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What are the possible implications of Mandatory Audit Firm Rotation on specified audit quality dimensions?

A research report submitted by

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Table of Contents

I List of abbreviations and acronyms 4
II Abstract 5
Chapter 1 – Introduction 6
1.1 Introductory paragraphs 6
1.2 Purpose of the research 8
1.3 Significance of the Study 8
1.4 Limitations and delimitations 9
1.5 Definitions 9
1.6 Structure of Thesis 9
Chapter 2 – Literature review 9
2.1 Audit Quality Surrogates 10
2.2 South African Laws and regulations 12
2.3 ISQC 1 quality elements 14
2.4 MAFR in South Africa and other jurisdictions 16
2.4.1 Countries that have MAFR in place 17
2.4.2 Countries that no longer have Mandatory Audit firm rotation in place 19
2.5 The implications of the MAFR 21
2.6 Summary 29
Chapter 3 – Methodology 30
3.1 Research paradigm 30
3.2 Sample selection 30
3.3 Data collection 31
3.4 Data analysis 32
3.5 Validity and reliability 32
3.6 Limitations 33
3.7 Ethical Considerations 34
Chapter 4 – Findings 34
4.1 The introduction of Mandatory Audit firm rotation in South Africa 34

4.2 Internal culture of quality 37
4.2.1 Engagement leader participation 37
4.2.2 Importance of auditor resignation as a signal 38
4.2.3 An alternative to MAFR 39
4.3 Ethics and client acceptance and continuance 43
4.3.1 MAFR as a solution to familiarity threats 43
4.3.2 MAFR as means to enhance auditor independence 44
4.3.3 Institutional knowledge 46
4.3.4 Client acceptance practice 47
4.3.5 Competition and market concentration 49
4.3.6 Collusion 51
4.3.7 Small firms and capacity issues 51
4.4 Human resources, engagement performance, monitoring and continuous improvement 52
4.4.1 Increases in audit start-up costs 53
4.4.2 Disciplinary power 53
4.4.3 MAFR influence on audit infrastructure 54
4.4.4 Fresh look 55
Chapter 5: Summary, conclusions and recommendations 56
5.1 Summary 56
5.2 Contribution of the thesis 61
5.3 Limitation and future research recommendations 61
Reference list 61
Appendix A: Interview agenda 67
Appendix B: List of interviewees 68
Appendix D: Ethics clearance 69

I List of abbreviations and acronyms

Abbreviation / Acronyms	Description
APA	Auditing Profession Act
CEO/CFO	Chief Executive / Financial Officer
Big four	Refers to the 4 biggest auditing firms in South Africa namely: Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers (in alphabetical order)
CPAB	Canadian Public Accountability Board
EU	European Union
IFAC	International Federation of Accountants
IRBA	Independent Regulatory Board for Auditors
IAASB	International Auditing and Assurance Standards Board
ISA	International Standard on Auditing
ISQC1	International Standard on Quality Control
MAFR	Mandatory Audit Firm Rotation
GAO	General Accountability Office

II Abstract

Presently, there is no research dealing with the impact which MAFR will have on the South African audit profession. This research takes the first step to address this topic. It examines the possible implications of MAFR on specified audit quality dimensions with the aim of adding to the ongoing debate on this material policy decision. The early findings from 32 interviews conducted with those who are directly involved with audit and have been contributing to the development of audit practice in South Africa indicates that Mandatory Audit Firm Rotation will have more negative than positive implications on specified audit quality dimensions. This research makes a valuable theoretical contribution because it provides the first-hand account of the technical changes taking place at the firm level in response to a regulatory development. Concomitantly, it responds to the call for additional research on the nature of audit quality and the role of external regulation in driving higher levels of quality.

Key words

Mandatory audit firm rotation, regulation, auditor independence, audit quality, auditor tenure

Chapter 1 – Introduction

1.1 Introductory paragraphs

Background

Public confidence in audited financial statements has decreased over the years (Holm & Zaman, 2012a; Humphrey, Loft & Woods, 2009; Sikka, 2009). This is, in part, because of international corporate scandals such as Waste Management, Computer Associates, Xerox, Enron, Adelphia, Global Crossing, Tyco and WorldCom (Harris & Whisenant, 2012) and local failures such as Leisurenet, Randgold and Regal Bank. Tackett, Wolf and Claypool (2004) found that neglecting to apply the auditing rules and techniques which already exist was the cause of major audit failures. The response to such corporate scandals is often an increase in the extent of auditor regulation (Holm & Zaman, 2012a), even though it has been argued that by simply enacting more rules and auditing standards, it is unlikely to make any meaningful reduction in the likelihood of audit failure (Calderon Thomas, 2008; Manry, Mock & Turner, 2008; Meyer, Rigsby & Boone, 2006)

In particular, many measures have been put in place by independent regulatory bodies to improve audit quality (Holm & Zaman, 2012a). Examples include the formal code on corporate governance (King-I); Sarbanes-Oxley Act (SOX) Act 2002; mandatory partner rotation; the prohibition of certain non-audit services; oversight functions of audit committees and the review of audit engagements by an independent regulator (Maroun, Coldwell & Segal, 2014; Maroun & Solomon, 2014b). The most recent measure proposed by the Independent Regulatory Board for Auditors (IRBA) is the Mandatory Audit Firm Rotation (MAFR) (IRBA, 2016). MAFR is seen by others as a solution to enhance auditor independence and, as a result increase audit quality (Lu & Sivaramakrishnan, 2009) however, others disagree. This debate about how MAFR (Harris & Whisenant, 2012) affects audit quality is currently intense due to the recent announcement by IRBA. The regulator reached a conclusion on the 2 June 2017 that MAFR will be effective from 2023 in South Africa (IRBA, 2017) after issuing a consultation paper for the public to comment on in 2016. Therefore, it is important to understand the implications of MAFR on audit quality as South Africa prepares itself for 2023.

It should be noted that this is not a new concept. Several countries like Italy, Brazil, Spain and South Korean have implemented MAFR (Daniels & Booker, 2011). MAFR is, however, very different from the current auditor rotation required by section 90 of Companies Act (2008). Under the MAFR, not only the audit engagement partner rotates every 5 years but the whole audit firm will have to rotate.

The global financial crisis and corporate scandals demonstrated that audit quality plays a vital role in maintaining an efficient market environment (Al-Khaddash, Al Nawas & Ramadan, 2013). Therefore, the aim is to preserve auditor independence and enhance audit quality (Cameran, Prencipe & Trombetta, 2016). The concept of auditor independence has two elements: independence in fact and independence in appearance. It has been said that the sense of confidence with which audit opinion was designed to provide to stakeholders will not be achieved when independence in appearance is tainted (Raiborn, Schorg & Massoud, 2006).

Woolf (2017, p1) argues that "only having self-regulatory incentives of traditional partnerships and replace the negative incentive of Limited Liability Partnerships will yield positive impact on audit quality". Knechel (2010) further explains that, although quality of audit processes determines the quality of audit engagement, regulatory efforts to standardise the audit process might result in the decline of audit quality.

Pros of MAFR

It is believed that MAFR will bring a fresh look on the financial statements and end the long association between audit firms and organizations by it advocates (Lu & Sivaramakrishnan, 2009). GAO (2003) reported that some companies were already considering rotating audit firms voluntarily as part of their company policy e.g. Intel's audit committee reported that it would consider changing auditors often to ensure a fresh look on its financial statements and internal controls.

Advocates of MAFR also believe that it can assist restore confidence in the regulatory system which was found to be the case in Italy (Healey & Kim, 2003). In addition, audit quality can be improved because firms will have to tender and differentiate themselves in terms of service to win the tender when the rotation happens (Allam, Ghattas, Kotb & Eldaly, 2017).

Cons of MAFR

Opponents suggest that client-specific knowledge will be lost due to auditor changes (Harris & Whisenant, 2012) and that audit firms will not be motivated to invest in technological improvements for specialised industries since costs incurred might not be recovered due to short audit tenure (Elitzur & Falk, 1996). The above shows that there might be a negative relationship between MAFR and audit quality (Elitzur & Falk, 1996).

A study conducted by (Raiborn et al., 2006) found that MAFR has its advantages and disadvantages and that, although it might be a solution to some problems, it can also create more problems. Furthermore, it concluded that MAFR cannot prevent people from either the audit firm or client from acting unethically. In support of the above argument, (Firth, Rui & Wu, 2012) also concluded that MAFR seem to have both positive and negative effects on the two components of audit quality, which are auditor independence and client knowledge. Therefore, the question is whether MAFR can bring a net benefit to audit quality (Firth et al., 2012) in South Africa.

Presently, there is no research dealing with the impact which MAFR will have on the South African audit profession. This research takes the first step to address this topic. It examines the possible implications of MAFR on specified audit quality dimensions with the aim of adding to the ongoing debate on this material policy decision (Johnson, Khurana & Reynolds, 2002).

1.2 Purpose of the research

The purpose of this study is to examine the possible implications of MAFR on specified audit quality dimensions per ISQC 1 in South Africa.

This study has its focus on the views of those who are directly involved with audit and have been contributing to the development of audit practice in South Africa: this is further explained in Section 3.2. Detailed interviews were analyzed to achieve the study's aim.

1.3 Significance of the study

This study adds to the debate on MAFR which will have huge implications for the audit profession and market (Johnson et al., 2002). It is the first paper which examines possible implications of MAFR on specified audit quality dimensions in South Africa. Furthermore, it adds to the call for additional research on the nature of audit quality and the role of external regulation in driving higher levels of quality (Francis, 2011). Therefore, the findings are relevant for academics interested in understanding the dynamics of audit quality and the relevance of external

regulation for audit quality. The results will also be important for IRBA (and other regulators) seeking to implement MAFR.

1.4 Limitations and delimitations

- This study cannot measure the financial impact of MAFR or on audit quality surrogates (Harris & Whisenant, 2012) as there are not enough data to quantify the impact and a single quantified measure of audit quality does not exist (Wooten, 2003)
- The researcher will only examine the possible implications of MAFR on specified audit quality dimensions in the South African context.
- This study defines audit quality with reference to ISQC 1 and does not propose alternate dimensions of audit quality (Maroun & Atkins, 2014a).

1.5 Definitions

Audit firm rotation: is defined in section 207 of Sarbanes-Oxley Act (SOX) Act as an imposition of a limit on the period of years during which an accounting firm may be the auditor of record (Sarbanes, 2002). IRBA (2016, p34) discussion paper proposes that “an audit firm shall not serve as the registered auditor of a listed company for more than 10 consecutive financial years”.

Audit tenure: length of auditor-client relationship (Okolie & Izedonmi, 2014).

1.6 Structure of thesis

A review of literature on audit quality surrogates, ISQCI elements, laws and regulation and Mandatory Audit Firm Rotation is provided in Chapter 2. Chapter 3 explains the research method and methodology. The thesis uses detailed interviews with experienced professionals and academics, as well as comment letters submitted to IRBA to obtain a holistic view of the possible implications of MAFR on specified audit quality dimensions. Research findings are discussed in Chapter 4. Chapter 5 concludes this thesis and provide recommendations for further research.

Chapter 2 – Literature review

To provide a theoretical foundation for this thesis this chapter outlines the current academic literature on audit quality surrogates, providing a brief overview of how audit quality has been defined by researchers. Section 2.2 provides a discussion on ISQC1 quality elements grouped into three dimensions. Section 2.3 looks at MAFR in South Africa and other jurisdictions. This section provides a list of

countries which have implemented MAFR and those which have abandoned it and reasons as to why. Finally, section 2.4 forms the link between audit quality surrogates, ISQC1 elements and MAFR implications.

2.1 Audit quality surrogates

Many academic papers have been published on audit quality (DeAngelo, 1981a; Deis Jr & Giroux, 1992; Francis, 2004). However, because audit quality is not seen in publicly available information, researchers have developed proxies for audit quality (Lawrence, Minutti-Meza & Zhang, 2011) which are discussed in detail below.

Audit quality has been defined as the probability that an auditor will both "discover and truthfully report material errors, misrepresentations, or omissions in a client's accounting system" (DeAngelo, 1981b, p. 115). Many studies indicate that the probability of reporting depends on the independence of an auditor (DeAngelo, 1981b, p. 116). It is also suggested that the auditor's technical competence or ability is what determines of the probability of discovering material errors (Deis Jr & Giroux, 1992, p. 464).

Holm and Zaman (2012a) also suggest that there is a link between audit quality and auditor's technical competence. St. Pierre and Anderson (1984) conducted a study which found that "about 72 percent of audit litigation cases" were because of auditors failing to interpret accounting policies and complex accounting transactions. This is supported by the Auditing Profession Act (APA) which states that, "audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor" (APA, 2005).

Audit tenure is another example of an audit quality surrogate. According to (Elitzur & Falk, 1996), firms are motivated to invest in technology resources if there is a possibility of keeping the client, this study suggest that the ability to detect irregularities is influenced positively by audit tenure. In contrast, research suggests that the longer the audit tenure, the more audit quality declines (DeAngelo, 1981b; Deis Jr & Giroux, 1992). This is because the auditor may fail to maintain professional skepticism and not incorporate an element of unpredictability in the audit as the auditor tends to trust the client (Holm & Zaman, 2012a). In support of the above, Harris and Whisenant (2012) suggests that long auditor tenure may lead to "familiarity threat" as the engagement partner tends to anticipate the audit evidence instead of gathering enough information to reach an accurate conclusion. As a result, in long audit tenures, it is less likely that a qualified audit opinion will be issued (Holm & Zaman, 2012a). In the same vein, when fraudulent financial

reporting was used as a surrogate for audit quality, the results indicated that fraudulent financial reporting is more likely to occur in the first three years of audit firm's tenure. While this is the case, no evidence was found to suggest that when audit tenure increases so does fraudulent financial reporting (Carcello & Nagy, 2004).

