

# **CHALLENGES FACED BY BLACK-OWNED AUDIT FIRMS IN SOUTH AFRICA IN PENETRATING THE JSE AUDIT MARKET**

**By**

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## **ABSTRACT**

Black-owned audit firms in South Africa are experiencing challenges as they try and access JSE listed external audit. This study outlines the challenges that are being faced by the black-owned audit firms in their quest to access and gain JSE listed external audit clients. The study also explores the critical success factors essential for black-owned audit firms to successfully access and gain JSE listed external audit clients. Given that prior to the attainment of democracy in 1994, the majority of South Africans were purposefully excluded from meaningful participation in the economy, the research sought to gain an understanding of the perceived challenges faced by black-owned audit firms post-apartheid in accessing and gaining JSE listed external audit clients. This study reviewed the existing literature in to understand the challenges and critical success factors and applied the findings to the black-owned audit firms.

The research adopted a qualitative approach in exploring the challenges and the critical success factors essential for black-owned audit firms to access JSE listed external audit clients. The research found that black-owned audit firms experienced challenges with lack of funding, lack of skills required for expansion, failure to attract and retain talent, lack of opportunities for growth, limited geographical reach, strong preference for Big 4, resistance among companies, lack of sector experience. The research identified critical success factors of having JSE accreditation, experienced / technical skills, firm experience, knowledge of the industry, firm size and reach, personal relationships, the project team, reputation and firm resources. The recommendations point to the need for stakeholder engagement and buy in from stakeholders such as the JSE, IRBA, listed companies, institutional investors, financiers and lenders. The recommendations also identify the need for the creation of enabling legislation that will help level the playing field and consideration for limiting auditor liability.

## **DECLARATION**

I, Nyarai Gamuchirai Margaret Muzarewetu, declare that this research is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before any degree or examination in this or any other university.

Nyarai Gamuchirai Margaret Muzarewetu

Signed at Parktown, Johannesburg

On 10 November 2017

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# CHAPTER 1. INTRODUCTION

## 1.1 Purpose of the study

The purpose of this study was to explore the perceived challenges faced by black-owned audit firms in South Africa in accessing and gaining JSE listed external audit clients from the perspective of senior management members responsible for managing black-owned audit firms. The study was also intended to identify what the black-owned audit firms perceived as the critical success factors essential for them to successfully access and gain JSE listed external audit clients. This study was partly driven by the researcher's involvement with a black owned audit firm that is experiencing challenges in attracting JSE listed external audit clients. The experience from being part of a black-owned audit firm and the researcher's desire for transformation and access to the same opportunities were part of the motivation for undertaking this study.

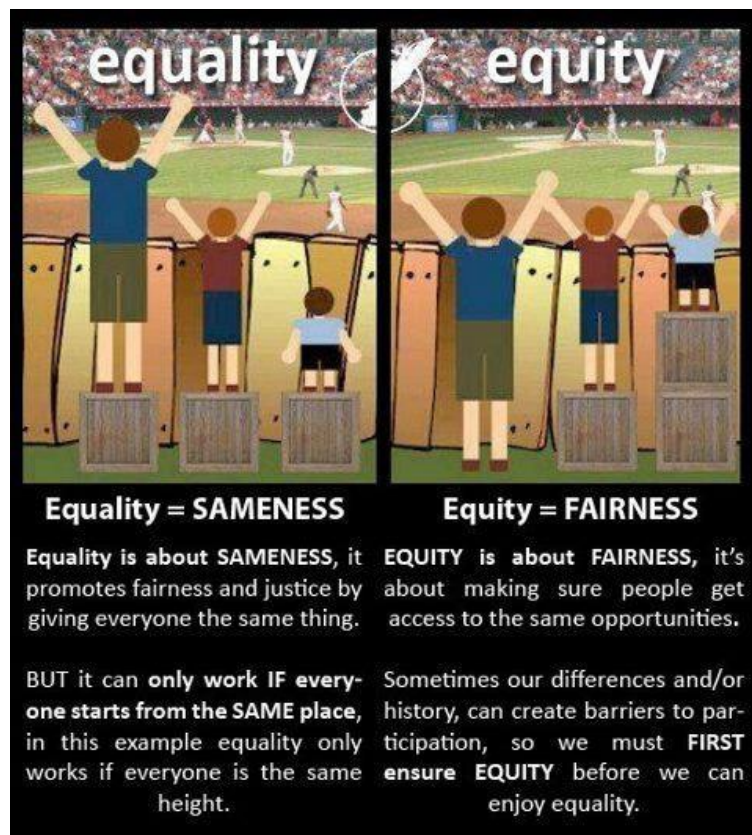


Figure 1: Illustration on Equality vs Equity (Hassen, 2014)

## 1.2 Context of the study

Prior to 1994, there was a system of apartheid that was practised by the minority rule in South Africa which systematically and purposefully restricted the majority of South Africans from meaningful participation in the economy (the dti, 2003). This created and entrenched inequalities that kept black people from full participation in the South African economy. At the dawn of democracy, the South African government created and implemented transformation policies, such as Broad-Based Black Economic Empowerment (B-BBEE) as a means of redressing and dealing with the problems created by the past apartheid regime which created an unequal society where not all citizens were seen and treated as equal. The fundamental purpose of B-BBEE was social and economic transformation for the benefit of all South Africans (Cargill, 2010). One of its key objectives was to implement empowerment measures that would deal with the skills development challenge facing South Africa. According to *Visions of Black Economic Empowerment*, B-BBEE sought to have empowerment, equitable opportunities and representation in all spheres of the economy extended to those previously disadvantaged by previous discriminating laws or practices (Marcus, Mangcu, Shubane, & Hadland, 2007). Twenty years have passed since the attainment of democracy and real transformation, as envisaged through the creation and implementation of these policies, has not been significantly achieved (the dti, 2003).

Those in leadership positions in black-owned audit firms have indicated that they experience difficulties in getting work from the private sector (Council, 2011; Ndzamela, 2015). No research has been completed into understanding the challenges faced by black-owned audit firms in accessing and gaining JSE listed external audit clients. Prior research has been conducted by Firer and Swartz (2006) in the South African context which focused on the audit services market post-apartheid with emphasis on determinants of audit fees (Firer & Swartz, 2006). Prior research reports by the University of Pretoria focused on *Facts on Audit Firms in the Republic of South Africa*, the analysis of which included an analysis of audit fees and analysis of audit reports (Gloeck, de Jager, Schumann, & Botha, 1996). Internationally, research has previously been conducted by Oxera (Oxera, 2007), Crump (Crump, 2013) and the UK Competition Commission (Commission, 2013) focused on the FTSE 350 audit market.

As it has been over 20 years since the attainment of a democratic South Africa, the researcher considered it essential to conduct a study to gain an understanding of the perceived challenges faced by black-owned audit firms in accessing and gaining JSE listed external audit clients. It was also considered vital to explore the critical success factors considered necessary for black owned audit firms to successfully access and gain JSE listed external audit clients.

### **1.3 Problem statement**

#### **1.3.1 *Main problem***

The study sought to obtain an understanding of the perceived challenges faced by black-owned audit firms in South Africa in accessing and gaining JSE listed external audit clients 20 years after South Africa became a democracy.

#### **1.3.2 *Sub-problem***

The sub-problem was to identify the perceived critical success factors essential for black-owned audit firms to successfully access and gain JSE listed external audit clients.

The researcher considered the sub-problem relevant as it would assist in understanding and providing context to the perceived challenges being faced by black-owned audit firms in accessing and gaining JSE listed external audit clients.

### **1.4 Significance of the study**

Little or no research exists in the South African context that seeks to understand the challenges faced by black-owned audit firms as they try to access and gain JSE external audit clients, 20 years into South Africa becoming a democracy. Studies have been made on the B-BBEE challenges in general, however little is known about the challenges faced by black-owned audit firms in accessing and gaining JSE listed

external audit clients. The current transformation initiatives at play in the Chartered Accountancy profession focus on increasing the number of CAs and do not focus and measure progress on transformation in the provision of external audit services (Council, 2011). There has been no research to understand whether black-owned audit firms have made inroads and now enjoy access to the same opportunities as other firms than what they had during the apartheid era and whether the barriers to full participation suffered by those previously disadvantaged have been effectively removed. There is also a growing concern here in South Africa and world-wide on audit concentration amongst the Big 4 firms (McMeeking, 2009). *The 2012 Report Back of the CA Charter Council* highlights that trainees and professional staff from black firms do not get exposure to different sectors of the economy as the private sector is still closed to them. The report also highlighted that due to the closed access to the private sector, black firms' growth and ability to specialise was being hampered (Council, 2013).

The study aimed to contribute to the understanding of challenges faced by black-owned audit firms in accessing and gaining JSE listed external audit clients. It is also hoped that the study would influence the engagement of black-owned audit firms in the JSE listed external audit space. The findings from the study aim to highlight the perceived critical success factors essential for black-owned audit firms to successfully access and gain JSE listed external audit clients so as to highlight the dependencies the challenges have on black-owned audit firms' competitiveness. The findings and recommendations also sought to provide legislators, government and key stakeholders with feedback that could be of use when driving transformation in the external audit space and possibly assist them in developing further transformation initiatives.

## **1.5 Delimitations of the study**

Delimitations of the study are as follows:

- The research did not include the views on external audit clients in the public and private sector.
- The research did not include the views on internal audit clients in the JSE, public and private sector.
- The research did not include views of the Big 4 audit firms.

- The research did not include views of small and medium sized firms that are outside the definition of black-owned audit firms.
- The research did not include subcontracted audit engagements as these are not reflected on the signed financial statements.
- The research did not evaluate the appropriateness of the B-BBEE legislation or the Chartered Accountancy profession sector code.
- The research did not provide a view on the appropriateness of the economic transformation process being followed by South Africa.

## 1.6 Definition of terms

**AFS** refers to Annual Financial Statements.

**Apartheid** refers to an official policy of racial segregation formerly practised in the Republic of South Africa, involving political, legal, and economic discrimination against non-whites. A policy or practice of separating or segregating groups (the dti, 2003).

**BCAP** refers to Black Chartered Accountants Practitioners.

**Black-owned audit firms** are South African indigenous audit firms of CAs that were started by black South Africans. These firms have 50,1% or more being owned by black persons and where there is substantial management control. These range from small to very large firms with most of them only coming into existence at the dawn of democracy.

**Big 4 audit firms** comprises Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers.

**Broad-Based Black Economic Empowerment (B-BBEE)** is defined by the government as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities (the dti, 2003).

**CA** refers to anyone who holds the Chartered Accountant (SA) designation inside and outside of public practice (Council, 2011).

**CFO** refers to Chief Financial Officer.

**dti** refers to the Department of Trade and Industry.

**Equity** refers to fairness or justice in the way people are treated. It refers to a situation where everyone gets what they need, based on their individual needs and history (Merriam Webster, 2016).

**FD** refers to Financial Director.

**IFRS** refers to International Financial Reporting Standards.

**IRBA** refers to the Independent Regulatory Board for Auditors.

**Joint audit** refers to an audit on a legal entity (the auditee) by two or more auditors to produce a single audit report, thereby sharing responsibility for the audit. The audit firms are jointly and separately responsible for the audit of the company (Gloeck et al., 1996).

**JSE** refers to the Johannesburg Stock Exchange.

**Listed company** refers to a company, any class of whose securities is listed (JSE Limited, 2014).

**PwC** refers to PricewaterhouseCoopers.

**RA** refers to Registered Auditor.

**SAICA** refers to the South African Institute of Chartered Accountants.

**SARB** refers to the South African Reserve Bank.

**Subcontracted audit** refers to an audit where a subcontract audit firm is used to perform a portion of the audit engagement, however they do not share responsibility for the overall audit and do not sign the audit report.

**Transformation** is “the creation and change of a whole new form, function or structure. To transform is to create something new that has never existed before and could not be predicted from the past. Transformation is a change in mindset. It is based on learning a

system of profound knowledge, and taking actions based on leading with knowledge and courage” (Daszko & Sheinberg, 2005).

## **1.7 Assumptions**

The following assumptions were made for this research report:

- All respondents were open in their views and provided their individual perspectives.
- The attitudes of respondents were stable and were reflective of normal perspectives.
- Black-owned audit firms’ senior management were available for interviews and granted permission to use their responses in this study.
- All data collection instruments were valid and reliable.

## **CHAPTER 2. LITERATURE REVIEW**

### **2.1 Introduction**

In gaining an understanding of the perceived challenges faced by black-owned audit firms in South Africa in accessing and gaining JSE listed external audit clients, the report begins with a literature review. This included reviewing other similar studies performed in South Africa and other countries. The literature review formed the foundation for developing a suitable context for the gathering and analysis of data.

### **2.2 Background discussion**

Prior to South Africa becoming a democracy in 1994, the country had a system of apartheid which systemically and purposefully restricted the majority of South Africans from meaningful participation and contribution in the economy. The creation of wealth was restricted to a minority, with economic structures that excluded the vast majority of South Africans. When South Africa became a democracy in 1994, the government introduced Black Economic Empowerment as an intervention to address the systematic exclusion of the majority of South Africans from full participation in the economy. The purpose of the intervention was to provide new economic opportunities to historically disadvantaged people. This gave black people and black firms the opportunity to participate and contribute to the economy as they now had right of access to opportunities that they never had before (the dti, 2003).

It has now been over 20 years since the dawn of democracy and the current economic structure still excludes black firms and black people from actively participating and contributing meaningfully in the economy. There are sectors of the economy that are still fundamentally in the hands of minorities which is making it difficult for black people and black firms to participate and contribute meaningfully in these sectors due to them lacking the experience and skills as a result of the past apartheid system which kept them away from the mainstream of the economy (the dti, 2003).

For black-owned audit firms, the challenge has been exacerbated by the fact that there are four significant players in the auditing industry who have significant market share and each of these firms have been in existence for more than 100 years (Ndzamela, 2015). The JSE audit sector is one of the areas that is and has been proving difficult for the black-owned audit firms to access and gain JSE listed external audit clients. The CA Charter Council report issued in 2011 states that it results in trainees and staff who work for black-owned audit firms not getting exposure to different sectors (Council, 2011).

## 2.3 South African audit industry

The South African Audit profession and industry is regulated by the IRBA. The IRBA develops and maintains auditing and ethics standards that comply with international requirements and monitors compliance to these standards by RAs and firms on a regular basis. Through the leadership of the IRBA, South Africa has been ranked number one globally for auditing and reporting standards for the past six years (IRBA, 2015). For one to perform an audit, he/she needs to have qualified as a CA and registered with the IRBA as a RA. An audit firm generally consists of a group of partners, associate partners, managers and trainee accountants. The firm is accredited by the IRBA and SAICA, with the registration with IRBA allowing the registered partners to sign off audit opinions and the registration with SAICA allowing the firm to train prospective CAs and RAs. The IRBA classifies firms that operate in the industry as follows (IRBA, 2015):

**Table 1: Firm classification criteria**

| Classification   | Number of partners |
|------------------|--------------------|
| Large firms      | 20+                |
| Medium firms     | 5 – 19             |
| Small firms      | 2 – 4              |
| Sole proprietors | 1                  |

The South African auditing industry is dominated by four audit firms known internationally and locally as the Big Four. These firms are the largest accountancy firms in the world with international and nationally presence. These firms have been in

existence for more than 100 years in one form or another. They handle the vast majority of audits for listed companies as well as many private sector companies locally and internationally (Big 4 Accounting Firms, 2016). The industry also has various medium tier firms that operate internationally and nationally. There are also other various local small and medium sized firms that operate in this industry. With the advent of democracy, this industry became open to black professionals to contribute and participate meaningfully in the economy. This resulted in the emergence of black-owned audit firms which range from sole proprietors to large firms.

In 1994 when South Africa became a democracy, it was noted that there were only 77 black CAs (Sadler, 2002). SAICA commenced focused transformation and growth projects in 2002 (Council, 2011). The membership numbers for both IRBA and SAICA over the years are as reflected below (IRBA, 2015; SAICA, 2016):

**Table 2: IRBA and SAICA membership statistics**

| Year | IRBA - RA      | SAICA<br>Total CA (SA) | RA as a % of<br>CA (SA) | SAICA -<br>Black CA (SA) <sup>1</sup> |     | SAICA -<br>African CA (SA) |     |
|------|----------------|------------------------|-------------------------|---------------------------------------|-----|----------------------------|-----|
| 2015 | 4 311          | 39 797                 | 11%                     | 9 563                                 | 24% | 3 901                      | 10% |
| 2014 | 4 281          | 37 824                 | 11%                     | 8 492                                 | 22% | 3 332                      | 9%  |
| 2013 | 4 306          | 36 113                 | 12%                     | 7 553                                 | 21% | 2 828                      | 8%  |
| 2012 | 4 258          | 34 600                 | 12%                     | 6 795                                 | 20% | 2 484                      | 7%  |
| 2011 | 4 375          | 33 167                 | 13%                     | 6 141                                 | 19% | 2 185                      | 7%  |
| 2010 | 4 398          | 31 602                 | 14%                     | 5 426                                 | 17% | 1 845                      | 6%  |
| 2009 | 4 373          | 29 671                 | 15%                     | 4 604                                 | 16% | 1 451                      | 5%  |
| 2008 | 4 374          | 28 131                 | 16%                     | 3 973                                 | 14% | 1 151                      | 4%  |
| 2007 | N <sup>2</sup> | 26 915                 | 0%                      | 3 463                                 | 13% | 931                        | 3%  |
| 2006 | N <sup>3</sup> | 25 875                 | 0%                      | 3 008                                 | 12% | 767                        | 3%  |
| 2005 | 4 398          | 24 326                 | 18%                     | 2 568                                 | 11% | 612                        | 3%  |
| 2004 | 4 253          | 23 080                 | 18%                     | 2 191                                 | 9%  | 483                        | 2%  |
| 2003 | 4 197          | 21 856                 | 19%                     | 1 839                                 | 8%  | 403                        | 2%  |
| 2002 | 4 193          | 20 903                 | 20%                     | 1 575                                 | 8%  | 322                        | 2%  |

<sup>1</sup> This includes African, Coloured and Indian.

<sup>2</sup> These statistics were not readily available from the IRBA website.

<sup>3</sup> These statistics were not readily available from the IRBA website.

### **2.3.1 JSE listed audit sector**

The JSE is the largest stock exchange in Africa and was ranked the 19<sup>th</sup> largest exchange in the world. It offers, “secure, efficient primary and secondary capital markets across a diverse range of securities, supported by post trade regulatory services” (Limited, 2016).

The general qualification criteria to enable a firm to perform the statutory audit or review of a listed company as per section 22 of the JSE Listings Requirements are as follows:

- (a) the audit firm must be accredited on the JSE list of Auditors and their advisers;
- (b) at least three individual auditors within the audit firm must be accredited as such on the JSE list of Auditors and their advisers;
- (c) in the instance of an audit firm and its individual auditors being registered with the IRBA, at least three (3) individual auditors must have had an engagement inspection done by the IRBA and must only be subject to the next engagement inspection in the next inspection cycle; and
- (d) the audit firm must have at least one IFRS adviser, either internal or external to the firm, accredited on the JSE list of Auditors and their advisers (JSE Limited, 2014).

In order for an audit firm to satisfy the JSE that it is competent to fulfil the role of auditor of a listed company, it must meet the following criteria:

- (a) IRBA must have performed a firm-wide independent quality control review (ISQC1) inspection on the audit firm. The inspection decision letter must be made available to the JSE;
- (b) the majority of individual auditors of the audit firm reviewed by IRBA must only be subject to an engagement inspection again in the next inspection cycle, and at least three individual auditors must have had an engagement inspection by the IRBA; and
- (c) demonstrate that it has an internal JSE accredited IFRS adviser in its service or has contracted with an external JSE accredited IFRS adviser to advise the audit firm on IFRS compliance when required (JSE Limited, 2014).

The individual auditor must meet the following criteria:

- (a) have undergone an engagement inspection by the IRBA on an appropriate public interest engagement. The most recent IRBA engagement inspection decision letter must be supplied to the JSE.
- (b) confirm to the JSE that s/he is familiar with the specific auditing and financial reporting requirements applicable to a listed company. In support of this, the individual auditor must demonstrate that s/he has successfully completed JSE recognised training on the Listings Requirements, or must undertake to successfully complete such training within six (6) months from the date of the application. In addition, the individual auditor must undertake to successfully complete specific JSE recognised update courses as and when required and directed by the JSE. (JSE Limited, 2014)

The eligibility criteria for an IFRS adviser are as follows:

- (a) he has spent at least 800 hours at an individual level on performing practical and interpretive IFRS consulting over the past 12 months in order to have a comprehensive working knowledge of IFRS and those standards issued by the Accounting Practices Committee as the Financial Reporting Guidelines, and issued by the Financial Reporting Standards Council as the Financial Reporting Pronouncements;
- (b) he has access to a network of other IFRS advisers to adequately assist and advise on IFRS matters; and
- (c) he is are a member in good standing of a professional body, which body has a code of ethics and disciplinary rules, to which such member is subject, and which it regulates or that he registered with IRBA (JSE Limited, 2014).

The following is the list of IRBA registered audit firms accredited by the JSE effective 10 June 2015 (JSE Limited, 2015):

**Table 3: IRBA registered JSE accredited audit firms**

| No                                 | Entity                                        | Accreditation status            |
|------------------------------------|-----------------------------------------------|---------------------------------|
| <b>IRBA registered Audit Firms</b> |                                               |                                 |
| 1                                  | Baker Tilly Greenwoods                        | Auditor<br>Reporting Accountant |
| 2                                  | Baker Tilly SVG                               | Auditor<br>Reporting Accountant |
| 3                                  | BDO South Africa                              | Auditor<br>Reporting Accountant |
| 4                                  | Certified Master Auditors (South Africa) Inc. | Auditor<br>Reporting Accountant |
| 5                                  | Deloitte & Touche Inc.                        | Auditor<br>Reporting Accountant |
| 6                                  | Ernst & Young Inc.                            | Auditor<br>Reporting Accountant |
| 7                                  | Grant Thornton                                | Auditor<br>Reporting Accountant |
| 8                                  | Howarth Leveton Boner                         | Auditor<br>Reporting Accountant |
| 9                                  | KPMG                                          | Auditor<br>Reporting Accountant |
| 10                                 | Mahdi Meyer                                   | Auditor                         |
| 11                                 | Mazars Inc.                                   | Auditor<br>Reporting Accountant |
| 12                                 | Middel & Partners                             | Auditor<br>Reporting Accountant |
| 13                                 | Moore Stephens                                | Auditor<br>Reporting Accountant |
| 14                                 | Nexia SAB&T                                   | Auditor<br>Reporting Accountant |
| 15                                 | Nkonki Inc.                                   | Auditor                         |
| 16                                 | Nolands Inc.                                  | Auditor<br>Reporting Accountant |
| 17                                 | PKF South Africa                              | Auditor<br>Reporting Accountant |

| No | Entity                   | Accreditation status            |
|----|--------------------------|---------------------------------|
| 18 | PriceWaterhouseCoopers   | Auditor<br>Reporting Accountant |
| 19 | Rademeyer Wesson         | Auditor<br>Reporting Accountant |
| 20 | RSM Betty & Dickson      | Auditor<br>Reporting Accountant |
| 21 | SizweNtsalubaGobodo Inc. | Auditor<br>Reporting Accountant |
| 22 | TAG Incorporated         | Auditor                         |
| 23 | Tuffias Sandberg KSI     | Auditor<br>Reporting Accountant |

The following is the list of foreign registered firms accredited by the JSE effective 10 June 2015 (JSE Limited, 2015):

**Table 4: Foreign JSE accredited audit firms**

| No                              | Entity                    | Accreditation status |
|---------------------------------|---------------------------|----------------------|
| <b>Foreign Registered Firms</b> |                           |                      |
| 1                               | BDO Mauritius             | Auditor              |
| 2                               | Ernst & Young Australia   | Auditor              |
| 3                               | Ernst & Young Isle of Man | Auditor              |
| 4                               | KPMG Cyprus               | Auditor              |
| 5                               | KPMG Ireland              | Auditor              |
| 6                               | KPMG Isle of Man          | Auditor              |
| 7                               | PwC Isle of Man           | Auditor              |
| 8                               | PwC Malta                 | Auditor              |
| 9                               | PwC Namibia               | Auditor              |
| 10                              | Saffery Champness GAT     | Auditor              |

Included in Appendix A is the list of the SA Giants as listed in the Financial Mail Top Companies 2015 review of listed companies ranked according to revenue (Financial Mail, 2015).

