee income (ZARm)	Fee income last year (ZARm)	Growth (%)	Fee split (%)					Year end
						Audit & assurance	Accounting services	Tax	Advisory	Other	
NETWORKS	1	PwC*	5,000.0	4,400.0	14%	n.d	n.d	n.d	n.d	n.d	Jun-19
	2	Deloitte* (e)	4,616.5	4,482.0	3%	n.d	n.d	n.d	n.d	n.d	May-19
	3	EY*	3,200.0	3,190.0	0%	46	-	-	-	54	Jun-19
	4	KPMG*	1,784.0	2,677.0	-33%	56	-	16	28	-	Sep-19
	5	BDO* (1)	1,200.3	705.0	70%	50	8	13	22	7	Sep-19
	6	Grant Thornton*	860.9	800.0	8%	71	-	5	24	-	Sep-19
	7	Mazars*	600.1	537.4	12%	53	24	12	11	-	Aug-19
	8	PKF International*	436.2	405.1	8%	49	21	13	1	16	Jun-19
	9	Moore Global*	382.0	341.3	12%	43	23	11	12	12	Dec-19
	10	Nexia International*	293.3	270.3	9%	44	27	12	15	2	Jun-19
	11	RSM*	184.0	179.1	3%	45	16	21	18	-	Jun-19
	12	Baker Tilly International* (2)	171.3	143.2	20%	56	15	9	5	15	Dec-19
	13	Crowe*	123.8	115.9	7%	40	13	9	14	24	Feb-20
	14	Kreston International* (3)	114.6	93.4	23%	20	34	8	34	4	Oct-19
	15	HLB* (4)	96.3	140.5	-31%	38	23	9	22	8	Dec-19
	16	TGS Global* (2)	54.4	38.3	42%	34	28	13	25	-	Sep-19
	17	UHY International*	27.8	26.2	6%	70	2	16	2	10	Feb-20
	18	ECOVIS International*	14.2	14.2	0%	55	14	14	12	5	Aug-19
Total fee income/growth			**19,159.7**	**18,558.9**	**3%**						
ASSOCIATIONS	1	Praxity*	600.1	537.4	12%	53	24	12	11	-	n.ap
	2	Allinial Global* (5)	127.0	94.3	35%	19	2	3	26	50	Dec-19
	3	LEA Global / Leading Edge Alliance* (e)	94.2	85.6	10%	n.d	n.d	n.d	n.d	n.d	n.d
	4	MGI Worldwide with CPAAI*	75.2	n.ap	n.ap	30	49	10	2	9	n.ap
	5	GMN International*	61.0	62.1	-2%	28	33	21	11	7	Sep-19
	6	BKR International*	52.3	53.2	-2%	n.d	n.d	n.d	n.d	n.d	n.ap
	7	Integra International* (6)	51.0	45.0	13%	47	18	19		16	Dec-19
	8	Antea* (7)	48.3	34.0	42%	n.d	n.d	100	n.d	n.d	Dec-19
	9	Morison KSi*	43.4	41.7	4%	64	11	3	2	20	Dec-18
	10	PrimeGlobal* (8)	35.3	29.6	19%	33	33	20	13	1	May-19
	11	DFK International*	29.9	n.d	n.d	40	23	6	4	27	Dec-19
	12	IAPA International*	17.9	15.1	18%	35	30	25	5	5	Dec-19
	-	Abacus Worldwide* (9)	n.ap	8.5	n.ap	n.ap	n.ap	n.ap	n.ap	n.ap	n.ap
Total fee income/growth			**1,235.6**	**1,006.5**	**13%**						

Notes: (e) = *IAB* estimate, **n.d** = not disclosed, **n.c** = not collected, **n.ap** = not applicable, **n.av** = not available.
(1) Increase in fee income attributed to M&A, organic growth and reporting complete year data for its merged members, which was partly reported last year. (2) Increase in fee income attributed to merger(s). (3) Increase in fee income attributed to addition of new office and organic growth. (4) Decrease in fee income attributed to loss of some clients and decreasing fees from others. (5) Increase in fee income attributed to gaining more clients. (6) Restated fee income figures for last year, as data submitted for last year did not include all members. (7) Increase in fee income attributed to winning some tenders and adding new services to its portfolio. (8) Increase in fee income attributed to offering more advisory and consultancy services. (9) Lost its member firm in South Africa.