Carey and Simnett (2006) examine the effect of auditor independence on audit quality using the likelihood of issuing a going concern opinion as a proxy of audit quality and they concluded that a negative relationship exists. However, a study conducted by Jackson, Moldrich and Roebuck (2008), which also used propensity to issue a going-concern opinion as proxy for audit quality, found that the likelihood of issuing a going concern opinion increases with audit tenure: this indicates that audit tenure increases audit quality.

Additionally, prior research generally suggests that audit quality is positively related to audit firm size. The Big Four firms[1] are viewed as providing higherquality audits and this is based on their perceived competence and independence (Beatty, 1989). This is because larger audit firms have the financial and intellectual resources to provide higher-quality audits (Beatty, 1989). Consistent with the above arguments, according DeAngelo (1981b), the larger the firm the more it is concerned about providing higher-quality audits to protect their investment in reputation capital.

It should be noted that there are also factors which are not within the auditor's control which contribute to promoting audit quality (IFRC, 2006). These factors include, for example, the level of communication between the auditor and the audit committee during the engagement (IFRC, 2006). Good communication and involvement of the audit committee in the engagement might "lead to greater efficiency and quality gains" (Maroun & Atkins, 2014a, p. 3). Additionally, the approach taken by management towards the audit engagement contributes in promoting audit quality (Holm & Zaman, 2012a). Corporate governance should be concerned with ethical leadership, attitude, mindset and behaviour so, King IV recommends which the board of directors should establish an audit committee that can assess auditors work (king IV, 2016).

Finally, laws and regulations contribute in promoting audit quality. The auditing profession has moved away from 'self-regulation' to greater emphasis on

[1] Refers to the 4 biggest auditing firms in South Africa namely: Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers (in alphabetical order)

"independent regulation" and this has benefited the profession by restoring public confidence (Holm & Zaman, 2012a, p. 2). Prohibitions on rendering non-audit services (Holm & Zaman, 2012a), the requirement to rotate audit partners (APA, 2005) and the auditor's duty to report a client's wrong doings to an independent regulator (Maroun & Atkins, 2014a) are examples of external regulatory measures designed to bolster auditor independence, audit quality and, in turn, confidence in the audit profession. This relevance is discussed in more detail below.

2.2 South African Laws and regulations

In South Africa, certain laws and regulations have been introduced to ensure that auditors' independence is not impaired and audit quality is maintained. One of these measures is s90 (2) of the Companies Act which provides additional requirements which prohibit certain relationships and the provision of certain non-audit services by an entity's auditor[2]. Prior literature suggests that rendering non-audit services impairs auditors' independence. This is because over concentration on non-audit services puts pressure on employees to maximize revenues at all cost (Holm & Zaman, 2012b). Woolf (2017, p1) agrees with this view as she believes that "permissive co-existence of auditing and consulting work undermines the diligence with which audits are performed" and so, audit firms should provide auditing service only. In contrast, DeFond, Raghunandan and Subramanyam (2002) found that no significant association between nonaudit service fees and impaired auditor independence exists. However, some studies contend that auditor's experience and knowledge of the client's operations and environment are enhanced when performing non-audit services and this subsequently results in increased ability to detect misstatement in the financial statements (Lennox, 1999). Therefore, providing non-audit services to the client can have positive effects on audit quality (Lennox, 1999).

Another measure is section 92 of the Companies Act which provides that the audit engagement partner must rotate after tenure of five consecutive financial years for companies required by the Companies Act or the Companies
Regulations to have their annual financial statements audited. IRBA also requires the rotation of key audit partners after seven years (APA, 2005) and the

[2] s90 (2) prohibits the auditor from being appointed where certain specified services were rendered by the auditor to the same client. These specified services include bookkeeping services, maintaining the company's financial records, related secretarial work and perhaps most importantly the preparation of any of its financial statements.

International Federation of Accountants (IFAC) requires mandatory partner rotation after seven years (IFAC, 2007).

Monroe and Hossain (2013) conducted a study which looked at whether audit quality improved after the implementation of mandatory partner rotation in Australia. The study found that partner rotation has improved audit quality. This is because the likelihood of issuing going concern opinion increased under mandatory partner rotation settings. The results of this study were different from the study conducted by Carey and Simnett (2006) under voluntary partner rotation settings. In contrast, a study conducted by Chi, Huang, Liao and Xie (2009) in Taiwan examine the effect of mandatory partner rotation on audit quality. The study used absolute and signed performance-matched abnormal accruals as a surrogate for audit quality. Audit quality of companies under the audit partner was found to be lower than audit quality of these same companies one year earlier under the old audit partner. The study results indicate that partner rotation reduces audit quality. The audit firm further argues that it is difficult to develop younger partners for highly specialised clients under mandatory partner rotation settings and that it is complex for small firms to comply with this legislation (Holm & Zaman, 2012b).

The Companies Act also prescribes the functions of the audit committee and its composition. Accordingly, section 94(7) of the Companies Act 2008 lists many functions audit committees must fulfil such as ensuring that auditors do not render non-audit services as this, would compromise their independence; determination of auditor fees; and nomination and appointment of the auditor. Prior research suggest that empowering audit committees will enhance the quality of the audit conducted (Williams & Wilder, 2016).

Consistent with King- IV (2016), the audit committee should be capable of effectively assessing the performance of the audit work and audit-tendering. Performance management is effective when the audit committee comprises of members who have knowledge, skills, experience and independence to make objective decisions (King- IV, 2016).

In addition to the existing measures, s45 of the APA introduced which requires South African auditors to report irregularities to IRBA. The aim of the introduction of s 45 is to improve the transparency and to restore public trust in the auditing profession. Mixed evidence exists on whether s45 is achieving it objective. This is based on the study conducted by Maroun and Atkins (2014b) which found

contradicting views of those involved in the profession on the effect of s45 on audit quality. Some indicated that the way they conduct audit has not changed because of s45 and others believed this section does have some effect on the audit quality (Maroun & Atkins, 2014b).

In summary, there is no absolute evidence that external regulation improved auditor independence and enhanced audit quality (Liao, Chi, & Chen, 2013; Lim & Tan, 2008). However, laws and regulations still play a vital role in restoring public confidence in the audit profession (Malsch & Gendron, 2011; O'Dwyer, Owen & Unerman, 2011; Zeff, 2003).

It should be noted that, although researchers (Lawrence et al., 2011), have developed surrogates for audit quality, the internationally recognised determinants of audit quality is the International Standard on Quality Control (ISQC 1) which many countries follow to ensure audit quality. This paper uses ISQC 1 quality elements which are further explained in detail below to evaluate the relevance of laws and regulations for audit quality, focusing specifically on MAFR.

2.3 ISQC 1 quality elements

The International Auditing and Assurance Board (IAASB), IFAC approved the International Standard on Quality Control (ISQC 1) concerning the Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements in 2004 (Mohd-Sanusi et al., 2008).

The (IAASB, 2009) state the objective of ISQC 1 as follows:

> To establish and maintain a system of quality control to provide reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirement; and reports issued by the firm are appropriate in the circumstances (IAASB, 2009).

Additionally, it is believed that assessment on audit quality of audit firms ensures that an audit firm's processes are systematic and disciplined and work to improve the effectiveness of the firm's practices (Brinkley, 2006). In addition, Pflugrath, Martinov-Bennie and Chen (2007) support the requirements of ISQC 1 as relevant to the quality control of audit firms and believe that there is a possibility that this standard might positively impact the quality of the audit performance. Paunescu (2015) further suggests that compliance with the standard ISQC 1 is perceived as high audit quality.

ISQC 1 sets out six quality control elements which are grouped into three dimensions in this paper. It covers:

- Leadership responsibilities for quality within the firm
- Ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resource
- Engagement performance
- Monitoring

The standard requires audit firms to document evidence of the operation of each of the six elements of its quality control system and retain that documentation for an appropriate period. (IAASB, 2009)

Engagement leader participation

ISQC1 requires the firm leadership to establish a culture which put an emphasis on quality of the audit. The above can be achieved by emphasizing the importance of conducting an audit in a professional manner which respects the fundamentals of auditing and the profession's ethical standards. A study conducted by Holm and Zaman (2012a) supports this position. The research found that internal firm culture plays a huge role in promoting audit quality. Another study conducted by Mohd-Sanusi et al. (2008) found that audit firms should use training and workshops to enhance awareness and implement ISQC 1 correctly. The study also found that educating the students from higher learning institutes on the importance of ISQC 1 could positively impact audit quality. This is because students will have a better understanding of ISQC1 when working for audit firms in their futures. Furthermore, ISQC1 places responsibility to engagement partners of ensuring that the audit quality is maintained at all times during the engagement (Maroun & Atkins, 2014a).

Ethics and client acceptance and continuance

ISQC1 requires that firms accept engagement which they have necessary resources and skills to perform (IAASB, 2009). In addition, the engagement leader should ensure that the audit team has the ethical standing to execute the engagement (IAASB, 2009). This is because, even though auditors' technical knowledge is essential, the auditor's ethical reasoning is equally important for determining the overall quality of the auditor's professional judgement (Gibbins & Mason, 1988). Professional due care, independence, objectivity and integrity are the core of auditor's reasoning (Jones, Massey & Thorne, 2003) and the threats to

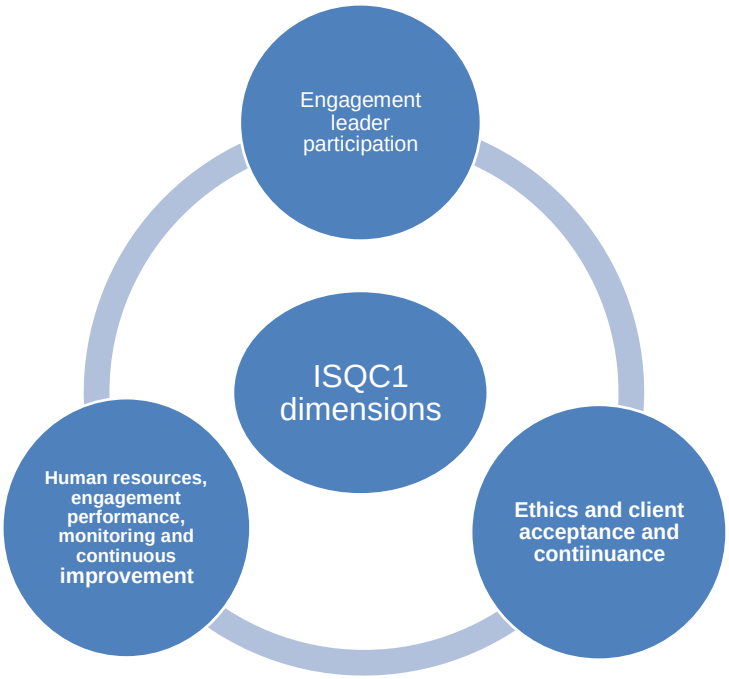
these fundamental principles must be identified and mitigated appropriately (IAASB, 2009; IFAC, 2007).

Human resources, engagement performance, monitoring and continuous improvement

Under ISQC1, for the audit report to be considered appropriate, the audit engagement must be performed in accordance with International Standard on Auditing (ISA) and relevant regulatory requirements. It is the responsibility of the engagement team leader to ensure that the engagement team has the appropriate skills, resources and ethical standing to perform an audit (IAASB, 2009; IFAC, 2007). The engagement leader must supervise the audit and review the engagement team work (Maroun & Atkins, 2014a).

The ISQC 1 quality elements are summarized in Figure 1.

Figure 1: Dimensions of ISQC1 audit quality control



2.4 MAFR in South Africa and other jurisdictions

The aim of the MAFR is to improve the audit quality and gain public confidence after several audit failures around the world (Harris & Whisenant, 2012). In the South African context, IRBA proposed the implementation of MAFR in 2016 with a primary objective of “strengthening auditor independence to enhance audit quality” (IRBA, 2016, p. 9). IRBA has decided that an audit firm “shall not serve as the registered auditor of a listed company for more than 10 consecutive financial years” (IRBA, 2016).

IRBA took this initiative to respond to the concerns such as “events that continue to shape regulatory reforms, global developments, and risk of failure of one of the major audit firms” which has been challenging government and regulators globally since the financial crisis (IRBA, 2016, p. 11). As discussed in Section 1.1 South Africa will be following rotation policy requirements from 2023 (IRBA,2017).

2.4.1 Countries which have MAFR in place

It should be noted that IRBA will not be the first regulator to implement MAFR because countries like Italy, South Korea and Brazil have already implemented MAFR (Daniels & Booker, 2011). The European Union (EU) implemented MAFR in 2016 and Mauritius announced in July 2016 that it would require listed entities to rotate auditors every seven years (IRBA, 2016). MAFR in different jurisdictions is considered briefly below.

Italy

Italy has followed MAFR for listed companies since 1975 according to which, the same public accounting firm may serve as the auditor of record for a maximum of 9 years (Cameran et al., 2016). The main objective of introducing MAFR was to preserve auditor independence (Cameran et al., 2016). Italy did not get the support from the stakeholders. Nevertheless, it proceeded with the implementation of MAFR.

MAFR was seen as a success and projected positive impact in appearance of auditor independence which is critical in maintaining investor confidence (Cameran, Merlotti & Di Vincenzo, 2005; GAO, 2003). In contrast, a study conducted by Carcello and Nagy (2004) did not find any evidence of positive effect of MAFR on audit quality.