In the table below is a summary the number of appointments per audit firm based on the Financial Mail Top Companies 2015 list (Financial Mail, 2015):

**Table 5: Financial Mail Top Companies 2015 audit appointments per firm**

| <b>Audit Firm</b>      | <b>Number of appointments</b> | <b>Percentage</b> |
|------------------------|-------------------------------|-------------------|
| Baker Tilly SVG        | 1                             | 0.5%              |
| BDO South Africa       | 4.5                           | 2.3%              |
| Deloitte               | 48                            | 24%               |
| Ernst & Young          | 23.5                          | 11.8%             |
| Grant Thornton         | 17                            | 8.5%              |
| Howarth Leveton Boner  | 1                             | 0.5%              |
| KPMG                   | 34                            | 17%               |
| Mazars                 | 5                             | 2.5%              |
| PKF South Africa       | 1                             | 0.5%              |
| PricewaterhouseCoopers | 59                            | 29.5%             |
| RSM Betty & Dickson    | 2                             | 1%                |
| Saffery Champness      | 1                             | 0.5%              |
| SizweNtsalubaGobodo    | 3                             | 1.5%              |
| <b>Total</b>           | <b>200</b>                    | <b>100%</b>       |

The type of appointments assessed from the list of Top Companies 2015 list is as follows (Financial Mail, 2015):

**Table 6: Financial Mail Top Companies 2015 – Type of audit appointments**

| <b>Type of appointment</b> | <b>Number of appointments</b> | <b>Percentage</b> |
|----------------------------|-------------------------------|-------------------|
| Joint appointments         | 7                             | 3.5%              |
| Single appointments        | 193                           | 96.5%             |
| <b>Total</b>               | <b>200</b>                    | <b>100%</b>       |

The allocation of the audits between the Big Four and other firms in the list of Top Companies 2015 list is as follows (Financial Mail, 2015):

**Table 7: Financial Mail Top Companies 2015 – Allocation of audits**

| <b>Firm description</b> | <b>Appointments</b> | <b>Percentage</b> |
|-------------------------|---------------------|-------------------|
| Big Four                | 165                 | 82.25%            |
| Other audit firms       | 33                  | 16.25%            |
| Black-owned audit firms | 3                   | 1.5%              |
| <b>Total</b>            | <b>200</b>          | <b>100%</b>       |

Only one (1) black-owned audit firm was responsible for the three (3) of the appointments that are reflected in the Financial Mail Top Companies 2015 list (Financial Mail, 2015).

### **2.3.2 Black-owned audit firms in South Africa**

These are South African indigenous audit firms of CAs registered with the IRBA and SAICA that were started by black South Africans. These firms have 50,1% or more owned by black persons with substantial management control. These firms range from small to very large, with most of these firms only coming into existence at the dawn of democracy. Some of the firms have representation in most of the provinces in South Africa. Some of the firms have global access to expertise as member firms of an international network of firms. These firms mainly employ people from previously disadvantaged backgrounds. These firms' client bases typically consist of significant public sector with minimal private sector clients (Council, 2013).

Included, in Table 9, is an extract of some of the firms that make up Black-owned audit firms (BCAP, 2013):

**Table 8: Black-owned audit firms**

| No. | Audit Firm Name                    | Year Established  | JSE Accredited |
|-----|------------------------------------|-------------------|----------------|
| 1.  | SizweNtsalubaGobodo Inc.           | 1985 <sup>4</sup> | Yes            |
| 2.  | Nkonki Inc.                        | 1993              | Yes            |
| 3.  | Nexia SAB&T Inc.                   | 1994              | Yes            |
| 4.  | Ngubane & Co Inc.                  | 1995              | No             |
| 5.  | Morar Inc.                         | 1995              | No             |
| 6.  | Kwinana & Associates Inc.          | 1999              | No             |
| 7.  | Ramathe Chartered Accountants Inc. | 2000 <sup>5</sup> | No             |
| 8.  | Chili & Co Inc.                    | 2005              | No             |
| 9.  | A2A Kopano Inc.                    | 2005 <sup>6</sup> | No             |
| 10. | Indyebo Inc.                       | 2007              | No             |

SizweNtsalubaGobodo is ranked as the fifth (5th) largest audit firm in South Africa and is the largest black-owned audit firm in South Africa (Gyorkos, 2011; Ndzamela, 2015). SekelaXabiso which was ranked as the 6<sup>th</sup> largest accounting firm and second (2nd) largest black-owned audit firm in 2012 when Sekela and Xabiso merged, no longer performs external audits, and is therefore not included in the analysis of black-owned audit firms (News24, 2012). Nkonki is now the second largest black-owned firm (Ndzamela, 2015).

## 2.4 Broad-Based Black Economic Empowerment

The B-BBEE is an initiative developed and implemented by the South African government to address the systematic exclusion of the majority of South Africans from full participation in the economy. It was and is aimed at redressing inequalities of the

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<sup>4</sup> The date used is for the earliest firm established in the merged firm.

<sup>5</sup> The date used is when the association of like-minded independent black-owned audit firms was formed.

<sup>6</sup> The date used is when several existing South African black empowered firms came together to form the firm.

past in every sphere: political, social and economic. The initiatives were aimed at increasing the acquisition of skills and the participation of previously disadvantaged people in productive economic activities. The initiative also sought to promote the ability of black-owned and controlled businesses to become competitive with initiatives such as the preferential procurement where it encouraged procurement from black-owned and empowered businesses as a proportion of total procurement (the dti, 2003). According to Marcus et al., the aim of preferential procurement was to increase the market access to black companies, reduce inequality and ensure their sustainability by decreasing heavy reliance on the public sector (Marcus et al., 2007). B-BBEE was determined as essential for economic transformation, skills development, employment equity, procurement, enterprise development and corporate social investment, especially in developing a strong small and medium business sector. The aim was the development of black professionals and skilled people across all aspects of society with black people being comprehensively represented across all aspects of society (Gqubule, 2006; Marcus et al., 2007).

## **2.5 CA Charter**

As part of the B-BBEE requirements, sector charters were prepared. The CA Charter is the sector code applicable for firms operating in the CA profession. The CA Charter code is focused on growing the number of black people in the CA profession to reflect the country's demographics, thus empowering them to meaningfully participate in and sustain the growth of the economy. The Charter highlights that the majority of trainees (approximately 73%) are employed by small and medium sized firms. The Charter recognises that there are the Big 4 firms that dominate the market in terms of market size. The *2012 Report Back by the CA Charter Council* highlighted that there was still a lot of work to be done on economic transformation of the profession. The Report indicated that 80% of the work done by black-owned firms is in the public sector with the private sector still closed to them. The report highlighted that as a result of this, the growth of the black-owned audit firms and their ability to specialise was being hampered. The report indicated that the trainees and professional staff in the black-owned firms do not get exposure to different sectors which negatively impacts the pass rate for the firms in the qualifying examination (Council, 2013).

## 2.6 Procurement of professional services

Key to understanding the challenges being faced by black-owned audit firms is the understanding of what buyers of professional services look for when procuring a professional service. There are certain factors at play that professional services buyers exhibit when considering the procurement of a professional service. According to the research by Frederiksen, the following selection criteria and their average weightings as indicated in Figure 2 are used by firms when procuring professional services (Frederiksen, 2009):

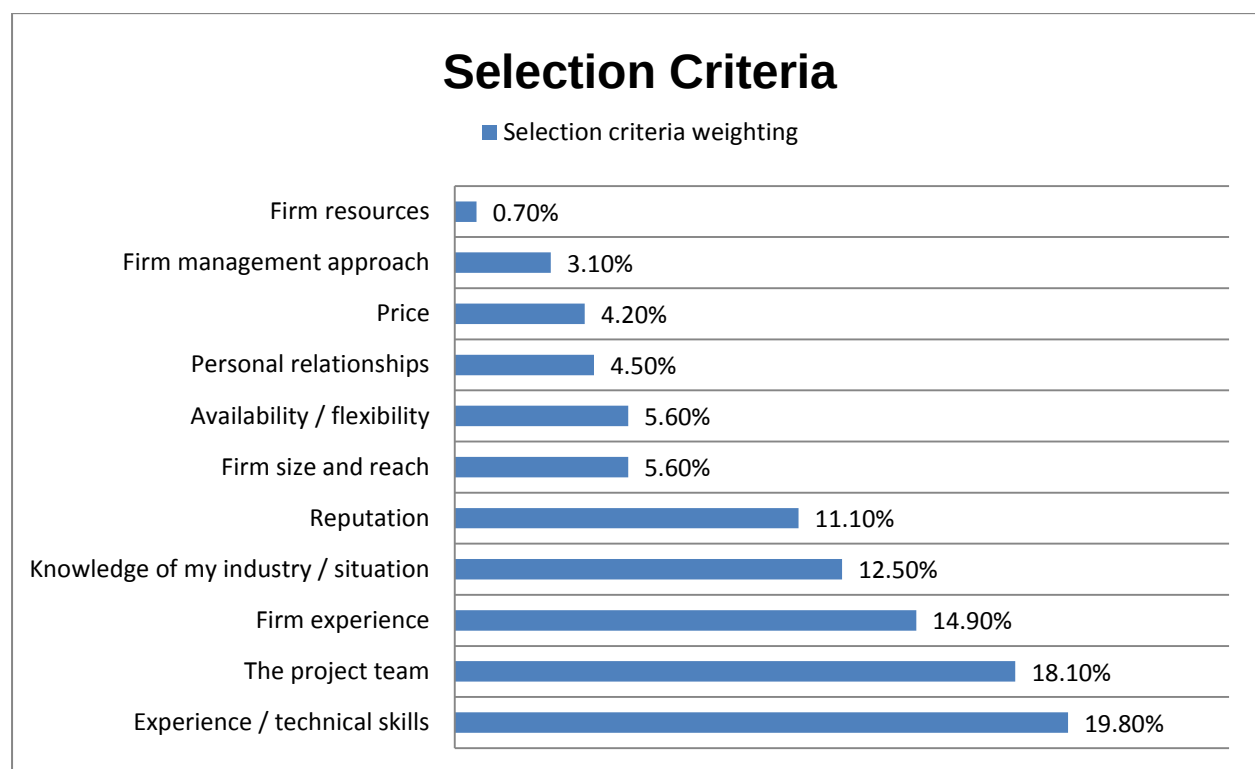


**Figure 2. Buyer selection criteria**

In another research report by the Hinge Research Institute about *How Buyers Buy Account & Financial Services*, the criteria below was noted as what firms used when selecting a firm. The same research also considered how accurate the sellers' perceptions were of the selection criteria (Hinge Research Institute, 2013):

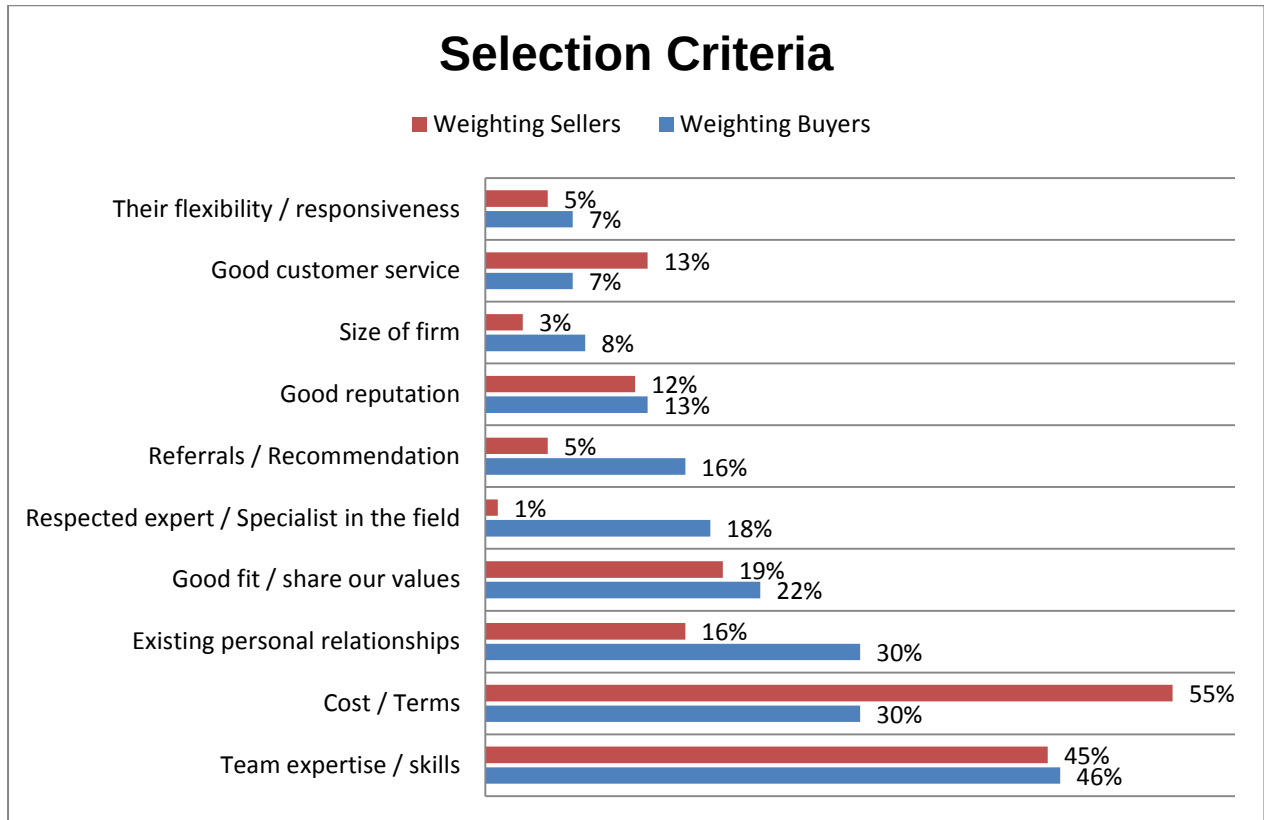


**Figure 3. Top 10 Buyer selection criteria**

The Association for Consultancy and Engineering in the *Procuring Professional Services – Best Practice Principles* concurs with Frederiksen and the Hinge Research Institute that skills and capabilities of the professional services provider are key when considering a professional services appointment. They take it a step further and indicate that procurement decisions should be based on the whole life value of the contract (Association for Consultancy and Engineering, 2010).

In his report, Frederiksen noted that most professional services buyers look for personalised understanding of their situation. The ability of the professional service provider to deliver good results is identified as a concern most frequently cited when considering a professional services provider. He noted that consideration is given to whether the lack of skills and expertise is something that the professional services firm can overcome. It was noted in his research that companies are concerned about the performance of firms that are too small and also too large to care when considering professional services providers. His research notes that most professional buyers when

looking for a professional services provider try and avoid the following when looking for professional services providers (Frederiksen, 2009):

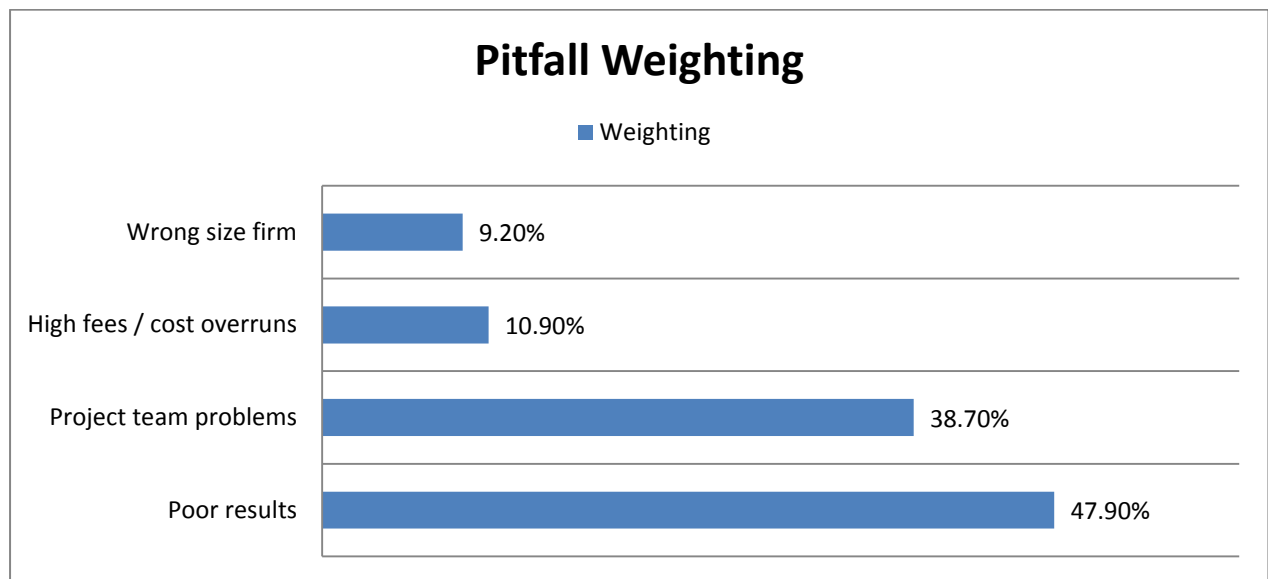


**Figure 4. Buyers pitfall weighting**

The Hinge Research Institute in their research found that buyers are most concerned about the lack of industry knowledge. They noted that buyers of accounting and financial services want to avoid the following pitfalls (Hinge Research Institute, 2013):

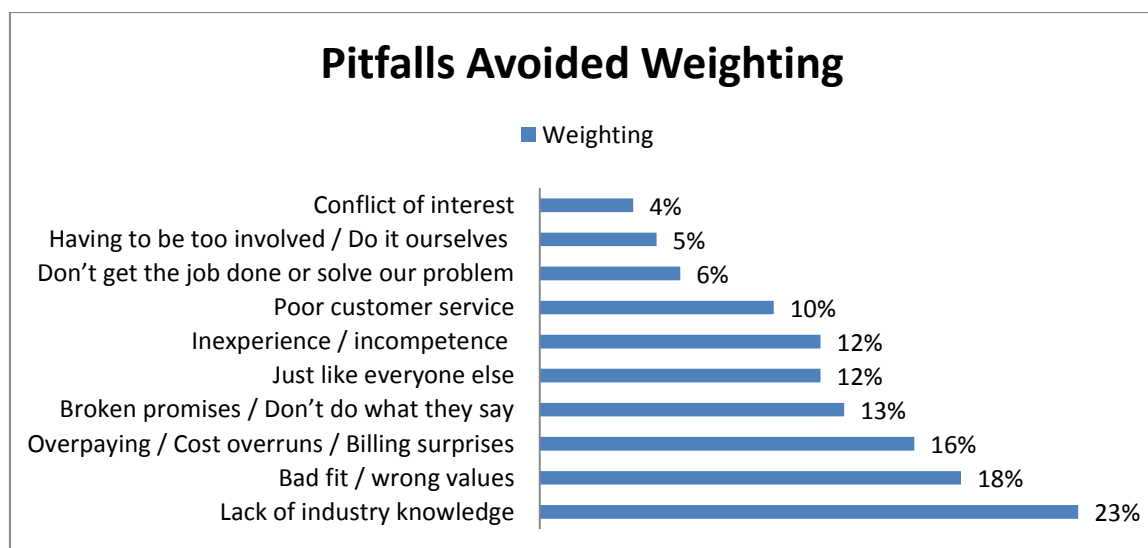


**Figure 5. What buyers want to avoid**

The same research indicates that all things being equal, the following factors tip the scale in favour of one over another professional service firm (Hinge Research Institute, 2013):

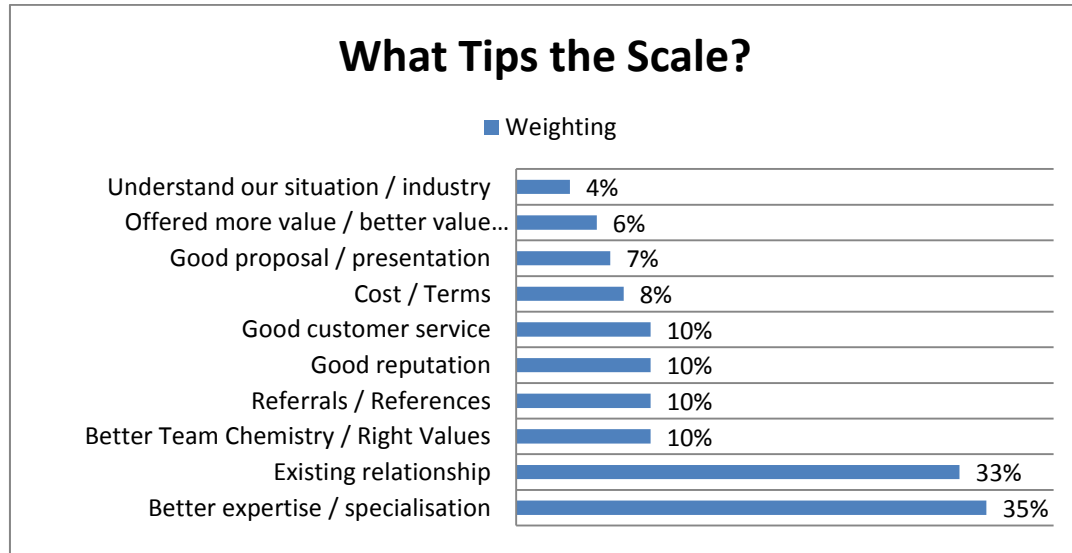


**Figure 6. What tips the scale**

## **2.7 Challenges faced by black-owned audit firms**

### **2.7.1 Lack of funding**

According to PwC (PwC, 2012), for an audit firm to be competitive, it needs to invest in up-to-date methodologies, technology and people. This will assist the firm to keep ahead of the competition and create a competitive advantage. The costs linked to having up-to-date methodologies, technology and people are a challenge for black-owned firms in South Africa as most of them operate nationally and do not have a global presence. As developments take place in the audit market, black-owned firms are realising that they need to increase their professional capacities but they are faced with increasing costs linked to this (Le Vourc'h & Morand, 2011). According to PwC, the Big 4 make investments in new methodologies, technology and people throughout the world to improve service and market needs which contributes to the gap between the Big 4 and smaller firms (Le Vourc'h & Morand, 2011).

