TOWARDS THE ESTABLISHMENT OF PUBLIC INTEREST IN THE AUDITING PROFESSION IN SOUTH AFRICA

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A research report submitted to the School of Accountancy, Faculty of Commerce, Law and Management at the University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements of the degree of Masters of Commerce in Accounting

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DECLARATION

I hereby declare that this research report submitted by me in partial fulfilment of the requirements for the degree of Master of Commerce in the Faculty of Commerce, Law and Management at the University of the Witwatersrand, Johannesburg, is my independent work and has not been submitted by me for a degree at another university.

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Azeema Ayob
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ABSTRACT

The recent audit failures in the South African auditing profession have resulted in a confidence crisis in the ability of the auditor to fulfil their ‘public interest’ objective. The researcher questions what the role of the audit model is in fulfilling the ‘public interest’ objective of the external auditor. This research firstly aims to uncover the challenges associated with the audit model in its current form, and secondly, to establish what the perceptions amongst industry specialists are of an alternative proposed structure, wherein auditors are regulated by a SAI. Based on the outcomes of the first two objectives, the third aim of this study was to use the participant feedback to design a possible future audit model for South Africa. The researcher followed a qualitative research approach, conducting semi-structured interviews with research participants and analysing the resultant data using thematic analysis.

This research explores whether the concept of ‘public interest’ is sufficiently well defined in the existing South African legislation and finds it lacking. The researcher therefore derives a working definition of ‘public interest’ for the purposes of this research. The researcher further explores alternative audit models available both globally and in existing literature. Based on this, the researcher derived a suggested audit model for consideration in the South African environment, as a manner of allowing the external auditor to better address the ‘public interest’ objective.

The proposed audit model incorporates the Independent Regulatory Board for Auditors (“IRBA”) as a Supreme Audit Institution (“SAI”). As a SAI, IRBA has the ability to allocate auditors to audit clients and determine the audit fees which auditors will be paid. Audit firm rotation would be compulsory on a periodic basis. Audit committees and audit clients would not have a say in who their auditors are. Auditors would be prohibited from providing non-audit services to their audit clients. The proposed audit model aims to achieve enhanced auditor independence, which is expected to result in improved audit quality, and therefore, better address the ‘public interest’ objective of auditors.

Research participants identified a range of challenges in the current audit model that could prevent the auditor from achieving the ‘public interest’ objective of the audit. These primarily included threats to auditor independence and how this could negatively impact audit quality, the role of the audit committee and management in ensuring that the auditor is provided with high quality financial information and the challenges faced by IRBA in being an effective regulator of the profession. Research participants also provided some recommendations as to how the current audit model could better address the interest of the public.

For the most part, research participants agreed that the proposed audit framework would result in enhanced auditor independence, which should have a positive impact on audit quality and therefore, ‘public interest’. A lot of research participants expressed concern about the gaps in the proposed framework, in terms of there not being detailed processes and procedures for every possible eventuality. As this is an exploratory study which considers the proposed audit framework for the first time, it is expected that the proposed audit framework would not be fleshed out in considerable detail. It was also expected that research participants would experience some degree of anxiousness by the proposed audit framework, as the suggestion of change is often accompanied by uncertainty .

Other concerns noted by research participants included the diminished role of audit committees under the proposed audit framework, the ability of IRBA to implement such a model, the risk of corruption in a SAI and the likely havoc that would have on the South African economy. As this is an exploratory study, it is expected that research participants would have a lot of concerns around the proposed audit framework.

Research participants also made recommendations as to how both the current and proposed audit models could be enhanced so as to better address the ‘public interest’. The findings of the research allowed the researcher to derive what a future audit model could look like in South Africa, taking into consideration its role in addressing ‘public interest’.

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LIST OF ABBREVIATIONS

ABBREVIATION	MEANING
ACCA Code	Association of Chartered Certified Accounts Code of Ethics and Conduct
ACM	Audit Committee Members Research Participant
AG (SA)	Auditor General (South Africa)
AP	Audit Partners / Associate Directors Research Participant
APA	Auditing Profession Act No. 26 of 2005
APC	Assessment of Professional Competence
BoD	Board of Directors
CA (SA)	Chartered Accountant (South Africa)
CEOs	Chief Executive Officers
CFOs	Chief Financial Officers
CIMA Code	Chartered Institute of Management Accountants Code of Ethics
Companies Act	Companies Act No. 71 of 2008
CPD	Continuous Professional Development
CSIR	Council for Scientific and Industrial Research
FSI	Financial Statement Insurance
IAASB	International Auditing and Assurance Standards Board
IESBA Code	International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants
IFAC	International Federation of Accountants
IFAC Code	International Federation of Accountants Code of Ethics for Professional Accountants
INTOSAI	International Organisation of Supreme Audit Institutions
IoDSA	Institute of Directors in South Africa
IPA Code	Institute of Public Accountants Professional Practice Program Code of Ethics
IPO	Initial Public Offering
IRBA	Independent Regulatory Board for Auditors
IRBA CPC	Independent Regulatory Board for Auditors Code of Professional Conduct

ISA 200	International Standard on Auditing 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing
ISA 315	International Standard on Auditing 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
ISA 510	International Standard on Auditing 510 Initial Audit Engagements - Opening Balances
ISA 700	International Standard on Auditing 700 Forming an Opinion and Reporting on Financial Statements
ISAs	International Standards on Auditing
ISQC 1	International Standard on Quality Control 1 - Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements
ISSAI 12	ISSAI 12: The Value and Benefits of SAIs - making a difference to the lives of citizens
ISSAIs	International Standards of Supreme Audit Institutions
IT	Information technology
ITC	Initial Test of Competence
King IV	King IV Report on Corporate Governance for South Africa
MAFR	Mandatory audit firm rotation
NYSE	New York Stock Exchange
PAA	Public Audit Act No. 5 of 2018
PCAOB	Public Company Accounting Oversight Board
PFMA	Public Finance Management Act No. 1 of 1999
PRASA	Passenger Rail Agency of South Africa
RA	Registered Auditor
RI	Reportable Irregularity
RPI	Representative of Public Interest Research Participant
RSA	Republic of South Africa
SAA	South African Airways
SAI	Supreme Audit Institution
SAICA	South African Institute of Chartered Accountants
SAICA CPC	Code of Professional Conduct of the South African Institute of Chartered Accountants

SAIGA	South African Institute of Government Auditors
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act
The Constitution	The Constitution of the Republic of South Africa, 1996
Transnet	Transnet Limited
UK	United Kingdom
US	United States

CHAPTER 1: INTRODUCTION

1.1 Introduction

The auditing profession in South Africa has been plagued by a series of audit and or corporate failures (Cameron, 2019; Crotty, 2018a, 2018b, 2018c; De Villiers, 2019; Mahlati, 2020; Maphanga, 2020; Mvumvu, 2020; Naidoo, 2019; Prinsloo, 2019; Stoddard, 2019; Zulu, 2020). Some of the most prominent failures include the KPMG/State Capture/Gupta scandal, the near collapse of African Bank, the fall of Steinhoff from being the darling of investments and, most recently, the Tongaat Hulett scandal (Naidoo, 2019; Prinsloo, 2019), which professional investors are comparing to the Steinhoff scandal (Cameron, 2019; De Villiers, 2019; Stoddard, 2019). This has resulted in widespread concern, not least of which is questioning the auditors ability to act in the interest of the public (Crotty, 2018a, 2018b, 2018c). The implications are vast, and have been hard felt. It has been stated that the South African auditor has fallen from grace as number one in the world (Engelbrecht, 2017) which has lead to the loss of confidence in the South African audit profession, the loss of investor confidence in South Africa (Engelbrecht, 2017) and the resultant loss of foreign investment.

The researcher acknowledges that the contributing factors of these failures are complex and numerous (Sikka, Puxty, Willmott, & Cooper, 1998; Tepalagul & Lin, 2014), however, for the purposes of this study, the focus is on aspects of the current audit model that could be contributing to these audit failures as there has been evidence that some aspects of the current audit model are contributing factors to these audit failures (Tepalagul & Lin, 2014; Wines, 1994). These aspects are discussed in more detail in Section 1.2.

In particular, this research study is focused on specific aspects of these audit failures, namely, the challenges that prevent the auditor from addressing the ‘public interest’ under the current audit model. Furthermore, in order to understand the possible changes that are needed in terms of the current audit model, the researcher reviewed the available literature to derive a proposed audit model, wherein auditors are regulated by a SAI. This model was presented to research participants in order to understand how an alternative audit model might be viewed and to open a conversation on what changes to the current audit model might be necessary. In summary, the objective of the research was to uncover what the specific challenges are in the South African audit environment as it relates to the current audit model. In addition, the researcher set out to determine whether aspects of the proposed audit model could enhance the ability of the South African auditor to overcome these challenges and better address the ‘public interest’ as perceived by research participants.

The remainder of this chapter is dedicated to outlining the problem statement followed by the research question that guided the research and contextualising the research in terms of the scope of the study. This is followed by a discussion of the research aims and objectives. Thereafter, the potential contribution of this study to the existing body of research in the auditing field is considered. The chapter concludes with an overview of the remainder of the research paper.

1.2 Statement of the problem

Auditors are perceived to be trusted agents of society (Ardelean, 2013; Crotty, 2018c; Rezaee, 2004). The primary responsibility of the audit profession ought to be commitment to society through serving the 'public interest' (Ardelean, 2013). Pursuing the interests of the auditor such as profit making and the furthering of the business of the auditor (Cassim, 2012), are valid objectives of the auditor; but should come secondary to the auditor's responsibility to serve the 'public interest' (Bazerman, Moore, Tetlock, & Tanlu, 2006). The many audit failures in recent history have culminated in a confidence crisis in the ability of the audit profession to serve the 'public interest' (Ardelean, 2013; Crotty, 2018c; Da Silveira, 2013; Firth, Rui, & Wu, 2012; Maroun & Solomon, 2014; Rezaee, 2004). There is evidence that would indicate that these audit failures are attributable to auditors placing more focus on the secondary objective of the audit, being the furthering of the auditor's own interests (Cassim, 2012; Watts & Zimmerman, 1983). It would appear as though the lessons from past audit failures have not been learnt, or that auditors have not faced serious enough consequences, to prevent future audit failures from occurring (Crotty, 2018a; Da Silveira, 2013). Furthermore, the existing legislation does not appear to be sufficient to enable auditors to better serve the 'public interest', nor to improve public confidence in the profession (Asthana & Boone, 2012; Da Silveira, 2013; Maroun & Atkins, 2014; Maroun, Coldwell, & Segal, 2014; Maroun & Solomon, 2014).

Audit failures can be attributed to certain factors influencing the audit profession (Citron & Taffler, 2001; Tepalagul & Lin, 2014; Watts & Zimmerman, 1983). Some of these include fraudulent financial reporting, the agency problem in that auditors are paid by those whom they are responsible to audit, new legislation, regulations and standards, audit fees and profit-making, auditor independence and the provision of non-audit services, staff training and transformation and the audit expectation gap and auditor litigation (Cassim, 2012; Citron & Taffler, 2001; Marx & Dijkman, 2009; Tepalagul & Lin, 2014; Tudor, 2013; Watts & Zimmerman, 1983). Safeguards to these challenges do exist, such as regulation in various forms (Maroun & Atkins, 2014; Maroun et al., 2014; Maroun & Solomon, 2014). However, recurring audit failures would imply that such safeguards are possibly inadequate (Maroun & Atkins, 2014; Maroun & Solomon, 2014).

As stated in Section 1.1, the implications of audit failures are vast. Audit failures result in a loss of confidence in the South African audit profession and consequently a loss of investor confidence in South Africa (Engelbrecht, 2017) and the associated loss of foreign investment. This has far research consequences to the interests of the public, as outlined in Figure 1.

Figure 1. Impact of audit failure

Furthermore, very little research has been done on the South African auditing profession and alternative audit models for the South African market. Since the impact of auditing failures are far-reaching, it is of key importance to understand what factors contribute to these failures, and, in terms of this research, specifically what challenges of the current audit model are linked to audit failures. As there is limited research around the auditing profession in South Africa, and alternative audit models for the South African market; global literature was used in conjunction with the available South African literature in conducting this research.

1.3 Scope of study

This research is focused on the current audit model in the private sector of the auditing profession in South Africa. While the public sector of the auditing profession in South Africa is equally large, or possibly larger than, the private sector of the auditing profession in South Africa; the two sectors operate on significantly different models. Thus, this research could not do justice to both the private and public audit models in South Africa. All references to the ‘current audit model’ in this study are references to the private sector external audit model[1] in South Africa, unless otherwise stated.

The research is focused on the three main role players in this model, namely; the auditor, the audit committee and IRBA. The researcher acknowledges there are many other role players in the current audit model; the shareholder, the management of an organisation and the Board of Directors (“BoD”), to name but a few. The researcher limited the study to these three role players because it would be too broad for a minor dissertation to go into each of the role players sufficiently. Furthermore, the audit committee is representative of the audit client, and by including management and the shareholder, the audit client would be overrepresented in this study, as compared to the other two role players.

The challenges in the current audit model were investigated by referring to existing literature on the topic, and based upon this literature an alternative audit model for the private sector of the auditing profession in South Africa was constructed. All references to “proposed audit model” in this research refer to this alternative audit model (detailed in Section 2.6), unless otherwise stated.

In selecting interview participants who represented the ‘public interest’ in South Africa; a representative was chosen from each the Audit General (South Africa) (“AG (SA)”) and the South African Institute of Government Auditors (“SAIGA”), in addition to a representative from IRBA. Despite the AG (SA) and SAIGA not being role players in the current audit model, they do operate within the South African audit environment as a whole. This gives them the ability to provide valuable insight. Furthermore, because the AG (SA) and SAIGA operate on a different audit model, they are ideally positioned to provide objective feedback on an alternative audit model.

1.4 Research question

Based on the research problem, the research question in Figure 2 was formulated to guide this study:

[1] The current private sector external audit model will be discussed in Section 2.3.1

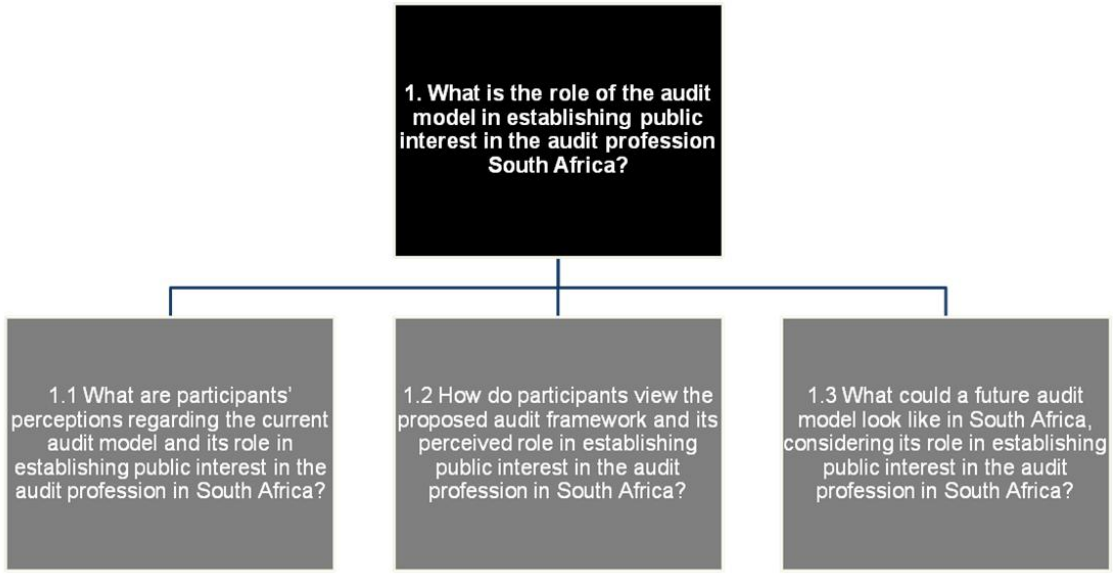

Figure 2. Research question and sub-questions

Reviewing the research question, it is clear that, it requires an in-depth exploration of the experiences of participants of their current reality as it relates to the relationship between 'public interest' and assurance quality within the field of auditing and would require the researcher to explore the underlying meanings and perceptions of participants to find answers to the research question. As such, it requires a qualitative research approach as will be discussed in detail in Chapter 3.

1.5 Objectives of the study

This research firstly aims to uncover the challenges associated with the audit model in its current form, and secondly, to establish what the perceptions amongst industry specialists are of an alternative proposed structure, wherein auditors are regulated by a SAI[2]. Based on the outcomes of the first two objectives, the third aim of this study was to use the participant feedback to design a possible future audit model for South Africa. The three objectives of this study are depicted in Figure 3.

[2] The proposed audit model is discussed in detail in Section 2.6

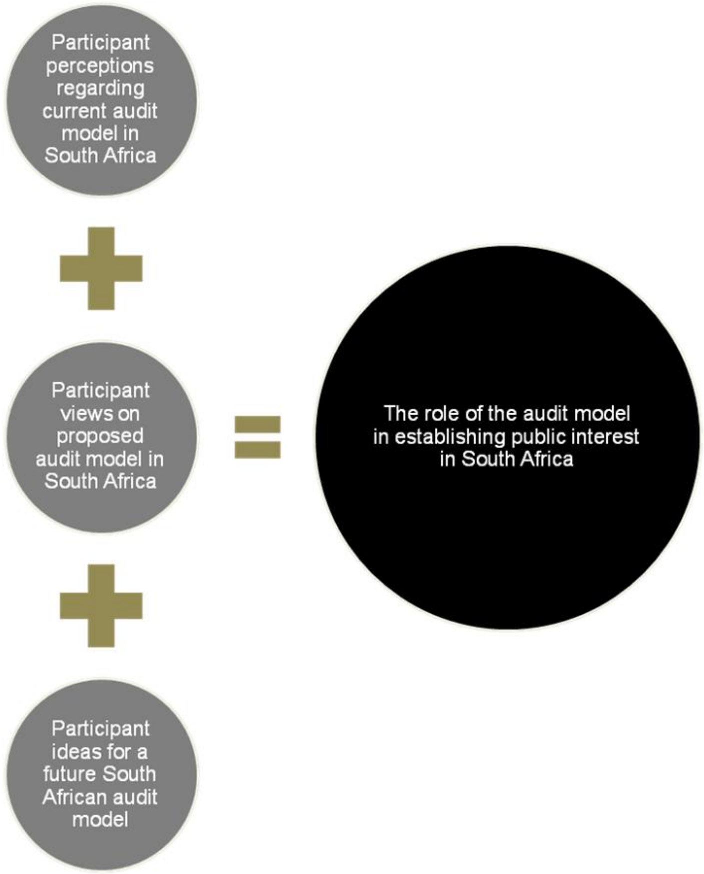

Figure 3. Objectives of the study

1.6 Contributions of the research

The concept of the restructuring of the audit profession in accordance with the proposed model based on the literature, whereby auditors in the private sector are regulated by a SAI is ground-breaking. This research would add to the limited literature around alternative auditor models that address the agency problem, as well as the issues around audit fees and auditor independence. It would also allow for a concession between addressing the 'public interest' needs and the need to advance the audit profession based on its fundamental principles, albeit remodelled (Ardelean, 2013). This model would also assist in regaining the public's confidence, as it would be better suited to addressing the 'public interest' objective of the auditor. The research proposes an audit model, based on literature, of a SAI that encompasses IRBA (as detailed in Section 2.6).

In addition, this is the first formal study to consider whether the private sector auditor being regulated by a SAI[3] would be a better audit model in the South African market. Therefore, the findings of this research will be important to both academics and policymakers in

[3] The proposed audit model, derived from the existing literature and detailed in Section 2.6

exploring how best to address the challenges facing the South African audit profession. This research opens the doors to other solutions to the challenges faced by the audit profession in South Africa.

1.7 Structure of dissertation

The remainder of this paper is set out as follows. In Chapter 2 an in-depth literature review on the challenges in the auditing profession and the proposed solutions based on the existing body of knowledge is provided. In addition, the researcher derived a proposed audit model for the South African environment, based on the available literature and this is also presented in Chapter 2. Chapter 3 is dedicated to a discussion of the research methodology where the qualitative approach is argued and justified, followed by an overview of the research strategy in terms of sampling, data collection and data analysis. In Chapter 4, the research findings are provided followed by a discussion and comprehensive analysis and contextualisation of the research findings in Chapter 5. This study concludes with Chapter 6 where the study is summarised and the researcher the researcher reviews the extent to which the research question was addressed. The limitations of the study are considered and lastly areas for potential future research are provided.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Boote and Beile (2005) state that “a thorough, sophisticated literature review is the foundation and inspiration for substantial, useful research” (p. 3). In performing a literature review, the researcher aims to collect as many appropriate items of literature, read them and combine the relevant knowledge “with critical thought” (Boyatzis, 1998, p. 342). The objective is to ensure that the researcher has a solid understanding of the specific field; what research has already been conducted; and how it was conducted (Boyatzis, 1998; Creswell, 2014; Denzin & Lincoln, 2011). The literature review allows the researcher to highlight where the gaps are in the existing body of knowledge (Boyatzis, 1998; Creswell, 2014) and “helps guide and inform” the current research project” (J. Hussey & Hussey, 1997, p. 109). Furthermore, the literature review allows the researcher to contextualise where the new research would fit into the existing body of literature (Boyatzis, 1998; Creswell, 2014; J. Hussey & Hussey, 1997). In addition, the purpose of the literature review is to recognise, assemble and assess the body of literature available (Engelbrecht, Yasseen, & Omarjee, 2018).

In accordance with the above guidelines, the researcher followed a systematic approach to the literature review. The systematic literature review has also been used in other accountancy studies (Moikwatlhai, Yasseen, & Omarjee, 2019; F. Z. Omarjee, Yasseen, & Mohamed, 2019; Yasseen, Mohamed, & Moola-Yasseen, 2019). Okoli and Schabram (2010) sets out an eight step systematic literature review process consisting of the following steps: (1) clarify the purpose of the literature review; (2) attend to protocol and training; (3) search for the literature; (4) apply practical screening; (5) appraise the quality; (6) extract data; (7) compile a synthesis of studies; and (8) write the review. These steps were followed and applied by the researcher as summarised below:

- Clarify the purpose of the literature review: The purpose of this literature review was to obtain a thorough understanding of the challenges in the current audit environment, and the solutions available to these problems. The ultimate aim was for the literature to guide the researcher towards a proposed audit framework for the South African audit environment. By proposing an alternative audit framework, the researcher aimed to encourage interview participants to think about unique approaches to preventing future audit failures.
- Attend to protocol and training: According to Okoli and Schabram (2010):

> For any review that employs more than one reviewer, it is critical that the reviewers be completely clear and in agreement about the detailed procedure to be followed. This requires both a written, detailed protocol document, and training for all reviewers to ensure consistency in the execution of the review. (p. 7)

As this literature review only employed a single reviewer, the researcher, there was no need for a detailed review protocol.

- Search for the literature: In the search for the relevant literature, the reviewer searched for articles using the following key phrases amongst others: 'public interest in auditing', 'challenges facing the audit profession', 'solutions to the challenges faced by the audit profession' and 'alternative audit models'. The researcher also asked independent academics if they could recommend any literature that would be relevant. When the researcher identified relevant articles, the reference lists of these articles were used to find further relevant literature. This process continued until no new information was obtained by the researcher.

- Apply practical screening: All literature identified through the search process described above were subject to a practical screening process. This involved the researcher reading the abstract of each article, at a minimum. The literature was screened on the basis of language, as the researcher could only review studies written in English, the researcher's first language (Okoli & Schabram, 2010). The literature was further screened on the basis of the content thereof (Okoli & Schabram, 2010). This was done to ensure that only literature relevant to the research topic was considered in the literature review (Boote & Beile, 2005; Okoli & Schabram, 2010).

- Quality appraisal: All the literature that makes it through the practical screening in the prior step is critically read. Hart (1999) recommends screening literature for four items, namely: what claims does the literature make, what evidence is available to support the claims, is there a link between the evidence and the claims and, lastly, is there backing to the evidence and the linkage between the evidence and the claims? Articles that did not adhere to these criteria were regarded as being of a lower quality and excluded from the literature review.

- Extract data: The researcher systematically extracted the pertinent information from literature and included it in a document under appropriate headings to make for easier synthesis of the data.

- Compile synthesis of studies: The pertinent information was appropriately analysed and compiled to simplify the process of writing the literature review.

- Write the review: The literature review that follows is an outcome of the process discussed above and is structured as follows:

Firstly, the pertinent literature around the research question is presented. This presentation follows a logical progression. The chapter begins by providing the reader with context to the study through a discussion around the concept of 'public interest' in the profession. This is critical because the study is aimed at uncovering what the role of the audit model is in establishing 'public interest' in South Africa. 'public interest' is therefore a key concept in this study.

Secondly, a detailed outline of the current audit model in South Africa is provided. This includes a focus on the primary role players and their regulatory responsibilities. The objective/s of the audit, the challenges that obstruct the objective/s of the audit being met and the safeguards currently in place to address these challenges are also examined.

Thirdly, based on existing literature, the alternative audit models and solutions available to the challenges in the current audit model are discussed. This includes the public sector audit model in South Africa, alternative audit models and tools used in the global audit environment, and lastly, those suggested alternative audit models and recommended solutions as available in the literature on the audit profession.

The chapter concludes with the presentation of a proposed audit framework for the private sector in South Africa. The proposed framework represents a significant change to the existing audit environment. In accordance with research by scholars in the field of business psychology, change is often met with fear and resistance (Inalhan, 2009; Strebel, 1996). It is therefore expected that the research participants will express resistance to the proposed audit framework as change is often accompanied by uncertainty (Herzig & Jimmieson, 2006). The researcher aims to reduce this uncertainty, by allowing participants to discuss and make recommendations around the proposed audit framework. The researcher provides the participant with accurate information around the proposed audit framework and involves the participant in the decision-making process of introducing a new audit framework in South Africa. Participants are allowed to seek clarifying information, share their perspectives about the proposed audit framework and ultimately make recommendations about a future audit model. According to Brashers, Neidig, and Goldsmith (2004) and Herzig and Jimmieson (2006) this is expected to assist in overcoming change related uncertainty and anxiety.

The researcher chose to present participants with a proposed audit framework as a starting point for recommendations, rather than only allowing participants to make their own general recommendations. The profession tends to be protective of itself as auditors currently enjoy a high social status and financial privilege (Sikka, 2009; Sikka & Willmott, 1995) and this leads to resistance to change. An example of this was the resistance faced when there were changes made to the profession in other parts of the world (Lazarides, 2007; Richardson & Jones, 2007). There was a risk that participants' only recommendation could have been that those few professionals whose behaviour has impaired the status of auditors be weeded out, so as to protect the high social status and financial privilege of the profession in general.

Furthermore, due to the interviews being limited from a time perspective, the researcher could not discuss each of the alternative audit models identified in depth with the participants. The research therefore developed the proposed framework based on the key characteristics of each of the alternative audit models studied. The proposed framework also considered the challenges and available safeguards in the current audit environment. This provided a framework within which the research interviews could be conducted.

2.2 'Public interest'

The concept of 'public interest' in the auditing profession is fundamental to this research, as the study considers what the role of the audit model is in establishing 'public interest' in South Africa. Therefore, the concept is explored in depth as a starting point of the literature review.

A formal, universal definition of the term 'public interest' in the South African context is difficult to find. The following existing legislation, ethical codes and auditing standards were reviewed to determine whether there is a definition of 'public interest' available:

- The Companies Act No. 71 of 2008 ("Companies Act")
- The Auditing Profession Act No. 26 of 2005 ("APA")
- The Public Finance Management Act No. 1 of 1999 ("PFMA")
- The Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors ("IRBA CPC")

- The Code of Professional Conduct of the South African Institute of Chartered Accountants ("SAICA CPC")
- The International Standards on Auditing ("ISAs")
- The International Standards of Supreme Audit Institutions ("ISSAIs")
- The International Federation of Accountants Code of Ethics for Professional Accountants ("IFAC Code")
- The International Federation of Accountants ("IFAC") Policy Position Paper on Public Interest

The only definition of 'public interest' available in any of the documents listed above, was found in a Policy Position Paper written by IFAC in 2012, wherein they define 'public interest' as "the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy" (IFAC, 2012, p. 2). This is considered in greater detail in Section 2.2.8.1. The references to 'public interest' in the other documents mentioned have been explored in this chapter as well, as the majority of these documents govern the audit profession in South Africa.

2.2.1 The Companies Act No. 71 of 2008

The Companies Act governs the incorporation, registration, organisation, management and oversight of South African companies. The Companies Act does not define 'public interest'. The following sections of the Companies Act make reference to 'public interest'. These have been briefly analysed to determine if they could drive a definition of 'public interest'.

Section 30 of the Companies Act states that the annual financial statements of a company must be audited if:

> it is desirable in the public interest, having regard to the economic or social significance of the company, as indicated by any relevant factors, including
>
> (aa) its annual turnover;
>
> (bb) the size of its workforce; or
>
> (cc) the nature and extent of its activities. (RSA, 2008, pp. 37 - 38)

As can be seen from Section 30 above, there is a requirement for companies to be audited, if "it is desirable in the public interest" (RSA, 2008, p. 37). Section 30 would, therefore, imply that the size of a company's annual turnover, the size of its workforce and/or, the nature and extent of its activities, would drive whether it is in the 'public interest', for that company to be audited (RSA, 2008). When determining what definition of 'public interest' should be applied for the purposes of this research, this aspect will be considered.

Regulations 26 (2) and 28 (2) of the Companies Act are an expansion of the requirements for a company to be audited in accordance with Section 30 discussed above, and must be read together.

Regulation 26 (2) of the Companies Act requires that:

> every company must calculate its 'public interest score' at the end of each financial year, calculated as the sum of the following –
>
> (a) a number of points equal to the average number of employees of the company during the financial year;
>
> (b) one point for every R 1 million (or portion thereof) in third party liability of the company, at the financial year end;
>
> (c) one point for every R 1 million (or portion thereof) in turnover during the financial year; and
>
> (d) one point for every individual who, at the end of the financial year, is known by the company –
>
> (i) in the case of a profit company, to directly or indirectly have a beneficial interest in any of the company's issued securities; or
>
> (ii) in the case of a non-profit company, to be a member of the company, or a member of an association that is a member of the company. (RSA, 2008, p. 187)

Regulation 28 (2) of the Companies Act requires that public companies and state-owned companies be audited, in addition to:

> (a) any profit or non-profit company if, in the ordinary course of its primary activities, it holds assets in a fiduciary capacity for persons who are not related to the company, and the aggregate value of such assets held at any time during the financial year, exceeds R 5 million;
>
> (b) any non-profit company, if it was incorporated –
>
> (i) directly or indirectly by the state, an organ of state, a state-owned company, an international entity, a foreign state entity or a foreign company; or
>
> (ii) primarily to perform a statutory or regulatory function in terms of any legislation, or to carry out a public function at the direct or indirect initiation or direction of an organ of the state, a state-owned company, an international entity, or a foreign state entity, or for a purpose ancillary to any such function; or
>
> (c) any other company whose public interest score in that financial year, as calculated in accordance with regulation 26 (2) –

(i) is 350 or more; or

(ii) is at least 100, if its annual financial statements for that year were internally compiled. (RSA, 2008, pp. 188 - 189)

A lot of care has been taken in Regulation 26 (2) to determine how the ‘public interest score’ should be calculated, and Regulation 28 (2) outlines the extent to which this ‘public interest score’ determines which companies should be audited (RSA, 2008). While the term ‘public interest’ is not explicitly defined in the Companies Act, it can be linked to the ‘public interest score’ in Regulation 26, on the basis of a company’s annual turnover, workforce size and nature and extent of its activities (RSA, 2008). Based on the care that has been taken to establish this regulation, one can assume that there is a significant implied importance to the concept of ‘public interest’.

However, the Companies Act is not the only legislation in South Africa that makes reference to ‘public interest’ in the context of auditing. Therefore, this research would have been limited, if the only interpretation of ‘public interest’ that was taken into account, was from a Companies Act perspective. Therefore, the other legislation, ethical codes and auditing standards that govern the auditing profession were considered and are discussed in the remainder of this section.

2.2.2 The Auditing Profession Act No. 26 of 2005

The APA governs the auditing profession. It establishes IRBA as an independent regulator of the profession. The APA establishes the responsibilities of a Registered Auditor (“RA”) in conducting an external audit.

The term ‘public interest’ is not used in the APA at all. This is strange because IRBA CPC explicitly requires the auditor to act in the ‘public interest’ (IRBA, 2018b). The IRBA CPC is the ethical code to which RAs need to adhere when acting in their capacity as RAs, and is discussed in detail in Section 2.2.4. It is therefore expected that the APA would make some reference to auditors needing to act in the ‘public interest’.

2.2.3 The Public Finance Management Act No. 1 of 1999

The PFMA is applicable to “departments; public entities listed in Schedule 2 or 3; and constitutional institutions” (RSA, 1999, p. 12). The institutions in Schedule 2 and 3 are Major Public Entities and Other Public Entities. These include the likes of Denel, Eskom, South African Airways Limited (“SAA”), Transnet Limited (“Transnet”) , Competition Commission, Companies Tribunal, Council for Medical Schemes, Council on Higher Education, Mine Health and Safety Council, Office on Health Standards Compliance, Council for Scientific and Industrial Research ("CSIR"), Passenger Rail Agency of South Africa ("PRASA") , to name but a few (RSA, 1999).

The PFMA makes reference to the term 'public interest' twice, but once again, the term remains undefined. Sections 16 and 25 of the PFMA use the term 'public interest' in the context of the use of funds in emergency situations, when there would be serious prejudice to the 'public interest' to delay the use of these funds for above-mentioned emergency situations (RSA, 1999).

The institutions to which the PFMA apply are all of vital importance to each and every South African. Yet this piece of legislation makes no real reference to 'public interest'. There is no emphasis placed on the fact that every institution which has to comply with this piece of legislation must act in the 'public interest'. Further than that, there is no definition or explanation, of what the concept of 'public interest' is.

The above-mentioned three pieces of legislation are the premise for the vast majority of the research regarding the South African audit environment (Fourie, 2007, 2009; Maroun & Atkins, 2014; Maroun et al., 2014; Maroun & Gowar, 2013; Maroun & Solomon, 2014; Van der Nest, Thornhill, & De Jager, 2008). Yet, there is a clear gap in the legislation, and by extension, the existing research, on what 'public interest' is and how, or if, it is being addressed.

2.2.4 The IRBA Code of Professional Conduct for Registered Auditors

The IRBA CPC begins with its purpose, stating that it:

> sets out fundamental principles of ethics for registered auditors, reflecting the profession's recognition of its public interest responsibility. These principles establish the standard of behaviour expected of a registered auditor. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. (IRBA, 2018b, p. 1)

Based on the above, it is clear that IRBA acknowledges that auditors have a responsibility to address the 'public interest'. It is implied that if auditors follow the fundamental principles (integrity, objectivity, professional competence and due care, confidentiality and professional behaviour), then the 'public interest' responsibility of the auditor would be fulfilled.

In various other sections of the IRBA CPC, this ‘public interest’ responsibility of auditors is mentioned (IRBA, 2018b). However, the IRBA CPC does not include a definition for the term ‘public interest’ (IRBA, 2018b). How does an RA go about fulfilling a responsibility that is, at best, ambiguous?

The IRBA CPC does set out the following definition for ‘public interest entity’ but makes no reference to what ‘public interest’ entails. A ‘public interest entity’ is described as

> (a) A listed entity; or
>
> (b) An entity:
>
> > (i) Defined by regulation or legislation as a public interest entity; or
> >
> > (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator; or
>
> (c) Other entities as set out in paragraphs R400.8a SA and R400.8b SA. (IRBA, 2018b, pp. 16 - 17)

The IRBA CPC definition for ‘public interest entity’ would imply an existing understanding of what ‘public interest’ is.

Considering the definitions of ‘public interest entity’ and ‘public interest score’ available in the IRBA CPC and the Companies Act, it would appear as though only ‘public interest entities’ as defined in the IRBA CPC or companies with a certain ‘public interest score’ as per the Companies Act are relevant when it comes to auditors acting in the ‘public interest’. Whether this is an accurate reflection is difficult to determine, as nothing explored to this point actually provides a definition for the concept ‘public interest’.

2.2.5 The Code of Professional Conduct of the South African Institute of Chartered Accountants

At first glance, it would appear as though the purpose of the SAICA CPC is virtually identical to the purpose of the IRBA CPC, with the exception of substituting ‘auditor’ for ‘accountant’. The purpose:

> … sets out fundamental principles of ethics for professional accountants reflecting the profession’s recognition of its public interest responsibility. These principles establish the standard of behaviour expected of a professional account. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. (SAICA, 2018, p. 3)

Furthermore, the SAICA CPC has the exact same definition for ‘public interest entity’ as the one in the IRBA CPC (IRBA, 2018b; SAICA, 2018). The SAICA CPC also does not define the term ‘public interest’.

What makes the SAICA CPC significant, however, is that the SAICA CPC applies not only to RAs, but also to professional accountants (SAICA, 2018). At this point, it is crucial to point out that an RA, must be a member of the South African Institute of Charted Accountants (“SAICA”) and IRBA (IRBA, n.d.). An RA carries the designation of Chartered Accountant (South Africa) (“CA (SA)”) and RA (IRBA, n.d.). Professional accountant, however, is a generic term used to described a person who only carries the CA (SA) designation (SAICA, 2018). Therefore, all RAs are CA (SA)s, but not all CA (SA)s are RAs.

While the SAICA CPC is of significance to an RA, the RA also complies with the IRBA CPC, and the two codes are almost identical. The professional accountant however, does not have to comply with the IRBA CPC. Therefore, it is of great importance that the principles, to which both an RA and a professional accountant must conform to, are included in the SAICA CPC.

The SAICA CPC has a section dedicated to professional accountants in business, which encompasses those CA (SA)s who do not work in the audit profession any longer (SAICA, 2018). This section of the SAICA CPC places a ‘public interest’ responsibility, in responding to non-compliance of laws and regulations, on the professional accountant as well:

> S260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
>
> (a) To comply with the principles of integrity and professional behaviour;
>
> (b) By alerting management or, where appropriate, those charged with governance of the employing organisation, to seek to:
>
> > (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
> >
> > (ii) Deter the non-compliance where it has not yet occurred; and
>
> (c) To take such further action as appropriate in the public interest. (SAICA, 2018, p. 64)

> 260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organisation, potentially materially affecting its financial statements. Importantly, such noncompliance

> might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public. (SAICA, 2018, pp. 64 - 65)

"260.7 A1 This section applies regardless of the nature of the employing organisation, including whether or not it is a public interest entity" (SAICA, 2018, p. 65).

Based on the above, both professional accountants and RAs must act in the 'public interest'. This must be emphasised, because all the other ethical codes, legislation and auditing standards require only that the RA act in the 'public interest'. No mention is made of the professional accountant's duty to act in the 'public interest', besides in the SAICA CPC. This is important when considering the South African audit environment, as oftentimes, the person in charge of financial management of the auditee is a professional accountant. The professional accountant is also responsible for acting in the 'public interest' and for acting ethically and in accordance with laws and regulations.

2.2.6 International Standards on Auditing

The ISAs are professional standards used to conduct the audits of financial information. The ISAs are issued by the IFAC through the International Auditing and Assurance Standards Board ("IAASB"). South Africa adopted the ISAs on 1 January 2005. The glossary of terms to the ISAs does not provide a definition of 'public interest' (IAASB, 2018a).

The ISAs include the International Standard on Quality Control 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements ("ISQC 1"). ISQC 1 sets out an audit firm's responsibilities for its quality control systems for financial statement audits (IAASB, 2018g). ISQC 1 makes some references to 'public interest' but does not include a definition thereof (IAASB, 2018g). Other ISAs also make reference to 'public interest', but none of these define 'public interest' either.

2.2.7 International Standards of Supreme Audit Institutions

SAIs must comply with the ISSAIs, as issued by the International Organisation of Supreme Audit Institutions ("INTOSAI"). ISSAIs have been included in this discussion for the purpose of completeness. A research participant advised that ISSAI 12, namely, The Value and

Benefits of Supreme Audit Institutions – making a difference to the lives of citizens ("ISSAI 12") explains what 'public interest' is for SAIs. However, this standard also does not provide a definition of 'public interest' (INTOSAI, 2013).

The title 'Making a difference to the lives of citizens' could imply a 'public interest' angle to this standard. The principles included in Section 3 of this standard could guide a definition for 'public interest':

> Acting in the public interest places a further responsibility on SAIs to demonstrate their ongoing relevance to citizens, Parliament and other stakeholders. SAIs can show their relevance by appropriately responding to the challenges of citizens, the expectations of different stakeholders, and the emerging risks and changing environments in which audits are conducted. Furthermore, it is important that SAIs have a meaningful and effective dialogue with stakeholders about how their work facilitates improvement in the public sector. This enables SAIs to be a credible source of independent and objective insight, supporting beneficial change in the public sector. (INTOSAI, 2013, p. 4)

Based on the above, a definition of 'public interest' could include auditors' understanding of the needs of all stakeholders in an audit through effective dialogue and meeting these needs by conducting audits while remaining independent and objective.

2.2.8 IFAC Code

IFAC is a global organisation for the accounting profession. It comprises member organisations across the globe, representing nearly 3,000,000 professional accountants (IFAC, 2019). SAICA is a member body of IFAC (IFAC, 2019). All members of the IFAC member bodies have to comply with the IFAC Code, i.e. all members of SAICA have to comply with the IFAC Code (IFAC, 2019). As all RAs are members of both SAICA and IRBA, this means that all RAs have to comply with the IFAC Code.

The IFAC Code requires that professional accountants act in the 'public interest':

> A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest a professional accountant should observe and comply with the ethical requirements of this Code. (IFAC, 2006, p. 1104)

This would imply that by observing and complying with the ethical requirements of the IFAC Code, professional accountants would be acting in the 'public interest'. IFAC identified a need to restore public confidence in the auditing profession and established a task force to rebuild public confidence in financial reporting (Humphrey, Loft, Jeppesen, & Turley, 2006). These efforts culminated in IFAC releasing a policy position paper in 2012 that specifically addresses ‘public interest’ (Ardelean, 2013; Popoola, Aina, & Ibitoye, 2017). This is discussed in Section 2.2.8.1.

2.2.8.1 IFAC Policy Position Paper on Public Interest

The IFAC Policy Position Paper on Public Interest defines ‘public interest’ as “the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy” (IFAC, 2012, p. 2).

The paper goes on to discuss in detail what is meant by both ‘public’ and ‘interest’, as well as outlines the responsibilities of accountants and the accounting profession in addressing the ‘public interest’ (IFAC, 2012). This has been summarised in Table 1.

Table 1

An understanding of who the public is, what the interests of the public are and what the responsibilities of accountants and the accounting profession are in addressing the 'public interest' (adapted from IFAC (2012))

Who is the public?	**What are the interests of the public?**	**What are the responsibilities of accountants and the accounting profession acting in the 'public interest'?**
• Includes all of society • Investors, shareholders and business owners of public and private institutions • Companies and suppliers • Tax payers, voters and citizens	•Increased economic certainty • Sound-, decision making ability based on useful financial and non-financial reporting for all parties •High degree of comparability of financial and non-financial reporting and auditing across different jurisdictions • Sound and transparent financial and non-financial information and decision making on the part of governments and public sector organisations • Sound corporate governance and performance management in private and public sector organisations • Increased efficiency (minimising the depletion of natural resources) in the	•To provide sound financial, non-financial, and government reporting to stakeholders, investors, taxpayers, and all parties in the marketplace directly and indirectly impacted by financial and non-financial reporting from all organisations, across all sectors, and spanning all sizes, including public sector institutions •To provide truthful, effective communication with parties, directly and indirectly related to the corporate governance processes for which they are accountable •To apply high standards of ethical behaviour and professional judgement •To work with the regulatory community, and governments to develop and implement high quality professional standards for financial reporting, auditing and assurance, ethics, public sector financial reporting, and accounting education

	production of goods and services	•To promote high-quality international standards to facilitate the comparability of financial reporting and auditing (across different jurisdictions) •To ensure professional accountants are appropriately educated and have obtained the necessary qualifications •To maintain constructive dialogue with governments, regulators, universities, and other financial industries •To enable ongoing consideration of new forms of reporting such as integrated reporting and non-financial reporting formats •To ensure that disciplinary arrangements are in place to address unethical matters, violations of law, or non-compliance with professional regulations.

Based on the literature reviewed to this point, a working definition of the concept of 'public interest' has been derived by the researcher in Section 2.9, for the purposes of this research.

2.2.9 Understanding of the term ‘public interest’ for the purposes of this research

Other ethical codes for accountants and auditors do exist internationally, and for accountants within South Africa who do not carry the CA (SA) designation. These include the likes of

- The International Ethics Standards Board for Accountant’s International Code of Ethics for Professional Accountants (“IESBA Code”)
- The Chartered Institute of Management Accountants Code of Ethics (“CIMA Code”),
- The Association of Chartered Certified Accounts Code of Ethics and Conduct (“ACCA Code”)
- The Institute of Public Accountants Professional Practice Program Code of Ethics (“IPA Code”).

However, these codes have not been included in the literature review. Although many of them do refer to the ‘public interest’ responsibility of their members, they do not provide a definition of ‘public interest’ that can be applied for the purposes of this research (ACCA, 2018; CIMA, 2020; IESBA, 2018; IPA, 2018).

For the purpose of this research, based on the legislation, ethical codes and auditing standards reviewed in this section, the following definition of ‘public interest’ in the context of the auditing profession was developed and this definition would be applied and implied throughout the study when reference is made to ‘public interest’ unless specifically stated otherwise:

The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by a registered auditor. In upholding the public interest, the registered auditor must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism.

As there is no clear definition from a South African perspective, responses from interview participants around ‘public interest’ would be driven by their individual understandings of the term[4].

[4] As part of the research process, the researcher asked the participants what they understood by the term “public interest”. Many of the responses received were vague and inconsistent. This is indicated and discussed further in Chapters 4 and 5.

2.3 Current auditing landscape

The South African audit environment is split between the public and private sector. The focus of this study is the private sector, and therefore the private sector is the focus of the discussion for this section. When considering alternative audit models available currently, either in literature or in practice, in Section 2.5, the public sector audit environment will also be discussed.

2.3.1 Current audit model

The current audit model comprises three primary role players – the auditor, the audit committee and IRBA. Each of these role players and their responsibilities are summarised in Figure 4.

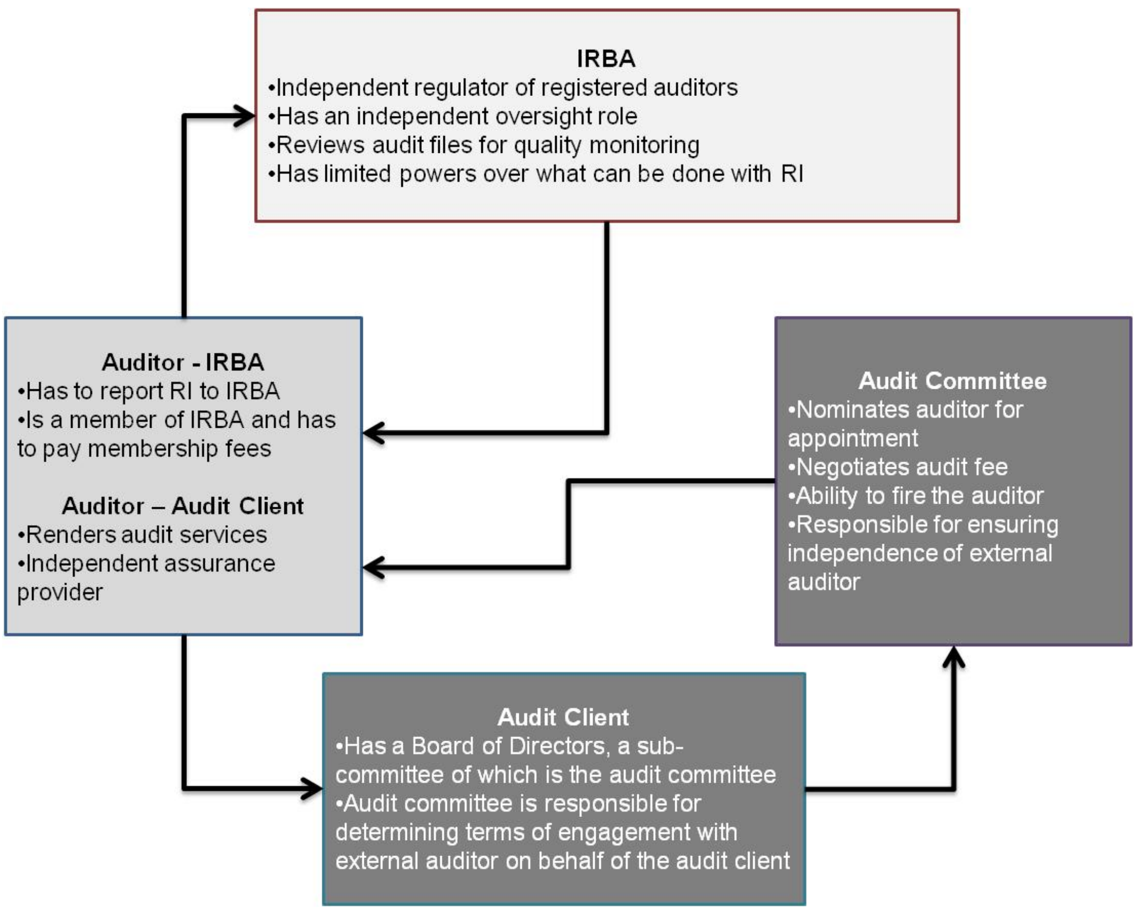

Figure 4. Current audit model[5]

The current audit model contains three key role players, being IRBA, audit committees and auditors. These role players are extensively discussed in Section 2.4.

[5] "RI" is the abbreviation for "Reportable Irregularity"

Companies in the private sector appoint a BoD, and a sub-committee of the BoD is the audit committee (RSA, 2008). The majority of the members of the audit committee should be independent, non-executive directors (IoDSA, 2016; RSA, 2008). The audit committee is responsible for the combined assurance model, including both the internal and external audit function (IoDSA, 2016). From an external audit perspective, the audit committee is required to nominate an independent RA to be appointed as the auditor of the company (RSA, 2008). Should a different auditor be appointed, the audit committee must be satisfied as to the independence of the appointed auditor (IoDSA, 2016; RSA, 2008). The audit committee is also responsible for negotiating the audit fee with the appointed RA (RSA, 2008).

All RAs must be registered with IRBA (RSA, 2005). IRBA is an independent regulator of the auditing profession with an oversight role (RSA, 2005). The appointed RA is responsible for conducting the audit of the companies in accordance with the ISAs (IAASB, 2018c; IRBA, 2018b). In conducting the audit, the RA must comply with the IRBA CPC (IRBA, 2018b). The objective of the audit is to provide reasonable assurance that the financial statements are free from material misstatement whether due to fraud or error (IAASB, 2018f).

Management of the entity being audited retain their responsibilities under relevant laws and regulations (IAASB, 2018c). Management are responsible for ensuring that financial statements have been prepared under the relevant accounting framework and to provide the auditor with all necessary information to conduct the audit (IAASB, 2018c).

During the course of the audit, if the RA identifies a Reportable Irregularity ("RI"), the RA must report this to IRBA in writing (RSA, 2005). An RI is defined as:

> any unlawful act or omission committed by any person responsible for the management of an entity, which-
>
> > (a) has caused or is likely to cause material financial loss to the entity or to any partner, member, shareholder, creditor or investor of the entity in respect of his, her or its dealings with that entity; or
> >
> > (b) is fraudulent or amounts to theft; or
> >
> > (c) represents a material breach of any fiduciary duty owed by such person to the entity or any partner, member, shareholder, creditor or investor of the entity under any law applying to the entity or the conduct or management thereof. (RSA, 2005, p. 10)

The report to IRBA must include the relevant details about the RI (RSA, 2005). Within three days of sending the report to IRBA, the RA must notify the BoD in writing, and must provide the BoD with a copy of the report sent to IRBA (RSA, 2005). Within 30 days of sending the report to IRBA, the RA must engage with the BoD and allow the BoD to make representations in respect of the report (RSA, 2005). During this time, the RA must send another report to IRBA notifying them that the RA is of the view that:

> (aa) no reportable irregularity has taken place or is taking place; or
>
> (bb) the suspected reportable irregularity is no longer taking place and that adequate steps have been taken for the prevention or recover any loss as a result thereof, if relevant; or
>
> (cc) the reportable irregularity is continuing. (RSA, 2005, p. 46)

Upon receipt of this second report, IRBA must notify the appropriate regulator in writing of the RI, if the RI is continuing (RSA, 2005). Upon completion of the audit, the RA must express an opinion on the financial statements and supplementary information in accordance with the ISAs and the APA (IAASB, 2018f; RSA, 2005).

IRBA is an independent regulator of the profession (RSA, 2005). In fulfilling its regulatory responsibilities, IRBA reviews a sample of audit files each year to ensure that the audits have been conducted in accordance with relevant laws and regulations (RSA, 2005). All RAs are members of IRBA and must pay annual membership fees as set out by IRBA (RSA, 2005).

2.4 Role players

This section considers the various role players in the current audit model. Specifically, it discusses the regulatory environment within which each of the role players operate, the responsibilities placed upon each of the role players, the challenges faced by these role players in fulfilling their responsibilities and the safeguards in place currently to mitigate the challenges faced by the role players.

2.4.1 IRBA

2.4.1.1 Regulatory environment

The APA establishes IRBA as a juristic person that must carry out its duties in accordance with relevant laws and regulations, specifically the APA, the PFMA and the Constitution (RSA, 2005). IRBA was formed so as to protect the auditor’s professional integrity and independence (De Koker, 2007).

2.4.1.2 Responsibilities

The regulatory responsibilities of IRBA are summarised as follows:

- To develop and maintain auditing and ethical standards that are comparable to an international level (RSA, 2005);
- To provide an appropriate framework for the education and training of RAs and to ensure their on-going competence (RSA, 2005);
- To enable auditors who have met the registration requirements to register with IRBA (RSA, 2005);
- To monitor the compliance of RAs with professional standards (RSA, 2005);
- To take the necessary steps to protect the public in their dealings with RAs (RSA, 2005);
- To inspect or review the practice of an RA at least once every three years (RSA, 2005);
- To investigate RAs to ensure there is no improper conduct (RSA, 2005); and
- To take appropriate action against those RAs who are found guilty of improper conduct (RSA, 2005).

2.4.1.3 Challenges

IRBA faces a number of challenges in fulfilling its responsibilities. Auditing is receiving more media attention than ever before, and most of it is negative (IRBA, 2018a). The recent audit scandals have adversely impacted what used to be viewed as a trusted profession (IRBA, 2018a). This is a clear case of the actions of a few individuals negatively impacting the many committed professionals (IRBA, 2018a).

Audit firms aiding and abetting state capture have resulted in serious concerns being raised about auditor conduct and professional behaviour (IRBA, 2018a). IRBA reflects that what has been happening in the profession mirrors the state of the country as a whole (IRBA, 2018a). Business failures, like the recent Steinhoff saga, have highlighted the deficiency of IRBA only regulating auditors (IRBA, 2018a).

Funding also represents a challenge for IRBA (Odendaal & De Jager, 2008). IRBA is partially funded by the auditing profession, which could impair its independence, and is contrary to global best practices (Odendaal & De Jager, 2008).

Lack of audit quality is a serious problem for IRBA. IRBA inspection findings reflect a decrease in audit quality year on year, over the past three years (Van Schalkwyk, 2019). The IRBA inspections department is referred a large number of audit files each year, due to fundamental deficiencies in the files (Van Schalkwyk, 2019). This is an outcome of the IRBA review process, which then refers audit files to their inspections department, to the extent that there are audit file deficiencies which need to be addressed by the audit firms under review. IRBA is actively encouraging firms to expend the required time and effort into improving internal audit quality controls (Van Schalkwyk, 2019). IRBA has to constantly review and update what competencies are required of an auditor (Zwane, 2017).

2.4.1.4 Safeguards

IRBA has identified some initiative to restore confidence in the auditing profession (IRBA, 2018a). The most important of these are discussed in this section.

IRBA has identified the need for comprehensive oversight by way of regulating everyone involved in the financial reporting chain, i.e. not just auditors, but also audit committees, financial managers and boards of directors (IRBA, 2018a). This includes IRBA cooperating with other financial regulators to overcome fragmentation in regulation, and ensure there are no blind spots (IRBA, 2018a).

IRBA has also implemented mandatory audit firm rotation ("MAFR") in South Africa, to be effective from financial years beginning on or after 1 April 2023 (IRBA, 2018a; Rademeyer & Schutte, 2018). Using MAFR, IRBA aims to enhance auditor independence and augment professional scepticism (IRBA, 2018a; Rademeyer & Schutte, 2018).

IRBA is reviewing the way audit firms operate in South Africa (IRBA, 2018a). This includes considering whether audit only firms (i.e. firms that do not provide non-audit services) have merit (IRBA, 2018a), reviewing audit firm governance and client acceptance processes (IRBA, 2018a) and focusing on auditor behaviours to discourage unethical behaviours and complacency (IRBA, 2018a). IRBA is also encouraging audit firms to produce transparency reports, and plans to make this disclosure compulsory in the near future ("IRBA issues notice of transparency reporting for audit firms," 2018). IRBA has further indicated that it intends to take a stricter approach in future with deficiencies in audit firms (Van Schalkwyk, 2019).

IRBA is trying to strengthen audit committees and improve audit quality through educating audit committees (IRBA, 2018a; Van Schalkwyk, 2019). A large part of this is the audit quality indicators project and the transparency reporting project, through which IRBA aims to share audit deficiencies in an easy to follow fashion (IRBA, 2018a; Van Schalkwyk, 2019).

2.4.2 Auditors

2.4.2.1 Regulatory environment

Companies must be audited by an RA if it is in the 'public interest' as set out in the Companies Act (RSA, 2008). RAs are required to conduct external audits in accordance with the APA, as well as the ISAs, and to conduct themselves as outlined in the IRBA CPC.

2.4.2.2 Responsibilities

The responsibilities of an RA have been summarised below:

- All auditors are required to comply with the relevant ethical codes, including ISQC 1 and the IFAC Code (IAASB, 2018g; IFAC, 2006; Martinov-Bennie & Pflugrath, 2009; Pflugrath, Martinov-Bennie, & Chen, 2007).
- The audit must be conducted free from any restrictions whatsoever (RSA, 2008).
- The RA must be satisfied regarding the existence of all the assets and liabilities shown in the financial statements (RSA, 2008).
- Proper accounting records must have been kept by the auditee, in at least one of the official languages of South Africa, in order for the RA to be able to conduct the audit (RSA, 2008).
- The RA must have obtained all of the necessary information and supporting documentation in order to conduct the audit (RSA, 2008).
- The audit opinion cannot be unqualified, if the RA has need to notify IRBA of an RI, or if the auditor has already done this (RSA, 2008).
- If issuing an unqualified audit opinion, the RA must be reasonably satisfied as to the fairness and correctness of the financial statements (RSA, 2008).
- The RA must notify IRBA of the existence of any RI or potential RI as discussed in Section 2.3.1 (RSA, 2008).
- The RA must act in the 'public interest' (IRBA, 2018b).
- The RA must act in accordance with the five principles of the IRBA CPC, being integrity, objectivity, professional competence and due care, confidentiality and professional behaviour (IRBA, 2018b).
- The RA is required to conduct the audit in a manner that enhances the confidence of the users of the financial statements in the financial statements (IRBA, 2018b).
- RAs are required to obtain reasonable assurance that the financial statements are free from material misstatement whether due to fraud or error (IAASB,

2018c). Reasonable assurance is a high level of assurance, but it is not absolute assurance[6] (IAASB, 2018c).

- RAs must be both independent in mind and independent in appearance (IAASB, 2018c; IRBA, 2018b). In order to be independent in mind and appearance, RAs must comply with the independence standards in Section 4 of the IRBA CPC and ISQC 1 (IAASB, 2018c, 2018g; IRBA, 2018b). RAs must be aware of the threats to auditor independence and the safeguards that can be applied (IAASB, 2018c, 2018g; IRBA, 2018b). RAs must also be wary of situations for which no safeguards exist, and what to do in such situations (IAASB, 2018c, 2018g; IRBA, 2018b).

2.4.2.3 Challenges

The auditing profession in South Africa has been plagued by a series of audit and or corporate failures (Cameron, 2019; Crotty, 2018a, 2018b, 2018c; De Villiers, 2019; Mahlati, 2020; Maphanga, 2020; Mvumvu, 2020; Naidoo, 2019; Niselow, 2018; Prinsloo, 2019; Stoddard, 2019; Zulu, 2020). Some of the most prominent failures include the KPMG-State Capture-Gupta scandal, the near collapse of African Bank, the fall of Steinhoff from being the darling of investments and, most recently, the Tongaat Hulett scandal (Naidoo, 2019; Prinsloo, 2019), which professional investors are comparing to the Steinhoff scandal (Cameron, 2019; De Villiers, 2019; Stoddard, 2019). This has resulted in widespread concern, not least of which is questioning the auditors' ability to act in the interest of the public and with professional scepticism (Crotty, 2018a, 2018b, 2018c). The implications are vast and have been hard felt. It has been stated that the South African auditor has fallen from grace as number one in the world (Engelbrecht, 2017) which has led to the loss of confidence in the South African audit profession, the loss of investor confidence in South Africa (Engelbrecht, 2017; Niselow, 2018) and the resultant loss of foreign investment.