South Korea

The Korean Financial Supervisory Services enacted a mandatory audit firm rotation requirement in 2006: this requires audit firms to rotate every seven years. The MAFR rule was introduced in order to “reduce auditor’s incentives to develop long-term relationships with their clients” (Kwon, Lim & Simnett, 2014, p. 2). Kwon et al. (2014) conducted a study in the Korean audit market which found that MAFR resulted in the increase of both costs for the audit firms and the clients while having no visible positive audit quality. In support of the above conclusion, prior studies (Caramanis & Lennox, 2008; Deis & Giroux, 1996) suggested that the new audit

firm will have to work long hours because of the start-up costs (e.g. understanding the client).

Brazil

Brazil implemented MAFR in May 1999 with a five-year maximum term. The main reason for introducing MAFR was to strengthen audit supervision following corporate scandals in Brazil. Brazil believes that MAFR provides better result than changing partners within firms. (Comunale & Sexton, 2005)

European Union (EU)

The EU published a public consultation on audit policy, the "Green Paper on audit policy: Lessons from the crisis" in 2010. The public consultation paper raises questions like why the banks received an unqualified audit opinion during the financial crisis and whether the current legislative framework is effective. The aim to issuing such a paper was to gain public views on the advantages and disadvantages on MAFR. The commissions considered MAFR to be a solution. This is because some companies in Europe keep on appointing the same audit firms and the commission believed that this might have a negative impact on auditor independence and result in more frauds and scandals. Although the Directive 2006/43/EC prescribed audit partner rotation for every 7 years, the Commission believed that the familiarity threat to independence still existed. (PCAOB, 2011)

Humphrey, Kausar, Loft and Woods (2011) conducted a study which provided a critical discussion of the EU Green paper. The study concludes that a positive relationship between regulation and audit quality cannot be assumed.
(Humphrey et al., 2011, p. 19) further raises questions such as:

> *Whether compliance with form is dominating matters of substance in audit practice? Are we are getting better quality audits or better controlled audits? Moreover, what are audit firms doing to ensure that auditing retains its integrity, coherence and distinctiveness?*

In 2014, Regulation (EU) No 537/2014 was issued which requires companies to rotate audit firms every ten years from June 2016. This regulation is binding on all Members of the State and as a result all countries under the EU such as
Finland, Germany and United Kingdom currently have MAFR in place.
(Parliament, 2014)

2.4.2 Countries which no longer have Mandatory Audit firm rotation in place

Some countries like Singapore, Spain and Canada implemented the MAFR and abandoned it due to increased cost or having achieved the objective of increased competition for audit services (Daniels & Booker, 2011). Similarly, the GAO (2003) reported that the reason for not introducing MAFR in United States of America is that the cost of introduction as the requirement would not exceed the benefits related with it.

Singapore

In March 2002, the Monetary Authority of Singapore introduced MAFR for banks incorporated in Singapore. It requires banks not to appoint the same public accounting firm for more than 5 consecutive financial years. The introduction of MAFR was primarily intended to promote the independence and effectiveness of external audits. GAO (2003) found that in addition to the primary objective, the following were also the reasons for instituting MAFR in Singapore:

1. Safeguard against public accounting firms having an excessive focus on maintaining long-term commercial relationships with the banks they audit, which could make the firms too committed or beholden to the banks.
2. Maintain the professionalism of audit firms—where with long-term relationships, audit firms run the risk of compromising their objectivity by identifying too closely with the banks' practices and cultures.
3. Bring a fresh perspective to the audit process—where with long-term relationships, public accounting firms might become less alert to subtle but important changes in the bank's circumstances.

The Monetary Authority of Singapore announced a temporary suspension of MAFR on the 21th October 2008. The decision was reached after seeing that banks were spending quite a substantial amount of time and resources towards heightened vigilance during the period of unprecedented stress in the global financial markets. The MAS believed that temporary suspension of MAFR would minimise the disruption which arises when banks change auditors and that the banks would benefit from some degree of audit continuity during the global financial markets crisis. (MAS, 2008)

Spain

Spain introduced MAFR in 1988, requiring companies to rotate audit firms every nine years. This policy was abolished in 1995 because of its negative impact on the quality of auditors' work and on the structure of the audit market. It has been

argued that the above statement is not correct because the rotation policy was never given a chance to work. This is because the rotation policy was abolished in 1995 before 1997 which would have been the effective date. (Carrera, GómezAguilar, Humphrey & Ruiz-Barbadillo, 2007).

Canada

Canada enacted the requirements of MAFR shortly after the 1923 failure of the Home Bank. The rotation policy only applied to the banks in Canada. The Bank Act required that two audit firms audit the bank and that the same two firms could not perform more than two consecutive audits (the Bank Act, as cited in GAO, 2003). The main objective for instituting the rotation requirements was to have a fresh perspective, reviewing the issues often, so this reduced the "risk of a problem festering because an issue was decided on and not revaluated" (GAO, 2003, p. 93).

In 1991, the MAFR policy was abandoned because the costs exceeded the benefits and Canada was one of the few countries having such a system. Although some believed in retaining the system, there were questions about whether this was a worthwhile tool to safeguard the banking system. (GAO, 2003)

In addition, it was reported by the Canadian Public Accountability Board (CPAB) that MAFR would not strengthen auditor skepticism and that, even though the new auditors are said to bring a fresh perspective, their client-and industryspecific knowledge may not be satisfactory to conduct a quality audit (CPA, 2013). The CPAB also mentioned in their report outlining how audit quality could be enhanced, that changing auditors should be a process led by the audit committees (CPA, 2013). The above argument is supported by the study conducted by Fontaine, Khemakhem and Herda (2016). Fontaine et al. (2016) which found that all 19 Audit committees' members were against MAFR as they claim to have a sole authority to decide about changing auditors, only if it is in the best interest of the company. The Audit committee's members also indicated high audit costs and increased time spent in bringing the new audit firm up to speed with company knowledge in the comment (CPA, 2013) letters submitted to the PCAOB.

The United States of America

The Public Company Accounting Oversight Board (PCAOB) in the United States (USA) issued a public consultation, the "Concept Release on Auditor Independence and Audit Firm Rotation", regarding regulation on mandatory

rotation of audit firms in 2011 (PCAOB, 2011). The objective of the public consultation was to solicit public views on how to enhance auditor independence, quality and professional skepticism, and whether mandatory rotation of audit firms should be implemented (PCAOB, 2011). The PCOAB indicated that the MAFR would be implemented if its benefits outweigh its cost. However, in 2016 the PCOAB deleted the issue from its agenda after receiving so much negativity from the legislators and the public (Tysiac,2016)[3]

Williams and Wilder (2016) conducted a study which looks at the audit firm perspective on audit firm rotation and enhancing independence, using comment letters submitted to the PCAOB. The study concluded that many respondents were against MAFR, citing loss of client-specific knowledge, increased audit fees and that, overall, the costs associated with MAFR will outweigh the benefits of rotation. In addition, respondents believe that the PCAOB inspection process contributes in promoting audit quality and that empowering audit committee will enhance the quality of the audit conducted. This negates the need for MAFR
(Williams & Wilder, 2016).

In summary, there are some countries which presently have MAFR in place but the prior research has produced inconclusive findings on whether the costs of MAFR exceed the benefit.

2.5 The implications of the MAFR

Prior research which directly examined the implications of MAFR is limited (Roush, Church, Jenkins, McCracken & Stanley, 2011). This lack of empirical evidence on the issue of MAFR stems from the fact that there a handful of countries which have implemented MAFR for many of years (Roush et al., 2011). A study conducted by Ruiz-Barbadillo, Gómez-Aguilar and Carrera (2009) which examined auditor reporting behaviour in Spain from 1988–1995, a period during which audit firm rotation was required in Spain is worth considering. The study compares the auditor's propensity to issue a going-concern opinion across periods with and without audit firm rotation and concluded that no significant differences in the auditor's reporting behaviour exist (Ruiz-Barbadillo et al., 2009). The study conclusion is consistent with ISQC1 (para U32) which require consistency in the

[3] It is important to note that, from 2013 onward, the PCAOB is prohibited from issuing proposals on MAFR by the Bill of Prohibition enacted by the US legislators (Audit Integrity and Job Protection Act, 2013).

quality of engagement performance, irrespective of the period spent serving as an auditor (IAASB, 2009).

Advocates of MAFR suggest that the companies will benefit from MAFR through lower audit fees and efficient audit plan as the new company approach the audit with a fresh eye (Lu & Sivaramakrishnan, 2009) . The audit fees decrease because of an anticipated increase in competition (Hoyle, 1978). Opponents of MAFR argue that audit fees will increase as (relatively more) costly initial audits occur due to rotation cycles causing more auditor changes under MAFR rules (Harris & Whisenant, 2012). Moreover, Choi, Kim, Kim and Zang (2010) suggests that, whether their clients pay more than or less than the normal level of audit fee, the auditors' objectivity is affected. The level of audit fees also poses a self- interest threat to auditors' independence (IFAC, 2006).

In the same vein, a recent study conducted by Cameran, Francis, Marra and Pettinicchio (2013) using data from Italy, which examined adverse consequences of MAFR found that the outgoing auditors maintained the same level of audit quality in final year. However, audit fees were higher by 7 percent, which may suggest opportunistic pricing. The study also found that the incoming auditors might engage in a low-balling practice. This is because, even though audit hours were higher by 17 percent in first year of an engagement, the audit fees were lower by 16 percent. Prior to this study, many studies have been carried out to determine the effects of low-balling on auditor independence and audit quality and have found mixed results (Bleibtreu & Stefani, 2013). DeAngelo (1981a) found that low-balling is sunk costs and will not impair independence, while Lee and Gu (1998) believes that low-balling enhances auditor independence. In contrast, a study conducted by Dopuch and King (1996) conclude that in noncompetitive market environments, a high degree of low balling does reduce audit quality.

Opponents raise concerns of loss-specific client knowledge due to frequent auditor change and that audit firms might be less interested in investing in technology resources of those specialised industries as the costs incurred might not be recovered due to short audit tenure (Harris & Whisenant, 2012). Auditor experience has been cited as one of the things which positively influence audit quality (Daugherty, Dickins, Hatfield & Higgs, 2012). Studies show that there might be a negative relationship between MAFR and audit quality because most audit failures happen almost three times as often when an audit firm was performing its first or second audit of a given client: this frequency will increase with the

implementation of MAFR (Geiger & Raghunandan, 2002; Harris & Whisenant, 2012)

In addition, more litigations cases against auditors are reported in the first few years of audit-client because of a lack of thorough understanding of the client relationship (DeAngelo, 1981b). Consistent with the above argument, many of the authors conclude that audit risk is high in the initial engagement year as auditors are likely to face material irregularities (Carcello & Nagy, 2004; Loebbecke, Eining & Willingham, 1989). IRBA (2016) argues that this does not hold because firms are required by ISQC1 to undertake only those engagements which they have the necessary resources and skills to execute so, if firms follow ISQC1, the audit quality will not be compromised. On a related note, a study conducted by (Anis, 2014) which examines auditors' perceptions of MAFR on audit quality found that industry specialisation offsets the negative impact of MAFR on auditor expertise. This is consistent with the research findings by (Lim & Tan, 2010). Lim and Tan (2010) explain that this is because industry specialisation makes the process of understanding a new client faster. Hence, the auditors who are industry specialists begin the audit of a new client in a much better position than do non-specialist auditors.

In support of the MAFR primary objective, Arel, Brody and Pany (2005) suggest that MAFR will improve auditor independence by reducing the auditor tenure and will maintain professional skepticism since long association with clients imposes threats to independence and professional skepticism. A study conducted by Jennings, Pany and Reckers (2006) concluded that strengthening corporate governance and rotating audit firms compared to partner rotation positively impact auditor independence perceptions. Hoyle (1978) further suggest that having a client which contributes a substantial amount to the auditor revenue might reduce audit quality. Th49is is because the auditor may be motivated to keep the client at all costs to secure the revenue stream (Hoyle, 1978) so, firm rotation may also assist in preventing large-scale corporate collapses(Jackson et al., 2008). For auditors, ethics, especially independence, is the determinant of audit quality (Maroun & Atkins, 2014a).

Research conducted in Korea where MAFR is currently effective (see section 2.4.1) found that companies required to rotate audit firms report significantly lower discretionary accruals compared to those not obliged to rotate audit firms, indicating that MAFR improves audit quality(J.-B. Kim & Cheong, 2009). This study

is consistent with many authors who have concluded that high accruals are normally considered indicators of low audit quality levels (Becker, DeFond, Jiambalvo & Subramanyam, 1998; Francis & Krishnan, 1999; Francis, Maydew & Sparks, 1999). However, when abnormal working capital accruals was used as a proxy for audit quality, the results indicated that the level of abnormal working capital accruals decreases with audit tenure (Cameran et al., 2016). The study supported the main argument used by opponents of MAFR, i.e. that there is a significant learning process which leads to an improvement of audit quality over time.

In the same vein, Firth et al. (2012) argues that MAFR has a limited impact on audit quality. This conclusion is based on the results of a study conducted in one of the BRICS (China) countries which look at the effects of MAFR on audit quality under different regulatory environments using auditors' propensity to issue a modified audit opinion as a proxy for audit quality. In contrast, a study conducted in Korea, using the same proxy, found that MAFR has a positive effect on audit quality because under MAFR settings the probability of issuing a first-time going-concern audit opinion to financially distressed firms is high (H. Kim, Lee & Lee, 2015) .

Table 1 below shows the top 20 countries ranked by financial market development by the World Economic Forum and their position on MAFR.