The JSE has a set of requirements that an audit firm has to meet before it can be accredited as an auditor of a listed company (JSE Limited, 2014). The requirements also expect the IRBA to monitor and evaluate the performance of accredited auditors on a regular basis. Firms are not guaranteed appointment as auditors of JSE listed clients once they have undergone the JSE accreditation process and this results in a substantial portion of black-owned audit firms that are not accredited to audit JSE listed companies. This leads to black-owned firms being hesitant to get accreditation as they are not guaranteed appointment once they receive accreditation from the JSE. The cost of getting the accreditation and maintaining it are seen as expensive by most firms.

As part of risk mitigation, firms are expected to have professional indemnity insurance (Le Vourc'h & Morand, 2011). This insurance is required in the event of the firm being sued. The insurance amount is based on the revenues generated by the firm. Since the clients listed on the JSE are significant companies with large market capitalisation, the insurance cover required is also very significant which most black-owned enterprises cannot afford. International regulators are looking into capping the damages that a firm would pay and hence this might ease the burden on black-owned audit firms if adopted in South Africa (Marx & Dijkman, 2009).

### **2.7.2 Lack of skills for expansion**

#### **a. Exposure**

According to the *2012 Report Back of the CA Charter Council*, 80% of the work that the black-owned audit firms are doing is in the public sector. Black firms are still finding that the private sector is closed to them which hampers their ability to create skills for them to meaningfully contribute to the economy (Council, 2013). Marcus et al. noted that black business relied on contracts from the public sector for their continued survival as market access was limited for black businesses within the private sector. In their book, they noted the results of an analysis of the financial statements of the top 100 JSE listed companies in 1992 and 1997 which indicated that there was a low level of interest in buying from black business (Marcus et al., 2007). This seems to still be the case affecting black owned audit firms as they are still experiencing this, based on the report of the *2012 Report Back of the CA Charter Council* (Council, 2013). Sadler (2002), in

his research, notes that the nature of work given to black trainees is a constraint in respect of obtaining sufficient work experience. He also notes that black accounting firms do not get work from the private sector (Sadler, 2002). It was noted that there is consideration that certain audits require special expertise and skills which the perception is that only the Big Four have (Marx & Dijkman, 2009).

**b.      *Training***

Trainee CAs undergo a threeyear learnership program during which they gain competencies from being exposed to various sectors of the economy. Trainees from black-owned audit firms do not necessarily get exposure to listed companies as their firms rely for a significant portion of their work on public sector work. This leads to black-owned audit firms not being able to build skills for expansion into the listed audit market. With approximately 70% of trainees being trained outside the Big 4 firms, the redressing of previous inequalities on the training front is minimised as black-owned audit firms are still not getting meaningful opportunities in private sector audits, especially listed clients (Council, 2011). Black-owned firms have since realised that they need to increase their professional capacities but are faced with increasing costs (Le Vourc'h & Morand, 2011).

**c.      *Life span***

Most of the black-owned audit firms in operation have been existence for less than 30 years as they were mostly formed at the dawn of democracy. This means that the firms are still building their skills base and it is going to take some time for them to match the current skills base seen in the Big 4 firms. According to Le Vourc'h and Morand (2011), small firms are seen as too small, with no capacity to handle assignments undertaken by large audit firms (Le Vourc'h & Morand, 2011).

**d.      *Capacity***

It is indicated that small firms lack sector knowledge and experience for them to compete effectively in the audit market. Small firms are seen to lack technical capacity in areas of expertise such as IT, actuarial affairs, financial instruments and IFRS (Le Vourc'h & Morand, 2011). According to the Oxera (2007) report, a firm needs to

demonstrate the ability to carry out technical audits for it to compete seriously in the market. A firm is expected to demonstrate that they have expertise in accounting and technical fields and possess the relevant experience and sector knowledge (Oxera, 2007). As a result of limited financial resources, black-owned audit firms find it very difficult to invest in specialised skills that are required for them to compete effectively in the listed market space. Maweni (2013), in his article, requested audit firms to implement programs that will allow black CAs to audit and acquire deep knowledge and skills to audit JSE listed companies, both at trainee, supervisor and managerial levels, as he recognised that the exposure to listed clients is necessary if blacks are to meaningfully contribute to the economy (Maweni, 2013).

### **2.7.3 Failure to attract and retain talent**

According to the Chartered Accountancy sector code, black-owned audit firms experience difficulties in attracting and retaining talent, primarily due to a perceived inadequate client base and training resources. The *2012 Report Back by the CA Charter Council* highlighted that 80% of the work performed by black audit firms is in the public sector with the private sector still being closed to black-owned audit firms (Council, 2013). This shows that not all trainees are receiving the same or equal opportunities as a result of structural barriers to equal opportunities and to the development of black-owned audit firms (Marcus et al., 2007). This means that a substantial portion of trainees prefer to train with the Big firms as they are more likely to get the relevant exposure to listed clients, the private sector and a reasonable dose of public sector clients, resulting in the development of well-rounded trainees.

According to the member statistics on the SAICA website, 10% of CAs are African. The Chartered Accountancy profession sector code indicates that there is a shortage of CAs and in particular, black CAs. This results in strong competition between the profession and commerce for resources with black-owned firms losing the battle as they cannot compete with commerce when it comes to remuneration packages. Part of the B-BBEE requirements is for companies to increase the number of black employees in middle and senior management (the dti, 2003). This exacerbates the competition for CAs making it difficult for black-owned audit firms to attract and retain talent. People retention

becomes a challenge for black-owned audit firms due to the lack of certainty about continuous business.

#### **2.7.4 *Lack of opportunities for growth***

According to the *2012 Report of the CA Charter Council*, black-owned audit firms perform 80% of work in the public sector (Council, 2013). Firer and Swartz (2006) show that the market share for the Big 4 in South Africa between 2000 and 2004 was 71% of the JSE market for audits of listed companies (Firer & Swartz, 2006). This is corroborated by McMeeking (2009), who highlights that the Big 4 firms have almost complete control for both FTSE 100 and 250 (McMeeking, 2009). He also states that pressure to hire one of the Big 4 is extremely high in certain segments of the audit market. The black firms' forum indicated in the *2012 Report of the CA Charter Council* that the private sector is still closed to them which hampers their growth initiatives. The Big 4 firms have been transforming their ownership and management structures to ensure that they continue to access opportunities from the public sector resulting in them getting the best of both worlds in the private and public sector (Council, 2013).

#### **2.7.5 *Limited geographical reach***

According to PwC (2012), there are the four largest accounting networks around the world that provide audit services to the largest most complex organisations (PwC, 2012). These firms have global reach and consistent auditing expertise around the world. Most of the medium sized audit firms, on the other hand, have local to national coverage, and black-owned audit firms fall into this category. As a result, black-owned audit firms cannot provide services covering many countries making it difficult for them to compete effectively with the Big 4 firms who have an international footprint. The Big 4 firms have a competitive advantage where appointments made internationally will reap results for the local and national office in South Africa as auditors generally are appointed for the entire group.

### **2.7.6 Strong preference for Big 4 firms**

The PwC report indicates that the Big 4 firms use their market power to dictate terms to existing or prospective clients (PwC, 2012). McMeeking (2009) indicates that the perception of the market is that the Big 4 firms offer quality-differentiated services and there seems to be pressure to hire one of the Big 4 in certain segments of the audit market (McMeeking, 2009). In a survey by the UK Competition Commission, it is noted that the Big 4 have almost complete control of audits for both the FTSE 100 and FTSE 250 (Commission, 2013; Financial Reporting Council, 2006). The report by the Economic Affairs Committee of the House of Lords on *Auditors: Market Concentration and their role* noted that in 2010, the Big 4 audited 99 of the FTSE 100 leading firms and around 240 of the next biggest FTSE 250. The report also noted that the Big 4 were considered as a safe choice by audit clients and there was a perception of reputational advantages in having a Big 4 audit firm (Economic Affairs Committee, 2011). The research by Firer and Swartz (2006) shows that between 2000 and 2004, 71% of the market for audits of JSE listed companies was handled by the Big 4 firms (Firer & Swartz, 2006). Vourc'h and Pascal (2011) in their research, found that the average market share of the Big 4 is above 90% in most EU Member States (Francis, Michas, & Seavey, 2010; Le Vourc'h & Morand, 2011). They also state that there is a strong preference among large companies to choose Big 4 audit firms because of their reputation. According to Palmrose (1988), the Big 4 firms have had fewer law suits (Palmrose, 1988).

Marcus et al. (2007), in their book *Visions of Black Economic Empowerment*, noted that there was inevitably immediate doubt from the market with regards to the quality and service delivery capacity of black and small businesses and the attitude was especially felt from larger institutions. They noted that there is an on-going scepticism around whether services or goods provided by small and black companies can be of sufficient quality. As a result of the perception, they noted that there was this expectation that someone should be supervising or mentoring black and small businesses before they can be fully accepted (Marcus et al., 2007). In *Challenges Facing the Modern Day Audit Profession*, the author notes that middle tier firms face a number of barriers of entry which question their reputation, capacity and breath of their networks and their exposure to unlimited liability (Marx & Dijkman, 2009). This is seen as a limitation on

market entry by black-owned audit firms and hence they are finding it difficult to access and gain JSE listed external audit clients due to the reasons mentioned above.

#### **2.7.7 *Resistance among companies***

McMeeking (2009), in his report, indicated that the Big 4 audit firms are not willing to resign from clients to improve choice (McMeeking, 2009). Vourc'h and Pascal (2011) found that there is a strong preference among large companies to choose Big 4 audit firms because of their reputation (Le Vourc'h & Morand, 2011). They also found that there is resistance among companies to change auditors which is worsened by the absence of incentives to change the audit firm. They note that there is client switching inertia. Oxera (2007) found that there is a low switching rate on the FTSE audit market. The report also found that the Big 4 are viewed as better informed about the latest developments in International Accounting Standards and about best practice across industries and countries, making it difficult for clients to change auditors as they perceive the black-owned audit firms to not possess similar intellectual capabilities as the Big 4 (Oxera, 2007). The Economic Affairs Committee of the House of Lords (2011) noted that there was a regulatory sense that big is best with banks and organisations stipulating upfront that they will only employ a Big 4 Firm. The report noted that there was perception that there was a lot of downside and no upside from having an auditor who is not a Big 4 firm. The report noted that the FTSE 100 companies very rarely switched auditors where a FTSE 100 auditor could expect to remain in place on average for a period of forty eight (48) years. The report also highlighted that tendering was rare in this category (Economic Affairs Committee, 2011). In their report, Marx and Dijkman (2009) noted that there was a perception that medium firms are unable to service listed companies (Marx & Dijkman, 2009).

#### **2.7.8 *Lack of sector experience***

McMeeking (2009) found that the audit market for large companies is heavily concentrated (McMeeking, 2009). This was supported by Gerakos and Syverson (2013), where they noted that the majority of audit engagements are performed by the Big 4 firms (Gerakos & Syverson, 2015). Vourc'h and Morand (2011) indicated that for

entry into the audit market for listed companies, one of the requirements is sector knowledge and experience (Le Vourc'h & Morand, 2011). The *2012 Report Back Report of the CA Charter* notes that the private sector is still closed to black-owned audit firms which results in the firms not being able to provide their trainees and professional staff with exposure to the private sector which includes the listed audit market (Council, 2013). The appointments of auditors in general always considers the sector experience of the firms and black-owned audit firms have a bigger problem as the JSE listed audit market is dominated by the Big 4 firms. Marcus et al (2007) mention that even when black firms are considered for appointment, questions are always raised on whether they can build specialist capability in order to excel in a given market (Marcus et al., 2007). This then raises a question whether the playing field will be levelled and economic transformation achieved if sector experience is being used in determining auditor appointments where previously, under apartheid, black-owned firms were excluded from participating meaningfully in the economy.

## **2.8 Conclusion of literature review**

From the literature review performed, it was noted that black-owned audit firms are faced with numerous challenges as they try to access and gain JSE listed external audit clients. The history of apartheid created an unequal economy which the South African government had to redress through the creation of the B-BBEE codes and specific sector charters. The JSE audit market is dominated by four (4) big firms that have international reach. In their quest to access and gain market share of JSE listed clients, black-owned audit firms have to deal with lack of funding and skills for the expansion of their firms to compete effectively. The firms also have to deal with failing to attract and retain talent and the lack of opportunities for growth. The limited geographical reach of the firms and their lack of sector experience hampers the drive to grow. They have to battle for JSE listed external audit clients in a market where there is a strong preference for the Big 4 with some companies resisting changing auditors.

### **2.8.1 Research question 1**

What are the challenges faced by black-owned audit firms in accessing and gaining JSE listed external audit clients?

Based on the literature reviewed, the challenges faced by black-owned audit firms as they try to access and gain JSE listed external audit clients are:

- Lack of funding;
- Lack of skills for expansion;
- Failure to attract and retain talent;
- Lack of opportunities for growth;
- Limited geographical reach;
- Strong preference for Big 4;
- Resistance among companies; and
- Lack of sector experience.

### **2.8.1 Research question 2**

What are the perceived critical success factors essential for black owned audit firms to successfully access and gain JSE listed external audit clients?

Based on the literature reviewed, the critical success factors essential for appointment are:

- Experience / Technical skills;
- The project team;
- Firm experience;
- Knowledge of the industry;
- Reputation;
- Firm size and reach;
- Availability / Flexibility;
- Personal relationships;
- Price;
- Firm management approach; and

- Firm resources.

## **CHAPTER 3. RESEARCH METHODOLOGY**

This section describes the research methodology that was followed to address the research questions. The section also covers the research design, the population, the samples, the research instrument, the procedure for data collection and the data analysis and interpretation for the study. The section concludes with highlighting the limitations of the study, validity and reliability aspects.

### **3.1 Research methodology**

The qualitative research methodology was used for this research in order to gain an understanding of the challenges faced by black-owned firms in accessing and gaining JSE listed external audit clients. This methodology was selected as the researcher sought to explore and obtain answers about the challenges as experienced by those in black-owned audit firms, which could not be quantified. The answers to the research question were difficult to get with a quantitative study. This methodology was selected as the researcher sought to help uncover the challenges, provide insight into the challenges and assist the key stakeholders grasp the challenges and barriers that the black-owned audit firms were experiencing. The study was meant to provide better understanding of the context in which black-owned audit firms find themselves. Little is documented of the challenges that black-owned audit firms face as they try to access, gain JSE listed external audit clients, and hence a qualitative research was deemed appropriate in gaining an understanding of the experiences and perceived challenges. As the research sought to answer a qualitative question, the use of qualitative methods was identified as the most appropriate method in answering the question. The researcher was interested in the thoughts, feelings and ideas of the participants who operate in black-owned audit forms. The research aimed to bring to the fore the experiences and perceptions of individuals at challenging structural or normative assumptions (Lester, 1999; Sekaran & Bougie, 2013).

Bryman (2012) states that qualitative research usually emphasises words rather than quantification in the collection, and analysis of data. He goes further and states that as a research strategy, it is inductivist, constructionist, and interpretivist (Bryman, 2012).

This methodology is most suitable for the study as there is some information, though limited in nature, available emanating from previous studies performed in other countries and hence this study applies the same approach to it in the South African context. McMeeking (2009) used qualitative research strategy in understanding the UK audit market as to whether there was sufficient competition and choice in the market (McMeeking, 2009).

Though the challenges faced by black-owned audit firms were identified from the literature review, South Africa went through apartheid which no other nation in the world went through which necessitated the need to explore and gain an in-depth understanding of the challenges being experienced by black-owned audit firms in the South African context. Because of this, the researcher deemed it necessary to perform a qualitative review rather than a quantitative review in-order to gain insights and understanding of the challenges in the South African context coming from an apartheid background. As a result of the study being context-specific, the results are not generalisable.

### **3.2 Research design**

According to Bryman (2012), research design refers to a framework for the collection and analysis of data (Bryman, 2012). For this research, a phenomenological approach was used to gather information on the challenges faced by black-owned audit firms in South Africa in accessing and gaining JSE listed external audit clients. This was done through semi-structured interviews with senior management in black-owned audit firms in order to obtain views on their experiences. A phenomenological approach was relevant for this research and was good at surfacing issues, making voices heard and exploring perspectives on a particular issue. It assisted with challenging complacency and prompting action (Lester, 1999; Sekaran & Bougie, 2013).

The researcher employed structured open-ended interview questions which were prepared ahead of time to elicit interviewees' views about their experiences. The open-ended questionnaire was used in order to extract maximum information from the interviewees within the limited time available (Sekaran & Bougie, 2013). The questions were focused around the themes identified during the literature review whilst, at the

same time, prompting information that was unique to the interviewee. The structured open-ended interview questions allowed interviewees the freedom to express their views in their own terms. The use of the structured interview questions provided a clear set of instructions for the interview which enabled the provision of reliable and comparable qualitative data. According to McNamara (1999), interviews are an important tool used to depict the story behind the interviewees' experiences (McNamara, 1999). Structured open-ended interview questions made it easy to test reliability as it was easier for the researcher to replicate the questions asked as a fixed set of closed questions were used. This allowed for the collection of detailed information about the research questions. Data analysis tends to be more straightforward as one can compare and contrast the answers given to the same question by the different interviewees. The weakness with structured interviews is that they are not flexible as new questions cannot be asked impromptu and answers may lack detail as only closed questions are asked (Sekaran & Bougie, 2013).

The option of face-to-face interviews was selected as this enabled the researcher the opportunity to ensure that all questions were responded to by the interviewee. The research questions were emailed to the interviewees in advance of the secured interview time. The weakness with face-to-face interviews is that the interviewer effect can arise which can result in bias of the results of the study (Sekaran & Bougie, 2013).

The advantages of using this method was that it looked at changing process over time and helped understand people's meanings. In this study and in other studies, it helped to adjust to new issues and ideas as they emerge, contribute to the development of new theories, and gather data which is seen as natural rather than artificial (Merleau-Ponty & Smith, 1996). The disadvantages of using this method was that data gathering took up a great deal of time and it was also harder to control pace, progress and end points. Sometimes meetings had to be rescheduled. The analysis and interpretation of data may be considered difficult and policy makers may give low credibility to a phenomenological study (Gray, 2013).

### **3.3 Population and sample**

#### **3.3.1 *Population***

The focus of this study was to explore and understand the challenges faced by black-owned audit firms in accessing and gaining JSE listed external audit clients from the perspective of those in senior management positions. Population, as defined by Bryman (2012), is the universe of units from which a sample is to be selected (Bryman, 2012). The targeted population for this research was black-owned indigenous audit firms that provide external audit services that are registered with the IRBA and SAICA. No limitation was placed on the size or geographical location of the firm. The study focused on black-owned audit firms irrespective of the number of years in operation.

#### **3.3.2 *Sample and sampling method***

The sample for the research was limited to senior management from black-owned audit firms that form part of the Black Chartered Accountants Practitioners (BCAP) that provide external audit services and are registered with SAICA and IRBA. BCAP is an interest group that represents black-owned auditing and accounting firms in South Africa that are formally registered with the Independent Regulatory Board for Auditors. BCAP is one of the main constituent members of the of the CA sector who operate in the audit profession. A sample is defined as the segment of the population that is selected for research; it is a subset of the population. A non-probability sample is defined as a sample that has not been selected using a random sampling method (Bryman, 2012). The sampling method applied for this research is non-probability sampling. This method was selected as it was deemed useful in the performance of this exploratory research which was aimed at finding out what challenges were being experienced by black-owned audit firms in accessing and gaining JSE external audit clients. A purposive sample was used by the researcher to select interviewees as she had knowledge of the black-owned audit firms. The purposive sample was drawn from members of BCAP, an interest group that seeks to promote the interest of black-owned audit firms that operate in the audit profession. A purposive sample was adopted due to the limited number of black-owned audit firm participants that operate in the audit

profession as well the limited number of black-owned audit firms that are accredited by the JSE to audit listed companies. Due to the exploratory nature of the research, the author is of the view that the results from the limited number of qualified participants will be appropriate in explaining the phenomena under study. The researcher selected the sample based on subjective judgment as she was interested in the intricacies of the sample being studied (Sekaran & Bougie, 2013). At least one member of the senior management in the following black-owned audit firms that are part of BCAP were included in the sample invited to participate in the interviews:

**Table 9: List of firms from which sample was selected**

| No. | Audit Firm Name                                        |
|-----|--------------------------------------------------------|
| 1.  | A2A Kopano Inc.                                        |
| 2.  | Chili & Co Inc.                                        |
| 3.  | Indyebo Inc.                                           |
| 4.  | Kwinana & Associates Inc.                              |
| 5.  | Morar Inc.                                             |
| 6.  | Nexia SAB&T Inc.                                       |
| 7.  | Ngubane & Co Inc.                                      |
| 8.  | Nkonki Inc.                                            |
| 9.  | Ramathe Chartered Accountants Inc.                     |
| 10. | SizweNtsalubaGobodo Inc.                               |
| 11. | Ubucule Accountants and Business Advisors Incorporated |

The researcher aimed to interview 24 participants from the above firms however only 8 participants agreed and participated in the study.

### **3.4 The research instrument**

Structured interviews were conducted by means of an open-ended questionnaire for this research. A structured interview entails the administration of an interview schedule by an interviewer (Bryman, 2012; Sekaran & Bougie, 2013). The researcher developed structured research questions well in advance which were open-ended in order to

extract maximum information from the interviewees. The research questions were focused around the themes identified during the literature review whilst at the same time prompting information that was unique to the interviewee. The research question also included questions that were focused on obtaining some background information of the black-owned audit firm with which the participant was involved. These questions were important as they provided the researcher with an understanding of the black-owned audit firms and the context in which they found themselves, such as when the firm was founded, the locations from which they operate, the number of employees they employee, the services provided and the composition of the clients between private, public and listed companies. The questions were open ended in nature in order to allow interviewees the freedom to express their views in their own terms. The use of the structured interviews provided a clear set of instructions for the interview and provided reliable and comparable qualitative data. In order to secure time and availability of the senior management in the black-owned audit firms, thirty (30) minute face-to-face interview sessions were agreed with the interviewees where participants were asked the same questions. Due to the busy nature of the target sample where their business is selling time, participants were more inclined to accept 30 minute interview sessions than sessions that took more than 30 minutes. The research questions were designed in a generic manner due to the perceived sensitive nature of the research to encourage participants to provide honest and open views.

### **3.5 Procedure for data collection**

Interviews are one of the most common sources of data collection that are used in qualitative research such as this (Creswell, 2009; Locke, Silverman, & Spriduso, 2010). Most of the senior management in the black-owned audit firms have extremely busy schedules due to the nature of their business and as such thirty (30) minutes interviews were held with each interviewee. Requests for interviews were sent in advance to interviewees providing them with an overview of the study. Interviews were scheduled at times and venues that were suitable for the interviewees. This was found to be ideal as this gave the interviewees the opportunity to meet the researcher and dispel any scepticism that they may have had as they could interact with the researcher. It also provided the interviewees an opportunity to express views in their own terms. The same

set of questions was asked of all the interviewees which assisted with providing reliability and comparability of the data. Due to concerns about privacy, confidentiality and the perceived sensitive nature of the research, no tape recording of interviews took place, all responses were jotted down by the interviewer and later were transcribed into a word document. This assisted the interviewer in confirming that all questions were answered by the interviewee. Weaknesses of taking notes is that it is very time consuming and could impact the progress of the interview and if not well managed, bias could take place when taking notes (Sekaran & Bougie, 2013).