***Disclaimer**: Data relating to correspondent and non-exclusive member firms is not included. Where data for accounting services is not disclosed, it is included in audit and assurance.

Source: *International Accounting Bulletin*

NETWORKS & ASSOCIATIONS: STAFF DATA

Rank	Name	Total staff		Growth (%)	Female		Partners		Professionals		Admin		Offices	
		2019	2018		Staff	Partners	2019	2018	2019	2018	2019	2018	2019	2018
NETWORKS														
1	Deloitte* (e)	5,606	5,239	7%	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
2	PwC*	5,100	4,952	3%	n.d	n.d	275	284	n.d	n.d	n.d	n.d	n.d	21
3	EY*	2,965	2,602	14%	919	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
4	KPMG*	2,012	2,317	-13%	n.d	n.d	138	156	n.d	1,759	n.d	402	n.d	6
5	BDO*	1,508	970	55%	883	32	119	84	1,053	699	336	187	6	6
6	Grant Thornton*	1,178	1,093	8%	673	21	66	n.d	977	n.d	135	n.d	13	n.d
7	Mazars*	993	957	4%	n.d	n.d	51	51	742	713	200	193	11	12
8	PKF International*	883	781	13%	n.d	n.d	70	67	681	591	132	123	12	12
9	Moore Global*	686	650	6%	429	18	57	60	526	504	103	86	14	19
10	Nexia International*	573	506	13%	286	16	44	44	439	396	90	66	11	10
11	Baker Tilly International*	385	335	15%	245	8	22	18	296	206	67	111	4	3
12	RSM*	339	341	-1%	207	5	25	27	262	256	52	58	3	4
13	Kreston International*	242	242	0%	65	9	28	21	166	162	48	59	10	6
14	TGS Global*	125	101	24%	57	8	13	11	99	80	13	10	3	2
15	Crowe*	123	123	0%	n.d	8	24	25	92	89	7	9	5	5
16	HLB*	102	153	-33%	40	4	18	24	67	82	17	47	8	7
17	UHY International*	44	43	2%	24	0	3	-	32	-	9	-	1	-
18	ECOVIS International*	26	26	0%	16	0	2	2	19	19	5	5	2	2
Total staff/growth		**22,890**	**21,431**	**7%**	**3,844**	**129**	**955**	**874**	**5,451**	**5,556**	**1,214**	**1,356**	**103**	**115**
ASSOCIATIONS														
1	Praxity*	993	957	4%	n.d	n.d	51	51	742	713	200	193	11	11
2	Allinial*	171	171	0%	n.d	n.d	13	13	125	125	33	33	10	10
3	GMN International*	129	133	-3%	80	4	16	19	92	88	21	26	6	7
4	LEA Global / Leading Edge Alliance* (e)	128	123	4%	n.d	n.d	n.d	16	n.d	72	n.d	35	n.d	5
5	Integra International*	113	99	14%	n.d	n.d	6	6	92	82	15	11	1	1
6	BKR International*	106	110	-4%	n.d	n.d	12	10	82	82	12	18	2	2
7	Morison KSi*	106	95	12%	66	0	5	5	88	77	13	13	1	14
8	MGI Worldwide with CPAAI*	83	n.ap	n.ap	n.d	1	8	n.ap	75	n.ap	-	n.ap	1	n.ap
9	PrimeGlobal*	70	65	8%	n.d	n.d	6	4	49	48	15	13	2	2
10	Antea*	60	59	2%	41	1	2	1	18	38	40	20	2	1
11	DFK International	53	n.d	n.d	38	5	6	n.d	38	n.d	9	n.d	2	n.d
12	IAPA*	25	17	47%	15	0	1	1	22	13	2	3	1	1
-	Abacus Worldwide*	n.ap	19	n.ap	n.d	n.d	n.ap	2	n.ap	12	n.ap	5	n.ap	2
Total staff/growth		**2,037**	**1,848**	**4%**	**240**	**11**	**126**	**128**	**1,423**	**1,350**	**360**	**370**	**39**	**56**

Notes: (e) = *IAB* estimate, **n.d** = not disclosed, **n.c** = not collected, **n.ap** = not applicable, **n.av** = not available.

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