Auditors are perceived to be trusted agents of society (Ardelean, 2013; Crotty, 2018c; Rezaee, 2004). The primary responsibility of the audit profession ought to be commitment to society through serving the 'public interest' (Ardelean, 2013). Pursuing the interests of the auditor such as profit making and the furthering of the business of the auditor (Cassim, 2012; Tudor, 2013), are valid objectives of the auditor; but should come secondary to the auditor's

[6] Absolute assurance would be 100% assurance that the financial statements are free from material misstatement whether due to fraud or error. This is not possible because there are inherent limitations in an audit. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect the existence of a material misstatement. There is an unavoidable risk that some material misstatements of financial statements may go undetected, even when an audit is conducted in full compliance with ISAs.

responsibility to serve the 'public interest' (Bazerman et al., 2006; Tudor, 2013). The many audit failures in recent history have culminated in a confidence crisis in the ability of the audit profession to serve the 'public interest' (Ardelean, 2013; Crotty, 2018c; Da Silveira, 2013; Firth et al., 2012; Maroun & Solomon, 2014; Rezaee, 2004; Tudor, 2013). There is evidence that would indicate that these audit failures are attributable to auditors placing more focus on the secondary objective of the audit, being the furthering of the auditor's own interests (Cassim, 2012; Tudor, 2013; Watts & Zimmerman, 1983). It would appear as though the lessons from past audit failures have not been learnt, or that auditors have not faced serious enough consequences, to prevent future audit failures from occurring (Crotty, 2018a; Da Silveira, 2013).

Audit failures can be attributed to certain factors influencing the audit profession including fraudulent financial reporting, new legislation, regulations and standards, the agency problem, audit costs and audit fees, auditor independence and the provision of non-audit services, staff training and transformation and the audit expectation gap and auditor litigation (Citron & Taffler, 2001; R. Hussey, 1999; R. Hussey & Lan, 2001; Marx & Dijkman, 2009; Tepalagul & Lin, 2014; Watts & Zimmerman, 1983).

Firstly, there is the agency problem, as auditors are paid by those very same financial managers whom they are responsible to audit (Citron & Taffler, 2001; Cunningham, 2005; Dontoh, Ronen, & Sarath, 2013; Power, 2003; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002; Watts & Zimmerman, 1983).The auditor ends up conflicted as to whether to serve the 'public interest', or to cater to the whims of the client, who ultimately will pay him (Citron & Taffler, 2001; Cunningham, 2005; Dontoh et al., 2013; Power, 2003; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002; Watts & Zimmerman, 1983). Tang, Ruan, and Yang (2017) support this view, as they reflect that management having the power to hire and fire auditors is a fundamental threat to auditor independence.

The agency problem is aggravated by the second issue, namely, that profit-making is a key objective of audit firms (i.e. the furthering of their own interests) (Bowie, 1986; Sikka et al., 1998; Tepalagul & Lin, 2014; Tudor, 2013). This exacerbates the auditor's conflict of interest, as to act in the 'public interest' may not always enable the auditor to maximise on their profit-making objectives (Bowie, 1986; Sikka et al., 1998; Tepalagul & Lin, 2014; Tudor, 2013).

Audit firms often struggle to retain qualified employees (Helpert, 2006). One of the ways used to retain audit employees is through the payment of larger salaries, and/or, bonuses (Helpert, 2006). Firms usually prefer to find a way to retain staff rather than find replacements for staff who have left (Helpert, 2006). This is generally because it is a costly and time consuming process to train new staff and there is a learning curve before the new employee becomes familiar with the organisation and its processes (Helpert, 2006). There is also a lot of institutional knowledge that gets lost when employees leave (Helpert, 2006). If employees leave, firms lose the institutional knowledge which can result in poor quality audits. On the other hand, if firms find a way to retain their staff, usually through the payment of larger salaries or bonuses, the firm costs go up, which necessitates increasing their revenue to be able to cover these costs.

In trying to maximise profits, audit firms often provide non-audit services to audit clients (R. Hussey, 1999; R. Hussey & Lan, 2001; Tepalagul & Lin, 2014). Combined with the agency problem and the auditor's profit-making objectives, there is a real risk that auditor independence is impaired by this stage (Ahmad, Shafie, & Yusof, 2006; Bowie, 1986; Citron & Taffler, 2001; R. Hussey & Lan, 2001; Sikka et al., 1998; Tepalagul & Lin, 2014; Watts & Zimmerman, 1983). The impairment of auditor independence results in decreased professional scepticism, which ultimately results in poorer audit quality (Chiang, 2016).

Since auditor independence is directly linked to audit quality (Francis, 2004, 2011; Tepalagul & Lin, 2014; Watkins, Hillison, & Morecroft, 2004), a decline in auditor independence can only result in decreased audit quality. This is reflected in the recent happenings in the South African audit environment, including the aiding and abetting of state capture by audit firms (IRBA, 2018a) and the IRBA Annual Report continuing to reflect a decrease in audit quality year on year (IRBA, 2018a). IRBA also find that audit firms have exposed themselves and have fallen short in ethics, independence and acting in accordance with the required standards (IRBA, 2017a).

2.4.2.4 Safeguards

The introduction of MAFR is likely to improve auditor independence and therefore audit quality (Daniels & Booker, 2011; Jogiyanto Hartono, Suwardi, Miharjo, & Hartadi, 2016). The IRBA CPC and the Companies Act also require auditor rotation within firms after specified periods (IRBA, 2018b; RSA, 2008). The existing research around whether MAFR and, or, in house auditor rotation improves auditor independence and therefore audit quality, shows mixed views and is therefore not conclusive (Gates, Jordan Lowe, & Reckers, 2006; Geiger & Raghunandan, 2002; Harber, 2016; Harber & Hart, 2018; Kaplan & Mauldin, 2008; Knechel & Vanstraelen, 2007; Lennox, 2014; Mechelli & Cimini, 2017; Ottaway, 2014; Rademeyer & Schutte, 2018; Ruiz-Barbadillo, Gómez-Aguilar, & Carrera, 2009; Shockley, 1981; Tepalagul & Lin, 2014; Thomson, 2018). Within audit firms, there are internal quality review processes, which should in theory, safeguard against poor audit quality. However, the IRBA findings as discussed in Section 2.4.1, would disprove this, as they show decreasing audit quality over time (IRBA, 2018a; Van Schalkwyk, 2019).

While IRBA does conduct independent reviews, this does not seem to be sufficient in the fight to improve audit quality. There is a perception that IRBA is reactive rather than proactive, and do not impose serious enough repercussions for auditors who fail to act ethically (L. Omarjee, 2018). While IRBA is attempting to change this perception, it is slow going (Buthelezi, 2019d; Ensor, 2019).

The Companies Act also outlines in Section 90 (2) what non-audit services the auditor of an entity may not provide (RSA, 2008). While in theory this should prevent auditors from overselling non-audit services to audit clients, the wording in Section 90 (2) is quite vague, as it states that the auditor may not be "a person who, alone or with a partner or employees, habitually or regularly performs the duties of accountant or bookkeeper, or performs related secretarial work, for the company" (RSA, 2008, p. 170). This leaves a lot of room for audit firms to sell non-audit services to their audit clients. While audit committees have a statutory obligation to approve all the non-audit services provided by their auditors (Marx, 2009; RSA, 2008) as discussed in Section 2.4.3.2, it is not clear how effectively they fulfil this responsibility.

Other safeguards include the existence of ethical codes (IAASB, 2018g; IFAC, 2006; Martinov-Bennie & Pflugrath, 2009; Pflugrath et al., 2007). While Pflugrath et al. (2007) show that the existence of ethical codes makes professional auditors more likely to act in an ethical manner, the existence of these codes has not prevented the recent audit failures in South Africa.

The existing safeguards therefore do not appear to be sufficient to enable auditors to better serve the 'public interest', nor to improve public confidence in the profession (Asthana & Boone, 2012; Da Silveira, 2013; Maroun & Atkins, 2014; Maroun et al., 2014; Maroun & Solomon, 2014).

2.4.3 Audit committees

2.4.3.1 Regulatory environment

The establishment of an audit committee is a statutory requirement (IoDSA, 2016; RSA, 2008). The King IV Report on Corporate Governance for South Africa ("King IV") and Section

94 of the Companies Act set out the composition and responsibilities of the audit committee of a company (IoDSA, 2016; RSA, 2008).

2.4.3.2 Responsibilities

The following should apply regarding the composition of the audit committee:

- Members of the audit committee should be independent, non-executive directors (IoDSA, 2016; Marx, 2009; RSA, 2008).
- The chairman of the BoD should not serve on the audit committee (IoDSA, 2016).
- Members of the audit committee should have the relevant financial literacy, skills and experience to perform their duties effectively (IoDSA, 2016; RSA, 2008). This a common requirement for audit committee members on an international level as well (Zhang, Zhou, & Zhou, 2007).
- The BoD should appoint a chair for the audit committee, who is also an independent, non-executive director (IoDSA, 2016).

The responsibilities of audit committees have been summarised as follows:

- To provide independent oversight of the combined assurance model, including internal audit, external audit and the finance function of the entity (IoDSA, 2016; Marx, 2009);
- To provide independent oversight of the integrity of the financial statements of the company (IoDSA, 2016);
- To oversee the risk management of the organisation (IoDSA, 2016). This includes the development and implementation of a risk management policy (RSA, 2008);
- To nominate an independent RA for appointment as the external auditor of the entity (Marx, 2009; RSA, 2008);
- To determine the fees to be paid to external auditors (Marx, 2009; RSA, 2008);
- To determine the terms of engagement with external auditors (Marx, 2009; RSA, 2008);
- To ensure that the appointment of the external auditor is aligned with the relevant legal requirements (Marx, 2009; RSA, 2008);
- To determine and approve the nature and extent of non-audit services the external auditor may provide to the organisation, if any (Marx, 2009; RSA, 2008);
- To meet at least annually with internal and external audit providers, without management being present (IoDSA, 2016);
- To disclose in the financial statements how the audit committee carried out its functions (Marx, 2009; RSA, 2008);

- To make a statement in the financial statements disclosing that the audit committee is satisfied as to the independence of the external auditor (IoDSA, 2016; Marx, 2009; RSA, 2008). This statement should include the extent of non-audit services provided by the external auditor (IoDSA, 2016), the tenure of the external auditor (IoDSA, 2016), the rotation of the specific external audit partner (IoDSA, 2016), and whether there have been significant changes made in the management team during the external auditors tenure, which would mitigate the familiarity risk between management and the external auditors (IoDSA, 2016);
- To disclose in the financial statements, significant matters in relation to the financial statements considered by the audit committee and how these were addressed (IoDSA, 2016; RSA, 2008);
- To disclose the audit committee's view on the quality of external audit (IoDSA, 2016);
- To disclose the audit committee's view on the effectiveness of the internal audit function (IoDSA, 2016; Marx, 2009);
- To disclose in the financial statements, the audit committee's view on the effectiveness of internal controls, and any significant deficiencies in internal controls (IoDSA, 2016; Marx, 2009; RSA, 2008);
- To disclose the audit committee's view on the effectiveness of the CFO and the finance function (IoDSA, 2016; Marx, 2009); and
- To make submissions to the BoD on matters concerning the company's accounting policies, internal controls, records and reporting (RSA, 2008).

2.4.3.3 Challenges

The skills needed to effectively serve on an audit committee are highly specific (Zhang et al., 2007), and the pool of people who are qualified to serve on audit committees in South Africa is very limited (Marx, 2008). Due to this skills shortage, the suitably qualified individuals have to strain their capacity to serve on more audit committees than ideal (Marx, 2008). As independent, non-executive directors; audit committee members often do not know enough about the business of the organisation on whose audit committee they serve (Marx, 2008).

The independence of audit committee members is also a challenge (Chapple & Koh, 2007; Lennox & Park, 2007). As audit committee members are being paid by the company on whose audit committee they serve, can they truly be independent? Audit committee members are often also ex-auditors, sometimes from the same external audit firm who is currently conducting the audit (Chapple & Koh, 2007; Johansen & Pettersson, 2013; Lennox & Park, 2007). This could also impact the independence of the audit committee (Chapple &

Koh, 2007; Johansen & Pettersson, 2013; Lennox & Park, 2007). Furthermore, when it comes to appointing the auditor, audit firm alumni serving on audit committees are likely to nominate their ex-firm for appointment as external auditor (Lennox & Park, 2007).

Other challenges faced by audit committees in appointing auditors include whether they elect to appoint a Big Four (or Top Six) auditor, or whether they select a smaller firm. There is research that would reflect that larger audit firms are associated with higher audit quality (Becker, DeFond, Jiambalvo, & Subramanyam, 1998; Chen, Hsu, Huang, & Yang, 2013; DeAngelo, 1981; Sundgren & Svanström, 2013). Audit fees could also influence the audit committee's choice of auditor (Khan, Muttakin, & Siddiqui, 2015). This could be problematic if the audit fee is too low for the auditor to be able to conduct a quality audit (IRBA, 2018b).

2.4.3.4 Safeguards

Safeguards to the challenges faced by audit committees are primarily embedded in the way audit committees are structured – that is, the fact that audit committee members should be independent of the companies on whose audit committees they serve, and should be suitably skilled and qualified to fulfil their responsibilities (IoDSA, 2016; Marx, 2009; RSA, 2008).

Audit committee members can be held personally liable if they are negligent in their duties in accordance with the Companies Act (RSA, 2008). However, there is no mention of the responsibilities of the audit committees in the recent audit and corporate failures. Consider the example of Steinhoff. The media has attacked the character of allegedly corrupt CEO Markus Jooste (Cronje, 2019b; Mchunu, 2019b), and Steinhoff is looking to recover R 740 million in lost monies from Jooste (Brand-Jonker, 2019; Cronje, 2019a; Crotty, 2019). The media have questioned the quality of audit work performed by audit firm Deloitte (J. Irvine, 2019; Khumalo, 2019a, 2019b) and IRBA is investigating whether Deloitte bear responsibility for the corporate failure of Steinhoff (J. Irvine, 2019; Kew, 2019). Steinhoff has a class action claim against Deloitte (J. Irvine, 2019; White, 2019), and has elected to replace Deloitte with Mazars as their auditors (J. Irvine, 2019; Kew, 2019; Mchunu, 2019a, 2019c; White, 2019). The researcher does not deny that Jooste and/or Deloitte may have played a role in the collapse of Steinhoff. However, surely, the audit committee had responsibilities in terms of the quality of the financial statements. Yet, there is no evidence of the audit committee being questioned or held accountable for fulfilling these responsibilities. In a similar fashion, senior management and the auditors of Tongaat Hulett (Khumalo, 2019a; Logan, 2019; Mahlakoana, 2019; Stoddard, 2019) and African Bank (Buthelezi, 2018a, 2018b, 2019a, 2019b, 2019c) have been thrust into the spotlight about their roles in these corporate scandals, but the audit committee has not been mentioned.

2.5 Alternative auditing models and potential solutions to the challenges identified

Alternative audit models are available both in practice and in theory. In practice, alternative audit models include the public sector audit model in South Africa, SAIs globally, the auditor designation approach followed in Korea and United States ("US") Sarbanes-Oxley Act ("SOX"). Theoretically, researchers have found alternative audit models that have not yet been put into practice, the most famous of these is the Financial Statement Insurance ("FSI") model as originally developed by Joshua Ronen in the early 2000s. All these alternative audit models, and a few others, are discussed in the following section of this paper. The alternative audit models selected for discussion in this paper are those considered unique by the researcher – firstly, the world of SAIs is worth discussing as it represents the public sector audit environment in South Africa and globally, and it may have some characteristics worth replicating in the private sector audit environment. Secondly, the auditor designation regime in Korea and the SOX regime in the US have not been implemented anywhere else in the world (Kim & Yi, 2009; Ryu, 2015). Lastly, Ronen's FSI model is a bold and somewhat radical proposal (Cunningham, 2005), and therefore considered worth investigating by the researcher.

2.5.1 Public sector audit model in South Africa

As stated in Section 2.3, the South African audit environment is split between the public and private sectors. The private sector model and the challenges associated therewith have been discussed in some detail in Section 2.4. In this section, the public sector audit environment is discussed in more detail.

The public audit sector is governed by the Constitution of the Republic of South Africa, 1996 ("the Constitution") and the PAA. The AG (SA) is a Chapter 9 Institution of the Constitution (Bartocci & Picciaia, 2013; Lodge, 2001; RSA, 1996). The Public Audit Act No. 5 of 2018 ("PAA") gives effect to the provisions of the Constitution in relation to the AG (SA) (RSA, 2004). The Constitution requires that the AG (SA) be impartial and must perform its duties "without fear, favour or prejudice" (RSA, 1996, p. 92). The AG (SA) is accountable to the National Assembly (Bartocci & Picciaia, 2013; RSA, 1996).

In accordance with the PAA and the Constitution, the AG (SA) is a SAI with full legal capacity (RSA, 2004). A SAI is defined as "the institution which, however designated, constituted or organised, exercises by virtue of the law of a country, the highest public auditing function of that country" (RSA, 2004, p. 4). The AG (SA) has a key role to play in fighting fraud and corruption in South Africa (Ferreira & Bayat, 2005; Gloeck & De Jager, 2005; Pillay, 2004). According to Pillay (2004):

> the Auditor-General has a unique role in fighting corruption – that of proactive prevention. Through its small forensic auditing division, this agency is able to follow up on "red flag" issues that are picked up during routine auditing. It can then provide assistance and cooperation. The office is not responsible for the prevention and detection of economic crime in the public sector; rather, this is perceived to be the responsibility of management (as accounting officers). (p. 595)

The Constitution requires that the auditor of all government departments, public entities, municipalities and public institutions is, by default, the AG (SA) (RSA, 1996). The AG (SA) may also audit any public entity listed in the PFMA and any other institution funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality (RSA, 2004).

In respect of both, entities that the AG (SA) must audit and those that the AG (SA) may audit, the AG (SA) may authorise person/s to perform the audit on behalf of the AG (SA), or to assist the AG (SA) in the performance of the audit (IRBA, 2015a, 2015b; RSA, 2004). Such persons must be either staff of the AG (SA) or an RA in accordance with the APA, and must have the requisite skills and experience as determined by the AG (SA) (RSA, 2004). The AG (SA) determines how such audits must be conducted (RSA, 2004). When conducting audits on behalf of the AG (SA), the AG (SA) retains overall responsibility for these audits and will sign the audit report (IRBA, 2015a). The AG (SA) audit methodology is used (IRBA, 2015a).

In respect only of those entities that the AG (SA) may audit, the AG (SA) must notify the entity before the start of the financial year if the AG (SA) does not intend to audit the entity (RSA, 2004). The entity must then advise the AG (SA) of the auditor they intend to appoint, and the AG (SA) has the right to reject the entity's intended auditor (RSA, 2004). The auditor appointed by the entity must be an RA in accordance with the APA (RSA, 2004). The appointment of the auditor may not be for a period longer than one year (RSA, 2004). The auditor has the power assigned to the AG (SA) in conducting the audits of such entities (RSA, 2004). Such audits must be conducted in accordance with ISAs, ISSAIs and INTOSAI Guidance for Good Governance (IRBA, 2015b).

The AG (SA) charges audit fees to its audit clients after having consulted National Treasury and the Standing Committee on the AG (SA) (RSA, 2004). The fees charged are based on predetermined charge-out rates and actual hours worked (AG (SA), 2019). The rates are the same whether the audit is conducted by the AG (SA) or by an RA on behalf of the AG (SA) (AG (SA), 2019, 2020b).

There are some clear advantages to this model. Firstly, the PAA emphasises that the AG (SA) is “independent” (RSA, 2004, p. 5). This is evident in the sense that organisations that the AG (SA) has to audit or may audit, cannot fire the AG (SA) as their auditor. Therefore, the AG (SA) does not run the risk of being fired as auditors, should they issue qualified or adverse audit opinions or disclaimers, or take a strict view on matters. This is evidenced by the reports and press releases from the AG (SA) over the years (AG (SA), 2018a, 2018b). Statements in these reports and press releases reflect that public sector entities lack proper accounting records (Ferreira & Bayat, 2005; Khale & Worku, 2013; Koelble & Siddle, 2014; Mpehle, 2012; Ngoepe & Ngulube, 2013, 2014; Ngulube & Ngoepe, 2013), suffer poor asset, revenue and debt management (Koelble & Siddle, 2014; Schoeman, 2006), are deprived of accountability by management (Ferreira & Bayat, 2005; Khale & Worku, 2013; Koelble & Siddle, 2014), those charged with governance are slow to implement, or totally disregard, the recommendations made by the AG (SA) (Koelble & Siddle, 2014), and there are significant amounts of fruitless, wasteful and irregular expenditure (Chipkin, 2013; Koelble & Siddle, 2014; Rispel, 2016), to name but a few (AG (SA), 2017a, 2017b, 2018a, 2018b). There is real evidence that the AG (SA) are more stringent in conducting audits, as evidenced by the recent news that when the AG (SA) took on the audit of SAA from private auditing firms PwC and Nkonki; the audit opinion went from an unqualified audit opinion with no going concern anxiety, to a qualified opinion with serious findings (Mahlati, 2020; Maphanga, 2020; Mvumvu, 2020; Zulu, 2020). Research by Koelble and Siddle (2014) and Van der Nest et al. (2008) also reflects that the AG (SA) view some public sector audit committees as ineffective and failing to fulfil their responsibilities. Chipkin (2013); Ferreira and Bayat (2005) and Koelble and Siddle (2014) show that the AG (SA) are aware that fraud and corruption is rife in public sector organisations. The fact that such disclosures are made by the AG (SA), provides evidence that the AG (SA) truly are independent of their clients, and unafraid to state the harsh truth.

Of course, this model is not without its flaws. Firstly, there is a negative connotation associated with the AG (SA). This view was evident in literature, for example, Jack (2011) points out that municipalities consider the AG (SA) to be an “irritation” (p. 16) and that queries raised by the AG (SA) are “frivolous and unnecessary” (p. 18). While the AG (SA) may be independent, it is unclear as to whether the AG (SA) is actually able to make a difference. As pointed out by Koelble and Siddle (2014), there have been no tangible results in the public sector, and the situation seems to be getting worse. This may be attributable to the fact that the powers of the AG (SA) are limited to reporting, and the follow-up by relevant authorities after the AG (SA) has issued a qualified audit report, is delayed (Fombad, 2014).

In determining what a proposed audit model could look like in the private sector, the basis of how the AG (SA) operates, and the advantages and disadvantages associated therewith, must be considered and was taken into account by the researcher in the development of a proposed audit model as discussed in Section 2.6.

2.5.2 Alternative audit models and potential solutions in the global audit environment

2.5.2.1 Supreme Audit Institutions

All SAIs belong to INTOSAI, an independent organisation (INTOSAI, n.d.). Individual SAIs operate under their own precise mandate, which differs across jurisdictions (Domokos, Pulay, Pályi, Németh, & Mészáros, 2016; Pollitt & Summa, 1997). SAIs do however, share a universal, primary purpose; namely, to oversee the management of public funds and assure the taxpayer that these funds are not squandered (Domokos et al., 2016; Pollitt & Summa, 1997; Stapenhurst & Titsworth, 2001).

In order to fully understand the role of SAIs and explore the alternative audit models available, the full range of SAIs need to be considered. Broadly speaking, there are three models under which SAIs operate, being the Judicial model, the Parliamentarian model and the Board model (Haerum, n.d.; Ogiedu & Izedonmi, 2013; Stapenhurst & Titsworth, 2001).

The Parliamentarian (or Westminster) model is where the SAI is independent and reports to Parliament on the financial statements and operations of government entities (Haerum, n.d.; Ogiedu & Izedonmi, 2013; Stapenhurst & Titsworth, 2001). Under this model, the SAI is able to pass cases to the relevant legal authorities for prosecution (Haerum, n.d.; Ogiedu & Izedonmi, 2013; Stapenhurst & Titsworth, 2001). This is common in the Commonwealth countries, including the United Kingdom ("UK"), Australia, India, Canada and various countries in the Caribbean, the Pacific and sub-Saharan Africa (Stapenhurst & Titsworth, 2001). In the Judicial (also known as Napoleonic) model, the SAI has judicial authority and can therefore prosecute (Haerum, n.d.; Ogiedu & Izedonmi, 2013; Stapenhurst & Titsworth, 2001). The Judicial model is primarily found in Latin America, Turkey and the Latin European countries (Stapenhurst & Titsworth, 2001). Lastly, the Board (or Collegiate) model is where the SAI has no judicial power and assists Parliament in performing oversight (Haerum, n.d.; Ogiedu & Izedonmi, 2013; Stapenhurst & Titsworth, 2001). The Board model is primarily applied in Asia, and the main function of the SAI in such environments is to analyse government spending (Stapenhurst & Titsworth, 2001).

Successful SAIs are independent from the influences of auditees or politics (Domokos et al., 2016; Pollitt & Summa, 1997; Schwartz, 2003; Stapenhurst & Titsworth, 2001), have a clear mandate (Domokos et al., 2016; Stapenhurst & Titsworth, 2001), are sufficiently skilled and funded (Domokos et al., 2016; Stapenhurst & Titsworth, 2001), fulfil their responsibilities with the appropriate expertise (Domokos et al., 2016; Pollitt & Summa, 1997) and comply with the international auditing standards (Domokos et al., 2016; Stapenhurst & Titsworth, 2001). SAIs have a responsibility to the 'public interest' (Domokos et al., 2016), and therefore need to communicate with the public in a transparent and accountable manner (Domokos et al., 2016; González-Díaz, García-Fernández, & López-Díaz, 2013).

SAIs do face some challenges, including limits on their independence, skills shortages, lack of adequate monitoring and follow-up on findings and scope limitations (Stapenhurst & Titsworth, 2001). Furthermore, while the argument as to whether the prevention of corruption is an explicit responsibility of a SAI or not, is ongoing (Domokos et al., 2016; Schwartz, 2003; Stapenhurst & Titsworth, 2001). SAIs continue to be heavily criticised for their inability to fight corruption (Ogiedu & Izedonmi, 2013). In addition, SAIs are accused of placing more emphasis on financial and performance auditing rather than investigating individual breaches of integrity (Schwartz, 2003).

2.5.2.2 Auditor designation in Korea

Since 1991, the Korean regulatory authority has designated external auditors to those entities that it considers to have a higher risk for opportunistic earnings management (Bae, Kallapur, & Rho, 2013; Chi, Lisic, Long, & Wang, 2013; Kim & Yi, 2009; Lee, Kim, Oh, & Yoo, 2013; Oh, Jeong, Kim, & Yoo, 2017; Ryu, 2015; Woo Jeong, Kim, & Yoon, 2007). The regulatory authority specifically includes in this category firms who intend to engage in an initial public offering ("IPO") of their shares (Oh et al., 2017). The regulatory authority requires these firms to replace their existing auditors with the auditors assigned by the regulatory authority, and keep these auditors for a set time period (typically one to three years) (Bae et al., 2013; Chung, 2004; Kim & Yi, 2009; Lee et al., 2013). This regime is referred to as "auditor designation" (Kim & Yi, 2009, p. 207).

This auditor designation regime has several unique features (Bae et al., 2013; Chung, 2004; Kim & Yi, 2009; Oh et al., 2017). Firstly, by designating external auditors only for certain auditees, the competitive market is maintained for other auditors and audit clients to engage (Kim & Yi, 2009). Secondly, requiring those high risk auditees to change external auditors at a time determined by the regulator, mitigates the familiarity threat to auditor independence arising from long standing auditor engagements (Bae et al., 2013; Chung, 2004; Kim & Yi, 2009; Oh et al., 2017; Tang et al., 2017). This is especially important for IPOs when the risk of earnings manipulation is higher than normal (Baik, Cho, Choi, & Kang, 2015; Erickson & Wang, 1999; Oh et al., 2017; Perry & Williams, 1994). Thirdly, the regime designates auditors to an auditee for a set period of time, over which the auditor cannot be fired (Bae et al., 2013; Chung, 2004; Kim & Yi, 2009). This drastically reduces the intimidation threat to auditor independence (Bae et al., 2013; Chung, 2004; Kim & Yi, 2009). Lastly, because the auditor is designated by a regulatory authority rather than by the audit client, the risk of managerial interference in the auditor selection process is eliminated (Bae et al., 2013; Kim & Yi, 2009). The auditor would also be unable to low-ball the client (Bae et al., 2013; Kim & Yi, 2009). The above regime would appear to be unique to Korea, as there is no evidence of similar regimes elsewhere in the world (Kim & Yi, 2009; Ryu, 2015).

It is expected that independent auditors would detect accounting indiscretions, protest against the utilisation of dubious accounting practices, and limit the application of discretionary accruals (Asthana & Boone, 2012; Chung, 2004; Kim & Yi, 2009; Reynolds & Francis, 2000). Therefore, if the auditor designation regime truly does improve auditor independence, it is expected that discretionary accruals would decrease under the regime (Chung, 2004; Kim & Yi, 2009). Conversely, the auditor designation regime may result in a reduction of audit quality (Chung, 2004; Kim & Yi, 2009). If the designated auditor is not an industry expert, or unfamiliar with the client's business and specific problems, financial reporting quality could decrease (Chung, 2004; Kim & Yi, 2009). Extensive research has been done by a variety of researchers as to the advantages and disadvantages of the above regime (Bae et al., 2013; Chung, 2004; Kim & Yi, 2009; Kwon, Lim, & Simnett, 2014; Lee et al., 2013; Ryu, 2015; Tang et al., 2017; Woo Jeong et al., 2007).

Using discretionary accruals as a measure of audit quality, Kim and Yi (2009) show that the designated auditor regime reflects an improvement in audit quality. Chung (2004) also used discretionary accruals as a proxy for audit quality, and reflected findings consistent with Kim and Yi (2009) regarding the designated auditor regime in Korea. However, Chung (2004) points out that if a similar study were conducted in a different audit environment, the research could well yield different results. Ryu (2015) found that entities with assigned auditors were more likely to receive an adverse audit opinion as opposed to entities who selected their own auditors. This would imply that designated auditors are more independent, and therefore conduct a stricter audit (Ryu, 2015). Lee et al. (2013) explored audit fees in the post-designation period, i.e. after the designated auditor's term has expired. Lee et al. (2013) found that auditees subject to auditor designation are charged lower audit fees post-designation as they are perceived to have a lower risk. Thus, it can be concluded that auditor designation is effective at lowering the inherent risk associated with an auditee in the long-term (Lee et al., 2013). Oh et al. (2017) found that mandatory auditor assignment meets its objectives in the IPO market, as designated auditors are able to effectively assess whether a firm will successfully complete the IPO process. Tang et al. (2017) discovered that the auditor designation regime resulted in auditors perceiving themselves as more independent, and more willing to oppose aggressive financial reporting. Lastly, Woo Jeong et al. (2007) reveal that investors react more optimistically to favourable financial results that were audited by designated auditors rather than by auditors who were appointed directly by the entity.

Contrary to the above, research by Kwon et al. (2014) in Korea reflected that MAFR does little to improve audit quality. Using absolute discretionary accruals, audit hours and modified opinions as representatives of audit quality, Bae et al. (2013) were unable to find evidence supporting improved audit quality under auditor designation.

2.5.2.3 Sarbanes-Oxley Act ("SOX")

The fall of corporate giants Enron and WorldCom and resultant collapse of Big Five audit firm Arthur Andersen, resulted in the US revisiting legislation and governance around the auditing profession (Alles, Kogan, & Vasarhelyi, 2004; Bratton, 2003; Christensen, Byington, & Blalock, 2005; DeFond & Francis, 2005; Grinberg, 2007; Holmstrom & Kaplan, 2003; Marks, 2004; Nordberg, 2008; Parles, O'Sullivan, & Shannon, 2007; Rapp, 2007; Riotto, 2008; Tackett, Wolf, & Claypool, 2004; Wilda, 2004). One of the outcomes of this process was the introduction of SOX into law in 2002 (Alles et al., 2004; Bratton, 2003; Christensen et al., 2005; DeFond & Francis, 2005; Grinberg, 2007; Holmstrom & Kaplan, 2003; Marks, 2004; Nordberg, 2008; Parles et al., 2007; Rapp, 2007; Riotto, 2008; Tackett et al., 2004; Wilda, 2004).

SOX significantly amended US securities law (Alles et al., 2004; Bratton, 2003; Carney, 2006; DeFond & Francis, 2005; Holmstrom & Kaplan, 2003; Nordberg, 2008; Parles et al., 2007; Rapp, 2007; Wilda, 2004). Prior to the introduction of SOX, the auditing profession was largely self-regulated (DeFond & Francis, 2005; Parles et al., 2007). SOX is largely rule-based rather than principle-based (Bratton, 2003). SOX aims to address underlying issues in the auditing profession relating to fraud, abuse and conflicts of interest by requiring full, accurate, transparent disclosures that can be relied upon (Akowuah, Yuan, Xu, & Wang, 2012; Parles et al., 2007; Riotto, 2008). It was expected that this would lead to a more equitable market for existing investors and increased investor confidence in future (Carney, 2006; Parles et al., 2007; Riotto, 2008; Tackett et al., 2004).

SOX created the Public Company Accounting Oversight Board ("PCAOB") to regulate the public company auditing profession (DeFond & Francis, 2005; Grinberg, 2007; Parles et al., 2007; Riley Jr, Jenkins, Roush, & Thibodeau, 2008; Riotto, 2008; Tackett et al., 2004). The PCAOB is responsible for improving public trust in the auditing profession and the financial reporting process (Riley Jr et al., 2008; Riotto, 2008). The PCAOB was tasked with the registration and disciplining of auditing firms that prepared audit reports on public companies, establishing auditing standards and conducting investigations of auditing firms that audit public companies (DeFond & Francis, 2005; Grinberg, 2007; Parles et al., 2007; Riley Jr et al., 2008; Riotto, 2008). The PCAOB is funded via member fees from public companies and mutual funds (Parles et al., 2007; Riotto, 2008). Five members of the PCAOB are appointed by the Securities and Exchange Commission ("SEC") (Parles et al., 2007; Riotto, 2008).

The corporate scandals (Enron, WorldCom, etc.) were seen as the result of a lack of auditor independence (Bratton, 2003; Christensen et al., 2005; Grinberg, 2007; Parles et al., 2007). In attempting to prevent the loss of auditor independence, SOX prohibits auditors from providing most non-audit services to their audit clients (DeFond & Francis, 2005; Grinberg, 2007; Parles et al., 2007; Riotto, 2008). The concept limiting the provision of non-audit services to audit clients, or even audit only firms has been explored in other jurisdictions as well, like Velte and Stiglbauer (2013) who conducted their research in the European Union ("EU") with mixed results. One of the exceptions to this rule is the provision of tax services, subject to the pre-approval by the audit committee (DeFond & Francis, 2005; Parles et al., 2007).

SOX also mandates lead audit partner rotation every five years, followed by a five year time-out period, to enhance auditor independence (Grinberg, 2007; Parles et al., 2007). Other partners are mandated to rotate every seven years followed by a two year time out period (Parles et al., 2007). Furthermore, there is a one year cooling off period required before an auditor can work for an ex-audit client in a key position (DeFond & Francis, 2005; Parles et al., 2007; Riotto, 2008).

SOX places the responsibility of appointing the auditor upon the audit committee of an entity (DeFond & Francis, 2005; Holmstrom & Kaplan, 2003; Parles et al., 2007). In addition, SOX requires that auditor's report to audit committees (Parles et al., 2007). SOX further sets out the composition of the audit committee as being comprised of only independent directors, with at least one of them having financial expertise (DeFond & Francis, 2005; Parles et al., 2007). Moreover, SOX requires that audit committees establish procedures for whistle-blowers complaints (Parles et al., 2007). SOX goes further and also provides protection for whistle-blowers (Rapp, 2007; Riotto, 2008).

SOX holds Chief Financial Officers ("CFOs") and Chief Executive Officers ("CEOs") responsible for the accuracy and completeness of financial reporting, and includes criminal penalties for misreporting (Akowuah et al., 2012; Alles et al., 2004; Christensen et al., 2005; Fogel & Geier, 2007; Grinberg, 2007; Holmstrom & Kaplan, 2003; Parles et al., 2007; Riotto, 2008).

SOX also contains very specific requirements for internal controls, and requires that annual reports include a report on internal controls (Alles et al., 2004; Carney, 2006; Earley, Hoffman, & Joe, 2008; Li, Raman, Sun, & Wu, 2015; Parles et al., 2007; Riotto, 2008; Sarens & De Beelde, 2006). Internal auditors are further required to provide quarterly reports on the effectiveness of internal controls to the audit committee, CEO, CFO, and other members of upper management (Sarens & De Beelde, 2006). External auditors are required to obtain an understanding of the auditee's internal controls over financial reporting and attest to the effectiveness thereof (Alles et al., 2004; Earley et al., 2008; Li et al., 2015).

There are many criticisms and concerns around SOX (Parles et al., 2007). The introduction of SOX has resulted in increases in the time, expenses and liability risk of audit firms (Parles et al., 2007). Additionally, the costs of compliance with SOX are high, especially for audit clients (Carney, 2006; Christensen et al., 2005; Frankel, 2006; Grinberg, 2007; Holmstrom & Kaplan, 2003; Kamar, Karaca-Mandic, & Talley, 2008; Parles et al., 2007; Riotto, 2008; Wilda, 2004). Frankel (2006) reflects that whether firms had acted honestly or not prior to the implementation of SOX, the costs of implementation remained the same. There was therefore no competitive advantage for honest corporations (Frankel, 2006). Carney (2006) goes on to indicate that SOX compliance is too inflexible and costly for smaller businesses. This sentiment is shared by Grinberg (2007), Kamar et al. (2008), and Riotto (2008).

Due to the fact that SOX places significant emphasis on director independence, directors may be paid less in the US as compared to similar positions elsewhere in the world (Faulkender, Kadyrzhanova, Prabhala, & Senbet, 2010). This could result in a decline in the qualifications and experience of directors in the US (Faulkender et al., 2010). Fogel and

Geier (2007) believe that SOX will not prevent future scandals because it does not address the accountability of management to the owners (shareholders) of the business.

The costs of non-US based organisations complying with SOX may well exceed the benefits thereof, and could thus result in companies opting not to operate in or list on the New York Stock Exchange ("NYSE") (Marks, 2004). This viewpoint is shared by Bloomberg and Schumer (2007); Coalson (2008) and Nordberg (2008). Bloomberg and Schumer (2007) went so far as to state the following in terms of the US: "within ten years while we will remain a leading regional financial centre; we will no longer be the financial capital of the world" (p. i).

On the other hand, there is research that reflects that board of director size and independence has increased since the implementation of SOX (Chhaochharia & Grinstein, 2007; Gillan, 2006). Wagner and Dittmar (2006) found the implementation of SOX has the following benefits: a stronger control environment, improved documentation around internal controls, increased audit committee involvement and awareness of responsibilities, standardisation of processes, reduced complexity and the minimisation of human error.

Tackett et al. (2004) share a mixed view of the effectiveness of SOX in mitigating the risk of audit failures. Restrictions on non-audit services and exposing management to criminal charges for financial statement misstatement are likely to reduce the risk of audit failures (Tackett et al., 2004). However, SOX is single-minded in that it only considers deliberate misconduct in contributing to audit failures (Tackett et al., 2004). Other factors, like auditing a client who has the right to fire you, have not been taken into consideration by SOX (Tackett et al., 2004).

Alles et al. (2004) conclude that complex legislation like SOX will always have unintended consequences. This includes that, upon reflection, perhaps insufficient thought was put into the sections on internal controls (Alles et al., 2004). However, the fact that internal control has grown into virtually its own industry, would indicate that there truly was a need for better internal controls in businesses (Alles et al., 2004).

Bratton (2003) agrees that the corporate collapse on Enron was an audit failure, and argues that it was attributable to the auditors not acting independently. Bratton (2003) goes further to state that the audit failure of Enron was "not a case where incomplete, ineffective or corrupt rules facilitated a fraud" (p. 1055). Bratton (2003) seals his argument by stating that the legislation was not the problem, and therefore, the implementation of SOX would not secure auditor independence and ethical behaviour in future.

Ramirez (2003) considers SOX from an entirely different perspective, and suggests that "diversity in the boardroom could have been a tool in the war on corporate corruption" (p. 865), had those political leaders involved in the implementation of SOX thought to incorporate it.

2.5.3 Alternative audit models and solutions available in literature

This study is not the first to identify the above-mentioned issues in the audit profession. It is also not the first to consider whether an alternative audit model would address the agency problem, the issue of audit fees and auditor independence. A body of literature exists that explores alternative audit models (Cunningham, 2005; Dontoh et al., 2013; Gavious, 2007; Moody, 2004; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). The remainder of this section is devoted to reviewing some of these alternative audit models.

2.5.3.1 Financial statement insurance ("FSI")

Joshua Ronen authored (and co-authored) multiple papers on FSI as an alternative audit model to address the agency problem; and by extension, the problems associated with audit fees and auditor independence (Cunningham, 2005; Dontoh et al., 2013; Moody, 2004; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002).

Ronen and Cherny (2002) noted that in light of the Enron and WorldCom audit scandals, audit firms discarded their non-audit service offerings (Ronen, 2006). However, the agency problem and the issue of audit fees remained (Cunningham, 2005; Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002).

> Even without the consulting, a consistent stream of hefty audit fees doled out by the management of the very companies to whose financials the auditors attest is enticing. Is it any wonder that audit firms may indulge the occasional buccaneering client and allow scope to beautify the financials? Auditors won't bite the hand that feeds them. (Ronen & Cherny, 2002, p. 12)

Several researchers echo this sentiment, as they reference the German saying, "whose bread I eat, his song I sing" (Bae et al., 2013, p. 1; Cunningham, 2005, p. 1; Fiolleau, Hoang, Jamal, & Sunder, 2013, p. 1; Mayhew & Pike, 2004, p. 800; Tang et al., 2017, p. 3).

In the same paper, Ronen and Cherny (2002) proposed a solution to this problem – to redirect the auditor's loyalty to the interests of the public, whom the auditor is supposed to serve. In questioning how this could be achieved, it was assessed that the revised legislation in the form of SOX does not address the issue of auditor-client loyalty (Cunningham, 2005; Dontoh et al., 2013; Moody, 2004; Ronen, 2006; Ronen & Cherny, 2002). Instead, Ronen and Cherny (2002) suggested allowing firms to purchase FSI (Cunningham, 2005; Dontoh et al., 2013; Moody, 2004; Ronen, 2006; Ronen & Berman, 2004). The FSI would provide cover to investors against losses incurred as a result of misstatement in the financial statements (Cunningham, 2005; Dontoh et al., 2013; Moody, 2004; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). The insurance companies would be responsible for appointing and paying auditors to provide assurance over the accuracy of the insured financial statements (Cunningham, 2005; Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002).

The auditor would not be reliant on the audit client for its audit fees, and therefore the auditor's conflict of interest would be removed (Cunningham, 2005; Dontoh et al., 2013; Moody, 2004; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). As the auditor is being paid by the insurer; the auditor's interests will more closely align with those of the insurer, which are aligned with those of investors and the general public (rather than those of the audit client) (Cunningham, 2005; Dontoh et al., 2013; Moody, 2004; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). As the auditor is likely to be auditing multiple of the insurer's 'clients', the auditor will be more likely to be loyal to the insurer – an audit failure could cost an auditor all those clients that are insured by the insurer (Cunningham, 2005; Ronen & Berman, 2004).

The insurer would need a high level of assurance as to the accuracy of the insured's financial statements; as this would provide the insurer with the information required in order to determine the risk associated with the insured party (Cunningham, 2005; Ronen & Cherny, 2002). The risks associated with the insured party will drive the insurance premiums charged by the insurer, as well as the level of insurance cover provided (Cunningham, 2005; Ronen & Cherny, 2002). The 'insurance policy' will only be issued after the financial statements have been audited, and an audit report is issued to the insurer (Cunningham, 2005; Ronen & Cherny, 2002).

This model would also require the level of insurance cover and the insurance premiums of the insured entity to be made public (Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). This would allow for the levels of insurance coverage and premiums to be compared across a variety of entities; thus flagging to shareholders, creditors and the general public those entities that are less risky than others (Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). As offered by Cunningham (2005):

> while the model is not perfect, it promises considerable advantages over the current model. While some of the existing system's imperfections are sustained or reappear in different guises, none of the existing imperfections appears to be aggravated and the rest likely are mitigated significantly. (p. 1)

Consideration must be given to some of the challenges associated with FSI (Cunningham, 2005; Gavious, 2007). One of these include the fact that under FSI, insurers and auditors may be coaxed into suppressing errors detected in subsequent years, covered by a previously issued insurance policy (Cunningham, 2005). However, such actions are attractive under the current audit model, and it is unlikely that FSI is going to aggravate this (Cunningham, 2005). There is also a risk that insurers could engage in opinion shopping from auditors (Cunningham, 2005). This could entail an insurer searching for lenient auditors in order to attract greater volumes of FSI customers, and thus increase their premium revenue (Cunningham, 2005). Once again, opinion shopping is something that happens under the current audit model, and it is unlikely that the implementation of FSI is going to exacerbate this problem (Cunningham, 2005).

Gavious (2007) identified the risk that insurers may attempt to benefit from the price at which the shares of the insured companies are trading. In order to mitigate this risk, Gavious (2007) would recommend that insurers are not allowed to trade in stocks of the companies they insure, and existing holdings would need to be sold immediately. This may result in insurers not being incentivised to engage in the FSI model, as they would be restricted in how they can manage their financial resources (Gavious, 2007).

Gavious (2007) also questions whether insurers would want to get involved in the FSI business. FSI could be very risky for the insurer, as there is no guarantee that an audit failure could or would not occur (Gavious, 2007). In the event of an audit failure, the insurer's pay-out could be extremely high (Gavious, 2007). The insurer would also have to bear the expense of paying for the audit, which is also a significant cost (Gavious, 2007). In order for the insurer to be compensated for the high risk and cost of the audit; the insurance premiums charged to the auditees, are likely to be higher than what the auditee would pay if they were paying for the audit directly (Gavious, 2007). This would then be contradictory to the expected benefits of FSI, which is that the insurance premiums and coverage signal the risk associated with the underlying financial statements (Gavious, 2007). Furthermore, a clean audit report does not guarantee that there will be no corporate failure (Gavious, 2007).

2.5.3.2 Alternative model proposed by Gavious (2007)

Research by Gavious (2007) criticises the FSI model suggested by Dontoh et al. (2013); Ronen (2006); Ronen and Berman (2004); Ronen and Cherny (2002). Gavious (2007) proposes a different, multi-faceted audit model that is less drastic than FSI, to address the challenges in the audit profession.

Firstly, Gavious (2007) suggests MAFR after a set period of time. This is expected to mitigate the risks associated with long audit engagements to auditor independence, objectivity, impartiality and economic dependence (Gavious, 2007). MAFR is not a new concept to the global audit environment and the pros and cons thereof have been debated extensively in literature (Arrunada, 1997; Dandago & Binti Zamro, 2012; Daniels & Booker, 2011; Firth et al., 2012; Fontaine, Khemakhem, & Herda, 2017; Gates et al., 2006; Geiger & Raghunandan, 2002; Jogiyanto Hartono et al., 2016; Kaplan & Mauldin, 2008; Knechel & Vanstraelen, 2007; Lennox, 2014; Mechelli & Cimini, 2017; Myers, Myers, & Omer, 2003; Ottaway, 2014; Ruiz-Barbadillo et al., 2009; Shockley, 1981; Velte & Freidank, 2012). In the South African context, there are mixed views as to whether MAFR would add to auditor independence and audit quality (Arel, Brody, & Pany, 2006; Harber, 2016; Harber & Hart, 2018; Rademeyer & Schutte, 2018; Thomson, 2018). Irrespective of this, IRBA has decided to implement MAFR for financial periods beginning on or after 1 April 2023 (RSA, 2008).

The second component of the model proposed by Gavious (2007) is communication with the prior auditor. The proposal is actually for the retiring auditor to accompany the new auditor for the entire first financial statement audit that the new auditor performs and to provide the new auditor with all the necessary information for a smooth audit (Gavious, 2007). This is critical for the success of MAFR (Gavious, 2007). “This is equivalent to medical doctors changing shifts; it would be unthinkable that the retiring doctor would not provide the entering doctor with all information needed by the latter to make the right decisions and perform best treatment” (Gavious, 2007, p. 463).

Thirdly, Gavious (2007) is against auditors providing non-audit services for their audit clients. This is expected to reduce auditors’ incentives to cooperate with clients in fraudulent activities (Gavious, 2007). There is additional research conducted by Velte and Stiglbauer (2013) around preventing auditors from providing non-audit services to their audit clients, and even the concept of audit only firms. However, these findings were inconclusive (Velte & Stiglbauer, 2013). Furthermore, there must be a cooling off period before the auditor and auditee (or consultant and potential audit client) can engage again (Gavious, 2007). Gavious

(2007) recommends a minimum five-year cooling off period before an ex-auditor can provide non-audit services to an entity, and vice versa.

The last component of this proposed model is for a regulator to scrutinise the audit fees (Gavious, 2007). A real risk exists that audit clients may try to use higher audit fees to influence the auditor, because of the limited time of engagement between the auditor and audit client before rotation needs to occur (Gavious, 2007).

2.6 Proposed audit model for consideration in the South African audit environment

Based on the discussions above of alternative audit models available in literature, the broader South African context and globally, the following audit model is proposed by the researcher for consideration in the South African audit environment. The model and the various role players are discussed in detail in Sections 2.6.1 to 2.6.3.

The proposed audit model comprises the same key role players as the existing audit model. IRBA is given the role of a SAI, and is tasked with determining audit fees and allocating audit clients. The role of the audit committee is somewhat diminished from an auditor selection and audit fee negotiation perspective. The auditor is expected to provide independent assurance as in the existing audit model. Figure 5 below summarises the proposed audit model and is followed by a detailed discussion thereof.

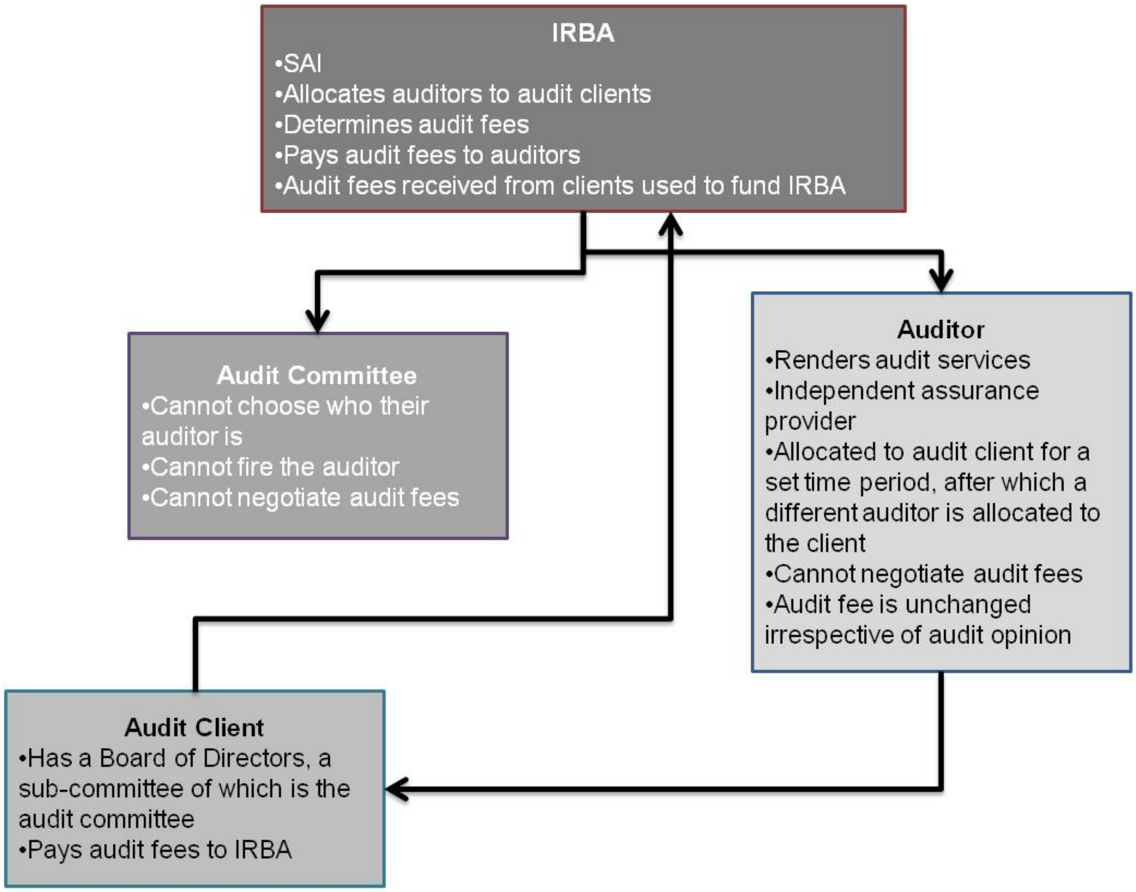

Figure 5. Proposed audit model

2.6.1 The role of a SAI – IRBA

The idea from Ronen and Cherny (2002) that audits need to be allocated by an impartial third party can be used. To mitigate the concerns noted by Gavious (2007) around an insurer being the impartial third party, the proposed model suggests replacing the insurer with a SAI, whose role is established by the Constitution.

The audit profession in South Africa is currently suffering a severe reputational beating (Cameron, 2019; Crotty, 2018a, 2018b, 2018c; De Villiers, 2019; Mahlati, 2020; Maphanga, 2020; Mvumvu, 2020; Naidoo, 2019; Prinsloo, 2019; Zulu, 2020). This is evidenced by the KPMG-State Capture-Gupta scandal, the near collapse of African Bank, the fall of Steinhoff from being the darling of investments and, most recently, the Tongaat Hulett scandal (Naidoo, 2019; Prinsloo, 2019), which professional investors are comparing to the Steinhoff scandal (Cameron, 2019; De Villiers, 2019; Stoddard, 2019). There is a massive confidence crisis as to whether the private audit sector can address the 'public interest' (Crotty, 2018a, 2018b, 2018c). While SAIs are typically responsible for holding public entities accountable for the use of public funds (Pollitt & Summa, 1997), it is clear from the above, that the South

African private sector audit is in need of something to restore its integrity. It is anticipated, that incorporating a SAI, whose role is established by the Constitution, into the private sector audit model, will add credibility to the private sector audit, and restore public confidence in the external audit function.

Currently, IRBA is an independent regulator of the audit profession. This model proposes expanding the mandate of IRBA to that of a SAI. SAIs are defined by Pollitt and Summa (1997) as “national bodies which have the power to hold other public organisations to account for the use of public funds and for their performance” (p. 313). A SAI is therefore an important actor in a country’s accountability chain (Pollitt & Summa, 1997). A SAI is a government entity whose external audit role would be established by the Constitution. A constitutional amendment would be required in order for IRBA to become a SAI.

An important factor to consider with a SAI is how such an institution would hold itself accountable (Pollitt & Summa, 1997). While there is an international organisation for SAIs, namely INTOSAI, the precise mandates of SAIs vary considerably (Domokos et al., 2016; Pollitt & Summa, 1997). Pollitt and Summa (1997) explore how SAIs in Europe hold themselves accountable. As the findings are more reflective of a SAI in the first world, they cannot be blindly applied in the South African market. Therefore, the question of how IRBA, as a SAI, would hold itself accountable in South Africa, is explored as part of this research.

IRBA is not in the business of making profits (Crosby, 2014; Odendaal & De Jager, 2008; RSA, 2005). IRBA obtains funding through membership fees and allocations from Parliament, which it is required to use in the fulfilment of its mandate (Crosby, 2014; Odendaal & De Jager, 2008; RSA, 2005). Therefore, there would be no issue as to IRBA having to divest from its current investments, or to restrict IRBA from investing in certain shares. This would address one of the concerns raised by Gavious (2007) around the FSI model.

Under this model, IRBA would provide guidance in terms of how the ISAs should be applied in conducting audits, to ensure that there is consistency in the way audits are performed. This is similar to how the AG (SA) provides audit guidelines and related resources to guide those conducting public sector audits (AG (SA), 2020a). IRBA would also consistently review the audit work that is being performed to ensure that audit quality is maintained.

2.6.2 The auditor

IRBA would be responsible for allocating each entity an appropriate auditor, just as the financial statement insurer would have appointed an auditor in the model proposed by Ronen and Cherny (2002). This is also similar, albeit on a larger scale, to the auditor designation regime in Korea (Bae et al., 2013; Chi et al., 2013; Kim & Yi, 2009; Lee et al., 2013; Oh et al., 2017; Ryu, 2015; Woo Jeong et al., 2007). This allocation would be determined based on the skills and experience of the auditor and the complexity of the auditee. The allocation of the auditor to an audit client is similar to the allocation of a judge to a case (Tullock, 1971). This draws a parallel between the role of a judge, to the proposed role of an auditor.

The model proposed does not make it clear whether auditors would be acting as individual agents allocated to auditees by IRBA, or as audit firms. This is because both alternatives have their merits and disadvantages. In discussing the proposed model with the research participants, this was deliberately left ambiguous, so that the participants could draw their own conclusions on which way could, or would work best. Ultimately, this is another area that could be researched in greater detail in future, as will be discussed in Chapter 6.

The auditor would report to IRBA and the audit committee in as far as audit findings are concerned. This is similar to how the auditor would report to the insurer under the FSI model (Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). Should the audit report not be unqualified, IRBA would have the final say in the repercussions for the audit client, as well as the remedial actions the audit client would need to undertake within a defined timeframe. Once again, this has parallels to the FSI model where the insurer would determine the implications (i.e. insurance premiums) for the auditee based on the outcomes of the audit report (Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). There is also something of a similarity to the existing AG (SA) model, where the AG (SA) submits all audit reports to the relevant authorities as required by the Constitution (RSA, 1996).

An auditor would be allocated to an audit client for a specified time period, after which a new auditor would be allocated, in a similar manner to MAFR. The idea for MAFR aspect is in accordance with the recommendations made by Gavious (2007), the rules of SOX (Grinberg, 2007; Parles et al., 2007) and existing South African legislation (RSA, 2008). The proposed model does not dictate what this specified time period might be. Future research could investigate what the ideal time frame before auditor rotation is required might be as discussed in Chapter 6. This proposed model would insist that effective communication between the incoming and outgoing auditors is compulsory. This recommendation also comes from Gavious (2007), who proposes that the outgoing auditor accompany the incoming auditor for the first year of the incoming auditor's tenure.

IRBA would retain the power to "dismiss" the appointed auditor from an audit if the audit quality is not as required. This power to dismiss the auditor is implied under the FSI model, as the insurer would dismiss the auditor if they are not satisfied with the work provided by the auditor (Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002). Mayhew and Pike (2004) would support this view, as their research reflects that transferring the power of hiring and firing auditors away from management improves auditor independence.

Audit firms would not be able to provide non-audit services to their audit clients. This, too, is advised by Gavious (2007), and included as a SOX rule (DeFond & Francis, 2005; Grinberg, 2007; Parles et al., 2007; Riotto, 2008). There would further need to be a cooling off period between the provision of audit services and non-audit services, and vice versa. Gavious (2007) suggests this cooling off period to be five years.

2.6.3 The audit committee and the auditee

All auditees would have to pay an audit fee to IRBA. How this fee would be determined is beyond the scope of this research, and represents an area for future research endeavours, as indicated in Chapter 6. IRBA would pay the auditor a set audit fee. The audit fee paid to the auditor may not be the same as the fee paid to IRBA by the auditee, as IRBA would need a mechanism to fund itself. The audit fee paid to the auditor would be based on the complexities and risks of the entity to be audited. This fee would be paid irrespective of whether the audit report issued is unqualified or not. This is similar to the suggestion of having a financial statement insurer pay the auditor an audit fee, irrespective of the auditor's audit findings (Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002).

The audit committee would be unable to negotiate the audit fee, and the audit fee would remain the same, irrespective of the audit findings. Once more, this is similar to the FSI model, wherein the audit fee the auditor receives would be the same, irrespective of the audit findings (Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002).

The audit committee of the audit client would have no say in terms of auditor selection. This is because the auditor would have been appointed by IRBA, similar to how the auditor would have been appointed by the insurer under the FSI model (Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002), or under the designated auditor regime in Korea (Lee et al., 2013; Oh et al., 2017; Ryu, 2015; Woo Jeong et al., 2007).

2.7 Summary of chapter

In this chapter the literature relevant to the research topic was presented and public interest was delved into. A detailed outline of the current audit model with a focus on the challenges faced was presented. Thereafter, an alternate audit model was proposed for the private sector based on the available literature. The next chapter addresses the research methodology.

CHAPTER 3: METHODOLOGY

3.1 Introduction

In this chapter, the basis on which a qualitative method was chosen is argued and framed within an ontological and epistemological context. This is followed by a discussion of the particular research method that was applied and an overview of the research strategy in terms of sampling, data collection, data recording and data analysis is provided. The chapter concludes with a discussion of criteria applied to ensure the trustworthiness of the study as well as the ethical considerations that were taken into account.