### **3.6 Data analysis and interpretation**

According to Miles and Huberman (1994), there are generally three steps in qualitative data analysis: data reduction, data display and drawing conclusions (Miles & Huberman, 1994). The researcher read through all the interview notes that had been transcribed and initial responses for each question in the questionnaire were grouped together. For the analysis of the interviews notes that had been transcribed, the researcher went through a process of selecting, coding and categorising the data. The aim was to identify usable and useful information, whilst at the same time developing ideas on how the data may be displayed as well as drawing some preliminary conclusions. The researcher reduced, rearranged and integrated the qualitative data in order to try and draw meaningful conclusions and extract meaning from the data. Since preliminary theory was available from the literature review, deductive generation of codes and categories was performed to analyse the data collected from the interviews. The advantage was that the researcher was able to build on the prevailing knowledge from the literature review (Sekaran & Bougie, 2013).

Content analysis was performed as part of the categorisation of the data to identify important messages and findings. Thematic analysis is a term used in connection with the analysis of qualitative data to refer to a wide range of phenomena (Bryman, 2012). The themes identified from the literature review were used as base themes when analysing the collected data. The responses were analysed to ascertain the extent to which the findings answered the research questions. Presentation of the final data was guided by the research questions and the themes identified from the literature review.

### **3.7 Limitations of the study**

There were few empirical studies or literature available on challenges faced by black-owned audit firms and in particular, there was no prior research on the topic in the South African context.

The study sample was limited to black-owned audit firms that form part of BCAP who provided external audit services. There are a limited number of black-owned audit firm participants that operate in the audit profession as well the limited number of black-owned audit firms that are accredited by the JSE to audit listed companies. The sizes of the black-owned audit firms also vary from small to very large and hence the findings may therefore not be generalisable across the black-owned audit firms.

It was also limited to the Top 200 JSE listed companies as determined in the Financial Mail Top Companies 2015. The study may therefore not be representative or generalisable or transferable.

Low responses were received from the sample of participants that was invited to participate in the study due to the perceived sensitive nature of the study, therefore the study may not be representative or generalisable. 24 participants were invited to participate in the study and only 8 participants agreed and participated. The potential participants were hard to locate as they are very busy professionals who are geographically spread throughout South Africa and it was difficult to contact them and get them to make time and commit to participating in the study.

The study was performed from the view of black-owned audit firms. The study was limited as the conclusions drawn about the challenges faced by black-owned audit firms in accessing and gaining JSE listed external audit clients from their perspective and not the JSE listed companies.

There was a risk that the researcher may be biased when performing data analysis. There is an inherent risk of data manipulation that comes when performing content analysis when analysing and interpreting the data (Bryman, 2012; Sekaran & Bougie, 2013).

Though the study was exploratory in nature, the researcher had limited resources for use in performing the research as interviews were used to gather data for the study which is time consuming and can be a deterrent to participants.

### **3.8 Trustworthiness and authenticity**

The concepts of validity and reliability have not been used in this qualitative study as they have been assessed as inappropriate; they have been replaced with trustworthiness and authenticity. Hair et al (2010) define validity as the degree to which the results given represent that which was measured (Hair, Black, Babin, & Anderson, 2010). Stenbacka (2001) echoed this by defining validity as whether the object that was intended to be measured in the study was actually measured (Stenbacka, 2001). Validity is important in answering research propositions and hypothesis. Reliability is defined as the extent to which the measures used, measure the true value of the identified variables and is free from error such that repeated measurements would produce consistent results (Hair et al., 2010; Stenbacka, 2001). The primary concern of the study was an inductive investigation of the challenges being experienced by black-owned audit firms rather than testing a set of prior hypothesis nor was it aimed answering research propositions, which would necessitate the performance of a validity test. The aim of the study was to present findings of perceptions and opinions for further exploration and debate rather than objectively testable models making validity an inappropriate test. The study was performed to obtain an in-depth understanding of the participants viewpoints, perspectives and to learn more about the challenges that the black-owned audit firms were facing. The study was not intended to measure the challenges but rather to explore and understand the breadth and depth of the challenges faced from the black-owned audit firms perspectives making validity an inappropriate test. Due to the nature of the study, importance was placed on the results of the study being consistent with the data collected and not whether the results of this study will be the same as the results of a second or third study making reliability not an appropriate test for this kind of study.

Guba and Lincoln (1994) propose two primary criteria for assessing a qualitative study which are trustworthiness and authenticity. Four criteria make up trustworthiness,

namely, credibility, transferability, dependability and confirmability. Authenticity is made up of the following criteria, fairness, ontological authenticity, educative authenticity, catalytic authenticity and tactical authenticity (Guba & Lincoln, 1994). The researcher, in carrying out this study, was cognisant of the need to ensure that there was trustworthiness and authenticity. This was mainly achieved by adopting a structured interview process where interviewees were asked the same research questions in the same sequence with responses being documented per question. Content analysis was performed using the categories or themes as identified from the literature review as a way to address this.

### **3.8.1 *Trustworthiness***

To ensure credibility of the research, the researcher performed member checks to verify the statements documented during the interview process and for confirmation that their responses have been correctly understood. Participants were asked to review the data collected by the interviewer and the researcher's interpretation thereof. When carrying out the study, the researcher ensured that they acted in good faith whilst not allowing personal values to sway the way the study was conducted to ensure that the study is objective. The researcher's use of the themes from the literature review was employed as a measure to remove the predisposition of the researcher.

The use of a representative sample was engaged as a measure to address transferability of the findings. The findings are based on interviews performed with black-owned audit firms that form part of BCAP and a question of transferability could be raised as to how this can be representative of all black-owned audit firms in the South African context. BCAP member firm sizes range from large to small firms and is made up of black-owned audit firms from all over South Africa. The appropriate sampling design was employed to ensure that participants selected for the research are not chosen from extremes, the sample of participants selected included JSE accredited and non-accredited black-owned audit firms. This was also done to ensure the researcher obtains a true representation of the properties of the population. This however does not mean that the findings can be generalised to other countries due to the issue of apartheid being specific to South Africa.

The 3 black-owned owned audit firms that are currently accredited by the JSE to perform audits of listed entities were included in the sample of firms invited to participate in the study. Of the 3, 2 responded and participated in the study, making the results of the study transferable, as their responses would be based on actual experience of the challenges from operating as in the JSE listed audit market. As the study was exploratory, the researcher was interested in getting an understanding of the challenges and hence interviews were limited to conveniently available participants who were willing to take part in the study.

### **3.8.2 *Authenticity***

When performing content analysis, the researcher was cognisant of the need to fairly represent the different viewpoints, as noted from the interviews. The researcher structured the research so that the findings from the research help the readers to better understand the challenges being experienced from the black-owned audit firms whilst using the themes from the literature review. The researcher used well known categories when categorising the data. The researcher made use of direct quotes of key message from the interviews to demonstrate that the findings emerged from the data and not her own views. The same open ended structured questions that were not leading were used on all interviews held. Since this study is exploratory in nature, the researcher's aim was to stimulate discussion necessary for engagement into action (Bryman, 2012; Sekaran & Bougie, 2013).

## **CHAPTER 4. PRESENTATION OF THE RESULTS**

To explore the research questions, the research findings from the interviewees are presented and discussed in this chapter. Due to concerns about privacy, confidentiality and the perceived sensitive nature of the research, the identities of the participants have been withheld with all information collected during the interview process being treated confidentially and anonymously. The responses are not ordered in chronological order. One (1) interview session was held with each participant and these took between forty five (45) and sixty (60) minutes on average. All the interviews took place in Johannesburg at the offices of the participants. Participant's responses have been summarised and included and where there are substantial differences and richness in individual responses, these are highlighted. Summaries of patterns and emerging themes identified in the participants' answers have been highlighted.

### **4.1 Nature and characteristics of the sample**

To ensure the views of the study were representative of the views of black-owned audit firms, 24 participants who are members of BCAP were emailed requesting them to participate in the study. The basis of selecting the participants was black-owned audit firms providing external audit services to clients registered with the IRBA. These were people who occupied senior management positions in their respective black-owned audit firms. The 24 participants invited to participate represented 11 black-owned firms.

Figures 7 to 17 represent the descriptive statistics of the study.

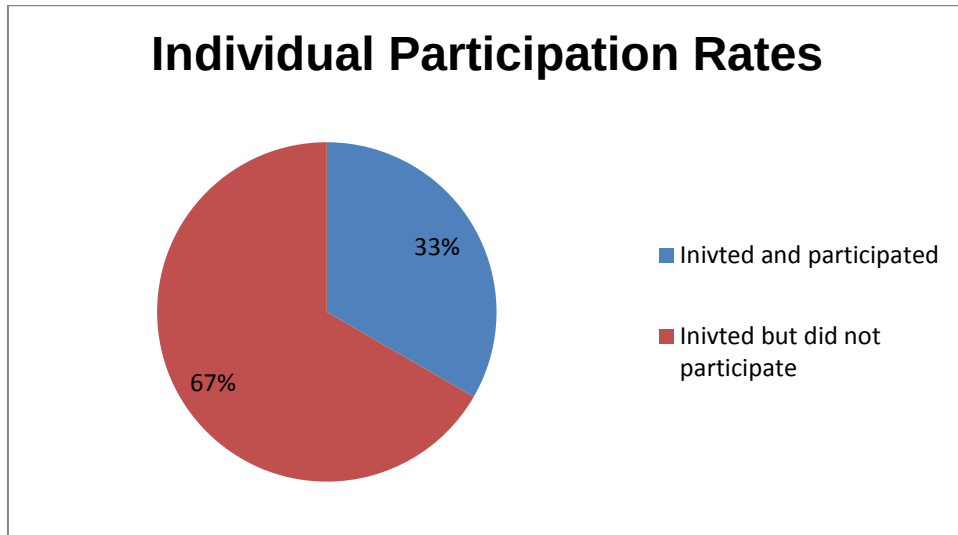


**Figure 7. Individual participation rates**

Of the twenty-four (24) participants invited to participate in the research, eight (8) participants accepted the invitation to participate and interviews were held with these participants by the researcher representing a thirty-three percent (33%) response rate.

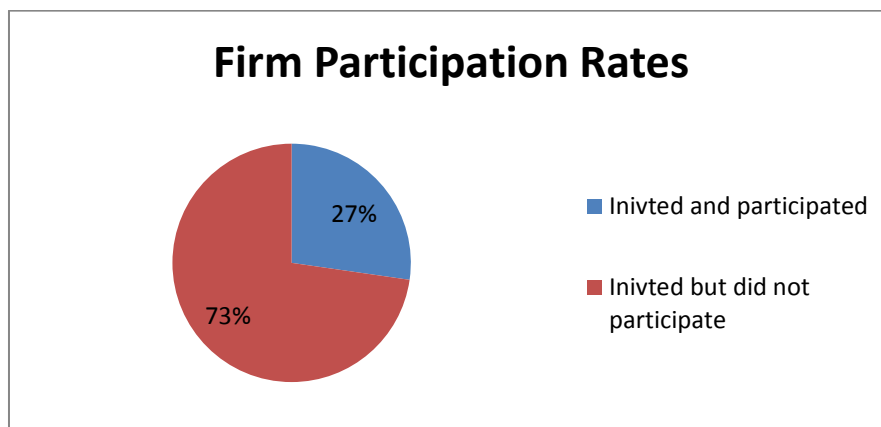


**Figure 8. Firm participation rates**

Of the eight (8) participants that accepted and participated in the interviews, they represented three (3) of the eleven (11) black-owned audit firms invited to participate representing a twenty-seven percent (27%) response rate from a firm perspective.

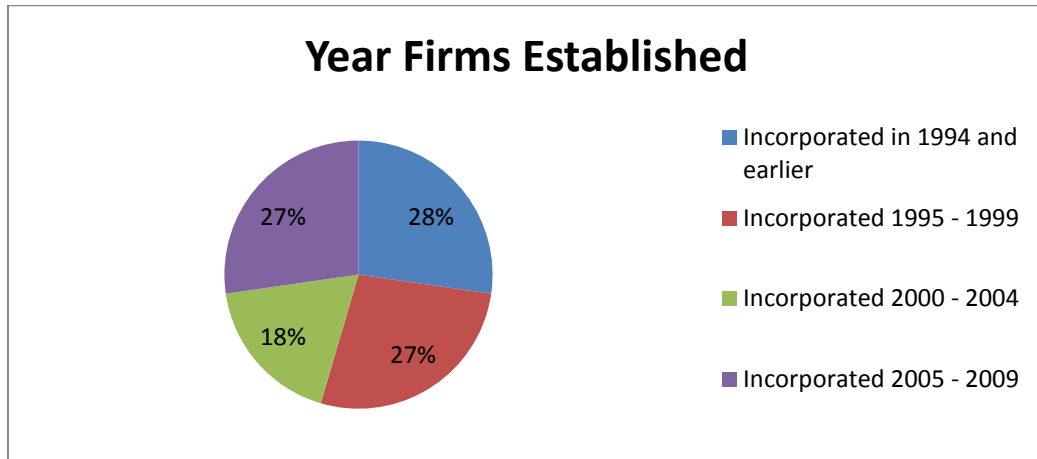


**Figure 9. Years firms established invited**

Of the eleven (11) firms represented by the participants invited to participate in the study, twenty-eight percent (28%) were incorporated and commenced business in 1994 or earlier, twenty-seven percent (27%) were incorporated and commenced business between 1995 and 1999, eighteen percent (18%) were incorporated and commenced business between 2000 and 2004 and twenty seven percent (27%) were incorporated and commenced business between 2005 and 2009.

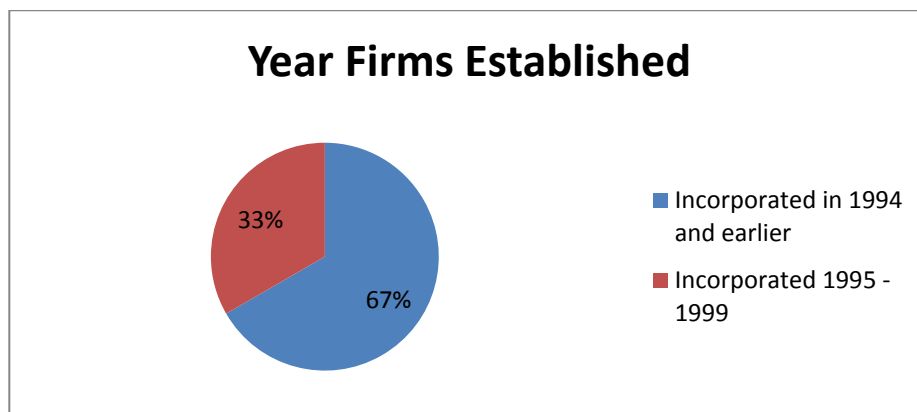


**Figure 10. Years firms established participants**

Of the three (3) firms represented by eight (8) participants who participated in the interviews, sixty-seven percent (67%) of the firms were incorporated and commenced business in 1994 and before and thirty-three percent (33%) firm was incorporated and commenced business between 1995 and 1999.

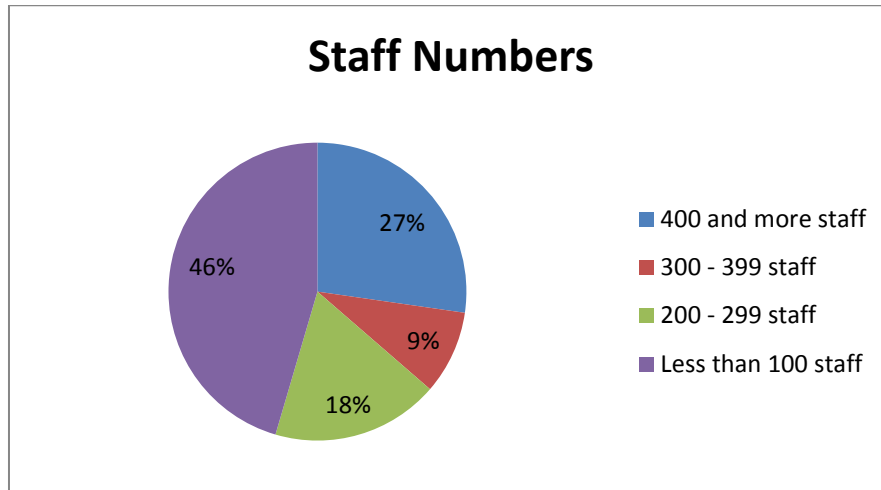


**Figure 11. Staff numbers invited**

Of the eleven (11) firms represented by the participants invited to participate in the research, twenty-seven percent (27%) had four hundred (400) and more staff, nine percent (9%) had between three hundred (300) and three hundred and ninety nine (399) staff, eighteen percent (18%) had between two hundred (200) and two hundred and ninety nine (299) staff and forty five percent (45%) had less than hundred (100) staff.

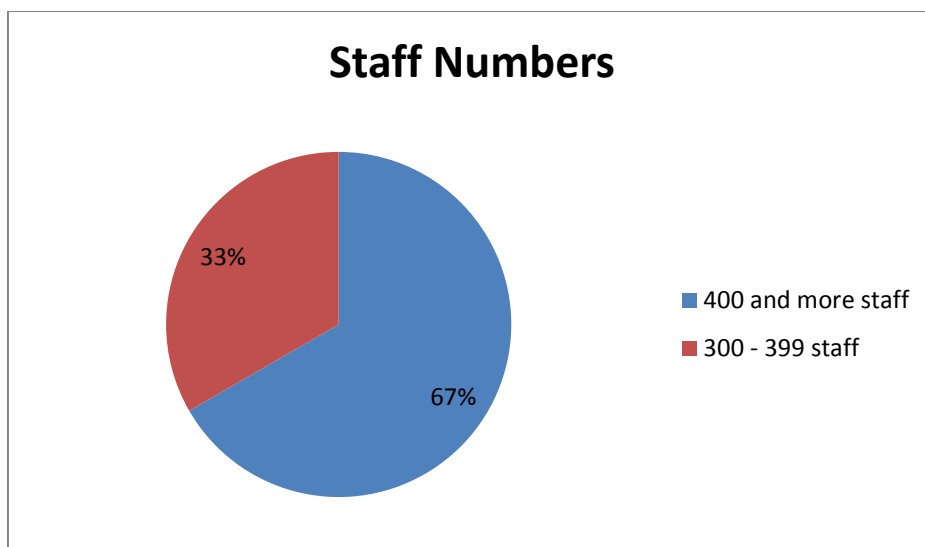


**Figure 12. Staff numbers participated**

Of the three (3) firms represented by eight (8) participants who participated in the interviews, two (2) had more than four hundred (400) staff and one (1) firm had less than hundred (100) staff.

All eleven (11) firms represented by the participants invited to participate in the research, had offices in more than one (1) province in South Africa.

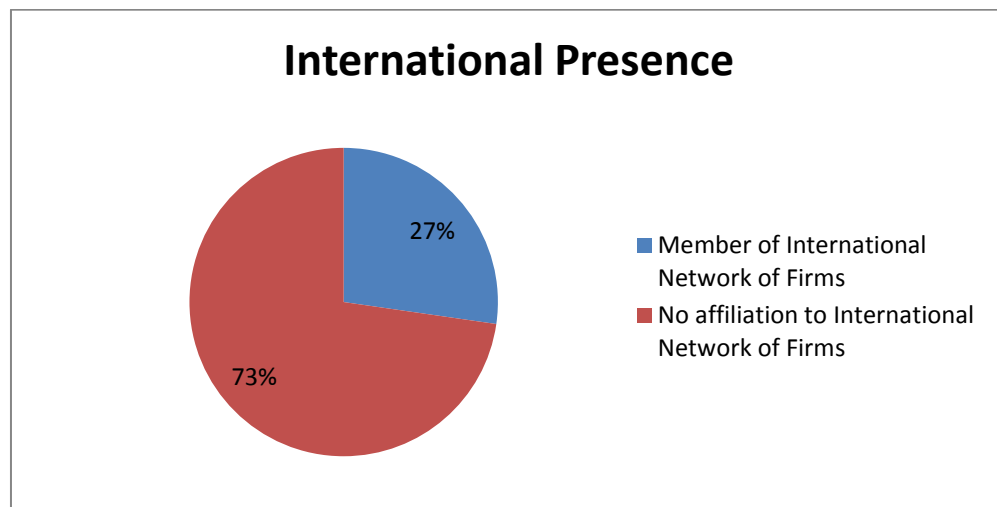


**Figure 13. International presence invited**

Of the eleven (11) firms represented by the participants invited to participate in the research, twenty-seven percent (27%) are member firms of an international network of firms with global access and reach through the international network affiliation and seventy three (73%) had no international affiliation or representation.

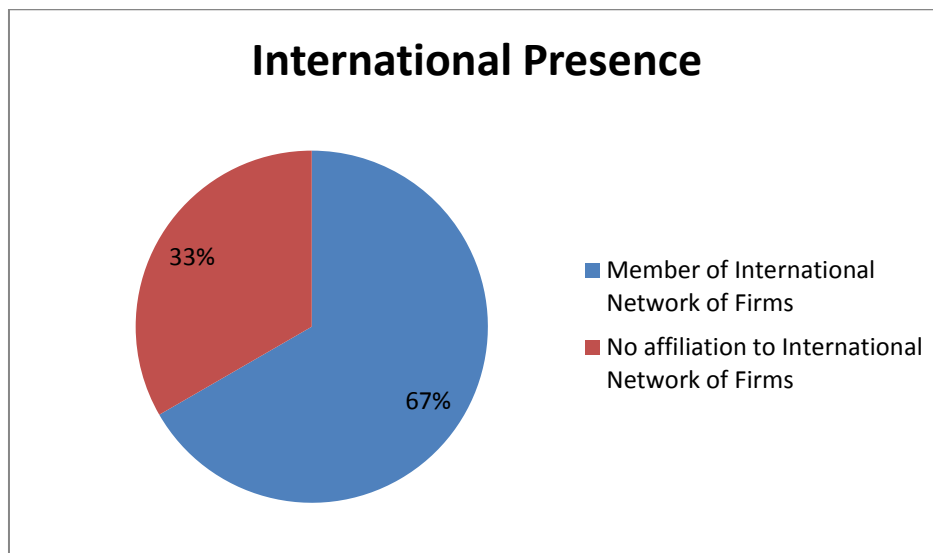


**Figure 14. International presence participants**

Of the three (3) firms represented by the eight (8) participants who participated in the interviews, two (2) are member firms of an international network of firms with global

access and reach through the international network affiliation and one (1) firm had no international affiliation or representation.