Table 1: MAFR per country

Country	**Requirements on Mandatory audit firm rotation**	**Currently effective**
New Zealand	Considered and rejected	No
Singapore	For domestic banks in 2002, 5 years	No, temporarily suspended in 2008; suspension has not been lifted (2017)
United States	Considered and rejected	No
Hong Kong	Considered and rejected	No

Finland	For all companies,10 years	Yes, because Finland is a member of the EU
Australia	Considered and rejected	No
Canada	For banks, 2 years	No, abandoned in favour of lead partner rotation
Switzerland	Does not have	No
Norway	Considered and rejected	No
Sweden	Considered and rejected	No
South Africa	For public interest companies, 10 years	No, only effective from 2023
Panama	Does not have	No
Malaysia	Considered and rejected	No
Luxembourg	For all companies, 10 years	Yes, because Finland is a member of the EU
China	For state-owned entities and financial institutions, 5 years	Yes
United Kingdom	For all companies, 10 years	Yes, because Finland is a member of the EU
Japan	Does not have	No
Guatemala	Does not have	No
Israel	Considered and rejected	No

Germany	For all companies, 10 years	Yes, because Finland is a member of the EU

Table 2: shows countries which form part of the BRICS.

Country	Requirements on Mandatory audit firm rotation	Currently effective
Brazil	For non-bank, listed companies, 5 years For companies with statutory audit committee, 10 years	Yes
Russia	Under consideration	No
India	For banks and insurance Companies, 4 years For provident trusts, 2 years For public sector entities, 4 or 5 years	Yes
China South Africa	For state-owned entities and financial institutions, 5 years	Yes
	For public interest companies, 10 years	No, only effective from 2023

Table 3: shows other countries which currently or previously experience with Mandatory Audit Firm Rotation.

Country	***Requirements on Mandatory audit firm rotation***	***Currently effective***
Bosnia Herzegovina	Required after five years, even though mandatory firm rotation	Yes

	can be postponed for two years if a new engagement partner is appointed	
Croatia	For banks, 7 years For insurance and leasing companies, 4 years	Yes
Czech Republic	Adopted between 1992 and 1995, then abandoned	No
Ecuador	For financial institutions, 5 years For insurance companies, 6 years	Yes
Iceland	For financial institutions and insurance companies, 5 years	Yes
Indonesia	For central bank, 5 years For public and private companies, 6 years	Yes
Italy	For listed companies and public interest entities,9 years	Yes
Macedonia	For banks and insurance companies, 5 years	Yes
Oman	For listed companies, Government controlled companies and private joint stock companies, 4 years	Yes
	Financial institutions, insurance and reinsurance companies and listed companies, 3 years	Yes
	Currently for financial Institutions and insurance Companies, 5 years For government entities, 2 years	Yes
	For insurance companies, 5 years	Yes

Pakistan Paraguay	For listed companies, 8-9-year rotation recommended on a 'comply or explain' basis	Yes
Peru	Banks and Qatar shareholding companies, whether listed or not, 5 years (3 years is recommended)	Yes
Poland		
Portugal	For all joint stock listed companies, except for banks, and for public interest entities, 5 years	Yes
Qatar	For banks, upon request from the central bank	
Saudi Arabia	For banks and insurance companies, 5 years 10 years allowed when combined with partner	Yes
	Rotation	
Serbia	For domestic banks in 2002.	No, temporarily suspended in 2008, suspension has not been lifted (2012)
Singapore	For insurance and investment management companies, 5 years required	Yes
	For public companies, 5 years recommended	
	Adopted in 2003 and effective for listed companies beginning in 2006, 7 years	Yes

Slovenia South Korea	For all companies, 9 years	No, abandoned in 1995
Spain	For financial sector companies, two 3-year rotation periods	Yes
Tunisia	For all listed and non-listed companies, three 3-year rotation periods for firms with fewer than three partners and five 3-year rotation periods for firms with more than three partners if audit firms have partner rotation installed	
Turkey	2009-2011, for banks, 8 years; for insurance companies, 7 years; for energy companies and all listed companies, 5 years, unless the company and audit firm meet certain criteria, in which case partner rotation is sufficient	No, abandoned in 2011
	For banks, 7 years For national bank, 5 years	Yes
Ukraine	For all companies that require an audit, 6 years	Yes
Uzbekistan	For banks, 3 years beginning in 2014	Yes

Venezuela Source: Shango PWC Inc. Letter,2017: p14 and (Ewelt-Knauer, Gold & Pott, 2012)

2.6 Summary

Audit quality is of paramount importance and is affected by many factors. As a result, many measures have been put in place by legislators and independent

regulatory bodies to ensure audit quality. However, the European Commission, the Public Company Accounting Oversight Board and the Independent Regulatory Board for Auditors feel that the current measures are not enough without MAFR (SAICA, 2016). It should be noted that there is no concrete evidence that MAFR will improve audit quality.

Chapter 3 – Methodology

This chapter explains the research method. Section 3.1 discusses the method and an outline of rationale for following such method. Section 3.2 to 3.5 provide a discussion of the process employed for collecting and analyzing the data and the reason for using such research design tools. The chapter concludes with a summary of the chosen method and a discussion of the limitations of this research.

3.1 Research paradigm

The researcher conducted a qualitative study inspired by a grounded theory research approach (Leedy & Ormrod, 2013). The study relies on interpretive text analysis views from audit experts obtained from detailed interviews.

Given the exploratory nature of the research, this method is considered appropriate to gather enough data to investigate the problem due to little research on MAFR in South Africa. Furthermore, no prior experience which negates the use of a quantitative method (Creswell, 2009; Maroun, 2017).

3.2 Sample selection

Purposeful sampling was used to select interviewees. The goal of purposeful sampling is to understand a specific phenomenon, not to represent a population, by selecting information-rich cases for research (Creswell, 2003). This research focused on the perspectives of those who are directly involved with audit and have been contributing to the development of audit practice in South Africa as this gave the researcher valuable information on the implications of MAFR for audit quality (Maroun & Atkins, 2014a).

A total of 32 semi-structured interviews, each lasting between ten minutes and one hour were conducted in Johannesburg between 1 June and 1 August 2017 (Appendix B). The interviews conducted were more than 12 which is the number suggested by (Rowley, 2012) as a good starting point for researchers.

Respondents included four audit partners from the Big Four, as well as six partners from the mid-tier audit firms, with at least five years' experience in their roles as

“engagement leaders” (audit experts) (IAASB, 2009). To reduce the risk of reporting a biased perspective (Leedy & Ormrod, 2013) informed users of audit reports serving at institutional investors, on audit committees or at regulatory bodies were engaged (users). The result is that some of the most influential and knowledgeable individuals on the issue of audit practice, reporting and quality were engaged adding to the quality of the results (Creswell, 2009; Maroun & Solomon, 2014a).

3.3 Data collection

Potential interviewees were contacted either by telephone or by-mail and invited to participate in the research. Interviewees were informed of the nature and purpose of the research and guaranteed complete anonymity. A time was scheduled to meet with each interviewee and an outline of the research project including a list of open-ended questions (Appendix A), was made available, if requested, at least four working days before each interview. The researcher spent time at the start of each interview establishing rapport with the respondents (Holland, 1999; Maroun & Atkins, 2014a).These questions addressed the implications of MAFR on the specified audit quality dimensions and were centred on three themes:

- possible implications the MAFR will have on the audit quality
  whether the existing measures (see section 2.2) are sufficient and
- the perceived impact of MAFR on audit practice and quality in general.

The interview agenda was established after an intensive literature review.

The researcher relied on a set of open-ended questions (Appendix A) to guide the interviews. To ensure detailed responses, participants were informed that the research is carried out for academic purposes only; that there are no correct or incorrect answers and that their identities will be kept confidential (adapted from (Holland, 1999; Maroun & Atkins, 2014a). Where applicable, respondents were asked to explain a particular concept or statement in different words or from different perspectives to address “script coherent expressions” or resolve any ambiguities (Alvesson, 2003). Although the sequence in which the issues were addressed and responses were different, the same themes were covered during each interview and the same point was used to commence each interview, namely: the purpose of the MARF provisions (Holland & Stoner, 1996).

3.4 Data analysis

Interviews

Recordings were transcribed as soon as possible after the interviews were completed. Initial notes were contrasted and general themes and categories were identified after reading the transcripts several times (Leedy & Ormrod, 2001). The researcher grouped the specific arguments in favour of or disputing MAFR themes. These served as open codes (Cohen, Manion & Morrison, 2013). Examples of these codes include MAFR as means to enhance auditor independence, collusion and loss of client institutional knowledge.

Each open code was allocated a different colour and a key was kept of the open codes and their individual colours to ensure consistency (Leedy & Ormrod, 2013). Codes with few or no allocations were aggregated (Maroun & Atkins, 2014b; O'Dwyer et al., 2011; Parker & Roffey, 1997). After coding twenty interviews, the researcher noted that the point of saturation had been attained and this was supported by the twelve subsequent interviews. However, reaching the point of saturation does not mean that consensus among the interviewees was achieved (O'Dwyer et al., 2011).

The researcher aggregated open codes after carefully analysing the transcripts several times under a finalised set of axial codes which were ISQC1 audit quality elements (see Section 2.3) to structure the findings and develop a view of the possible implications of MAFR on audit quality dimensions (Leedy & Ormrod, 2013). This study defines audit quality with reference to ISQC 1 and does not propose alternate dimensions of audit quality (Maroun & Atkins, 2014a). As a result, it is appropriate to group the open codes identified under ISQC1 audit quality elements.

3.5 Validity and reliability

- Semi-structured interviews allowed the researcher to collect sufficient data to investigate the problem which added to validity and reliability (Galletta, 2013). The design of the interview questions gave the researcher a detailed understanding of the research problem (Leedy & Ormrod, 2013; Maroun & van Zijl, 2016).
- To increase validity and reliability of the study, open ended questions were used as this reduced the risk of "rehearsed" responses (Rowley, 2012).

- The interviews' questions were piloted during June 2017 with three academics from one of the leading universities (Leedy & Ormrod, 2013; Maroun & van Zijl, 2016). The questions were revised, based on the comments from the pilot (Abernethy & Brownell, 1999).
- The interviews were recorded and transcribed as soon as possible after the interviews were completed to enhance the accuracy of the interview record (O'Dwyer et al., 2011).
- The interviewees were afforded an opportunity to review and provide feedback on the transcripts once the interview was transcribed to ensure that their views were interpreted correctly (Rowley, 2012).
- For consistency, all participants were given the same interviews questions (Maroun & van Zijl, 2016).
- The data were coded using codes based on prior literature, as well as new codes which were identified during the interviews which were recoded ensuring the consistence of recoding ensured validity of the findings (Leedy & Ormrod, 2013).
- The researcher's bias resulting from being involved in the data collection and analysis process was mitigated by having two independent academics reviewing the data analysis process and conclusions made. This further contributed to validity and reliability of the results. (Leedy & Ormrod, 2013)

3.6 Limitations

"As with any study, there are factors that limit general application of the results"(Nickerson, 1993, p. 30). This research has several limitations, many of which stem from the constraints of the research. The researcher had the following constraints:

- Comment letters: There is a risk that IRBA has made decisions before comment letters were received. In addition, the delay in releasing comment letters is a problem as there is a possibility that most of the comment letters were against MAFR and that these views were disregarded in reaching the conclusion. To overcome this, it was decided to conduct interviews with those who are directly involved with audit and have been contributing to the development of audit practice in South Africa, as well as informed users of audit reports serving at institutional investors, on audit committees or at regulatory bodies were engaged (users).
- Interview constraints: The use of interviews for data collection also entailed certain constraints, mainly the fact that some were conducted via

telephone which meant that it was impossible to read any facial expressions or body language which can sometimes add to the replies of the interviewees (Opdenakker, 2006).

- Financial: Even though this study was funded by the university, any extra costs associated with the collection of the primary data were incurred by the researcher. To overcome this constraint, it was decided to conduct some interviews by telephone and via skype to reduce the cost of travelling.

3.7 Ethical Considerations

Respondents were guaranteed complete anonymity [4] which allows the research to obtain a detailed understanding of the research problem. The research was conducted based on the University of the Witwatersrand ethics norms after obtaining approval from the ethics committee. The ethics clearance number is attached (Appendix D). No ethics issues arose while conducting the study.

Chapter 4 – Findings

This chapter presents the findings from the detailed interviews with experts. The interview agenda has been provided in Appendix A.

4.1 The introduction of Mandatory Audit Firm Rotation in South Africa

There were mixed views on the thought process behind the introduction of MAFR in South Africa. For example:

> *Specifically, I cannot possibly say what their intention is because they have not disclosed it* (U4).

Several respondents indicated that the purpose of MAFR is to improve auditor independence by ending long audit tenures:

> *It is definitely, for me, to mitigate familiarity threa*t (B4). Similarity,

another expert said:

> *It is simply to improve independence in appearance. (B7)*

[4] No names or other identifying information were included in the research. Respondents were informed that their identities and the places of employment would be kept confidential and no other personal information was collected.

However, some experts believed the purpose of MAFR to be the prevention of future audit scandals which led to an argument that there have not been many scandals in South Africa and that this country has been ranked for many years number one by the World Economic Forum for the strength of the Auditing and Reporting standards so, what drives this change (U3; U10; R4; B3)? One of the experts said this measure was implemented to be able to safeguard independence of the auditors (R1) and other two experts stated:

> *Okay, so I personally think, well, because of IRBA being the regulator, almost like a custodian of the profession so they try to leave the profession in a better place than they found it. Not that it was in a bad place, but they just want to improve it. And I know at this moment the biggest thing is to try proactively reduce the next contrivance. To this point everything has been reactive in the profession- like Enron collapsed so, how to respond. U1*

Similarly, another interviewee said:

> *I think they don't want to get to a point where we haven't implemented something we could have prevented future independence issues, future independence scandals so I think that's why they have introduced it. They want to ensure proper quality control over audits; they want to maintain a level of impartiality over audits between the client and the auditor which is fundamental in performing a proper audit. The intention behind it is very good. U3*

The researcher found that insufficient information was presented to the public by IRBA on the need for MAFR which was leading to confusion. Only five respondents believed that the regulator supported their position on MAFR (U7;
U12; B5; B6; P2; B6; R1). Many respondents said that the regulator did "halfbaked research" (R4) and whatever was presented was "completely one-sided" (U6; B1).