3.2 Research paradigm, ontology and epistemology

A research paradigm can be defined as “a philosophical framework that guides how scientific research should be conducted” (Collis & Hussey, 2009, p. 55) and is determined by ontological and epistemological assumptions. Ontology is “concerned with what exists” (Denzin & Lincoln, 2011, p. 615) and relates to what the nature of reality is (Hudson & Ozanne, 1988) and epistemology is the theory of knowledge and is concerned with what constitutes valid knowledge and is concerned with the question: “How can the researcher come to know the nature of reality?” (Booysen, 2017, p. 34). Two major ontological and epistemological ideologies exist, namely positivism and interpretivism.

Within an interpretivist paradigm, the ontological assumption is that multiple realities exist and the ontological assumption within the interpretivist paradigm is that reality is relative, making it difficult to interpret impressions in terms of fixed reality (Collis & Hussey, 2009; Lincoln & Guba, 1985). As Collis and Hussey (2009) state: “social reality is subjective because it is socially-constructed” (p. 59) and the main aim of qualitative research is to identify the underlying meanings that emerge from human interactions (Collis & Hussey, 2009). Therefore, an interpretivist epistemology claims that knowledge requires an understanding of subjective experiences and an exploration of these subjective experiences to “reveal complex, emerging, meaningful patterns rather than singular causes” (Booysen, 2017, p. 35).

By contrast, the underlying ontological assumption of the positivistic paradigm is that reality is a “concrete structure and that reality is objective and singular” (Collis & Hussey, 2009, p. 58) and the epistemological assumption is that knowledge requires: “explanation, prediction from empirically known factors, identifying real causes and establishing quantifiable law-like regularities in the form of theories” (Booysen, 2017, p. 35).

3.3 Qualitative methodology

Based on the previous discussion, it is clear that qualitative research methods within an interpretivist paradigm are applied in order to discover and understand the experiences, perceptions and opinions of participants and to then explore the possible meanings of these experiences. This is done through applying interpretative methods of analysis (Collis & Hussey, 2009). It can be said that: "qualitative research is a process that locates the observer in the world and, in doing so, makes the world more visible by using interpretive measures" (Denzin & Lincoln, 2011, p. 14).

By contrast, quantitative research is concerned with collecting numerical data and analysing the data using statistical methods (Collis & Hussey, 2009) and is based on the ontological assumption that "the social world is external and real" (Collis & Hussey, 2009, p. 61) and that it can be measured and analysed. For the purpose of this study, a qualitative approach was an appropriate choice, as the problem statement and aims of the research required access to in-depth experience and knowledge of the 'public interest' as it relates to the audit model. This study was conducted within an interpretivist paradigm as the researcher's aim was to gain knowledge from the participants' lived experience and to explore their realities and opinions in order to address the research question as provided in Chapter 1 and restated here as per Figure 6.

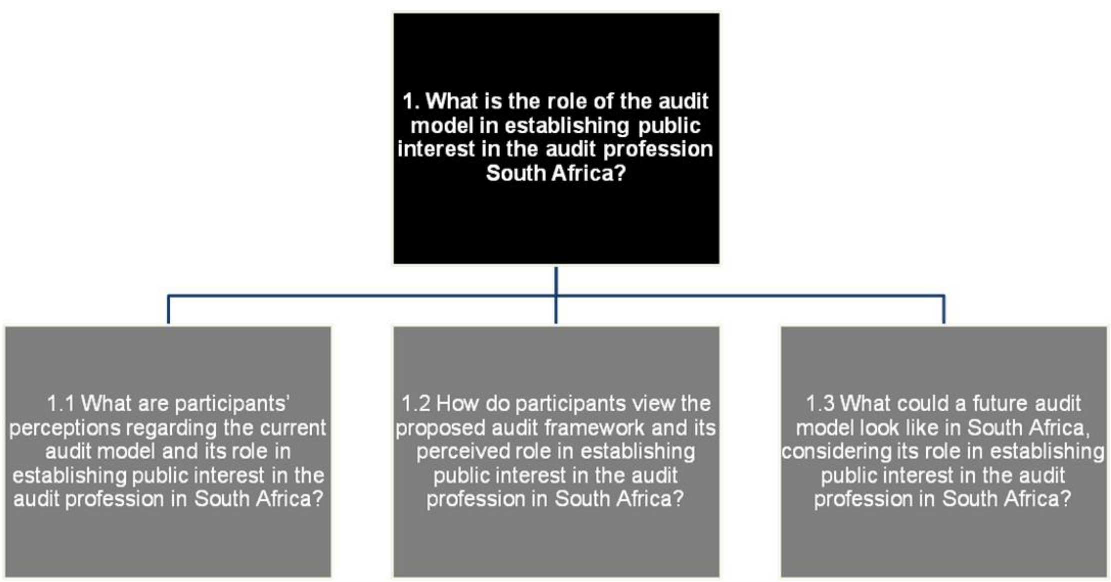

Figure 6. Research question and sub-questions

Reviewing the research question, it is clear that, it requires an in-depth exploration of the experiences of participants of their current reality as it relates to their understanding of ‘public interest’ within the field of auditing and would require the researcher to explore the underlying meanings and perceptions of participants to find answers to the research question. It is therefore clear that the best way to investigate and present the subjective experiences, perceptions and opinions of participants is by following a qualitative approach which will allow meaningful patterns to emerge from the data and provide meaningful answers to the research question. As stated by Denzin and Lincoln (2011):

> An interpretivist approach allows the researcher to explore meanings and motives from participants’ subjective experiences” and that “the interpretivists’ view on reality is that no single interpretive truth exists, but rather that multiple interpretive communities exist, each having its own criteria for evaluating and interpretation. (p. 15)

In this way, interpretivists open and explore options to increase depth of knowledge and understanding of a phenomenon.

3.4 Research method

The research method that was selected as the most appropriate was thematic analysis. This qualitative method allows the researcher to identify patterns or themes from data (Boyatzis, 1998) as themes capture important insights and patterns that provide answers to the research question. The collected data that was gathered through semi-structured interviews, was analysed using the thematic analysis method (Braun & Clarke, 2006). This is a six-step method as outlined in Braun and Clarke (2006). This method is outlined in further detail in Section 3.5.3.

3.5 Research strategy

Prior to conducting the research, an in-depth literature review was performed to obtain a thorough understanding of both the main issues associated with ‘public interest’ in the auditing profession; as well as the proposed solutions available in literature to address these issues (Goddard, 2004; Kirk & van Staden, 2001; Leedy & Ormrod, 2015; Strauss & Corbin, 1998) as discussed in Chapter 2 . This was done to ensure a thorough understanding of the general concepts in the underlying discipline (Goddard, 2004; Kirk & van Staden, 2001; Leedy & Ormrod, 2015; Strauss & Corbin, 1998). The researcher aimed to identify alternative audit models as part of the literature review, and recognise the distinguishing characteristics of each of these models. These were then consolidated into a single proposed alternative audit framework for discussion with interviewees. The proposed audit framework was outlined in detailed in Section 2.6. In summary, the proposed alternative audit framework comprises IRBA as a SAI with the responsibility of assigning auditors to audit clients and det/ermining the audit fee. The auditor would maintain the responsibility to provide independent assurance to audit clients and would be unable to provide non-audit services to audit clients. The responsibilities of the audit committee would be diminished in as far as their ability to appoint the auditor and negotiate the audit fees goes.

Thereafter, the research question, aims and objectives were formulated and the appropriate research strategy was chosen. In this section, the research strategy will be discussed in terms of sampling, data collection, data recording and data analysis.

3.5.1 Sampling

According to Silverman (2013) purposive sampling is often employed in qualitative research where the focus is on uncovering rich meanings which is an important differentiator compared to the representativeness principle applied in quantitative research. As stated by Booysen (2017) a purposive sampling method is used "when the researcher wants to focus on in-depth and information-rich data gained from participants what meet certain selection criteria" (p. 37). It is therefore of key importance to select participants who would be able to provide in-depth an/d information-rich data due to their involvement with and experience of the phenomenon under study (Denzin & Lincoln, 2011).

Purposive sampling was used to select participants (Etikan, Musa, & Alkassim, 2016; Leedy & Ormrod, 2015; Tongco, 2007). Purposive sampling is a non-probability sampling method that allowed the researcher to select participants that suited the purpose of the research (Etikan et al., 2016; Leedy & Ormrod, 2015; Tongco, 2007). Whilst purposive sampling may introduce researcher bias and predisposition, a purposive sampling strategy allows for the sources to be selected based on those who would be most affected by the phenomenon being studied (Etikan et al., 2016; Leedy & Ormrod, 2015; Tongco, 2007), in this instance, 'public interest' in the auditing profession as it relates to the audit model. It was expected that the individuals chosen would be would be in a position to yield the most information about 'public interest' in the auditing profession (Leedy & Ormrod, 2015; Tongco, 2007). The sample therefore consisted of participants that are either audit committee members, auditors of financial statements or representatives of 'public interest'.

Since generalisation to a population is not a qualitative research objective samples tend to be small (Booysen, 2017; Collis & Hussey, 2009) and the focus is uncovering depth of knowledge and not breadth of knowledge. As stated by Collis and Hussey (2009), the researcher's objective in qualitative research is "to gain rich and detailed insights of the complexity of social phenomena" (p. 62). Qualitative research also tends to use smaller samples than quantitative research because of the time and effort involved in analysing data from qualitative research (Braun & Clarke, 2006; Diemer, 2002).

A total of fifteen interviews were conducted. This represents a small sample size as is typical of qualitative research (Booysen, 2017; Collis & Hussey, 2009). The researcher selected a small sample as it was anticipated that the time and effort involved in analysing the data from the interviews would be immense (Braun & Clarke, 2006). Participants were selected from each of the three identified stakeholder groups as follows: (1) audit committee members x 6; (2) auditors of financial statements x 6 and (3) representatives of the 'public interest' x 3.

Detailed description of participants:

Audit committee members: This includes any person who has served (in the past five years), or currently does serve as a member of an audit committee. Six participants were selected from this stakeholder group.

Auditors of financial statements: This includes any qualified CA (SA) who currently occupies (or occupied, in the last five years) the position of associated director or partner within an audit firm. Six participants were selected from this stakeholder group.

Public representatives of the 'public interest': This includes a representative from each of the following: (1) the regulator (IRBA), (2) the public auditor (the AG (SA)) and (3) the government auditor (SAIGA). These representatives of the public interest were specifically selected for the following reasons – the regulator (IRBA) would play a very different role in the proposed audit model; the role of IRBA in the proposed audit model would be modelled on the role of a SAI, which in South Africa currently is the AG (SA); and because the AG (SA) and SAIGA operate on a different audit model to the current private sector audit model, they are ideally positioned to provide objective feedback on an alternative audit model.

The participants' profiles are provided in Table 2.

Table 2

Profile of research participants

PARTICIPANT	RACE	GENDER	YEARS EXPERIENCE	AUDIT COMMITTEE MEMBERS RESEARCH PARTICIPANT (‘ACM’)	AUDIT PARTNERS / ASSOCIATE DIRECTORS RESEARCH PARTICIPANT (‘AP’)	REPRESENTATIVES OF ‘PUBLIC INTEREST’ RESEARCH PARTICIPANT (‘RPI’)
P1	African	Female	11	x		
P2	African	Female	6	x		
P3	Indian	Male	6	x		
P4	Indian	Male	8	x		
P5	Indian	Male	34	x		
P6	White	Female	6	x		
P7	Indian	Female	9		x	
P8	Indian	Male	6		x	
P9	Indian	Male	15		x	
P10	Indian	Male	10		x	
P11	Indian	Male	11		x	
P12	African	Female	3		x	
P13	White	Male	22			x
P14	Coloured	Male	20 +			x
P15	Coloured	Male	20 +			x

P15a	Unknown[7]	Female	18			X
P15b	Unknown[8]	Male	3			X
P15c	Unknown[9]	Unknown [10]	Unknown[11]			X
P15d	Unknown[12]	Female	4			X
P15e	Unknown[13]	Male	4			X

[7] The participant's race is unknown as the researcher never met this participant. This is further explained in Section 3.5.2
[8] The participant's race is unknown as the researcher never met this participant. This is further explained in Section 3.5.2
[9] The participant's race is unknown as the researcher never met this participant. This is further explained in Section 3.5.2
[10] The participant's gender is unknown as the researcher never met this participant and P15 was unable to confirm this participant's gender. This is further explained in Section 3.5.2
[11] The participant's years of experience are unknown as the researcher never met this participant and P15 was unable to confirm this participant's years of experience. This is further explained in Section 3.5.2
[12] The participant's race is unknown as the researcher never met this participant. This is further explained in Section 3.5.2
[13] The participant's race is unknown as the researcher never met this participant. This is further explained in Section 3.5.2

3.5.2 Data collection

Semi-structured interview questions were compiled, based on the research question, aims and objectives (Goddard, 2004; Leedy & Ormrod, 2015; Von Alberti-Alhtaybat & Al-Htaybat, 2010; Whiting, 2008). This allowed the participants to give a rich account of their perspectives and understandings, and allowed the researcher to clarify vague answers and, where appropriate, ask follow-up questions (Goddard, 2004; Leedy & Ormrod, 2015; Rabionet, 2011; Whiting, 2008).

The participants were contacted over email or telephonically, to obtain consent for the interview and to establish a time for the interview (Diemer, 2002; Whiting, 2008). The purpose of the research and, therefore, of the interview was explained, both before the interview was scheduled, and again at the beginning of the interview (Goddard, 2004; Kirk & van Staden, 2001; Whiting, 2008).

The interviews were scheduled for 60 minutes each, although they varied in length between 31 and 131 minutes each. The duration of the interviews was in line with other qualitative research (A. Irvine, 2011; Whiting, 2008; Wiesche, Jurisch, Yetton, & Krcmar, 2017).

One participant (a representative of the 'public interest') (P15) ran out of time after the first part of the interview (i.e. discussion of the current audit model). The participant allowed the researcher to discuss the proposed audit model, provided a high level view, and the participant committed to responding to the detailed questions around the proposed audit model via email. However, the participant was unable to fulfil this commitment and had five representatives (P15a – P15e) from the participant's place of employment respond to the questions around the proposed audit model. Thus, for this participant, there is one set of responses to the first part of the interview and five sets of responses to the second part of the interview.

Participants were given the opportunity to ask questions throughout the process (Kirk & van Staden, 2001; Von Alberti-Alhtaybat & Al-Htaybat, 2010; Whiting, 2008). The participants were reassured that they will remain anonymous, and their responses confidential (Kirk & van Staden, 2001; O'Dwyer, Owen, & Unerman, 2011; Rabionet, 2011; Whiting, 2008). Each participant was assigned a number to ensure confidentiality (Harrell & Bradley, 2009; Leedy & Ormrod, 2015).

The participants were sent the research agenda between 24 and 48 hours before the relevant interview was scheduled (Whiting, 2008). This was to allow the participants to have sufficient time to consider the topic and therefore enable them to give meaningful responses (O'Dwyer et al., 2011; Whiting, 2008).

The majority of participants did not express concerns about anonymity or the findings of the research. Prior to the interview, participants were explained the purpose of the digital recorder and permission was obtained to record the conversation (O'Dwyer et al., 2011; Rabionet, 2011; Whiting, 2008). The use of the digital recorder ensured accurate data, time saved and allowed the researcher to focus on the participant (Rabionet, 2011; Whiting, 2008).

All the participants except one consented to being recorded. The participant who did not consent was concerned about anonymity, given the sensitive nature of the participant's position. This participant did allow the researcher to take detailed notes during the interview, which the researcher then sent back to the participant after the interview to review (O'Dwyer et al., 2011; Whiting, 2008).

The researcher did not lead the participant (Whiting, 2008). The interview questions were semi-structured to allow the participant to provide rich insights. The interview questions were reviewed by two senior academics before the researcher conducted the interviews. A pilot study was conducted to ensure that the interview questions were easily understandable. The researcher maintained awareness at all times of body language and facial expressions so as not to lead the participant to provide a particular response. Participants shared their insights openly.

3.5.3 Data analysis

The collected data was analysed using the method of thematic analysis as proposed by Braun and Clarke (2006). This is a six-step method as outlined in Sections 3.5.3.1 – 3.5.3.6.

3.5.3.1 Familiarisation with data

After the interview, the data was transcribed verbatim (Braun & Clarke, 2006; O'Dwyer et al., 2011; Whiting, 2008). Any data that indicated the participants identities or that contained references to specific organisations was removed (Whiting, 2008).The participants also had the opportunity to review the transcribed document and suggest changes (O'Dwyer et al., 2011; Whiting, 2008).

As noted in Section 3.5.2, the participant who did not consent to being recorded, did provide consent for the researcher to take detailed notes during the interview. The researcher's notes were then compiled and sent back to the participant to review the document and suggest changes (O'Dwyer et al., 2011; Whiting, 2008). These notes were password protected alongside the transcribed data of the other participants (Whiting, 2008).

A full understanding and familiarisation of the recorded interviews was obtained by listening to the recordings and actively reading the transcribed data numerous times (Braun & Clarke, 2006; Whiting, 2008). The notes attributable to the unrecorded interview were also actively read as part of this step (Braun & Clarke, 2006; Whiting, 2008). As part of the active reading, the researcher began noting down initial ideas (Braun & Clarke, 2006).

All interviews were noted for themes that are consistent with available literature, and any inconsistencies with available literature and any contradictions made by participants in the interview process were also noted (Braun & Clarke, 2006; O'Dwyer et al., 2011; Parker & Roffey, 1997). No major contradictions were identified.

3.5.3.2 Generating initial codes

The researcher systematically worked through the entire data set and coded interesting features of the data in a systematic fashion (Braun & Clarke, 2006). The use of coding software was considered, but ultimately the researcher opted to do the coding manually, as it was found to be a more engaging process.

3.5.3.3 Searching for themes

The different codes were collated into potential themes, gathering all data relevant to each potential theme (Braun & Clarke, 2006). A thematic mind map was used to separate the various codes into themes (Braun & Clarke, 2006; O'Dwyer et al., 2011).

3.5.3.4 Reviewing themes

The themes were reviewed and refined at this stage (Braun & Clarke, 2006). This was done by reviewing the themes in relation to the coded extracts (Level 1) and the entire data set (Level 2) (Braun & Clarke, 2006). All themes were considered, and, where necessary they were reworked, or the data brought into another theme, or the data for that theme discarded entirely (Braun & Clarke, 2006). The thematic mind map in step 3 (above) was refined to reflect what the themes are, how they fit together and the overall story that the data tells (Braun & Clarke, 2006).

3.5.3.5 Defining and naming themes

The researcher continued the analysis to refine the specifics of each theme and the overall story the analysis tells (Braun & Clarke, 2006). The themes were considered in relation to each other, to ensure there is not too much overlap between themes (Braun & Clarke, 2006). During this step, the researcher also determined how the themes would be named in the final analysis (Braun & Clarke, 2006) and what the essence of each theme is in terms of contextual meaning.

3.5.3.6 Producing the report

The researcher produced the report using a selection of vivid, compelling extract examples relating to the analysis of the research question and literature (Braun & Clarke, 2006). This is provided in Chapter 5 where the findings of the research are discussed. To maintain confidentiality of participants, the actual positions of participants and the organisations they work for have not been identified (Kirk & van Staden, 2001). The quotations of participants were edited, only to remove hesitations and pauses, to make for easier reading (Kirk & van Staden, 2001). Words were added in brackets, where required, to convey meaning (Kirk & van Staden, 2001). Quotations from participants have been typed in italics to differentiate them from quotes from literature (Kirk & van Staden, 2001). The researcher used the findings of the research to provide an argument in relation to 'public interest' in the auditing profession as per the research question (Braun & Clarke, 2006).

3.6 Limitations of the study

In qualitative research, there is the inherent limitation that the findings of the study will not be generalisable (Goddard, 2004; Lincoln & Guba, 1985; Lukka & Kasanen, 1995). The responses from participants are likely to be subjective, making reference to their personal perspectives, feelings and opinions (Glen, 2013); and these perspectives may not be shared by the broader population. Furthermore, the research objective of qualitative research is not to generalise findings to individual scenarios (Booysen, 2017; Creswell, 2014), but rather to develop a body of knowledge that describes the individual scenario (Lincoln & Guba, 1985).

3.7 Trustworthiness of the study

In any research, quality data that is both scientifically valid and reliable, is of the utmost importance (Booysen, 2017; Creswell, 2014). In qualitative research, validity is based on whether the findings are an accurate representation of what is happening in the situation (J. Hussey & Hussey, 1997); based on the perspectives of the researcher, the participant, or the readers of an account (Creswell, 2014). The findings of a study can be said to be reliable, if the research approach is consistent, such that if the researcher, or anyone else conducted the study; they would acquire the same findings (Creswell, 2014; J. Hussey & Hussey, 1997).

A variety of strategies have been developed to ensure the trustworthiness of qualitative research data (Booysen, 2017). These include strategies developed by Lincoln and Guba (1985) and Yardley (2000). Each of these strategies uses four criteria to verify the trustworthiness of qualitative research data. Yardley (2000) uses trustworthiness as a function of sensitivity to context, commitment and rigour, transparency and coherence, and impact and importance. On the other hand, Lincoln and Guba (1985) use credibility, transferability, dependability and confirmability as their four criteria. This research applies the criteria from Yardley (2000) to verify the trustworthiness of the qualitative research data.

3.7.1 Sensitivity to context

Sensitivity to context requires the researcher to be aware of the relevant literature, empirical data, the socio-cultural setting, the perspectives of participants and relevant ethical concerns (Yardley, 2000). Sensitivity to context is clearly evident in this research.

The research question and research objectives in Chapter 1, as well as the content of the literature review Chapter 2, indicate that the researcher is sensitive to a wide range of challenges facing the South African audit environment. The interviews held with audit committee members, auditors and representatives of 'public interest' were semi-structured, which allowed the participants the freedom to share their own perspectives and ideas in what challenges the South African audit environment faces, and how the audit model could be altered to address these.

In addition to the extensive literature review included in this research, the researcher has had physical prolonged engagement with the audit profession, having worked for two of the big four audit firms over the last six years. The research participants have all had extensive experience in the audit environment – with each of them having at least three years' experience in the profession. Audit partners and associate directors often spend anything from seven years or more with an audit firm in the assurance business before becoming associate directors or partners. Thus, a minimum of seven years can be added to each of these participants' years of experience. The audit committee members each have more than five years of experience as audit committee members, which is reflective of them having extensive experience as audit committee members. According to Ericsson (2006, p. 685) "extensive experience of activities in a domain is necessary to reach very high levels of performance". Thus, it can be understood that the audit partners, audit associate directors and audit committee members interviewed have reached very high levels of performance in their respective roles. Each of the main representatives of ‘public interest’ (P13, P14 and P15) has significantly more than 10 years’ experience in their positions. Cognitive psychologists say that it take 10,000 hours or 10 year’s worth of practice to be an expert (Ericsson, 2006; Ericsson & Smith, 1991; North, 2012). Therefore, each of these representatives of ‘public interest’ can be called experts in their areas of specialisation.

3.7.2 Commitment and rigour

Commitment is displayed by “prolonged engagement with the topic, the development of competence and skill in the methods used, and immersion in the relevant data” (Yardley, 2000, p. 221); while rigour refers to “completeness of the data collection and analysis” (Yardley, 2000, p. 221).

The literature review provides an in-depth discussion on the concept of ‘public interest’ in auditing, the challenges faced by the auditing profession, and the proposed solutions to these challenges. Participants shared information freely during the interview process, and made mention of many of the challenges faced by the profession as are included in literature.

This allowed participants to provide a rich account of their understandings, and for the interviewer to clarify vague answers, and where relevant, ask follow up questions (Goddard, 2004; Leedy & Ormrod, 2015; Rabionet, 2011; Whiting, 2008). The findings of this study would be applicable in similar contexts where auditors, audit committee members and the representatives of ‘public interest’, or any combination thereof; are considering what changes need to be made to the audit model in order for it to better address the ‘public interest’.

The research method used was thematic analysis, specifically the six step method as outlined by Braun and Clarke (2006). Being a novice researcher, the researcher took great care in transcribing the interviews verbatim, and listening to them repeatedly to ensure a full understanding and familiarisation therewith. Thereafter, the researcher manually coded the data in significant detail. The coded data was then analysed into potential themes, using thematic mind maps. The themes were reviewed and then finalised.

Given the status of the researcher as being an ex-auditor, the researcher remained aware at all times of inherent bias, and took great care to ensure that the findings as outlined in Chapter 4, are a true reflection of the data provided by participants during the interview process. The researcher frequently revisited field notes, interview transcriptions, interview recordings and initial coding to ensure the objectivity and validity of the findings documented.

3.7.3 Transparency and coherence

Transparency and coherence relate to the persuasiveness of the narrative provided (Yardley, 2000). The research problem as outlined in Chapter 1 provides a convincing argument and is directly linked to the research question. The literature review details the challenges in the current audit model sufficiently to justify the need to make adjustments. The literature review also provides ample evidence of alternate audit models, and validates why alternative audit models as they stand, would not be suited to the South African audit environment. Based on the literature review, a proposed audit model for the South African audit environment was constructed, based on the alternative audit models and other suggested safeguards available in literature.

The findings included participant responses as taken directly from the participant transcripts, as this would prove to be the basis of interesting points for discussion in Chapter 5, in which the analysis of the findings was documented. This research reflects on the many gaps in literature around the South African audit environment, and reveals value areas for further research.

3.7.4 Impact and importance

The last criterion Yardley (2000) proposed is around the impact and importance of the research. This research is ground breaking because there has been no research about alternative audit models in the South African environment. It has also uncovered a multitude of further research questions which, if answered, would be pivotal in taking the South African auditing profession forward. This is elaborated on in the concluding chapter of this research.

3.8 Summary of chapter

In Chapter 3, the researcher presented a detailed explanation of the research method followed. The research strategy was outlined and the researcher provided particulars of how the data was collected and analysed. The chapter ends with the researcher explaining the trustworthiness of the study.

CHAPTER 4: RESEARCH FINDINGS

4.1 Introduction

As stated in Chapter 1, the research question consists of three distinct components, namely:

- What are the participants' perceptions regarding the current audit model and its role in establishing public interest in the audit profession in South Africa?
- How do participants view the proposed audit framework and its perceived role in establishing public interest in the audit profession in South Africa?
- What could a future audit model look like in South Africa, considering its role in establishing public interest in the audit profession in South Africa?

The researcher followed a single data collection and data analysis strategy for all three components, as discussed in Chapter 3, namely, semi-structured interviews and thematic analysis. In this chapter, the findings of the research have been summarised. The chapter concludes with a brief summary thereof.

4.2 Research findings

In this section, the research findings are presented. Two broad themes emerged from the data and contained smaller 'themes' and 'sub-themes'. The broad themes were labelled 'thematic clusters'. The two 'thematic clusters' identified are:

- Thematic cluster 1: Participants' perceptions regarding the current audit model and its role in establishing public interest in the audit profession in South Africa and recommendations in terms of a future audit model
- Thematic cluster 2: Participants' perceptions regarding the proposed audit framework and its role in establishing public interest in the audit profession in South Africa.

Where appropriate, the 'thematic clusters' were broken down into a second unit of analysis that was labelled 'themes'. In certain instances it was appropriate to break down the themes into even smaller units of analysis, and these were labelled 'sub-themes'.

In order to provide an overall view of the findings, Table 3 serves as a roadmap which summarises the two thematic clusters, the themes and sub-themes identified therein.

Table 3

Roadmap to Chapter 4 with thematic clusters, themes and sub-themes identified by the researcher

THEMATIC CLUSTER 1: Participants' perceptions regarding the current audit model and its role in establishing public interest in the audit profession in South Africa and recommendations in terms of a future audit model			**THEMATIC CLUSTER 2:** Participants' perceptions regarding the proposed framework and its role in establishing public interest in the audit profession in South Africa		
Theme 1.1: Auditor independence and objectivity			**Theme 2.1: Attractiveness of the profession**		
Sub-themes per participant grouping			Sub-themes per participant grouping		
AP	ACM	RPI	AP	ACM	RPI
1.1.1 Assurance quality	1.1.1 Assurance quality	1.1.1 Assurance quality	2.1.1 Decreased attractiveness	2.1.1 Decreased attractiveness	2.1.1 Decreased attractiveness
1.1.2 Rotation	1.1.2 Rotation	1.1.2 Rotation	2.1.2 No change	2.1.2 No change	2.1.2 No change
1.1.3 Threats to auditor independence and safeguards to these	1.1.3 Threats to auditor independence and safeguards to these	1.1.3 Threats to auditor independence and safeguards to these	2.1.3 Increased attractiveness	2.1.3 Increased attractiveness	
1.1.4 Auditor ethics	1.1.4 Auditor ethics	1.1.4 Auditor ethics	**Theme 2.2: Improved independence of the auditor**		
	1.1.5 Choice of auditors	1.1.5 Choice of auditors	Sub-themes per participant grouping		
		1.1.6 Public interest	AP	ACM	RPI
		1.1.7 Audit committee responsibility	None identified	None identified	None identified

		1.1.8 Reliability of financial statements	**Theme 2.3: Non-audit services**		
Theme 1.2: Audit fees			Sub-themes per participant grouping		
Sub-themes per participant grouping			AP	ACM	RPI
AP	ACM	RPI	2.3.1 Improved audit quality	2.3.1 Improved audit quality	2.3.1 Improved audit quality
1.2.1 Auditor independence as it relates to audit fees	1.2.1 Auditor independence as it relates to audit fees	1.2.1 Auditor independence as it relates to audit fees	2.3.2 No effect on audit quality	2.3.2 No effect on audit quality	2.3.2 No effect on audit quality
1.2.2 Audit committee and management involvement	1.2.2 Audit committee and management involvement	1.2.2 Audit committee and management involvement		2.3.3 Loss of firm revenue	2.3.3 Loss of firm revenue
1.2.3 Level at which audit fees are set	1.2.3 Level at which audit fees are set	1.2.3 Level at which audit fees are set	**Theme 2.4: Audit fee regulation**		
1.2.4 Choice of auditor	1.2.4 Choice of auditor	1.2.4 Choice of auditor	Sub-themes per participant grouping		
1.2.5 Audit quality	1.2.5 Audit quality	1.2.5 Audit quality	AP	ACM	RPI
1.2.6 Value proposition	1.2.6 Value proposition	1.2.6 Value proposition	2.4.1 Client ability to influence audit	2.4.1 Client ability to influence audit	2.4.1 Client ability to influence audit
1.2.7 Audit firm sustainability	1.2.7 Audit firm sustainability		2.4.2 Impact on auditor	2.4.2 Impact on auditor	2.4.2 Impact on auditor
Theme 1.3: Auditors' skills and competence			2.4.3 No influence	2.4.3 No influence	2.4.3 No influence

			on audit	on audit	on audit
Sub-themes per participant grouping					2.4.4 Impact on regulator
AP	ACM	RPI	**Theme 2.5: Audit quality**		
1.3.1 Audit quality	1.3.1 Audit quality	1.3.1 Audit quality	Sub-themes per participant grouping		
1.3.2 Choice of auditors	1.3.2 Choice of auditors	1.3.2 Choice of auditors	AP	ACM	RPI
1.3.3 Education and training	1.3.3 Education and training	1.3.3 Education and training	2.5.1 Improve	2.5.1 Improve	2.5.1 Improve
1.3.4 Specialist skills	1.3.4 Specialist skills	1.3.4 Specialist skills	2.5.2 Decline	2.5.2 Decline	2.5.2 Decline
1.3.5 Changes to accounting framework		1.3.5 Changes to accounting framework	2.5.3 Unchanged	2.5.3 Unchanged	2.5.3 Unchanged
1.3.6 Advancement of audit tools			**Theme 2.6: Challenges**		
	1.3.7 Understanding the entity	1.3.7 Understanding the entity	Sub-themes per participant grouping		
		1.3.8 Professional scepticism	AP	ACM	RPI
		1.3.9 Compliance with standards	2.6.1 Disruptive	2.6.1 Disruptive	2.6.1 Disruptive
Theme 1.4: Non-audit services			2.6.2 IRBA risk	2.6.2 IRBA risk	2.6.2 IRBA risk

			exposure	exposure	exposure
Sub-themes per participant grouping			2.6.3 Impact on auditors	2.6.3 Impact on auditors	2.6.3 Impact on auditors
AP	ACM	RPI	2.6.4 AG (SA)	2.6.4 AG (SA)	2.6.4 AG (SA)
1.4.1 Auditors' independence	1.4.1 Auditors' independence	1.4.1 Auditors' independence	2.6.5 Other challenges	2.6.5 Other challenges	2.6.5 Other challenges
1.4.2 Restrictions	1.4.2 Restrictions	1.4.2 Restrictions	**Theme 2.7: Public interest**		
1.4.3 Audit firm revenue		1.4.3 Audit firm revenue	Sub-themes per participant grouping		
Theme 1.5: Audit committees			AP	ACM	RPI
Sub-themes per participant grouping			2.7.1 Better served	2.7.1 Better served	2.7.1 Better served
AP	ACM	RPI	2.7.2 Not addressed	2.7.2 Not addressed	2.7.2 Not addressed
1.5.1 Independence from auditors	1.5.1 Independence from auditors	1.5.1 Independence from auditors	**Theme 2.8: IRBA as a SAI**		
1.5.2 Independence from management	1.5.2 Independence from management	1.5.2 Independence from management	Sub-themes per participant grouping		
1.5.3 Regulatory responsibilities	1.5.3 Regulatory responsibilities	1.5.3 Regulatory responsibilities	AP	ACM	RPI
1.5.4 Challenges	1.5.4 Challenges	1.5.4 Challenges	2.8.1 AG (SA)	2.8.1 AG (SA)	2.8.1 AG (SA)
1.5.5 Audit quality		1.5.5 Audit quality	2.8.2 Independence	2.8.2 Independence	2.8.2 Independence
Theme 1.6: IRBA			2.8.3 Practicality	2.8.3 Practicality	2.8.3 Practicality
Sub-themes per participant grouping			2.8.4 Effectiveness	2.8.4 Effectiveness	2.8.4 Effectiveness

AP	ACM	RPI	2.8.5 Considerations not addressed	2.8.5 Considerations not addressed	
1.6.1 Effectiveness	1.6.1 Effectiveness	1.6.1 Effectiveness	**Theme 2.9: Changed role of the audit committee**		
1.6.2 Challenges	1.6.2 Challenges	1.6.2 Challenges	Sub-themes per participant grouping		
1.6.3 Independence	1.6.3 Independence	1.6.3 Independence	AP	ACM	RPI
1.6.4 Transparency and visibility	1.6.4 Transparency and visibility		2.9.1 Role of the audit committee	2.9.1 Role of the audit committee	2.9.1 Role of the audit committee
1.6.5 Assurance quality		1.6.5 Assurance quality	2.9.2 Impact on audit quality	2.9.2 Impact on audit quality	2.9.2 Impact on audit quality
1.6.6 Stakeholder needs			**Theme 2.10: MAFR and effective communication**		
		1.6.7 Efforts	Sub-themes per participant grouping		
Theme 1.7: Public sector model			AP	ACM	RPI
Sub-themes per participant grouping			None identified	None identified	None identified
AP	ACM	RPI	**Theme 2.11: Participants' recommendations**		
1.7.1 Overview of public sector model		1.7.1 Overview of public sector model	Sub-themes per participant grouping		
1.7.2 Positives	1.7.2 Positives	1.7.2 Positives	AP	ACM	RPI
1.7.3 Negatives	1.7.3 Negatives	1.7.3 Negatives	2.11.1 Auditors	2.11.1 Auditors	2.11.1 Auditors
Theme 1.8: Public interest			2.11.2 IRBA as a SAI	2.11.2 IRBA as a SAI	2.11.2 IRBA as a SAI
Sub-themes per participant grouping			2.11.3 MAFR	2.11.3 MAFR	2.11.3 MAFR

AP	ACM	RPI			
1.8.1 Understanding of public interest	1.8.1 Understanding of public interest	1.8.1 Understanding of public interest			
1.8.2 Addressing public interest	1.8.2 Addressing public interest	1.8.2 Addressing public interest			
1.8.3 Expectation gap	1.8.3 Expectation gap				
1.8.4 Public interest score	1.8.4 Public interest score				
1.8.5 Responsibilities of other role players					
Theme 1.9: Management's role					
Sub-themes per participant grouping					
AP	ACM	RPI			
1.9.1 First line of defence	1.9.1 First line of defence	1.9.1 First line of defence			
1.9.2 Relationship between auditor and management	1.9.2 Relationship between auditor and management	1.9.2 Relationship between auditor and management			
1.9.3 Relationship between audit committee and		1.9.3 Relationship between audit committee and			

management		management			
1.9.4 Consequences					
1.9.5 Integrity					
Theme 1.10: Positives					
Sub-themes per participant grouping					
AP	ACM	RPI			
1.10.1 Auditors	1.10.1 Auditors	1.10.1 Auditors			
1.10.2 IRBA	1.10.2 IRBA	1.10.2 IRBA			
Theme 1.11: Participants' recommendations					
Sub-themes per participant grouping					
AP	ACM	RPI			
1.11.1 Audit committees	1.11.1 Audit committees	1.11.1 Audit committees			
1.11.2 Non-audit services	1.11.2 Non-audit services	1.11.2 Non-audit services			
1.11.3 IRBA	1.11.3 IRBA	1.11.3 IRBA			
1.11.4 Auditors	1.11.4 Auditors	1.11.4 Auditors			
1.11.5 Other stakeholders' responsibilities	1.11.5 Other stakeholders' responsibilities	1.11.5 Other stakeholders' responsibilities			
1.11.6 Education	1.11.6 Education				
1.11.7 Public interest		1.11.7 Public interest			

1.11.8 MAFR					

4.2.1 Thematic cluster 2 Participants' perceptions regarding the current audit model and its role in establishing public interest in the audit profession in South Africa and recommendations in terms of a future audit model

This 'thematic cluster' deals with the perceptions of the research participants around the current audit model and its role in establishing 'public interest' in the audit profession in South Africa and recommendations in terms of a future audit model. The themes identified for this 'thematic cluster' are summarised in Figure 7. The number of times the theme was mentioned by research participants from each participant grouping is also indicated. In Sections 4.2.1.1 – 4.2.1.11 each theme identified is explained, and where appropriate, each theme is broken down into a 'sub-theme'.

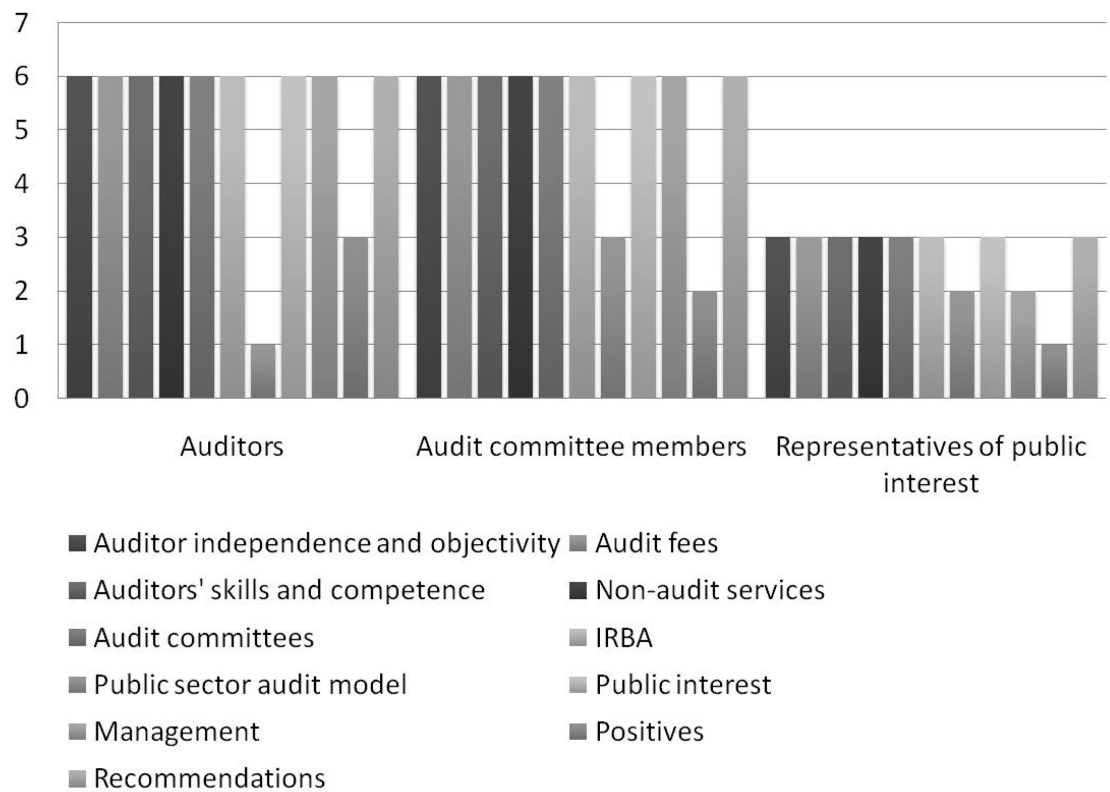

Figure 7. Summary of themes identified in assessing participant perceptions regarding the current audit model and its role in establishing 'public interest' in South Africa

4.2.1.1 Theme 1.1: Auditor independence and objectivity

'Auditor independence' refers to the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b). 'Objectivity' refers to the ability of the auditor to be impartial in assessing the financial records of an organisation. This theme comprises eight sub-themes, each of which has been summarised in Table 4, with data excerpts. This theme has been visually presented in Figure 8, with an indication as to which participant groupings referenced individual sub-themes.

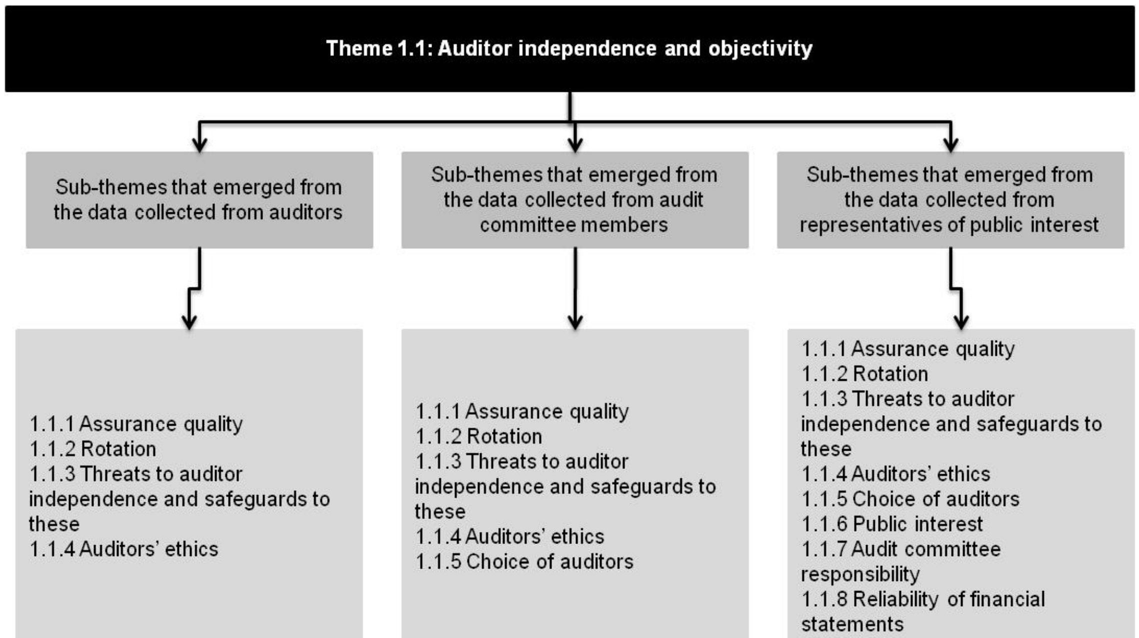

Figure 8 Theme 1.1: Auditor independence and objectivity

Table 4

Theme 1.1: Summary with data excerpts

Theme 1.1	**Explanation of theme 1.1**
Auditor independence and objectivity	'Auditor independence' refers to the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b). 'Objectivity' refers to the ability of the auditor to be impartial in assessing the financial records of an organisation.
Sub-theme 1.1.1	**Explanation of sub-theme 1.1.1 and extracts from participants**
Assurance quality	'Assurance quality' refers to the level at which a client or other interested parties can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism.
	"Auditor independence is absolutely key" – P5 (ACM)
	"You scratch a lot more below the surface as an independent…" –

	P14 (RPI)
	"I think there's a clear correlation between auditor independence and the quality of (the) audit." – P10 (AP)
	"It's literally the cornerstone of quality you're going to provide" – P12 (AP)
Sub-theme 1.1.2	**Explanation of sub-theme 1.1.2 and extracts from participants**
Rotation	'Rotation' firstly refers to the requirement that audit partners alternate between clients at set intervals, which is currently a requirement of the IRBA CPC (IRBA, 2018b). In addition, it also refers to the requirement for audit clients to switch between audit firms at specific interludes. This requirement becomes effective in 2023 (RSA, 2008).
	"I don't personally think that mandatory audit firm rotation is the solution." – P12 (RPI)
	"…if you look at our research on mandatory firm rotation, we do not only talk about the lack of independence between the auditor and the client or the management. We talked about the lack of independence between the audit committee and the auditor, because sometimes the audit committee chair comes from that audit firm." – P15 (RPI)
	"Mandatory audit partner rotation, which is required in terms of legislation, (for) example (the) Companies Act requires every five years, and the IRBA code (every) seven years" – P3 (ACM)
Sub-theme 1.1.3	**Explanation of sub-theme 1.1.3 and extracts from participants**
Threats to auditor independence and safeguards to these	This theme refers to matters that could jeopardise the ability of the auditor to reach a conclusion without being affected by influences that could compromise the ability of the auditor to act impartially in conducting an audit engagement; and in addition, the measures in place to mitigate these risks.
	"…it's difficult to secure the auditor's independence if the auditor is paid by the client. But, again, it's not something without a solution. The fees of the auditor must be determined by the audit committee, not by the client." – P15 (RPI)
	"…the close relationships with management, as much as we don't want to admit it, it does (hamper) our objectivity…" – P12 (AP)
	"…you've got the policies, you've got the procedures, you've got the standards, you've got everything that you need to be abiding by, living by…" – P12 (AP)

	"…there are a number of safeguards that the auditing profession currently has in place, including codes of conduct, quality control standards, professional engagement standards and generally the requirement of laws and regulations. Independence is entrenched through the IRBA code of professional conduct, which is consistent with the international ethics standards." – P3 (ACM)
	"…as people who finish their training and grow within the auditing firm, they end up becoming the executives of the auditee. So, the current model does pose those challenges because it creates this close relationship between the auditee and the auditor…" – P1 (ACM)
Sub-theme 1.1.4	**Explanation of sub-theme 1.1.4 and extracts from participants**
Auditors' ethics	'Auditors' ethics' refers to the principles and expectations governing the behaviour of auditors in performing their duties in accordance with the fundamental principles of the IRBA CPC (IRBA, 2018b).
	"…ethics has got to be real (…) the whole definition of saying, it's not the reality of what you've done, it is the perception as well." – P13 (RPI)
	"…it comes back to ethics. And it's a nice topic, that you, as an auditor, you've got a duty. We've all got to follow the Code of Ethics under IFAC. One of the main things is that you need to do is serve the public interest. That's why you're appointed, that's why you must come and give an independent assurance." – P14 (RPI)
	"There are instances where auditors deliberately look in the other direction" – P6 (ACM)
Sub-theme 1.1.5	**Explanation of sub-theme 1.1.5 and extracts from participants**
Choice of auditors	'Choice of auditors' refers to the ability of audit committees to nominate which audit firm should conduct the audit of the company they represent. Audit committees have the option to select any auditor for appointment, as long as the auditor is independent and has the necessary skills and competence to conduct the audit.
	"The pool is so tiny (…). Because, then those auditors must also be accredited by the JSE (…) so the pool is very, very small." – P1 (ACM)
	"There are not enough auditors to choose from. The pool of auditors is very small. Three of the big four audit firms have been tainted in some way; leaving the audit committee with one of the big four." – P6

	(ACM)
	"I think in the large listed companies, I think there isn't sufficient competition. I think you're almost limited to the Big Four." – P3 (ACM)
Sub-theme 1.1.6	**Explanation of sub-theme 1.1.6 and extracts from participants**
Public interest	'Public interest' has been defined as follows for the purposes of this research, as established in Chapter 2: The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism.
	"…an audit, if it's of high quality, and the auditor is independent, will serve the public interest. Because, when auditors do a proper job and we do our job properly by having oversight over them, and by taking action against auditors that don't do a good job, when that happens, then there's confidence and reliance on the financial statements, and that's all you need. If there is reliance on the financial statements, investment will flow. With investment comes employment, etc. So, it will always be in the public interest if there's reliance. But that reliance can only come if there's confidence and confidence comes from an independent audit and high quality audit services." – P15 (RPI)
Sub-theme 1.1.7	**Explanation of sub-theme 1.1.7 and extracts from participants**
Audit committee responsibility	The responsibility of the audit committee refers to the regulatory duty of the audit committee to ensure that the external auditor appointed in independent of the Company (RSA, 2008).
	"First of all, it lies with the auditor to ensure the independence, and secondly, the audit committee should do that. If our audit committees fulfilled their function like they should, then, we wouldn't have the problems that we're facing at the moment." – P15 (RPI)
	"…the audit committee is the one that's supposed to look at the combined assurance model… Monitor the quality of the audit, the independence of the auditors… It's only afterwards that challenges are being raised about independence of auditors, you know the issue

	around (the) quality of the audit…" – P9 (AP)
Sub-theme 1.1.8	**Explanation of sub-theme 1.1.8 and extracts from participants**
Reliability of financial statements	The reliability of the financial statements refers to the trustworthiness of the entity's records. This is dependent on the independence of the external auditor.
	"…if you're not independent, your opinion will never be reliable, and you won't have audit quality." – P15 (RPI)
	"…if we observe the independence of the auditor, then that is, to me, a very strong contributor towards reliance on the financial statements and the opinion on those financial statements. Because, ultimately, remember that the auditor sells confidence. The auditor doesn't sell an audit service, or an assurance service, the auditor sells confidence. And, that confidence you can only have if the perceptions are, that the auditor has been independent throughout the process. So, the fact that you do have an independent person coming in, it's not an internal person, it's completely independent, should make the current model work." – P15 (RPI)

4.2.1.2 Theme 1.2: Audit fees

The second theme, 'audit fees', refers to the compensation auditors receive for the professional service they offer and for which they are entitled to fair compensation. Auditors charge an hourly rate, which varies depending on the experience and competence of the staff performing the audit work. This theme comprises seven sub-themes, each of which has been summarised in Table 5, with data excerpts. This theme has been visually presented in Figure 9, with an indication as to which participant groupings referenced individual sub-themes.

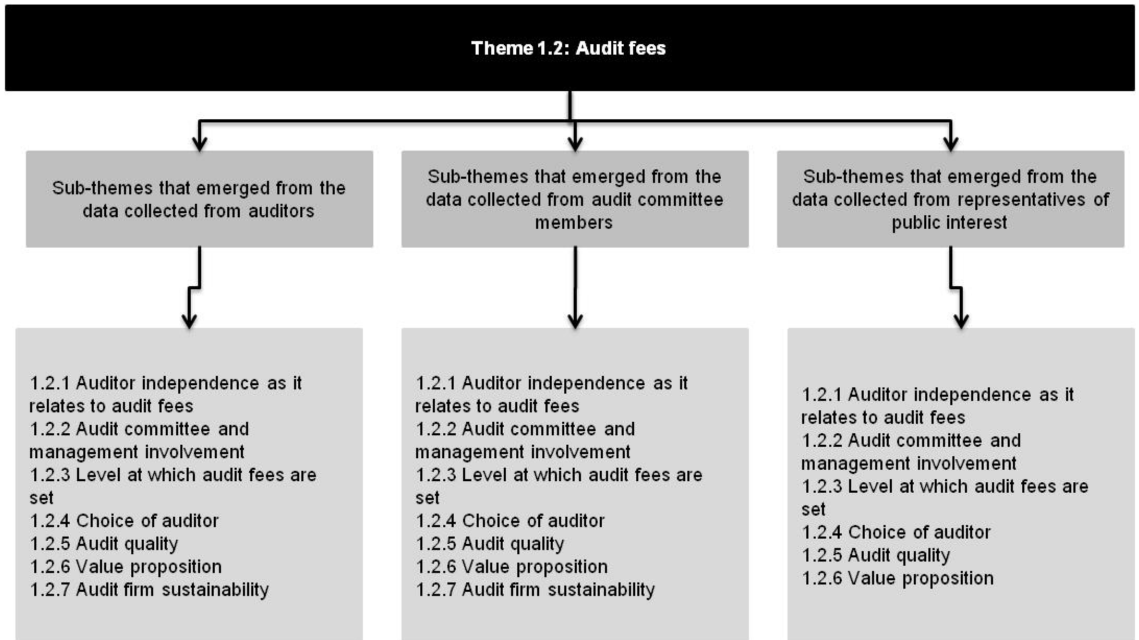

Figure 9. Theme 1.2: Audit fees

Table 5

Theme 1.2: Summary with data excerpts

Theme 1.2	**Explanation of theme 1.2**
Audit fees	'Audit fees' refer to the compensation auditors receive for the professional service they offer and for which they are entitled to fair compensation. Auditors charge an hourly rate, which varies depending on the experience and competence of the staff performing the audit work.
Sub-theme 1.2.1	**Explanation of sub-theme 1.2.1 and extracts from participants**
Auditor independence as it relates to audit fees	This theme relates to the risk that audit fees could impair the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b).
	"Cutting down the fees is some sort of indirect impact, or negative impact, because, you've got, consciously, at the back of (your) mind, you've got the worry… That you're not going to meet the target. Although, at the junior level staff, it doesn't bother them, but you know, junior level staff can be overcome by, interference by the middle managers, or senior managers, you know, that (says) 'listen here, don't worry about this thing, we don't have enough budget' and,

	sort out, some other way…" – P8 (AP)
	"…the reduction on audit fees means that the auditor also needs to look at what is most optimal. And, what can I get away with, the fee that I have?" – P12 (AP)
	"…the partners, they've got their targets… As an audit manager you've got your targets, as associate director you've got (your targets), so there's your target." – P14 (RPI)
	"…but people are only worried about recoveries… And that's maybe one thing… Audit firms are very much focused on recoveries. And I think sometimes, when your focus is recovery, you drop on quality…" – P7 (AP)
Sub-theme 1.2.2	**Explanation of sub-theme 1.2.2 and extracts from participants**
Audit committee and management involvement	This theme refers to the extent to which the audit committee and management of an organisation influence the audit fees. The audit committee is responsible for determining the audit fee to be paid to the auditors (Marx, 2009; RSA, 2008). Management, however, is not expected to be involved in the process of determining the audit fee.
	"…they (the audit committee members) don't take interest in negotiating the audit fees, they just leave all this matter to management." – P8 (AP)
	"The fees of the auditor must be determined by the audit committee, not by the client." – P15 (RPI)
	"The discussion has been, between the audit committee and the auditor. And the auditor's come forward, and said, this is, these are, sort of, the additional fees that, we have incurred. These are the reasons for that. And the audit committee has said, yes, or no, or, you know, maybe we can, understand how much of this was your fault, and how much was our fault. So, when I, honestly, it happens, in the ones that I've seen. It does happen, a fair amount of time. Again, I suppose, depending on the strength of the audit committee... The, companies that I've typically worked with, haven't necessarily been the ones at the lower end, of, you know, the firm's client base when I was still there. It hasn't been at a lower end of, kind of, the businesses, in the South African economy. These are the ones which are at the high end of the economy, right. And then, the audit committees have taken their roles seriously, and they have

	negotiated fees. I mean, recently, I was in a proposal discussion, and the proposal discussion, actually all the proposal discussions now, again, so maybe I'm talking from a position of talking about the, top companies, right. The proposal discussions are not between, management and the auditors. It's the auditor, and the audit committees. The Financial Director, may or may not be there, the CEO is hardly ever there, right. And that fee, is negotiated between the auditor and the audit committee. The audit committee might well seek advice from the CEO, or from the Financial Director, about what they think, appropriate audit…" – P10 (AP)
	"The audit committee is responsible for signing off on the audit fees paid. Audit committees often do not pay sufficient attention to what they are being charged for the audit." – P6 (ACM)
Sub-theme 1.2.3	**Explanation of sub-theme 1.2.3 and extracts from participants**
Level at which audit fees are set	The level at which fees are set refers to the acceptable level of remuneration expected in exchange for auditing services.
	"What is happening, is that audit committees, where they do function properly, they drive the fees down for auditors and that means they can't do their job under such restrictions. Our code and our Act are very clear that auditors can't perform an audit with restrictions. And, if you restrict their fees, there will be a restriction on the audit too. They can't, they've got to cut corners sometimes, right. We will never promote underpayment of an auditor because, they won't be able to do their job." – P15 (RPI)
	"The cost of transitioning audits, is also helluva expensive. Take on a new audit here, you've only got ten years to make money on that audit before you lose it again. Gone are the days where you did ACI for 60 years and… And you invested in the first five years and you made money for 55 years. It's not going to happen." – P11 (AP)
	"For the level of assurance an audit provides, the fee is reasonable." – P6 (ACM)
Sub-theme 1.2.4	**Explanation of sub-theme 1.2.4 and extracts from participants**
Choice of auditor	'Choice of auditor' refers to the ability of audit committees to nominate which audit firm should conduct the audit of the company they represent. Audit committees have the option to select any auditor for appointment, as long as the auditor is independent and

	has the necessary skills and competence to conduct the audit. This theme relates to the impact that audit fees may have on the auditor that the audit committee chooses to appoint.
	"Audit fees become a consideration for management when deciding on the audit firm to appoint." – P6 (ACM)
	"Fees are going to play a role…" – P14 (RPI)
	"Fees are an issue. And they try and sharpen their pencils and they cut down on their fees." – P5 (ACM)
Sub-theme 1.2.5	**Explanation of sub-theme 1.2.5 and extracts from participants**
Audit quality	'Audit quality' refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. This theme relates to the impact that audit fees may have on the audit quality provided by the auditor.
	"What we call the "payor model", meaning that the client pays the auditor. It's a criticism, (or) not really a criticism… It's a shortcoming in the current model. It's difficult to secure the auditor's independence if the auditor is paid by the client." – P15 (RPI)
	"The auditee paying the audit fee, could have an influence in terms of objectivity" – P1 (ACM)
	"There's direct correlation (between) fees and effort and quality… That's the one thing… And then, the other thing about being paid by the auditee is the issue around independence… When you get paid by the auditee, and he decides your fee, how independent are you? Can the client, uh, let's call it, manipulate you or, or impair your independence? Yes…" – P9 (AP)
Sub-theme 1.2.6	**Explanation of sub-theme 1.2.6 and extracts from participants**
Value proposition	In the context of this study, 'value proposition' relates to the value received by the audit client in exchange for payment for auditing services.
	"In terms of commercial sense, it's right that auditors are paid for the service, because it will also make the client understand that this is value that they're getting. If auditors weren't paid, then, the client won't attach any value to the audit and, I think, one of the problems we have at the moment, is the value proposition for an audit. It's a

	grudge purchase. An audit is done because the Act says there must be an audit. If clients can realise that the audit is a service that adds a value to them, because with that opinion, they can attract investment and grow their company. Once they understand the value of an audit and of the auditor, then I think clients will be more supportive of the audit and give more assistance to audits as well, because it's not just something that they have to get out of the way, it's something that will benefit them. So, if you're going to try to add value proposition to an audit, then I think it's important that auditors are also paid for the service. Otherwise, you know, if we don't pay for something we don't believe that there's a value. Sometimes, you pay more for something because we think we get more value out of it…" – P15 (RPI)
	"There's this perception that anything that is free has got a low quality… So, I think they should be charged. Just to keep the professionalism and you know, everything up there, they should be charged." – P2 (ACM)
	"But I think the money needs to come out of them. Because, then, they will also hold us accountable. So, I pay for my service, and then I demand quality from you." – P12 (AP)
Sub-theme 1.2.7	**Explanation of sub-theme 1.2.7 and extracts from participants**
Audit firm sustainability	'Audit firm sustainability' refers to the need of audit firms to be financially viable institutions.
	"I mean, if you take some of the really complex groups you need highly, skilled, expensive resources to actually run those audits. And for us to motivate and keep them here, it means you need to pay them a market-related salary… And to be honest, there's no way you can compete with the banks and with commerce in terms of bonus structures and various other things, because they just pay a helluvalot more. So, if you really want to make sure that you have constant retention of staff for a long time on your audit, you need to pay massive retention bonuses and that. And that comes with the audit fees going up because there is no pocket of money sitting around to pay all of this." – P11 (AP)
	"So, there's no share options right? So, you're not doing it purely for the cash. So, if you take any of the listed entities, all of the audit… all of the CEO's and CFO's of the listed entities earn significantly more

	than any audit partner. Times are tough for the cash. You don't take on, if you're in the profession, or sorry, if you're in commerce, you don't take on the risk is of, going to court on audit opinions, dealing with IRBA, being disbarred, all of that… You actually have a significantly better quality of life, than being in the auditing profession. So, if you look at the number of registered auditors over the number of years, it hasn't really grown massively in South Africa. So what would be the benefit of actually being an audit partner then?" – P11 (AP)
	"You're a professional, you went to school for however many years, you sat, and wrote Board 1, Board 2, so, there's a lot of investment, from your professional development, that you went through, that you also want to be compensated for. So, there should be a money element, and it should be a comfortable money element, so, yes, I think, auditees should be paying an audit fee." – P12 (AP)
	"I fully understand that the firm needs to have profit to link over, the same thing, we can't go on cost recovery. We're never going to grow, we're never going to be ready for the next wave of technology, you've got to invest, but it's got to be within reason." – P13 (RPI)

4.2.1.3 Theme 1.3: Auditors' skills and competence

The third theme, 'auditors' skills and competence' refers to the requirement that auditors should obtain and retain professional knowledge and expertise at an appropriate level to ensure that audit clients receive skilled professional services, based on the current technical and professional standards, and relevant rules and regulations (IRBA, 2018b). This theme comprises nine sub-themes, each of which has been summarised in Table 6 with data excerpts. This theme has been visually presented in Figure 10, with an indication as to which participant groupings referenced individual sub-themes.