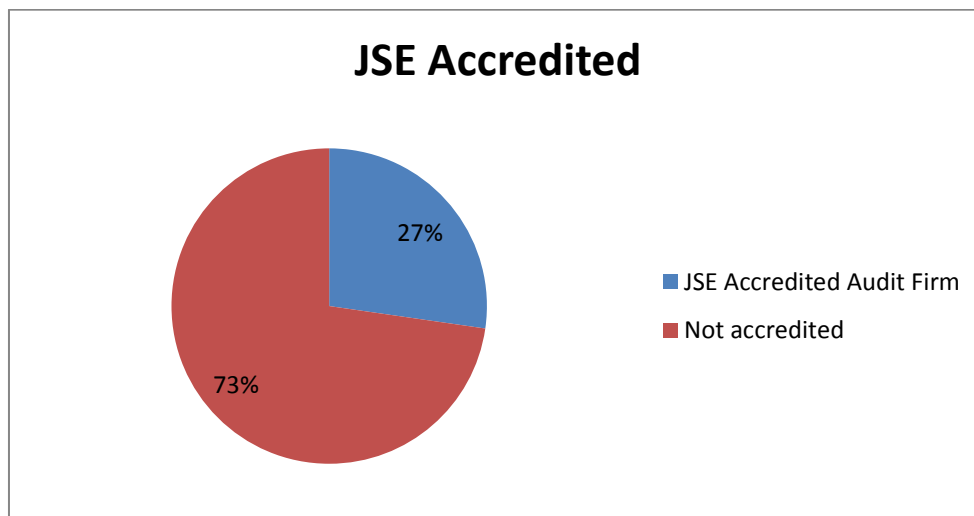


**Figure 15. JSE accredited invited**

Of the eleven (11) firms represented by the participants invited to participate in the study, twenty-seven percent (27%) are accredited by the JSE to perform external audit engagements of listed companies and seventy-three percent (73%) were not accredited.

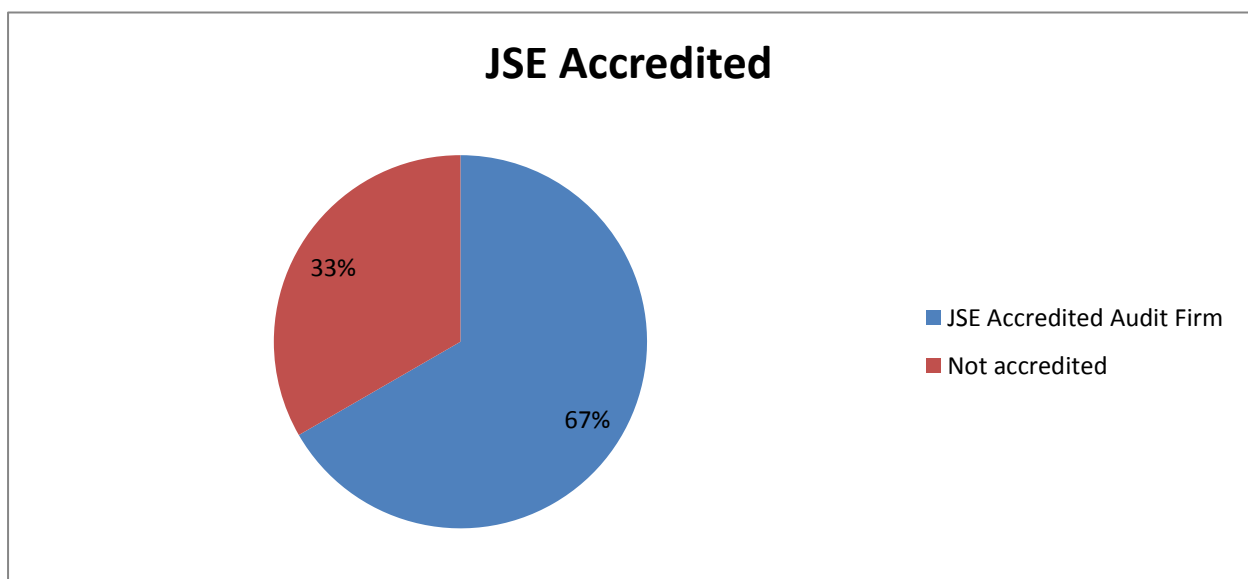


**Figure 16. JSE accredited participants**

Of the three (3) firms represented by the eight (8) participants interviewed, sixty-seven percent (67%) were accredited by the JSE to perform external audit engagements of JSE listed companies and thirty three percent (33%) were not accredited. These firms besides providing external audit services also provide advisory and consulting services.

## 4.2 Composition of current client portfolio

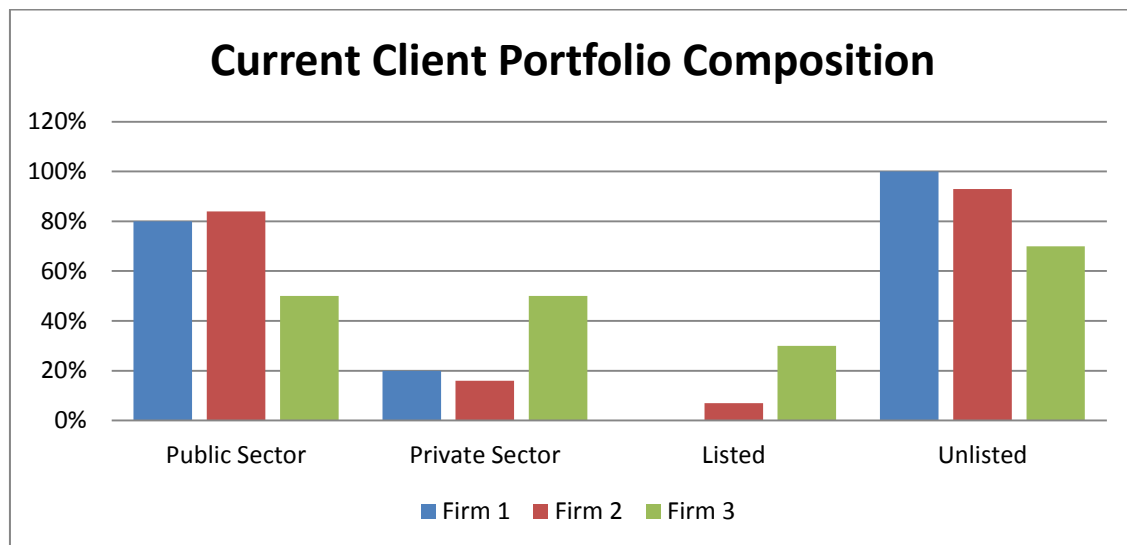


**Figure 17. Current client portfolio composition**

On the question of the current composition of their client portfolios between public and private sector and between JSE listed and unlisted companies, it was noted that the current client portfolio composition of two (2) of the firms comprised, predominantly, public sector clients who accounted for eighty percent (80%) and more in their current client portfolio. The third firm's current client portfolio composition was evenly spread between public and private sector at 50% percent each. The split between JSE listed and unlisted clients in their current client portfolio composition was such that one (1) firm had no JSE listed external audit client in their portfolio, one (1) firm had one (1) JSE listed external audit client in their portfolio which they were engaged in a subcontracted capacity to a big audit firm and the other firm had nine (9) JSE listed external audit clients of which one (1) was in a subcontracted capacity to a Big 4 firm with the remaining eight (8) being small cap clients listed on the ALT X in which they were engaged as sole auditors.

When discussing the current JSE listed external audit engagements on which the two (2) firms who had a JSE listed client in their portfolio were appointed, it was noted that there were benefits and challenges linked to the structure of the external audit appointment.

#### **4.2.1 Subcontract audit engagement**

It was noted by the two (2) firms that the subcontracted external audit appointment was partially good as it allowed for skills transfer from the Big 4 firm to the black-owned audit firm as the Big 4 determined the extent of external audit work performed. Participant 1 put it this way, “It was our first opportunity to work on a listed audit engagement and hence has helped us gain experience and expertise, however because we are not responsible for the whole audit, we are still considered and perceived as not able to perform a listed audit engagement on our own”. The other participants in the interviews echoed similar sentiments that the subcontract arrangement provided them with an opportunity to gain experience and expertise in the external audit of JSE listed entities whilst learning from the Big 4.

The subcontract audit engagement was viewed by the participants as essential in providing progressive growth for the medium and small firm through learning from the experienced auditor like the Big 4. Participant 4 put it this way, “A subcontracted or joint audit can be a good idea if managed well as it allows for skills transfer and also there can be progressive growth for the medium and/ or small firm by learning from the experienced auditor like the Big 4.”. It was also highlighted that a subcontract engagement carried less risk as the subcontracted party was not responsible for the overall opinion and hence they were able to gain experience and expertise whilst under the guidance of the experienced Big 4 firm who signed the audit opinion and therefore carried the risk of signing an incorrect opinion. Participant 7 put it this way, “Our risk is limited and hence it provides us with an opportunity to gain experience in the listed environment without the related risk as we do not sign the opinion”. When performing subcontracted engagements, the audit methodology of the signing audit firm is used providing the black-owned audit firms with exposure to the Big 4 methodology thus providing the black firms an opportunity to see areas of improvement in their own methodologies. Participant 8 mentioned that one of the benefits of the structure was,

“Exposure to the Big 4 methodology and hence be able to see areas of improvements in our own methodology”.

The participants however, indicated that there were challenges linked to the subcontract audit engagement structure of appointment. Participant 2 highlighted that in a subcontract arrangement, “the firm is not involved with the sections of the audits that are relevant for checking compliance with JSE Listings rules as all we do is execution of audit sections with the Big 4 taking responsibility of the complex sections and JSE Listings Requirements compliance as they carry the risk and sign off the opinion. Because of this, the firm is still perceived as not capable of performing audits of JSE listed clients as they have not performed the audit on their own and have no experience with JSE Listings Requirements”. Participant 5 echoed the similar sentiments, “As a subcontract firm, we do not see the entire audit as our involvement is limited to the sections of the audits that we audit and for sections done by the Big 4 we do not review these for learning purposes due to cost and time implications and also because we do not sign, this is viewed as not necessary”. The participant went on to state that, “As a result of the structure, we are still perceived as incapable of performing the audit of a listed client on our own”. Participant 1 echoed similar sentiments and in addition, indicated that, “We were never seen to be big enough to audit this client on our own and so even with that exposure and experience, we still were not considered for other listed engagements”. Participant 6 went a step further and indicated that due to the structure of the subcontract arrangement, “our experience is limited and not complete”. Participant 7 highlighted that one of the challenges experienced was that, “our experience is not recognised as we do not have our signature on the audit opinion and hence we are still considered as incapable of performing the audit on our own”. Participant 8 highlighted that one of the challenges experienced was that, “We have to constantly prove ourselves to them that we are capable of delivering a quality audit”. The participant also indicated that, “There is subtle competition to gain the attention of the client which is unhealthy”.

Participant 5 however indicated that the subcontract arrangement though not perfect, “It however is a better arrangement as it has given us exposure into the audit of a listed entity and we have gained significant experience as the Audit Committee was interested

in transformation and required a skills transfer program to be implemented and reported to them on a regular basis”.

#### **4.2.2 *Sole audit engagement***

Only participant 4 represented a firm that had sole audit appointments of 8 Alt X listed clients. The participant indicated that a sole audit appointment, “gives us experience on the complete audit as we are sole auditors responsible for the audit”. The participant however raised that, “The challenges however is that if the firm does not have the skill, there is no skills transfer that can be done from an experienced auditor and hence there is a steep learning curve expected from us and this can be a costly exercise as we have to acquire the skills to ensure we still perform and deliver a quality audit”.

### **4.3 JSE accreditation**

The study revealed that accreditation with the JSE opened up a new audit market of listed clients giving the firms an opportunity to diversify their client portfolio, grow revenue, and access other services which would not have been necessarily available without JSE accreditation, impacting positively on the firm’s sustainability, product diversification and training opportunities for trainees. This was echoed by all the interviewees with participant 4 stating that, “This increases the chance of getting appointed as auditor for listed entities and therefore positive effect on firm sustainability, product diversification and training opportunities for trainees”. Participant 4 put it this way, “The firm is attractive to potential staff and clients as there is a perception that JSE accredited firms are better”. According to participant 5, “Going through the accreditation process assist with addressing some of the perceptions about audit quality within the firm”. Participant 7 added that, “It’s also beneficial to the experience the staff gets and their future career opportunities are enhanced”.

The participants however indicated that there were challenges linked to obtaining and maintaining JSE accreditation. The main challenge highlighted was that accreditation did not guarantee that the firm would get a listed client appointment as there seemed to be a bias towards Big 4 firms. According to participant 5, “The challenges are however that despite going through the JSE accreditation process and attaining accreditation in

2010, we still have not landed a new listed client and there is no revenue despite us incurring the costs to get the accreditation. Accreditation does not guarantee appointment and hence the return on investment is not guaranteed. We still have to incur costs to keep up-to-date with the JSE requirements and this comes at cost. We also have not been invited to tender for audit engagements as most of the JSE listed audit clients barely change auditors and if they do the invitations are done through closed tenders". According to participant 2, "The challenges are attracting and retaining the right quality resources who have the experience and expertise required to perform JSE accredited audits". This sentiment was echoed by the other participants in the interviews.

The requirement for JSE accreditation was considered as fair by four (4) of the eight (8) participants. They noted that due to the complexity and risk involved and the size of the clients being audited, the requirement was necessary to maintain quality of auditing and financial reporting. According to participant 2, "The requirement is relevant as auditing is a skill and due to the complexity involved, the size of the clients being audited". Participant 7 stated that, "The requirements are fair but for small and medium sized firms they seem too onerous". According to participant 8, "JSE listed clients are too risky and the whole world is interested in their activities therefore the service providers should also be able to provide excellent service. The requirements are fair and ensure that the right systems are in place for quality services". Participant 3, who was of the view that requirement for accreditation was necessary, stated that, "However an unintended consequence is the effective exclusion of the small black-owned firms". Participant 2, who was of the view that the requirement was relevant, stated that, "I however have a concern whether this is really necessary as the IRBA already accredits RAs and this extra process may not be necessary and seems to be a hurdle that deters RAs from entering the JSE audit market."

The accreditation requirement was however perceived as onerous as some of the respondents felt that the JSE was interfering with the regulator IRBA's requirements for accreditation of audit firms and RAs. Participant 5 had this to say, "I am not happy to apply to two (2) regulators. This seems not necessary considering that the IRBA already has a very stringent process for RAs. This ends up seeming as another barrier to entry for firms on the JSE audit market as prior to September 2008 there was no such

requirement. IRBA is responsible for monitoring and checking quality of the audit profession and this seems like interference into the profession and can be viewed as a way of trying to limit entrance into the JSE audit market. I am of the view that the JSE and IRBA need to work together to ensure that any concerns the JSE have are covered within the IRBA process and this extra accreditation process is taken away. It also raises a question, “Why is the JSE asking for this regulatory requirement?” Participant 4 echoed similar sentiments when he stated that, “This is an extra process which is not necessary as IRBA already has a very stringent process for accrediting RAs. I am of the view that there shouldn’t be another process and this needs to be looked at as it ends up being a barrier to firms. The JSE has the discretion to who gets admitted to audit listed clients which can be viewed as a barrier to entry as the audit industry already has a regulator who is highly acclaimed worldwide. It can also end up looking like discrimination as this is an extra hurdle which seems to seek to keep only a select few as JSE accredited auditors. Currently there are only three (3) black firms accredited to perform JSE audits”. According to participant 4, “When the Big Four started there were no such requirements and hence can be viewed as prohibitive of small and medium firms entering the market.” Participant 4 indicated that, “There needs to be opportunities provided for small firms to enter and build capacity whilst in the listed space environment”.

#### **4.4 Critical success factors considered for appointment**

The study revealed that when considering an audit firm for appointment, the credentials of the firm were considered most important by those responsible for appointing the external auditors. According to participant 4, “Experience and expertise are generally considered by the firms when appointing auditors. Industry experience and expertise gained from auditing a JSE listed client is a key consideration that is looked at. International presence or affiliation to an international network of firms is important as well as most listed firms have cross boarder operations. The size of resources that the firm has to deliver on the engagement are also a key consideration point. Companies also considered the well-roundedness of experience that the firm will bring as they generally want the firm to also provide other audit related services”. The views were echoed by the other participants. Participant 2 indicated that, “The technical experience

and support resources is a key consideration as the clients need a one-stop-shop with all relevant experience and expertise to deal with all the issues they are dealing with". Participant 5 indicated that, "JSE Accreditation" is a factor that is considered. He also indicated that, "Team experience is also a key consideration". According to participant 7, "The ability to deliver on deadline is a key consideration. The support systems within the firm i.e. technical, IFRS and other services. Price although it is a consideration is not a key determinant". Participant 8 also identified the, "Quality of other audits performed" as a critical success factor that is considered for appointment.

#### 4.5 Firm experience and expertise

When the participants were asked if the firms with which they were involved possessed the relevant experience and expertise to perform audits of JSE listed clients, thirty seven percent (37%) of the participants indicated that they believed that their firm possessed the relevant experience and expertise required to perform audits of JSE listed clients. Fifty percent (50%) of the respondents were of the view that their firms did not possess relevant experience and expertise to perform audits of listed companies. Thirteen percent (13%) of the participants were of the view that they partially possessed the experience and expertise required

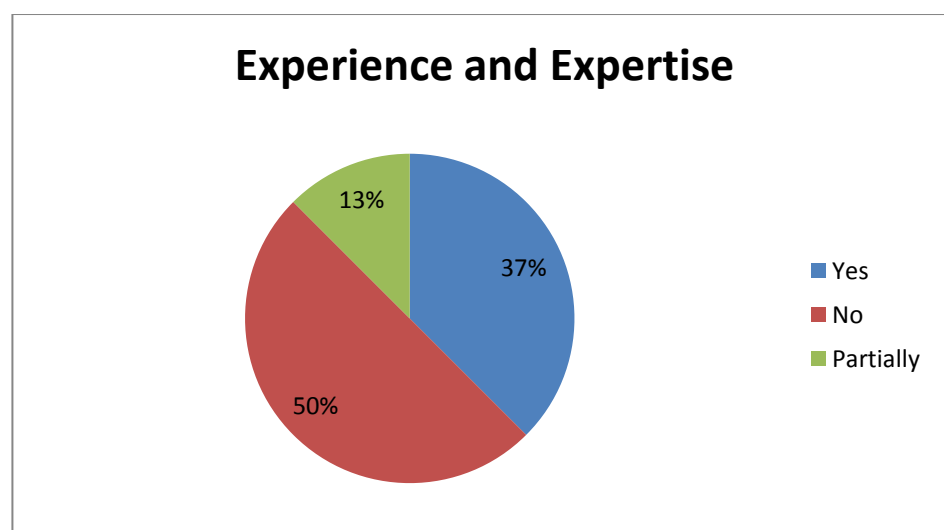


Figure 18. Experience and expertise invited

Of the participants interviewed, the researcher noted that the responses were not consistent between participants from the same firm. The responses are as shown in the graph below.

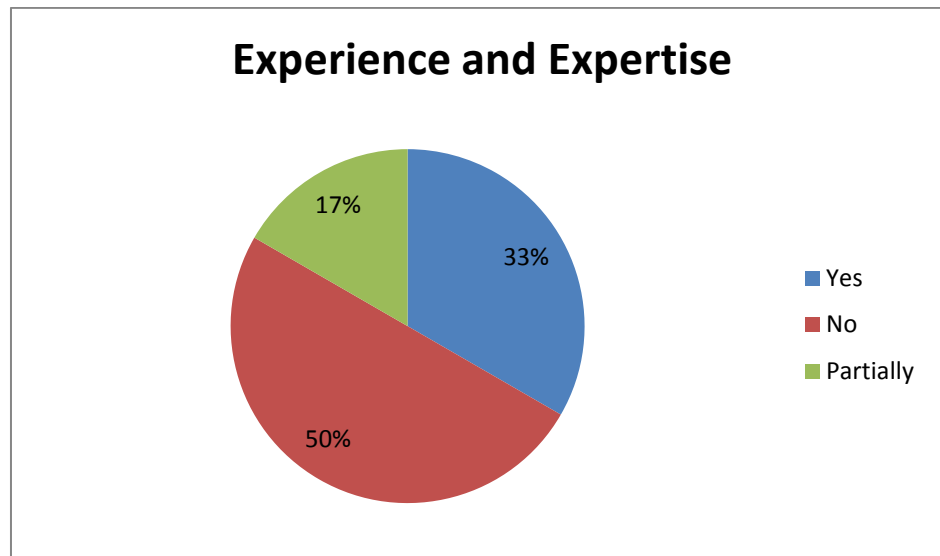


**Figure 19. Experience and expertise participants**

The researcher noted that thirty-three percent (33%) of the participants from this firm were of the view that they possessed the relevant experience and expertise that would enable them to perform audits of JSE listed companies whilst fifty percent (50%) were of the view that they did not possess the relevant experience and expertise. Seventeen percent (17%) were of the view that they partially possessed the experience and expertise required.

Of the participants that believed they possessed the experience and expertise to perform the audits, participant 5 indicated that, "We have accredited partners and an in-house IFRS advisor. We have affiliation to an international firm which gives us global reach. We have experience from the audit of a listed entity in our subcontract capacity and this has assisted us in understanding the listed entity audit environment. We have audited complex environments though not listed but have the similar complex transactions and this in my view makes us able to perform the audit of a listed client". The participant, however, qualified the statements by stating that, "We however need exposure in some specialised industries such as mining, banking to enable us to increase our capacity to service such clients". According to participant 1, "Potential

clients might have a perception that we lack the experience because we do not have clients in the industry sector. As a firm however, we invest a lot of time and resources to ensure that we have the required knowledge and skill to execute on any work that we target for". Participant 4, whose firm has one (1) subcontract engagement and eight (8) sole appointments of clients listed on the Alt X, indicated that, "We have proved ourselves on the listed clients that we audit. We have more than twenty (20) years audit experience and our partners have sufficient experience having themselves trained in the Big 4 environment".

The participant who was of the view that their firm partially possessed the experience and expertise to perform listed company audits stated that, "We however have limited experience as the only experience we have is from a subcontract engagement on a listed engagement where we haven't seen the entire audit engagement as we don't sign off the audit opinion. We however have audited very complex environments of which the experience will definitely assist us with delivering on a listed engagement; all we require is an opportunity to demonstrate our capabilities".

Of the participants who were of the view that they do not possess the experience and expertise to perform listed company audits, participant 4 stated that, "The firm has a limited technical department and the staff complement of the firm in general is very limited. The firm has limited resources at its disposal who would be able to perform an external audit of the JSE listed client. The firm also has only few partners (3) accredited by the JSE to perform JSE listed audits and these already have their hands full. The firm has not performed an audit of a JSE listed client on its own and hence we lack the experience and expertise required by those responsible for appointing external auditors". This was echoed by participants 7 and 8 with participant 7 stating that, "We however have aspirations which is why we got the initial accreditation. I am of the opinion that we currently lack the right skills and personnel to handle the audit of JSE listed clients. The impact of a wrong opinion is a risk for the firm and the client and hence clients look for experienced firms and teams". Participant 8 who agreed with the view that they did not possess the experience and expertise went on to state that, "We struggle to get the right caliber of resources from the market, especially trainees that are technically good".

## **4.6 Challenges faced by black owned audit firms in accessing and gaining JSE listed clients**

The study revealed that all participants agreed that they were all experiencing challenges one way or the other when trying to access and gain JSE listed external audit clients.