For example, while a minority of respondents felt that the IRBA engaged in sufficient consultation on the change, others were more negative:

> *In fact, IRBA's stance was quite disappointing. We know that IRBA did not consult with the wide base of shareholders, notwithstanding the fact that they said they consulted with investors.* ***They consulted primarily with one investor in South Africa, that is the Public Investment Corporation (PIC) and then the Public Investment Corporation happens to be the largest single investor on the JSE****. (P4, emphasis added)*

The respondents felt that all stakeholders should have been consulted. This is because MAFR will impact many stakeholders and not just investors (P4). However, one of the respondents stressed how difficult it is to consult with all stakeholders because the investor community is not structured:

> *One of the things we learned over the process was that investor community is not really a structured community and we figured it out even at the international level they still struggle to find a community body, right, that's more structured and so* ***it's always difficult to orchestrate those bodies but, you know in the South African context the bigger voice that actually we heard was the PIC*** *and that was one of the bigger voices because if you look at their investment that they have on the JSE, its actually more than anyone else. (R1, emphasis added)*

Overall, however, many respondents felt that insufficient information was presented by the regulator which makes it difficult to understand the benefits of MAFR and that not all stakeholders were consulted. A different view was also noted. Two experts believed that, no matter how much information is given to the public, there will still be some negativity (U3; B9).

> *Considering the resistance that some of the larger entities have displayed with this I don't think there would be any information that made people comfortable to accept this. B9*

Similarity, another expert said that:

> *Irrespective of how much information is put out there, I don't think it would change how the current firms feel about it. U3*

Table 1 below shows the number of responses for and against summarized by type of respondent.

Table 1: Number of responses for and against MAFR

Experts	***For MAFR***		***Against MAFR***	
	No.	***%***	***No.***	***%***
	32		7	25	
Academics and users	12	3	25%	9	75%
Audit partners	10	2	20%	8	80%
Preparers	6	1	17%	5	83%
Regulators	4	1	25%	3	75%
Total					

In discussing audit quality, the respondents identified different aspects of MAFR which, in their view, might impact audit quality. The researcher grouped these aspects into three broad categories:

- an internal culture of quality;
- ethics, client acceptance and continuance and
- Human resources, engagement performance, monitoring and continuous improvement.

4.2 Internal culture of quality

4.2.1 Engagement leader participation

An internal culture of audit quality, including the need for engagement leader responsibility, has been entrenched at audit firms (Maroun & Atkins, 2014a). The respondents indicated that it will be worrying to see firms changing their quality controls because of the MAFR regulation.

> *Personally, I don't think the audit engagement leader participation should change, you should still consider independence, staff quality, ability of firm to service needs… All those process can't change because that's when you screen a firm. (P1)*

Several experts agreed that auditing standards were being correctly applied and that the audit reports were appropriate (U2; U3; P2).

> *I think, based on my experience working here and overseas, between the two Big 4 firms...I think [South Africa] we do take audit quality seriously. Our quality control is higher than what I saw overseas, and I think there is a good quality element. U1*

Not all respondents, however, agreed with this view. Three contrasting views were noted. Firstly, two interviewees argued that current quality control measures do not address transformation and market concentration and the regulator has made it clear that they are *"*pursuing multiple mandate" (U7; B5). In other words, from a South African perspective, in addition to the elements outlined by ISQC 1, transformation and the need to ensure that the audit market is not dominated by a select number of firms are part of the audit quality landscape. Secondly, experts argued the internal quality control measures per ISQC 1 are not entirely effective (B5). This view was based on a perceived decline in audit quality. One proponent of MAFR explained as follows:

> *because we can't always be on the side of we trust the audit firms they have to do 1, 2, 3, because we're constantly seeing a decrease in the audit quality and we're seeing this decrease in audit quality despite the fact that the firms have got global structures that deal*

> *with quality. They've got big technical departments but, at the end of the day, it depends on the human nature of those people doing the job. So, it doesn't mean a drop in the audit quality, this is happening at the drop back of the structures that are there in the firms which are seen to be robust, but it's, it's, it's not working completely. R1*

It should be noted that the notion that there has been a decrease in audit quality is just a perception and that no specific examples of decline in audit quality were provided by R1.

As part of the quality debate one expert argued that "audit firms are in denial" about regulatory inspection findings which showed a 40 percent failure rate in 2016 (B5). Good quality audit can only be achieved if "we can get to the point where both parties see each other as partners and not as enemies" (B5). Inspection findings are an indication of quality and shortcomings in ISQC 1 (R1) and MAFR is believed to address this. However, respondents could not explain exactly how MAFR will lead to fewer inspection findings.

Another expert believed that the way the inspections were conducted changed drastically from the prior year.

> *Well, there's an assumption that audit quality is bad, and I would like to challenge that assumption. That assumption is saying audit quality is bad and that we need additional measures to improve it. We are trying to answer a question, but we haven't tested the validity of the question. You will notice* ***the politics*** *of all of this. The IRBA, just before they said we are going ahead [with MAFR], released their inspection results and* ***made a big public headline*** *that audit quality has reduced because of the number of fines but they neglect to say that they were stricter on their reviews. So, in my view,* ***it's not quality that went down Or, maybe it did, Maybe I'm generalizing*** *but one needs to take into account whether the bar has been lower or higher. Whichever analogy you want to use* ***that context [is] missing from the public statements****. (B3, emphasis added)*

Auditors felt that engagement leader participation and a culture of quality was not affected by MAFR and that it is about impression management – using the inspection findings to justify a decision already taken. Similarly, there is a sense of uncertainty about how the inspection findings are generated and if this really leads to a conclusion on the culture of quality. Finally, there was very little consultation and detail given by IRBA on its decision (see section 4.1.1) which makes it difficult to conclude on the link between MAFR, inspection findings and a culture of quality.

4.2.2 Importance of auditor resignation as a signal

Research has indicated that changing an auditor sends an important signal to the investor community (Griffin & Lont, 2010). It means either that the auditor is resigning because the auditor is unhappy about something or the client was not

happy about something and has fired the auditor (Griffin & Lont, 2010). The researcher asked the interviewees whether MAFR could disrupt this signal.

Several respondents suggested that rotating the auditor before the end of 10 years will signal that something is wrong (B3; R2) because a rational investor will say: "but guys hang on! You said it is costly to transition a new auditor and suddenly you want to swap and change the auditors as time goes on" (R1). As a result, MAFR will not disrupt the resignation or auditor change signal because changing the auditor before 10 years will still draw attention from the investors.

If I have to rotate in 2023 and the client decides to replace us now- that will make a perception a lot worse because the market will then say: if you were going to follow the legislation, you should have stick around for another 5 years. The fact that you are firing them before 10 years means there is a serious problem with the auditors. (B1) However, a different view was noted. One expert said that:

> *[MAFR] disempowers the audit committee and as a result they are not going to sit down and consider whether this is still a right auditor or not because they know that in 2 years' time the problem will be sorted out anyway (B1).*

In other words, MAFR does not allow the audit committee to play its critical role in ensuring audit quality, such as audit tendering, when needed. Therefore, MAFR will make changing auditors a routine and reduce the relevance of this important signal. Accordingly, the disruption of this signal weakens the culture of quality.

4.2.3 An alternative to MAFR

Experts were unanimous in their view that audit quality can be improved. Two contrasting views were noted on whether to improve the internal quality process or use MAFR as a solution.

> *No, MAFR is the way to go. Well, the only better way is for auditors to retain a sense of independence from their clients and unfortunately in South Africa that is another case we've got so far from that road and independence has been compromised and we can't reverse that, so rotation is the only way to go. U7*

According to this respondent, an internal culture of quality and the need for ethical conduct has been undermined. The auditors have forgotten the importance of remaining independent from their clients to a point that only forced firm rotation will enhance auditor independence and restore public trust in the profession (Rx).

A different view involved MAFR, together with additional provisions.

> *Remember that MAFR will be used as one of the instruments so it has to be supported by other raft of measures within it, so it can't just be one instrument that'll solve everything. So, there must be a raft of measures that will be used to…balance everything out…definitely. R1*

The experts suggested several different methods for improving audit quality. These were also supported by respondents opposed to MAFR. Each is discussed in detail below

Have meaningful inspection process

The experts felt that the current inspection process is not effective and suggested that this process should be as rigorous as the internal reviews at the firms (U1) and should be executed by the staff who have expertise to identify quality control deficiencies (R4). Inspections should be done more often and should focus on the actual audit work such as whether all key risks were identified (U1). Furthermore, the regulator should increase the sample size of its inspections to include the small engagements because there is already more quality emphasis on big engagements by the firm leadership (U1). One expert commented that:

> *So, our concern is that if IRBA finds a problem in an audit firm the fact that I rotate that partner or the fact that audit committee changes a partner or doesn't, doesn't change the underlying problem if an audit firm has an underlying problem: in its quality then you're just shifting a deck of cards. You're moving the problems and incompetency if they exist to someone else as opposed to fixing if there is an underlying audit quality problem.* R2

The respondents felt that the regulator should provide recommendations on how to fix the quality control deficiencies identified during the inspection process, instead of mandating for the firm to rotate because this is not reaching the root of the problem identified. The regulator should ensure that firms remediate the deficiencies identified to improve the internal quality controls. Many studies indicate that the PCAOB inspections improve both perceived and actual audit quality (DeFond & Lennox, 2017; Gipper, Leuz & Maffett, 2015; Shroff, 2015) because these ensure that recommendations made are implemented (Aobdia, 2016).

Experts were unanimous in their view that the culture of quality is also influenced by the external factors and suggested the use of improved corporate governance systems to bolster audit quality.

Empower audit committees

Several respondents indicated that “we have not empowered our audit committees enough to take decisions” (R2). The quality of the client leadership plays a vital role in ensuring high quality audit.

> *We must ensure that your audit committee is so strong and so conscientious about audit quality that as soon as independence seems to be looking bad then the audit committee must say hold on, these guys are not doing their job anymore (B1).*

Consistent with King- IV (2016), the audit committee should be capable of effectively assessing the performance of the audit work and audit-tendering.
Maroun (2015) argues that “effective performance management becomes a key accountability-mechanism which enhances transparency and confidence in the audit work performed”. Performance management is effective when the audit committee comprises of members who have knowledge, skills, experience and independence to make objective decisions. This can be achieved by providing training to audit committee members (U6:U11).

The respondents further contended that the clients are not cognizant of their role in ensuring high audit quality engagement. The client must be disciplined and deliver the information required by auditors on time because this will “significantly improve audit quality” (B9). This is because the culture of quality is negatively impacted when the audit work is not done within an appropriate time frame and is, as a result, rushed (B9). Another interviewee suggested an extension of audit reporting deadlines since this might positively impact audit quality.

> *Auditors come into a space for 2 weeks or 2 months to do an audit, having to do what people do for 365 days a year so understand that inherently you will not understand everything. (U8)*

Make the consequences of failed audits more serious

Experts indicated that “any regulation is only credible if I am worried about the enforcement thereof” (R2). Therefore, the fact that IRBA can fine an auditor up to R200 000 for doing something wrong is not enough to preclude an auditor from doing something wrong (R2). Experts further explained that audit firms are
“insured so it is not a big deal for them to be sued for a couple of hundredthousand and that the regulatory will have to attack the whole firm as opposed to individuals since individuals are disposable’’ (R4). Experts also noted that having more credible fines for auditors will cost the regulatory millions.

> *If the IRBA really wants to execute that rule they will have to invest millions of Rands because they can't do it themselves - they would have to employ real experts to go and analyse what went wrong in the audit…and then if they want to prosecute, it costs millions as the major firms have unlimited resources. (R4)*

Knowing that the whole firm can be fined a significant amount by IRBA for any quality control deficiencies identified during the inspection process will encourage the firm leadership to ensure that culture of quality is engraved to all members in the firm.

Change the education system

Experts believed that the current education system is wrong, not the quality controls at the firms. Therefore, students need to be taught the importance of ISQC1.

> *They don't know what is the sufficient and appropriate evidence for residual value. You are not teaching them that at the university. They think that talking to management is okay, but it is not. So, we have to have a completely different focus of audit quality when we get to the universities. That is a big issue. We are not teaching them the finer points and not only that, they must get 50% for auditing in the exams but when they come to the firm IRBA want 100%. There is a serious 50% gap. So, audit quality is not with the firm, but it begins at the university. B6*

Promoting the culture of quality to students while at university will make it easy to abide by ISQC1 elements. It will become the trainee's second nature to remain ethical and collect sufficient and appropriate evidence when auditing.

Remove the 3-year compulsory training contract

There was a concern that the 3-year compulsory training contract has a negative impact on the culture of quality because partners find themselves working with people who do not even want to become auditors. Most trainees take their articles as something they had to do to the get their qualification and have no love for it. (P3)

> *And by having that **attitude, the impact of the quality** that you get from your trainees and a manager and a partner **cannot always see were they have missed the boat; in big audits they will not see it**. So, I think if we didn't have that legislation and we employed people to go do the audit as normal employees I think the quality of performing the audit would be very different. (P3, emphasis added)*

The audit firm goal of providing high quality service to its clients will not be successfully achieved if the firm does not have an organizational culture which supports it. This is because if employees support leadership decisions and love

their work, they will go beyond the call duty and take the initiative in executing the strategy (Neilson, Martin & Powers, 2008). Therefore, removing the threeyear compulsory training contract will allow audit firms to employ and retain employees who value the profession, resulting in improved audit quality services provided.