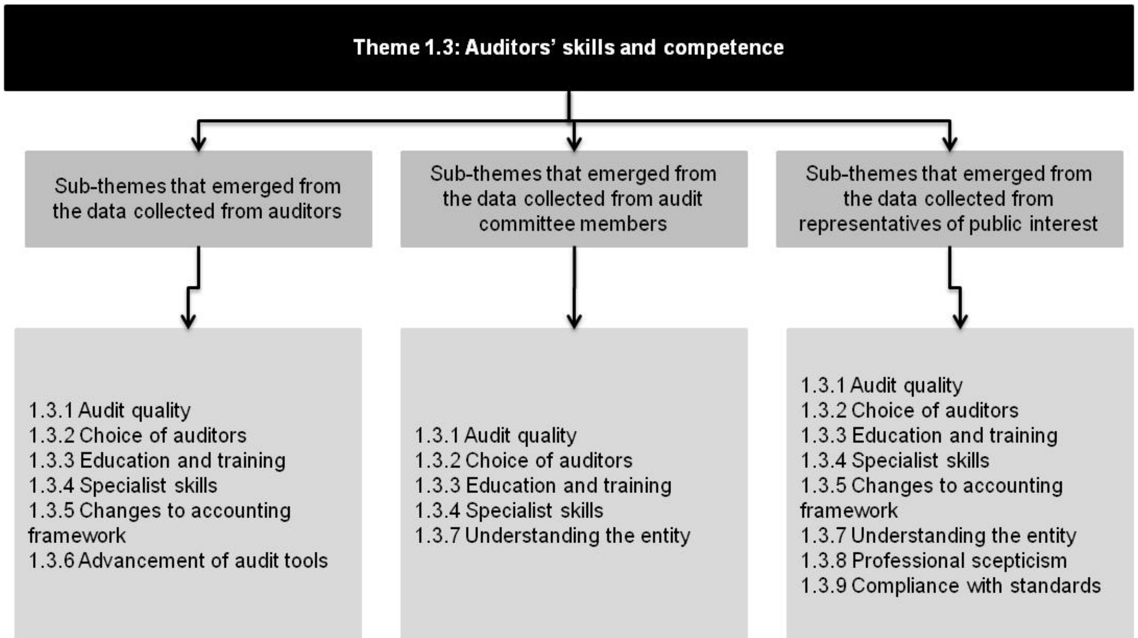

Figure 10. Theme 1.3: Auditor skills and competence

Table 6

Theme 1.3: Summary with data excerpts

Theme 1.3	**Explanation of theme 1.3**
Auditors' skills and competence	'Auditors' skills and competence' refers to the requirement that auditors obtain and retain professional knowledge and expertise at an appropriate level to ensure that audit clients receive skilled professional services, based on the current technical and professional standards, and relevant rules and regulations (IRBA, 2018b).
Sub-theme 1.3.1	**Explanation of sub-theme 1.3.1 and extracts from participants**
Audit quality	'Audit quality' refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. This theme considers the impact that auditor skills and competence may have on the audit quality provided by the auditor.
	"…it's all those, almost softer skills that cause things to go wrong. It's not, because they didn't understand the standards, for example. They haven't been challenging enough, they haven't been sceptical enough." – P15 (RPI)

	"If there's a poor internal control environment, poor skills, competence, competencies within an environment can give you a poor quality audit as well" – P9 (AP)
	"I think it's the skills mix, you know, the capability of the auditors to execute the audit, it's the experience with similar entities, or, you know, if we are an aviation company, do you have any experience in aviation? Like, its skills, experience in the industry…" – P1 (ACM)
Sub-theme 1.3.2	**Explanation of sub-theme 1.3.2 and extracts from participants**
Choice of auditors	'Choice of auditor' refers to the ability of audit committees to nominate which audit firm should conduct the audit of the company they represent. Audit committees have the option to select any auditor for appointment, as long as the auditor is independent and has the necessary skills and competence to conduct the audit. This theme relates to the impact that auditors' skills and competence may have on the auditor that the audit committee chooses to appoint.
	"To audit a specialised entity, or a big listed group of companies, one is, you need experience, two is you need the global footprint and the African footprint, and not everyone's got that. And it takes too much time and effort to build that." – P11 (AP)
	"The ability to bring specialist skills to the table – IT specialist skills for example. The experience and expertise of the auditor." – P6 (ACM)
	"I think, independence, quality, track record, skills, knowledgeable entity, and then, I think you need people who are certainly, able to bring in IFRS specialists, because they can talk to you about current trends in the profession and changes that might impact your financial statements." – P3 (ACM)
Sub-theme 1.3.3	**Explanation of sub-theme 1.3.3 and extracts from participants**
Education and training	'Education and training' of auditors refers to the rigorous training they have to complete before qualifying as auditors.
	"It's not just the professional scepticism and independence, there are a lot of other things, but it's all behaviours, that our educational system for auditors doesn't train us. And, again, like public interest, professional scepticism isn't something that you can put into a standard, and train people to be sceptical…" – P15 (RPI)
	"So, obviously, the factors that impact audit quality would firstly, be training, and I'm not only talking about training that happens at the

	audit firm. It would be the training that you're getting from a university background, because that is very much, the theory around the basics. And that is sort of, entrenched in you before you get here, that's your real sort of foundation. So, that's your first thing that impacts. When you get to an audit firm, the training that you're getting, and this is not only training in terms of audit methodology, but it's your technical training, your soft skills training, and your, I would think, soft skills, leadership, and your other… and I think maybe, your commercial awareness would impact the audit or assurance quality. And that's probably one place where you don't get enough training. You're getting technical training and you're getting soft skills training, but commercial awareness, which you need to have when you go out to a client, you're not actually given any of that training. And a lot of people just go there, just look at the TB, and that's what it is. But there are a lot of factors which impact that business, which they don't take into account, like your macro-economic, micro-economic factors. And that would come, if you had good commercial knowledge." – P7 (AP)
	"It's the quality of education and the quality and competency of your staff; that you're involved with and that you employ, both your firm, the client, as well as the audit firm, and that might be a criticism of the current South African schooling system. But, you know, it's a worrying factor when you've qualified, I'm not saying we had it, the way we did our board exams, etc. was any better then what they're doing now. But, sort of, saying things are getting a lot easier, and I'm not, I don't have a problem with that, but you're questioning the quality, you know, from the school, your matric education, and then your varsity, where, you chat to people who are saying, there are problems here, you know, it's like… A lot of stuff that we took for granted that you would know, now you need to re-teach…" – P4 (ACM)
Sub-theme 1.3.4	**Explanation of sub-theme 1.3.4 and extracts from participants**
Specialist skills	The theme 'specialist skills', relates to audit clients requiring expert knowledge in specific fields. For example, an entity that has a very complex, advanced information technology ("IT") system, may need an audit team that includes IT experts.
	"…some of the larger listed companies. So, why have I been talking

	to the larger…? Because, they have such complex transactions, that actually you need, like, specialist technical skills, to be able to deliver on that. And, like, respectfully, I've worked with, technical people, in, you know, in, some of the other, audit firms, that's not, that are not from the bigger firms…" – P10 (AP)
	"The ability to bring specialist skills to the table – IT specialist skills for example" – P6 (ACM)
	"To audit a specialised entity, or a big listed group of companies, one is, you need experience, two is, you need the global footprint and the African footprint." – P11 (RPI)
Sub-theme 1.3.5	**Explanation of sub-theme 1.3.5 and extracts from participants**
Changes to accounting framework	This theme refers to changes to the published criteria used to measure, recognise, present and disclose the information that appears in a company's financial statements (Bragg, 2018). The accounting framework considered acceptable for use in South Africa is known as International Financial Reporting Standards ("IFRS").
	"…financial statements and IFRS have become very complex…" – P15 (RPI)
	"But the accounting framework, it is changing at a rapid pace. It is just not giving enough opportunity to understand and absorb. The next one comes on you. So, it is creating a lot of havoc at the moment…" – P8 (AP)
Sub-theme 1.3.6	**Explanation of sub-theme 1.3.6 and extracts from participants**
Advancement of audit tools	'Advancement of audit tools' refers to the continuous progress made in terms of automation of auditing software.
	"You're trained continuously, in terms of updates and in terms of methodology, in terms of technology. And, the audit model is becoming more technologically advanced. So, you're taking into account easier ways, technological efficiencies, in applying the audit model. Which allows you to manipulate the data in a better way, compared to like, twenty years ago, when you were just ticking an invoice, now you can do data manipulation, etc, which helps you in terms of the quality that you bring, which helps you to bring quality to your client." – P7 (AP)
	"There's technology that has been taking over all this staff work. But, you still need the mind that can critically evaluate. Those systems

	and technological matters can assist with making life easier, or to help with analysis, but final decisions, still need to be made by brain power." – P8 (AP)
Sub-theme 1.3.7	**Explanation of sub-theme 1.3.7 and extracts from participants**
Understanding the entity	The auditor's 'understanding of the entity' refers to the auditor's in-depth knowledge of the business, which the auditor needs to properly audit the organisation.
	"You audit the business better when you understand the business. I mean you spend less time on understanding the business processes and more time on auditing the risk areas when you understand the business better." – P1 (ACM)
	"In financial services for example, it is important that the auditor understands the regulatory environment (capital requirements, for example)." – P6 (ACM)
	"This is such a complicated environment. No, if you do your understanding of the client's business properly… But look at the mandate… What is the company, what is the business in?" – P14 (RPI)
Sub-theme 1.3.8	**Explanation of sub-theme 1.3.8 and extracts from participants**
Professional scepticism	'Professional scepticism' relates to the ability of the auditor to have a questioning mind and being observant of circumstances that could indicate possible misstatement, whether due to fraud or error (ICAEW, 2012).
	"It's not just the professional scepticism and independence, there are a lot of other things, but it's all behaviours, that our educational system for auditors doesn't train us. And, again, like public interest, professional scepticism isn't something that you can put into a standard, and train people to be sceptical…" – P15 (RPI)
	"I think it's that, professional scepticism, and then also knowing, that if you come and look at something, you know, your work must be… you're working in terms of standards; whether you're building a house, or a car, certain qualities and standards. Standards are there to make sure that these are the minimum." – P14 (RPI)
Sub-theme 1.3.9	**Explanation of sub-theme 1.3.9 and extracts from participants**
Compliance with standards	'Compliance with standards' refers to auditors' conformity with the applicable professional and ethical standards, including the IRBA

	CPC, the IFAC Code and the SAICA CPC, as discussed in Chapter 2.
	"Then you can debate how you interpret the standards, which is another thing. But… you know, it's there to set a minimum bar to say that, for instance, if I build a house, it's got to be, the foundations going to be there, this is going to be there, there must be a certain mix of sand and whatever, otherwise the stuff is going to collapse. If you're going to use cheap materials, scrap material for the steel girdles in the wall; and you're going to go three, four stories up, I think it's going to collapse sooner or later. One big storm, bang! Like they do with the RDP houses. But I know that the tensile strength of the steel that I need to put into the foundations to take it up has got to be of a certain quality." – P14 (RPI)

4.2.1.4 Theme 1.4: Non-audit services

The fourth theme, 'non-audit services', refers to the provision of consulting or other non-audit services by auditors to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others. This theme comprises three sub-themes, each of which has been summarised in Table 7, with data excerpts. This theme has been visually presented in Figure 11, with an indication as to which participant groupings referenced individual sub-themes.

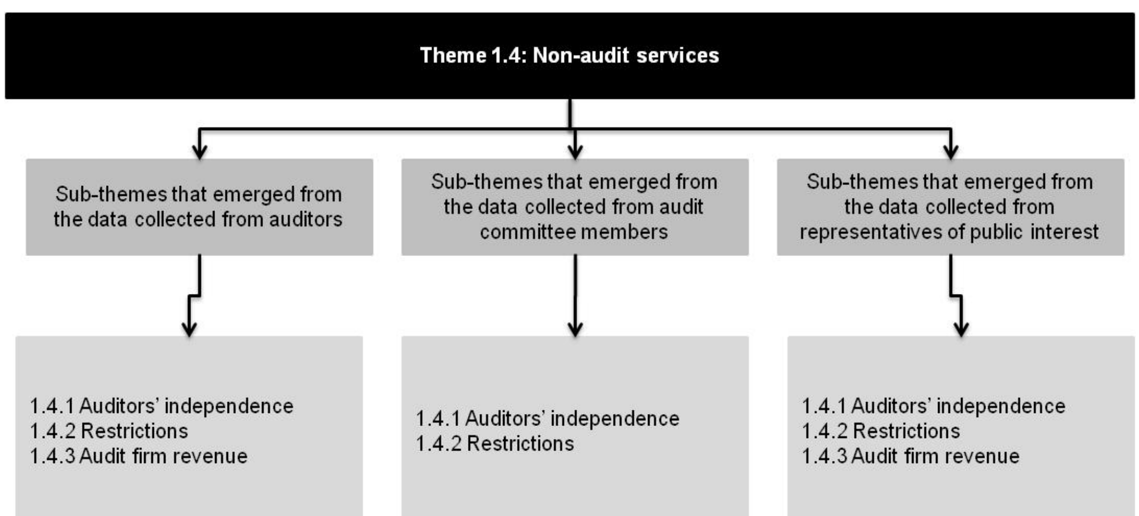

Figure 11. Theme 1.4: Non-audit services

Table 7

Theme 1.4: Summary with data excerpts

Theme 1.4	**Explanation of theme 1.4**
Non-audit services	'Non-audit services' refer to the provision of consulting or other non-audit services by auditors to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others.
Sub-theme 1.4.1	**Explanation of sub-theme 1.4.1 and extracts from participants**
Auditors' independence	'Auditors' independence' refers to the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b). This theme reflects participants' perceptions on whether the provision of non-audit services to audit clients could impair the auditor's independence.
	"Some non-audit services can have a massive impact, because, like I said, the audit fees is small percentage, it's the consulting side where the firms make money. So yes. You will even get told, as much as people preach to you, that, they will tell you don't rock the boat here. We've got a big project in the pipeline, and we've been told, we want a good audit opinion. Yes, you can write some minor things and things like that, but you cannot say that completeness (is lacking) or the set of financials that these people are presenting is, is a sham. Because that's not… So, it does play a big role and particularly when your own firms partners' are putting pressure on you. As much as there's an audit partner, there are other partners also." – P14 (RPI)
	"There are obviously red flags around independence. Too much of non-audit services, beyond the thresholds, beyond grey area type of work, so, the IFAC rules are clear. If you're doing something where you're going to audit your own work, you shouldn't be doing that. If you are doing something where there is a perceived (lack of) independence, you know, it's better to stay away from it." – P9 (AP)
	"Firstly, your non-audit services, you need to assess what type of non-audit services are (being offered). Are these allowed in terms of the independence rules, number one?" – P7 (AP)
Sub-theme 1.4.2	**Explanation of sub-theme 1.4.2 and extracts from participants**
Restrictions	'Restrictions' refer to the limitations imposed by the audit committee

	on the nature and extent of non-audit services that the auditor may provide to the organisation.
	"I mean, post Enron there's been regulation around it. There's a percentage that audit firms can provide in terms of non-audit services. Again, a lot of this has to be taken through the audit committee. The auditor's can't just go and provide non-audit services. It has to be approved by the audit committee." – P9 (AP)
	"What entities do is (…), they limit the amount of non-audit services that you can perform. Just to protect the issue of auditor independence" – P1 (ACM)
	"There are rules around the provision of non-audit work. Most audit committees have a process around managing the conflict of interest that arises from the provision of non-audit services." – P6 (ACM)
Sub-theme 1.4.3	**Explanation of sub-theme 1.4.3 and extracts from participants**
Audit firm revenue	'Audit firm revenue' refers to the income earned by the audit firm from the provision of both audit and non-audit services. This theme relates to the extent to which non-audit services contribute to the total revenue of the audit firm.
	"The conflict that the auditor has is if it's a non auditor service, it's more like consulting, right? And then, you've got the audit. And now, this (the audit) is the public interest function, but this (consulting) is not a public interest function. Now the auditor is conflicted because, he or she has to have this public interest responsibility in terms of the audit, but they also have a non-public interest responsibility, because this (consulting) is towards the client. And now, you've got a conflict between these two and that places the auditor in a difficult position. And, that is just a mind-set. But, when it comes to the fact that, suddenly that (consulting revenue) makes up 80% and that (auditing revenue) 20%, then audit quality might drop. The moment that you get more money from the consulting side, then the focus might not be there (on the audit). We don't regulate this (consulting) service; we regulate that (auditing)." – P15 (RPI)
	"So, what if, your audit fee was R 100, but your consulting fee was, let's make it extreme, your consulting fee was R 1,000,000. Would you be more swayed, or feel pressured to give a different audit opinion, because of that consulting fee? I think there is a possibility of

	that. I think there's definitely a possibility of that." – P10 (AP)
	"What is the fee you're generating from that service? If that fee is exceeding your audit fee, it might, sort of, impact, the quality, but ideally it shouldn't. And that's the reason, if your non-audit services are becoming so big, then, you should really not be the auditor. Because that will impact the quality." – P7 (AP)

4.2.1.5 Theme 1.5: Audit committees

The audit committee is a sub-committee of the BoD that comprises independent, non-executive directors (IoDSA, 2016; Marx, 2009; RSA, 2008). The audit committee is responsible for the risk management of the organisation and for providing independent oversight of the combined assurance model (IoDSA, 2016; Marx, 2009). The combined assurance model comprises internal audit, external audit and the finance function of the organisation (IoDSA, 2016; Marx, 2009). This theme comprises five sub-themes, each of which has been summarised in Table 8, with data excerpts. This theme has been visually presented in Figure 12, with an indication as to which participant groupings referenced individual sub-themes.

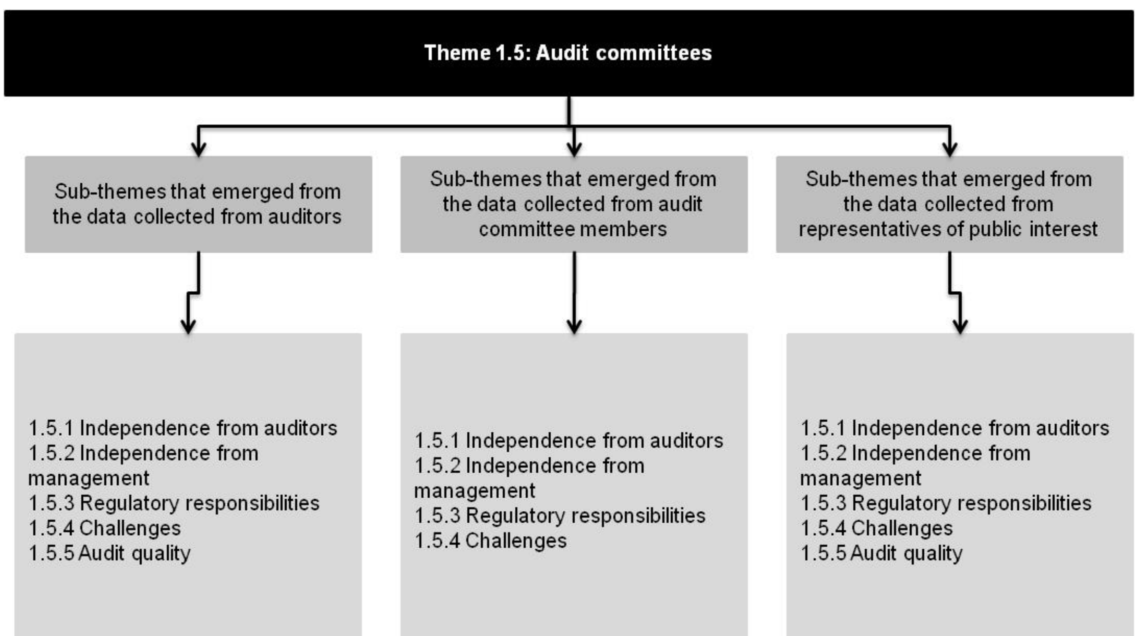

Figure 12. Theme 1.5: Audit committees

Table 8

Theme 1.5: Summary with data excerpts

Theme 1.5	Explanation of theme 1.5
Audit committees	The audit committee is a sub-committee of the BoD that comprises independent, non-executive directors (IoDSA, 2016; Marx, 2009; RSA, 2008). The audit committee is responsible for the risk management of the organisation and for providing independent oversight of the combined assurance model (IoDSA, 2016; Marx, 2009). The combined assurance model comprises internal audit, external audit and the finance function of the organisation (IoDSA, 2016; Marx, 2009).
Sub-theme 1.5.1	**Explanation of sub-theme 1.5.1 and extracts from participants**
Independence from auditors	This theme relates to whether the relationship between the audit committee and the auditor could impair the ability of the audit committee to reach a conclusion without being affected by influences that could compromise the audit committee's professional judgement.
	"There must be a cooling off period, even if you're from the same firm. Because, why would the audit committee want to appoint someone from that firm? Because of the influence that that person has on a firm. They won't appoint you for being nice. They will appoint you because…, what's the benefit to us as a firm? So, no. There must be a, like you say, there must be a cooling off period, of at least 24 months." – P14 (RPI)
	"If you look at our research on mandatory firm rotation, we do not only talk about the lack of independence between the auditor and the client or management. We talk about the lack of independence between the audit committee and the auditor, because sometimes the audit committee chair comes from that audit firm." – P15 (RPI)
	"They've just become intertwined. As people who finish their training and grow within the auditing firm, they end up becoming the executives of the auditee. So, the current model does pose those challenges because it creates this close relationship between the auditee and the auditor" – P1 (ACM)
Sub-theme 1.5.2	**Explanation of sub-theme 1.5.2 and extracts from participants**
Independence from management	This theme relates to whether the relationship between the audit committee and management of an organisation could impair the ability of the audit committee to reach a conclusion without being affected by influences that could compromise the audit committee's

	professional judgement.
	"We also talked about the independence of the audit committee and management. So, if they challenge the management, on a fee that they present, then you will find that the "payor model" will work. But, the problem at the moment goes back to the audit committee not being independent enough or challenging enough, to the management to challenge them. And, also, leaving it up to the management to decide." – P15 (RPI)
	"You're sitting on client X's audit committee. Should I be pleasing client X, because client X is actually paying me my fees? So, yes, I should be, so, management is saying I should be appointing this firm, so then maybe that is the firm I should be going with. So, I don't know. Even so; money is the root of all evil, at the end of the day. It's very difficult to maintain independence when money is at play." – P7 (AP)
	"What body regulates the audit committees? There's your public interest. Currently audit committees are not… And the reason for why I'm saying that is because yes, you may have independent non-executive directors… But the question is some of these guys, they own shares in their personal capacity in that same company… So are they there for public interest? No, they're there for self-interest. Okay… If there was a decision to pass an entry that will wipe out 50% of the share price… You think those NEDs are going to apply their minds? They're not… So there's no public interest. Okay, the current model doesn't work for public interest…" – P9 (AP)
Sub-theme 1.5.3	**Explanation of sub-theme 1.5.3 and extracts from participants**
Regulatory responsibilities	'Regulatory responsibilities' refer to the roles that the audit committee has to fulfil in accordance with the legislation that governs audit committees. These include providing oversight over the integrity of the financial statements, to nominate an independent auditor for appointment as the auditor of the organisation, to determine the audit fees to be paid to the auditor and to oversee the risk management of the organisation, amongst others (IoDSA, 2016; Marx, 2009; RSA, 2008).
	"If they're really independent, if they're really independent of mind, if they really apply their mind to what they should do, it can be

	beneficial. But, the whole thing of financial statements goes to the audit committee. They have a look, before it's signed off and it comes to you as the auditor. If they do a proper job, you should get quality. They should be your first line of defence." – P13 (RPI)
	"I think, the whole audit committee plays a key role from an audit perspective. But what I find, purely from a financial statement perspective, in terms of appointing the auditors, reviewing financials, and then approving financials, or recommending financials for approval, either by board of governors or executive committees, etc. So, I think they play a key role in ensuring that the correct process is followed and that all concerns are met or raised by your auditors are also addressed and cleared." – P4 (ACM)
	"I've actually recently gone through a very rigorous nine month process… a proposal activity. And if I just think about, the oversight, if I think about the steps that were taken by management and the audit committee, to make sure that they make a decision at the end, on a firm, that, with regards to quality, independence, objectivity and all of those things…" – P12 (AP)
Sub-theme 1.5.4	**Explanation of sub-theme 1.5.4 and extracts from participants**
Challenges	'Challenges' refer to the difficulties faced by audit committees in fulfilling their responsibilities.
	"I think, the other problem in South Africa, is that we don't have sufficient skills. We've got a few people that are skilled and those people serve on ten audit committees, which means they don't give it all their attention." – P15 (RPI)
	"The only problem is, I think, your audit committee, well, in my experience, you know, we meet audit committees, meet twice or thrice a year, which I don't think is enough for you to have an understanding. So, yes, we shouldn't have a deep understanding of the business, such as a finance committee or an executive committee should have, but, I think, there's more, there needs to be a bit more input from an audit committee, in terms of, you know, meeting more regularly, having a few more meetings, just to get an understanding of the financials… Not purely the financials, as well as, the operations of an entity so when things are brought up, it doesn't come, sometimes, as a complete shock, you are aware of what's happening,

	and then you understand why certain things are done." – P4 (ACM)
	"I think the other thing is, because of all of these things that have been happening, a lot of decisions about changing auditors are made impulsively. They're made out of fear of the unknown. You know. We don't want to be like this entity, or that entity, that's recently gone through this. So, we're quickly going to change auditors. But, sometimes, not realising that you're compromising the quality, because, you're not giving the auditors sufficient time to actually come and understand you, so that they can appropriately, identify the risks, or the areas of focus, etc." – P12 (AP)
Sub-theme 1.5.5	**Explanation of sub-theme 1.5.5 and extracts from participants**
Audit quality	'Audit quality' refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. This theme considers the impact that the audit committee may have on the audit quality provided by the auditor.
	"I don't think the audit committee fulfils their role the way they should. I really believe that they should be more… If the audit committee fulfils their role, then we'd have less work to do as the audit regulator. We don't want to be issuing mandatory audit firm rotation; we don't want to issue strict rules to secure audit independence. The audit committee should be doing that." – P15 (RPI)
	"I'd say that the majority of the audit committees are moderate. They need people that are knowledgeable, that have come out of the profession, that are up to date. So if I look at the chairs of various audit committees; ex senior partner of Firm X, XXXX XXXX, XXXXX XXXXX… Are they as up to date as I am from a technical point of view? Are they involved in universities? Are they teaching? How familiar were, are they with the IAS 9, or 15, or 16, or 17? Are they familiar with the nuances of revenue recognition, of financial instruments, the new levels of hierarchy? Are they aware of leasing, you know bringing it onto the financial statements? So, sadly, the audit committees are chaired by individuals that need to be up to date. Don't rely on the external auditors or don't rely on management, you've got to go." – P5 (ACM)

	"If you had to say, it is management that appoints the auditor, then I can see that, that is a problem. That, or, not a problem on its own, but there is that potential for a problem there, right. Then, if I (…) move further on that spectrum, and say, that, well, if the audit committee appoints the auditor, actually, I'm quite satisfied with that. So, I don't think it affects the audit quality. Because I think, the auditor; as long as the auditor understands that his reporting line is to the audit committee and that he's effectively appointed by the audit committee... The audit committee, acting on behalf of, or appointed by shareholders. But, acting on behalf of, or in the best interest of the company as a whole. Then I don't think that influences audit quality. But again, it requires a strong enough audit committee, to actually carry out its task." – P10 (AP)

4.2.1.6 Theme 1.6: IRBA

The Independent Regulatory Board for Auditors ("IRBA") is a regulatory body that was established by the APA to protect the auditor's professional integrity and independence (De Koker, 2007; RSA, 2005). IRBA is responsible for ensuring that RAs are adequately trained, that they act in accordance with professional standards and to ensure that RAs do not act improperly. This theme comprises seven sub-themes, each of which has been summarised in Table 9, with data excerpts. This theme has been visually presented in Figure 13, with an indication as to which participant groupings referenced individual sub-themes.

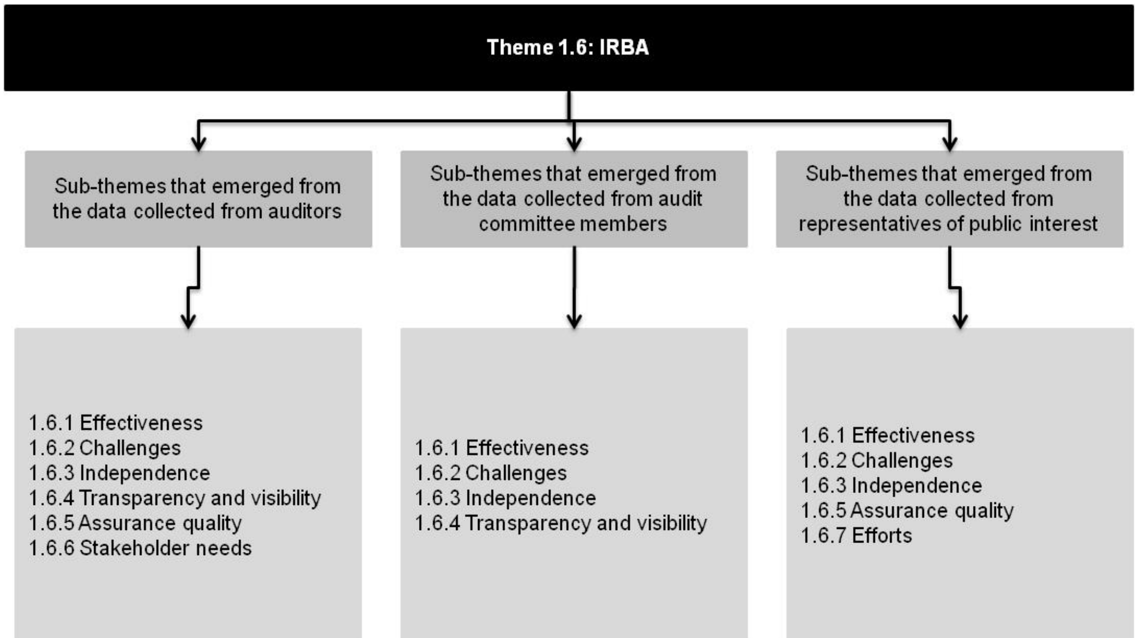

Figure 13. Theme 1.6: IRBA

Table 9

Theme 1.6: Summary with data excerpts

Theme 1.6	**Explanation of theme 1.6**
IRBA	The Independent Regulatory Board for Auditors ("IRBA") is a regulatory body that was established by the APA to protect the auditor's professional integrity and independence (De Koker, 2007; RSA, 2005). IRBA is responsible for ensuring that RAs are adequately trained, that they act in accordance with professional standards and to ensure that RAs do not act improperly.
Sub-theme 1.6.1	**Explanation of sub-theme 1.6.1 and extracts from participants**
Effectiveness	‘Effectiveness’ refers to the degree to which IRBA is successful in fulfilling all their roles and responsibilities.
	“The time they take to finalise certain investigations, I mean take the KPMG link, it still hasn’t been finalised. (…) people, the man in the street, even me as an audit partner, I question to say how can it take you so long to come to a conclusion; is a wedding expense…? You know what I’m saying? Treat it properly, yes or no? It’s one transaction. But it’s taking IRBA, almost a year and a half, two years now, to come back and say… So that’s where I think IRBA loses credibility, loses the public interest, to say, people sit back and say

	okay, we have got this regulator, but are they really the regulator?" – P9 (AP)
	"There is a perception that the IRBA do not have any teeth. This can be likened to a taxi driver who drives irresponsibly and is given a traffic fine – it does not stop the taxi driver from driving irresponsibly in the future. There is a lack of consequences for audits not performed appropriately. The recent major audit failures raise serious questions about the effectiveness of the IRBA." – P6 (ACM)
	"I think IRBA has obviously found it difficult because… some will say that IRBA were fast asleep when all of the issues happened… Okay, I mean they didn't pick up on (any) of the issues, although they do all the inspections. So, again for me the focus on the inspections is wrong. The focus on the inspections should be on the broad issues; stuff that's really going to impact real life and pension funds, and what's happening in the economy… as opposed to telling me that, PPE useful lives was not properly documented on my file… because it's not really going to make a difference to be honest with you." – P11 (AP)
Sub-theme 1.6.2	**Explanation of sub-theme 1.6.2 and extracts from participants**
Challenges	'Challenges' in this context refer to the issues that make it difficult for IRBA to accomplish their objectives.
	"I don't have any first-hand knowledge of it, but it seems to be that there isn't that level of support and cooperation, that I thought should be in place, between a regulatory body and the profession it serves. I thought, somehow, they need (to) find a way to ensure that ethics and professional conduct and independence are enforced, in a way that is less confrontational and more in a cooperative way..." – P3 (ACM)
	"Our challenge is funding. If we had, I mean, we're sitting for example with an investigations department of five, four investigators, and we have about 280 open investigations. And of those investigations you've got the Steinhoff, you've got African Bank, you've got VBS… You need five people just on each of those investigations, right. But, we can't appoint more people because we don't have the funding from government. So, our challenge certainly is the funding. If we had more money we could do a lot more. We still deliver, but it puts a lot

	of pressure on the people that are here. So, when parliament says they want to know how far we are with Steinhoff, we've got to work on Steinhoff. If they want us to respond to the KPMG issue, we've had to respond to the Jacques Wessels thing very quickly; to the point where we finished that investigation in six months, right. But, it meant that, I had to move staff around, to the investigations, we had to contract people in to do that. And so, capacity is a problem. We're only 80 people and we have a huge mandate. So, really, our constraint at the moment is funding. And, we continuously talk to government and to our minister to give us more funding. So, it's not as if we're sitting back and saying and crying in parliament, saying no funding, we can't do this. No, no, no, we do it and we keep on getting more funding. We want more money for this investigation; we want more money for that. And, we're continuously in National Treasury's office, saying, can you please get the Minister to release that amount for us, and we want an extra R 10 million for this, and you know, and they do that. And that's how we get our money. But, it shouldn't be like that. They should say here's R 200 million, go do your job. It's not in our budget, unfortunately." – P15 (RPI)
	"IRBA is limited by a lack of capacity, number one. Number two, IRBA is constrained by funding… And you know some matters are taking 18 months to resolve. A disciplinary matter must be resolved within six months. You present it, go back, get representations, sit down for two or three days, like the commissioner is doing the Zondo, and clear the matter. So IRBA is seriously restricted by capacity constraints and funding constraints…" – P5 (ACM)
Sub-theme 1.6.3	**Explanation of sub-theme 1.6.3 and extracts from participants**
Independence	In this context, 'independence' refers to the ability of IRBA to reach a conclusion without being affected by influences that could compromise IRBA's professional judgement.
	"Are they really acting in the best interest, of the public interest, of shareholder interest or are they here, perhaps people are making assumptions that IRBA is part of the board of professionals' clique, because they just don't want to compromise their own clients, their own members. So there's that type of issue and I think that is, I'm not saying; it's perception, because they taking so long to come out with

	some of the stuff..." – P9 (AP)
	"Who pays the IRBA? I think that is one of the challenges because I know that it is a public entity but I don't know how much money government gives them as compared to how much the profession gives them. And also, I mean, IRBA is accountants. We come from these firms. So, it is that internal conflict as well. (…) if you train me and I'm a CA because of you, can I also do something to…. That could have a potential negative impact on you? I don't know. I mean, at the end of the day we are human. So, you want to protect what you are associated with. So if I was trained at company A, and then now I'm at IRBA, the regulator, there are things, and I just have (…) strong stances on it, or will I call them in and say guys, you know, I don't know… I think, inherently, the fact that this very same people who trained you, and now we have to oversee them, it just gives you that, that conflict…" – P1 (ACM)
	"So, IRBA, if they want to be real, they need to be far more independent. They don't necessarily need to be made up of auditors; they need to be made up of people that understand public interest, which would be the public. So, my mom can go sit there even though she's got Standard Five… And she probably has a much better sense of what public interest is, than a chartered accountant. But, they also got to make sure that there is a bit of competition in the profession, so that we're not just SAICA driven…" – P13 (RPI)
Sub-theme 1.6.4	**Explanation of sub-theme 1.6.4 and extracts from participants**
Transparency and visibility	'Transparency' refers to IRBA's activities being open to public scrutiny (Lexico, 2020c), while 'visibility' refers to IRBA being in a position of public prominence (Lexico, 2020d).
	"They are so invisible. (…) as an audit committee member I don't remember a time where I've had any interaction with IRBA whatsoever. And, in, almost all the entities I've been with, the audit firms are at least, top six. (…) So I think they are not visible enough for people, for other stakeholders… I think they are just known by audit partners and audit firms, to say oh, if I do something wrong, IRBA, will cancel my whatever… But, yeah, I think SAICA is known more than IRBA. And they should try to be more visible." – P1 (ACM)
	"I think maybe the communication strategy of IRBA is lacking. I think

	the lack of engagement, and, I don't know if it's because there's hostility from audit firms or, is it just a perception, but I think there could be a greater understanding of the need for IRBA to gain the support of its members. It might, (…) but again, it's a perception, it's not, might not be well founded, but I, I don't know… I think IRBA can do much more to be an effective regulator, but I think it needs a better communication strategy." – P3 (ACM)
	"I think, what the key thing is, is also just educating… I don't know what they do to auditors in terms of, regular workshops and that…" – P4 (ACM)
Sub-theme 1.6.5	**Explanation of sub-theme 1.6.5 and extracts from participants**
Assurance quality	'Assurance quality' refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. This theme considers the impact that IRBA may have on the audit quality provided by the auditor.
	"The regulator is there to add an additional layer of confidence to the market. So, you've got management and their financial statements. Then you've got an auditor that expresses an opinion on it. But, that opinion will also not be reliable if you don't have oversight over the auditing profession. That's why we also want oversight over these other role players, some oversight. So, the role of the IRBA is, as with auditors, to strengthen the confidence in our markets. And, if you look at our integrated report and annual report, you'll see that we don't see ourselves as an audit regulator which is there to keep an eye on auditors. We see ourselves as one of those bodies in the country that helps to create the confidence in our financial markets, attract investment and grow the economy. That is the role that we play, that's how we see ourselves. So, the regulator has a much broader role than just having oversight over..." – P15 (RPI)
Sub-theme 1.6.6	**Explanation of sub-theme 1.6.6 and extracts from participants**
Stakeholder needs	'Stakeholder needs' in this context refers to the interests of stakeholders specifically in relation to IRBA, such as auditors, audit committees, BoD, shareholders, the government and the general public.

	"Just engage. Engage the firms. (…) be more present. Obviously keep your independence, because that's important. (…) And be inclusive in raising issues, in resolving issues going forward. I think, there just needs to be better engagement and collaboration between the IRBA and the firms." – P12 (AP)
	"IRBA is trying to just shoot from the hip. Because anything that they see (as) incorrect, you know, or, if they see there are some matters coming up; instead of supporting and assisting the auditors, they're shooting something, you know… Which (is) making the whole profession as non-reputable in the eyes of the public. (…) they have a huge responsibility in maintaining the reputation in the eyes of the public. And also, at the same time, they also need to provide support and the guidance to its members. Because, what I feel like, that's, if there is something that has happened in that practice, that has happened, they mustn't just throw their toys up in the air. They should try to understand, what has happened. Before (announcing) it in the public domain. Because, once it goes (into) the public (domain), everyone got their own views. And it grows out of the proportion. And it does not only affect that person that has gone through that process, but it affects the whole environment." – P8 (AP)
	"They're supposed to be there to assist members in difficult times. I think that might not be happening." – P7 (AP)
Sub-theme 1.6.7	**Explanation of sub-theme 1.6.7 and extracts from participants**
Efforts	'Efforts' in this context refer to IRBA's vigorous attempts to restore public confidence in the audit profession, and to ensure that the audit profession is able to address the 'public interest'.
	"Our initiatives to restore confidence are not only focussed on the profession, but also on the IRBA… What should we do differently? And, our strategy that we're busy with at the moment, for the next five years has two legs to it. The first one is to embed the 'restore confidence' projects. So, we start with that and we will continue with that. The second one is; How can we be more proactive as a regulator? The criticism is that we're reactive. Right? So, when we do an inspection, it's on an audit that has been done and a business that has already failed, it's too late. How are we more proactive but stay independent? So, we're not going to be involved with the audit while it

	is happening, but surely if we sense that there are issues, we must maybe get involved (at) an earlier stage. Maybe, we should meet more often with the firms and find out if there are issues that we need to be aware of that they need to address? Maybe, we should, instead of (…) doing reviews after the event, maybe we should do reviews during the audit…" – P15 (RPI)
	"Part of our restoring confidence project is to see how we do an inspection; how we can be closer to what happens out there in the market. How can we be more responsive to auditors, to the standards, how standards must respond, because we're also a standard setter? Remember, we're not just a regulator but we are also a standard setter. How can our standards respond to the needs out there? If there is a shortcoming in a standard, we need to address that. And, of course, we can do that because we serve on all the IFAC bodies. We are on the IAASB and the education standards board and we don't just participate, we influence those standards. If we're unhappy with something, we'll raise it there and we represent regulators on those structures, so they have to listen to us." – P15 (RPI)
	"I think there are also questions around whether they do appropriate research before they actually embark on some of these ideas, whether they are open-minded in their approach." – P10 (AP)

4.2.1.7 Theme 1.7: Public sector model

The seventh theme, the public sector audit model, refers to the audit model applied to those organisations which are controlled by the state. This theme comprises three sub-themes, each of which has been summarised in Table 10, with data excerpts. This theme has been visually presented in Figure 14, with an indication as to which participant groupings referenced individual sub-themes.

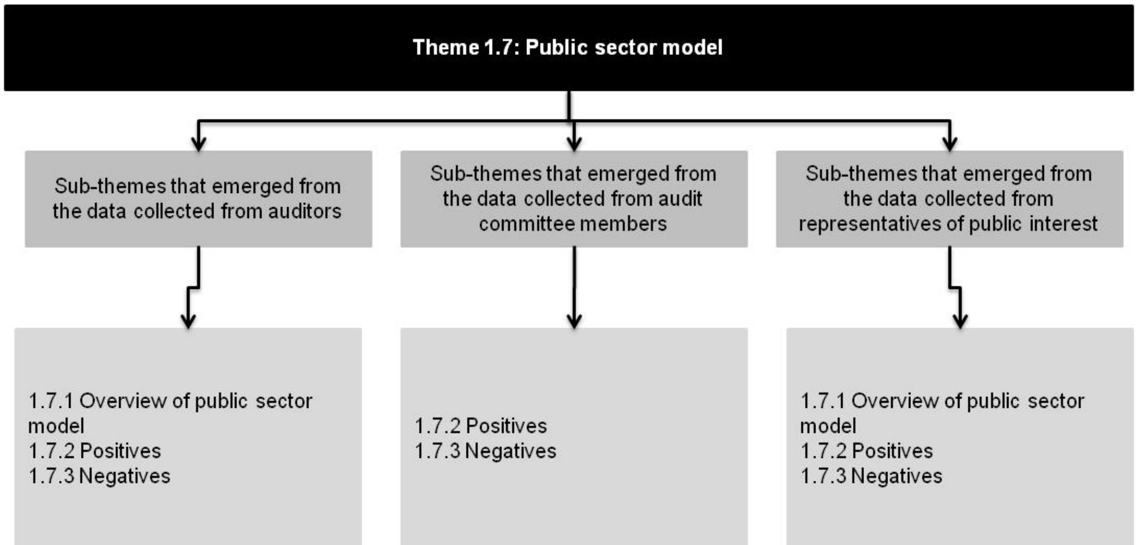

Figure 14. Theme 1.7: Public sector audit model

Table 10

Theme 1.7: Summary with data excerpts

Theme 1.7	**Explanation of theme 1.7**
Public sector audit model	The 'public sector model' refers to the audit model applied to those organisations which are controlled by the state, as discussed in Section 2.5.1.
Sub-theme 1.7.1	**Explanation of sub-theme 1.7.1 and extracts from participants**
Overview of public sector model	The 'overview of the public sector model' refers to participant perceptions about the audit model applied to those organisations are controlled by the state.
	"We've adopted the International Standards of Auditing, although we're very cognisant of the fact that there's also ISSAI, it's the International Standards for Supreme Audit Institutions. But that's, if you look at it, in essence still the ISAs with just, sort of practice guidance. So, the standards are the same, across. Quality processes, we can do what we want; there's the normal sort of thing, the rules, etc. We've got our own QC division that does very rigorous annual audits on our work and we report on it. We set ourselves a fairly high percentage in our annual report. So, we're quite open about it. We've got a target of about 85%, 87%, odd, compliance and we are really transparent, even if we go below that, (…) three years ago you'll find that we went below. But, I suppose, the good news, if you talk about

	disclosure of those things, is a positive (…) The fact that we could say this is what happened, reasons, actions taken, and could show that the year after that we were all right. So, we're quite open about the quality part, and, I suppose, that's where the link back to IRBA comes in. Even though they've got no right to come do this, or there's no obligation from our side, we thought it made sense to have them here once a year. So, once a year, they do a selection of the work that our QC guys have done, just so that we know we are at the right standard. We also have seats on their QC committee, so our head of quality sits on, on that side. So, they do this testing, so that we know where we are. We voluntarily did a firm level review four or five years ago, again, to know where we are. But, we're very cognisant of the fact that, also in our community of AGs… So, there's an international organisation for AGs called INTOSAI, International Organisation of Supreme Audit Institutions. There are mechanisms there that, that are in place to (…) make sure that between AGs, because we are a little bit unique, that we do get around to checking each other. There are peer review mechanisms, where you go out and go check the practices of another site. A firm level review, in essence." – P13 (RPI)
	"It's not just the financial statement audit, you're looking at irregularity, you're looking at performance audits and you're looking at special investigations. More, in terms of the work that the Auditor General, does. And yet, half the time, auditors are doing work for the public sector, being contracted in, doing consulting in the public sector, and all these things because, the public sector doesn't have the skills." – P14 (RPI)
	"If you're the auditor AG pays you, the fees are determined by the AG. (…) There is no debate around the fee. So, I'll give you an example. We did the public sector company A audit, it was R 12 million. The AG took it back, right. The AG contracted us back in. AG moved the fee from R 12 million to R 24 million. The board, audit committee had zero... AG said, guys, we know what you've been doing to Firm X. They are spending R 24 million, you are paying them R 12 million. So now you are going to pay us R 24 million. That's it. The client paid the AG, the AG paid us." – P9 (AP)
Sub-theme 1.7.2	**Explanation of sub-theme 1.7.2 and extracts from participants**

Positives	'Positives' refer to the advantages of the public sector audit model in South Africa.
	"We exist for public interest. We do not exist for profit, and I suppose we can be quite arrogant and maybe, it's appropriate that we're arrogant, that makes a hell of a difference. We, as long as we can settle our costs, and I suppose, in costs you do have a element that need to cater for your support. But, we're not here to chase profits, it doesn't make sense. So, public interest remains top of mind, and I suppose, it defines the way that you engage with the auditee. So, yes, by all means we get paid. But, we don't get an allocation from government. We still negotiate our fees." – P13 (RPI)
	"AG write in their report, audit committees are ineffective. You've seen it right? So, where does… have you ever seen a private sector auditor write in their audit report that audit committees are ineffective? Never!" – P9 (AP)
	"I always feel the AG is on the other extreme. Because (with) the AG you are sort of like obliged, if you are a public entity. That's your first point of call (as) an auditor, unless they approve otherwise. So they can be as independent as they want because they have (…) sort of a captive market…. If I can call it that…" – P1 (ACM)
Sub-theme 1.7.3	**Explanation of sub-theme 1.7.3 and extracts from participants**
Negatives	'Negatives' refer to the disadvantages of the public sector audit model in South Africa.
	"When you talk about public sector there is a temptation to say, but it's a captive market, it's a monopoly." – P13 (RPI)
	"My own experience, with the Auditor General, is that, personally, if I was (on) an audit committee, I (would) definitely get a better level of service from those private companies than I do from the Auditor General. Certainly, again, the issue that I had with the Auditor General, or with the IRBA around skills, if I think about some of the people that I've encountered in the Auditor General's office, they have similar issues with skills, around not having the right people, because the key people are kind of taken up." – P10 (AP)
	"An auditor like an AG which then creates a hostile relationship between them and management because management always feels like the AG wants to catch us out even for nothing. And the audit

	committee has to be an arbiter and say oh AG, but this doesn't make sense…" – P1 (ACM)

4.2.1.8 Theme 1.8: Public interest

The eighth theme, 'public interest', refers to the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism. This definition of 'public interest' was derived for the purposes of this research by the researcher in Chapter 2. This theme comprises five sub-themes, each of which has been summarised in Table 11, with data excerpts. This theme has been visually presented in Figure 15, with an indication as to which participant groupings referenced individual sub-themes.

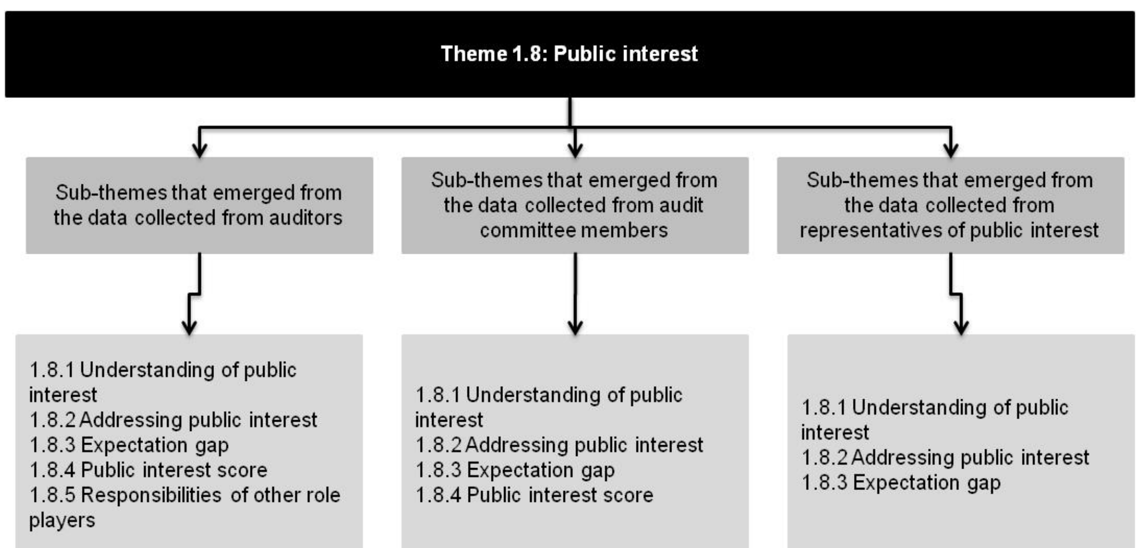

Figure 15. Theme 1.8: Public interest

Table 11

Theme 1.8: Summary with data excerpts

Theme 1.8	**Explanation of theme 1.8**
Public interest	The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and

	objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism. This definition of 'public interest' was derived for the purposes of this research by the researcher in Chapter 2.
Sub-theme 1.8.1	**Explanation of sub-theme 1.8.1 and extracts from participants**
Understanding of public interest	This theme refers to how research participants understand the term 'public interest'.
	"What I would understand by it, would be, if you think about, sort of, audits, or, companies, then, for example, if a company collapses, it's not just the shareholders that suffer. So, the reality is that there's a broader interest that, or, broader role that that company plays in society. And therefore, the public has a right to, kind of, also, have a perspective around, or the public also has an interest, in how well or not the audit is conducted. So, that would be my own understanding, but maybe there's a different…" – P10 (AP)
	"Public interest, what I can, from my understanding, is that (…) public interest is more relevant to Pty companies. I could be wrong, but, my understanding is only limited to all those, listed companies and all those, schemes, medical schemes, and the pension funds, and all those… That's my understanding of the public interest…" – P7 (AP)
	"If you consider what has happened with VBS, SARS and KPMG – I sit on the audit committee of a company where (a major auditing firm) is currently the auditor. We are ready to fire (this firm) as our auditors. The damage to the economy cannot be expressed in Rand terms. The KPMG report on SARS had a big impact. Look at Eskom… These are big ticket items that have a material impact from a public perspective. The public is heavily reliant on the reports of the auditors." – P6 (ACM)
Sub-theme 1.8.2	**Explanation of sub-theme 1.8.2 and extracts from participants**
Addressing public interest	'Addressing the public interest' refers to whether research participants believe that the current audit model allows the auditor to appropriately fulfil the auditor's 'public interest' obligations.
	"I think it's dependent from audit firm to audit firm at this stage. So, I think, without mentioning firm names, I think certain firms are a lot more focused on the why… Who does it impact? The work that you

	doing, is it morally correct for us to be actually doing the work? Are there consequences why we shouldn't be doing the work? So, I think, the concept of public interest is a lot more entrenched now when we look at any piece of work. So, we would generally say, or I would generally say, now if I'm looking at accepting an assignment, I don't want to do this because what's the consequence of either getting this wrong, or giving your signature or your brand to this entity. What does it mean to the broader public? So, I think it's a lot more entrenched in some of the bigger firms now. But again if you take, if, if I had to ask you 5 years ago, as a lead auditing partner in Deloitte, would you say no to Steinhoff?" – P11 (AP)
	"I wish auditors understood that the service they provide is a public interest service. And, I think, auditors have forgotten that an audit is not just a normal service. It's a service for the public interest." – P15 (RPI)
	"I don't think so; it got anything to do with the audit model. It is something that has been adopted by IFRS. So, it is, I would rather say, it is more like an accounting framework matter, rather than an audit matter." – P8 (AP)
	"We've all got code of ethics under IFAC. One of the main things is that you need to serve the public interest. That's why you're appointed; that's why you must come and give independent assurance. But, the way it's currently set up is that (…) audit fees just make a small part of it, but it's the consulting, that's where they make the money. So, auditing is just to get your foot in the door, and then they will come and say you being in a profession, me coming out of it, you know that, okay, I've got a client for R 2 million, but the pressure is on you from the partner to say, what else can you bring in? And that's where, the ethics sometimes go out of the window because you (are) under pressure from the firm." – P14 (RPI)
	"I'm not sure that it does. I think that a lot of focus is on, investors, a lot of focus is on that But, I don't think it's an inclusive approach, on everyone. You know? It's the communities, it's SARS, it's everybody who is a stakeholder, in the company, who could be, using our financial statements. I don't think that it's open; a lot of the focus is mostly on, just, the investors, and people in that regard. But, I don't

	think there's a shared understanding of what public interest is, in the current model." – P12 (AP)
Sub-theme 1.8.3	**Explanation of sub-theme 1.8.3 and extracts from participants**
Expectation gap	The 'expectation gap' refers to the difference between the public expectations for auditors to provide absolute assurance as compared to the auditors' obligation to provide reasonable assurance.
	"There isn't enough information out there for the public to actually understand what an auditor does… And, hence, why you still can have fraud, even though there can, you can have an unqualified audit opinion and clean audits, you can still have fraud and, just understanding, of how those things work, as opposed to just turning around and pointing the finger at the auditor." – P4 (ACM)
	"I just think there need to be more education in terms of what the auditor does. Like for example, the sample case that I have given you. You know, people just think that the auditors when they come they look at your January to December, each and every invoice and everything. And once the auditors are there, it means… if the auditor says I'm giving you a clean audit it means everything is clean, forgetting that it is actually a clean audit on what I have audited." – P2 (ACM)
	"An audit is not absolute assurance and I think 99% of people don't understand that. The second thing is, people don't understand the different types of audit opinions that you get. So, if you're giving reasonable assurance, not on a set of financial statements, on other data, what does it mean? And if you doing agreed upon procedures, what does it actually mean? Because you issue this report which says, I issue no assurance, but yet people are actually taking… I have auditor confirmation of it. So, I think, (there is a lack of) awareness and understanding (from) the broader public as to, what do you expect from an auditor." – P11 (AP)
Sub-theme 1.8.4	**Explanation of sub-theme 1.8.4 and extracts from participants**
Public interest score	The concept of 'public interest score' is one that is established by the Companies Act (RSA, 2008). It does not provide a definition of 'public interest score', but rather a basis for how the 'public interest score' should be calculated (RSA, 2008). The calculation of 'public interest score' takes into account an entity's annual turnover, the size of its

	workforce and the nature and extent of its activities (RSA, 2008).
	"Public interest? As in the public interest score, or…?" – P7 (AP)
	"I know that there's a public interest score and companies with a certain public interest score, they have to have their auditors… But it's really to mean that the activities of that company affects the broader public at large versus where the effect would be narrow and just to limited group of individuals." – P1 (ACM)
Sub-theme 1.8.5	**Explanation of sub-theme 1.8.5 and extracts from participants**
Responsibilities of other role players	'Responsibilities of other role players' refers to the obligations of other parties, including management and the audit committee, in addressing the 'public interest' by providing the auditors with financial statements that are a fair representation of the underlying transactions.
	"We seem to draw the line very early on, at the door of the auditors. But, there's actually like, a proper step before that, which is, what is the role of the board of directors? What is the role of the audit committee? What is the role of management in the company? And, so there's, I think, the first step that we actually have to acknowledge, and get right, is the step around, do companies actually understand that they have a role in society? And that they're not just, supposed to be geared towards shareholders? So, if you look at where King IV and King III and all of that go, they're all sort of very good in terms of saying that. But, has that, in reality, actually sunk in (for) companies as a starting point? That for me would be kind of the starting point around it." – P10 (AP)
	"I think, (there is a lack of) awareness and understanding (from) the broader public as to, what do you expect from an auditor, but also awareness as to what are the lines of defence. So, management does something wrong, when are they going to jail first? Because they've misrepresented to you. So, it's very quick that… In 9 out of 10 cases you'll see, you'll say where was the auditor? When can we sue the auditor because you've got PI insurance, right? So, that's the default position in almost all of these cases. Then you go back and say, okay when did you press charges against management? And when do you put them in jail? So, unless someone goes to jail for fraud, they're going to continuously lie to whoever they're dealing

	with. And it's helluva easy to manipulate data sets. You can get something and show all of this is looking decent." – P11 (AP)

4.2.1.9 Theme 1.9: Management's role

The ninth theme, 'management's role', refers to the responsibilities of an organisation's management team in ensuring that the business operations are conducted in accordance with all applicable laws and regulations (IRBA, 2018b). Management's responsibilities include the preparation of financial statements in accordance with the applicable financial reporting framework, authorising transactions, designing and implementing internal controls and setting the policies and strategic direction of the organisation (IRBA, 2018b). This theme comprises five sub-themes, each of which has been summarised in Table 12, with data excerpts. This theme has been visually presented in Figure 16, with an indication as to which participant groupings referenced individual sub-themes.