### **4.6.1 *Lack of funding***

The participants indicated that there was a challenge when it came to funding the JSE accreditation process. Participant 4 indicated that, “For initial accreditation the auditors need to attend training accredited by the JSE and this includes Reporting Accountants, Listings Requirements, which cost money. For any updates to the Listing requirements, the auditors have to attend at a cost the training updates and hence the cost of continuing education. Also because of the JSE accreditation the IRBA has to perform reviews regularly on the accredited auditors which cost the firm. The firm has to maintain a minimum of three accredited JSE auditors in order to maintain the accreditation”. These comments were echoed by the other participants with participant 2 adding that, “There is also a need for experienced staff that will be able to perform these audits as that is what potential clients look for when considering an external audit appointment”. Participant 7 put it this way, “The financial affordability of resources is an issue as we pay a premium when attracting resources with JSE audit experience. We have limited exposure and hence when the JSE clients are not realised, we risk losing the resources”.

### **4.6.2 *Lack of skills for expansion***

One of the challenges raised from the study was a lack of the relevant skills, experience and expertise required in order to access the JSE listed external audit clients. Participant 5 indicated that, “We however need exposure in some specialised industries such as mining, banking to enable us to increase our capacity to service such clients”. Participant 4 stated that, “The firm has a limited technical department and the staff complement of the firm in general is very limited. The firm has limited resources at its

disposal who would be able to perform an external audit of the JSE listed client". Participant 7 went on to say that, "I am of the opinion that we currently lack the right skills and personnel to handle the audit of JSE listed clients". Participant 8, who agreed, went on to state that, "We struggle to get the right caliber of resources from the market, especially trainees that are technically good". Participant 6 indicated that, "We however have limited experience as the only experience we have is from a subcontract engagement on a listed engagement where we haven't seen the entire audit engagement as we don't sign off the audit opinion".

#### **4.6.3 *Failure to attract and retain talent***

The study revealed that challenges were being experienced by the black-owned audit firms in that they were expected to have sufficient capacity for them to be considered for appointment of JSE listed audit clients yet they were failing to attract and retain the right talent required to perform audits of listed clients which are considered complex and risky in nature. Participant 2 put it this way, "The challenges are attracting and retaining the right quality resources who have the relevant experience and expertise required to perform JSE accredited audits". Participant 5 indicated that it was, "expensive to attract and keep resources". Participant 7 went on to state that, "We have access to resources however our ability to retain them is an issue. The financial affordability of resources is an issue as we pay a premium when attracting resources with JSE audit experience. We have limited exposure and hence when the JSE clients are not realised, we risk losing the resources". Participant 8 stated that, "We struggle to get the right calibre of resources from the market, especially trainees that are technically good". Participant 3 went on to state that, "smaller firms find it difficult to attract and retain skilled accounting and audit staff". Participant 2 indicated, "We find our self in a catch 22 situation where we are expected to have all the required resources to perform a JSE listed audit however with no guarantee that we will get appointed to audit a JSE listed client".

#### **4.6.4 *Lack of opportunities for growth***

The study revealed that opportunities for external audit appointments for listed entities were generally done through closed tenders where only the invited bidders could

propose for the audit engagements, resulting in the black-owned audit firms missing out on opportunities and hence this has kept the doors closed to them. The participants noted that most of the JSE listed companies had not rotated audit firms in a long time and were not considering new auditor appointments. Participant 2 put it this way, “There is a perceived cost associated with changing auditors and hence most listeds avoid that and have had the same audit firm for more than twenty (20) years. Opportunities for external audit appointment are generally done through closed tenders where only invited bidders can propose and hence this makes us not aware of opportunities and also keeps the door closed to firms like ours. There is also no transformation program by the JSE in place that encourages transformation of the external audit firms that audit the JSE listed entities”. This was echoed by the other participants interviewed with participant 5 stating that, “Opportunities are not advertised as closed tender system is used by most listed entities if they do go out on tender. This makes it difficult to be aware of any opportunities. Also there is no regulation that limits the period that a single firm can audit an entity and hence we have noted that listed clients rarely change auditors”. The participant went on to state that, “Changing auditors is perceived to be expensive and hence there is generally little or no change of audit firms over significant periods of time”. Two (2) of the participants indicated that referrals sometimes do take place where they are invited to participate in tender with participant 6 stating that, “Referrals do take place usually when recommending firms to participate in the closed tenders”. Participant 5 who echoed a similar sentiment, put it this way, “There is also referrals done from those who know us though this is limited”.

The participants indicated that their firms did engage in marketing activities to bring awareness to listed entities of their services. Participant 1 indicated that, “The regulation in our industry prohibits utilisation of aggressive marketing tactics e.g. cold calling, low balling. So the marketing opportunities are subtle, not that effective to land JSE listed entities”. Participant 5 was of the view that, “There is no direct access to marketing opportunities, however there are indirect marketing opportunities”. The participant went on to state that, “All we need is an opportunity to show case what we can do”. Participant 6 stated that, “Opportunities to market are very limited”. Participant 7 indicated that, “There are limited marketing opportunities; there is a database of the list of accredited firms on the JSE website”.

The participants indicated that there are minimal opportunities for partnership with the Big 4 firms. Participant 7 put it this way, “Not much opportunities as the Big 4 firms are also running a business and hence as the black firms we need to bring something to the table to incentivise the Big 4 firms to partner with us. If there isn’t anything for the Big 4 firms generally they will not volunteer partnerships unless if the client requests them to partner”. Participant 6 put it this way, “Opportunities are minimal as they see this as reducing their market share. Generally, opportunities for partnership are at the insistence of the client. Opportunities are generally linked to links already established and if you don’t have these it’s difficult to initiate one”. Participant 5 put it this way, “There are limited opportunities for partnership with the Big 4 as the Big 4 view this as us taking bread off their table. Some firms are open when considering a value proposition to acquiring new clients and will use the black firm as a partner to incentivise the client to appoint them. Partnerships are generally driven by the clients and their governing structures and where this happens the Big 4 is forced to partner with a black firm”. Participant 4 put it this way, “Nothing / Very few opportunities as the Big 4 see us as a threat. There is generally anticompetitive behaviour and if the client does not have transformation agenda and drive, they will not even consider providing another firm an opportunity to audit them and will keep the same firm over years. On their own the Big 4 generally will not seek a partnership, it’s done generally when the client requires it. They are protecting their territory. The Big 4 feel threatened in the public sector audit space where the government was promoting transformation and appointment of black firms was being made a priority and hence this made them not open to partnership in the listed or private sector space as they felt the need to defend their territory”. Participant 3 put it this way, “Opportunities with Big 4 firms are limited since there is no requirement for them to work with smaller firms in order to help the smaller firms gain experience”.

#### **4.6.5 *Limited geographical reach***

The study revealed that of the three (3) firms represented by the eight (8) participants, 67% of the firms were member firms of an international network of firms whilst 33% of the firms did not have any international affiliation. The firms who were members of an international network indicated that the networks gave them access to the global reach

and resources through the network. 67% of the firms represented had a national footprint in South African with 33% having presence in only three provinces. It was perceived by the firms that national and international presence was important in order to be considered by listed clients as they have national and international presence. Participant 4 put it this way, “International presence or affiliation to an International network of firms is important as well as most listed firms have cross boarder operations”.

#### **4.6.6 *Strong preference for Big 4***

Allegiance to the Big 4 firms was highlighted as a challenge due to most of the Financial Directors / CFOs, Board and Audit Committee members of listed entities were previously with the Big 4 firms. Participant 2 put it this way, “Most CFOs, Board and Audit Committee members are previous Big 4 and hence have allegiance to Big 4 audit firms. The Big 4 firms audit more than 75% of the JSE Listed entities and hence there is a perceived pressure to have one of the Big 4 as your auditors.” Participant 5 echoed similar comments and in addition, stated that, “There also is a requirement from banks and lenders to have a Big 4 firm to audit some listed entities as part of the debt covenants which makes it difficult for listed entities to consider firms like us.” Participant 8 had similar comments stating that, “It is dominated by the big fours who have gained the confidence of those charged with governance”. Participant 6 put it this way, “Most FDs are from the Big 4 and hence the FDs generally don’t want to rock the boat on what has been considered to be working”. According to participant 2, “Most of the tenders are closed tenders where the company looking for auditors just invites a few firms and generally it’s the Big 4 firms”.

#### **4.6.7 *Resistance among companies***

From the responses of the participants, there was a perception that there was subtle resistance among companies to change from a Big 4 firm to any other auditor. Participant 3 states this, “It seems it’s a trust issue. Listed entities do not ordinarily trust the smaller audit firms to perform the audits of their AFS. Where smaller firms are involved they are paired with Big 4 firms and the former only perform less complex

aspects of audit”. Participant 8 indicated that, “There is also a resistance to change from management. Management lack of faith and trust in black firms. They do not think they are capable of delivering an excellent job”. The requirement for a Big Four audit firm from lenders was cited by participant 5, “There also is a requirement from banks and lenders to have a Big 4 firm to audit some listed entities as part of the debt covenants which makes it difficult for listed entities to consider firms like us. Changing auditors is perceived to be expensive and hence there is generally little or no change of audit firms over significant periods of time”.

#### **4.6.8 *Lack of sector experience***

The study revealed that one of the challenges facing the black-owned audit firms was their perceived lack of listed sector experience. Participant 1 put it this way, “Our capacity and industry experience does not measure to client expectations”. Participant 7 indicated that, “we have limited exposure” in the listed environment. Section 4.5 elaborates more on the responses from the participants in this regard.

#### **4.6.9 *Other challenges***

Participant 6 indicated that, “It’s a close knit society and hence it’s perceived as if they are trying to keep it closed especially if you look at the rate at which the market has stayed more or less the same in the past 20 years. It’s a market that we are finding difficult to penetrate. If there are rotations these are generally between the Big 4 with little medium sized firms involved”. Participant 1 stated that, “Our brand does not appeal to JSE clients”.

#### **4.6.10 *Support required to deal with the challenges highlighted***

When asked about what assistance the firms would require to obtain access to JSE listed audits, the participants highlighted that targeted measures and interventions needed to be made. Participant 4 identified the following measures, “The IRBA and JSE should jointly address the market to address market perceptions that black firms and/or small and medium firms are not as good as the Big 4. This will help deal with the perceptions out there that such firms will not be able to deliver a good audit. The IRBA

performs reviews and accredits all auditors and the process is no different between the Big 4 and any other firm and hence through educating the market they will help build trust in the JSE listed audit market”. Participant 5 had the following suggestions to make, “Firm rotation policy would go a long way in assisting with opening access to the market. Opportunities to tender and present, an open tender system or rotation of firms may be things to consider. Legislation that opens the door for us to be able to have an opportunity to enter the JSE listed audit market is essential e.g. SARB requirements for Big 4 firms to audit firms should be reconsidered as this is prohibitive of us entering that space”. Participant 7 had the following suggestion, “Partnerships with the Big 4 to provide us with JSE listed environment exposure and afford us an opportunity to gain listed experience. The requirement for joint signatories where we are partnered with a Big 4 firm”. Participant 1 suggested the, “JSE should support accredited firms with lobbying to JSE listed firms to be appointed as auditors”.

#### **4.7 Impact of not having sufficient JSE listed clients**

When asked whether there are any implications on their staff and business as a result of not having sufficient JSE listed audit clients, the participants highlight the negative impact this had on their staff and business. Participant 2 had this to say, “The firm is not attractive to potential partners, manager and staff as the firm’s experience is limited to public sector and very few private sector clients. It also makes it difficult to retain staff as they want to go and join the Big 4 in order to gain listed client experience. Access to other audit related work is not there where we can gain experience. Revenue stream cannot be diversified and hence firm sustainability is at risk as reliance is on public sector work which is not guaranteed over a long term period. The trainees and staff that pass through the firm have little or no opportunities to enter the listed environment as they would have no experience working with listed entities and hence the objectives of transformation and levelling the playing field are defeated”. The participant went on say that, “The trainees will not have a rounded experience and hence the breadth and depth of experience will be limited to public sector predominantly. This reduces the chances of them entering the JSE listed job market as they will not have experience with a listed environment”. The participant further stated that, “The firm is not able to diversify its revenue base and hence will continue relying

on public sector clients which is not sustainable for the firm. The sustainability of the firm is put at risk as there is over reliance on public sector which is not guaranteed meaning the firm cannot effectively grow. Due to the firm not having listed clients, potential trainees will not be attracted to the firm as they would rather join the Big 4 where they will have a rounded client business which includes listed clients. The firm will not be competitive in the market and hence will not attract the best of the available trainee pool. The firm also will not be able to retain the staff that it does not have the prestigious client base like the Big 4.” These sentiments were echoed by all the other participants with participant 6 stating that, “The trainees write the same exams and the qualification requirements are the same however trainees who are from the Big 4 who get to audit listed entities are perceived to have a better advantage at passing as they deal with the complex requirements linked to listed audits. The experience obtained by a trainee during their articles has a direct link into the future opportunities that they will do subsequent to completing their training and hence not having sufficient JSE listed clients can have an impact into the job opportunities that trainees can pursue on qualification”. The participant further indicated that, “Their chances of joining listed entities is generally minimised as most of the listed look for “articles from the Big 4” when recruiting qualified people and hence our trainees miss out”. Participant 4 put it this way, “We would like to produce a well-rounded trainee who has experience auditing in every environment but due to the limited listed clients, this is not possible for every trainee impact on their breadth and depth of experience and even attractiveness when they complete articles and go into the corporate job market. Some of the exams they write will better be responded to if they had experience in a complex environment of which a listed audit space is one of them”. Participant 1 had this to say, “Business is also strained because we have mainly public sector clients that have similar audit cycles which makes it difficult to manage the resource capacity as we tend to overstaff in anticipation of our busy period”. Participant 8 indicated that, “They will not have exposure to other complex areas that come with auditing JSE listed entities”.

#### **4.8 Sector specific transformation initiatives**

When asked if there are sector specific transformation initiatives that would assist with providing access to the JSE audit market, all the participants indicated that there were

none. The participants highlighted that outside of the broad B-BBEE requirements there was nothing specific to the opening of previously closed markets like the JSE. Participant 5 indicated that, “Apart from B-BBEE codes there is nothing. ABASA is focused on black trainees but not opening of the JSE audit market. ABASA has been effective in assisting the increasing of black trainees entering the audit profession”. Participant 7 had this to say, “No specific initiative. There needs to be specific enabling legislation so that transformation of the JSE listed market is not left to chance”. He went on further to state that, “The current initiatives are too broad and more focused on increasing the number of CAs from previously disadvantaged backgrounds with no specific focus on the industry itself. There are organisations like ABSA which are involved, however my perception is that they are not pushing at the right levels as their focus is more on the number of black CAs”.

#### **4.9 Other comments from the participants**

Other comments that came from the participants during the various interview sessions are included here. Participant 5 had the following general comment, “There needs to be more awareness required from the JSE besides just the list of accredited firms on their website. Audit Committees also have a role to play in helping transform the JSE audit market. Most of the listed Audit Committees are made up of ex Big 4 partners and hence they tend to have allegiance to Big 4 firms and do not influence transformation. There needs to be a cooling off period for partners before they can start sitting on the Audit committees and Boards of listed entities. The listed entities should be encouraged to stay independent of the Big 4 firm. A lot still needs to be done to open up the JSE audit market and there is need for intervention in this regard.” Participant 4 had this to say, “There needs to be a collective drive by the black firms to join hands and work together to build a brand that can compete with the Big 4. Currently the black firms are fragmented and that does not help with our case as we do not portray a united front. There is no legislative that promotes the opening up of the JSE audit market leaving the transformation of the market to chance. It’s been a slow and hard process to try and get the doors of the JSE audit market opened for black firms”. The participant went further to say, “With regards to the JSE some of their requirements are a chicken and egg situation for example in order to be accredited to

perform fair and reasonable work you need experience but then how do you get the experience if you don't have the accreditation. It makes it difficult for firms to enter into the market and if we are to recruit the resource elsewhere, the cost become significant as that does not guarantee that you will get the work". Participant 2 had this to say, "It's a shame that the JSE listed audit market is still not transformed. There is a sincere and complete lack of transformation. The tone at the top for JSE listed entities needs to change and be open to transformation and hence encourage the use of black firms in audits". Participant 7 had this to say, "Black firms need to focus on core values of the firm and focus on building credibility of the firm as this is essential to gain trust of the listed clients. The black firms need to focus and get experience from the private sector as this will come in handy when looking for listed clients. The firms should have a multi-faceted strategy on other private entities that are not listed for experience as there are big clients in the private sector that are not listed but have similar complexities to listed entities. The firms also need to focus on building their client base so that they have the capability of dealing with listed and complex environments".

## **CHAPTER 5. ANALYSIS AND INTERPRETATIONS**

### **5.1 Introduction**

This chapter provides a summary, analysis and interpretation of the findings which are presented in chapter 4. This has been done with reference to the literature review findings and in relation to the research problem and sub-problem.

### **5.2 Nature and characteristics of the sample**

A sample size of twenty (24) participants was targeted to participate in the interviews but only eight (8) accepted and participated in the study, which represents a response rate of thirty three percent (33%). The twenty four (24) participants invited represented eleven (11) black-owned audit firms, however only three (3) firms were represented by the eight (8) participants who accepted and participated in the interviews. Of the three (3) currently accredited black-owned audit firms to perform audit of listed entities, two (2) responded and participated in the study. The data collection method of interviews was selected for its seeming advantage of providing rich data and its ability to help explore and understand complex issues (Sekaran & Bougie, 2013). Mack, et al. (2005) notes that in most cases it is not possible to collect information from all members of the targeted population of a research study (Mack, Woodsong, Macqueen, Guest, & Namey, 2005). In a face-to-face interview setting, there is a risk of participants feeling uncomfortable addressing sensitive topics such as this topic which has a direct link to transformation (Bryman, 2012; Sekaran & Bougie, 2013). Participants may have felt uneasy about the anonymity of their responses. This could have contributed to the low participation rate.

As a result of only three (3) firms out of the eleven (11) being represented by the interviewees, the literature review identified the risk of sample bias as a disadvantage. Sixty seven percent (67%) of the selected participants did not accept participation in the study and thus there is a possibility of sample bias problem as some individuals with certain traits may not be represented in the final analysis (Sekaran & Bougie, 2013). The sample of firms invited for the interviews included the three (3) black-owned owned

audit firms that are currently accredited by the JSE to perform audits of listed entities. Of these, two (2) responded and participated in the study which represents sixty seven percent (67%), making the results of the representative, as their responses would be based on actual experience of the challenges these firms have been facing from operating as part of the JSE listed audit market.

### **5.3 Analysis and interpretation pertaining to the main problem**

The study revealed that black-owned audit firms were experiencing a variety of challenges when trying to access and gain JSE listed external audit clients. There are a number of key challenges that were identified from the study that black-owned audit firms were experiencing.

#### **5.3.1 *Lack of funding***

Lack of funding is one of the key challenges that black-owned audit firms experience in trying to access and gain JSE listed external audit clients. The requirement for accreditation for one to be eligible for consideration for possible appointment seems to be a major obstacle in accessing and gaining JSE listed external audit clients. The results of the study highlighted that there were cost implications to getting and maintaining JSE accreditation which enabled one to be included in the pool of accredited auditors eligible to audit a JSE listed client. It was noted that the attainment of accreditation did not guarantee that a firm would start getting appointments which meant that the return on investment was not guaranteed which makes it difficult for firms to make the required investment. The study also revealed that for black-owned audit firms, there was also a cost linked to being able to attract and retain suitably skilled and experienced staff in order to have the capacity required to service JSE clients. The firms were expected to have the skills, experience and expertise to perform JSE listed clients external audits and hence were expected to make an upfront investment in the required resources which requires capital. As participant 2 put it, “We find our self in a catch 22 situation where we are expected to have all the required resources to perform a JSE listed audit however with no guarantee that we will get appointed to audit a JSE listed client”. The findings from the interviews with the participants correlate to the literature

review where lack of funding was raised as a challenge that the black-owned audit firms experience. There needs to be intervention from the JSE and other key stakeholders that would make it easier for black-owned audit firms to realise a return on their investments once they get accreditation and/or to assist them with an opportunity to build up the resources required for them to be able to audit JSE listed external audit clients.

### **5.3.2 *Lack of skills for expansion***

The lack of the required skills for expansion is one of the key challenges that was identified from the study. According to the literature review performed, buyers put a significant amount of weighting on experience and technical skills when evaluating potential service providers (Frederiksen, 2009; Hinge Research Institute, 2013). As noted from the study and from the analysis of audits done by black-owned audit firms in the Financial Mail Top Companies 2015 on listed companies, there were not many audits where black-owned audit firms were involved. The list of accredited JSE auditors only had three (3) black-owned audit firms out of the list of twenty-three (23) accredited audit firms with only one (1) black firm having audits in the Top 200 Companies. This finding correlated to the literature review where a lack of skill was identified as a major reason why black-owned audit firms are not able to access and gain JSE listed audit clients. As participant 6 put it, “We however have limited experience as the only experience we have is from a subcontract engagement on a listed engagement where we haven’t seen the entire audit engagement as we don’t sign off the audit opinion”. There is a need for intervention from the key stakeholders to provide an environment that enables black-owned audit firms to get opportunities to develop the required skills to audit JSE listed external audit clients. The suggestions made by the participants of making joint audits a requirement can go a long way in assisting the black-owned audit firms build the relevant skills. As participant 7 put it, “Partnerships with the Big 4 to provide us with JSE listed environment exposure and afford us an opportunity to gain listed experience. The requirement for joint signatories where we are partnered with a Big 4 firm.”

### **5.3.3 *Failure to attract and retain talent***

Another key challenge noted from the study was failure to attract and retain talent arising from the black-owned audit firms not having a good client mix that included JSE listed clients. The study noted that due to JSE listed company audits being considered complex, resources with the relevant experience and expertise were required in order to be considered for appointment. Also due to the client mix of the firms represented by the participants being predominantly public sector, it was noted that retention of talent was an important issue as there were insufficient attractive clients in their portfolios that provided an incentive to their staff to stay with the firms. As participant 7 put it, “We have access to resources however our ability to retain them is an issue. The financial affordability of resources is an issue as we pay a premium when attracting resources with JSE audit experience. We have limited exposure and hence when the JSE clients are not realised, we risk losing the resources”. The resolution of this challenge is dependent on measures that will be implemented that will assist black-owned audit firms get JSE listed external audit engagements. This may be in the form of the key stakeholders intervening to implement measures that would assist black-owned audit firms get appointments to perform JSE listed company audits such as recommended by participant 1, “JSE should support accredited firms with lobbying to JSE listed firms to be appointed as auditors”.

### **5.3.4 *Lack of opportunities for growth***

The study revealed that there was a lack of opportunities for black-owned audit firms to access JSE listed external audit clients. This was consistent with the literature reviewed. The participants of the study highlighted that appointments are done through closed tenders, if done at all, where only certain firms were invited to tender for the audit. This means that black-owned audit firms, if not invited, would never know of the opportunities that are there for possible appointment. The JSE listed clients would be responsible for inviting who they want to tender in a closed tender leaving the black-owned audit firm at the mercy of the firms. The participants also highlighted that listed companies rarely changed auditors which meant there are not too many opportunities for them to be considered. As participant 2 put it, “There is a perceived cost associated with changing auditors and hence most listed avoid that and have had the same audit firm for more

than twenty (20) years. Opportunities for external audit appointment are generally done through closed tenders where only invited bidders can propose and hence this makes us not aware of opportunities and also keeps the door closed to firms like ours. There is also no transformation program by the JSE in place that encourages transformation of the external audit firms that audit the JSE Listed entities". To address this challenge, there is a need for intervention such as enabling legislation that require firms after a certain period to go out on tender such as recommended by participant 5, "Firm rotation policy would go a long way in assisting with opening access to the market. Opportunities to tender and present, an open tender system or rotation of firms maybe things to consider. Legislation that opens the door for us to be able to have an opportunity to enter the JSE listed audit market is essential e.g. SARB requirements for Big 4 firms to audit firms should be reconsidered as this is prohibitive of us entering that space".