4.3 Ethics and client acceptance and continuance

Ethics

ISQC1 requires audit firms to identify threats to fundamental principles and mitigate these threats immediately (Maroun & Atkins, 2014b).

4.3.1 MAFR as a solution to familiarity threats

Harris and Whisenant (2012) suggest that long auditor tenure may lead to "familiarity threat" as the engagement partner tends to anticipate the audit evidence instead of gathering enough information to reach a conclusion. The researcher asked the experts whether they believe that an auditor may become complacent as the audit tenure period increases in a long-term relationship with a client's management and, as result, audit quality suffer.

Most of the respondents agreed that auditors do become complacent when they have been auditing the same client for many years and indicated that "human nature is the reason for such'' (U6; B3; B6; P5). U7 pointed that "every year one and a third of the audit fail IRBA inspections due to independence, complacence and other issues". Experts also explained that audit firms and clients tend to have potentially inappropriate relationships. For example, most audit committee members previously worked for firms responsible for auditing the client (U7; B5; P2; R1).

Other experts felt that that there is no room for complacency because of the current safeguards, such as partner rotation and because of how audit firms are structured (B7; B9; P4).

> *The audit team that does not stay the same over the number of those years. Those changes all the time in five years. I don't believe that the number of years that you are auditing become more complacent, purely on the basis that it is* ***not the same people auditing year in year out****. I think we are already have partner rotation and most firms, we have management rotation out of it as well but to enhance that we have got engagement quality control reviews and I mentioned various other reviews that we have got, the IRBA review, our own internal review, as well as our international review. So, there are* ***enough checking*** *to ensure that there* ***isn't a cosy relationship developing****. (B7, emphasis added*)

Two experts further explained that the idea that auditors become complacent is just “perception and it might not be a reality” (B9; R3).

4.3.2 MAFR as a means to enhance auditor independence

Interviewees expressed their opinions on how MAFR will impact auditor independence (commonly used as an audit quality surrogate). Only one expert believed that MARF might have a positive impact on actual independence because it will take away that element of wanting to please the clients to keep them for a long period.

> *If you know that you’re going to be rotated, I think the human nature of wanting to keep the client will be eliminated. So, that idea that ‘I need to keep the client happy’ even though we shouldn’t, based on the standards, it’s very much human nature. ‘I want to keep my clients, I want to retain my profits’. I think it will take away that element of being concerned because you must move on anyway. B1*

Several experts agreed that MAFR will enhance *perceived independence* but will have no impact on *actual independence* (U1; U4; U5; U7; B1; B8; B9; B10; P6; R2) because, for example, the “best test of independence on an individual basis is your conscience” (P4) and MAFR will not “stop a partner from retiring and going to sit on one of the audit committees” (P1).

One expert noted that it is the investor perception of auditor independence that needs to be upheld always “because their perception can make them not invest in those companies whether real or perceived” (R1). This implies that perceived auditor independence is more significant to actual auditor independence. This view was disputed. Some experts (7 in total) said that MAFR will have no effect on auditor independence, because of the current measures which govern auditor independence such as partner rotation and the fact that audit teams change frequently (R4; B3; B4; U8; P4; P5; R3). This is the same point used to argue that there no room for complacency in the profession (see Section 4.3.1)

> *There’s this issue with the auditors being auditor for [Company X] for more than a hundred years. That’s rubbish; it’s just an emotional thing. I can tell you now [Audit firm X) is not the same firm now as they were one hundred years ago: it’s not the same partner, it’s not the same audit team, it’s not the same firm, it’s not the same policies, it’s not the same framework they are operating in. There are different standards, there are different laws. B1.*

Another expert explained that, in a layman’s eyes, if the audit firm have been auditing the same client for many years independence might be impaired (R4) but the expert believes that:

> *Some things you can't leave to layman - you don't let laymen decide how brain surgery should be done, why should you let laymen decide on how to be an auditor?*
> *The first thing they are conflicting, because they don't that understand that you will impair, damage audit quality by rotation - even if they think they will enhance independence. (R4)*

Similarly, another interviewee said that:

> *The perceived is driven by **lust** and **populist agendas**. Populist agendas are not always objective agendas. South Africa is not a junior country, we're growing on all fronts and you can't just come up with such an idea overnight thinking it is a perceived good idea. That's just not how you work. You work based on objectivity. Is it objective in the now? Is it needed? If so, yeah, let's go for it. In this case **I can tell you, we haven't looked at the many pertinent issues**. How will it be done? Who's going to regulate that? Who's going to oversee that the quality is not compromised? What are the consequences should it happen that the quality is compromised? (R3, emphasis added)*

There is an impression that there is a stated purpose and real purpose for the introduction of MAFR is South Africa. The stated purpose is to enhance the auditor independence and improve quality (B3) however, the real reason is driven by politics and the regulator has not taken time to look at the implications MAFR will have on audit quality. Another expert commented that:

> *Do I have to be honest [laughs]? The real thought process I think is political. It's people trying to score political points. Have you heard that one before? They are pretending that it's about independence and but in the end, it's about ego, it's about people trying to score points and trying to become famous for bringing in firm rotation because it sounds like the right thing to do. B1*

In contrast, another expert said:

> *Remember that the test of independence is not a question of what auditors think. It's what an outsider or lay man who observes the relationship is likely to think. So, it's a question of perception so there is no scientific test for independence. And if at any particular time an outsider looks at a particular relationship and they do not see any independence, independence has already failed. U7*

In addition, one expert mentioned that, even though MAFR will enhance perceived independence and mitigate familiarity threat, this will be bad for audit quality since being familiar with the client helps with client risk assessment (U3)

> *I think it will. So, I do think it will improve auditor independence. On the negative side, so although we'll reduce the familiarity threat because we're not so familiar with clients, that familiarity is also very important, it also brings experience to the audit. So, while we may be gaining on the one side, we may be losing on the other. If you aren't familiar with the client, you might not detect misstatements you should have detected. (U3)*

In summary, 75% of experts believe that MAFR will enhance perceived auditor independence with no effect on actual independence. This raises a question: are most of independence benefits of MAFR symbolic rather than substantive? Experts noted that it is difficult to regulate independence in mind which is consistent with the findings of Raiborn et al. (2006). Raiborn et al. (2006) found that MAFR cannot prevent people from either the audit firm or client from acting unethically because no one can control the mind. Additionally, experts recommended two ways that can enhance auditor independence: appointment of the auditor by the state and additional ethics training.

Appointment of auditors by the state

A proposal of appointing auditors by the state was suggested as a means of enhancing independence since it seem like we will never achieve actual independence while the client pays fees.

> *You would not have to worry about losing a client or worry about a relationship with a particular client. You would go in and do the audit work as is and I know that you need to consider your independence current but you often get clients who say they will not pay this fee, or we will only pay a certain percentage increase so that already is mixing up your independence with your fees so, I think it should be a tender process where people just tender for work and be allocated to a certain amount of work by government and that's how the work ends up being done (B9).*

However, the impracticality of this idea was noted by another interviewee who indicated that "if fees were paid by government that would be perfect independence but that is just not practical. I do not think it happens anywhere else in the world" (B1). Evaluating the merits of the state (or other regulator/third parties) appointing the auditor is beyond the scope of this research.

4.3.3 Institutional knowledge

In addition to discussing independence in broad terms, respondents evaluated the impact of MAFR on client acceptance and continuance. They focused on the impact on MAFR on gaining and maintaining a detailed understanding of an audit client. Opponents of MAFR argued that MAFR will result in loss of client-specific knowledge which might decrease audit quality (Harris & Whisenant, 2012). However, our respondents had mixed views on this subject. Some agreed that there is a higher risk of being able to uncover any issues in the earlier years of an audit tenure as the new firm may not have fully developed and applied an indepth understanding and financial reporting practices to the client (B2).

> *So, in theory you should not have issues because the theory is that you understand the client before you do all procedures. I think the reality is that you are trying to do so much in that first year, that you know…you assume everything is wrong so, you do a lot of work in many areas. So, sometimes our brain cannot be all over the place at the same time. I don't know. B3*

Auditors require time to understand the client fully (B2). This suggest that auditors acquire a better understanding of the client as time progresses. So, frequent changes in auditors will result in auditors losing the experience gained over years: this has been cited as one of the things which positively influences audit quality (Daugherty et al., 2012)

In contrast, some respondents indicated that, according to ISQC1, audit firms are supposed to be putting effort to understand the client every year. The audit firms believe that they are custodian of institutional knowledge relating to an audit which prevents them from not applying fresh the pair of eyes every year. They think "well if I did this last year the institutional knowledge will help me" (U7).

> *No, if the Big Four says it takes time to understand their client it means that their processes of doing their pre-engagement activities and learning about their client are weak, so there is no such logic in saying that it takes forever to understand a client so therefore, let's not call it learning a client. (U7)*

Similarly, another interviewee said:

> *I don't agree with that at all, simply because no one can sign an audit report without enough knowledge of the client. Audit quality doesn't happen after the first 3 years but happens immediately. You cannot accept an appointment if you don't know the client. Whoever said that is talking absolutely nonsense. That audit quality will decline in the first 2 years, its rubbish. You cannot accept the client if you don't know them and you don't need to know the client as if it was you. Are you telling me that in the first 3 years all audit opinions are wrong? B6*

Several respondents were unanimous in their view that no audit firm will accept a client without fully understanding the client environment because the "repercussions are too huge" (B7). Respondents further indicated that audit firms will spend a significant amount of time to gain that knowledge within a short period of time and that this will waste management time as they must re-explain things to the new audit firm (B2; B7; R2).

4.3.4 Client acceptance practice

When we asked our experts whether there will be any changes to policy/practice dealing with client acceptance and continuance in response to MAFR, all

respondents agreed that firms will have to make changes to their existing client acceptance and continuance systems. This is because MAFR will have a material impact on the business operations, with a significant number of clients changing their audit firms during the 2020's. For example, one respondent said:

> *[Audit firms] are going to plan to try and adapt to known loss of revenue - so I'm talking about the real big ones - they are going to schedule out which clients are we losing audit over time and then they are obviously going to target audits very vigorously to get new audits over that same period but also to cut their costs accordingly - because you know if several clients are due for rotation at the same time - now suddenly my revenue can drop massively -* ***what am I going to with all my people and all these offices that I got*** *- some places the whole audit office will have to close… these big firms have offices that are in particular places that service 1 client - the office not the firm - the firm has hundreds of clients but when they got these giant corporations, they got an office that is solely to serve that one client huge client - now they lost the client, that's the end of that office and those people* ***"bye****"…now what might happen is that those guys may say* ***whoever gets the audit we're just going to get a job there*** *- so the partner from [Audit firm X] moves to [Audit firm Y] and says :here I am, I was the partner at (Company X), here I am so, it would* ***defeat the whole purpose****. (R4), emphasis added)*

The above suggests that MAFR will cause employment disruptions and may result in less staff investments. For example, audit firms might choose to hold less staff and hire more whenever is needed (R4); R2) "which is not good for audit quality because they are not your controlled people" (R4). There is also a possibility that the audit teams might rotate with clients which will not achieve different eyes looking at the financial statements. It will just be the same team which previously audited the client but is now working for a different employer.

The regulatory will have to implement measures around rotation of audit teams because this will negatively impact perceived independence (U4).

Experts also noted that there is a possibility that some firms will low-ball to get an audit which will impair independence and will not be enough to deliver a highquality audit (R4; B3). Respondents further suggested that the relationship with clients will change and this will negatively affect audit fees because they will charge more upfront.

> *What I think will change is potentially our relationship with a client. I think we will be less inclined to…I think we will ask for more scope variances in terms of the audit fees. I think this thing of we are investing in our client relationship will change. We will be less inclined to suck up their inefficiencies. B3*

Audit fees will also increase because MAFR will increase the audit start-up cost as firms will be spending additional time gaining knowledge about the client (see Section 4.3) (P4; P5). Respondents believed that increase in audit fees will put a strain on companies, considering that the South African economy is growing at a lower rate (B3). However, one expert said that it does not matter whether the fees will increase because, currently, the audit fees are understated.

> *Audit fees are very much understated, and auditors are definitely under paid based on the risks. I don't care if is going to increase the audit fees or not. Auditors deserve bigger pay. They got bigger risks. They don't necessary know what goes on into an audit. So, suddenly there are worried about the audit cost and audit fees. (B6)*

In contrast, one expert said the audit fees will decrease (P2). This is because in "theory, the audit fees should decrease because MAFR is supposed to increase competition" (B1) and decrease market concentration.

Overall, there were mixed views on how MAFR will impact audit fees. Audit quality has been found to be significantly related to audit fees with a positive relationship by researchers (Choi et al., 2010). Furthermore, GAO (2003, p. 55) notes that:

> *However, competition among public accounting firms for providing audit services should to some extent also affect audit fees. If intensive price competition were to occur, the expected benefits of mandatory audit firm rotation could be adversely affected if audit quality suffers due to audit fees that do not support an appropriate level of audit work.*

Similarly, Pearson and Trompeter (1994) found that the level of competition and market concentration has an influence on the audit fees charged. The aim of MAFR introduction in South Africa is also to increase competition and market concentration (IRBA, 2016) and the impact of MAFR on these aspects is discussed in detail below.

4.3.5 Competition and market concentration

Competition and market concentration have become part of the audit quality debate and many academic papers have been published of their aspects impact on audit quality. Francis (2011) suggests that the structure of an industry can affect economic behaviour in markets, such as the level of product quality and the pricing of services. The regulators believe that the lack of competition in the auditing industry can possibly have a negative effect on audit quality and sees MAFR as solution to this problem (European Commission, 2010; IRBA, 2016).