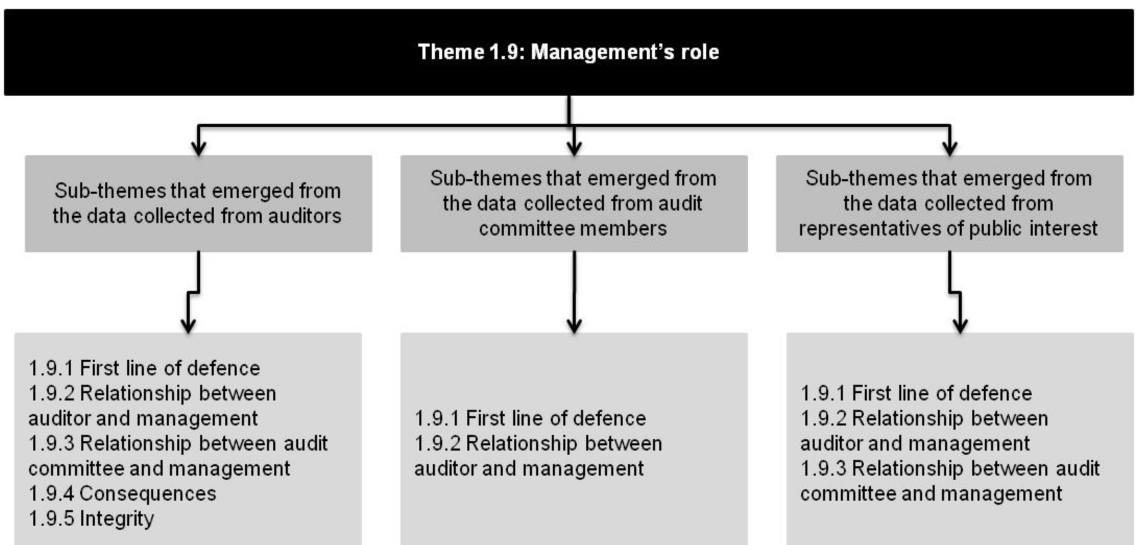

Figure 16. Theme 1.9: Management's role

Table 12

Theme 1.9: Summary with data excerpts

Theme 1.9	**Explanation of theme 1.9**
Management's role	'Management's role' refers to the responsibilities of an organisation's management team in ensuring that the business operations are conducted in accordance with all applicable laws and regulations (IRBA, 2018b). Management's responsibilities include the preparation of financial statements in accordance with the applicable financial

	reporting framework, authorising transactions, designing and implementing internal controls and setting the policies and strategic direction of the organisation (IRBA, 2018b).
Sub-theme 1.9.1	**Explanation of sub-theme 1.9.1 and extracts from participants**
First line of defence	The management team of an organisation is primarily responsible for setting up an effectual governance, risk and control environment. This is known as the 'first line of defence' in the combined assurance model.
	"It is the quality of the information that management gives as well. Because if they give you bad information, you know, they give you garbage, (and then) you know it will be difficult for you, to audit it and then be able to express a good opinion." – P1 (ACM)
	"A part of me feels like, management in this whole thing, does not want to take responsibility for the fact that, at the end of the day, the financial statements are theirs. So, (the) audit committee does have a responsibility to approve and to take these forward to the shareholders. We have a responsibility to opine, but the originator of those financial statements, and the responsibility lies with management. And, the quality and the integrity of management, has that ripple effect on everyone else. (…) If you don't have the integrity, the ethical leadership, and just, that pride, in producing quality financial information, at management level, chances are, as much as, you can try and instil those through the audit committee, through the auditors, it's going to be difficult because, already, your job is going to be difficult, as management is going to be a stumbling block." – P12 (AP)
	"If you take governance in a business, where's the first layer of defence? It's management and the board. So how much is being said on management and the board before you get to the audit committee and before you get to the auditors? Because your management forum together with your internal audit is your first line of defence. I don't know if we as, as a country and, and as a business world place enough focus on how much responsibility management's taking for what they doing as well." – P11 (AP)
	"What is the role of management in the company? And, so there's, I think, the first step that we actually have to acknowledge, and get

	right, is, is the step around, do companies actually understand that they have a role in society? And that they're not just, supposed to be geared towards shareholders? So, if you look at where King IV and King III and all of that go, they're all sort of very good in terms of saying that. But, has that, in reality, actually sunk in (for) companies as a starting point?" – P10 (AP)
Sub-theme 1.9.2	**Explanation of sub-theme 1.9.2 and extracts from participants**
Relationship between auditor and management	This theme refers to the nature of the relationship between management and the auditor. Close relationships between management and the auditor could impair the auditors independence. Examples of such relationships may include the following: • The auditor accepts gifts or hospitality from management, • A family or other personal relationship exists between the auditor and a member of the management team, or • A member of the management team used to work for the auditor before becoming a member of the management team. In such instances, the auditor may fail to act in the 'public interest' in order to protect the relationship with management.
	"An auditor must not stray from acting in the public interest, in spite of the dangers as you know, as he forms business relationships and as he gets closer to client management, he might compromise. (…) There might be a potential to compromise his standards of ethics or whatever. It should not, should never be. His code of ethics must be upheld." – P3 (ACM)
	"If I think about the corporate failures or what we've seen in the recent past, it's because there was that line that was breached between what your responsibilities are and who you're actually reporting to, versus what you were actually doing. You know, the close relationships with management, as much as we don't want to admit it, it does hamper our objectivity." – P12 (AP)
	"How independent and objective are the auditors given the fact that they rely on management to renew their audit contracts?" – P1 (ACM)
	"The auditors report to management. Who pays the bill? How much do they pay? Management make the recommendations to the board for the auditors to be appointed. This represents a conflict of interest. If the auditor has to issue a qualified audit report, management says

	that the auditor is being difficult. There is a clear conflict of interest." – P6 (ACM)
Sub-theme 1.9.3	**Explanation of sub-theme 1.9.3 and extracts from participants**
Relationship between audit committee and management	This theme refers to the nature of the relationship between management and the audit committee. The audit committee members are dependent on the organisation, and therefore management, for their remuneration as members of the audit committee. This may impair the independence of the audit committee, as they may not want to act contrary to the wishes of management.
	"As the audit committee you can actually only know what you hear. If management doesn't want to tell you something you won't know about it." – P2 (ACM)
	"If it's not a functional audit committee, in terms of the King Code, they are not appointing the auditor. They have been swayed by management on who would be a favourable auditor. The proposals would have come, would have gone through management, management would have assessed who they want, and then it's easy for management to sway the audit committee, and say… But I think if you're a functional audit committee, you would have… I suppose, once again, (…) it is human emotion. So, even sitting on that audit committee for the person that sits there, so whose audit committee are you on? You're sitting on client X's audit committee. Should I be pleasing client X, because client X is actually paying me my fees? So, yes, I should be, so, management is saying I should be appointing this firm, so then maybe that is the firm I should be going with. So, I don't know. Even, so money is the root of all evil, at the end of the day. It's very difficult to maintain independence when money is at play." – P7 (AP)
	"We also talked about the independence of the audit committee and the management. So, if they challenge the management, on a fee that they present, then you will find that the "payor model" will work. But, the problem at the moment, goes back to the audit committee not being independent enough or challenging enough, to the management to challenge them. And, also, leaving it up to the management to decide. So, obviously, the management will present a proposal, but the audit committee must sign off on the audit fee. And,

	if that happened, then this shouldn't really be a problem." – P15 (RPI)
	"The matter that is bothering me at the moment is basically the involvement of the audit committee. And, the appointment of the auditors, and one point that I've mentioned earlier, is basically the negotiation of the fees. Because, they don't take interest in negotiating the audit fees, they just leave all (these matters to) management. And, management, that's their job, to bring down the fees, and to make it as, sometimes (at an) unacceptable level…" – P8 (AP)
Sub-theme 1.9.4	**Explanation of sub-theme 1.9.4 and extracts from participants**
Consequences	'Consequences' refer to the repercussions, or lack thereof, faced by management when they do not fulfil their responsibilities.
	"So, management does something wrong, when are they going to jail first? Because they've misrepresented to you. So, it's very quick that… In 9 out of 10 cases you'll see, you'll say where was the auditor? When can we sue the auditor because you've got PI insurance, right? So, that's the default position in almost all of these cases. Then you go back and say, okay when did you press charges against management? And when do you put them in jail? So, unless someone goes to jail for fraud, they're going to continuously lie to whoever they're dealing with. And it's helluva easy to manipulate data sets. You can get something and show all of this is looking decent." – P11 (AP)
Sub-theme 1.9.5	**Explanation of sub-theme 1.9.5 and extracts from participants**
Integrity	'Integrity' refers to the practice of being honest and consistently and uncompromisingly adhering to strong moral and ethical principles and values.
	"If the CFO and CEO decide to write cheques to themselves, and they're both signatories, or, they find a mechanism to invoice the company from their own company, which nobody else checks, and they approve and they sign off…" – P4 (ACM)
	"A part of me feels like, management in this whole thing, does not want to take responsibility for the fact that, at the end of the day, the financial statements are theirs. So, (the) audit committee does have a responsibility to approve and to take these forward to the shareholders. We have a responsibility to opine, but the originator of

	those financial statements, and the responsibility lies with management. And, the quality and the integrity of management, has that ripple effect on everyone else. You know? If you don't have the integrity, the ethical leadership, and just, that pride, in producing quality financial information, at management level, chances are, as much as, you can try and instil those through the audit committee, through the auditors, it's going to be difficult because, already, your job is going to be difficult, as management is going to be a stumbling block." – P12 (AP)
	"…tight deadlines, pressure from the client's management, lack of information from management to give you a real story… So you would use your professional scepticism to find something that's, let's call it suspicious… you're going to ask about it and they give you incomplete information, incorrect information, it will impact audit quality…" – P9 (AP)

4.2.1.10 Theme 1.10: Positives

The tenth theme, positives, refers to the aspects of the current audit model that are advantageous. This theme comprises two sub-themes, each of which has been summarised in Table 13, with data excerpts. This theme has been visually presented in Figure 17, with an indication as to which participant groupings referenced individual sub-themes.

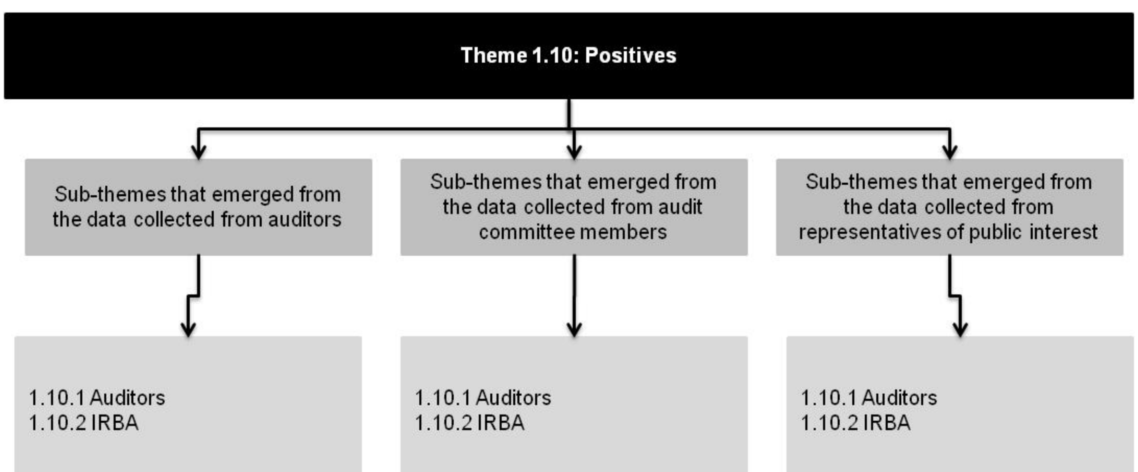

Figure 17. Theme 1.10: Positives

Table 13

Theme 1.10: Summary with data excerpts

Theme 1.10	Explanation of theme 1.10
Positives	'Positives' refer to the aspects of the current audit model that are advantageous.
Sub-theme 1.10.1	**Explanation of sub-theme 1.10.1 and extracts from participants**
Auditors	This theme refers to the positive aspects of the auditor as an individual.
	"You know, our audit reporting standards, it's been voted the best in the world, five, six years in a row" – P14 (RPI)
	"So, you'll still see even today, with the cloud over South African auditors, you're still massively wanted in other parts of the world. So New Zealand, Australia, massively still, our auditors are still wanted there. So I think that the processes that we as firms put into place and the cash that we spend to bring people up to speed is massively, massively positive. And I think the focus internally on quality in the firms over the last two, three years is just massive at this stage. So I think there's a massive awareness of… purpose about sa,y historically you were naïve as an audit firm entering into a piece of assignment and say okay we are going to do the work, agreed upon procedures, was specifically the one that causes problems – you do the work but you don't understand the purpose for the work. So if you take the SARS report – it was done, you don't understand the purpose (of why) you were doing the work. So again, I think there's a lot more awareness now in the industry as to why you doing the work, and a lot more firms actually saying no, we don't want to do the work any longer." – P11 (AP)
	"The South African auditors are good. It is sad that a bunch of auditors have fallen." – P6 (ACM)
	"What is happening for example at this firm, you're trained continuously, in terms of updates and in terms of methodology, in terms of technology, and the audit model is becoming more technologically advanced" – P8 (AP)
Sub-theme 1.10.2	**Explanation of sub-theme 1.10.2 and extracts from participants**
IRBA	This theme refers to the positive aspects of IRBA as a regulatory body.
	"You'll be aware of our audit quality indicator project, our transparency reporting project. And, that's all to get information to the

	audit committee to capacitate them. Because, we can't just criticise audit committees for not doing a good job, maybe, we should help them to do a good job. And, although it's not our mandate, I think we also have a role as a regulator. This is the role of IRBA, you refer to our role all the time, this is the role of the IRBA, is to also help those other stakeholders, to help us to evaluate audit quality. And even the shareholders, something very important that happened, and I've talked about this at our global platforms as well, something that happened with the introduction of mandatory audit firm rotation was not only to strengthen auditor independence. It raised awareness amongst role players about the importance of independence. You will not believe how, suddenly the market and everybody is aware of auditor independence" – P15 (RPI)
	"I think, IRBA, as an organisation, I think they are fairly competent." – P4 (ACM)
	"You have the IRBA, which does, in a way, try and instil that independence and objectivity, and, if you look at it from that angle, it's that restoration of trust." – P12 (AP)

4.2.1.11 Theme 1.11 Participants' recommendations

The eleventh theme, 'participants' recommendations', refer to the suggestions made by research participants as to how the current audit model could be tailored to better serve the 'public interest'. This theme comprises eight sub-themes, each of which has been summarised in Table 14, with data excerpts. This theme has been visually presented in Figure 18, with an indication as to which participant groupings referenced individual sub-themes.

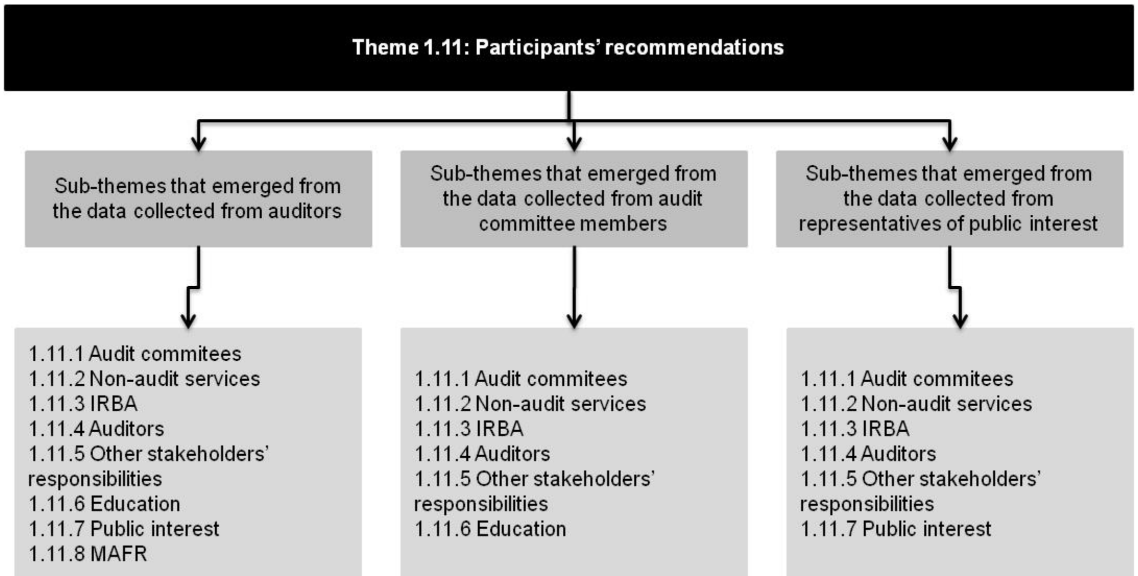

Figure 18. Theme 1.11: Participant recommendations

Table 14

Theme 1.11: Summary with data excerpts

Theme 1.11	**Explanation of theme 1.11**
Participants' recommendations	'Participants' recommendations' refer to the suggestions made by research participants as to how the current audit model could be tailored to better serve the 'public interest'.
Sub-theme 1.11.1	**Explanation of sub-theme 1.11.1 and extracts from participants**
Audit committees	The audit committee is a sub-committee of the BoD that comprises independent, non-executive directors (IoDSA, 2016; Marx, 2009; RSA, 2008). The audit committee is responsible for the risk management of the organisation and for providing independent oversight of the combined assurance model (IoDSA, 2016; Marx, 2009). The combined assurance model comprises internal audit, external audit and the finance function of the organisation (IoDSA, 2016; Marx, 2009).
	"If they're really independent, if they're really independent of mind, if they really apply their mind to what they should do, it can be beneficial. But, the whole thing of financial statements goes to the audit committee, they have a look, before it's signed off and it comes to you as the auditor. If they do a proper job, you should get quality. They should be your first line of defence." – P13 (RPI)
	"We also talked about the independence of the audit committee and

	the management. So, if they challenge the management, on a fee that they present, then you will find that the "payor model" will work. But, the problem at the moment, goes back to the audit committee not being independent enough or challenging enough, to the management to challenge them. And, also, leaving it up to the management to decide. So, obviously, the management will present a proposal, but the audit committee must sign off on the audit fee. And, if that happened, then this shouldn't really be a problem." – P15 (RPI)
	"Audit committees are there to monitor independence. And, there are obviously red flags around independence… Too much of non-audit services, beyond the thresholds, beyond grey area type of work, so the IFAC rules are clear. If you're doing something where you going to audit your own work, you shouldn't be doing that. If you are doing something where there is a perceived (lack of) independence, you know, it's better to stay away from it, right. So if audit committees allow firms, you're going to impact the audit quality…" – P9 (AP)
	"There should be at least a two-year cooling off period, you can't move as an auditor or as a… again, depends on what role right? If you were a trainee and after three years of articles you finish and, I'm surprised if you become an audit committee member, but I'm saying if you do, then you may not be having the relevant experience. If you're a partner on the job and if you're the existing partner, you retire and then you become… I think there should be a two year cooling off period before you become an audit committee member, because again, you're just fresh out of the old firm you now becoming an audit committee chair, this again, independence, perceived independence, perceived conflict of interest, you're loyal to your firm. You know, there are still payments that the firm makes to you in the first year or two years around your pension and all your other stuff. So you're not clean. Give you two years, and then you're clean." – P9 (AP)
	"Reform at a board level, in terms of making sure that the audit committee chairman and board members are totally independent of their entity… Because, then they hold both management and the auditors accountable. They're sort of the middle link between the two, of maintaining quality, maintaining focus, etc." – P11 (AP)
	"No (an ex-auditor should not join the audit committee of an ex-

	client). Even after a two to three year cooling off period, the DNA remains the same. The same goes from previous members of management becoming part of the audit committee." – P6 (ACM)
	"What is the consequence – there's no consequence (for) management (or) audit committees, the chairs… for example, if you have a corporate failure and you have an audit failure, who does the media attack, who does the companies, who do they sue? You don't sue the audit committee chair... Yet, the audit committee is the one who appointed the auditor. Yet, the audit committee is the one that's supposed to look at three tiers, I mean the, what's it, combined assurance model… Monitor the quality of the audit, the independence of the auditors, its only afterwards that challenges are being raised about independence of auditors, you know the issue around quality of the audit… So I'm saying, there needs to be some, if you ask me what needs to change in the current model… there needs to be a governance process for a body that monitors and holds audit committees accountable." – P9 (AP)
	"I think one of the proposals I would probably have made if it was really just in my hands, was really just to change the way audit committee members' are selected, and audit committee (chairs) are allocated or selected by companies. I don't think it should be left to the entity, I think it should be a regulatory authority, together with an oversight that actually looks at how people are appointed or not appointed onto boards." – P11 (AP)
Sub-theme 1.11.2	**Explanation of sub-theme 1.11.2 and extracts from participants**
Non-audit services	'Non-audit services' refer to the provision of consulting or other non-audit services (i.e. services other than audit services) by auditors to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others.
	"We feel very strongly that audit firms should be audit firms. Because, they lose their focus when they also provide to the same audit client, other services." – P15 (RPI)
	"There has to be, there has to be a limit, that you know, if your audit fee is X amount, you're allowed either one to one ratio, or one to zero point seven ratio, or whatever the ratio that is acceptable by either the

	firm or by the practice, you know. I believe research was done, by the European market, where, they made a conclusion that audit fee versus non-audit fees… they came to a conclusion of one to zero point seven ratio there. So that was, the research that was done by European market around non-audit fees." – P8 (AP)
	"I would like to ban non-audit services. So, Deloitte are doing the audit of Steinhoff, they become exceedingly greedy, and they want to do the due diligence when Steinhoff makes acquisitions. You can't be a referee and a player… Because then, you need to do an IFRS 3 assessment of the valuation of those assets. So, in my humble view, either we ban non-audit services or we restrict it to very, very selected… But, my preference would be like the Auditor General; not to permit it." – P5 (ACM)
Sub-theme 1.11.3	**Explanation of sub-theme 1.11.3 and extracts from participants**
IRBA	The Independent Regulatory Board for Auditors ("IRBA") is a regulatory body that was established by the APA to protect the auditor's professional integrity and independence (De Koker, 2007; RSA, 2005). IRBA is responsible for ensuring that RAs are adequately trained, that they act in accordance with professional standards and to ensure that RAs do not act improperly.
	"There's a small group of people that try and protect the profession from their point of view, and that means protecting profit. It can't be healthy. So, IRBA, if they want to be real, they need to be far more independent. They don't necessarily need to be made up of auditors, but they need to be made up of people that understand public interest, which would be the public." – P13 (RPI)
	"IRBA's board should be reconfigured. It should represent people that have previously audited… it should have members of the public… so the public interest sector, broad business, and people that are risk specialists. Now, when you look at the current IRBA board, not one is a practicing member." – P5 (ACM)
	"I'd be strengthening the disciplinary action that IRBA is able to take against these auditors." – P10 (AP)
	"More robust reviews, more surprise reviews, more progressive reviews… Not just like give me all the files of client A… and I don't even know how they can copy the model of how the Reserve Bank,

	the banking regulator, regulates banks on a continuous basis… So if the reviews could be a bit more continuous it could actually help to… One of my colleagues always says stop the thing of dressing the bride for the… so that you know the files are not prepared for the occasion… So if it can be more spontaneous, surprise” – P1 (ACM)
	“I think IRBA needs to be able to engage with their members better. I think it needs to become about adding value, and helping prevent audit failures, as opposed to trying to get someone on something stupid. It’s as simple as that.” – P11 (AP)
	“Go out to members, go out, as the face to members… Maybe do a road show. Maybe show certain instances where you’ve helped members, where you’ve helped members set up something if you identify an issue. (…) Set up a call centre, where members have, I don’t know, I mean, not, not every issue can come through to you, but if there’s something significant, is there some sort of direction you can give them?” – P7 (AP)
	“They need to be more visible and give a better understanding of their role within (…). They probably think (…) ‘our members know exactly what we do’.” – P4 (ACM)
Sub-theme 1.11.4	**Explanation of sub-theme 1.11.4 and extracts from participants**
Auditors	‘Auditors’ refers to those independent individuals, or teams thereof, that conduct an official financial examination of an organisation's records (Lexico, 2020a).
	“So, although it’s difficult to teach somebody ethics and scepticism and independence, if they operate in your firm, creates an environment where the partners and the top leadership – and you will see I talk about the importance of leadership at the top – where all of them behave in a certain way, these people will start behaving that way.” – P15 (RPI)
	“I’d probably be strengthening the training, around auditors to make them understand what it is, and what are ethics, and independence” – P10 (AP)
	“Maybe the independence checks, etc. that are being done at a firm level are actually not as rigorous, as they need to be. Because they’re very much dependent on the person actually giving the information without any detailed sort of background checks, etc.” – P7 (AP)

	"It is correct for auditors to question the CEO. The auditors should be reporting to the audit committee and the audit committee chair." – P6 (ACM)
	"A lot of the failures are because of the auditor's behaviour. Auditors have become greedy, they want more money. They're not sceptical any more. They're too close to the client. They're not independent any more. They, it's all those, almost softer skills, that cause things to go wrong. It's not, because they didn't understand the standards, for example. They haven't been challenging enough, they haven't been sceptical enough." – P15 (RPI)
	"I just think we've learnt over time, that if you go to zero based, proper on what your mandate asks, you can't compromise." – P13 (RPI)
	"I think your charge-out rates, going out to big corporate clients, blue chip clients, your charge-out rate fits in nicely, at those clients, because, I mean, they're high profile clients, and they're able to meet your charge-out rates. But, the minute you get into a smaller entity, my clients, those charge-out rates are actually extremely high, for that client base. (…) And maybe that's why, you have issues in terms of quality, because people, I don't know how you get that out, but people are only worried about recoveries… And, (…) maybe that's one thing… Audit firms are very much focused on recoveries. And I think sometimes, when your focus is recovery, you drop on quality. So, charge out rates need to be looked at, depending on the client and the client industry." – P7 (AP)
	"We should be going into a process of zero-based budgeting, on almost an annual basis. If not annual, at least, two to three years, basis, to go on a zero-level basis." – P8 (AP)
	"I think the auditors role needs to change in the sense that they executively appointed the public interest. They need to understand their client is not management, their client is not audit committee, and their client is not even the board. Their client is the public. If you take Eskom, Transnet, you know, if we are reporting to an ineffective board, ineffective audit committee, it's wrong. We should actually be reporting to the shareholders, at an AGM, we should actually be reporting to the citizens, and, we need to be accountable, as auditors,

	to those people. Not to the audit committee, to the ineffective audit committee or incompetent audit committee and that's where I think the problem is." – P9 (AP)
	"The first public document of a firm that spoke about public interest must be KPMG's attempt to recover their brand. It's the first time that I saw a firm talk about public interest. I think, for that matter, their new vision statement actually reflects public interest. Whether they get it, that's an open question, we'll see in a couple of years' time. But, it's the first time that the profession is talking about that, let alone do it. So, if they get that, the rest would fall away." – P13 (RPI)
	"I wish auditors understood that the service they provide is a public interest service. And, I think, the, auditors have forgotten that an audit is not just a normal service. It's a service for the public interest." – P15 (RPI)
	"When you define what is in the public interest, I think, it needs to be clearly defined to say, but this, this and this. Because of the work that we do, people rely on us." – P14 (RPI)
Sub-theme 1.11.5	**Explanation of sub-theme 1.11.5 and extracts from participants**
Other stakeholders' responsibilities	'Other stakeholders' responsibilities' refer to the obligations of other parties, including management, the BoD and the shareholders, in ensuring the success of the audit process.
	"I'd do work around shareholders holding the audit committees accountable" – P10 (AP)
	"Where do you draw the line, in terms of, like corporate behaviour? Because we seem to draw the line, very early on, at the door of the auditors. But, there's actually like, a proper step before that, which is, what is the role of the board of directors? What is the role of the audit committee? What is the role of management in the company? And, so there's (…) the first step that we actually have to acknowledge, and get right, is, is the step around, do companies actually understand that they have a role in society? And that they're not just, supposed to be geared towards shareholders? So, if you look at where King IV and King III, they're all sort of very good in terms of saying that. But, has that, in reality, actually sunk in for companies as a starting point?" – P10 (AP)
	"So, if you take governance in, in a business, where's the first layer of

	defence? Its management, and the board. So, how much is being said on management and the board before you get to the audit committee and before you get to the auditors? Because your management forum together with your internal audit is your first line of defence. I don't know if we, as a country and as a business world place enough focus on how much responsibility management is taking for what they doing as well." – P11 (AP)
	"A part of me feels like, management in this whole thing, does not want to take responsibility for the fact that, at the end of the day, the financial statements are theirs. So, the audit committee yes, does have a responsibility to approve and to, take these forward to the shareholders. We have a responsibility to opine, but the originator of those financial statements, and the responsibility lies with management. And, the quality and the integrity of management, has that ripple effect on everyone else. You know? If you don't have the integrity, the ethical leadership, and just, that pride, in producing quality financial information, at management level, chances are, as much as, you can try and instil those through, you know, audit committee, through the auditors, it's going to be difficult because, already, your job is going to be difficult, as management is going to be a stumbling block." – P12 (AP)
Sub-theme 1.11.6	**Explanation of sub-theme 1.11.6 and extracts from participants**
Education	Education refers to the process of receiving systematic instruction (Lexico, 2020b). While typically this instrument is received in a school or university setting, it could be received via other platforms.
	"I think it has to go to the varsities adopting their training methods… so they need to keep up and currently, I don't think all of the varsities are keeping up, to be honest with you. So looking at robotics, data analytics, a whole lot of stuff, we still... The way we trained auditors at varsity ten years ago is still the way we train them today – 90% of it hasn't changed. There have been small changes… but that's not good enough for the modern world. So, when people get to us, we have to put a lot of effort to getting them, thinking of how they need to audit. So the whole training model at the varsity needs to change." – P11 (AP)
	"I'm not sure if the profession is fit for the future. I'm not sure if we're

	able to attract and retain the workforce we need, to take us forward. So, I don't know if it's a matter of looking at the curriculum given at varsity level and trying to make it more adaptable to, where we're going as a profession. You know? Because, if they're still taught the way that I was taught, carrying around big and huge textbooks, and I come into a Firm X, and all I need is just base knowledge, because you've got experts that actually do that. A lot more focus around data enabled auditing, we're going to start introducing things like robotics, but I don't know if, at a varsity level, we've started incorporating this, a lot more tangible, and not theoretical data analytics, because those are the people we're going to start needing, focus on professional scepticism, and those kinds of things. If I think back on, my varsity days, it was just an add-on. Things like ethics; were an add-on. It wasn't the main focus. The main focus was tax and accounting and whatever, but, what I think plays out on a day-to-day basis, are actually those softer things, like ethics, integrity, etc. and it's not a focal point. And yes, data analytics will be a focus in the future, so, maybe just, looking at the profession to see that it's fit for the future." – P12 (AP)
	"It's the quality of education and the quality and competency of your staff; that you're involved with and that you employ, both your firm, the client, as well as the audit firm, and that might be a criticism of the current South African schooling system. But, it's a worrying factor when you've qualified, I'm not saying we had it, the way we did our board exams, etc. was any better then what they're doing now. But, sort of, saying things are getting a lot easier, and I don't have a problem with that, but you're questioning the quality, you know, from the school, your matric education, and then your varsity, where, you know, you chat to people who are saying, there are problems here (…) A lot of stuff that we took for granted that you would know, now you need to re-teach" – P4 (ACM)
	"I think a lot of it has got to do with perception right, and people understanding what an audit is. An audit is not absolute assurance and I think 99% of people don't understand that. The second thing is, people don't understand the different types of audit opinions that you get. So, if you're giving reasonable assurance, not on a set of

	financial statements, on other data, what does it mean? And if you doing agreed upon procedures, what does it actually mean? Because you issue this report which says, I issue no assurance, but yet people are actually taking… I've auditor confirmation of it. So, I think, awareness and understanding from the broader public as to, what do you expect from an auditor, but also awareness as to what are the lines of defence. So, management does something wrong, when are they going to jail first? Because they've misrepresented to you. So, it's very quick that… In 9 out of 10 cases you'll see… you'll say where was the auditor? When can we sue the auditor because you've got PI insurance, right? So, that's the default position in almost all of these cases. Then you go back and say, okay when did you press charges against management? And when do you put them in jail? So, unless someone goes to jail for fraud, they're going to continuously lie to whoever they're dealing with. And it's helluva easy to manipulate data sets. You can get something and show all of this is looking decent." – P11 (AP)
	"There should be more public awareness. How do you make the public more aware of what an auditor does, so that they firstly know what they're getting in terms of financial… Because, I think, the public just thinks you go out there and you tick everything, and that's it. But maybe, to have some sort of a awareness of what an auditor really does, it's not about ticking every invoice. It's not about giving this absolute assurance to everyone." – P7 (AP)
	"I just think there needs to be more education in terms of what the auditor does. Like, for example the sample case that I have given you. You know, people just think that the auditors when they come they look at your January to December, each and every invoice and everything. And once the auditors are there, then it means… if the auditor says I'm giving you a clean audit it means everything is clean, forgetting that it is actually clean audit on what I have audited." – P2 (ACM)
Sub-theme 1.11.7	**Explanation of sub-theme 1.11.7 and extracts from participants**
Public interest	'Public interest' has been defined as follows for the purposes of this research, as established in Chapter 2: The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to

	any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism.
	"The first public document of a firm that spoke about public interest must be KPMG's attempt to recover their brand. It's the first time that I saw a firm talk about public interest. I think, for that matter, their new vision statement actually reflects public interest. Whether they get it, that's an open question, we'll see in a couple of years' time. But, it's the first time that the profession is talking about that, let alone do it. So, if they get that, the rest would fall away." – P13 (RPI)
	"I wish auditors understood that the service they provide is a public interest service. And, I think, the, auditors have forgotten that an audit is not just a, a normal service. It's a service for the public interest." – P15 (RPI)
	"When you define what is in the public interest, I think, it needs to be clearly defined to say, but this, this and this. Because of the work that we do, people rely on us." – P14 (RPI)
Sub-theme 1.11.8	**Explanation of sub-theme 1.11.8 and extracts from participants**
MAFR	'MAFR' refers to the mandatory audit firm rotation regime, which requires rotation of the audit firm. This means that a different audit firm is appointed after the prescribed rotation period (maximum 10 years), and the new firm designates the new engagement partner for the audit (RSA, 2008). MAFR becomes effective in South Africa in 2023 (RSA, 2008).
	"If I had to give you, a real life example, when Firm X won the audit of a fairly large client, they basically shadowed the previous auditor as it finished its last audit. That was the requirement from the audit committee. So, what I'm saying, there wasn't a need for an additional handover process, and I've seen that more and more, where sort of, some audit committees are saying, we want to, on our own, we want to mitigate the risk of things going wrong. We want you to shadow the previous auditor as it finishes its last audit. So, in the process of that, you will actually be part of that. And that's part of your initial

	investment in doing this audit." – P10 (AP)

4.2.2 Thematic cluster 2: Participants' perceptions regarding the proposed audit framework and its role in establishing public interest in the audit profession in South Africa

This 'thematic cluster' deals with the perceptions of the research participants around the proposed audit framework and its role in establishing 'public interest' in the audit profession in South Africa. The section begins with Figure 19 summarising the themes identified for this 'thematic cluster', as well as showing the number of times the theme was mentioned by research participants from each participant grouping. In Sections 4.2.2.1 – 4.2.2.11 each theme identified is discussed in detail, and where appropriate, each theme is broken down into a "sub-theme".

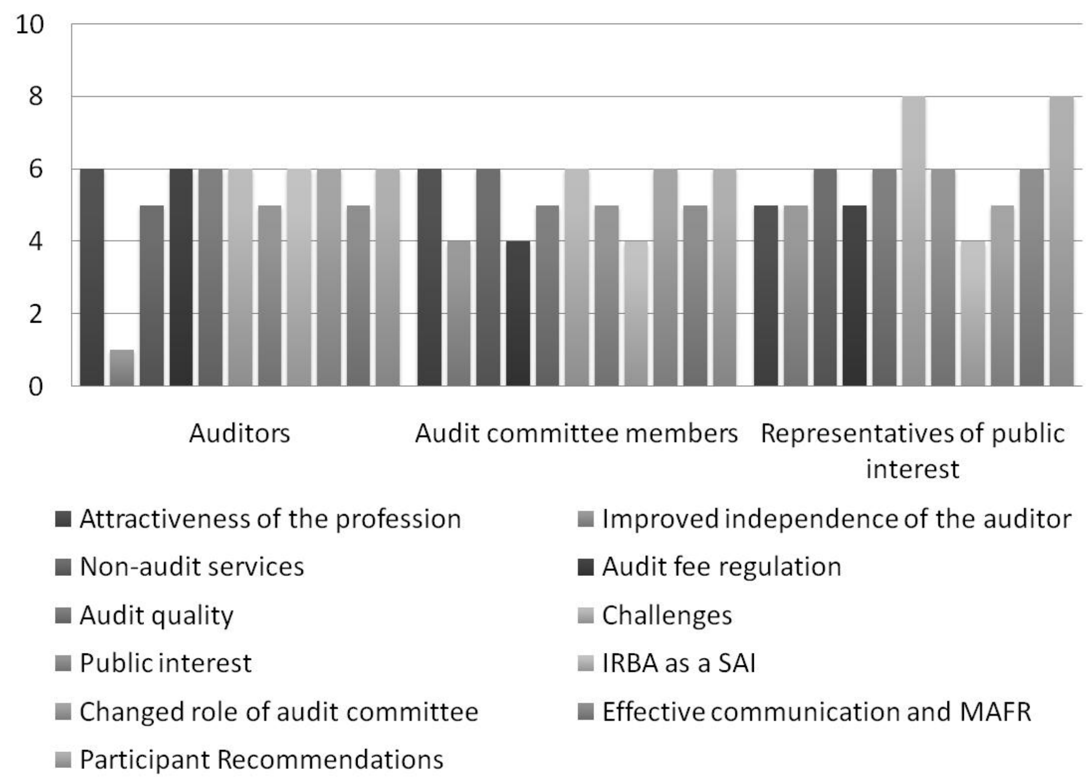

Figure 19. Summary of theme identified in assessing participant perceptions of the proposed audit framework and its role in establishing 'public interest' in South Africa

4.2.2.1 Theme 2.1: Attractiveness of the profession

The first theme, 'attractiveness of the profession', refers to the interest that individuals will have in the profession or the desire of individuals to enter the profession, should the proposed audit framework be introduced in South Africa (Cambridge Dictionary, 2020). This theme comprises three sub-themes, each of which has been summarised in Table 15, with data excerpts. This theme has been visually presented in Figure 20, with an indication as to which participant groupings referenced individual sub-themes.

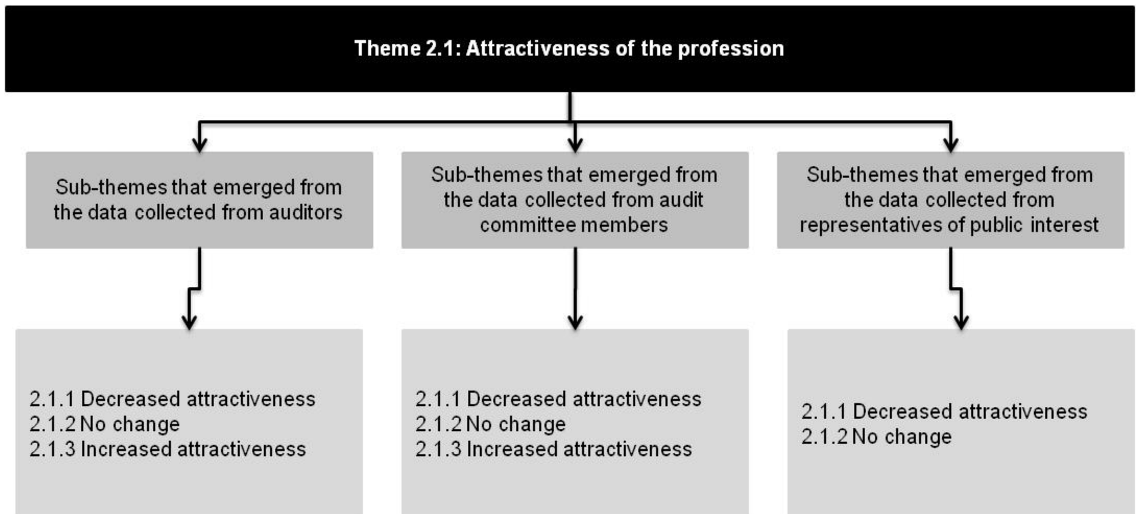

Figure 20. Theme 2.1: Attractiveness of the profession

Table 15

Theme 2.1: Summary with data excerpts

Theme 2.1	**Explanation of theme 2.1**
Attractiveness of the profession	'Attractiveness of the profession' refers to the interest that individuals will have in the profession or the desire of individuals to enter the profession, should the proposed audit framework be introduced in South Africa (Cambridge Dictionary, 2020).
Sub-theme 2.1.1	**Explanation of sub-theme 2.1.1 and extracts from participants**
Decreased attractiveness	'Decreased attractiveness' refers to the reduction in the appeal of the audit profession that could occur, should the proposed audit framework be introduced in South Africa.
	"I think you would find the profession will shrink considerably. RAs will leave the profession to focus on other aspects of accounting, tax and consulting where they can set their own fees, and potential new entrants to the profession would be deterred for the same reason." – P15a (RPI)
	"Absolutely not. You'll have a fraction of people wanting it, but we already in our current state people don't want to enter the profession"

	– P11 (AP)
	“If this turns the auditors into government employees, what does it do for the status?” – P6 (ACM)
Sub-theme 2.1.2	**Explanation of sub-theme 2.1.2 and extracts from participants**
No change	‘No change’ refers to the potential that the proposed audit framework would result in an unchanged appeal of the audit profession in South Africa.
	“Yes, they would. You will find crazy people like me that like auditing.” – P14 (RPI)
	“I don’t think people enter the profession, necessarily being attracted by the current model… I think they come into the profession because they’re passionate about financial reporting, servicing people, developing talent…” – P12 (AP)
	“You know, it’s a versatile career. I attended the audit profession, because I wanted a career that’s versatile, that I could sit on boards and do corporate finance and do advisory and internal audit and forensics, etc. That shouldn’t be a bar.” – P5 (ACM)
Sub-theme 2.1.3	**Explanation of sub-theme 2.1.3 and extracts from participants**
Increased attractiveness	‘Increased attractiveness’ relates to the possible greater interest in the audit profession, should the proposed audit framework be introduced in South Africa.
	“Right now I think people are not only entering the profession because they saying ooh, it depends on which firm I work for. And which one is the flavour of the month this month. This is x, next month is y. Ooh now I’m working for y, now they’re the flavour of the month, it’s a high risk. People don’t want to enter the audit profession. So this thing may help…” – P9 (AP)
	“I think they would definitely. Actually, I think people after training, will stay as auditors. Because I think the pressure of finding clients, administrative burden of timesheets, and all those things, it’s just what makes people say you know what let me just go and be a financial accountant or a CFO or whatever… Because, being an audit partner is so involved… And, not necessarily involved in the core things we’ve been trained in…. So, I think it will actually encourage people to get into the profession, and remain in the profession.” – P1 (ACM)

	"So, if this is implemented and we all know that, proper processes are there, CA's can't commit fraud, most people would be attracted to the profession." – P2 (ACM)

4.2.2.2 Theme 2.2: Improved independence of the auditor

Auditor independence refers to the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b)(IRBA, 2018). This theme considers the possibility that the proposed audit framework could result in improved auditor independence. This theme was emerged from data collected from all three of the participant groupings, and it was not deemed necessary to break this theme down into sub-themes. This theme has been summarised in Table 16, with relevant participant excerpts.

Table 16

Theme 2.2: Summary with data excerpts

Theme 2.2	**Explanation of theme 2.2 and extracts from participants**
Improved independence of the auditor	Auditor independence refers to the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b). This theme considers the possibility that the proposed audit framework could result in improved auditor independence.
	"My initial thoughts are that the proposed audit model is a good idea and would assist in strengthening auditor independence in South Africa." – P15b (RPI)
	"…the auditors are not relying on management to say, if you don't play ball we not going to give you the assignment. So, it will really improve the independence of the auditors…" – P9 (AP)
	"…you want your auditor to act as a judge, effectively they play the role of a judge on your financial statements…your auditors coming is now completely independent, you know, it's purely performing the judge function…" – P4 (ACM)

4.2.2.3 Theme 2.3: Non-audit services

The third theme, 'non-audit services', refers to the provision of consulting or other non-audit services by auditors to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others. The proposed audit model would prohibit auditors from providing non-audit services to their audit clients. This theme comprises three sub-themes, each of which has been summarised in Table 17, with data excerpts. This theme has been visually presented in Figure 21, with an indication as to which participant groupings referenced individual sub-themes.

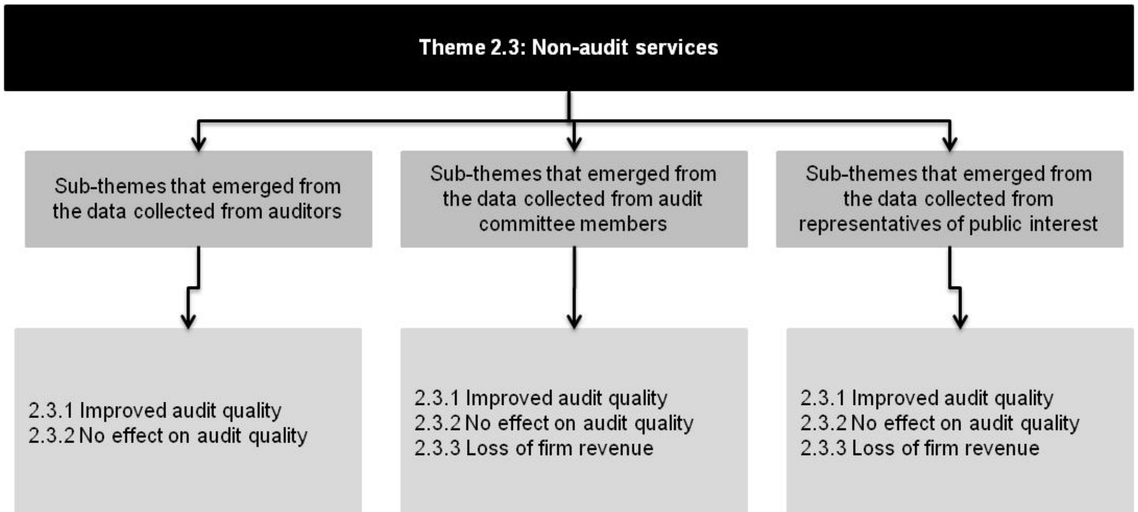

Figure 21. Theme 2.3: Non-audit services

Table 17

Theme 2.3: Summary with data excerpts

Theme 2.3	**Explanation of theme 2.3**
Non-audit services	'Non-audit services' refer to the provision of consulting or other non-audit services by auditors to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others. The proposed audit model would prohibit auditors from providing non-audit services to their audit clients.
Sub-theme 2.3.1	**Explanation of sub-theme 2.3.1 and extracts from participants**
Improved audit quality	'Improved audit quality' refers to the possibility that the level at which a client or other interested party can rely on the validation provided by the auditor would be increased by prohibiting auditors from providing non-audit services to their audit clients.
	"I think it will drive the right behaviour. It is a principle that we believe in, and you don't mix it. I think, there's a beautiful act that says you don't get your hands dirty on something you would need to audit one day. That's a golden rule for the public sector. It will have the right

	impact." – P13 (RPI)
	"It will have some impact. Because, auditors are not going to be chasing the revenue, they will be chasing the hours. So, if they're not getting the non-audit work from a particular client, there will be other channels that will be available, for them to spend the hours. So that non-audit fee, it will have a good impact, you know, on the audit quality." – P8 (AP)
	"I think it will influence the audit quality hugely. Because, you're not distracted from driving revenue. I think, quite often, auditors are out over there, you've got the advisory practice that says, (…) there are weaknesses over there, you need to give us some kind of view, around us selling our skills on to the audit client." – P3 (ACM)
Sub-theme 2.3.2	**Explanation of sub-theme 2.3.2 and extracts from participants**
No effect on audit quality	'No effect on audit quality' refers to the possibility that the level at which a client or other interested party can rely on the validation provided by the auditor would be unchanged by prohibiting auditors from providing non-audit services to their audit clients.
	"There is insufficient evidence to support the fact that audit quality suffers because of non-audit services."– P15e (RPI)
	"I don't think it would influence audit quality." – P12 (AP)
Sub-theme 2.3.3	**Explanation of sub-theme 2.3.3 and extracts from participants**
Loss of firm revenue	'Loss of audit firm revenue' refers to the lost income that the audit firm could have earned from the provision of non-audit services to audit clients.
	"I don't know if the auditing firm will survive. Because over the years (…) some of them (…), their non-audit fee departments generate more revenues and profits than the audit division." – P1 (ACM)
	"This is taking it, a major chomp off the revenue of audit firms…" – P14 (RPI)

4.2.2.4 Theme 2.4: Audit fee regulation

The fourth theme, 'audit fee regulation', refers to the prescription of the compensation auditors receive for the professional service they offer and for which they are entitled to fair compensation by IRBA. This theme comprises four sub-themes, each of which has been summarised in Table 18, with data excerpts. This theme has been visually presented in

Figure 22, with an indication as to which participant groupings referenced individual sub-themes.

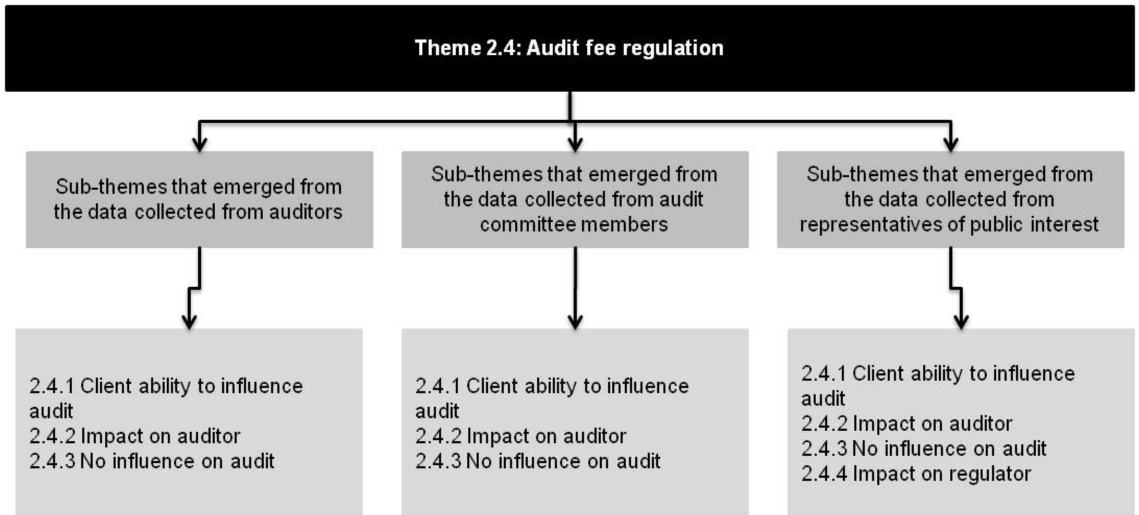

Figure 22. Theme 2.4: Audit fee regulation

Table 18

Theme 2.4: Summary with data excerpts

Theme 2.4	**Explanation of theme 2.4**
Audit fee regulation	'Audit fee regulation' refers to the prescription of the compensation auditors receive for the professional service they offer and for which they are entitled to fair compensation by IRBA.
Sub-theme 2.4.1	**Explanation of sub-theme 2.4.1 and extracts from participants**
Client ability to influence audit	'Client ability to influence audit' refers to the impact that regulation of audit fees would have on the capacity of the auditee to affect the assurance engagement.
	"The regulation of the audit fee will limit the audit client's ability to influence the audit opinion. This is particularly true of audit clients that pay audit firms a significant amount or where that audit client's fee contributes significantly to the revenue or survival of that audit firm or particular partner within the firm. In these instances, the audit client usually has a lot of influence on the outcome of an audit." – P15b (RPI)
	"Yeah, definitely… So, if the auditee has to pay what they have to pay, the auditor doesn't have to be subservient to the auditee. Because sometimes the relationship feels that way… You know, I

	depend on you, to pay my bills… But if I don't depend on you, I'll just get the work done… And the quality of the work will be much better…" – P1 (ACM)
	"Your client is no longer directly responsible for paying the auditor his fee. The auditor is going to get his fee, whether or not the client agrees with the audit opinion or not. It definitely will limit the influence that you have." – P4 (ACM)
Sub-theme 2.4.2	**Explanation of sub-theme 2.4.2 and extracts from participants**
Impact on auditor	'Impact on auditor' refers to the effect that the regulation of audit fees would have on the sustainability of the audit firm and the way in which the auditor conducts the audit.
	"Removal of cost pressure from the audit team." – P15c (RPI)
	"… the ability of the IRBA to negotiate fees on behalf of somebody who's providing an, what is supposed to be an independent service…I think the, there's two things, that kind of, keep people around. The one is, the level of compensation that you receive, the level of experience that you receive and the job satisfaction that you get out of it." – P10 (AP)
	"The level of accountability would make the auditor more concerned with audit quality and less concerned with money." – P6 (ACM)
Sub-theme 2.4.3	**Explanation of sub-theme 2.4.3 and extracts from participants**
No influence on audit	'No influence on audit' refers to the possibility that the regulation of audit fees would have no impact on the ability of the auditee to affect the assurance engagement.
	"I don't think fees have got anything to do with quality because, when I go through an AQR or a QP review internally – one of my defences is not I got paid less. The rules are very strict in an audit firm, right. You get reviewed, something wrong, depending on the severity, either you're up for re-review, or either you stop signing audit opinions and you pay a fine. None of those reasons can be; 'I didn't get paid enough'." – P11 (AP)
	"I don't think that there's a direct correlation between audit fees and quality." – P12 (AP)
	"Fees are not what drive quality. Fees are really what is out there in the market place and whether (there is a) demand for services…" – P3 (ACM)

Sub-theme 2.4.4	Explanation of sub-theme 2.4.4 and extracts from participants
Impact on regulator	'Impact on regulator' refers to the potential influence the regulation of audit fees by the regulator could have on IRBA.
	"The proposed model is highly administrative in nature, what impact would fulfilling this mandate have on the funding and resource requirements of the IRBA? If the IRBA is to fulfil this further requirement, what safeguards would be required from an IRBA point of view to mitigate the risks of perceived biasness toward certain audit firms, in terms of work allocation?" – P15a (RPI)
	"This will create possible self-review and (an) advocacy threat for the IRBA. The IRBA, as a regulator, is required to be independent of the audit firm and audit engagement." – P15c (RPI)
	"There is the unintended consequence of overburden on the regulator." – P15c (RPI)

4.2.2.5 Theme 2.5: Audit quality

The fifth theme, 'audit quality', refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. This theme comprises three sub-themes, each of which has been summarised in Table 19, with data excerpts. This theme has been visually presented in Figure 23, with an indication as to which participant groupings referenced individual sub-themes.

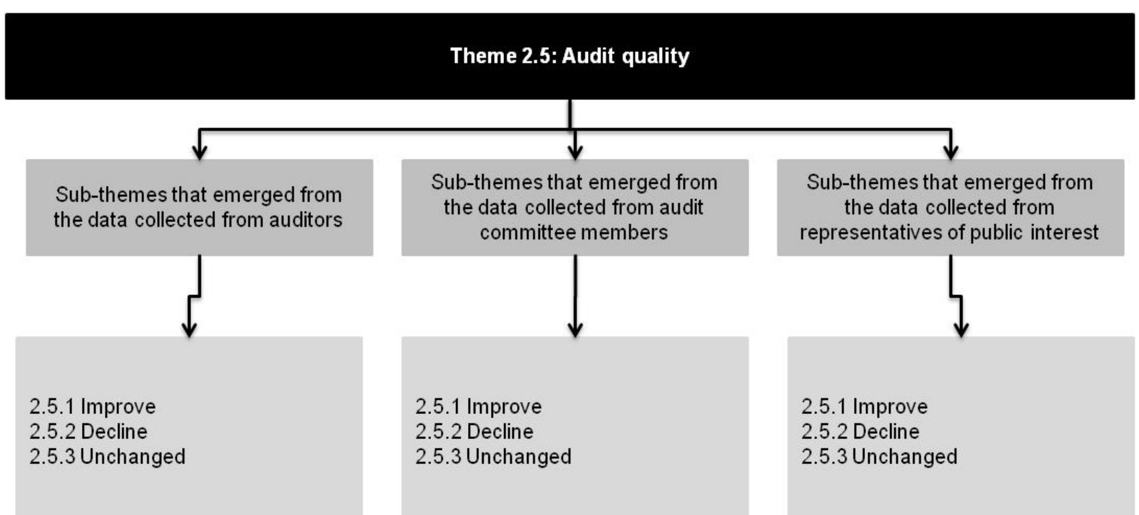

Figure 23. Theme 2.5: Audit quality

Table 19

Theme 2.5: Summary with data excerpts

Theme 2.5	**Explanation of theme 2.5**
Audit quality	'Audit quality' refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism.
Sub-theme 2.5.1	**Explanation of sub-theme 2.5.1 and extracts from participants**
Improve	This theme refers to the perception that the level at which a client or other interested party can rely on the validation provided by the auditor would increase under the proposed audit framework.
	"The increased regulation and separation between client and auditor in terms of fees is likely to encourage audit quality due to greater independence." – P15d (RPI)
	"It will remove the competition, if I can say, on that basis. At the moment, firms are competing with each other, to get that benefit, cash flow benefitting. So, that competition will be, eliminated. Which is, which is good. You would like to drive the quality up, you have to eliminate the competition." – P8 (AP)
	"I think, it would probably improve your assurance quality, simply because your auditor is coming in cold, and he's performing his job, as he needs to do." – P4 (ACM)
Sub-theme 2.5.2	**Explanation of sub-theme 2.5.2 and extracts from participants**
Decline	This theme refers to the perception that the level at which a client or other interested party can rely on the validation provided by the auditor would decrease, should the proposed audit framework be implemented in South Africa.
	"That thing may over time, have an unintended consequence of mediocre results. The guys say, well, what the hell, there is no money in it, let me just click over, I need to do this, my year's allocation is this. Tick, tick, tick. Whether I do a good job or whether I do a bad job, it's the same money." – P13 (RPI)
	"At what point, do you kind of start slipping into, almost the British healthcare system? Kind of, not enough people actually wanting to be in the system because they're poorly paid because the IRBA has determined what the audit fee is, for example… Disincentivising

	people from actually joining, not having that, people with the right skills, and the right levels of experience, and, as a result, reducing audit quality as a whole." – P10 (AP)
	"Is there motivation to go the extra mile if the audit fee is guaranteed on completion, regardless of the quality of the actual audit?" – P15a (RPI)
Sub-theme 5.3	**Explanation of sub-theme 5.3 and extracts from participants**
Unchanged	This theme refers to the perception that the level at which a client or other interested party can rely on the validation provided by the auditor would not be impacted under the proposed audit framework.
	"Whether this would result in better audit quality is debatable as there are numerous factors that impact audit quality one of which is the dependence on fees from the client." – P15d (RPI)
	"You've got to question the delivery of the audit. Will that change? No. With this model, how will it change? All you're doing is you're saying the appointment process, hiring and firing is changing, fee negotiation and fee paying is changing, you're not changing the delivery…" – P9 (RPI)

4.2.2.6 Theme 2.6: Challenges

The sixth theme, 'challenges', in this context refer to the issues that might hamper the success of the proposed audit framework. This theme comprises five sub-themes, each of which has been summarised in Table 20, with data excerpts. This theme has been visually presented in Figure 24, with an indication as to which participant groupings referenced individual sub-themes.