#### **5.3.5 *Limited geographical reach***

The study revealed that the reach the firm had played an important role when buyers were evaluating firms for appointment. The study revealed that since most listed entities had international presence there was a need for black-owned audit firms to have international reach in order for them to be able to compete. From the study, it was noted that the three (3) black-owned audit firms that were JSE accredited had global reach through being part of an international network of firms. From the study, one can infer that without international presence, black-owned audit firms will find it difficult to access JSE listed external audit clients. The recommendation mentioned earlier on making joint audits a requirements may be an intervention that may be required to assist with dealing with this challenge.

#### **5.3.6 *Strong preference for Big 4***

Strong preference for the Big 4 was raised as one of the key challenges identified impacting on black-owned audit firms accessing JSE listed audit clients. This is consistent with the literature review. Participant 2 put it this way, "Most CFOs, Board and Audit Committee members are previous Big 4 and hence have allegiance to Big 4

audit firms. The Big 4 firms audit more than 75% of the JSE Listed entities and hence there is a perceived pressure to have one of the Big 4 as your auditors". The Big 4 have been around for much longer than the all the black-owned audit firms which means they have had a longer time to build on their credibility whereas for black-owned audit firms, this is not the same as most of them only came into being at the dawn of democracy. This issue is a world-wide issue. Also due to the apartheid period which took place here in South Africa, it meant that black-owned audit firms had little time to build on their credibility as they were previously marginalised and excluded from making a meaningful contribution to the economy. When looking at the auditors of the Financial Mail Top Companies 2015, it was noted that the Big 4 were responsible for one hundred and sixty-five (165) (82.25%) of the audits of these companies with black-owned audit only responsible for three (3) (1.5%). This supports the perceptions of the participants and is consistent with the literature reviewed where strong preference for the Big 4 was raised as a key challenge. As mentioned by participant 5, "There also is a requirement from banks and lenders to have a Big 4 firm to audit some listed entities as part of the debt covenants which makes it difficult for listed entities to consider firms like us". For this challenge to be addressed, the suggestions from the participants such as removal of the SARB requirements for Big Four audit firms as suggested by participant 5, "Legislation that opens the door for us to be able to have an opportunity to enter the JSE listed audit market is essential e.g. SARB requirements for Big 4 firms to audit firms should be reconsidered as this is prohibitive of us entering that space". The participant went on further to say, "There needs to be more awareness required from the JSE besides just the list of accredited firms on their website. Audit Committees also have a role to play in helping transform the JSE audit market. Most of the listed Audit Committees are made up of ex Big 4 partners and hence they tend to have allegiance to Big 4 firms and do not influence transformation. There needs to be a cooling off period for partners before they can start sitting on the Audit committees and Boards of listed entities. The listed entities should be encouraged to stay independent of the Big 4 firm. A lot still needs to be done to open up the JSE audit market and there is need for intervention in this regard".

### **5.3.7 *Resistance among companies***

From the study, the issue of resistance among companies to change from Big 4 audit firms was highlighted. This was supported by participant 8 who stated that, “There is also a resistance to change from management. Management lack of faith and trust in black firms. They do not think they are capable of delivering an excellent job”. Participant 5 had this to say, “There also is a requirement from banks and lenders to have a Big 4 firm to audit some listed entities as part of the debt covenants which makes it difficult for listed entities to consider firms like us. Changing auditors is perceived to be expensive as hence there is generally little or no change of audit firms over significant periods of time”. This challenge was supported by the literature reviewed which identified this as a key challenge. There needs to be intervention from the key stakeholders to deal with this challenge as if left on its own, black-owned audit firms’ fate will be left to chance. As participant 4 put it, “The IRBA and JSE should jointly address the market to address market perceptions that black firms and or small and medium firms are not as good as the Big 4. This will help deal with the perceptions out there that such firms will not be able to deliver a good audit. The IRBA performs reviews and accredits all auditors and the process is no different between the Big 4 and any other firm and hence through educating the market they will help build trust in the JSE listed audit market”.

### **5.3.8 *Lack of sector experience***

Lack of sector experience was listed as one of the key challenges that black-owned audit firms faced as they tried to access and gain JSE listed external audit clients. This is consistent with the literature reviewed. From the study, it was noted that black-owned audit firms have little or no listed clients in the portfolios. The study highlighted that black-owned audit firms have generally very limited exposure to external audits of listed companies. From the literature review, it was noted that experience was the number one aspect that buyers of professional services look at and hence for black-owned audit firms because of little or no listed clients, this challenge is substantial to them. For the black-owned audit firms to be considered, they need listed client experience which they do not have and it is a chicken-and-egg situation in which they find themselves. The issues is how will they get experience if they do not have clients whilst at the same time,

they need the experience to be considered for appointment. For this challenge to be resolved, there is need for a concerted effort from all stakeholders on what can be done to provide black-owned audit firms with an opportunity to gain experience and hence level the playing field, so that in future they can effectively compete with the Big 4 on an equal footing.

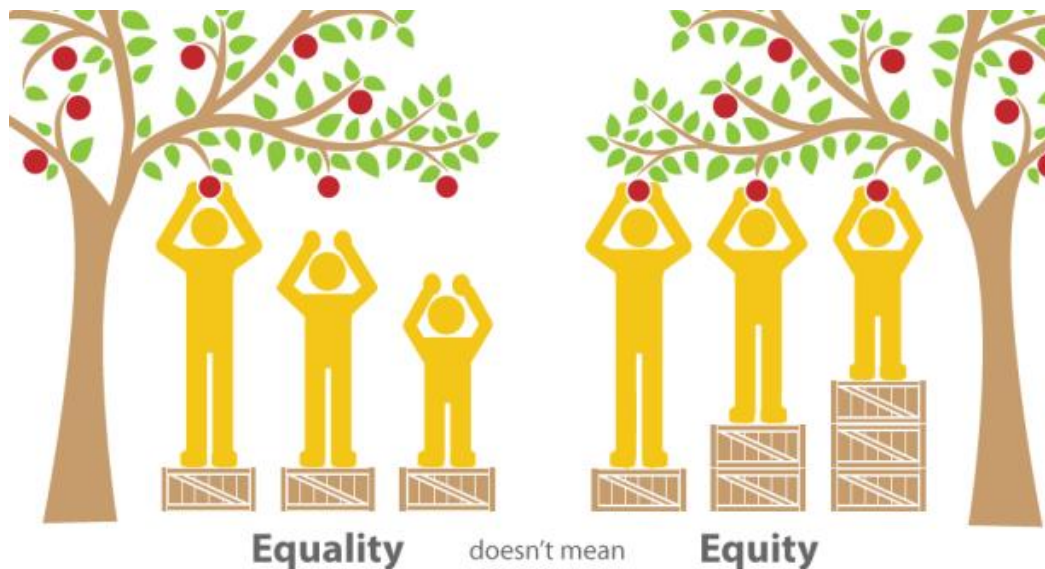


**Figure 20. Equality vs Equity (Community View, 2014)**

## **5.4 Analysis and interpretation pertaining to the sub-problem**

From the study performed, the perceived critical success factors essential for black-owned audit firms to successfully access and gain JSE listed external audit clients identified from the study generally were consistent with those factors identified from the literature review. From analysis of the results of the study against the literature review, the following consistent critical success factors were identified:

- JSE accreditation;
- Experience / Technical skills;
- The project team;
- Firm experience;
- Knowledge of the industry;
- Reputation;

- Firm size and reach;
- Availability / Flexibility;
- Personal relationships;
- Price; and
- Firm resources.

From the results of the study, participant 4 stated that, “Experience and expertise are generally considered by the firms when appointing auditors. Industry experience and expertise gained from auditing a JSE Listed client is a key consideration that is looked at. International presence or affiliation to an International network of firms is important as well as most listed firms have cross boarder operations. The size of resources that the firm has to deliver on the engagement are also a key consideration point. Companies also considered the well-roundedness of experience that the firm will bring as they generally want the firm to also provide other audit related services”. Participant 2 stated that, “The technical experience and support resources is a key consideration as the clients need a one stop shop with all relevant experience and expertise to deal with all the issues they are dealing with”. Participant 5 indicated that, “JSE accreditation” is a factor that is considered. The participant went further and stated that “Team experience is also a key consideration”. According to participant 7, “The ability to deliver on deadline is a key consideration. The support systems within the firm i.e. technical, IFRS and other services. Price although it is a consideration is not a key determinant”. These statements confirm consistency between the literature review and the results of the study. Participant 2, on the issue of personal relationships, put it this way, “Most CFOs, Board and Audit Committee members are previous Big 4 and hence have allegiance to Big 4 audit firms.”

The study however did not directly identify the firm management approach which was identified from the literature review as a critical success factor.

## 5.5 Conclusion

The findings from study were consistent with the literature review when it comes to the challenges being experience by the black-owned audit firms as they try to access and gain JSE listed external audit clients. Except for the firm management approach which

was not identified from the study, the critical success factors essential for appointment were consistent with the literature review.

## **CHAPTER 6. CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 Introduction**

This study set out to understand the challenges as faced by black-owned audit firms in South Africa in accessing and gaining JSE listed external audit clients. Recommendations as identified during the performance of the study are included for the various stakeholders to understand the issues being experienced by the black-owned audit firms and to assist them in future engagement and policy making or when engaging black-owned audit firms. The chapter ends with suggestions for potential areas of further research work.

### **6.2 Conclusion of the study**

The study has highlighted a general consensus that there are challenges that the black-owned audit firms are facing when trying to access and gain JSE listed external audit clients. These challenges ranged from lack of funding, lack of skills required for expansion into the listed audit space, the black-owned audit firms' inability to attract and retain talent required to audit listed entities, the lack of opportunities for growth, the strong preference for the Big 4 audit firms, resistance among companies to change from Big 4 firms and lack of listed sector experience arising from black-owned audit firms having little or no JSE listed external audit clients. The researcher nevertheless recognises that there are certain challenges which are not only limited to black-owned audit firms such as the strong preference for the Big 4 audit firms, resistance among companies to change from Big 4 firms and lack of listed sector experience, but these also affect both black-owned, small and medium audit firms in the audit profession.

The researcher was hoping that through the identification and understanding of the challenges faced by black-owned audit firms in South Africa in accessing and gaining JSE listed external audit clients, there would be engagement from the various key stakeholders such as the JSE, IRBA, listed companies and dialogue would be created on an acceptable approach that can be engaged to deal with these challenges whilst making sure that the transformation imperative is realised in all spheres. The researcher

was also aiming that in providing the critical success factors that were considered necessary for appointment as a listed company external auditor, the various stakeholders would understand the correlation between the challenges being experienced and the critical success factors that would enable a firm to be appointed to be an external auditor of a listed company. The study also sought to provide legislators and government with feedback that can be of use in driving the transformation agenda and possibly assist them in developing further transformation initiatives, thus achieve the objectives of B-BBEE by levelling the playing field.

It is evident from the analysis of the findings in relation to the research questions that the objectives of the research were addressed and all the research questions were answered and confirmed based on the responses received from the participants.

Though the B-BBEE legislation is playing an important role in opening up access and opportunities to previously disadvantaged individuals, there is still room for improvement in opening up the audit market, providing equal opportunities to audit firms and levelling the playing field as highlighted from the findings of the study. The areas of improvement as highlighted in the research study require each stakeholder to take action in their respective areas as it will take a collective action to resolve the challenges highlighted by the study.

### **6.3 Recommendations**

Based on the critical success factors as identified in section 4.4 of the study, the following recommendations are deemed key in addressing the challenges being faced by black-owned audit firms:

1. Participant 2 and 7 recommend stakeholder engagement and buy in sessions. Support is required from the JSE and IRBA in the form of educational sessions for the JSE audit market. The need to engage institutional investors was determined as necessary as they have the ability to drive the transformation agenda of opening up the audit market by requiring listed client to involve and empower black-owned, small and medium audit firms thus providing opportunities for such firms to gain

access, experience and expertise in the JSE audit market which would contribute to levelling the playing field.

2. Participant 5 recommend financiers and lenders to reconsider and review their requirements for Big 4 audit firms to perform certain audits where they have extended loans and debt covenants to clients. This was highlighted as necessary as it would assist with opening up the JSE audit market.
3. Participants 2, 5 and 7 recommend creating enabling legislation that will help level the playing field and not leave transformation of the JSE audit market to chance. The need to consider introducing legislation that requires joint audits for listed clients where black-owned, small and medium audit firms are partnered with a Big 4 firm as part of opening up access to the JSE audit market and encouraging transformation of the JSE audit market was suggested by the participants. This would go a long way in providing black-owned, small and medium firms with opportunities and exposure to gain comprehensive audit and industry experience; expertise and knowledge in the listed environment thus assisting the firms to build and to gain the trust of the clients and market.
4. Participant 4, 5 and 6 recommend creating legislation that requires a firm rotation policy such as is being considered in Europe as part of opening up the audit market.
5. Participant 2 and 7 recommend creating legislation that makes it mandatory for firms to use the open tender system when rotating auditors to ensure that all eligible audit firms are given an opportunity to tender and be considered.
6. Participant 3 recommend black-owned audit firms to consider amalgamating their firms and forming one large firm with lots of partners that would have the size and capacity similar to the Big 4 and thus be able to compete effectively with the Big 4. Doing this would assist in growing the capacity and size of the firm and bring in synergies.
7. Participant 2 recommend limitation of auditor liability as a means of assisting black-owned audit firms have the financial capacity to service JSE listed companies without the fear of being sued beyond what they can afford as part of the professional liability insurance.

## **6.4 Areas for further research**

The study was exploratory in nature. The generalisability of the findings was impacted by the size of the sample and method of research used. Further research could therefore be carried out using scientific methods. The study was limited to black-owned audit firms and hence further research could be done on small and medium sized firms. The research did not include views on external audits in the private and public sector which could be an area of further study. The study did not include views on internal audit involvement of black-owned audit firm in the JSE listed audit space. The study did not include the analysis of subcontracted audit engagement. The research also did not evaluate the appropriateness of the B-BBEE legislation or the level of transformation that has taken place since the attainment of democracy. The study also did not provide a view on the appropriateness of the economic transformation processes in the audit profession. The research did not analyse the impact on the training provided to trainees of black-owned, small and medium firms in environments with little or no JSE listed clients in the client portfolios and the trainees' careers subsequent to qualifying as CAs. The study did not from a quantitative aspect confirm or test the challenges identified during the literature review. Further research could therefore be carried in any one of the areas listed above to help shed light on these areas.

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## APPENDIX A: FINANCIAL MAIL TOP COMPANIES 2015

| Ranked by turnover | Company                          | Turnover Rm  | Market cap Rm    | Financial year-end | External Auditor <sup>7</sup>                           |
|--------------------|----------------------------------|--------------|------------------|--------------------|---------------------------------------------------------|
| 1                  | Glencore Plc                     | 2,398,151,00 | 685,032,937,00   | Dec-14             | Deloitte LLP                                            |
| 2                  | BHP Billiton Plc                 | 729,036,00   | 567,862,179,00   | Jun-14             | KPMG LLP                                                |
| 3                  | Anglo American Plc               | 293,682,00   | 258,254,715,00   | Dec-14             | Deloitte LLP                                            |
| 4                  | British American Tobacco Plc     | 230,528,00   | 1,190,907,900,00 | Dec-13             | PricewaterhouseCoopers LLP                              |
| 5                  | SABMiller Plc                    | 225,716,00   | 1,065,559,985,00 | Mar-14             | PricewaterhouseCoopers LLP                              |
| 6                  | Sanlam                           | 207,376,00   | 169,786,395,00   | Dec-14             | Ernst & Young Inc.                                      |
| 7                  | Sasol                            | 202,683,00   | 268,277,708,00   | Jun-14             | PricewaterhouseCoopers Inc.                             |
| 8                  | The Bidvest Group                | 183,645,00   | 110,161,424,00   | Jun-14             | Deloitte & Touche                                       |
| 9                  | Compagnie Fin Richemont          | 152,839,00   | 510,046,200,00   | Mar-14             | PricewaterhouseCoopers (Switzerland)                    |
| 10                 | MTN Group                        | 136,495,00   | 403,555,659,00   | Dec-13             | PricewaterhouseCoopers Inc.<br>SizweNtsalubaGobodo Inc. |
| 11                 | Steinhoff International Holdings | 135,865,00   | 262,286,731,00   | Jun-14             | Deloitte & Touche                                       |
| 12                 | Standard Bank Group              | 112,358,00   | 224,600,570,00   | Dec-13             | KPMG Inc.<br>PricewaterhouseCoopers Inc.                |
| 13                 | Imperial Holdings                | 103,567,00   | 40,089,736,00    | Jun-14             | Deloitte & Touche                                       |

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<sup>7</sup> Subcontracted audit engagements were not taken into account as these are not reflected on the signed financial statements.

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>          | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b>               |
|-----------------------------------|-------------------------|------------------------|--------------------------|-------------------------------|---------------------------------------------------|
| 14                                | Shoprite Holdings       | 102,204,00             | 94,105,676,00            | Jun-14                        | PricewaterhouseCoopers Inc.                       |
| 15                                | Mondi                   | 83,048,00              | 21,877,252,00            | Dec-13                        | Deloitte & Touche                                 |
| 16                                | Mondi Plc               | 83,048,00              | 67,851,411,00            | Dec-13                        | Deloitte LLP                                      |
| 17                                | FirstRand               | 77,455,00              | 313,233,809,00           | Jun-14                        | Deloitte & Touche<br>PricewaterhouseCoopers Inc.  |
| 18                                | Barclays Africa Group   | 77,293,00              | 126,314,851,00           | Dec-13                        | Ernst & Young Inc.<br>PricewaterhouseCoopers Inc. |
| 19                                | Vodacom Group           | 75,711,00              | 197,436,616,00           | Mar-14                        | Deloitte & Touche                                 |
| 20                                | Massmart Holdings       | 72,263,00              | 29,852,559,00            | Dec-13                        | Ernst & Young Inc.                                |
| 21                                | Barloworld              | 64,884,00              | 21,446,660,00            | Sep-14                        | Deloitte & Touche                                 |
| 22                                | Sappi                   | 64,099,00              | 26,492,963,00            | Sep-14                        | Deloitte & Touche                                 |
| 23                                | Pick n Pay Stores       | 63,117,00              | 24,098,088,00            | Feb-14                        | KPMG Inc.                                         |
| 24                                | Pick n Pay Holdings     | 63,117,00              | 11,335,855,00            | Feb-14                        | KPMG Inc.                                         |
| 25                                | Naspers                 | 62,728,00              | 783,910,488,00           | Mar-14                        | PricewaterhouseCoopers Inc.                       |
| 26                                | Nedbank Group           | 61,297,00              | 115,093,954,00           | Dec-13                        | Deloitte & Touche<br>KPMG Inc.                    |
| 27                                | Datatec                 | 59,684,00              | 12,216,878,00            | Feb-14                        | Deloitte & Touche                                 |
| 28                                | Old Mutual Plc          | 55,910,00              | 173,402,517,00           | Dec-13                        | KPMG LLP                                          |
| 29                                | Anglo American Platinum | 55,626,00              | 80,235,754,00            | Dec-14                        | Deloitte & Touche                                 |
| 30                                | The Spar Group          | 54,483,00              | 32,691,397,00            | Sep-14                        | Deloitte & Touche                                 |

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>            | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b> |
|-----------------------------------|---------------------------|------------------------|--------------------------|-------------------------------|-------------------------------------|
| 31                                | AngloGold Ashanti         | 54,478,00              | 73,716,132,00            | Dec-13                        | Ernst & Young Inc.                  |
| 32                                | Aveng                     | 52,959,00              | 4,683,381,00             | Jun-14                        | Ernst & Young Inc.                  |
| 33                                | Kumba Iron Ore            | 47,597,00              | 50,245,411,00            | Dec-14                        | Deloitte & Touche                   |
| 34                                | Woolworths Holdings       | 39,707,00              | 87,530,795,00            | Jun-14                        | Ernst & Young Inc.                  |
| 35                                | Murray & Roberts Holdings | 38,064,00              | 6,088,437,00             | Jun-14                        | Deloitte & Touche                   |
| 36                                | Liberty Holdings          | 35,782,00              | 35,589,265,00            | Dec-13                        | PricewaterhouseCoopers Inc.         |
| 37                                | MMI Holdings              | 34,685,00              | 51,591,423,00            | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 38                                | JD Group                  | 33,567,00              | 7,191,333,00             | Jun-14                        | Deloitte & Touche                   |
| 39                                | Telkom SA Soc             | 32,723,00              | 41,246,084,00            | Mar-14                        | Ernst & Young Inc.                  |
| 40                                | ArcelorMittal SA          | 32,421,00              | 14,937,153,00            | Dec-13                        | Deloitte & Touche                   |
| 41                                | Netcare                   | 31,783,00              | 61,680,629,00            | Sep-14                        | Grant Thornton                      |
| 42                                | Gold Fields               | 30,628,00              | 31,229,091,00            | Dec-13                        | KPMG Inc.                           |
| 43                                | Mediclinic International  | 30,495,00              | 105,882,114,00           | Mar-14                        | PricewaterhouseCoopers Inc.         |
| 44                                | Tiger Brands              | 30,259,00              | 58,656,216,00            | Sep-14                        | Ernst & Young Inc.                  |
| 45                                | Aspen Pharmacare Holdings | 29,515,00              | 175,237,838,00           | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 46                                | Impala Platinum Holdings  | 29,028,00              | 37,193,165,00            | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 47                                | Oando Plc                 | 27,870,00              | 9,908,113,00             | Dec-13                        | PricewaterhouseCoopers Inc.         |
| 48                                | Allied Electronics Corp   | 27,772,00              | 1,479,367,00             | Feb-14                        | KPMG Inc.                           |
| 49                                | Wilson Bayly Holmes-Ovcon | 25,777,00              | 7,436,220,00             | Jun-14                        | BDO South Africa Inc.               |