Only six of our interviewees believed that MAFR will increase competition and reduce market concentration (U7; B1; B5; U8; P2; P6; R1). One expert said that

MAFR give an opportunity to the mid-tier firms to access the lower end of the JSE-listed companies and other markets (R1). Similarly, another expert commented that:

> *We are going to grab those audits coming our way based on the timeframes and it is quite clear with the time cooling off period of 5 years. There is sufficient time for us now to. If the Big 4 firms do not resign now they will not be allowed to audit those client in 2023 so, if they resign now we will get the audit now. At the end of the day this is good for everybody, because there is a 5-year cooling off period. If the Big 4 doesn't resign now from their consulting services, they won't be eligible to audit those clients in 2023. So, we are going to try to get into the listed markets. We already have a couple of clients listed but we will get more. There is a big opening to the market. B6*

In contrast to the regulator's belief (ref to IRBA report), most of the respondents were unanimous that MAFR will not increase competition and reduce market concentration because big listed companies will keep rotating among the Big Four. This is because the large audit firms have the resources and international experience to audit large (and often multinational) clients, unlike their smaller competitors. Experts further explained that, being audited by the Big Four helps companies to attract investors because of a perceived reputation effect (R4; U6; P4; P5; R3).

> *If you are a serious listed entity and you want to attract foreign investors, it wouldn't enter my head to go to a local auditor even if they are great - I need the credibility so that when the mutual funds in the US looks at me, they will like the auditors - someone they know - and now they don't know - so that's a problem. You can't change the world, tell them it's unfair, you can't change the world - I realise it's unfair but that's the world. (R4)*

Furthermore, these respondents suggested that MAFR will make the market more concentrated because a client which previously used a mid- tier firm will opt for a Big Four firm next time. Similarly, one expert indicated that the audit committee of a large multi-national group is not going to see the small firms as having capabilities to audit them and, as a result, mid-tier firms will lose a lot of money on making proposal for audit they will need attain (U6).

> *But even worse, take one of our listed entities, we've got let's say (company X). One of the big listed entity, we audit them. If they come up for rotation, they are not going to go to (mid-tier firm) but will go to the Big Four and* ***will be lost to the smaller firms****, so the pool of* ***Big Four will just get bigger and bigger and bigger*** *and the concentration will become more and more.* ***MAFR will do the opposite****, and apparently in Italy that has been the experience, it's been proven that* ***it's quite the opposite****. B1, emphasis added.*

Another reason for not achieving market concentration is that the Big Four firms might collude to maximize their revenues (U2), discussed in detail below.

4.3.6 Collusion

Ethical reasoning is important for determining the overall quality of the auditor's professional judgement, so auditors should remain ethical at all times (Gibbins & Mason, 1988). Some experts suggested that MAFR gives an incentive to audit firms to act unethically to maximise their revenues. Collusion is a possible example (U4; R4). This is consistent with a study conducted by Arrunada and Paz-Ares (1997) which found that MAFR "directly creates a system of turns and, in short, an artificial division of the market, which can favour collusion among auditing firms". Furthermore, one expert provided an example of how unethical behaviour will happen.

> *I think audit firms will play with the rules of the audit firm rotation, like "I'll do the audit work for these five years, you do the advisory work for the five years and after five years, and we swap." Reason is the advisory people still understand the business so then they'll just rotate. U2*

However, other experts said that collusion was unlikely because the Big Four is concerned about maintaining their reputations (B10). In addition, the interviewees indicated that collusion would be dealt with severely under South African law which already includes material sanctions for anticompetitive behaviour (B6). For example:

> *We have too much to lose. We are nothing without our name. B10*

Similarly,

> *Certainly, it's theoretically possible but in SA we are quite vigilant now in 2017. I don't think it will happen. I mean there is certainly a possibility… but certainly not on a knowing basis - the consequences in SA are too severe. When you say we are very vigilant do you mean in one particular thing or the general culture of SA? The competition law in SA in that particular area and the penalties are exceptionally harsh – the profession is very sensitive to those sorts of allegation for a lot of decades… I don't see that happening on a big scale: it might happen in [Audit firm X] branch but not in a big scale. (R4)*

4.3.7 Small firms and capacity issues

To ensure that the quality of the engagement is not compromised ISQC1 requires that the auditor should not accept the client when it has the capability to executed the engagement (IAASB, 2009). On this note, the researcher asked the experts whether they believe that small to medium firms have a capacity to audit big listed clients. There were mixed views and experts were emotional about this subject as

some respondents believed that other role players will never have capacity to audit big clients (R3) and clients will always appoint auditors they believe have a capacity to service them (R2). However, one expert said that:

> *But again, let us be the judge of that, we are not stupid, we are not going to take on a client that we don't have capacity for, or that we can't get capacity for. (B1)*

One expert went further to say *that "I almost feel like we have to accept the fact that there is a Big 4 and somehow improve quality around that"* (U1)

> *The second issue they say is "to provide access to markets" and so forth. It is also rather naïve because the scale of the giant audit firms, for a really giant corporate audit client only four audit firms can service them, so it's not realistic to think that some second-tier firm can service one of the really giant corporate firms - they can't do the work. It's not practicable, you need, you have, 30 offices around the world and they just can't do it. (R4)*

In contrast, one expert believed that this "is more like an egg and chicken situation; who will hire a hundred people if you do not have the income to pay them" (R1). Experts further indicated that these audit firms will expand their resources and can always recruit from the Big Four when a client moves to midtier firms (U8; B5)

> *Capacity is a consequence of access to resources so if you don't have clients that are sufficiently large enough to back it up, you are not going to hire people. So, the reason why capacity might be a constrain is historic; they were not going to get a big client anyway but now that they are in a position to access big clients, it means that they are in a position to extend their capacity and their wisdom, so they work hand-in-hand. U7*

In addition, experts recommended that, since small firms do not have capacity to audit big companies alone, there should be compulsory joint audits between Big Four and non-Big Four firms to assist small to medium firms to obtain experience. (U7; B1; B10; U8; P6)

> *What they should be doing is every time you appoint a Big 4 firm, it should be compulsory to have a joint audit for the top 40 companies so that we can learn. So, you can't stop us. You have got to give the black firm level play field. You can't say do you have the resources…of course, we don't. You got to give us a chance because if you don't that is wrong. B6*

4.4 Human resources, engagement performance, monitoring and continuous improvement

Experts reported little impact of MAFR on the audit firm's audit methodology but indicated that MAFR will influence the extent of monitoring, supervision and review (B9; B10; P1; R2).

4.4.1 Increases in audit start-up costs

Firms will have to spend more time planning the audit and communicating with previous auditors in an effort to understand the client (U1; U2; U3; B1).

> *I presume that the monitoring and review for the first two or three years is going to be extensive and you actually don't have a break there. The person with the expertise at the top being your manager and partner, need those 2-3 years to acquaint themselves and since they are brand new to the assignment, you going to be far more involved than you know if you've been there longer you already know the client you can set them up and brief them so it all goes much faster because you already know the client.so up to 3 years you have to invest a lot of your time getting to know the client*. P3

Cameran et al. (2013) found that audit hours were more by 17 percent in first year of an engagement because more time is needed to be familiar with the client. MAFR will increase the number of audit hours. Furthermore, the experts indicated that in the first year of engagement the auditors over-audit because performance materiality is set lower due to high audit risk (B3) which increases the audit costs. The increased audit costs should correspond with audit fees to ensure that auditor objectivity is not impaired.

4.4.2 Disciplinary power

Corporate scandals always spark a regulation response in the hope of restoring stakeholders' trust (Malsch & Gendron, 2011; Unerman & O'Dwyer, 2004). This is because the regulation has a power to discipline auditors and improve audit quality (Maroun & Atkins, 2014b; Maroun & Solomon, 2014b). For example, one interviewee commented that:

> *From an individual audit perspective, [MAFR] will change the audit. Whether it's going to change* ***the culture****, I think it might because we'll have a situation where if I'm not doing this properly, when the audit rotation occurs, the new audit firm can say, "Look what the previous auditors did. They didn't do it properly; they don't have proper quality control."* ***So even though they're being reviewed by IRBA, it'll almost be like an extra check and now our peers are evaluating us and are checking us****. I think it could result in improvements in that sense. So yes, I think there'd be improvement from the* ***watchdog perspective****, are they concerned that perhaps they're going to be more evaluated than before?* ***So, it may result in better monitoring, better supervision, and better review****. I don't think it would change the way the audit is conducted too much. I think the firms would still be using the same methodology and same way of using the ISAs. Maybe the overseeing of the process would be more thought out. (R4, emphasis added)*

As a result of MAFR, there is an added awareness of surveillance on auditors. Respondents suggested that audit methodology will not change but the behaviour

or the attitude of auditors toward an audit will change because it is human nature to be more diligent when knowing that someone will be looking at your work (R1)

The technical procedure [audit methodology] is left unchanged but the application is altered as a result of MAFR. This means that it is more than just windowdressing (Maroun & Atkins, 2014b). MAFR will increase the extent of monitoring, supervision and review suggesting that audit firms react positively to the added sense of surveillance (R4). This will improve audit quality.

In contrast, some experts believe that MAFR will not change the auditor's behaviour because audit firms are already subject to many reviews. One expert commented that:

> *No, because with audit quality we are subjected to 8 already in terms of internal firm quality reviews, in terms of regulator quality reviews so I certainly don't see that as an improvement in quality. (B2)*

Another reason why an additional level of review will not make a difference is that auditors already strive to produce high audit quality engagements to maintain their reputations (B10). This is because it is "too risky to conduct an audit without proper due diligence and care, especially since you can be sued" (B7).

4.4.3 MAFR influence on audit infrastructure

International research suggests that MAFR discourages audit firms from investing in technological improvement for specialised industries since costs incurred might not be recovered due to short audit tenure (Elitzur & Falk, 1996). Many respondents were against this statement saying that "firms will continue to invest in technology regardless" (B2) because companies invest to improve and not for any specific client (U8; B7; B8; P6). Experts further indicated that 10 years is a long time to recover your investment (B5) so, "If you plan to recover your investment over more than 10 years, you are a stupid anyway, you are naïve anyway. You should recover your investment in a shorter period than that" (B1). Another expert commented that:

> *If firms are saying that they will be demotivated from investing in their own technology, that's a business decision that the firms are making and if they don't think they should invest in their own resources that has nothing to do with the client. You do not invest in your own resources on a basis of a client that exists ,you invest in your own resources on the basis that you feel that your staff or resources need to be capacitated and this has nothing to do with a particular client ,and, remember, even currently there's nothing that is stopping a client from walking away so that argument could mean to say well, you could take the money and invest and the client can still walks away coz nobody invests and*

> *then goes to a client and, say, see this is how much money we have invested so, you must stay with us for the next 100 years. (U7)*

Respondents also suggested that firms will continue to invest because even though a firm might lose a client they can still use that infrastructure to perform non-audit service for that client or service another client (U8; U7) because "IT is not specialised anymore" (P2).

> *There are a lot of mines in SA. It is not necessarily that if *** is doing this mine, after 10 years it can't rotate to another mine. I mean an audit is an audit. I mean if you know the mining industry, I mean like it's not like there is only one mine. I mean the industry norms is that…? Africa is wide, the world is wide, and I mean you can use that industry knowledge and sell that knowledge or use that knowledge in another country. B5*

Experts did not perceive any impact of MAFR on audit firms' decision to invest in infrastructure. This is important because IQSC1 requires a firm only to accept engagement which they have the necessary resources and skills to perform and this is the responsibility of the engagement leader (IFAC, 2006; IAASB, 2009).

4.4.4 Fresh look

Finally, MAFR has been associated with an increase in audit fees and loss of client specific knowledge (Harris & Whisenant, 2012). However, the advocates of MAFR believe that it will enhance auditor independence through ending long associations with client (Lu & Sivaramakrishnan, 2009) and will result in new look at the financial statement. The researcher asked interviewees whether a fresh look would benefit the client more than the associated costs: and the result mixed views. Some said there is no benefit for the client because audit firms will continue delivering the same quality but, companies will incur cost (B3).

> *I don't know if there is a benefit to the client because the independence is more on the auditor issues so the fact that a client will have a new audit firm I don't think it would necessarily be beneficial to them if they are forced to rotate and also there would be an increase in costs, not only a learning curve but also significant pressure in terms of some time lines because the reporting deadlines are now 4 months of the year-end and not the 6 months as before so everything need to escalate in the current economy, a client would have to invest in probably additional resources to assist. B9*

There are no added benefits to the client because the auditor transition costs money and time to client. In contrast, some experts said "there are some things in this world that, even if they are more expensive, are sort of priceless "(U8)

> *the important issue here is that the concepts of auditing is not something that companies would sign up if they had a choice. So, it is by default a cost of compliance and when a*

> *cost of compliance has to be weighed against the risks... the risks are in a regime where compliance is weakened, the cost to society of big firms failing is much bigger. (U7)*

There is a body of literature which argue that more regulation is unlikely to make any meaningful reduction in audit failure (examples inclunde Calderon Thomas, 2008; Manry et al., 2008; Meyer et al., 2006) and that regulation often has unintended consequences, despite good intentions (Maroun, 2012).
Respondents felt that potential benefits of rotation seem unlikely to be exceeded by the costs associated with it. Experts further explained that most of the benefits of rotation can be realized by rotating the engagement partners and strengthening the current measures, such as empowering the audit committees. However, some expert felt that the regulation benefits on the border scale exceed any harm associated with it.