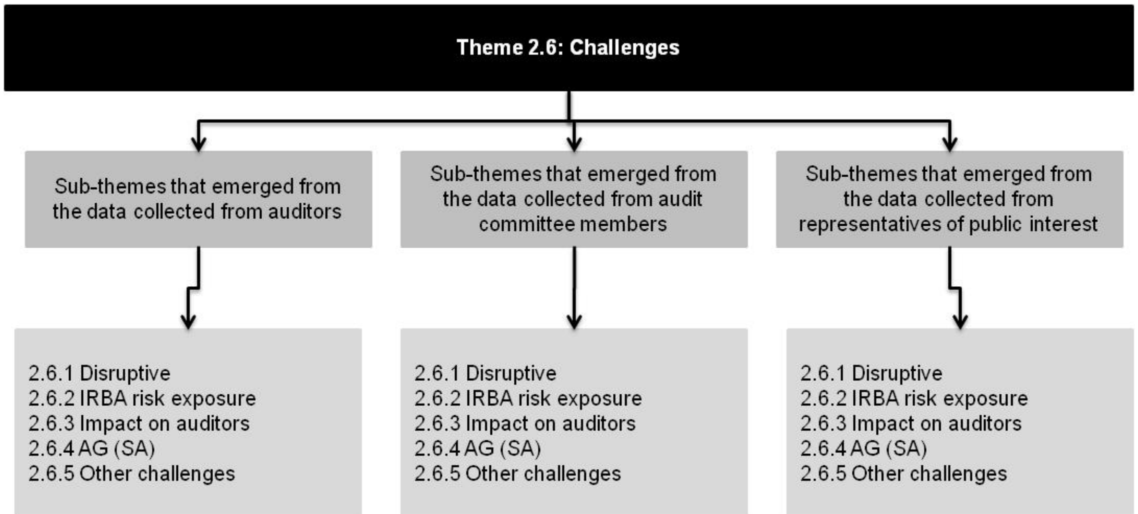

Figure 24. Theme 2.6: Challenges

Table 20

Theme 2.6: Summary with data excerpts

Theme 2.6	**Explanation of theme 2.6**
Challenges	'Challenges' in this context refer to the issues that might hampter the success of the proposed audit framework.
Sub-theme 2.6.1	**Explanation of sub-theme 2.6.1 and extracts from participants**
Disruptive	'Disruptive' refers to the turbulence the proposed audit framework might bring to the audit environment.
	"It's a hell of a changed thing, for somebody that sat there as a private sector, rich auditor. But, that's what we're trying to eliminate, isn't it?" – P13 (RPI)
	"This will be too disruptive. I don't think (…) it will fly right now. If you look at the AG, it took them years, more than ten, fifteen, twenty years to get this model right. So, to move the private sector, to get this mind-set…" – P9 (AP)
	"So, it's just, layers and layers of bureaucracy, I don't like it. Bureaucracy never works. It slows things down." – P3 (ACM)
Sub-theme 2.6.2	**Explanation of sub-theme 2.6.2 and extracts from participants**
IRBA risk exposure	'IRBA risk exposure' relates to the potential future losses IRBA may be exposed to by the implementation of the proposed audit framework in South Africa.
	"If, for example, something goes wrong with an audit, then the first thing they will say is but the IRBA thought that this, you know, so,

	that is just, whenever we think about this model, that's, the first thing, is our independence, our own independence, not the auditor's independence. But, obviously, I mean, there must be ways of dealing with that. A lot of people are talking about such a model, and it's something that could possibly be considered. And, when people propose this model to us, I always, I never say to them no, we have to be independent. I say to them, the independence is an issue, but we need to explore it a little bit further." – P15 (RPI)
	"So, it will take away the low-balling, for sure. But, quality, unless IRBA's training all of these people, then you've got anew body that needs new people, that needs to train every person within the profession, so does IRBA have the, firstly the skills to do that, and do they have the finances to do that? If they can do that, then obviously, you're responsible for the quality of all member firms…" – P7 (AP)
	"The IRBA could be blamed for the inability of the auditor to detect material misstatements which might lead to an audit failure… IRBA employees could be involved in bribery scandals when awarding tenders to respective audit firms." – P15e (RPI)
Sub-theme 2.6.3	**Explanation of sub-theme 2.6.3 and extracts from participants**
Impact on auditors	'Impact on auditors' refers to the possible effects to which external auditors may be exposed, should the proposed audit framework be introduced in South Africa.
	"This may also have the impact of reducing auditor accountability which would not be the objective of the model." – P15d (RPI)
	"Now you want to take all the firms' powers away, all the revenue streams…" – P14 (RPI)
	"So, I think there might be some sort of hostility… Because, say, Firm X decides this is the client I want to propose for… So, the issue you would have is now, you hope this is in the bag; but now you're going to IRBA, with your proposal, and then they're going to send that proposal out to various people, within the IRBA network, to say, please can you all propose for this. And there's a high risk that firm X doesn't actually get that client, then… Firm X might get another client… But, I think, they might not be happy with the fact that this is the client they wanted…" – P7 (AP)
Sub-theme 2.6.4	**Explanation of sub-theme 2.6.4 and extracts from participants**

AG (SA)	AG (SA) refers to the public sector auditor. In this context, the participants noted some unfavourable similarities between the proposed audit framework and the audit model followed by the AG (SA).
	"The model in some of the countries are not like the way it's done here, where the AG is the auditor of all the companies, of the whole government, allocates the audit out, pays the fees, you know that type of thing, some of them are still doing it like how (the) private sector (does it). So you got to ask that question; why, and the pros and cons of doing it our way versus… that way."– P9 (AP)
	"The Auditor General was responsible for, if you look at Eskom, if you look at Transnet, all of that, those have had massive corruption in them. Go and pick up SAA's financial statements. There's a year where there was no going concern issues raised in those financial statements. So, where's strength and independence or quality?" – P11 (AP)
	"I think you get into this fear of, are there certain things which just have to be provided on a public basis, as opposed to, on a private basis? You could almost compare it to, I would think, how different is that from, sort of, the discussion we're having around private healthcare and public healthcare? So, at the moment there's South Africa… What you have is, a whole bunch of state hospitals, and the quality that you get out of the state hospitals is kind of variable. And, I suppose, in some cases, questionable. There's a question around whether they're meeting the actual health needs of all of their intended patients. And you've got private hospitals, who apparently do a pretty good job." – P10 (AP)
Sub-theme 2.6.5	**Explanation of sub-theme 2.6.5 and extracts from participants**
Other challenges	'Other challenges' relate to other issues that could make it difficult for the proposed audit framework to be successful, should it be introduced in South Africa.
	"The problem is if it doesn't work because of relationship issues, then that's where the problem is..." – P2 (ACM)
	"It's like saying I'm going to a court, and the judge is going to decide, what is in my favour. Do people like going to a court? They hate going to a court. So, it's like, okay, this is the judge, be all, end all, he

	chooses, who are my clients, he chooses, what's my fee, is that really fair? What sort of freedom are you giving (to) the firms in terms of negotiations, etc.?" – P7 (AP)
	"The way I interpret this proposed model is that it is primarily targeted toward improving auditor independence, which I agree is a significant factor in audit quality. However, audit failure is a broad term with several variables contributing to it. One of these variables would be a lack of auditor independence. I would recommend more research be performed to obtain a better understanding of the variables which contribute to audit failures. Those variables that are within a regulator's control should also then be factored into this to strengthen the audit and regulatory model." – P15e (RPI)

4.2.2.7 Theme 2.7: Public interest

'Public interest' has been defined as follows for the purposes of this research, as established in Chapter 2: The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism. This theme comprises two sub-themes, each of which has been summarised in Table 21, with data excerpts. This theme has been visually presented in Figure 25, with an indication as to which participant groupings referenced individual sub-themes.

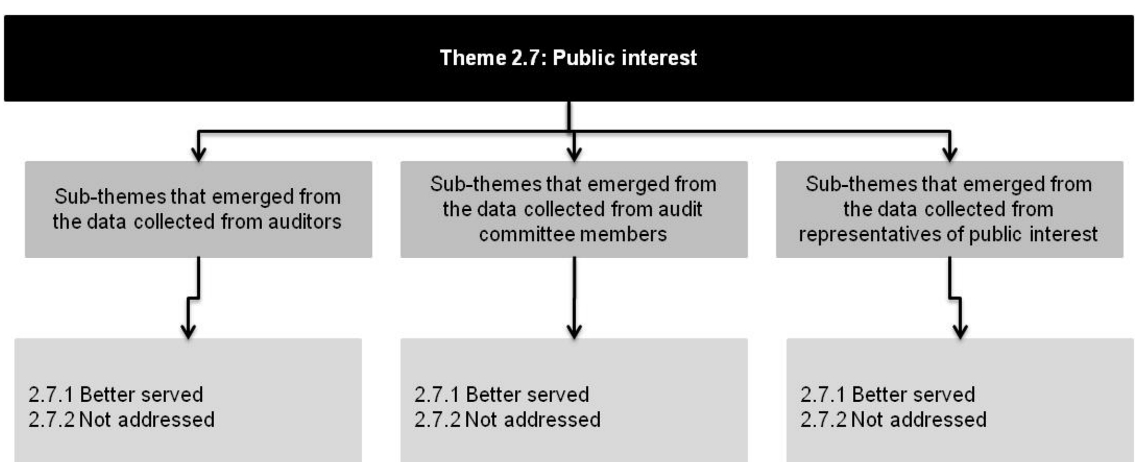

Figure 25. Theme 2.7: Public interest

Table 21

Theme 2.7: Summary with data excerpts

Theme 2.7	**Explanation of theme 2.7**
Public interest	‘Public interest’ has been defined as follows for the purposes of this research, as established in Chapter 2: The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the ‘public interest’, the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism.
Sub-theme 2.7.1	**Explanation of sub-theme 2.7.1 and extracts from participants**
Better served	‘Better served’ relates to the perceptions of research participants that the implementation of the proposed audit framework in South Africa would result in auditors being able to address their ‘public interest’ objective at a superior level than under the current audit model.
	“I think it will serve the public interest in that auditors will be viewed as being more independent which will also assist in restoring some of the confidence and credibility that the profession has lost in the recent past.” – P15e (RPI)
	“The proposed concept of creating distance between the client and the auditor in terms of fee negotiation would work well to lessen the dependency of audit firms on audit fees from certain clients. This would therefore also strengthen independence and encourage auditors to focus more on those they are actually accountable to- the shareholders rather than the client. These factors indicate a better service to the public interest.” – P15d (RPI)
	“The model will certainly serve the public interest in that auditors’ independence will be strengthened.” – P15e (RPI)
Sub-theme 2.7.2	**Explanation of sub-theme 2.7.2 and extracts from participants**
Not addressed	‘Not addressed’ relates to the perceptions of research participants that the implementation of the proposed audit framework in South Africa would result in auditors being unable to serve the ‘public interest’, the primary objective of the audit.

	"Remember that the auditing profession is going to object to this proposal in the strongest terms and that court action is, I believe, inevitable. If this proposal was in fact passed and came into being, the auditors may be resentful or may even leave the profession… A resentful auditor who is auditing the client because he is obliged to do so is, I believe, not good for the client and not good the public interest." – P15c (RPI)
	"You see, it's a yes and no, right, because, if you're going to have the same auditing firms, only on a different model, how is it going to help audit quality? Who are they reporting to? Are they still reporting to the same audit committee who is totally incompetent? Then you're not fixing anything. So changing the operating model doesn't mean you're fixing the outcome. As I said to you earlier, you've got to look at all the challenges around audit committees. The quality of the people, the competence of the audit committee, the composition of the audit committee members, the hours versus the fees we're getting, the issue around the training of the firms. So, (the) whole eco system (…) needs to be fixed to get to the outcome." – P9 (AP)
	"I don't know why an auditor who was not doing what (he/she) should have been doing, would (then) be able (to)… I don't know why it would be any different? I don't think, adding the IRBA in, as an additional layer of complexity, necessarily adds to the quality of it. If we're saying that, effectively, the IRBA would be like a second audit committee, then I think we're wasting resources, in a country that is already scarce on resources." – P10 (AP)

4.2.2.8 Theme 2.8: IRBA as a SAI

The eighth theme, IRBA as a SAI, refers to the expanded mandate of IRBA under the proposed audit framework. This theme comprises five sub-themes, each of which has been summarised in Table 22, with data excerpts. This theme has been visually presented in Figure 26, with an indication as to which participant groupings referenced individual sub-themes.

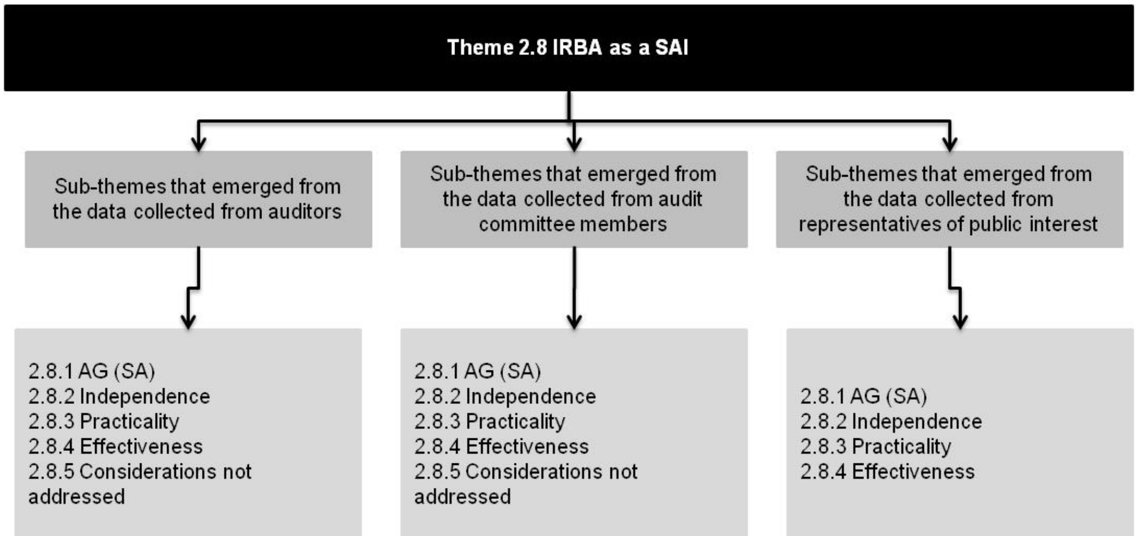

Figure 26. Theme 2.8: IRBA as a SAI

Table 22

Theme 2.8: Summary with data excerpts

Theme 2.8	**Explanation of theme 2.8**
IRBA as a SAI	'IRBA as a SAI' refers to the expanded mandate of IRBA under the proposed audit framework.
Sub-theme 2.8.1	**Explanation of sub-theme 2.8.1 and extracts from participants**
AG (SA)	'AG (SA)' refers to the public sector auditor in South Africa, who is regarded as a SAI under the Constitution.
	"You know, we have a supreme audit institution…That's the Auditor General. And, the Auditor General doesn't have capacity to do all the audits. I mean it's a solid institution…" – P3 (ACM)
	"First of, you cannot use this… That is the AG… It's who they are…Don't say supreme audit, you're not the Auditor General, you're not in the Constitution…" – P14 (RPI)
	"SAI's are generally accepted to be an external audit entity responsible for oversight on government spending as opposed to a regulator overseeing audits in the private sector. In South Africa we already have a SAI, that is, the Auditor-General of South Africa and it is a Chapter 9 Constitutional Entity." – P15e (RPI)
Sub-theme 2.8.2	**Explanation of sub-theme 2.8.2 and extracts from participants**
Independence	In this context, 'independence' refers to the ability of IRBA as a SAI to reach conclusions without being affected by influences that could

	compromise the SAI's professional judgement.
	"I think in South Africa independence of this SAI from other government entities is important and therefore the entity's funding model is also important to ensure that it is seen to be independent from those it is regulating." – P15e (RPI)
	"Well, I think, the big thing is around ethics and integrity. So, in a supreme audit institution, it's reputation. The people that run that thing must (commit to) a higher standard of ethics (…) you know, you can't have your supreme audit constitution being compromised in terms of reputation (...)." – P9 (AP)
	"And the kind of corruption we witness in our country, if people take hold of the supreme audit institution, and are not committed to the best of ethics and transparency, you could create a real monster." – P3 (ACM)
Sub-theme 2.8.3	**Explanation of sub-theme 2.8.3 and extracts from participants**
Practicality	'Practicality' relates to the perceptions voiced by research participants about the actual functioning of IRBA as a SAI on a day-to-day basis, rather than the idea of this.
	"My concerns are primarily around the practicality of requiring the audit regulator to assess risk and complexity of clients and appoint auditors to these clients" – P15d (RPI)
	"I don't think, adding the IRBA in, as an additional layer of complexity, necessarily adds to the quality of it. If we're saying, that effectively, the IRBA would be like a second audit committee, then I think we're wasting resources, in a country that is already scarce on resources." – P10 (AP)
	"Firstly an understanding of how it operates, from start to finish, in terms of (…) the funding model, how it's established, who are the representatives of IRBA, etc. The elements that make up the leadership of that organisation. The purpose, their role and how they effectively are planning to oversee the audit profession, and what exact role (will they) be playing within the audit profession as well as the influence that they're going to be having with auditor and audit clients. And then, similarly, because, I'm assuming they're going to need up-skilling and significant resources. The criteria that they're going to be using in terms of staff, etc. so that you're confident that

	there's appropriately qualified and appropriately trained people who are leading this organisation." – P4 (ACM)
Sub-theme 2.8.4	**Explanation of sub-theme 2.8.4 and extracts from participants**
Effectiveness	'Effectiveness' refers to the degree to which IRBA is successful in fulfilling all their roles and responsibilities as a SAI.
	"The failures we find with audit firms, you could find the same with supreme audit institutions." – P3 (ACM)
	"The supreme audit institution needs to have teeth. At the moment the IRBA is like a bull dog with false teeth." – P6 (ACM)
	"So, we (take) drastic action as firms when there's an issue on audit opinion. Deloitte are here to take drastic action. So then you ask again, the regulator missed all of this, what's the action taken against the regulator?" – P11 (AP)
Sub-theme 2.8.5	**Explanation of sub-theme 2.8.5 and extracts from participants**
Considerations not addressed	'Considerations not addressed' refers to those aspects of the proposed audit framework, specifically in relation to the role of IRBA as a SAI, that have not been examined under the proposed audit framework.
	"So, if you had any issues, in terms of your relationship with the client and in terms of your fee with the client, you'd have to go back to the IRBA, and… would they reimburse you for anything the client could not reimburse you for?" – P7 (AP)
	"Would that mean that… Will they be eliminating the review process? Or that review process will continue? Because that will derive what sort of responsibility they would be willing to take, you know?" – P8 (AP)
	"So, if IRBA says you going to audit, Company X… And Company X is a listed company, and you can only charge a million…?" – P2 (ACM)

4.2.2.9 Theme 2.9: Changed role of audit committee

The ninth theme, 'changed role of the audit committee', refers to the new capacity of the audit committee under the proposed audit framework. This theme comprises two sub-themes, each of which has been summarised in Table 23, with data excerpts. This theme has been visually presented in Figure 27, with an indication as to which participant groupings referenced individual sub-themes.

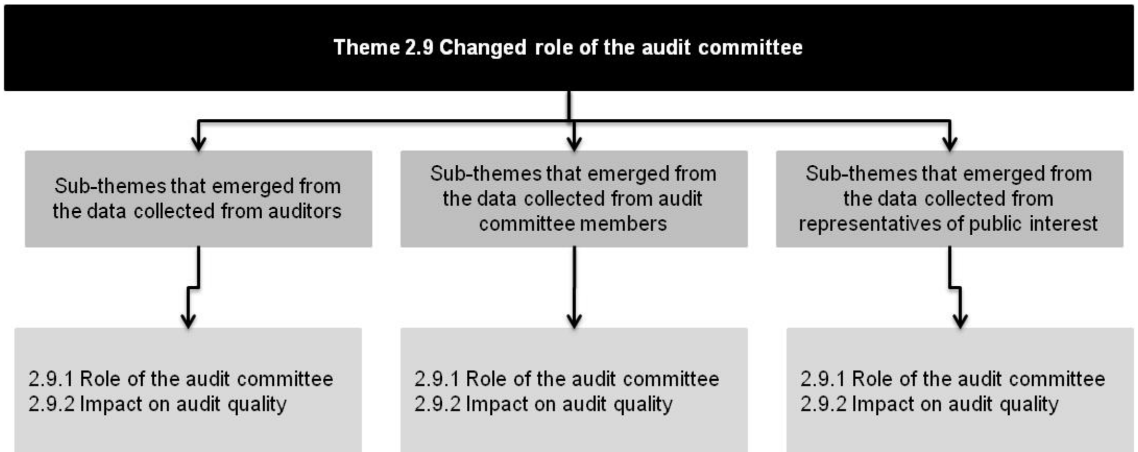

Figure 27. Theme 2.9: Changed role of audit committee

Table 23

Theme 2.9: Summary with data excerpts

Theme 2.9	**Explanation of theme 2.9**
Changed role of the audit committee	‘Changed role of the audit committee’ refers to the new capacity of the audit committee under the proposed audit framework.
Sub-theme 2.9.1	**Explanation of sub-theme 2.9.1 and extracts from participants**
Role of the audit committee	‘Role of the audit committee’ refers to the function of the audit committee under the proposed audit framework.
	“This is also likely to lessen the role of the audit committee. This may [disincentivize (sic)] (discourage) governance structures from taking the accountability that is required of them.” – P15d (RPI)
	“I think it will take away a lot of powers from the audit committees which will make them less effective to be honest with you.” – P11 (AP)
	“The audit committee is responsible for risk management. The actual risk faced by the audit committee would increase. Fewer people would want to serve on audit committees. This would remove the right of the audit committee to (make decisions) and manage risk… If people feel that this model changes the risk associated with serving on an audit committee, you may lose skilled and experienced people. This will have an impact on the functioning of the audit committee.” – P6 (ACM)
Sub-theme 2.9.2	**Explanation of sub-theme 2.9.2 and extracts from participants**

Impact on audit quality	'Impact on audit quality' refers to the changed level at which a client or other interested party can rely on the validation provided by the auditor, based on the new function of the audit committee under the proposed audit framework.
	"The element of greed and materiality, or financial interests, if these are removed, I see positivity. It will, improve… I think so. It will improve the quality." – P8 (AP)
	"You expect that the audit quality would improve, simply because, there's no longer influence. From a client as well as the audit committee… you'd expect that (to improve) assurance quality…" – P4 (ACM)
	"I don't think audit quality is a function of who appoints the auditor." – P15e (RPI)

4.2.2.10 Theme 2.10: MAFR and effective communication

In this context, 'MAFR' refers to the mandatory audit firm rotation regime per the Companies Act (RSA, 2008), which requires rotation of the audit firm. This means that a different audit firm is appointed after the prescribed rotation period (maximum 10 years), and the new firm designates the new engagement partner for the audit (RSA, 2008). MAFR becomes effective in South Africa in 2023 (RSA, 2008). 'Effective communication' relates to the requirement under the proposed audit framework that the prior and new auditor engage in a productive manner in the audit handover process. This theme emerged from the data collected from all three participant groupings, and it was not deemed necessary to break this theme down into sub-themes. This theme has been summarised in Table 24, with relevant participant excerpts.

Table 24

Theme 2.10: Summary with data excerpts

Theme 2.10	**Explanation of theme 2.10 and extracts from participants**
MAFR and effective communication	'MAFR' refers to the mandatory audit firm rotation regime per the Companies Act (RSA, 2008), which requires rotation of the audit firm. This means that a different audit firm is appointed after the prescribed rotation period (maximum 10 years), and the new firm designates the new engagement partner for the audit (RSA, 2008). MAFR becomes effective in South Africa in 2023 (RSA, 2008). 'Effective communication' relates to the requirement under the proposed audit

	framework that the prior and new auditor engage in a productive manner in the audit handover process.
	"It's like telling a divorced couple to communicate better."– P11 (AP)
	"I think it is critical that the new auditor and the old auditor sort of, work together. When I say work together, (I mean) that there (should be) a proper handover process. So, yes, anything that, sort of, says, you've got to work together better, I think that would, I think that would be fantastic." – P10 (AP)
	"(…), if that previous auditor could talk to you! You know, I've been (in a meeting with a) previous auditor. The man had no time to talk to me. It's like, that communication is already forced. If he, could have it his way, he would not have me there. He would just sign a letter to say, 'please go ahead, everything is fine'. I don't know, about that forced communication, because I think it is there, but people are not doing it the way it should be done." – P7 (AP)

4.2.2.11 Theme 2.11: Participant recommendations

In this context, 'participant recommendations' refer to the suggestions made by research participants as to how the proposed audit framework could be tailored to better serve the 'public interest'. This theme comprises three sub-themes, each of which has been summarised in Table 25, with data excerpts. This theme has been visually presented in Figure 28, with an indication as to which participant groupings referenced individual sub-themes.

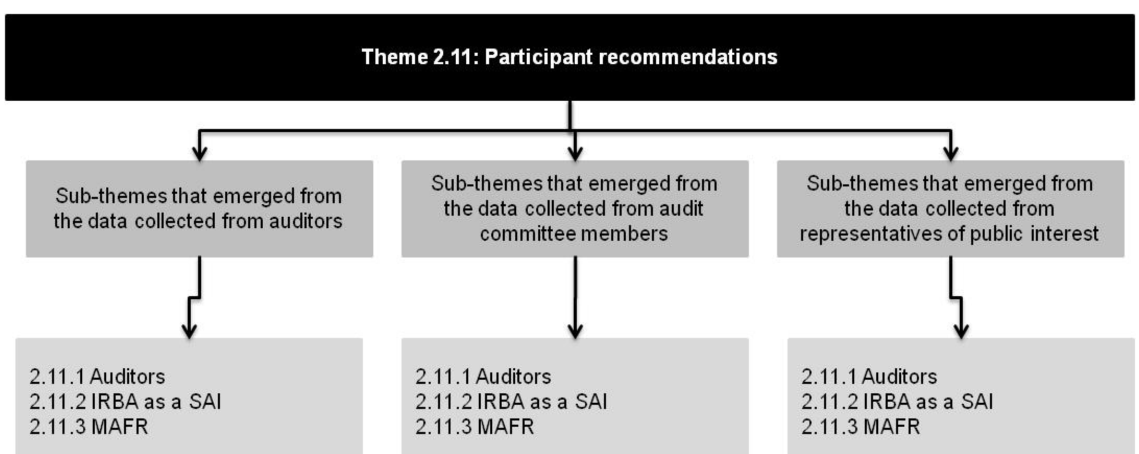

Figure 28. Theme 2.11: Participant recommendations

Table 25

Theme 2.11: Summary with data excerpts

Theme 2.11	**Explanation of theme 2.11**
Participant recommendations	Participant recommendations refer to the suggestions made by research participants as to how the proposed audit framework could be tailored to better serve the 'public interest'.
Sub-theme 2.11.1	**Explanation of sub-theme 2.11.1 and extracts from participants**
Auditors	'Auditors' refer to those independent individuals, or teams thereof, that conduct an official financial examination of an organisation's records (Lexico, 2020a). This sub-theme specifically considers participant recommendations around auditors under the proposed audit framework.
	"I do not believe the statement that the auditor may not challenge the audit fee. Anything can be challenged. It is how one deals with those challenges. Will this be on review to the High Court, or is there a lower appeal process?" – P15a (RPI)
	"The audit fee would be unchanging irrespective of whether the audit report is qualified or unqualified. I guess, as much as, you're not going to change your fee, based on qualification or non-qualification; qualification or no qualification also, speaks to the expertise, the specialism that you would need, to be able to get to, the answer of, qualified or non-qualified. So, that would be something that I guess would have to be looked at, to say… Do you build a firm that has all of that specialism, some are going to be redundant, and some are not going to be redundant? But do you have enough? Are you getting enough fees, to actually pay for those that you don't use?" – P12 (AP)
	"I'm in favour of that (prohibiting firms from providing non-audit services to audit clients). Or, limited non-audit services. Based on 25% of the external audit fee." – P5 (ACM)
	"Firms might not necessarily want to do all that (audit) work any longer, because fees from non-audit services are far in excess." – P4 (ACM)
Sub-theme 2.11.2	**Explanation of sub-theme 2.11.2 and extracts from participants**
IRBA as a SAI	'IRBA as a SAI' refers to the expanded mandate of IRBA under the proposed audit framework. This sub-theme specifically deals with

	participant recommendations around IRBA as a SAI under the proposed audit framework.
	"It starts with lead by example. For me, that's the foundation of everything. If you've got lead by example, it's another one of these overused terms like public interest. But, if you get 'lead by example' right, your thinking is right, your ethics is right, your methodologies are right, you've got to set the example and you've got to be bloody fantastic at it. Then, all the other stuff that, when we typically say, like integrity, like ethics, like public interest, will fall into place." – P13 (RPI)
	"Will there be measures in place to ensure that each audit is conducted according to the highest quality standards?" – P15a (RPI)
	"I believe audit practices should be created and licenses granted only to those who have a genuine passion and desire to provide high quality audit services and develop the profession." – P15b (RPI)
	"As a supreme audit institution the IRBA should have greater access to funding and greater inspection, investigative and prosecutorial powers." – P15d (RPI)
	"There's going to be a lot of work going into research, to say, almost building up the audit library, of clients, and your type of companies that you get in the private sector." – P14 (RPI)
	My very initial comment, would be, is if we do something like that, the only impact that it will have is our independence. Because, if for example something goes wrong with an audit, then the first thing they will say is but the IRBA thought that this, you know, so, that is just, whenever we think about this model, that's, the first thing is our independence, our own independence, not the auditor's independence. But, obviously, I mean, there must be ways of dealing with that. A lot of people are talking about such a model, and, it's something that could possibly be considered. And, when people propose this model to us, I always, I never say to them no, we have to be independent. I say to them, the independence is an issue, but we need to explore it a little bit further." – P15 (RPI)
	"The entity's funding model is also important to ensure that it is seen to be independent from those it is regulating." – P15b (RPI)
	"They should be totally independent, it should be made up of people

	outside the profession, you know. Like lawyers, doctors or somebody else, that are not compromised; because you can't have the same people regulating themselves. Okay, that's my view. So you've got to look at ethics and independence." – P9 (AP)
	"Your auditing body, goes and reports, either Minister of Finance, or they report to Parliament. We are reporting on the audit profession. Private sector and public sector, and this is what's happening. So, I would say, then, the institution would be Parliament."– P14 (RPI)
	"I would expect a supreme audit institution (SAI) or an equivalent Chapter 9 Constitutional Entity to hold itself accountable to the public and to Parliament. I would also expect proper internal governance structures to be in place to avoid regulatory capture." – P15b (RPI)
	"Chapter 9 institutions are accountable to National Assembly. I assume that the IRBA will hold itself internally accountable in the same way it does now." – P15a (RPI)
	"I think the use of the term supreme audit institution (SAI) needs to be qualified as this proposed mandate is not one that is typically fulfilled by a SAI. SAI's are generally accepted to be an external audit entity responsible for oversight on government spending as opposed to a regulator overseeing audits in the private sector. In South Africa we already have a SAI, that is, the Auditor-General of South Africa and it is a Chapter 9 Constitutional Entity. *Whilst I am not sure about the appropriateness of referring to this extended function/mandate as being one commensurate with a SAI, I do, however, support this proposed extended mandate of the IRBA and for the IRBA to be given Chapter 9 status in fulfilling this mandate. I would also support the idea of the IRBA being a comprehensive regulator of the accounting and auditing profession in South Africa, where all professional accounting organisation's and its members (e.g., SAICA, SAIPA, etc.), audit firms, registered auditors and audit committee members fall under the regulation of the IRBA."* – P15b (RPI)
	"Capacity of the IRBA will have to be increased." – P15e (RPI)
	"You'll have a standard, one (type of) software, one (type of) audit software. One tool. And it must all be fixed… Rated all the time,

	updated all the time. I mean, think about audit firm A versus audit firm B, audit firm C, how much investment are you willing to put into that software? How much investment are you going to put in that methodology? How well do you train your staff? Again, once I got this software, once I got the methodology, then the question is how do I take that, and now get it; trained to my people?" – P9 (AP)
	"To manage a practice, there has to be some sort of a certainty, or some sort of forecast, because, you know, in the audit practice, in terms of the training, you know, with the new joiners, when they join. We offer a training contract for three years or four years or five years, depends. Now, if there is no certainty, there has to be… There will be an impact on this training contract, because, then, this training contract, also needs to be changed, instead of having a full term. SAICA needs to come on board as well. Where they try to do a contract in terms of a pool. And wherever there is a demand, demand and supply, (…) try to allocate those trainees (…) to that particular firm. So, if it's only IRBA and the audit committee and the auditors, there has to be other parties involved. Because, there is an impact on the people who's going to be working on the ground." – P8 (AP)
	"We can't negate the fact that firms are also businesses. So, in one wanting to build the public interest, we also need to be sustainable, from a business perspective. So, that should also be embedded in this model. Is it a capping of margins, which, might not be fair, if you cut margins, because, my costs and my investment as a Big Four, might be greater than the costs and investments of a smaller firm. You know? So, or, also, maybe, I have the time and I have the reputation in the industry. You know? I've built myself, I've got, you know, the resources, I have to develop myself as a Big Four, but how do we then help the smaller firms to get them to that level, when they don't have that historic advantage? So, I think those are things that need to be taken into account, and, they would only be taken into account if all stakeholders actually sit together and say, how do we work on a model that will take us forward?" – P12 (AP)
	"I would really recommend that there are robust procedures and policies in place if this model were to be adopted. And, in those criteria being used… First we need to (…) determine is it allocation of

	auditors for all sizes of businesses? And have it in a (sort of) grading system, to say what kind of work could be allocated to you… But in the nitty gritty of the criteria, you need to also consider the softer issues, that I was talking about… to say who are the owners of the business, what is the structure of the business, what kind of business, what kind of an auditor, will have a rapport with this auditee?" – P1 (ACM)
Sub-theme 2.11.3	**Explanation of sub-theme 2.11.3 and extracts from participants**
MAFR	'MAFR' refers to the mandatory audit firm rotation regime, which requires rotation of the audit firm. This means that a different audit firm is appointed after the prescribed rotation period (maximum 10 years), and the new firm designates the new engagement partner for the audit (RSA, 2008). MAFR becomes effective in South Africa in 2023 (RSA, 2008). This sub-theme specifically focuses on participant recommendations around the MAFR regime under the proposed audit framework.
	"But, you need to give people a ten year tenure. Five years are not enough for you to understand and add the kind of value that you should be." – P5 (ACM)
	"Will the compulsory rotation help? It will help a bit on the issue of objectivity, but then the issue of understanding and knowledge of the business, what will happen to that? Because, you know, auditors will, would write to each other, these are the things I was dealing with, but they, the institutional understanding of the business… What is the trade-off? I guess (that) is the issue." – P1 (ACM)
	"I think it also depends on the tenure that we're putting in place. Because, you don't want to also be too disruptive to the client to a point where they're not even so open about helping you understand them. So, it's a trade-off between the two." – P12 (AP)

4.3 Concluding remarks

In this chapter the detailed findings were provided based on the participant responses to the research questions. The results were classified into 'thematic clusters', themes, and where applicable, sub-themes and substantiated by key quotes from the interviews. In Chapter 5, the researcher will provide a detailed discussion and interpretation of these findings.

CHAPTER 5: DISCUSSION OF FINDINGS

5.1 Introduction

In Chapter 4 the research findings were presented. In this chapter, the research findings and insights regarding the research question are discussed and related to the existing body of knowledge as discussed in Chapter 2. The research question, as discussed in Chapter 1, consists of three independent but interrelated aspects, as indicated in Figure 29.

Figure 29. Research question and the three independent but interrelated aspects

This chapter begins with a discussion of the findings regarding the current audit model (Section 5.2.1). In Section 5.2.2, the findings regarding the proposed audit model are discussed. The chapter concludes with a brief summary of what a future audit model could look like in South Africa, considering its role in establishing 'public interest' in the audit profession in South Africa and based on the research findings.

5.2 Discussion of findings

Two broad themes emerged from the data with smaller themes contained therein. The broad themes were labelled 'thematic clusters'. The two 'thematic clusters' were identified as:

- Thematic cluster 1: Participants' perceptions regarding the current audit model and its role in establishing public interest in the audit profession in South Africa and recommendations in terms of a future audit model
- Thematic cluster 2: Participants' perceptions regarding the proposed audit framework and its role in establishing public interest in the audit profession in South Africa

Where appropriate, the ‘thematic clusters’ were broken down into a second unit of analysis that was labelled ‘themes’. In certain instances it was appropriate to break down the themes into even smaller units of analysis, and these were labelled ‘sub-themes’. The roadmap included at the beginning of Chapter 4 in Table 3 provides a useful summary of all the ‘thematic clusters’, themes and sub-themes identified.

5.2.1 Thematic cluster 1: Participant perceptions regarding the current audit model and its role in establishing public interest in the audit profession in South Africa and recommendations in terms of a future audit model

This ‘thematic cluster’ deals with the perceptions of the research participants around the current audit model and its role in establishing ‘public interest’ in the audit profession in South Africa. The findings are discussed in terms of the themes and sub-themes that emerged from the thematic analysis. For the sake of clarity, each theme is introduced by again providing a brief summary thereof as was provided in Chapter 4. This is followed by the naming and discussion of the each of the sub-themes within each theme. The discussion of each sub-theme ends with a brief summary.

This section is structured according to the themes as presented in Chapter 4 and summarised in Figure 30.

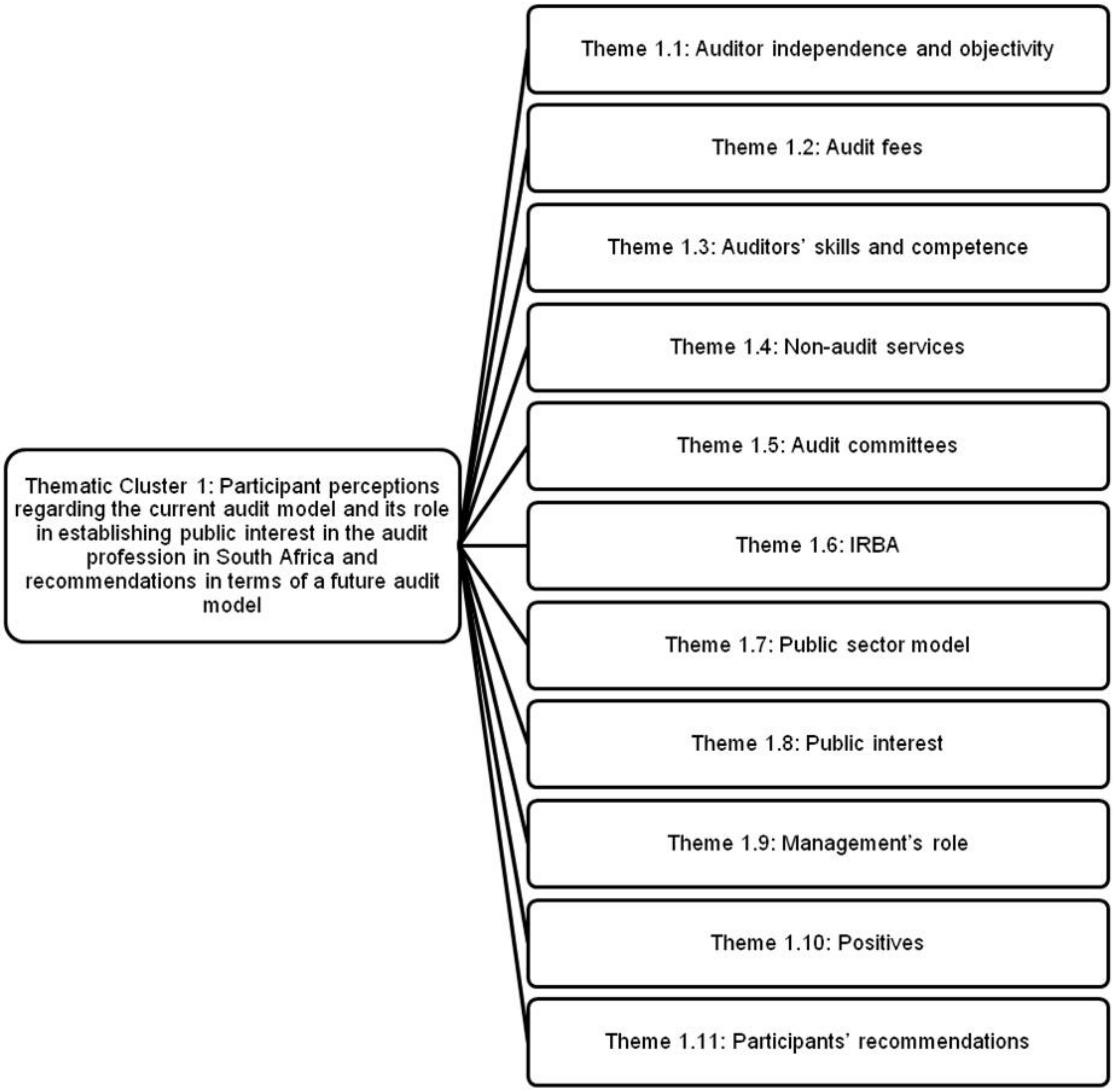

Figure 30. Summary of themes identified as part of 'thematic cluster' 1

5.2.1.1 Theme 1.1: Auditor independence and objectivity

In relation to the first theme, auditors' independence refers to the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b). Objectivity refers to the ability of the auditor to be impartial in assessing the financial records of an organisation. This theme comprises eight sub-themes which have been summarised in Figure 31.

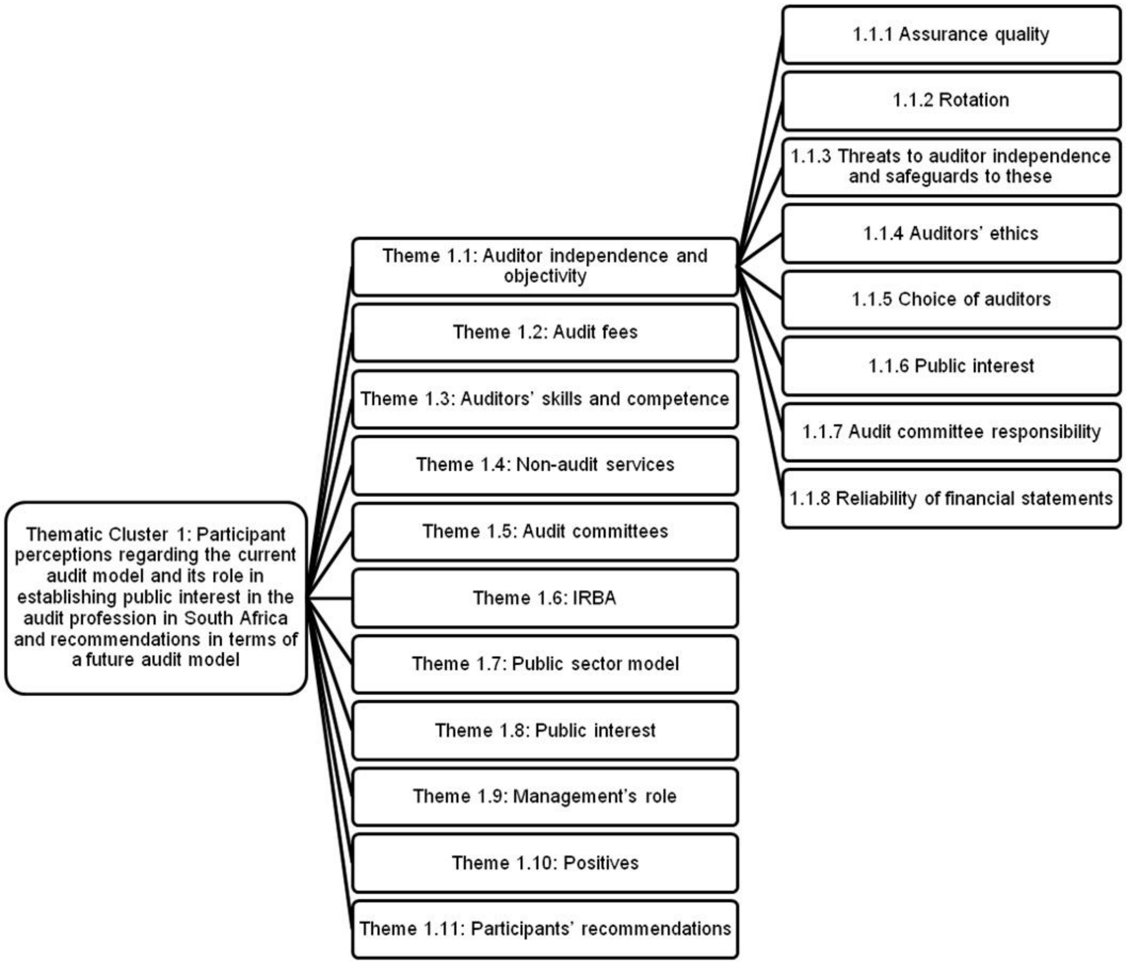

Figure 31. Theme 1.1 and sub-themes

5.2.1.1.1 Sub-theme 1.1.1: Assurance quality

Assurance quality refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. The objective of the audit is to provide confidence to investors that the financial statements are free from material misstatement, whether due to fraud or error.

The key question in terms of assurance quality relates to the role of the auditor's independence and objectivity. Despite their varying backgrounds, research participants were unanimous in stating that the auditor's independence and objectivity are vital to assurance quality. P10 (AP) summarised this relationship quite succinctly, stating that *"there's a clear correlation between auditor independence and, and the quality of audit"*. P12 (AP) further emphasised the importance of the auditor's independence by stating that it is *"literally the cornerstone of quality you're going to provide".* This viewpoint is supported by literature which directly links the auditor’s independence and audit quality (Francis, 2004, 2011; Tepalagul & Lin, 2014; Watkins et al., 2004). The importance of auditor independence is emphasised in the IRBA CPC, which requires that RAs maintain their independence when conducting audit engagements. Therefore, a decrease in the independence of the auditor would lead to a decrease in audit quality.

In reflecting on the probable causes of the recent audit failures, of the 15 participants interviewed, only five mentioned auditor independence as a contributing factor. Of these five, only one was a representative of the ‘public interest’, and only one was an audit committee member. The remaining three participants were auditors. This would create the impression that auditors are aware of their responsibility to remain independent at all times to ensure a quality audit. What’s concerning however, is that audit committee members and representatives of ‘public interest’ have not necessarily identified the link between possible breaches of auditor independence and the recent audit failures. If auditor independence is critical for assurance quality, then one would expect that every role player in the audit process would be concerned with auditor independence at every stage of the audit. One would also expect that the representatives of ‘public interest’ would recognise that recent audit failures could have been contributed to by a lack of auditor independence.

5.2.1.1.2 Sub-theme 1.1.2: Rotation

The IRBA CPC provides a simple explanation of how familiarity and self-interest threats to auditor independence may arise: “When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created” (IRBA, 2018b, p. 115). In order to address these threats, individual audit partners are required to alternate between clients, at set intervals. IRBA has also made it compulsory for audit clients to switch audit firms at specific interludes. There, are two types of rotation – there is auditor rotation within firms, and then there is audit firm rotation. The IRBA CPC and the Companies Act dictate auditor rotation terms (within firms), with the former requiring that after serving as audit partner for seven consecutive years, the audit partner is subject to a five year cooling off period (IRBA, 2018b). The Companies Act, on the other hand, requires that after serving as the designated auditor for five years, the auditor is subject to a two year cooling off period (RSA, 2008).

MAFR is the newest of the safeguards to auditor independence implemented in South Africa (Rademeyer & Schutte, 2018). MAFR is effective for financial periods beginning on or after 1 April 2023 (IRBA, 2018a). The MAFR rule requires that an audit firm cannot serve as the auditor of a ‘public interest entity’ (as defined in the IRBA CPC) for more than 10 consecutive years (IRBA, 2017b). Thereafter, the firm is subject to a five year cooling off period, before it becomes eligible for reappointment (IRBA, 2017b).

Both research participants and the relevant literature have differing views on the effectiveness of auditor rotation and audit firm rotation. In this section, both auditor rotation and audit firm rotation will be discussed.

Only two of the 15 research participants mentioned the concept of auditor rotation within firms. Both of these participants believe that this is an effective safeguard against the familiarity threat to auditor independence, brought about by longstanding relationships between the auditor and audit client as succinctly stated by P1 (ACM): *"…but the rotation of partners and senior managers can help mitigate the risk."* The participant did not expand on why this may be the case, perhaps considering it self-explanatory that by rotating senior members of the audit team, the new partner and or senior manager would not have a relationship with the client, and therefore may be more objective in their assessment of the entity's financial statements.

The concept of audit firm rotation was discussed by several of the research participants, in light of the fact that it becomes mandatory in the coming years. Research participants expressed mixed views on the matters, with P15 (RPI) arguing that it assists in strengthening auditor independence and raising awareness amongst the role about the importance of auditor independence. On the other hand, P5 (ACM) was dismissive of the concept of MAFR, stating *"I don't buy into mandatory firm rotation"*. P5 (ACM) did not expand on why the participant held this view. Given that P5 (ACM) also stated the following: *"Audit Firm X's been the auditors of Listed Company ABC (that recently suffered a massive corporate failure) for twenty years now; I've been on the board, for twenty years, right"*, P5's (ACM) comment about MAFR seems like a strange one. However, it may well be that there are underlying tensions or relationships between the audit committee members and the auditors of an organisation, that would result in this perspective. Future research could do well to investigate the nature of the relationship between audit committees and auditors to better understand this phenomena as discussed in Chapter 6.

The research on whether audit partner rotation and audit firm rotation enhances auditor independence, and therefore audit quality shows mixed views (Gates et al., 2006; Geiger & Raghunandan, 2002; Harber, 2016; Harber & Hart, 2018; Kaplan & Mauldin, 2008; Knechel & Vanstraelen, 2007; Lennox, 2014; Mechelli & Cimini, 2017; Ottaway, 2014; Rademeyer &

Schutte, 2018; Ruiz-Barbadillo et al., 2009; Tepalagul & Lin, 2014; Thomson, 2018). These findings have been summarised in Table 26:

Table 26

Research findings on whether auditor rotation and, or, audit firm rotation has an impact on auditor independence, and, or, audit quality

Researcher/s	**Country in which research findings were obtained**	**Findings on auditor rotation (within firms)**	**Findings on audit firm rotation**
Kaplan and Mauldin (2008)	United States	Non-professional investors do not find a difference in audit quality, whether there is audit partner rotation or audit firm rotation.	
Geiger and Raghunandan (2002)	United States		Extended audit firm tenure is not associated with audit failure, and audit firm tenures do not necessarily need to be shortened.
Gates et al. (2006)	United States	Audit partner rotation does not increase the individual's confidence in financial statements.	Audit firm rotation incrementally increases the individual's confidence in financial statements.
Shockley (1981)	United States		Audit firm tenure does not have a significant impact on perceptions of auditor independence.
Ruiz-Barbadillo et al. (2009)	Spain		MAFR may have undesirable effects on audit quality.
Knechel and Vanstraelen (2007)	Belgium		There is little evidence for audit firm tenure either increasing or decreasing audit quality.
Harber and Hart	South Africa		Academics do not believe that MAFR will

(2018)			enhance audit quality; however, academics do believe that MAFR will improve investor perceptions of auditor independence.
Harber (2016)	South Africa		Audit partners do not believe that MAFR will improve audit quality; rather, they believe that MAFR will have the unintended consequence of decreasing audit quality.
Rademeyer and Schutte (2018)	South Africa		There is no evidence that MAFR has been successfully implemented anywhere else in the world.
Thomson (2018)	South Africa		Audit committee members do not believe that MAFR will improve auditor independence.
Mechelli and Cimini (2017)	Italy	Audit partner rotation also increases the reliability of financial statements. However, audit firm rotation and audit partner rotation are not considered perfect substitutes for one another.	Audit firm rotation results in increased reliability of financial statements due to a decrease in opportunistic behaviours. However, audit firm rotation also results in the loss of client-specific knowledge.
Ottaway (2014)	Australia		The costs of MAFR outweigh the benefits.
Lennox (2014)	Global		Many countries introduced MAFR

			regimes, only to discontinue them later, including Austria, Canada, Singapore and Spain.

There are a few important aspects to consider in terms of the above findings. Firstly, in as far as audit firm rotation goes, the South African research is very limited, and hinges on what academics and other role players expect the impact of MAFR might be on auditor independence and audit quality, as it does not exist in reality yet. Secondly, the global research around audit firm rotation is heavily weighted towards research in the United States, and the findings are mixed in terms of the effectiveness of audit firm rotation in ensuring auditor independence and enhanced audit quality. Thirdly, from an auditor rotation perspective (in-house rotation), the research findings are also mixed as to whether this is effective in ensuring auditor independence and audit quality. This research is also primarily available from a global perspective rather than a South African perspective.

The existing research findings together with the responses received from research participants do not bring the researcher any closer to understanding the actual impact on the South African audit environment of auditor (in-house) rotation and audit firm rotation. More research needs to be conducted in these areas, especially as we near the date for the implementation of MAFR in South Africa as discussed in Chapter 6.

5.2.1.1.3 Sub-theme 1.1.3: Threats to auditor independence and safeguards to these

This theme refers to matters that could jeopardise the ability of the auditor to reach a conclusion without being affected by influences that could compromise the ability of the auditor to act impartially in conducting an audit engagement; and in addition, the measures in place to mitigate these risks.

Auditor independence is crucial to ensuring audit quality. Nevertheless, there are some risks that exist that could impair the auditors independence. The auditing profession as a whole is aware of these dangers. As a result, there are some shields in place to protect the independence of the auditor.

As is evident from the discussion to this point, auditor independence (both in mind and in appearance) is absolutely critical to ensure audit quality. Consideration must therefore be given to threats to auditor independence and the safeguards available to these. When considering the safeguards available to address these threats, one also needs to consider the effectiveness of these safeguards.

Firstly, the issue of audit fees being paid by the auditee to the auditor, *"the payor model"*, as it is called by P15 (RPI), represents a threat to auditor independence. This is because *"it's difficult to secure the auditor's independence if the auditor is paid by the client"* – P15 (RPI).

Audit firms rely on the audit fees received from clients in order to grow and develop, retain staff, etc. Therefore, audit firms may be hesitant to raise major issues with certain clients as they do not want to lose the audit fee. This sentiment was shared by various research participants, including P14 (RPI) who stated that *"if I'm buddy-buddy, and I know I can twist the auditors, they will do whatever I say because I know that they're charging me a lot more than they would charge a similar company, but then also that they will do whatever I say. They will massage that report to make it look brilliant. Then, I'm going to go with them."* In existing research and literature, this is known as the agency problem. Auditors are paid by those very same financial managers whom they are responsible to audit (Citron & Taffler, 2001; Cunningham, 2005; Dontoh et al., 2013; Power, 2003; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002; Watts & Zimmerman, 1983). The auditor ends up conflicted as to whether to serve the 'public interest', or to cater to the whims of the client, who ultimately will pay him (Citron & Taffler, 2001; Cunningham, 2005; Dontoh et al., 2013; Power, 2003; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002; Watts & Zimmerman, 1983). Tang et al. (2017) support this view, as they reflect that management having the power to hire and fire auditors is a fundamental threat to the independence of the auditor.

Safeguards to this threat to auditor independence do exist with the primary safeguard being that audit committees should determine the audit fees, as opposed to management. This was included in the following the statement made by P15 (RPI): *"it's difficult to secure the auditor's independence if the auditor is paid by the client. But again, it's not something without a solution. The fees of the auditor must be determined by the audit committee, not by the client."* While this would be sufficient as a safeguard if audit committees were effective, participants had mixed views in terms of the effectiveness of audit committees, especially in relation to their duties around determining audit fees. This is discussed in great detail as part of the theme 'audit committees', in Section 5.2.1.5.

Secondly, consulting revenue (also revenue from 'non-audit services' or 'management advisory services') represents a threat to auditor independence, when the auditor is providing both auditing and consulting services to the same client. This sentiment was strongly shared by the following participants: P14 (RPI): *"it's the consulting side where the firms make money"*, P3: *"the objective remains to grow market share, fee income from clients, because, you've got an audit partner on a job, who's now distracted, because he's finding opportunities within an audit, refers you to his colleagues, and then the drive is to earn the maximum income out of a particular audit client. And I think this can impact negatively on both; independence and audit quality."* and P5 (ACM): *"I would like to ban non-*

audit services. So, Firm X are doing the audit of Listed Company ABC, they become exceedingly greedy, and they want to do the due diligence when Listed Company ABC makes acquisitions. You can't be a referee and a player".

The existing research and literature strongly reflects agreement with these sentiments. The general consensus is that the provision of non-audit services to audit clients can be linked to impaired auditor independence (Ahmad et al., 2006; Bowie, 1986; Citron & Taffler, 2001; Sikka et al., 1998; Tepalagul & Lin, 2014; Watts & Zimmerman, 1983).

Once again, safeguards do exist to prevent non-audit services from impairing auditor independence. The main safeguard is once again to do with effective audit committees, as expressed by P10 (AP): *"the better audit committees (…) put safeguards in place around that. So, they need to approve, the non-audit services that the auditor might perform"*. While the audit committee limiting the nature and extent of non-audit services that the auditor may provide could be effective at mitigating this risk, it is reliant on the effectiveness of the audit committee. Once again, it is imperative to point out that research participants had mixed views on the effectiveness of the audit committee. This is analysed in depth in Section 5.2.1.5.

Lastly, close relationships between the auditor, management and audit committees can result in impaired auditor independence. This perspective was shared by the majority of the research participants, as indicated in the following selection of quotes from the data: P1 (ACM): *"as people who finish their training and grow within the auditing firm, they end up becoming the executives of the auditee. So, the current model, does pose those challenges because it creates this close relationship between the auditee and the auditor"*, P4 (ACM): *"when you sit as an audit committee and you're more lenient towards a Big Four Firm A or a Big Four Firm B, because you've had a relationship with that firm, as opposed to, (being) completely independent of that firm. Especially if you come from an audit background. And then, you're on the audit committee"* and P12 (AP): *"where, you've got a close relationship (between yourself and management)… that starts impairing objectivity as an auditor"*. The existing research would be in agreement with these sentiments, stating that close relationships between management, auditors and/or members of audit committees could create an actual or perceived threat to the independence of the auditor (Chapple & Koh, 2007; R. Hussey, 1999; R. Hussey & Lan, 2001).

Safeguards for close relationships between management, auditors and audit committee members do exist. These were eloquently expressed by P3 (ACM): *"there are a number of* *safeguards that the auditing profession currently has in place, including codes of conduct, quality control standards, professional engagement standards and generally the requirement of laws and regulations. Independence is entrenched through the IRBA code of professional conduct, which is consistent with the international ethics standards"*. While the existence of ethical codes, laws and regulations do represent existing safeguards, the question remains: who is monitoring the compliance there with? IRBA is an independent regulator of the profession, but how effective is IRBA at fulfilling their responsibilities? Research participants have expressed concerns over IRBA's effectiveness, stating that IRBA is *"reactive rather than proactive"* – P9 (AP). IRBA is discussed in greater detail in Section 5.2.1.6.

5.2.1.1.4 Sub-theme 1.1.4: Auditors' ethics

An auditor is ethical when the auditor acts in accordance with the fundamental principles of the IRBA CPC, that is, acting with integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour (IRBA, 2018b).

When considering auditor independence, one has to give consideration to individual auditor ethics. If the auditor is not ethical, the audit quality will not be there. As expressed by P6, *"There are instances where auditors deliberately look in the other direction"*. This is a clear example of unethical behaviour by auditors. Auditor ethics and auditor independence are both necessary for audit quality.

Furthermore, if the auditor is not ethical, there is nothing stopping the auditor from not being independent in the auditor's dealings. Take the example of VBS Bank, where the audit partner allegedly had a considerable loan with the bank. Clearly, the audit partner in question was not independent. By not declaring the existence of the loan, the audit partner also acted unethically.

All auditors are required to comply with the relevant ethical codes, including ISQC 1 and the IFAC Code (IAASB, 2018g; IFAC, 2006; Pflugrath et al., 2007). Pflugrath et al. (2007) found that the existence of ethical codes makes professional auditors more likely to act in an ethical manner. While the existence of the IFAC Code and ISQC 1 did not stop the VBS partner from acting unethically, research participants pointed out that only a small percentage of auditors have acted unethically and given the profession a bad name. Research participants went further as to state that IRBA has a responsibility to take disciplinary action against these rogue auditors, without blaming the profession as a whole.

This brings one back to the debate regarding the effectiveness of IRBA as a regulator, and in monitoring the compliance of auditors with the relevant ethical codes. An alternative perception is that auditor's should know better than to act unethically, as the extensive training undergone before qualifying as an auditor emphasises the need to act ethically. However, one is then forced to ask if auditors are effective at self-regulation? The fact that the profession was largely self-regulated when Enron collapsed (and prior to the implementation of SOX) suggests that the answer might be negative (DeFond & Francis, 2005; Parles et al., 2007).

5.2.1.1.5 Sub-theme 1.1.5: Choice of auditors

'Choice of auditors' refers to the ability of audit committees to nominate which audit firm should conduct the audit of the company they represent. Audit committees are able to nominate which audit firm should conduct the audit of the company they represent. Audit committees have the option to select any auditor for appointment, as long as the auditor is independent and has the necessary skills and competence to conduct the audit.

There are a limited number of audit firms that meet the requirements to audit large, complex entities. These requirements include regulatory requirements, for example, entities listed on the JSE can only be audited by JSE accredited auditors. As stated by P5 (ACM), *"so if you go to Small Audit Firm A, you've got two people that are JSE registered. If you go to Small Audit Firm B they've got nobody. Right? You go to Medium Audit Firm C, Medium Audit Firm D, they've got four people."* Effectively, in the small and medium audit firms, very few of their audit partners are JSE accredited.

Furthermore, there is a perception that audit quality is higher when the audit is conducted by a larger audit firm, rather than a small or medium audit firm. This view was confirmed by P10 (AP) who stated that *"some of those in the mid-tier firms, you can see them (…) completely out of their depth, dealing with these technical issues."* This perception is supported by the existing literature, for example, Sundgren and Svanström (2013) found that audit quality is higher when the audit is conducted by a Top Six audit firm (the big four firms plus Grant Thornton and BDO). The findings of Becker et al. (1998); Chen et al. (2013) and DeAngelo (1981) confirm this view.

Beyond this, some of these larger firms have suffered reputational damage in the recent past as expressed by P5 (ACM) who states that *"there are not enough auditors to choose from. The pool of auditors is very small. Three of the big four audit firms have been tainted in some way; leaving the audit committee with one of the big four."*

The combination of the above-mentioned factors leaves audit committees with extremely limited options in terms of who to appoint as their auditor. When considering auditor independence as an additional factor, it may well leave the audit committee with no options in terms of their ideal audit firm. If one takes the situation as described by P5 above, if the audit of the underlying company had been done by the one big four firm whose reputation had not been tainted for the last 15 years, and if MAFR was effective, which audit firm would the audit committee want to choose as their auditors? This situation is likely to be a common one as we approach 2023, the effective date for MAFR. In trying to elect an auditor who is independent (in accordance with the MAFR rules), JSE accredited, a member of a large (or big four) audit firm, and said audit firm has not suffered reputational damage; audit committees may well be left with no appropriate choice of auditor. What is the way forward for audit committees then? This becomes an even bigger challenge when one considers the banking industry in South Africa, which requires banks to be audited by two audit firms simultaneously. Additional consideration and research needs to be done in this area, preferably before MAFR becomes effective in South Africa as stated in Chapter 6.

5.2.1.1.6 Sub-theme 1.1.6: Public interest

For the purposes of this research, 'public interest' has been defined as follows, as discussed in Chapter 2: The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism.

The concept of 'public interest' in auditing is challenging, because as discussed in Chapter 2, while it is frequently used, there is no clear definition for it in legislation. Addressing the 'public interest' is, however, the primary responsibility of the auditor. This is emphasised by the IRBA CPC (IRBA, 2018b).