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>              | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b> |
|-----------------------------------|-----------------------------|------------------------|--------------------------|-------------------------------|-------------------------------------|
| 50                                | Remgro                      | 24,621,00              | 127,878,073,00           | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 51                                | Discovery                   | 23,090,00              | 80,799,007,00            | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 52                                | Santam                      | 22,710,00              | 26,920,971,00            | Dec-14                        | PricewaterhouseCoopers Inc.         |
| 53                                | Sibanye Gold                | 21,781,00              | 23,688,937,00            | Dec-14                        | KPMG Inc.                           |
| 54                                | Pioneer Food Group          | 21,290,00              | 41,338,205,00            | Sep-14                        | PricewaterhouseCoopers Inc.         |
| 55                                | Nampak                      | 20,901,00              | 28,589,481,00            | Sep-14                        | Deloitte & Touche                   |
| 56                                | RCL Foods                   | 20,204,00              | 16,032,022,00            | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 57                                | Clicks Group                | 19,150,00              | 22,506,837,00            | Aug-14                        | Ernst & Young Inc.                  |
| 58                                | Blue Label Telecoms         | 18,984,00              | 5,868,228,00             | May-13                        | PricewaterhouseCoopers Inc.         |
| 59                                | Distell Group               | 17,740,00              | 33,965,728,00            | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 60                                | Omnia Holdings              | 16,259,00              | 11,780,603,00            | Mar-14                        | PricewaterhouseCoopers Inc.         |
| 61                                | AECI                        | 15,942,00              | 16,286,624,00            | Dec-13                        | KPMG Inc.                           |
| 62                                | KAP Industrial Holdings     | 15,793,00              | 12,913,588,00            | Jun-14                        | Deloitte & Touche                   |
| 63                                | Tongaat Hulett              | 15,716,00              | 18,172,632,00            | Mar-14                        | Deloitte & Touche                   |
| 64                                | Harmony Gold Mining Company | 15,682,00              | 9,219,033,00             | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 65                                | Grinrod                     | 15,524,00              | 15,319,515,00            | Dec-13                        | Deloitte & Touche                   |
| 66                                | Group Five                  | 15,360,00              | 2,820,750,00             | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 67                                | Mr Price Group              | 15,227,00              | 65,830,337,00            | Mar-14                        | Ernst & Young Inc.                  |
| 68                                | Super Group                 | 14,297,00              | 10,957,859,00            | Jun-14                        | KPMG Inc.                           |

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>                   | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b> |
|-----------------------------------|----------------------------------|------------------------|--------------------------|-------------------------------|-------------------------------------|
| 69                                | The Foschini Group               | 14,159,00              | 38,101,182,00            | Mar-14                        | KPMG Inc.                           |
| 70                                | Exxaro Resources                 | 13,568,00              | 50,136,170,00            | Dec-13                        | PricewaterhouseCoopers Inc.         |
| 71                                | Capitec Bank Holdings            | 13,526,00              | 60,705,326,00            | Feb-14                        | PricewaterhouseCoopers Inc.         |
| 72                                | Illovo Sugar                     | 13,190,00              | 10,956,172,00            | Mar-14                        | Deloitte & Touche                   |
| 73                                | Life Healthcare Group Holdings   | 13,046,00              | 44,095,894,00            | Sep-14                        | PricewaterhouseCoopers Inc.         |
| 74                                | Adcorp Holdings                  | 11,802,00              | 3,491,115,00             | Feb-14                        | Deloitte & Touche                   |
| 75                                | Reunert                          | 10,838,00              | 10,983,227,00            | Sep-14                        | Deloitte & Touche                   |
| 76                                | Sun International                | 10,825,00              | 14,380,311,00            | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 77                                | Rand Merchant Insurance Holdings | 10,801,00              | 68,727,942,00            | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 78                                | Tsogo Sun Holdings               | 10,767,00              | 28,957,406,00            | Mar-14                        | PricewaterhouseCoopers Inc.         |
| 79                                | Combined Motor Holdings          | 10,753,00              | 1,275,833,00             | Feb-14                        | PricewaterhouseCoopers Inc.         |
| 80                                | Invicta Holdings                 | 10,465,00              | 7,892,992,00             | Mar-14                        | Deloitte & Touche                   |
| 81                                | Truworths International          | 10,458,00              | 37,760,669,00            | Jun-14                        | Ernst & Young Inc.                  |
| 82                                | AVI                              | 10,267,00              | 28,620,146,00            | Jun-14                        | KPMG Inc.                           |
| 83                                | Lonmin Plc                       | 10,205,00              | 12,350,499,00            | Sep-14                        | KPMG Audit Plc (UK)                 |
| 84                                | African Rainbow Minerals         | 1,004,00               | 21,500,319,00            | Jun-14                        | Ernst & Young Inc.                  |
| 85                                | Eqstra Holdings                  | 9,978,00               | 1,851,290,00             | Jun-14                        | Deloitte & Touche                   |
| 86                                | Astral Foods                     | 9,602,00               | 7,696,617,00             | Sep-14                        | PricewaterhouseCoopers Inc.         |
| 87                                | Stefanutti Stocks Holdings       | 9,424,00               | 993,066,00               | Feb-14                        | Mazars Inc.                         |

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>                  | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b> |
|-----------------------------------|---------------------------------|------------------------|--------------------------|-------------------------------|-------------------------------------|
| 88                                | Hosken Consolidated Investments | 9,201,00               | 15,253,807,00            | Mar-14                        | Grant Thornton                      |
| 89                                | PPC                             | 9,039,00               | 11,096,608,00            | Sep-14                        | Deloitte & Touche                   |
| 90                                | Clover Industries               | 8,530,00               | 3,403,565,00             | Jun-14                        | Ernst & Young Inc.                  |
| 91                                | Hulamin                         | 8,039,00               | 2,716,573,00             | Dec-14                        | PricewaterhouseCoopers              |
| 92                                | Mpact                           | 7,698,00               | 4,444,350,00             | Dec-13                        | Deloitte & Touche                   |
| 93                                | PSG Group                       | 7,569,00               | 36,459,406,00            | Feb-14                        | PricewaterhouseCoopers Inc.         |
| 94                                | Metair Investments              | 7,279,00               | 6,683,935,00             | Dec-14                        | PricewaterhouseCoopers Inc.         |
| 95                                | EOH Holdings                    | 7,199,00               | 20,825,314,00            | Jul-14                        | Mazars Inc.                         |
| 96                                | Pinnacle Holdings               | 7,103,00               | 1,780,719,00             | Jun-14                        | BDO South Africa Inc.               |
| 97                                | Cashbuild                       | 6,781,00               | 5,894,415,00             | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 98                                | Growthpoint Prop                | 6,605,00               | 68,920,434,00            | Jun-14                        | KPMG Inc.                           |
| 99                                | Trencor                         | 6,590,00               | 11,527,127,00            | Dec-13                        | KPMG Inc.                           |
| 100                               | Business Connexion Group        | 6,512,00               | 2,522,978,00             | Aug-14                        | KPMG Inc.                           |
| 101                               | Basil Read Holdings             | 6,495,00               | 1,178,663,00             | Dec-13                        | PricewaterhouseCoopers Inc.         |
| 102                               | Raubex Group                    | 6,325,00               | 3,390,675,00             | Feb-14                        | PricewaterhouseCoopers Inc.         |
| 103                               | Bell Equipment                  | 6,319,00               | 1,806,791,00             | Dec-13                        | Deloitte & Touche                   |
| 104                               | Net 1 UEPS Technologies Inc.    | 6,310,00               | 8,330,434,00             | Jun-14                        | Deloitte & Touche                   |
| 105                               | Comair                          | 6,282,00               | 2,421,447,00             | Jun-14                        | Grant Thornton                      |
| 106                               | Zeder Investments               | 6,011,00               | 12,041,658,00            | Feb-14                        | PricewaterhouseCoopers Inc.         |
| 107                               | African Oxygen                  | 5,834,00               | 4,662,799,00             | Dec-14                        | KPMG Inc.                           |

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>                     | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b> |
|-----------------------------------|------------------------------------|------------------------|--------------------------|-------------------------------|-------------------------------------|
| 108                               | Caxton CTP Publishers & Printers   | 5,390,00               | 6,694,951,00             | Jun-14                        | Grant Thornton                      |
| 109                               | Redefine Properties                | 5,372,00               | 46,680,337,00            | Aug-14                        | Grant Thornton                      |
| 110                               | Northam Platinum                   | 5,339,00               | 18,332,694,00            | Jun-14                        | Ernst & Young Inc.                  |
| 111                               | Distribution & Warehousing Network | 5,192,00               | 1,574,578,00             | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 112                               | Evraz Highveld Steel & Vanadium    | 5,190,00               | 879,461,00               | Dec-13                        | Ernst & Young Inc.                  |
| 113                               | Oceana Group                       | 5,039,00               | 12,024,331,00            | Sep-14                        | Deloitte & Touche                   |
| 114                               | Times Media Group                  | 4,915,00               | 2,605,081,00             | Jun-14                        | Deloitte & Touche                   |
| 115                               | Adcock Ingram Holdings             | 4,820,00               | 9,138,550,00             | Jun-14                        | Ernst & Young Inc.                  |
| 116                               | Coronation Fund Managers           | 4,774,00               | 34,367,761,00            | Sep-14                        | Ernst & Young Inc.                  |
| 117                               | Mustek                             | 4,764,00               | 999,329,00               | Jun-14                        | Deloitte & Touche                   |
| 118                               | Hudaco Industries                  | 4,480,00               | 3,876,425,00             | Nov-14                        | Grant Thornton                      |
| 119                               | Iliad Africa                       | 4,464,00               | 988,257,00               | Dec-13                        | Deloitte & Touche                   |
| 120                               | Zurich Insurance Company SA        | 4,085,00               | 3,227,567,00             | Dec-13                        | PricewaterhouseCoopers Inc.         |
| 121                               | Lewis Group                        | 4,073,00               | 7,589,686,00             | Mar-14                        | PricewaterhouseCoopers Inc.         |
| 122                               | Searidel Investments Corp          | 3,992,00               | 925,247,00               | Mar-14                        | Grant Thornton                      |
| 123                               | Royal Bafokeng Platinum            | 3,768,00               | 10,005,374,00            | Dec-14                        | PricewaterhouseCoopers Inc.         |
| 124                               | Merafe Resources                   | 3,609,00               | 1,983,456,00             | Dec-14                        | KPMG Inc.                           |
| 125                               | Quantum Foods Holdings             | 3,561,00               | 909,669,00               | Sep-14                        | PricewaterhouseCoopers Inc.         |
| 126                               | BSI Steel                          | 3,347,00               | 424,714,00               | Mar-14                        | Deloitte & Touche                   |
| 127                               | Country Bird Holdings              | 3,237,00               | 556,720,00               | Jun-13                        | PricewaterhouseCoopers Inc.         |

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>                    | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b> |
|-----------------------------------|-----------------------------------|------------------------|--------------------------|-------------------------------|-------------------------------------|
| 128                               | Santova                           | 3,222,00               | 484,430,00               | Feb-14                        | Deloitte & Touche                   |
| 129                               | Famous Brands                     | 2,826,00               | 11,178,992,00            | Feb-14                        | RSM Betty & Dickson                 |
| 130                               | Pan African Resources Plc         | 2,762,00               | 3,754,564,00             | Jun-14                        | Deloitte & Touche                   |
| 131                               | Italtile                          | 2,714,00               | 11,624,994,00            | Jun-14                        | Ernst & Young Inc.                  |
| 132                               | Consolidated Infrastructure Group | 2,636,00               | 3,869,281,00             | Aug-14                        | Grant Thornton                      |
| 133                               | Astrapak                          | 2,620,00               | 567,551,00               | Feb-14                        | Deloitte & Touche                   |
| 134                               | Tharisa Plc                       | 2,546,00               | 1,528,683,00             | Sep-14                        | KPMG Cyprus                         |
| 135                               | Hyprop Investments                | 2,515,00               | 28,704,218,00            | Jun-14                        | Grant Thornton                      |
| 136                               | Aquarius Platinum                 | 2,444,00               | 2,479,447,00             | Jun-14                        | Ernst & Young (Perth)               |
| 137                               | Rhodes Food Group Holdings        | 2,444,00               | 4,771,390,00             | Sep-14                        | Deloitte & Touche                   |
| 138                               | ELB Group                         | 2,349,00               | 1,468,805,00             | Jun-14                        | KPMG Inc.                           |
| 139                               | Esor                              | 2,317,00               | 75,085,00                | Feb-14                        | KPMG Inc.                           |
| 140                               | Metmar                            | 2,280,00               | 176,422,00               | Feb-14                        | Grant Thornton                      |
| 141                               | Datacentrix Holdings              | 2,276,00               | 677,376,00               | Feb-14                        | SizweNtsalubaGobodo Inc.            |
| 142                               | ARB Holdings                      | 2,217,00               | 1,433,500,00             | Jun-14                        | PKF south Africa                    |
| 143                               | Nu-World Holdings                 | 2,108,00               | 588,808,00               | Aug-14                        | RSM Betty & Dickson                 |
| 144                               | Ellies Holdings                   | 2,106,00               | 521,016,00               | Apr-14                        | Grant Thornton                      |
| 145                               | Value Group                       | 1,975,00               | 769,669,00               | Feb-14                        | Baker Tilly SVG                     |
| 146                               | Capital & Counties Properties Plc | 1,975,00               | 60,791,374,00            | Dec-14                        | PricewaterhouseCoopers LLP          |
| 147                               | Brimstone Investment Corp         | 1,968,00               | 733,292,00               | Dec-14                        | Deloitte & Touche                   |

| Ranked by turnover | Company                     | Turnover Rm | Market cap Rm | Financial year-end | External Auditor <sup>7</sup>                           |
|--------------------|-----------------------------|-------------|---------------|--------------------|---------------------------------------------------------|
| 148                | Afrocentric Investment Corp | 1,958,00    | 2,947,487,00  | Jun-14             | PricewaterhouseCoopers Inc.<br>SizweNtsalubaGobodo Inc. |
| 149                | Marshall Monteagle Plc      | 1,947,00    | 325,227,00    | Sep-13             | Saffery Champness Chartered Accountants                 |
| 150                | Afrimat                     | 1,893,00    | 2,464,113,00  | Feb-14             | Mazars Inc.                                             |
| 151                | Argent Industrial           | 1,880,00    | 420,699,00    | Mar-14             | Grant Thornton                                          |
| 152                | Atlatsa Resources Corp      | 1,831,00    | 2,799,156,00  | Dec-13             | KPMG Inc.                                               |
| 153                | DRDGold                     | 1,809,00    | 817,013,00    | Jun-14             | KPMG Inc.                                               |
| 154                | JSE                         | 1,779,00    | 10,698,107,00 | Dec-14             | KPMG Inc.                                               |
| 155                | Assore                      | 1,769,00    | 18,567,731,00 | Jun-14             | Ernst & Young Inc.                                      |
| 156                | AdvTech                     | 1,766,00    | 3,201,746,00  | Dec-13             | Deloitte & Touche                                       |
| 157                | Peregrine Holdings          | 1,756,00    | 5,806,651,00  | Mar-14             | KPMG Inc.                                               |
| 158                | Village Main Reef           | 1,725,00    | 601,002,00    | Jun-14             | PricewaterhouseCoopers Inc.                             |
| 159                | South Ocean Holdings        | 1,691,00    | 156,378,00    | Dec-13             | PricewaterhouseCoopers Inc.                             |
| 160                | Howden Africa Holdings      | 1,682,00    | 2,892,738,00  | Dec-13             | Ernst & Young Inc.                                      |
| 161                | Wilderness Holdings         | 1,678,00    | 1,275,353,00  | Feb-14             | Deloitte & Touche                                       |
| 162                | Ascendis Health             | 1,634,00    | 4,075,942,00  | Jun-14             | PricewaterhouseCoopers Inc.                             |
| 163                | Workforce Holdings          | 1,619,00    | 108,000,00    | Dec-13             | Horwath Leveton Boner                                   |
| 164                | Sentula Mining              | 1,593,00    | 99,715,00     | Mar-14             | BDO South Africa Inc.<br>PricewaterhouseCoopers Inc.    |
| 165                | Gijima Group                | 1,519,00    | 118,643,00    | Jun-14             | KPMG Inc.                                               |

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>                      | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b> |
|-----------------------------------|-------------------------------------|------------------------|--------------------------|-------------------------------|-------------------------------------|
| 166                               | Vukile Property Fund                | 1,443,00               | 11,025,394,00            | Mar-14                        | Grant Thornton                      |
| 167                               | Holdsport                           | 1,418,00               | 2,106,162,00             | Feb-14                        | KPMG Inc.                           |
| 168                               | Clientele                           | 1,406,00               | 5,941,232,00             | Jun-14                        | PricewaterhouseCoopers Inc.         |
| 169                               | Sovereign Food Investments          | 1,391,00               | 629,595,00               | Feb-14                        | Deloitte & Touche                   |
| 170                               | Keaton Energy Holdings              | 1,373,00               | 448,885,00               | Mar-14                        | KPMG Inc.                           |
| 171                               | York Timber Holdings                | 1,324,00               | 745,291,00               | Jun-14                        | KPMG Inc.                           |
| 172                               | Resilient Property Income Fund      | 1,301,00               | 35,589,753,00            | Jun-14                        | Deloitte & Touche                   |
| 173                               | Fountainhead Property Trust         | 1,282,00               | 11,975,910,00            | Aug-14                        | KPMG Inc.                           |
| 174                               | Buildmax                            | 1,274,00               | 110,593,00               | Feb-14                        | Grant Thornton                      |
| 175                               | Mix Telematics                      | 1,272,00               | 2,608,435,00             | Mar-14                        | PricewaterhouseCoopers Inc.         |
| 176                               | New Europe Property Investments Plc | 1,253,00               | 39,129,843,00            | Dec-14                        | PricewaterhouseCoopers LLC          |
| 177                               | Transpaco                           | 1,247,00               | 633,032,00               | Jun-14                        | Ernst & Young Inc.                  |
| 178                               | Homechoice International Plc        | 1,213,00               | 3,308,205,00             | Dec-14                        | PricewaterhouseCoopers Inc.         |
| 179                               | Niveus Investments                  | 1,155,00               | 2,805,792,00             | Mar-14                        | Grant Thornton                      |
| 180                               | Master Drilling Group               | 1,155,00               | 1,705,053,00             | Dec-13                        | Grant Thornton                      |
| 181                               | Redefine International Plc          | 1,148,00               | 15,224,377,00            | Aug-14                        | KPMG LLP                            |
| 182                               | Wescoal Holdings                    | 1,147,00               | 386,713,00               | Mar-14                        | PricewaterhouseCoopers Inc.         |
| 183                               | Attacq                              | 1,140,00               | 19,425,517,00            | Jun-14                        | Deloitte & Touche                   |
| 184                               | Transaction Capital                 | 1,133,00               | 5,126,663,00             | Sep-14                        | Deloitte & Touche                   |
| 185                               | Emira Property Fund                 | 1,116,00               | 9,164,374,00             | Jun-14                        | PricewaterhouseCoopers Inc.         |

| <b>Ranked<br/>by<br/>turnover</b> | <b>Company</b>                     | <b>Turnover<br/>Rm</b> | <b>Market cap<br/>Rm</b> | <b>Financial<br/>year-end</b> | <b>External Auditor<sup>7</sup></b> |
|-----------------------------------|------------------------------------|------------------------|--------------------------|-------------------------------|-------------------------------------|
| 186                               | Morvest Group                      | 1,101,00               | 184,800,00               | May-14                        | Mazars Inc.                         |
| 187                               | Winhold                            | 1,099,00               | 63,107,00                | Sep-14                        | BDO South Africa Inc.               |
| 188                               | City Lodge Hotels                  | 1,063,00               | 5,954,230,00             | Jun-14                        | KPMG Inc.                           |
| 189                               | Jasco Electronics Holdings         | 1,035,00               | 131,039,00               | Jun-14                        | Ernst & Young Inc.                  |
| 190                               | SA Corporate Real Estate Fund      | 1,034,00               | 9,918,395,00             | Dec-14                        | Deloitte & Touche                   |
| 191                               | Onelogix Group                     | 1,034,00               | 1,404,329,00             | May-14                        | PricewaterhouseCoopers Inc.         |
| 192                               | Petmin                             | 1,020,00               | 778,826,00               | Jun-14                        | KPMG Inc.                           |
| 193                               | Rolfes Holdings                    | 1,001,00               | 346,464,00               | Jun-14                        | SizweNtsalubaGobodo Inc.            |
| 194                               | CSG Holdings                       | 978,00                 | 834,019,00               | Mar-14                        | Grant Thornton                      |
| 195                               | Stellar Cap Partners               | 943,00                 | 116,116,00               | Aug-13                        | PricewaterhouseCoopers Inc.         |
| 196                               | Insmbi Refractory & Alloy Supplies | 939,00                 | 169,000,00               | Feb-14                        | PricewaterhouseCoopers Inc.         |
| 197                               | Phumelela Gaming & Leisure         | 927,00                 | 1,272,181,00             | Jul-14                        | KPMG Inc.                           |
| 198                               | Cargo Carriers                     | 915,00                 | 355,000,00               | Feb-14                        | Ernst & Young Inc.                  |
| 199                               | Digicore Holdings                  | 892,00                 | 683,567,00               | Jun-14                        | Mazars Inc.                         |
| 200                               | Andulela Investment Holdings       | 891,00                 | 248,034,00               | Dec-13                        | BDO South Africa Inc.               |

## **APPENDIX B: INTERVIEW QUESTIONS**

1. When was your firm established?
2. How many locations do you operate from?
3. What is your footprint?
4. How many full time employees do you have?
5. What services do you offer?
6. What is the composition of your current client portfolio?
  - Split between private and public sector.
  - Split between listed and unlisted.
7. Are you accredited to audit JSE listed clients?
  - What are the skills required to enable accreditation as a JSE approved auditor?
  - Are there financial or resource requirements needed to obtain and maintain JSE accreditation?
  - What is your view on the requirement for JSE accreditation in order to access JSE listed clients?
  - What are the benefits and challenges linked to obtaining and maintaining JSE accreditation?
8. Do you have any JSE listed clients in your current client portfolio?
  - If so how many?
  - What is the structure of the auditor appointment i.e. are you sole auditor or joint auditor or subcontracted auditor?
  - What are the benefits and challenges of the structure?
9. What in your view are the critical success factors considered for auditor appointment to a JSE listed company?
10. Considering where you are as a firm, do you believe you possess the relevant experience and expertise to perform audits of JSE listed clients?
11. What in your view are the challenges if any that you are facing when trying to access and gain JSE listed audit market clients?
  - Do you have access to marketing opportunities to audit JSE listed entities?
  - Do you have access to resources required to be able to perform a JSE listed audit?

- How are audit opportunities marketed or advertised for JSE listed companies?
  - What experience does one require to perform the audit of a JSE listed company?
  - What support if any would a firm require to assist with obtaining access to JSE listed entity audits?
  - What opportunities if any are there for partnerships with the Big 4 firms to deal with these challenges?
12. What are the implications on your staff and business as a result of not having sufficient JSE listed audit clients?
- What is the impact on the breadth and depth of experience on trainees going through training?
  - What is the impact on diversification, sustainability, attraction and retention of staff by the firm?
  - What is the impact on growth and transformation of the JSE audit market?
13. Does your firm have the necessary critical success factors necessary to access the JSE audit market?
14. In your view, what are the critical success factors necessary for black owned audit firms to successfully access and gain market share of the JSE listed audit market?
15. Are there any sector specific transformation initiatives to level the playing field?
- What are these?
  - How effective have they been?
16. What is your view on the level of transformation of the JSE listed audit market?
- What is it that should be done to transform the JSE listed audit market?
17. What in your view would be the impact of the failure of one of the Big 4 on the JSE listed audit market?
- Would this open the JSE audit market?

**Thank you for accepting to participate in the study and for answering my questions.**