Chapter 5: Summary, conclusions and recommendations

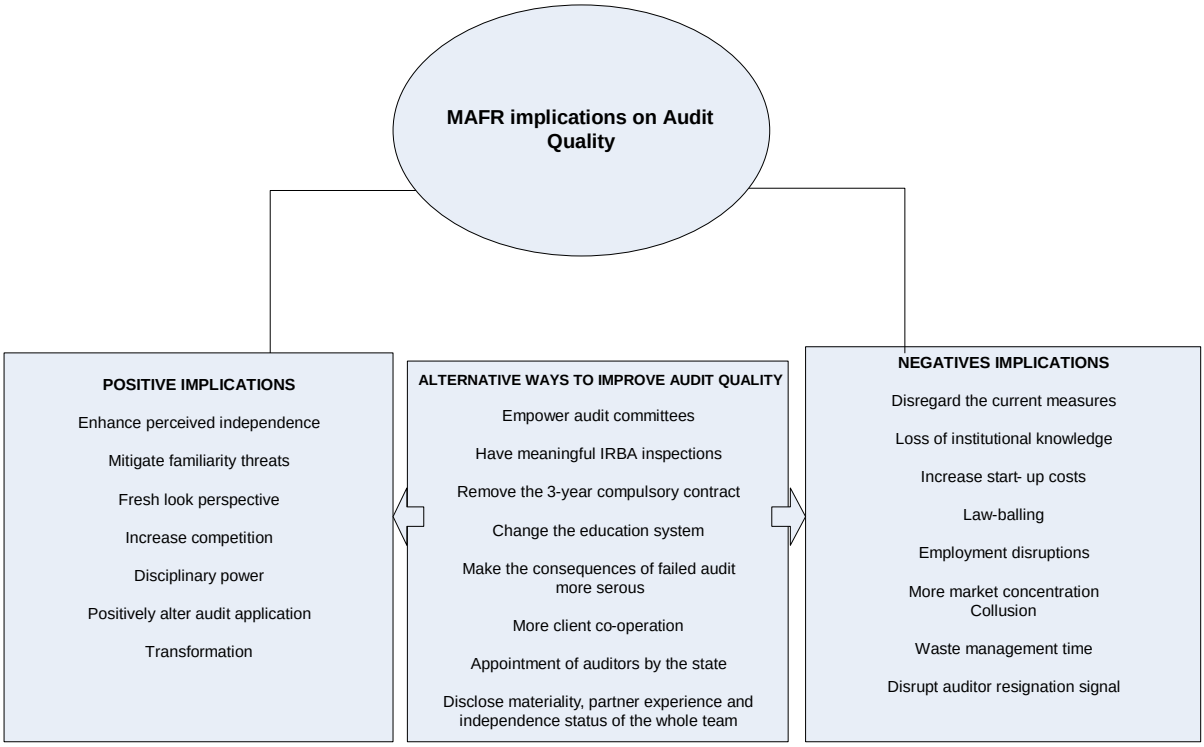
This chapter provides a summary of the major findings from detailed interviews and draws conclusions from there (Section 5.1). Section 5.2 outlines the contribution of the thesis and, finally, Section 5.3 discusses the limitations and makes recommendations for future research.

5.1 Summary

South Africa has recently made a decision to implement MAFR from 2023 with the objective of enhancing auditor independence and improving audit quality (IRBA, 2017). The aim of this study is to gauge opinions from different stakeholders on the possible implications of MAFR on audit quality.

The study found that MAFR is perceived to have both positive and negative implications for audit quality. This is consistent with a study conducted by Raiborn et al. (2006) which found that MAFR has both advantages and disadvantages. The possible implications of MAFR on audit quality are summarized in Figure 1.

Figure 1: MAFR implications on audit quality



Although the aim of MAFR is to enhance auditor independence IRBA, (2016) the results show that only perceived auditor independence will be enhanced so, MAFR has no impact on actual auditor independence, indicating that most of independence benefits of MAFR are symbolic rather than actual. However, Raiborn et al. (2006) argue that the sense of confidence that audit opinion was designed to provide to stakeholders will not be achieved when independence in appearance is tainted. In particular, it is important that any familiarity threats are mitigated immediately by the engagement leader to preserve independence in appearance (Maroun & Atkins, 2014a). MAFR will mitigate any familiarity threats by requiring certain companies to have new audit firm every 10 years. In addition, because of frequent changes of auditors, there will be a fresh pair of eyes looking at the financial statements which respondents argued that this benefit is priceless.

Regulators believe that the lack of competition in the auditing industry can possibly have negative effects on audit quality and see MAFR as a solution to this problem (European Commission, 2010; IRBA, 2016). MAFR is believed to present an opportunity to the small to medium firms to access the lower end of the JSE-listed companies and other markets. Giving other firms the access to the markets is believed to result in transformation of the auditing industry which is currently dominated by the Big Four firms. This suggests that, in the South African context,

transformation and the need to ensure that the audit market is not dominated by a select number of firms are part of the audit quality landscape, in addition to the elements outlined by ISQC 1. It should be noted that, based on the results in this study, few experts concur with the regulators. Several experts believed that MAFR will reduce competition and make the market more concentrated.

The researcher also found that the extent of monitoring, supervision and review will be enhanced because it is human nature to be more diligent knowing that someone will screen your work. Prior literature indicates that, in longer audit tenures, audit quality declines (DeAngelo, 1981b; Deis Jr & Giroux, 1992). This is because the auditor may fail to maintain professional skepticism and would not incorporate an element of unpredictability in the audit as the auditor tends to trust the client (Holm & Zaman, 2012a). Therefore, this added sense of surveillance will change the auditor attitude toward an audit, indicating that MAFR has a disciplinary influence on auditors. However, some respondents advised that the added sense of surveillance will not have any material impact on audit quality because auditors are already subjected to many types of quality reviews.

The interviewees felt that, despite the good intentions, MAFR may have unintended negative consequences. Firstly, MAFR's disregard all the current measures such as the formal code on corporate governance (King-I); SarbanesOxley Act (SOX) 2002; mandatory partner rotation; the prohibition of certain nonaudit services; oversight functions of audit committees and the review of audit engagements by an independent regulator (Maroun et al., 2014; Maroun & Solomon, 2014b) which have been put in place to safeguard audit quality. Audit quality will decline because MAFR disempowers the audit committee so its critical role in ensuring audit quality is weakened.

Secondly, MAFR will result in loss of client institutional knowledge which will negatively impact audit quality. Prior studies found that audit risk is high in the first few years of an engagement because of an in-depth understanding of the client, indicating that auditor experience positively influences audit quality (examples include Carcello & Nagy, 2004; DeAngelo, 1981b; Loebbecke et al., 1989). The new auditor will have to commit additional resources to gain the knowledge within a short period of time which will waste management time as they must re-explain things to the new audit firm.

Thirdly, start- up costs will increase since audit firms will have to spend more preparing proposals frequently and gaining client knowledge. Having to prepare

proposals often might distract the firm leadership from ensuring that the internal culture of quality is maintained always. There were mixed views on whether all these costs incurred by audit firms will result in increased audit fees. On a related note, the researcher found that some audit firms might low-ball just to get the audit, which imposes the risk of not having sufficient money to deliver a quality audit. Low-balling will also impair auditor independence (Dopuch & King, 1996).

Fourthly, MAFR is seen by the regulator as a measure to address market concentration. Francis (2011) suggests that the structure of an industry can affect economic behaviour in markets, such as the level of product quality and the pricing of services. The researcher found that MAFR will do the opposite of the regulator's intention. Experts indicated that the audit market will become more concentrated because companies which are currently audited by small to medium firms will opt for a Big Four firm when it is time for rotation. This means that small to medium firms will lose clients and gain little. Furthermore, the results indicate that companies will keep rotating amongst the Big Four firms resulting in mid-tier firms spending a great deal of money on audit proposals they will never see results from due to capacity and reputation issues. Another reason cited by experts which could hinder MAFR's intention to address market concentration is the possibility of collusion among the firms through swapping the clients, indicating that MAFR gives reason for improper conduct. However, other experts contended that this cannot happen because the Big Four are concerned about maintaining their reputation and that, if it happens, the South African Competition Commission will deal with firms accordingly.

Fifthly, the researchers also found that MAFR will result in employment disruptions because when the firm loses a client, the audit team which previously audited that client will no longer have a job to do. This may result in firms investing less in staff and hire more staff as when needed which is not good for audit quality because the internal culture of quality may not be entrenched among staff hired on exception basis. It should be noted that no impact on investment in technology was found. Experts strongly believed that firms will continue to invest in technology because they invest to improve themselves and not for any client. This paper results conflict with (Elitzur & Falk, 1996) study.

Finally, the internal culture of audit quality will deteriorate because MAFR will discourage the audit committee from tendering the audit when needed before ten years. As a result, the importance of auditor resignation as a signal to investors to

say either the auditor is resigning because the auditor is unhappy about something or the client was not happy about something and has fired the auditor will be disrupted.

Overall, respondents argued that MAFR is a drastic measure and recommended the following alternate ways to improve audit quality.

- Empower audit committees' through training to have the skill and the necessary knowledge to assess the auditor's performance and audit tendering.
- Clients should cooperate with auditors by providing the requested information on time for an audit to be done in an appropriate time frame and not be rushed.
- IRBA inspections should be carried out by staff with the necessary skills to identify material quality control deficiencies. Furthermore, IRBA should monitor firms, implementing the recommendations made during the inspection process.
- The consequences of failed audits should be more credible. IRBA should not fine individuals but fine the whole firm for a significant amount. This will encourage the firm's leadership to ensure that the audit quality is maintained in all audit engagements. It is through effective monitoring and accountability that professional reputation is preserved (IRBA, 2011; SAICA, 2012).
- Auditors should be appointed and paid by government or an insurance company to achieve auditor independence. This is because auditor independence is impaired in the process of pleasing a client to remain with the firm.
- Change the university education system to a system which emphasises the importance of ISQC1 to students. When these students become employees of audit firms, the culture of audit quality will become second nature to them.
- Remove the 3-year compulsory training. The audit firms currently work with many audit trainees that do not love and value the auditing profession and this attitude impacts audit quality. Therefore, removing the three-year compulsory training contract will allow audit firms to employ and retain employees that love and value the profession, resulting in improved quality of services provided.

- It must be compulsory to have a joint audit between a Big Four and nonBig Four firms when auditing big listed clients. This will afford an opportunity to the mid-tier firms to gain knowledge and experience.

5.2 Contribution of the thesis

- There is considerable debate about MAFR's impact on audit quality. Therefore, this thesis is important for informing policy decision.
- This research adds to the body of work on audit quality and the effects of regulation on audit quality. Most research these is quantitative and reductionist. Many researchers have tested audit quality by looking at how audit quality surrogates changed, such as discretional accruals (Chi et al., 2009), whether earnings quality improved before or after the adoption of a regulation (Myers, Myers & Omer, 2003). This research makes an important theoretical contribution because it provides the firsthand account of the technical changes taking place at the firm level in response to a regulatory development.

5.3 Limitation and future research recommendations

The researcher is cognisant of the fact that MAFR is only effective from 2023 in South Africa. The study is, therefore, limited to examining the perceived implications this regulation may have on audit quality. The most appropriate research in the following years would be to examine the actual implications this regulation has caused. This will shed light on whether South African experience is consistent with other countries which have had MAFR, such as Italy. Furthermore, this kind of research may assist in identifying the problems with new regulations adding to the critical literature indicating that more regulation often has unintended consequences, despite good intentions (Maroun, 2012).

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Appendix A: Interview agenda

1. What is the purpose of introducing MAFR?
2. Do you think sufficient information has been presented to the public about the need for MAFR by IRBA?
3. Overall, what do you think are the benefits of introducing mandatory audit firm rotation in South Africa?
4. Will the implementation of MAFR change how audit engagement is conducted, including the extent of monitoring, supervision and review?
5. With the introduction of mandatory audit firm rotation, do you think that the "fresh look" would benefit the client more than the associated costs?
6. Do you think that MAFR will have an effect on auditor independence?

7. Do you think that an audit firm may become complacent as the audit tenure period increases?
8. Prior literature suggests that there is a higher risk of being able to uncover any issues in the earlier years of an audit tenure as the new firm may not have fully developed and applied an in depth-understanding and financial reporting practice. Do you agree with this?
9. What changes, if any, are planned to firm policy/practice in response to MAFR?
10. Do you think that audit firms will continue to invest in technological improvements?
11. It has been said that changing an audit firm sends an important signal about audit quality to investors so, do you think that MAFR takes away this signal?
12. Are the current measures enough to ensure audit quality?
13. Do you think the second-tier audit firms have capacity to audit a listed company?
14. Is there a more effective way of improving audit quality than MAFR?

Appendix B: List of interviewees

Respondent Number	Classification	Length on interview
Respondent 1	Academic	19 min
Respondent 2	Academic	17 min
Respondent 3	Academic	15 min
Respondent 4	Academic	39 min
Respondent 5	Regulator	57 min
Respondent 6	Audit partner	27 min
Respondent 7	Regulator	41 min
Respondent 8	Regulator	49 min
Respondent 9	Audit partner	35 min
Respondent 10	Preparer	18 min
Respondent 11	User	35 min
Respondent 12	Academic	35 min
Respondent 13	Audit partner	20 min
Respondent 14	User	24 min
Respondent 15	Preparer	26 min
Respondent 16	Audit partner	36 min

Respondent 17	Preparer	31 min
Respondent 18	Preparer	31 min
Respondent 19	Audit partner	35 min
Respondent 20	Audit partner	31 min
Respondent 21	Regulator	19 min
Respondent 22	Academic	12 min
Respondent 23	Academic	11 min
Respondent 24	Academic	12 min
Respondent 25	Academic	13 min
Respondent 26	Academic	15 min
Respondent 27	Audit partner	18 min
Respondent 28	Preparer	19 min
Respondent 29	Audit partner	26 min
Respondent 30	Analyst	16 min
Respondent 31	Audit partner	23 min
Respondent 32	Audit partner	36 min

Appendix C: Ethics clearance

Ethics Clearance was granted by the University of the Witwatersrand. The following is the Ethics Clearance reference: CACCN/1129