P15 (RPI) explained the link between the 'public interest' responsibility of the auditor and auditor independence as an audit conducted to the highest quality by an independent auditor would inspire confidence in the financial statements. This would serve the 'public interest', because when the financial statements can be relied upon, there will be investments in the entity which encourages employment and, in turn, which helps grow the economy.

There is little existing research about the linkage between auditor independence and the 'public interest' objective of the auditor. Research by Chiang (2016) begins to allude to this by discussing the linkage between auditor independence and professional scepticism. Professional scepticism is critical to ensuring audit quality, and an auditor can only be truly sceptical when the auditor is independent (Chiang, 2016). Rezaee (2004) reflects that the public's trust in the financial statements signed by the auditor is enhanced by the independence of the external auditor.

Based on this existing research, the statement from P15 (RPI) above, and viewed together with the general sentiment of research participants that auditor independence is crucial for audit quality; one can ascertain that the auditor's 'public interest' objective can only be met if the auditor is truly independent. Recent criticisms of the audit profession lament on the inability of the profession to address the 'public interest'. This causes one to reflect as to whether auditors are sufficiently independent of their clients, and if this isn't the reason for auditors failing to address their 'public interest' objective?

While the link between 'public interest' and auditor independence is vital to understanding the theme of auditor independence, the concept of 'public interest' is much broader. It is therefore discussed as a separate theme in Section 5.2.1.8.

5.2.1.1.7 Sub-theme 1.1.7: Audit committee responsibility

The responsibility of the audit committee refers to the regulatory duty of the audit committee to ensure that the external auditor appointed is independent of the company being audited (Marx, 2009; RSA, 2008). This is a function of the audit committee as outlined in the Companies Act.

The audit committee is itself expected to be independent of the company it serves (IoDSA, 2016; Marx, 2009; RSA, 2008). The audit committee is responsible for providing independent oversight over the combined assurance model, including external audit, internal audit and the entity's finance function (IoDSA, 2016; Marx, 2009). Thus, it is not surprising that the audit committee's responsibilities would include ensuring the independence of the external auditor. What is surprising however, is that none of the audit committee members interviewed mentioned this responsibility. Even more surprising, was that only one audit partner and one representative of the 'public interest' mentioned this responsibility during the interview.

This gives rise to a few concerning questions, namely:

- Are audit committees aware of their regulatory responsibilities?
- How effective can audit committees be at fulfilling their regulatory responsibilities if they aren't fully aware of what these are?
- What about the representatives of 'public interest' – why aren't they holding audit committees accountable for fulfilling their regulatory responsibilities?
- How accurate a reflection is it, when audit partners asserted during the interview process that the audit committees they deal with are effective?

The focus of this research was not to determine the effectiveness or ineffectiveness of audit committees in fulfilling their regulatory responsibilities in South Africa. However, this is definitely an area for future researchers to consider exploring as stated in Chapter 6. Section 5.2.1.5 of this research report is specifically focused on audit committee responsibilities and their effectiveness.

5.2.1.1.8 Sub-theme 1.1.8: Reliability of financial statements

The reliability of the financial statements refers to the trustworthiness of the entity's records. This is dependent on the independence of the external auditor. In order for an entity to be able to obtain financing and attract investment, their books must be an accurate reflection of transactions that the establishment has partaken in.

Whilst the research participants all agreed that auditor independence is crucial to ensure audit quality, only one participant took the concept further – that financial statements can only be relied on because the auditor is independent. "*The auditor doesn't sell an audit service, or an assurance service, the auditor sells confidence. And, that confidence you can only have if the perceptions are, that the auditor has been independent throughout the process"*– P15 (RPI).

It is critical that the role players in the audit model be aware of this link, as it is what makes the audit valuable. As P15 (RPI) mentioned during the interview, many companies view the audit as a *"grudge purchase"*, not realising that actually, the audit gives their financial statements credibility. Without an audit, entities wouldn't be able to obtain financing or attract investment. If organisations realised this direct link between the external audit function and the ability to obtain capital, the audit may not be viewed in such a negative light. It is hopeful then, that audit committees and management would take auditor independence more seriously, and be more proactive in ensuring the independence of their external auditors. This would save the likes of IRBA from having to implement stringent legislation, like MAFR, to try to ensure ongoing auditor independence.

5.2.1.2 Theme 1.2: Audit fees

The second theme, ‘audit fees’, refers to the compensation auditors receive for the professional service they offer and for which they are entitled to fair compensation. Auditors charge an hourly rate, which varies depending on the experience and competence of the staff performing the audit work. This theme comprises seven sub-themes which are summarised in Figure 32.

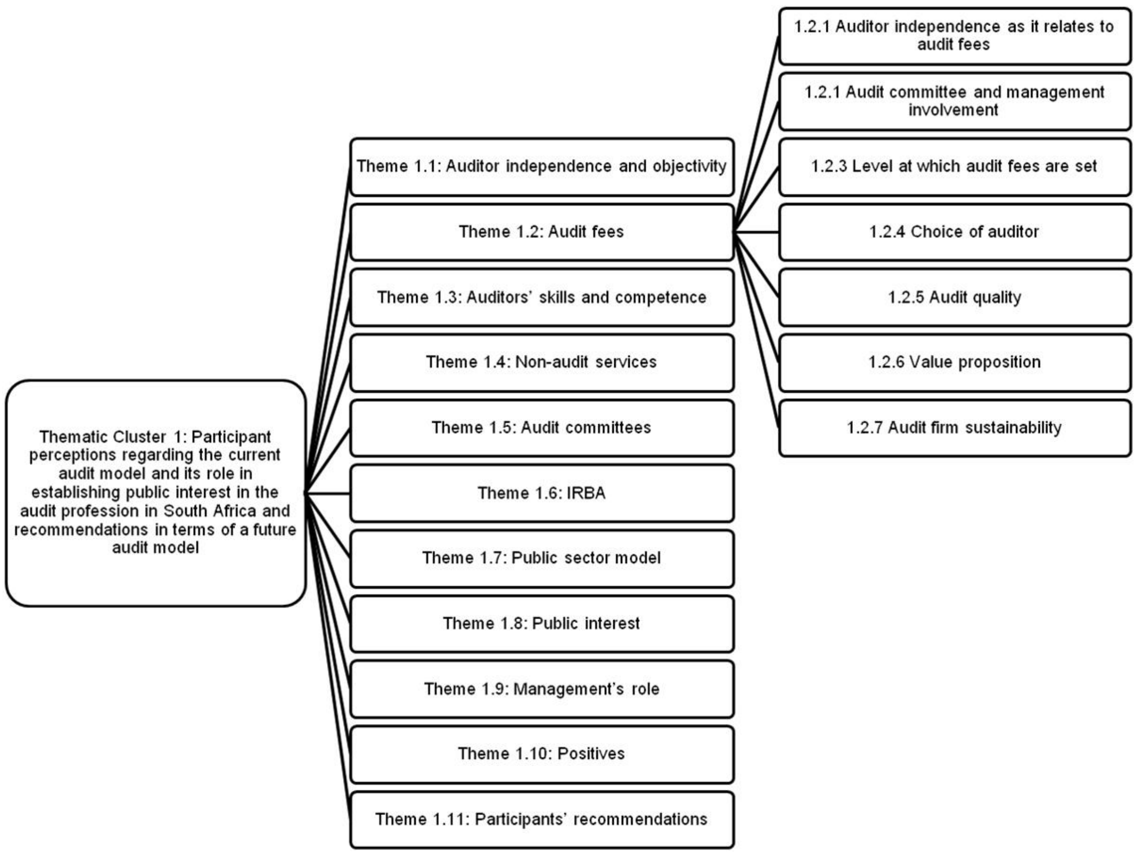

Figure 32. Theme 1.2 and sub-themes

5.2.1.2.1 Sub-theme 1.2.1: Auditor independence as it relates to audit fees

This theme relates to the risk that audit fees could impair the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b).

Based on the perceptions of research participants, the question arises, is there a link between auditor independence, auditor integrity and audit fees? Audit fees are payable to auditors in exchange for audit services rendered. According to the IRBA CPC, when auditors quote a fee that is too low for the auditor to provide a quality audit service, this represents a threat to auditor independence (IRBA, 2018b).

Responses from research participants about audit fees alluded that this threat to auditor independence is partially in existence in practical situations. The following statement made by P8 (AP), for example, *"cutting down the fees is some sort of indirect impact, or negative impact, because, you've got, consciously, at the back of the mind, you've got the worry… That you're not going to meet the target, you're not going to meet the target. Although, at the junior level staff, it doesn't bother them, but you know, junior level staff can be overcome by interference by the middle managers or senior managers, you know, that 'listen here, don't worry about this thing, we don't have enough budget and, sort it out, some other way'."* This clearly indicates that when the audit fee is reduced, audit quality is negatively impacted, because the more senior members of the audit team (senior managers, associate directors, audit partners), are concerned about the recoveries on the job in question. It would seem that these senior team members would pressure more junior team members to complete the audit work in a shorter period of time, without raising complex issues that might require more time and more resources. It may not be directly said, but it would seem that it is strongly inferred. The participant who made this statement, is a member of the group of audit partners and associate directors of research participants interviewed. What makes this statement more concerning, is that it was echoed by P7 (AP) and P12 (AP), who belong to the same group of research participants.

A representative of 'public interest', P14, had a similar view, wherein the participant raised the issue of auditors having their *"targets"*. The exact statement was as follows - *"…the partners, they've got their targets… As an audit manager you've got your targets, as associate director you've got… so there's your target"* – P14 (RPI).

The matter becomes even more complex when opposing views were shared by other research participants, also members of the group of audit partners and associate directors. P11 (AP), for example, was very firm in the view that *"I don't think fees have got anything to do with quality"*. At the same time,however, the participant reflected that audit committee members should be *"strong enough to actually say this is what we want done and this is what it costs to do"*. What happens if the audit committee isn't strong enough to ensure that the audit fee is sufficient for the audit quality to be where it needs to be? One would assume that it is then up to the auditor to act with integrity and state that ethically the audit cannot be done for the lower fee. This might result in the auditor in question losing the client entirely. In the current economic environment, auditors may not be able to afford losing the client in question entirely. Is it possible that the auditor would take on the client for the lower fee anyway, and hope to make up the money in future years audit revenue? Or by reducing the number of hours spent on the client by more highly skilled (and therefore more expensive) staff?

Other threats to auditor independence related to audit fees include when there are any referral fees or commissions received by auditors, when auditors charge contingent fees, when total fees received from an individual client represent a large proportion of the total fees received by a firm, and when unpaid audit fees exist (IRBA, 2018b).

Research participants did not mention the risks associated with the above-mentioned fees. It may well be that in the South African audit environment there aren't many instances of referral fees, commissions or contingent fees. This is however, speculation on the part of the researcher, as there is limited existing research on these topics. This area deserves more exploration by future researchers as stated in Chapter 6. On the contrary, one would expect that unpaid audit fees pose a challenge to all audit firms, to some extent. It was therefore considered strange that none of the research participants mentioned unpaid audit fees in relation to auditor independence. It is possible that firms have policies in place about how clients with unpaid invoices are managed to ensure the threat to auditor independence is reduced to an acceptable level.

The last of these threats relates to when auditors are dependent on a single client due to the fact that a large portion of their fees is received from a single client. While research participants mentioned the impact on auditor independence when fees from consulting services are larger than fees from audit services, surprisingly, research participants did not mention large audit fees on their own as being a threat to auditor independence. It may well be that the current economic environment is not conducive to auditees paying high fees in general. Or it could be that the auditors are to be believed when they expressed that audit fees in general are on the low side, as discussed in Section 5.2.1.2.3.

While research participants did not express all the ways in which audit fees could threaten auditor independence; the risk that audit fees could impair auditor independence, and therefore impact audit quality does exist. It is not sufficient as a safeguard to rely on the integrity of the auditor, because as P7 (AP) very frankly stated, *"money is the root of all evil, at the end of the day. It's very difficult to maintain independence when money is (at) play"*. Other safeguards, like the existence of ethical codes, may encourage auditors to act more ethically (Pflugrath et al., 2007), but do not provide any guarantee. Something additional is needed to ensure that ethical behaviour on the part of auditors is enforced.

5.2.1.2.2 Sub-theme 1.2.2: Audit committee and management involvement

This theme refers to the extent to which the audit committee and management of an organisation influence the audit fees. The audit committee is responsible for determining the audit fee to be paid to the auditors (Marx, 2009; RSA, 2008). Management however, is not expected to be involved in the process of determining the audit fee. Nonetheless, when discussing audit fees with research participants, the findings were mixed as to the actual involvement of the audit committee in determining audit fees.

One research participant, P1 (ACM), reflected on the role of the audit committee as being *"ceremonial"* in nature. This participant went on to explain that management is involved in the primary fee negotiations with the auditor, and that the audit committee is brought in at the end stages to *"approve the fee"*.

On the other extreme, P10 (AP) was vocal in the defence of the actions of audit committees the participant had worked with. P10 (AP) stated the following: *"the audit committees have taken their roles seriously, and they have negotiated fees. Recently, I was in a proposal discussion, actually all the proposal discussions now (…) So maybe I'm talking from a position of talking about the top companies, right. The proposal discussions are not between, management and the auditors. It's the auditor and the audit committees. The Financial Director, may or may not be there, the CEO is hardly ever there. And, that fee is negotiated between the auditor and the audit committee."*

The researcher also obtained a range of views, in between the two extremes, from other research participants. While each research participant was speaking from their own experience, it became clear that the quality of audit committees across the South African landscape varies significantly. In Section 5.2.1.5, the researcher delves into the effectiveness of audit committees in fulfilling their regulatory responsibilities.

5.2.1.2.3 Sub-theme 1.2.3: Level at which audit fees are set

The level at which fees are set refers to the acceptable level of remuneration expected in exchange for auditing services. The audit fee should stand at just the correct amount, i.e. not so low that it might make it difficult for the RA to conduct the audit in accordance with the relevant technical and professional standards; yet not so high that the auditor becomes dependent on the client and may be tempted to act unethically to retain the client.

When asking research participants if audit fees were too high or too low, audit partners mostly expressed that audit fees are too low, and audit committee members expressed that audit fees are often too high. The interesting responses came from the representatives of 'public interest', particularly P13 (RPI), who stated that, *"If there's a profit element, I must by definition, think it's too high. It's not supposed to be that. But, let's be real. I think the profit is too high. I fully understand that the firm needs to have profit to link over; we can't go on cost recovery. We're never going to grow, we're never going to be ready for the next wave of technology, you've got to invest, but it's got to be within reason."*

The above statement leads one to wondering, when audit partners say audit fees are too low, are they talking in terms of too low for them to be effective, or too low because the profit margins are not high enough for the purposes of partner bonuses. Of course, there is inherent bias in responses from each of the research participants, including the representatives of 'public interest', and it may well be that P13 (RPI) was, or is, biased against the audit firms.

Another representative of 'public interest', P15, expressed that while the participant is not close enough to know whether audit fees are too high or too low, it must be remembered that auditors cannot *"perform an audit with restrictions"*, and that by restricting auditors fees, there is an implicit restriction on the work that the auditors can do. When taking this into consideration, it becomes a cause for concern that audit partners see audit fees as generally being too low. This leads one to consider that perhaps the low audit fees are subconsciously restricting the work that auditors do, in order for audit partners to meet their recovery targets and other key performance indicators ("KPIs"). If auditors feel that audit fees are too low in general, could they actually be too low? Is this resulting in an overall lower quality audit? This is then contrary to what was mentioned by P11 (AP): *"I don't think fees have got anything to do with quality"*.

The relationship between audit fees, the level at which they are set and audit quality is obviously an extremely complex one. Further research needs to be conducted in this area to determine if there is any direct correlation between these.

5.2.1.2.4 Sub-theme 1.2.4: Choice of auditor

The audit committee has the responsibility of nominating an auditor for appointment as the entity's auditor (Marx, 2009; RSA, 2008). The audit committee must ensure that the auditor is appointed in accordance with the relevant legal requirements, and that the appointed auditor is independent of the entity to be audited (Marx, 2009; RSA, 2008). The audit committee can take into consideration any other factors it deems necessary, including the audit fees, in order to determine which auditor it chooses to nominate for appointment.

A surprising finding was that 66.7% of participants in the audit partners group said that audit fees influence audit committees' choice of auditor, while only 33.3% of participants in the audit committees group said the same. This is surprising because audit committee members were generally more convinced that audit fees were too high. Audit committee members cited auditor skills and experience, auditor knowledge of the industry and racial diversity of audit teams as factors that influenced their choice of auditor, rather than audit fees.

If audit fees are genuinely not a serious consideration for audit committees in determining their choice of auditor, then surely auditors would be in a position to increase audit fees to levels audit partners find more acceptable? The alternative is that audit committees appoint auditors who they know, through personal or business relationships, without consideration of the audit fee.

There is some literature available discussing the linkage between audit fees and choice of auditor. Khan et al. (2015) found that in family-owned listed businesses in developing countries without strong regulatory environments, like Bangladesh, business owners were more likely to select auditors with lower audit fees. While South Africa is a developing country, one would assume that it probably has a stronger regulatory environment than that of Bangladesh, so it would not be accurate to draw parallels between the two. Johansen and Pettersson (2013) found, based on Danish data, that auditors are more likely to be appointed if they have interacted with the directors during the course of other engagements. They also find that "there is a fee premium when there are multiple links between boards and audit firms" (Johansen & Pettersson, 2013, p. 305). Once again however, the South African economy is quite different in comparison with the Danish economy, and it would therefore not do to draw inferences solely from the Danish research. Consideration as to whether audit fees have an influence, and the extent of that influence, on the audit committees' choice of auditor in the South African environment, represents yet another area where further, in-depth research is required, as stated in Chapter 6.

5.2.1.2.5 Sub-theme 1.2.5: Audit quality

'Audit quality' refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism.

Auditors are required to provide independent assurance on financial statements. In order to provide this professional service, auditors are entitled to fair remuneration. This theme relates to the impact that audit fees may have on the audit quality provided by the auditor. Reasonable compensation should earn organisations the right to select the auditors conducting of the audit engagement.

While there is no doubt that auditors are entitled to fair remuneration for the work they do, there is a risk that auditees paying the auditor could impair the auditors independence. This sentiment was shared by several participants. P5 (ACM), for example, said: *"what we call the 'payor model', meaning that the client pays the auditor. It's a criticism, it's not really a criticism, it's a shortcoming in the current model. Where, you cannot, it's difficult to secure the auditor's independence if the auditor is paid by the client."* This sentiment was shared by P9 (AP), who stated the following: *"the other thing about being paid by the auditee is the issue around independence. When you get paid by the auditee, and he decides your fee, how independent are you? Can the client, let's call it, manipulate you or, impair your independence? Yes."*

As discussed in Section 5.2.1.2.7, the audit firm needs to earn reasonable audit fees to ensure its sustainability. This includes covering staffing costs and investing in newer technologies, to name a few. However, as discussed in Section 5.2.1.2.1, if the auditor is earning a significant fee from a single client, the auditor's independence may be compromised. This is because the auditor may be depending on that fee to ensure the continued sustainability of the audit firm, or to ensure the continued existence of lucrative end of year bonuses for audit partners.

This is supported by the existing literature, as discussed in Chapter 2, which talks to the auditor's agency problem (Citron & Taffler, 2001; Cunningham, 2005; Dontoh et al., 2013; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002; Watts & Zimmerman, 1983), as well as the auditor's profit-making objectives (Bowie, 1986; Sikka et al., 1998; Tepalagul & Lin, 2014; Tudor, 2013).

If auditors are distracted because they want to keep the client happy, and thereby retain the income stream earned from the client, the quality of the audit work provided by the auditor could suffer. Alternative audit models have been explored in Chapter 2 of this research to uncover whether there is a different way of ensuring that auditors continue to get paid, while providing more safeguards to guarantee auditor independence, and thus improve audit quality overall.

5.2.1.2.6 Sub-theme 1.2.6: Value proposition

In the context of this study, value proposition relates to the value received by the audit client in exchange for payment for auditing services. Some companies might view the audit as a resentful purchase, perceiving it as an expensive legal requirement that doesn't add value to the company. However, an audit conducted by an independent auditor, provides assurance to the providers of capital that the financial statements of the underlying entity can be relied upon. Therefore, when a corporation's financial statements have been audited, they are more likely to attract capital investment and are more able to obtain financing at favourable interest rates from banks and other financial institutions.

Some organisations fail to acknowledge the value of an audit, as expressed by P15 (RPI): *"One of the problems we have is the value proposition for an audit. It's a grudge purchase. An audit is done because the Act says there must be an audit"*. While the value proposition of an audit may not be evident to all, research participants acknowledged that the audit represents the provision of a service. P14 (RPI) made the comparison with a *"plumber"*. If a plumber were to do any work in your home, it would constitute a service, for which the plumber, as the provider of the service, is entitled to payment. You, as the recipient of the service, would be responsible for making said payment. In the same way, the auditor has provided a service, and the entity receiving the service should be responsible for paying for the service.

The research participants added to this concept by expressing that there is a perception, *"that anything that is free has got a low quality"* – P2 (ACM). Therefore, audit fees must be charged by auditors, and the recipients of the audit services, must be responsible for payment of the audit fees. This is aligned with the alternative audit models available in practice or literature, as discussed in Chapter 2, which include a mechanism to ensure the auditor is paid, either directly or indirectly, by the auditee (Alles et al., 2004; Bae et al., 2013; Bratton, 2003; Chi et al., 2013; Christensen et al., 2005; DeFond & Francis, 2005; Domokos et al., 2016; Dontoh et al., 2013; Gavious, 2007; Grinberg, 2007; Holmstrom & Kaplan, 2003; INTOSAI, n.d.; Kim & Yi, 2009; Lee et al., 2013; Marks, 2004; Nordberg, 2008; Oh et al., 2017; Parles et al., 2007; Pollitt & Summa, 1997; Rapp, 2007; Riotto, 2008; Ronen, 2006; Ronen & Berman, 2004; Ronen & Cherny, 2002; Ryu, 2015; Stapenhurst & Titsworth, 2001; Tackett et al., 2004; Wilda, 2004; Woo Jeong et al., 2007).

5.2.1.2.7 Sub-theme 1.2.7: Audit firm sustainability

Even as the primary responsibility of an audit firm is to provide a 'public interest' service, audit firms are also businesses. Audit firm sustainability refers to the need of audit firms to be financially viable institutions. This means that the firms need to be able to generate adequate earnings to cover their operating costs, meet their liability obligations and invest in new technologies.

When discussing audit fees, a theme that emerged from that data that was collected from audit partners and representatives of 'public interest' was the sustainability of the audit firm. This concern was expressed in strong terms and tt was especially clear that audit fees are essential to the continued existence and development of audit firms.

P11 (AP) made it quite clear that the running costs of audit firms are extremely high when making the following statement: *"How else would we sustain PI insurance, trainee cost, manager cost? An average audit manager is a really expensive resource to have in your books now? How would you invest in new technologies and new solutions?"* The participant went on to state that *"if you take some of the really complex groups you need highly skilled, expensive resources to actually run those audits. (…) For us to motivate and keep them here, it means you need to pay them a market related-salary. And, to be honest, there's no way you can compete with the banks and with commerce in terms of bonus structures and various other things, because they just pay a helluva lot more. So, if you really want to make sure that you have constant retention of staff for a long time on your audit, then you need to pay massive retention bonuses. And, that comes with the audit fees going up because there is no pocket of money sitting around to pay all of this."*

Audit staff retention has always been challenging, and one of the ways used to retain audit employees is through the payment of larger salaries, and/or bonuses (Helpert, 2006). Firms generally prefer to find a way to retain staff rather than find replacements for staff who have departed (Helpert, 2006). This is generally because it is a costly and time consuming process to train new staff and there is a learning curve before the new employee becomes familiar with the organisation and its processes (Helpert, 2006). There is also a lot of institutional knowledge that gets lost when employees leave (Helpert, 2006).

However, employees are not only attracted by financial compensation. As expressed by P10 and McDonald (2006), people want to work in a place that is interesting, in terms of exposure to modern technologies. In order for firms to stay abreast of modern technologies, they have to make capital available to invest in these technologies. If firms cannot invest in new technologies, they *"start regressing"* – P10. That makes for *"a less interesting place to work"* – P10.

Beyond investment in technology and paying staff salaries, audit firms also spend a considerable amount on training their employees. If employees are not adequately trained, audit quality is impacted, according to P9. Poor audit quality is likely to result in audit failures, like those the South African market has seen recently. This is generally followed by a mass exodus of clients, as seen by KPMG in 2018 (Niselow, 2018). Therefore, if audit firms are to survive, they must spend money on training their employees adequately to ensure appropriate audit quality.

5.2.1.3 Theme 1.3: Auditors' skills and competence

The third theme, 'auditors' skills and competence' refers to the requirement that auditors obtain and retain professional knowledge and expertise at an appropriate level to ensure that audit clients receive skilled professional services, based on the current technical and professional standards, and relevant rules and regulations (IRBA, 2018b). This theme comprises nine sub-themes, each of which has been summarised in Figure 33.

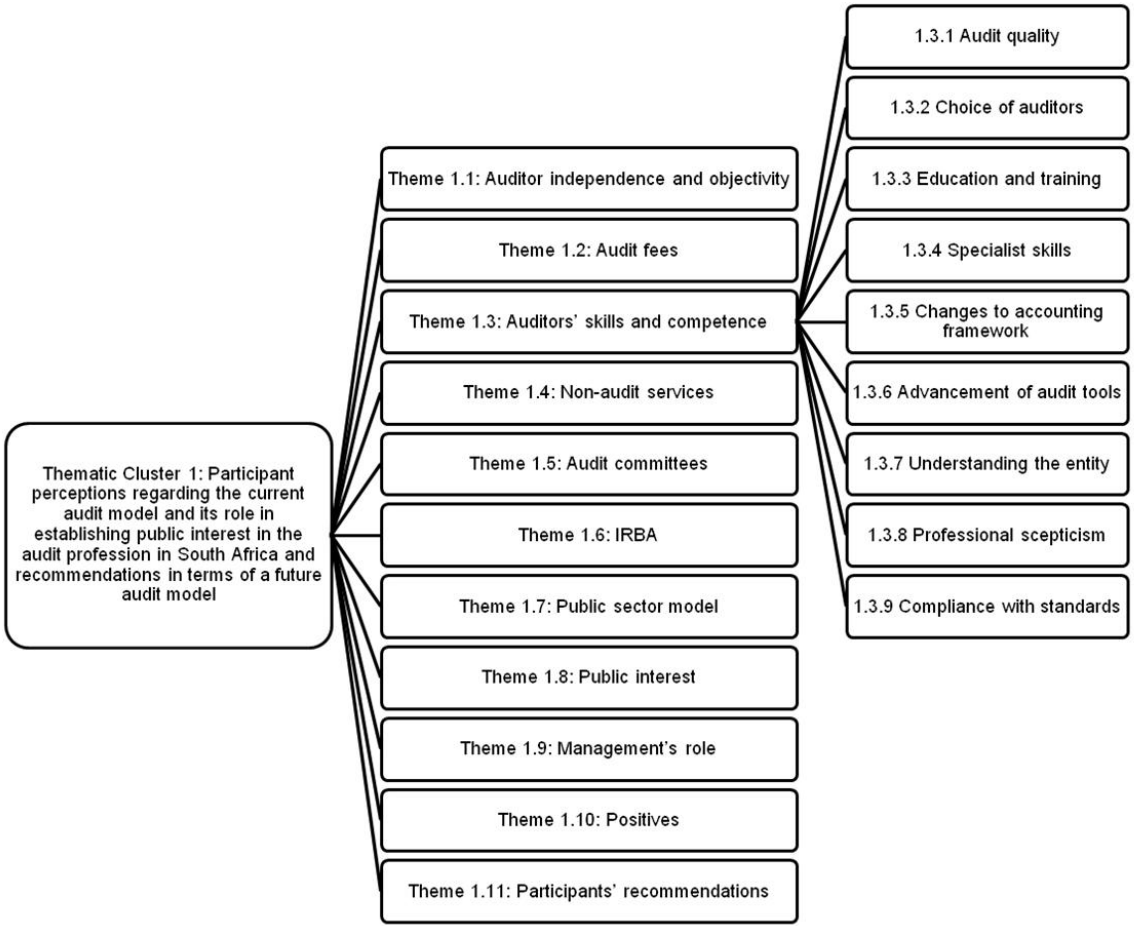

Figure 33. Theme 1.3 and sub-themes

5.2.1.3.1 Sub-theme 1.3.1: Audit quality

'Audit quality' refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. Auditors are required to obtain and maintain a solid base of technical and professional expertise. This theme considers the impact that the auditor's skills and competence may have on audit quality.

Research participants reflected that the auditor's skills and experience have an impact on audit quality. Surprisingly however, it wasn't technical auditing or accounting skills that participants were concerned with, but rather soft skills like professional scepticism, as expressed by P15 (RPI): *"it's (the lack of) all those, almost softer skills, that cause things to go wrong. It's not, because they didn't understand the standards, for example. (The issue is that) they haven't been challenging enough, they haven't been sceptical enough. And, again,* *on the professional scepticism, it was one of the… When the IAASB of IFAC did a survey amongst stakeholders, one of the criticisms was that auditors are not sufficiently sceptical."*

While there are significant amounts of existing research on the impacts of auditor independence and audit fees on audit quality, there is surprisingly limited research available that deals with the impact that auditor skills and experience have on audit quality. It may well be a given in the South African market that auditors are highly skilled individuals, given the extensive training and examinations one has to undergo before being able to refer to oneself as an RA. However, some skills are not attended to, as expressed by P7 (AP): "*I think (…) your commercial awareness would impact the audit quality. And, that's probably one place where you don't get enough training. You're getting technical training and you're getting soft skills training, but commercial awareness, which you need to have when you go out to a client… You're not actually given any of that training. And, a lot of people just go there, just look at the TB, and that's what it is. But, there are a lot of factors which impact that business, which they don't take into account, like your macro-economic (and) micro-economic factors. And that would come, if you had good commercial knowledge."* The impact of the auditor's skills and experience on audit quality therefore deserves more time and research dedicated thereto, to be able to conclusively determine just how significant that impact is as stated in Chapter 6.

5.2.1.3.2 Sub-theme 1.3.2: Choice of auditors

'Choice of auditors' refers to the ability of audit committees to nominate which audit firm should conduct the audit of the company they represent. The audit committee has the responsibility of nominating an auditor for appointment as the entity's auditor (Marx, 2009; RSA, 2008). The audit committee must ensure that the auditor is appointed in accordance with the relevant legal requirements, and that the appointed auditor is independent of the entity to be audited (Marx, 2009; RSA, 2008). The audit committee can take into consideration any other factors it deems necessary, including the specialist skills and experience that potential auditors may or may not possess.

Research participants strongly felt that auditor skills and experience would impact the audit committee's choice of auditor. This included the ability of the auditor to bring *"IT specialist skills"* (P6 – ACM) and *"IFRS specialists"* (P3 – ACM) to the table. One research participant also reflected on the audit firm's *"global footprint"* as a deciding factor. These factors are all closely linked to the other sub-themes in this section, namely 'specialist skills' and 'understanding the entity'. These all reflect unsurprising considerations, given that multinational organisations would naturally prefer to select an auditor with a global presence.

At the same time, entities with complex accounting transactions or highly evolved IT systems would naturally require an audit team with specialist IFRS or IT capabilities.

5.2.1.3.3 Sub-theme 1.3.3: Education and training

Auditors undergo rigorous training before qualifying as auditors. Prospective auditors are required to complete an undergraduate degree, a postgraduate degree, complete two board exams while working under the supervision of an RA for an initial period of three years. Thereafter, if the prospective auditor wishes to continue to become an RA, the prospective auditor must continue to work under the supervision of an RA for a minimum period of 18 months, during which time the prospective auditor must achieve certain minimum competencies. Thereafter, all RAs must comply with SAICA's Continuous Professional Development ("CPD") requirements, which include consistently revisiting professional standards and being updated on the latest technical advancements in the profession. Many audit firms also provide in-house training on a continuous basis for their trainee and qualified auditors.

The education and training provided to auditors at a school and university level form *"the theory around the basics"* (P7 – AP) that the future auditor needs to be aware of. P4 (ACM) expressed that they may be concerned about the standards of tertiary education, because *"things are getting a lot easier"*. This becomes problematic when prospective auditors join the workforce and have to be re-taught *"stuff that we took for granted that you would know"* (P4 – ACM). While audit firms do provide in-house training on an on-going basis for all their staff, they do not expect to be re-teaching the fundamentals. This is costly for the audit firm because it takes away from productive time of the prospective auditors, as well as those individuals who spend time providing the training.

The education and training that potential auditors undergo before qualifying as RAs is just the first step to being a well-rounded, proficient auditor. As expressed by some participants, there are aspects other than the university training received that are needed for auditors to conduct quality audits. P15 (RPI) shared that "*it's not just the professional scepticism and independence… There are a lot of other things, but it's all behaviours, that our educational system for auditors don't train us. And, again, like public interest, professional scepticism isn't something that you can put into a standard and train people to be sceptical."* P7 (AP) shared that audit firms provide some training as well, but it may be inadequate: *"When you get to an audit firm, the training that you're getting, and this is not only training in terms of audit methodology, but it's your technical training, your soft skills training, and your, I would* *think, soft skills, leadership… And, I think maybe, your commercial awareness would impact the audit quality. And, that's probably one place where you don't get enough training."*

All these aspects influence the overall skills and competence of the auditor. If the auditor has not properly absorbed all of these proficiencies, or is unable to effectively implement what has been taught, it could negatively influence audit quality. If South African auditors are to return to their previous status of number one in the world, then we need to do everything we can to improve audit quality. This may involve going back to the basics and ensure that all auditors fully understand their responsibilities and are able and willing to act upon them. Of course, further research would need to be conducted to determine where exactly the gaps lie and how would be the most effective way to fill these gaps as discussed in Chapter 6.

5.2.1.3.4 Sub-theme 1.3.4: Specialist skills

'Specialist skills' relate to audit clients requiring expert knowledge in specific fields. For example, an entity that has a very complex, advanced IT system may need an audit team that includes IT experts. Alternatively, insurance companies often need audit teams that include authorities on insurance; while mining companies may need audit teams that include valuation or decommissioning professionals.

The existence of specialist skills can influence both the audit committee's choice of auditor and the overall audit quality. Organisations with a global footprint, for example, will often choose an auditor with a similar global footprint, so that the same audit firm can conduct the audit globally, as opposed to having different audit firms conduct the audit work in different jurisdictions. This view was shared by P11 (AP): *"To audit a specialised entity, or a big listed group of companies, one is you need experience. Two is, you need the global footprint and the African footprint and not everyone's got that. And, it takes too much time and effort to build that."*

Oftentimes, these multi-national corporations engage in complex transactions, including but not limited to mergers and acquisitions, forex arrangements and share based payment schemes. These entities need auditors with specialist IFRS skills to ensure that the accounting for these complex transactions has been done correctly. As expressed by P10 (AP), based on the participant's experience working with some smaller firms, they simply do not have the same knowledge base and experience as those technical specialists from the Big Four firms. P10 (AP) stated that: *"I think the challenge there is to find the company (or) to find a person or a group of people, or a firm. That has the right level of skills. That has the right experience. That has the right industry knowledge. That has the right technical* *capability to actually do all of that. I think of some of the larger listed companies. So, why have I been talking to the larger… Because they have such complex transactions, that actually you need specialist technical skill, to be able to deliver on that. And, like, respectfully, I've worked with, technical people, in some of the other, audit firms that are not from the bigger firms. Even those, some of those in the mid-tier firms, you can see them (…) completely out of their depth dealing with these technical issues."*

If audit committees do not consider the existence of these types of specialist skills and experience when selecting their auditors, they may well be compromising on audit quality. For example, if the auditor appointed does not have the IT skills needed to audit an organisation that operates in a complex IT environment, data may be manipulated without the auditor being aware thereof or the auditor may not fully be able to determine how effectively the internal controls of the organisation are. The auditor may still get to the right audit opinion, but the audit quality may be lacking, for example in the auditors working papers. This view was shared by P11 (AP) who stated that: *"I think we make errors when we appoint firms that don't have the required exposure or experience because not all audits are the same. Auditing a telco, to auditing a bank, to a mine, etc. And a lot of us specialise and spend many years gathering the information."*

5.2.1.3.5 Sub-theme 1.3.5: Changes to accounting framework

This theme refers to changes to the published criteria used to measure, recognise, present and disclose the information that appears in a company's financial statements (Bragg, 2018). The accounting framework considered acceptable for use in South Africa is known as International Financial Reporting Standards ("IFRS").

The IAASB is continuously revising the technical accounting standards to ensure that they are fit for the modern world. In the last few years they have made major revisions to the technical accounting standards on revenue recognition, leases and financial instruments. Currently, the IAASB is revising the technical accounting standard on the accounting for insurance entities.

The changes in accounting standards require audit trainees and qualified auditors to obtain technical training on the new accounting standards. Firstly, this requires time to be set aside by audit firms to ensure that their employees are adequately trained, which results in a loss of productive time. Secondly, these new standards are complex, where P15 (RPI) expressed that "*financial statements and IFRS have become very complex"*. This sentiment was echoed by P8 (AP), who went further to state that *"the accounting framework, it is changing* *at a rapid pace. It is just not giving enough opportunity to understand and absorb. The next one comes on you. So, it is creating a lot of havoc at the moment."*

The many changes to the accounting framework could have a detrimental effect on audit quality, as audit clients often look to their auditors to be the accounting specialists and advise them on the latest changes to the accounting framework and the implications for the client. Admitting to a client that you as the auditor are not 100% up to speed with the most recent accounting framework can cost you the client, as client's expect that embedded in the audit fee is the cost of specialist accounting knowledge, and for the same audit fee they could well get the accounting specialist knowledge from another auditor. The auditor is therefore under pressure to understand the latest changes to the accounting standards as quickly as possible, which may well result in the auditor missing some of the finer details along the way. However, that seems to be the cost of being an auditor, unless there is some way of encouraging the IAASB to release new accounting standards at a slower rate?

5.2.1.3.6 Sub-theme 1.3.6: Advancement of audit tools

'Advancement of audit tools' refers to the continuous progress made in terms of automation of auditing software. The advancement of IT has made an impact on virtually every field, and the auditing profession is no exception. Audit firms are consistently trying to invest in the technologies that will allow them to conduct the audit of the future. Audit firms are not alone in investing in technology, as most of the larger audit clients are also consistently trying to upgrade their own systems and processes to be more IT intensive and less labour dependent.

Therefore, if auditors cannot keep up with the development of IT tools, they could be at risk of losing their clients. As expressed by P12 (AP), companies are beginning to *"demand"* that their auditors are able to match them from an IT advancement perspective. This is an ongoing, expensive exercise, which audit firms cannot decide to halt as it would cost them their clients.

While ensuring ongoing development in IT, audit firms also need to ensure that their employees are competently trained to use the technology. As a result, P7 (AP) stated audit firms are consistently providing training to their staff. The technology makes it easier to manipulate and analyse data than it was historically. As a result, auditors could deliver better audit quality. However, P8 (AP) added that while technology can do a lot of the hard work, the technology is unable to fully interpret the results and make final decisions or recommendations. Therefore, while audit firm staff should be trained to use the technologies available to them, they should not become so dependent on it that they are unable to think for themselves. Thus, auditor training should enable auditors to see the bigger picture, and take what has been provided by the technological resources, a step further and apply professional scepticism.

5.2.1.3.7 Sub-theme 1.3.7: Understanding the entity

In order to properly audit an organisation, the auditor needs to understand the business. This includes obtaining an understand of the industry in which the business operates, the nature of the entity, the organisation's selection and application of accounting policies, the entity's objectives and strategies, and the organisation's financial performance (IAASB, 2018d).

Understanding the entity is a big part of the audit process. For this reason, there is an entire auditing standard, ISA 315, dedicated to understanding the organisation (IAASB, 2018d). The research participants also felt that understanding the entity is crucial to the success of the audit. P6 (ACM), who comes from a financial services background, expressed concern that *"auditors do not necessarily understand the businesses that they audit. Auditors do not always understand the regulatory drivers of the industry they are auditing."* Properly understanding the regulatory environment of a client, for example, in financial services, would include having a thorough understanding of concepts like hedging and derivative financial instruments. P6 (ACM) shared the experience of having been asked by a member of the audit team, *"what is a derivative?"* This obviously shocked the participant, as the auditor in question was from a Big Four audit firm. Generally, the Big Four firms pride themselves on their experience and expertise, so to have a team member ask a question that basic, really brings into question the true knowledge of the auditor.

Other participants shared similar sentiments, where P1 (ACM) stated that *"you audit the business better when you understand the business."* This is in all likelihood because when auditors understand the business, they have an idea of what the risk areas are in the business, and where they need to focus their energies. Audit partners often have experience in the industries in which they operate. This also helps the audit partner know where to know where to focus attention and more skilled resources.

This theme is closely linked to Sub-theme 1.3.4 'specialist skills'. This is expected, because an auditor that understands the entity they are going to audit would be aware of the specialist skills required to be able to conduct the audit of that entity. For example, take the aviation industry as discussed by P1 (ACM): *"I used sit on the audit committee of an aviation business – it's very complex, in terms of financials, how profits are determined, and what you* *can recognise as retained income… Of course, there is a regulator which claws back, so it's very complex. And, every time, a new set of auditors… You as an audit committee have to do a lot of more work to ensure that the audit (…) has the quality that is required because… Although they are accountants, it was a new environment for them… So, it's the independence, the skills and experience in that business that they are auditing."* P1 (ACM) expresses that aviation businesses are complex because of the regulation around it. P1 (ACM) went on to share that an auditor who wished to audit such an entity would need to be familiarised with the aviation industry and the specific regulation around it. This would require the auditor to have an understanding of the entity and industry, but also to have the specialist knowledge of the regulatory environment.

If the auditors appointed are unfamiliar with the business or the industry, they are effectively coming in blind. The client could then show the auditor only what they wanted to, and because the auditor doesn't really know any better, the auditor may be willing to accept it. For this reason, within audit teams, it is always beneficial if at least some team members have experience in the industry, if not the client itself. In addition, it is again clear that professional scepticism is an important aspect in ensuring audit quality as will be explored further in the following section.

5.2.1.3.8 Sub-theme 1.3.8: Professional scepticism

Professional scepticism relates to the ability of the auditor to have a questioning mind and being observant of circumstances that could indicate possible misstatement, whether due to fraud or error (ICAEW, 2012).

When asked what impacts assurance quality, P14 (RPI) stated *"I think it's that, professional scepticism."* P15 (RPI) echoed this sentiment by stating that "*independence, professional scepticism, behavioural competencies, will have an impact on audit quality."* P15 (RPI) added that unfortunately, *"professional scepticism isn't something that you can put into a standard, and train people to be sceptical"*. Professional scepticism in all likelihood comes from experience while working with auditors who are professionally sceptical.

This makes it especially challenging to measure whether a person is professionally sceptical, or has acted with professional scepticism while conducting an audit. Usually, it is discovered, or rather, suspected, that someone has not been professionally sceptical when there is an audit failure (Crotty, 2018a, 2018b, 2018c). The existing research clearly indicates that auditor independence and professional scepticism are directly linked (Chiang, 2016). This explains why audit failures occur when auditors are not professionally sceptical. If the auditor is not professionally sceptical, the auditor is unlikely to be independent (Chiang, 2016). If the auditor is not independent, the auditor may fail to act in the 'public interest' which could result in audit failure (Chiang, 2016).

5.2.1.3.9 Sub-theme 1.3.9: Compliance with standards

'Compliance with standards' refers to auditors' conformity with the applicable professional and ethical standards, including the IRBA CPC, the IFAC Code and the SAICA CPC, as discussed in Chapter 2.

Surprisingly, compliance with standards was only mentioned by one research participant, a representative of 'public interest'. However, this participant's view on compliance with standards and the impact thereof on audit quality were considered relevant to this research by the researcher, and therefore this was included as a sub-theme.

P14 (RPI) expressed the importance of compliance with standards in ensuring audit quality, by comparing the conducting of an audit with the building of a house: *"Knowing, that if you come and look at something, your work must be… You're working in terms of standards; whether you're building a house, a car or (…). Standards are there to make sure that these are the minimum (bar) (…). You can debate how you interpret the standards, which is another thing. But, it's there to set a minimum bar to say that, for instance, if I build a house, it's got to be… The foundations going to be there, this is going to be there, there must be a certain mix of sand and whatever, otherwise the stuff is going to collapse. If you're going to use cheap materials, scrap material for the steel girdles in the wall; and you're going to go three, four stories up, I think it's going to collapse sooner or later. One big storm, bang! Like they do with the RDP houses. But, I know that the tensile strength of the steel that I need to put into the foundations to take it up has got to be of a certain quality."*

South African auditing standards are considered to be some of the best in the world, according to P14 (RPI). However, these standards are of no use if auditors do not comply with them. ISQC 1 requires audit firms to put into practice policies and procedures to make certain of staff technical and ethical competence (IAASB, 2018g; Martinov-Bennie & Pflugrath, 2009). Auditors can fully implement the standards and codes to which they need to adhere once they have internalised them (Martinov-Bennie & Pflugrath, 2009). This is supported by the fact that more experienced audit staff who have had more time to internalise the relevant codes and standards, are better at applying them (Martinov-Bennie & Pflugrath, 2009; Pflugrath et al., 2007).

In order to ensure that auditors comply with and apply the relevant accounting, auditing, and ethical standards, audit firms need to implement a culture of compliance and ethical behaviours (Martinov-Bennie & Pflugrath, 2009). This is similar to a suggestion made by P15 (RPI) around encouraging professional behaviours: "*what you can also do, maybe, if you are going to focus a little bit more on professional (…) behaviours is to look at the HELSON model. It's, H-E-L-S-O-N, and it's a very simple model. I don't have enough information straight away but it's a very simple model which says that behaviour is a function of the organism and of the organism's environment. Which means, it starts with yourself. You have to, if you are intrinsically unethical (…) it's not going to help, you're not going to behave ethically, right? So, it's there. And, the environment. And, why I like this model is because, if you create an environment in which an organism operates, if this environment behaves unethically, this organism will be unethical. If this environment behaves and does things in an ethical way, then you'll have ethical auditors. So, although it's difficult to teach somebody ethics and scepticism and independence, if they operate in your firm, create an environment where the partners and the top leadership (act ethically)... You will see I talk about the importance of leadership at the top, where all of them behave in a certain way, these people will start behaving that way. So, it is possible to train people in a different way by using this HELSON model as well, to acquire those behaviours."* Compliance can be ensured through a number of methods, including having auditors sign a declaration in respect of having read the relevant standards and agreeing to comply therewith, and to have more senior staff members who have already internalised the code reinforce it to new employees (Martinov-Bennie & Pflugrath, 2009).

5.2.1.4 Theme 1.4: Non-audit services

The fourth theme, 'non-audit services' refer to the provision of consulting or other non-audit services (i.e. services other than audit services) by auditors to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others. This theme comprises four sub-themes, each of which has been summarised in Figure 34.

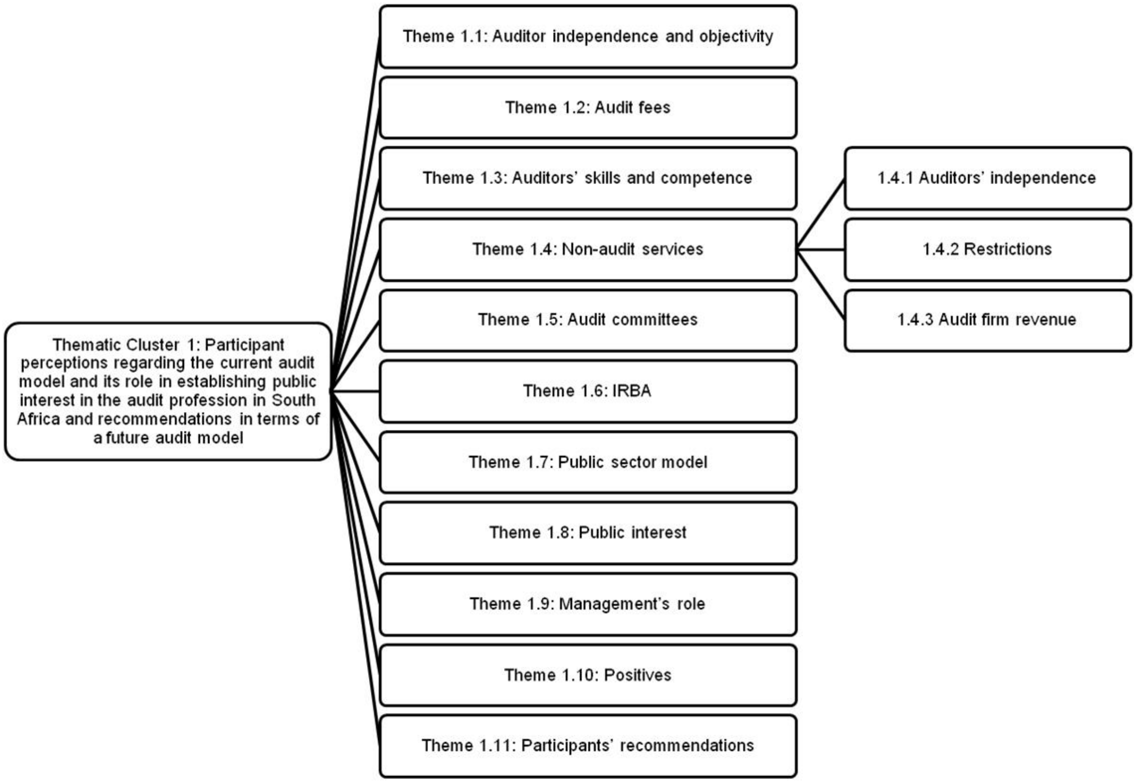

Figure 34. Theme 1.4 and sub-themes

5.2.1.4.1 Sub-theme 1.4.1: Auditors' independence

Auditors' independence refers to the ability of the auditor to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b). This theme considers whether the provision of non-audit services to audit clients could impair the auditor's independence.

This theme was identified across all three participant groupings. However, the research participants had mixed views as to whether the provision of non-audit services by auditors impaired auditor independence. P14 (RPI), for example, expressed concern as to the impact of non-audit services on auditor independence, stating that "*Some non-audit services can have a massive impact, because, like I said, the audit fees are (a) small percentage; it's the consulting side where the firms make money. So yes. You will even get told, as much as people preach to you, that, they will tell you don't rock the boat here. We've got a big project in the pipeline, and we've been told (that) we want a good audit opinion. Yes, you can write some minor things and things like that, but you cannot, you know, say that completeness (is lacking) (…) or the set of financials that these people are presenting is a sham. Because that's not… So, it does play a big role and particularly when your own firms partners are putting pressure on you. As much as there's an audit partner, there are other partners also.*"

This response from P14 (RPI) reflects the direct link between the impairment of auditor independence due to providing non-audit services and the effect thereof on audit quality.

P10 (AP) echoed this sentiment with the following example: *"So what if, your audit fee was R 100, but your consulting fee was, let's make it extreme, your consulting fee was R 1,000,000, right. Would you be more, swayed, or feel pressured to give, a different audit opinion, because of that consulting fee? I think there is a possibility of that. I think there's definitely a possibility of that."*

P7 (AP) on the other hand, was a little less concerned about the impact on auditor independence, reflecting that *"you need to assess what type of non-audit services are (offered)? Are they allowed in terms of the independence rules, number one?"* P12 (AP) was on the other side of the argument, stating that *"those businesses (assurance and consulting) are run in, literally, silos, right,"* implying that because the businesses are run in silos, the provision of non-audit services to audit clients should have no influence on auditor independence.

The example presented by P10 (AP) above is obviously an extreme scenario, but it does reflect a salient point; that if the value of non-audit services significantly exceed the value of audit services, there is a risk that auditor independence, and by extension, audit quality, would be impaired. This argument is supported by literature that would reflect that when the auditor is focused on achieving profit objectives, there is an increased risk of impaired auditor independence (Ahmad et al., 2006; Bowie, 1986; Citron & Taffler, 2001; R. Hussey & Lan, 2001; Sikka et al., 1998; Tepalagul & Lin, 2014; Watts & Zimmerman, 1983). The perspective that non-audit services impair auditor independence is further supported by SOX legislation, which prohibits auditors from providing their audit clients with most non-audit services (DeFond & Francis, 2005; Grinberg, 2007; Parles et al., 2007; Riotto, 2008).

5.2.1.4.2 Sub-theme 1.4.2: Restrictions

Restrictions refer to the limitations imposed by the audit committee on the nature and extent of non-audit services that the auditor may provide to the organisation. The Companies Act outlines in Section 90 (2) what non-audit services the auditor of an entity may not provide (RSA, 2008). While in theory this should prevent auditors from overselling non-audit services to audit clients, the wording in Section 90 (2) is quite vague, as it states that the auditor may not be "a person who, alone or with a partner or employees, habitually or regularly performs the duties of accountant or bookkeeper, or performs related secretarial work, for the company" (RSA, 2008, p. 170). This leaves a lot of room for audit firms to sell non-audit services to their audit clients. Furthermore, audit committees have a statutory obligation to approve all the non-audit services provided by their auditors (Marx, 2009; RSA, 2008) as discussed in Section 2.4.3.2.

Research participants reflected on these restrictions around auditors providing non-audit services, with P9 (AP) stating *"I mean, post Enron there's been regulation around it. There's a percentage that audit firms can provide in terms of non-audit services. Again, a lot of this (…) has to be taken through the audit committee. The auditor's can't just go and provide non-audit services. It has to be approved by the audit committee."* P6 (ACM) echoed this sentiment, stating *"there are rules around the provision of non-audit work. Most audit committees have a process around managing the conflict of interest that arises from the provision of non-audit services."*

P10 (AP) reflected that the *"good audit committees"* put safeguards in place around non-audit services, either restricting non-audit services to a certain Rand value or to a limited percentage of audit fees. P11 (AP) shared that *"certain firms in the UK have now made, taken a view of not providing any non-audit services to audit clients."* P5 (ACM) shared a more extreme view of this perspective, stating *"I would like to ban non-audit services. So, Big Four Firm X are doing the audit of Listed Company ABC, they become exceedingly greedy, and they want to do the due diligence when Listed Company ABC makes acquisitions. You can't be a referee and a player… Because then, you need to do an IFRS 3 assessment of the valuation of those assets. So, in my humble view, either we ban non-audit services or we restrict it to (a) very, very selected (few)… But, my preference would be like the Auditor General."*

While all these perspectives on restricting auditors from over-providing non-audit services to audit clients are interesting, they do not answer the real question. Are these restrictions sufficiently enforced to ensure that auditor independence, and by extension, audit quality, are not negatively impacted by the provision of non-audit services to audit clients? This matter will be addressed further in the discussion of the findings around non-audit services under the proposed audit framework as part of Theme 2.3 in Section 5.2.2.3.

5.2.1.4.3 Sub-theme 1.4.3: Audit firm revenue

Audit firm revenue refers to the income earned by the audit firm from the provision of both audit and non-audit services. This theme relates to the extent to which non-audit services contribute to the total revenue of the audit firm.

As expected, this sub-theme was only identified in the data from two participant groupings, namely, audit partners and representatives of ‘public interest’. The majority of these participants agreed that non-audit services contributed largely to overall audit firm revenue.

P15 expressed why this is concerning for overall audit quality, and therefore the ‘public interest’ objective of the audit, by saying *“the conflict that the auditor has is, if it’s a non-audit service, it’s more like consulting, right? And then, you’ve got the audit. And now, this (the audit) is the public interest function, but this (consulting) is not a public interest function. Now the auditor is conflicted because, he or she has to have this public interest responsibility in terms of the audit, but they also have a non-public interest responsibility, because this (consulting) is towards the client. And now, you’ve got a conflict between these two and that places the auditor in a difficult position. And, that is just a mind-set. But, when it comes to the fact that, suddenly that (consulting revenue) makes up 80% and that (auditing revenue) 20%, then audit quality might drop. The moment that you get more money from the consulting side, then the focus might not be there (on the audit). We don’t regulate this (consulting) service; we regulate that (auditing).”*

Two notable points are made in this statement. Firstly, that larger consulting fees could result in the auditor losing focus on the audit. The second point is something no other participant actually noted – that non-audit services are not regulated. In fact, they are largely self-regulated by audit committees, who have the statutory power to determine the extent of non-audit services that the auditor can provide (Marx, 2009; RSA, 2008). If the audit committee is ineffective, then the extent of non-audit services provided by the auditor may be so significant as to influence the auditor’s independence, and therefore jeopardise audit quality.

Many research participants echoed the first point noted by P15. P7 made the comment: *“What is the fee you’re generating from that service? If that fee is exceeding your audit fee, it might (…) impact the quality, but ideally it shouldn’t. And that’s the reason… If your non-audit services are becoming so big, then you should really not be the auditor because that will impact the quality.”* This point made by P7 actually reinforces the point noted from P15, that non-audit services are not regulated. If the audit committee were not effective in limiting non-audit services provided by the auditor, it would be left to the integrity of the auditor to determine whether to continue being the auditor of the organisation. Considering the principles outlined in the IRBA CPC, the auditor should withdraw from the audit engagement if circumstances exist that are likely to impair the auditor’s independence (IRBA, 2018b). However, there is no regulation of this. It may be worthwhile to investigate this idea further, and incorporate regulation or monitoring of non-audit services in a future audit model in South Africa as suggested in Chapter 6.

5.2.1.5 Theme 1.5: Audit committees

The audit committee is a sub-committee of the BoD that comprises independent, non-executive directors (IoDSA, 2016; Marx, 2009; RSA, 2008). The audit committee is responsible for the risk management of the organisation and for providing independent oversight of the combined assurance model (IoDSA, 2016; Marx, 2009). The combined assurance model comprises internal audit, external audit and the finance function of the organisation (IoDSA, 2016; Marx, 2009). This theme comprises five sub-themes, each of which has been summarised in Figure 35.

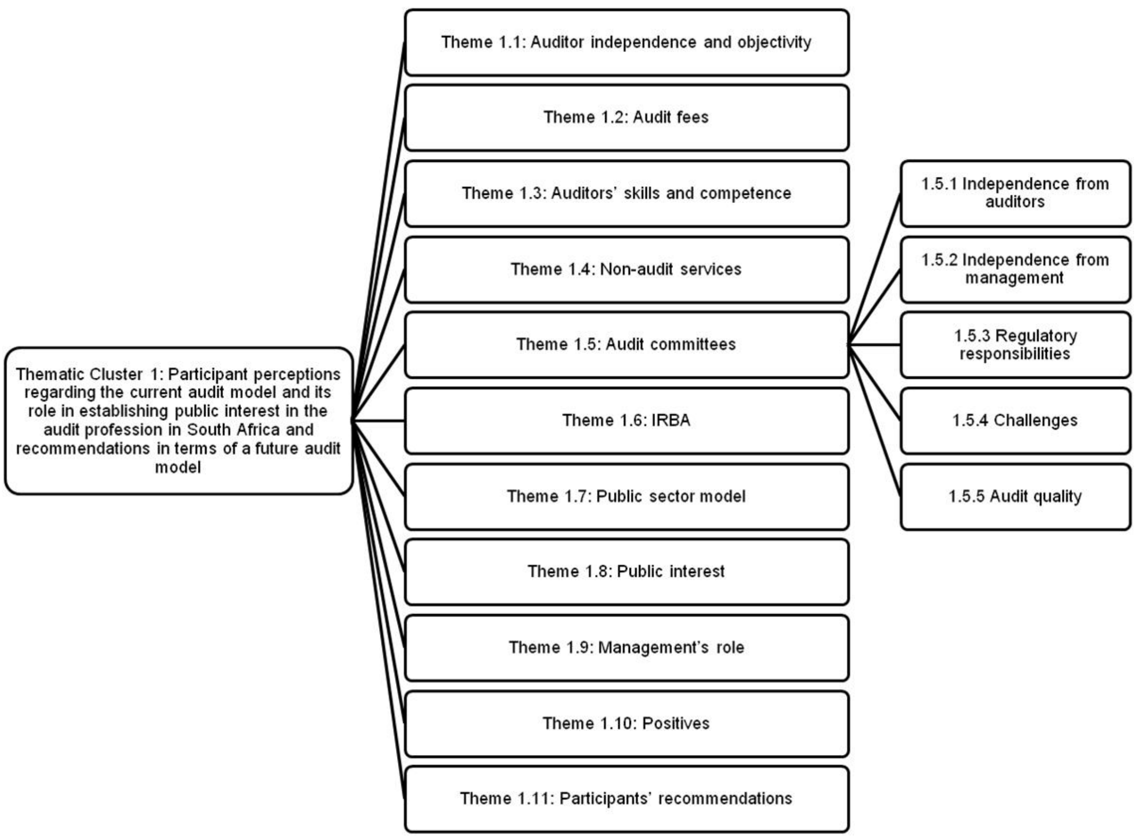

Figure 35. Theme 1.5 and sub-themes

5.2.1.5.1 Sub-theme 1.5.1: Independence from auditors

This theme considers relates to the question whether the relationship between the audit committee and the auditor could impair the ability of the audit committee to reach a conclusion without being affected by influences that could compromise the audit committee's professional judgement.

The main factor to take into account when considering the independence of the audit committee from the auditors, relates to where the audit committee members have come from. P1 (ACM) provided a good example of this scenario: "*here, where I work, one of the committee members, used to be a partner at one of the Big Four who used to be our auditor."* On the one hand, this has its positive aspects, as P1 (ACM) went on explain: *"he understands our business; he understands the audit risk issues. So, if our current auditors actually, are missing some of the issues, it's easier for him to say, by the way, guys, have you looked at these things?"*

At the same time however, this could pose a challenge to the independence of the audit committee, especially if the same ex-partner's audit firm is still the auditor of the organisation. P1 (ACM) continued to explain: "*As long as their firm is no longer the auditor. Because, if their firm is still the auditor, then there might be that conflict in terms of their loyalties. To say, who do they prioritise? In terms of, who do they look out for, that's it."*

Research participants had different perceptions on the matter when asked. The majority of participants, like P1 (ACM), were happy for ex-auditors to be appointed onto the audit committee, after a cooling off period of sorts. For example, P14 (RPI) suggested a cooling off period before the ex-audit partner can be appointed onto the audit committee: *"There should definitely be, at least two years."* The preference for a cooling off period was echoed by P11 (AP) and P9 (AP). P5 (ACM) suggested a longer cooling off period; *"they should have a cooling off period of three or five years or so, before they're appointed to a former client."* On the contrary, P10 stated "*I think the cooling off period is probably about a year, if not longer. It wouldn't be five years. I think it's probably between a year and three years."* On the other extreme, P6 (ACM) was completely against the idea, saying "*No. Even after a two to three year cooling off period, the DNA remains the same."* This sentiment was shared by P15 (RPI) who said "*My answer is no. I'm not even going to go into detail."*

The mixed feedback from participants on this matter reflects that perhaps the following statement of P15 (RPI) is valid: "*I just think that we also have limited skills in South Africa. So, in other countries maybe there's a lot of people who can do a good job as audit committee members, in South Africa we have very limited skills."* While the independence of the audit committee is important, the pool of skilled resources is limited. With the introduction of MAFR, if you cannot appoint an ex-audit partner of a firm who is, or used to be, your auditor; the pool gets even smaller. P1 (ACM) stated *"then it will be difficult to get good quality people on audit committees because, at some point everyone is going to rotate."*

A balance would therefore need to be found between ensuring audit committee independence from the auditors, while having the necessarily skilled individuals serving on audit committees. Further research may need to be conducted as to how this could best be achieved as stated in Chapter 6.

5.2.1.5.2 Sub-theme 1.5.2: Independence from management

This theme relates to the question whether the relationship between the audit committee and management of an organisation could impair the ability of the audit committee to reach a conclusion without being affected by influences that could compromise the audit committee's professional judgement.

Research participants expressed concern that the audit committee is often over-reliant on management, for example, P1 (ACM) stated "*the appointment of the recommendation to the shareholder by the audit committee, for me, I always see it as well, just a procedural thing… Because (…) by the time (…) the auditors are recommended (…) management is the one who spends the time sifting. So, the audit committee doesn't sift, doesn't look at all ten and say who, in our view, will best meet our requirements. Because the audit committee also, doesn't have as much knowledge of the business as management does. So, the appointment of the auditor by the audit committee is just a ceremonial thing in my view."* If the audit committee is relying on management to recommend an appropriate auditor, then the audit committee cannot be truly independent of management. It also leaves the audit committee open to manipulation by management. P9 (AP) expanded on this, stating that *"if the audit committee gets presented the wrong information, they (are) going to make the wrong decision. That's it. So they got to get involved right from the start."*

P15 (RPI) added to the above, stating that *"We also talked about the independence of the audit committee and (…) management. So, if they challenge (…) management, on a fee that they present, then you will find that the "payor model" will work. But, the problem at the moment goes back to the audit committee not being independent enough or challenging enough, (for) management to challenge them. And (…) leaving it up to (…) management to decide."*

If the audit committee do not get involved in the appointment of the auditor process from the start, they would have difficulty ensuring that the auditor is independent, has the right set of skills to conduct the audit, and is offering the best value for money. If the audit committee is not independent of management, and accepts management's recommendation for an auditor at face value, the auditor appointed may not be best suited to meet the organisation's needs.

However, independence of the audit committee from management goes beyond the appointment of the auditor. If the audit committee is not independent of management, there is a risk that the audit committee will not act in the best interest of the organisation. The audit committee needs to be able to fulfil its responsibilities independently of the management of the organisation. This can be difficult because the audit committee is effectively paid by management. P7 (AP) explained this: *"You're sitting on client X's audit committee. Should I be pleasing client X, because client X is actually paying (…) my fees? So, yes, I should be, so, management is saying I should be appointing this firm, so then maybe that is the firm I should be going with. So, I don't know. Even so, money is the root of all evil, at the end of the day. It's very difficult to maintain independence when money is (at) play."*

P9 (AP) shared this view, stating that "*Currently audit committees are not (independent)… (…) The reason (…) why I'm saying that is because, yes, you may have independent non-executive directors… But, the question is, some of these guys, they own shares in their personal capacity in that same company… So are they there for public interest? No, they're there for self-interest. Okay… If there was a decision to pass an entry that will wipe out 50% of the share price… You think those NEDs are going to apply their minds? They're not… So there's no public interest. Okay, the current model doesn't work for public interest…"*

The above perspectives raise the concern that audit committees are not truly independent of management. This would make it challenging to expect the audit committee to serve the 'public interest', or even the best interests of the organisation, because there is a real risk that audit committee members are there for *"self-interest"* to quote P9 (AP), rather than doing the right thing.

5.2.1.5.3 Sub-theme 1.5.3: Regulatory responsibilities

Regulatory responsibilities refer to the roles that the audit committee has to fulfil in accordance with the legislation that governs audit committees. These include providing oversight over the integrity of the financial statements, to nominate an independent auditor for appointment as the auditor of the organisation, to determine the audit fees to be paid to the auditor, and to oversee the risk management of the organisation, amongst others (IoDSA, 2016; Marx, 2009; RSA, 2008).

Some research participants emphasised the responsibility of audit committees to provide oversight over the integrity of the financial statements. P13 (RPI), for example, states that *"If they're really independent, if they're really independent of mind, if they really apply their mind to what they should do, it can be beneficial. But, the whole thing of financial statements goes to the audit committee, they have a look, before it's signed off and it comes to you as the auditor. If they do a proper job, you should get quality. They should be your first line of defence."* This made it clear that P13 (RPI) expected audit committees to conduct a proper review of the financial statements before they are shared with external auditors. This sentiment was echoed by P4 (ACM), who shared that *"I think, the whole audit committee plays a key role from an audit perspective, but what I find, purely from a financial statement perspective, you know, in terms of appointing the auditors, reviewing financials, and then approving financials (…) or recommending financials for approval, either by board of governors or executive committees, etc. So, I think they play a key role in ensuring that the correct process is followed, and that all concerns met or raised by your auditors are also addressed and cleared."*

Other participants expressed concern over the involvement of the audit committee in the appointment of the auditor and determination of audit fees process, with P1 (ACM) stating that "*the appointment of the auditor by the audit committee is just a ceremonial thing in my view"* because management recommend the auditors for appointment to the audit committee, and then *"whoever they recommend, the audit committee also then just recommends to, to the board"* (P1 – ACM). This perspective was mirrored by P2 (ACM): "*In (the) private sector, the audit committee do appoint auditors... Obviously, the processes will then come from management. They come with the top five or whatever. I'm actually (…) part of some, of an entity where we appointed an auditor. So, I mean every year then, the management would then say okay there's a rotation period as they've been with us for ten years, so there's a plan that we need to appoint new auditors. But, you know what, the management is the one who runs with the process, so whether we appoint or not. We don't have an influence on… But we do rubber stamp, or we do appoint the auditors as expected…"*.

However, there were research participants who disagreed with this perspective, with P12 (AP) sharing that *"I've actually recently gone through (…) a very rigorous nine month process, a proposal activity. And if I just think about, the oversight, if I think about the steps that were taken by management and the audit committee, to make sure that they make a decision at the end, on a firm, that, with regards to quality, independence, objectivity and all of those things…"* P10 (AP) shared this view and said "*I have sat, in audit committees of* *large listed clients, where, the discussion was properly, between the audit committee and the auditor"* in relation to the negotiation of audit fees.

P9 (AP) expressed concern about the ability of the audit committee to ensure the independence of the auditor, stating that *"the audit committee is the one that's supposed to look at the combined assurance model… Okay… Monitor the quality of the audit, the independence of the auditors, it's only afterwards that challenges are being raised about independence of auditors, you know the issue around quality of the audit…"* Overall, P6 (ACM) was not satisfied by the way audit committees operate, stating that "*there are too many biscuit eaters on audit committees."*

While some research participants reflected positively about the ability of the audit committee to fulfil its regulatory responsibilities, other participants were not quite convinced. This is a cause for concern. If audit committees are not fulfilling their regulatory responsibilities, are they being held accountable for this? According to P9 (AP), there is none: "*What is the consequence – there's no consequence management for audit committees, the chairs… for example, if you have a corporate failure and you have an audit failure, who does the media attack? (…) Who do they sue? You don't sue the audit committee chair…"* One has to wonder, why aren't audit committees being held accountable? Some participants recommended regulation of audit committees to ensure that they are held accountable. This is discussed in further detail in Section 5.2.1.11.1 which deals with participant recommendations for audit committees.

5.2.1.5.4 Sub-theme 1.5.4: Challenges

Challenges refer to the difficulties faced by audit committees in fulfilling their responsibilities. The difficulties faced by audit committees as noted by research participants include a lack of skills, the frequency with which audit committees meet, and the uncertainty in the audit environment.

Firstly, one considers the shortage of skills in South Africa. P15 (RPI) expressed this as follows: *"I think, the other problem in South Africa, is that we don't have sufficient skills. We've got a few people that are skilled and those people serve on ten audit committees, which means they don't give it their (full) attention."* If audit committee members are spreading their skills across a multitude of audit committees, then it is expected that they would be unable to dedicate sufficient attention to any one of these. As a result, some of their responsibilities as part of the audit committee may go unfulfilled. This becomes especially problematic when considering that the audit committee has a key responsibility in terms of ensuring auditor independence and audit quality from external auditors. If audit committees are unable to provide the proper oversight over the external audit function, there is a real risk that the external auditors failing to address their ‘public interest’ objective may go unnoticed by the audit committee. Another challenge is that if audit committee members don’t have the requisite skill sets, audit quality can suffer, as shared by P9 (AP): “*If the audit committee is made up of weak people with no financial background, no understanding (of) what (the) auditor does, they’re going to appoint the wrong auditor, and then when the auditor comes and presents the risk, the plan, presents the hours, again you got a weak audit committee, they don’t understand it, it’ll impact the outcome. Okay, so the audit committee is there to challenge the auditor and say listen, (and) you’re not applying your mind in terms of all the risks, you’re not applying proper hours to this thing, you’re just coming here… If they look at the actual audit committee report and they say if I compare the external auditors’ report to the internal auditors’ report, all external auditors are saying nothing. Internal audit is saying that the place is falling apart…”*

A second challenge faced by audit committees in fulfilling their duties comes down to the frequency with which audit committees meet. P4 (ACM) explains that *“the only problem is, your audit committee, meet twice or thrice a year, which I don’t think is enough for you to have an understanding. So, yes, we shouldn’t have a deep understanding of the business, such as a finance committee or an executive committee should have, but, there’s more, there needs to be a bit more input from an audit committee, in terms of, meeting more regularly, having a few more meetings, just to get an understanding of the financials… Not purely the financials, as well as, the operations of an entity so when things are brought up, it doesn’t come, as a complete shock, you are aware of what’s happening, and then you understand why certain things are done.”* The responsibilities of the audit committee are quite significant, as discussed in Section 2.4.3.2. If what was expressed by P4 (ACM) is common across audit committees, namely that they only meet two to three times per year, it is possible that audit committees simply do not have sufficient time to properly fulfil all their obligations. If audit committees do not meet frequently enough, it is likely that some of their responsibilities will remain unfulfilled. If these unfulfilled responsibilities relate to the external audit function, then there is a good chance that the external auditors may fail to address their ‘public interest’ objective, without the audit committee realising this.

The last challenge faced by audit committees in fulfilling their responsibilities as shared by research participants relates to the uncertainty in the audit environment in South Africa at the moment. With the recent corporate and related audit failures, audit committees are afraid that if they are associated with an audit firm who has been linked to one of these failures, the reputation of their organisation is at risk. P12 (AP) explains further that *"I think the other thing is, because of all of these things that have been happening, a lot of decisions about changing auditors are made impulsively. They're made out of fear of the unknown. We don't want to be like this entity, or that entity, that's recently gone through this. So, we're quickly going to change auditors. But, sometimes, not realising that you're compromising the quality, because you're not giving the auditors sufficient time to actually come and understand you, so that they can appropriately, identify the risks, or the areas of focus, etc."* By making these impulsive decisions, audit committees may inadvertently be shooting themselves in the foot. If the suddenly appointed auditor is not ideally suited to the audit of the organisation, for whatever reason, the audit quality may not be at the level at which it should be. As a result, the 'public interest' objectives of the auditor may not be met.

5.2.1.5.5 Sub-theme 1.5.5: Audit quality

Audit quality refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. This theme considers the impact that the audit committee may have on the audit quality provided by the auditor. Audit quality is impacted by all the sub-themes discussed under the theme 'audit committees' thus far, as discussed under each of them. Irrespective, some comments made by research participants deemed it relevant for the researcher to include audit quality as a separate sub-theme under the theme 'audit committees'.

For example, a representative of 'public interest', P15, stated: *"I don't think the audit committee fulfils their role the way they should. I really believe that, they should be more… If the audit committee fulfils their role, then we'd have less work to do as the audit regulator. We don't want to be issuing mandatory audit firm rotation; we don't want to be, issuing strict rules to secure audit independence. The audit committee should be doing that."* This is something important to consider, given all that has been said on the subject of audit committees fulfilling their responsibilities to this point. While the researcher and research participants acknowledge that the audit committee does face some challenges; some of these can be easily rectified as discussed in the participant recommendations around audit committees in Section 5.2.1.11.1. However, if not addressed, and audit committees do not properly fulfil their responsibilities, then audit quality, and by extension, the 'public interest', is likely to suffer. This then forces other role players, like IRBA, to step up and take more drastic measures, like the implementation of MAFR, to make up for the failure of the audit committee to properly carry out its duties.

Another example was provided by P5 (ACM), who shared that *"I'd say that the majority of the audit committees are moderate. They need people that are knowledgeable, that have come out of the profession, that are up to date. So if I look at the chairs of various audit committees; ex senior partner of Firm X, XXXX XXXX, XXXXX XXXXX… Are they as up to date as I am from a technical point of view? Are they involved in universities? Are they teaching? How familiar (…) are they with the IAS 9, or 15, or 16, or 17? Are they familiar with the nuances of revenue recognition, of financial instruments, the new levels of hierarchy? Are they aware of leasing, you know bringing it onto the financial statements? So, sadly, the audit committees are chaired by individuals that need to be up to date. Don't rely on the external auditors or don't rely on management, you've got to go."*

This goes hand in hand with the challenge around the skills, or the lack thereof, of audit committee members. While there definitely is a shortage of skilled professionals in South Africa, as noted by P15 (RPI) and discussed in Section 5.2.1.5.4, this does not mean the challenge cannot be addressed. However, if left unaddressed, it could indirectly impact audit quality, as follows: Using the example from P5 (ACM) around accounting standards above, if audit committee members are not sufficiently up to date with the new accounting standards and how they could impact the organisation; the audit committee would be unable to raise this with both management and the external auditors. This leaves the audit committee open to manipulation and or exploitation by either (or both) management and the external auditors. Ultimately, this could negatively impact audit quality, and by extension, 'public interest'. Therefore, audit committees have to ensure that they themselves obtain and maintain the appropriate skills, and not rely on management or the external auditor, as related by P5 (ACM).

When it comes to the appointment of the external auditor, the audit committee is responsible for recommending the auditor for appointment to the BoD (Marx, 2009; RSA, 2008). The audit committee is further responsible for ensuring the independence of the external auditor (Marx, 2009; RSA, 2008), determining the fees to be paid to the external auditor (Marx, 2009; RSA, 2008) and the terms of engagement with the external auditor (Marx, 2009; RSA, 2008), as discussed in Section 2.4.3.2. P10 (AP) shared the potential impact on audit quality, depending whether or not the audit committee properly fulfils these responsibilities: *"If you had to say, it's management that appoints the auditor, then I can see that, that is a problem. That, or, not a problem on its own, but there is that potential for a problem there, right. Then, if I kind of, move further on that spectrum, and say, that, well, if the audit committee appoints the auditor, actually, I'm quite satisfied with that. So, I don't think it affects the audit quality. Because I think, the auditor, as long as the auditor understands that* *his reporting line is to the audit committee, and that he's effectively appointed by the audit committee. The audit committee, acting on behalf of, or appointed by shareholders. But, acting on behalf of, or in the best interests of the company as a whole. Then I don't think that, that influences audit quality. But again, (it) requires a strong enough audit committee, to actually carry out its task."* The potential negative impact on audit quality comes about when the audit committee does not properly carry out its tasks.

As can be seen from the discussions in Section 5.2.1.5, research participants had a range of perspectives as to whether audit committees fulfil their responsibilities as they should. Further research should be conducted in a wider sample group around the effectiveness of audit committees and how their behaviours impact audit quality and the 'public interest' as stated in Chapter 6. This would provide greater insight around the true state of audit committees in South Africa, and thus better allow those with decision-making powers to decide what the most efficient way forward for audit committees is.

5.2.1.6 Theme 1.6: IRBA

The Independent Regulatory Board for Auditors ("IRBA") is a regulatory body that was established by the APA to protect the auditor's professional integrity and independence (De Koker, 2007; RSA, 2005). IRBA is responsible for ensuring that RAs are adequately trained, that they act in accordance with professional standards and that RAs do not act improperly. This theme comprises seven sub-themes, each of which has been summarised in Figure 36.

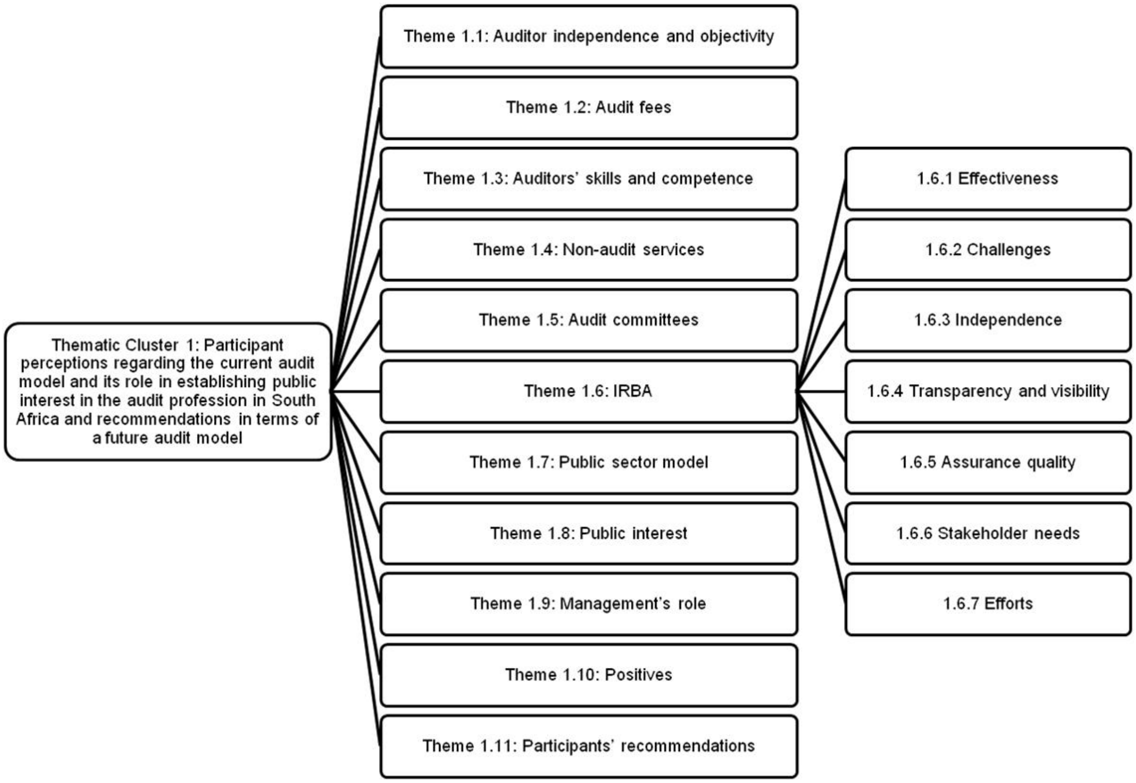

Figure 36. Theme 1.6 and sub-themes

5.2.1.6.1 Sub-theme 1.6.1: Effectiveness

Effectiveness refers to the degree to which IRBA is successful in fulfilling all their roles and responsibilities. On the whole, research participants remarks suggested that they perceive IRBA as being ineffective and unsuccessful in terms of fulfilling their roles and responsibilities.

P9, an audit partner, had the following to say about IRBA: *"The time they take to finalise certain investigations, I mean take the KPMG link, it still hasn't been finalised. Okay, now, people, the man in the street, even me as an audit partner, I question to say how can it take you so long to come to a conclusion? Is a wedding expense…? You know what I'm saying? Treat it properly, yes or no? It's one transaction. But it's taking IRBA almost a year and a half, two years now, to come back and say… So that's where I think IRBA loses credibility, loses the public interest, to say, people sit back and say okay, we have got this regulator, but are they really the regulator?"* This statement reflects the concern that IRBA simply takes too long to finalise investigations. While the matter at hand may have been slightly more complex than the research participant's comment would suggest, it is definitely a poor reflection of IRBA as a regulator that they have taken so long to conclude on this matter. This perspective was shared by P5 (ACM), who stated that "*some matters are taking 18* *months to resolve. A disciplinary matter must be resolved within six months. You present it, go back, get representations, sit down for two or three days, like the commissioner's doing the Zondo, and clear the matter."* This view of P5 (ACM) makes sense. However, it may be that IRBA takes significantly longer than they should, to address matters due to the challenges they face. These are discussed in depth in Section 5.2.1.6.2.

The fact that IRBA takes too much time to resolve matters, has resulted in the following, according to P6 (ACM): *"There is a perception that the IRBA do not have any teeth. This can be likened to a taxi driver who drives irresponsibly and is given a traffic fine – it does not stop the taxi driver from driving irresponsibly in the future. There is a lack of consequences for audits not performed appropriately. The recent major audit failures raise serious questions about the effectiveness of the IRBA."* Perhaps because of the time it is taking for IRBA to address issues, those not intimately involved with IRBA have the perception that rogue auditors are not being held accountable. This could well be true, or it could be a case of IRBA not being sufficiently visible and transparent with the public at large. This is discussed in Section 5.2.1.6.4.

On the issue of IRBA's effectiveness, P11 (AP) noted that IRBA don't have the right focus when conducting their inspections: *"I think IRBA has obviously found it difficult because… some will say that IRBA was fast asleep when all of the issues happened… Okay, I mean they didn't pick up on either of the issues, although they do all of the inspections. So, again for me the focus on the inspections is wrong. The focus on the inspections should be on the broad issues; stuff that's really going to impact real life and pension funds, and what's happening in the economy… as opposed to telling me that, PPE useful lives was not properly documented on my file… because it's not really going to make a difference to be honest with you."* This perspective was echoed by P10 (AP), who states "*I also don't know if they focus their audits on the right areas. That's my own perspective, just from what I've seen. If I look at (…) something like, discounting of debtors, then I struggle to see how that is the thing that they should be focussing on."* Interestingly, P10 and P11 were both representatives of the same group of participants, namely audit partners. Even more interesting, is that these two individuals are from two of the Big Four audit firms. What's concerning, is that if these perspectives are an accurate reflection of what IRBA's focus areas are when conducting inspections; what could IRBA have possibly missed when conducting their inspections? If these inspections are not appropriately focused, IRBA could be missing major issues with audit quality, and therefore failing to ensure that auditors are properly addressing the 'public interest'.

5.2.1.6.2 Sub-theme 1.6.2: Challenges

Challenges in this context refer to the issues that make it difficult for IRBA to accomplish their objectives. While the majority of research participants had concerns as to IRBA's effectiveness as discussed in Section 5.2.1.6.1, these participants also acknowledged the challenges faced by IRBA in trying to achieve their objectives. Research participants unanimously agreed on the two main challenges faced by IRBA, namely funding and capacity constraints.

The challenge faced by IRBA in terms of funding was explained by P15 (RPI) as follows: *"Our challenge is funding. We're sitting for example with an investigations department of five, four investigators, and we have about 280 open investigations. And of those investigations you've got the Steinhoff, you've got African Bank, you've got VBS… You need five people just on each of those investigations, right. But, we can't appoint more people because we don't have the funding from government. So, our challenge certainly is the funding. If we had more money we could do a lot more. We still deliver, but it puts a lot of pressure on the people that are here. So, when Parliament says they want to know how far we are with Steinhoff, we've got to work on Steinhoff. If they want us to respond to the KPMG issue… We've had to respond to the Jacques Wessels thing very quickly, to the point where we finished that investigation in six months, right. But, it meant that, I had to move staff around, to the investigations, we had to, we had to contract people in to do that. And so, capacity is a problem. We're only 80 people and we have a huge mandate. So, really, our constraint at the moment is funding. And, we continuously talk to government and to our minister to give us more funding. So, it's not as if we're sitting back and saying and crying in Parliament, saying no funding, we can't do this. No, no, no, we do it and we keep on getting more funding. We want more money for this investigation; we want more money for that. And, we're continuously in National Treasury's office, saying, can you please get the Minister to release that amount for us, and we want an extra R 10 million for this, and you know, and they do that. And that's how we get our money. But, it shouldn't be like that. They should say here's R 200 million, go do your job. It's not in our budget, unfortunately."* P5 was one of the participants who shared this view, stating *"IRBA is limited by a lack of capacity, number one. Number two, IRBA is constrained by funding…"*

The funding issue directly impacts IRBA's ability to increase their capacity and skills, as both of these require money. This links back to the concerns raised by research participants around the effectiveness of IRBA. Insufficient funds would lead to a capacity shortage, which results in IRBA having to move staff around depending on the needs of Parliament, as expressed by P15 (RPI). This probably results in IRBA employees being unable to dedicate sufficient time and effort to their reviews and investigations, resulting in the delay in investigations and poor quality inspections as discussed in Section 5.2.1.6.1.

Furthermore, the lack of funding probably doesn't allow IRBA to employee highly skilled or experienced employees to assist with the investigations and reviews. Again, this is likely to contribute to their ineffectiveness, as perceived by research participants.

In addition, IRBA does not appear to have the most positive relationship with those they are supposed to regulate, i.e. the auditors. P3 (ACM) stated that *"I don't have any first-hand knowledge of it, but it seems to be that there isn't that level of support and cooperation, that I thought should be in place between a regulatory body and the profession it serves. I thought, somehow, they need to find a way to ensure that ethics and professional conduct and independence are enforced, in a way that is less confrontational and more in a cooperative way..."* This viewpoint was shared by P11 (AP), who stated that *"I think IRBA needs to be able to engage with their members better. I think it needs to become about adding value, and helping prevent audit failures, as opposed to… trying to get someone on something stupid"*. P7 (AP) shared the sarcastic response "*Except for collecting fees?"* when asked about the role of IRBA. This, once again, is reflective of an unhappy relationship between IRBA and auditors.

A difficult relationship between auditors and IRBA might make it unlikely that auditors would want to co-operate with IRBA's initiatives and efforts. This could make it harder to restore public confidence and trust in the profession, as the profession may appear divided between the auditors and the regulator. Research participants did share some recommendations around IRBA that may enable the audit model to better serve the 'public interest'. These are discussed in Section 5.2.1.11.3.

5.2.1.6.3 Sub-theme 1.6.3: Independence

In this context, independence refers to the ability of IRBA to reach a conclusion without being affected by influences that could compromise IRBA's professional judgement.

While on the one hand, as discussed in Section 5.2.1.6.2, the relationship between the auditor and IRBA does not appear to be a very healthy one; on the other hand some research participants expressed concern around IRBA's independence, specifically from the auditors whom they are responsible for regulating. P1 (ACM), for example, asked *"Who pays the IRBA? I think that's one of the challenges because I know that it is a public entity but I don't know how much money government gives them as compared to how much the* *profession gives them. And also, I mean, IRBA is accountants. We come from these firms. So, it's that internal conflict as well. (For example), if you train me and I'm a CA because of you, can I also do something to…. That could have a potential negative impact on you? I don't know. I mean, at the end of the day we are human. So, you want to protect what you are associated with. So if I was trained at company A, and then now I'm at IRBA, the regulator… There are things, and I just have (…) strong stances on it, or will I call them in and say guys, you know, I don't know… I think, inherently, the fact that this very same people who trained you, and now we have to oversee them, it just gives you that, that conflict…"*

The risk raised by P1 (ACM) is a real threat to IRBA's independence. The auditing profession in South Africa is not that big. This is evidenced by statements made by research participants around the limited number of skilled individuals available to be appointed to audit committees, as discussed in Section 5.2.1.5.4. Therefore, the scenario suggested by P1 (ACM) is not implausible. The concern was further shared by other research participants.

P9 (AP) questioned *"Are they really acting in the best interest, of the public (…), of shareholder interest or are they here… Perhaps people are making assumptions that IRBA is part of the board of professionals' clique, because they just don't want to compromise their own clients, their own members. So there's that type of issue and I think that's, I'm not saying; it's perception, because they taking so long to come out with some of the stuff..."* P9's (AP) comment reflects that while IRBA may in fact be independent of the profession, because they take so long to finalise their investigations, IRBA may be perceived as being protective of the profession. Even if this is not the reality of the situation, if this is the perception, there is a risk that the public at large does not have faith in IRBA's ability to regulate the profession. This could result in a breakdown in the implicit trust in the auditor's ability to act in the 'public interest' as the regulator responsible for ensuring that auditor's act in the 'public interest' appears to be compromised.

5.2.1.6.4 Sub-theme 1.6.4: Transparency and visibility

Transparency refers to IRBA's activities being open to public scrutiny (Lexico, 2020c), while visibility refers to IRBA being in a position of public prominence (Lexico, 2020d). A majority of research participants expressed concern about the lack of transparency and visibility from IRBA.

P1, an audit committee member, had the following to say about IRBA: *"They are so invisible. (…) I mean, as an audit committee member I don't remember a time where I've had any* *interaction with IRBA whatsoever. And, in, almost all the entities I've been with, the audit firms are at least, top six. So, it's not like (…) because I've always been dealing with… so I think they are not visible enough for people, for other stakeholders… I think they are just known by audit partners and audit firms, to say oh, if I do something wrong, IRBA, will cancel my whatever… But, yeah, I think SAICA is known more than IRBA. Yeah. And they should try to be more visible."* If IRBA are going to restore public faith in the profession, they need to be visible to the public as an organisation, and their actions need to be visible as well.

As discussed in Section 5.2.1.6.1, some research participants were questioning the effectiveness of IRBA because of the time they take to finalise investigations. In Section 5.2.1.6.3, it was discussed how research participants and the public may perceive IRBA as not being independent of the auditors for the same reason. However, what if IRBA was actually making progress with their investigations, just very quietly? While the researcher appreciates that IRBA may need to keep matters confidential to ensure that the perpetrators can be caught off-guard for example, perhaps IRBA need to do something in terms of communicating with the public, to ensure that people don't have the wrong perception.

This perspective was shared by P3 (ACM) in terms of communication to their members, who said, *"I think maybe the communication strategy of IRBA is lacking. I think the lack of engagement, and, I don't know if it's because there's hostility from audit firms or, if it is just a perception, but I think there could be a greater understanding of the need for IRBA to gain the support of its members. It might, well, but again, it's a perception, it's not, might not be well-founded, but I, I don't know… I think IRBA can do much more to be an effective regulator, but I think it needs a better communication strategy."* The researcher would be inclined to agree, especially after interviewing a representative from IRBA for the purposes of this research. Through this interview the researcher learnt a great deal about the efforts made by IRBA, but these have not been shared publicly enough. As a result, the perception of IRBA would seem to be less favourable than it could be. The efforts IRBA is making in the profession are discussed in Section 5.2.1.6.7.

5.2.1.6.5 Sub-theme 1.6.5: Assurance quality

Assurance quality refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. This theme considers the impact that IRBA may have on the audit quality provided by the auditor.

P15 (RPI) provided an understanding of the impact that IRBA may have on the audit quality provided by the external auditor: *"The regulator is there to add an additional layer of confidence to the market. So, you've got management and their financial statements. Then you've got an auditor that expresses an opinion on it But, that opinion will also not be reliable if you don't have oversight over the auditing profession. That's why we also want oversight over these other role players, some oversight. So, the role of the IRBA is, as with auditors, to strengthen the confidence in our markets. And, if you look at our integrated report and annual report, you'll see that we don't see ourselves as an audit regulator which is there to keep an eye on auditors. We see ourselves as one of those bodies in the country that helps to create the confidence in our financial markets, attract investment and grow the economy. That is the role that we play, that's how we see ourselves. So, the regulator has a much broader role than just having oversight over."*

This is an important link between audit quality, IRBA and the reliance that users of financial statements can place on the audited financial statements. P12 (AP) shared a similar perspective, stating that "*the strength of the oversight (role) that people like the IRBA is playing"* would have an influence on assurance quality. This reinforces the need for IRBA to not only be an effective regulator of the profession, but also to be *seen* as an effective regulator of the profession. If IRBA are perceived as being an effective regulator of the profession, the public would have more faith in IRBA's ability to provide oversight of auditors and the quality with which audits are conducted. This in turn would drive the confidence that users of financial statements have in audited financial statements.

It is however not only a matter of perception. IRBA would need to actually be an effective regulator of the profession as well. This would include ensuring that IRBA's inspections and investigations are thoroughly completed in a reasonable time frame, and that there are consequences for rogue auditors. This would be likely to ensure the auditors spend more time and effort in ensuring that their audit work is of a high quality, so that they do not suffer the consequences of underperforming. This is likely to aid auditors in ultimately achieving their 'public interest' objectives.

5.2.1.6.6 Sub-theme 1.6.6: Stakeholder needs

'Stakeholder needs' in this context refers to the interests of stakeholders specifically in relation to IRBA, such as auditors, audit committees, BoD, shareholders, the government and the general public.

Based on the remarks made by some research participants, the researcher got the impression that IRBA is currently not doing enough to fulfil the needs of its stakeholders. For example, P12 (AP) felt that IRBA should *"just engage. Engage the firms. Just, be more present. Obviously keep your independence, because that's important. (…) And be inclusive in raising issues, in resolving issues going forward. I think, there just need to be better engagement and collaboration between the IRBA and the firms."*

While this does tie back to the theme of IRBA's visibility and transparency, it also talks to what auditors want, or rather, need, from IRBA. As much as IRBA's responsibility is that of a regulator of the profession, IRBA needs to engage better with auditors. The impression obtained from P12 (AP) was that IRBA engage with stakeholders when there is a problem, such as a corporate or audit failure. However, there seems to be some positive interaction missing between IRBA and auditors. This perspective was shared by P7 (AP) as well, who stated that *"when the reviews come about, it's very much of a, you versus me. You are attacking the member in every way possible. Is there nothing positive that comes out of that review? Has your member done nothing, that's right? And I think that's maybe, (how) the reviews go incorrectly that way. Because surely someone is doing something really good? Share those good stories."*

If the interactions with IRBA are primarily negative, auditors may be unable to go to IRBA with any concerns or challenges they face. This could result in a hostile relationship in the longer term, which would not be a good thing. As mentioned in Chapter 6, the researcher would recommend that focused research be conducted around the needs of all of IRBA's stakeholders, and how these can best be addressed.

5.2.1.6.7 Sub-theme 1.6.7: Efforts

Efforts in this context refer to IRBA's attempts to restore public confidence in the audit profession, and to ensure that the audit profession is able to address the 'public interest'. The interview with P15 (RPI) in particular yielded interesting findings about the efforts IRBA has made and continues to make in ensuring that the 'public interest' objective of the audit is met. The most compelling of these are discussed in this section.

P15 (RPI) reflected that, "our initiatives to restore confidence are not only focussed on the profession, but also on the IRBA. What should we do differently? Our strategy, that we're busy with at the moment, for the next five years has two legs to it. The first one is to embed the 'restore confidence' projects. So, we start with that and we will continue with that. The second one is, how can we be more proactive as a regulator? The criticism is that we're *reactive. Right? So, when we do an inspection, it's on an audit that has been done and a business that has already failed, it's too late. How (can) we (be) more proactive but stay independent? So, we're not going to be involved with the audit while it is happening, but surely if we sense that there are issues, we must maybe get involved (at) an earlier stage. Maybe, we should meet more often with the firms and find out if there are issues that we need to be aware of that they need to address? Maybe, we should, instead of (…) doing reviews after the event, maybe we should do reviews during the audit…"*

This statement by P15 (RPI) suggests that IRBA is actively working to restore confidence in the profession. Many of the aspects discussed under this theme, 'IRBA', are referred to in this statement by P15 (RPI). IRBA appears to be trying hard to combat the perspective that they are reactive rather than proactive. This is positive because it reflects IRBA is aware of concerns and is addressing the concerns around their effectiveness.

However, without the interview with P15 (RPI), the researcher would have been unaware of IRBA's 'restore confidence' project. None of the research participants interviewed mentioned IRBA's efforts in restoring confidence in the profession. This goes back to the issue of IRBA's visibility and reliability. While it is brilliant that IRBA is making efforts to restore confidence in the profession and enhance their own effectiveness, it would be beneficial for their own reputation if the other stakeholders were aware of these. Ultimately, if the users of financial statements were aware of the efforts made by IRBA, they would have more confidence in IRBA's ability to be an effective regulator of the profession. This would result in enhanced reliance by users of financial statements on the audited financial statements, which is ultimately in the best interest of the public.

5.2.1.7 Theme 1.7: Public sector model

The seventh theme, 'public sector model', refers to the audit model applied to those organisations which are controlled by the state. This theme comprises three sub-themes, each of which has been summarised in Figure 37. While the focus of this research is the audit model in the private sector, many research participants referred to the public sector audit model during the interviews. Participants provided an overview of the public sector audit model as well as the advantages and disadvantages associated therewith.

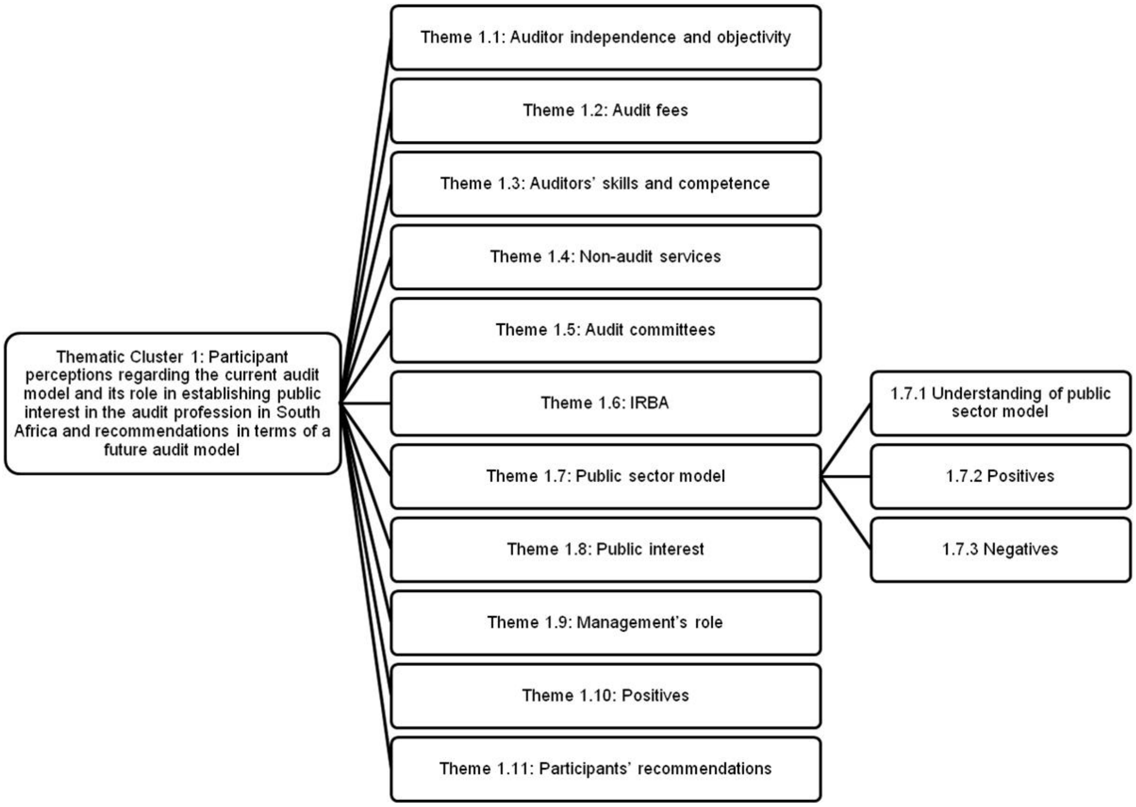

Figure 37. Theme 1.7 and sub-themes

5.2.1.7.1 Sub-theme 1.7.1: Overview of public sector model

The AG (SA) is responsible for conducting the audits of all public sector entities. Public sector entities do not have a choice in terms of who their auditor is. The AG (SA) can delegate these audits to private sector audit firms to conduct on behalf of the AG (SA). The AG (SA) is a SAI, and is a Chapter 9 Institution[14] under the Constitution.

In the public sector, the AG (SA) is the auditor of default for public sector entities. The entities cannot debate the fees as established by the AG (SA). P9 (AP) gave the example of Firm X doing the audit of public sector company A as a private sector client. Public sector Company A paid Firm X R 12 million. When the AG (SA) took back the audit of private sector Company A, they delegated to Firm X to conduct the audit on behalf of the AG (SA). The AG (SA) charged public sector Company A R 24 million for the audit, being more representative of the costs actually incurred by Firm X to conduct that audit. This is a very interesting perspective, as it would imply that public sector enterprises are forced to pay a fair audit fee, and the audit fee is not artificially lowered because it is a public sector entity and subsidised

[14] Chapter 9 Institutions are those state institutions that support a constitutional democracy. These institutions are independent and must act impartially. Other Chapter 9 Institutions in the Constitution include the likes of the Public Protector and the South African Human Rights Commission.

by government funding. If public sector entities pay a fair audit fee, then it would be reasonable to assume that the AG (SA), or whoever conducts the audit on behalf of the AG (SA), earns a fair audit fee. This would imply that the auditor has sufficient revenues to cover costs and invest in new technologies.

P14 (RPI) expanded on the fact that the AG (SA) does not only conduct financial statement audits, but also performance audits, compliance audits and special investigations. This would imply that the scope of the AG (SA) is significantly broader than the scope of a private sector audit firm. The researcher could not deduce whether this difference in scope of work would have any bearing on the private sector audit environment. This may represent an area for future research.

Another representative of 'public interest', P13, provided more information on how the AG (SA) actually operates from a quality perspective. P13 (RPI) shared that the AG (SA) is not legally bound to apply the ISAs, but has chosen to adopt the ISAs as their auditing standards. However, SAIs have the option to apply ISSAIs as well. The AG (SA) has their own quality control department and they set themselves relatively high standards for compliance (approximately 85%). The AG (SA) is also very honest and open in their annual report as to whether their compliance targets for the year have been met. The AG (SA) voluntarily has IRBA conduct a practice review annually, to ensure that their quality control standards are in line with IRBA's. All SAIs fall under INTOSAI, which has peer review mechanisms in place across the various SAIs, to ensure that globally SAIs operate to a high standard. This is an interesting, unique perspective to the public sector audit environment. Some of these ideas could be investigated further and potentially applied in the private sector audit environment.

5.2.1.7.2 Sub-theme 1.7.2: Positives

'Positives' refers to the advantages of the public sector audit model in South Africa as shared by research participants. These include auditor independence and a 'public interest' agenda that is prioritised. P13 (RPI) was quite exuberant in expressing that the AG (SA) exists *"for public interest".* This is an important aspect, as it differs from the objective of a typical business, which aims to maximise profits for owners or shareholders. This represents an area from which private sector audit firms can learn, namely, that the profit making objective comes secondary to the 'public interest' objective. P15 (RPI) was clear in the interview that auditors should exist for 'public interest'. Private sector auditors need to be reminded of this objective and it should be emphasised that this is the primary focus of an auditor, whether they work in the public or private sector.

P1 (ACM) and P9 (AP) both expressed that the AG (SA) is significantly more independent from audit clients than a private sector auditor would be. P1 (ACM) reflected that this is likely because the client has no choice in whether the AG (SA) will be appointed as the auditor for years to come. Therefore, a public sector auditor can be as independent as necessary, without fear of loss of future revenues. P9 (AP) expanded on this by stating that the AG (SA) will blatantly criticise the audit committee in the audit report, writing *"audit committees are ineffective"*. P9 (AP) went on to state *"have you ever seen a private sector audit client write in their audit opinion, or private sector auditor write in their audit report that audit committees are ineffective? Never!"*. Based on this, the researcher concluded that it is highly unlikely that a private audit firm would ever state that, no matter how accurate a statement it might be, as it would almost definitely cost the private audit firm the audit client.

This financial security over future revenues that the AG (SA) has, allows the AG (SA) to be truly independent of the audit client. As discussed in Section 5.2.1.1, there is a clear link between auditor independence and audit quality. Therefore, if the private sector could find ways to improve auditor independence, perhaps by finding a solution to secure future revenues, the private sector audit quality may well improve.

5.2.1.7.3 Sub-theme 1.7.3: Negatives

The public sector audit environment is not as rose-tinted as may appear from Section 5.2.7.2. The disadvantages of the public sector audit model in South Africa were also expressed by research participants, and these are discussed below.

Participants expressed that the public sector audit model represents a captive market or a monopoly. Participants were quick to express the sentiment that monopolies are not good for the market or quality, in general. Participants provided some specific examples of where the AG (SA) has failed from a quality perspective. P10 (AP) shared that employees from the office of the AG (SA) were lacking in skills: *"my own experience, with the Auditor General, is that, personally, if I were (on) an audit committee, I will definitely get a better level of service from those private companies than I do from, the Auditor General. Certainly, again, the issue that I had with the Auditor General, or with the IRBA around skills, if I think about some of the people that I've encountered in the Auditor General's office, they have (…) similar issue with skills, around not having the right people, because the key people are kind of taken up."* P1 (ACM) expressed that the relationship with the AG (SA) often feels hostile because the AG (SA) comes across *"like the AG (SA) wants to catch us out even for nothing"*. P12 (AP) stated that when large private audit firms lose staff to the AG (SA), they are not displeased, as those are not staff the large private firm would like to retain: "*I, personally, do not think the AG is effective. First of all I, I think it's struggling to attract (…) quality (…) people, and the talent. In recent months, I mean, we've had clerks saying, I can't do Big Four Firm X, I'm going to the AG. You know? And, the people who are going to the AG, are those people who we're like, 'okay, it's fine you actually can go, because, I don't want to retain you.' You know? You don't want to be here. You're not giving your all. So, you feel like, AG has a better work life balance and is your form of escape, do that. So, the quality, the calibre of people…*"

The above would point to challenges with quality and a focus on trivial issues rather than serious risk areas. This creates the impression that the AG (SA) does not provide a quality audit, but rather employs incompetent, lazy personnel who fuss over minor issues. On the one hand, these may be an accurate reflection of the actual state of affairs of the AG (SA). On the other hand, it may be that auditors from Big Four audit firms have preconceived ideas about the AG (SA) without having truly engaged with South Africa's SAI. More research would need to be conducted about the effectiveness of the AG (SA) before any conclusions can be drawn in this regard.

5.2.1.8 Theme 1.8: Public interest

The eighth theme, 'public interest', refers to the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism. This definition of 'public interest' was derived for the purposes of this research by the researcher in Chapter 2. This theme comprises five sub-themes, each of which has been summarised in Figure 38.

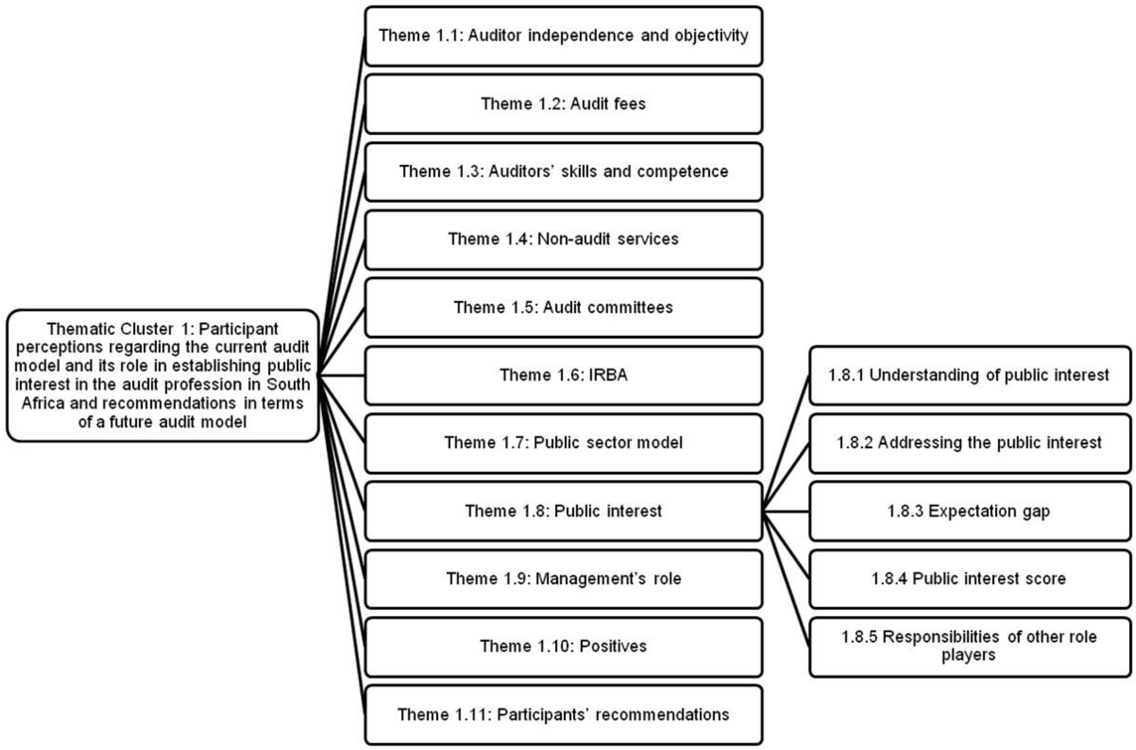

Figure 38. Theme 1.8 and sub-themes

5.2.1.8.1 Sub-theme 1.8.1: Understanding of public interest

This theme refers to how research participants perceive the term 'public interest'. As discussed in Section 2.1, the concept of 'public interest' is central to this study. As there is no textbook definition for 'public interest', as discussed in Section 2.2, one of the first questions the researcher asked the research participants was around how they understand the concept of 'public interest'. When discussing 'public interest' in the context of the audit profession, one needs to keep in mind that addressing the 'public interest' is a responsibility of the auditor per the IRBA CPC (IRBA, 2018b).

The responses from research participants were varied, and frankly, some were concerning. P10, an audit partner, explained 'public interest' as *"What I would understand by it, would be, if you think about, audits, or, companies, then, for example, if a company collapses, it's not just the shareholders that suffer. So, the reality is that there's a broader interest (…) or, broader role that that company plays in society. And therefore, the public has a right to, kind of, also, have a perspective around, or the public also has an interest, in how well or not the audit is conducted."* This understanding is not that different to the definition derived of 'public interest' for the purposes of this research, albeit stated in a manner that is not quite as comprehensive as the definition derived by the researcher. If, as P10 (AP) says, the public has an interest in how well an audit is conducted; then that would imply that if the RA does not act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all laws and regulations, the 'public interest' objective of the audit would not be met.

P6, an audit committee member, reflected on the following when asked about the participant's understanding of the concept of 'public interest': *"If you consider what has happened with VBS, SARS and KPMG – I sit on the audit committee of a company where KPMG is currently the auditor. We are ready to fire KPMG as our auditors. The damage to the economy cannot be expressed in Rand terms. The KPMG report on SARS had a big impact. Look at Eskom… These are big ticket items that have a material impact from a public perspective. The public is heavily reliant on the reports of the auditors."* Once again, to a limited extent, this explanation links back to the definition of 'public interest' as derived by the researcher. What P6 (ACM) effectively says, is that the public is reliant on the work of the auditor, especially in terms of the organisations that provide basic public services, like electricity. If the auditor does not fulfil their responsibilities with the necessary skills, competence and due care, while ensuring compliance with all relevant laws and regulations, the 'public interest' objective of the auditor is likely to not be met. In fact, the 'public interest' may suffer, in the same way as South Africans are currently suffering from load-shedding.

A participant from the grouping, audit partners, gave a concerning explanation when asked about 'public interest'. P7 (AP) stated *"I don't think so, it, got anything to do with the audit model. It is something that has been adopted by IFRS. So, it is, I would rather say, it is more like, accounting framework matter, rather than the audit matter."* As P7 (AP) is a senior member of a Big Four audit firm, this response is extremely worrying. It would imply that the participant is unaware of the 'public interest' responsibility of auditors. If a senior member of the firm does not know that auditors have an obligation to address the 'public interest', one is left wondering if there is even a chance that more junior audit firm members are aware of this obligation. Going back to concepts like the HELSON model as discussed by P15 (RPI) in Section 5.2.1.3.9 and the ideal of the tone at the top of an organisation filtering down; this creates the alarming concern that this audit firm may not be emphasising the 'public interest' objective of the audit sufficiently to its employees at large.

Of course, this is a qualitative research project, and therefore the results cannot be generalised. It would however be worthwhile for organisations like the regulator, IRBA, to be aware that auditors may not be fully aware of their 'public interest' responsibilities, and need to be reminded thereof, in order for the profession to be able to fulfil these responsibilities.

5.2.1.8.2 Sub-theme 1.8.2: Addressing the public interest

'Addressing the public interest' refers to whether research participants believe that the current audit model allows the auditor to appropriately fulfil the auditor's 'public interest' obligations. As part of the discussion around the concept of 'public interest', the researcher questioned whether research participants believe that the current audit model addresses the 'public interest'.

In responding to this question, representatives of the 'public interest' expressed some concern, with P15 (RPI) stating, *"I wish auditors understood that the service they provide is a public interest service. And, I think, auditors have forgotten that an audit is not just a normal service. It's a service for the public interest."* P14 (RPI) shared a similar perspective, saying, *"We've all got code of ethics under IFAC. One of the main things is that you need to serve the public interest. That's why you're appointed, that's why you must come and give independent assurance. But, the way it's currently set up is that, you know, audit fees just make a small part of it, but it's the consulting, that's where they make the money. So, auditing is just to get your foot in the door, and then they will come and say you being in a profession, me coming out of it, you know that, okay, I've got a client for R 2 million, but the pressure is on you from the partner to say, what else can you bring in? And that's where, the ethics sometimes go out of the window because you under pressure from the firm."*

The responses above from the representatives of 'public interest' could suggest that these participants do not believe that the current audit model addresses 'public interest'. The researcher would expect that these participants were objective in providing their responses. It may be a true reflection of the state of the profession if this is how the representatives of 'public interest' see it, as they would be dealing with the repercussions thereof on a daily basis. Of course, if this is the true state of the profession, then there is a definite need for something to change to ensure that auditors are addressing their 'public interest' objective.

On the other hand, P11, an audit partner, had the following to say when asked whether the current audit model addresses the 'public interest': *"I think it's dependent from audit firm to audit firm at this stage. So, I think, without mentioning firm names, I think certain firms are a lot more focused on the why… Who does it impact? The work that you (are) doing… Is it morally correct for us to be actually doing the work? Are there (possible) consequences why we shouldn't be doing the work? So, I think, the concept of public interest is a lot more entrenched now when we look at any piece of work. So, we would generally say, or I would generally say, now if I'm looking at accepting an assignment, I don't want to do this because what's the consequence of either getting this wrong, or giving your signature or your brand to* *this entity. What does it mean to the broader public? So, I think it's a lot more entrenched in some of the bigger firms now.(…) If I had to ask you 5 years ago, as a lead auditing partner in Deloitte, would you say no to Steinhoff?"*

This response from P11 (AP) makes the researcher think that potentially, some audit firms are thinking more about the 'public interest' in the aftermath of the recent corporate and related audit failures. At the same time, P11 (AP) makes a valid point, that several years ago an organisation like Steinhoff was not considered a risky audit client. As auditors you cannot predict what will happen with an client in the future. So, while firms possibly do think twice before taking on certain assignments in the current environment; to ensure that their 'public interest' objective is met, firms would also need to ensure that all the work they do is 100% compliant with ISAs and the relevant ethical standards. This would potentially give the audit firm in question a better chance of surviving and thriving, even if there is a corporate scandal associated with one of their clients in the future.

Contrarily, P12, another audit partner, did not seem convinced that the current audit model addresses the 'public interest' – *"I'm not sure that it does. I think that a lot of focus is on, investors, a lot of focus is on, on that But, I don't think it's an inclusive approach, on everyone. You know? It's the communities, it's SARs, it's everybody who is a stakeholder, in the company, who could be, using our financial statements. I don't think that it's open, a lot of the focus is mostly on, just, the investors, and people in that regard. But, I don't think it's, I don't think there's a shared understanding of what public interest is, in the current model."*

This statement by P12 (AP) makes two important points that a future audit model would need to consider. Firstly, the focus of the current audit model is primarily on investors. It does not include other stakeholders. While investors are definitely an important stakeholder grouping, they are not the only stakeholder grouping. Financial reporting and the external audit function needs to cater to more than just investors, in order to be able to address the 'public interest'. Secondly, P12 (AP) identified the same concern the researcher identified in Section 2.2; that is, there is no shared understanding of what 'public interest' is. In order for an auditor to be able to address the 'public interest' and for other stakeholders to be able to hold auditors accountable for fulfilling this obligation; there needs to be a common understanding of what 'public interest' is in the context of the auditing profession.

5.2.1.8.3 Sub-theme 1.8.3: Expectation gap

The expectation gap refers to the difference between the expectations of the public for auditors to provide absolute assurance as compared to the auditors obligation to provide reasonable assurance. In ensuring that auditors address their ‘public interest’ objective, there is a need for the general public to understand what an auditor actually does. If the public expects absolute assurance, then no amount of reasonable assurance is going to satisfy that expectation. It does not however mean that the auditor is failing to address their ‘public interest’ objective. Several research participants shared this perspective.

P2 (ACM) shared that, *“I just think there needs to be more education in terms of what the auditor does. Like for example, the sample case that I have given you. You know, people just think that the auditors when they come they look at your January to December, each and every invoice and everything. And once the auditors are there, then it means… if the auditor says I’m giving you a clean audit it means everything is clean, forgetting that it is actually clean audit on what I have audited.”* This perspective was echoed by P11 (AP), *“An audit is not absolute assurance and I think 99% of people don’t understand that. The second thing is, people don’t understand the different types of audit opinions that you get. So, if you’re giving reasonable assurance, not on a set of financial statements, on other data, what does it mean? And if you doing agreed upon procedures, what does it actually mean? Because you issue this report which says, I issue no assurance, but yet people are actually taking… I’ve auditor confirmation of it. So, I think, awareness and understanding of the broader public (are necessary in terms of); what do you expect from an auditor.”*

It’s quite critical that the general public understand that while auditors do have a responsibility to the ‘public interest’, this responsibility is to provide reasonable assurance on audit engagements. That means that it will never be 100% assurance, and that non-audit engagements, like agreed upon procedures, are not assurance engagements. These non-assurance types of arrangements do not provide any assurance; they are merely an activity performed by the auditor on behalf of the organisation, under the instruction of the organisation.

P4 (ACM) added to this view, stating that, *“there isn’t enough information out there for the public to actually understand what an auditor does… And, hence, why you still can have fraud, even though there can… you can have an unqualified audit opinion and clean audits, you can still have fraud and, just understanding, of how those things work, as opposed to just turning around and pointing the finger at the auditor.”* This is another valid point, the auditor provides reasonable assurance that the financial statements are not materially misstated whether due to fraud or error. It’s important for the general public to be aware of this to avoid the existence of an expectation gap. Firstly, the audit only provides reasonable assurance, and secondly, the assurance provided is about ensuring that the financial statements are not materially misstated. This means that the financial statements could still contain immaterial, or minor, misstatements.

To eliminate the existence of this expectation gap due to what the public expects of auditors and what auditors actually do, research participants suggested educating the general public. This is discussed in greater detail in Section 5.2.1.11.6.

5.2.1.8.4 Sub-theme 1.8.4: Public interest score

The concept of 'public interest score' is one that is established by the Companies Act (RSA, 2008). It does not provide a definition of 'public interest' or the 'public interest score', but rather provides a basis for the calculation of the 'public interest score' (RSA, 2008). The calculation of the 'public interest score' takes into account an entity's annual turnover, the size of its workforce and the nature and extent of its activities (RSA, 2008).

When discussing the concept of 'public interest' with research participants, several of them questioned whether the researcher was asking about the 'public interest score' from the Companies Act. For example, when asked whether the participant was familiar with the concept of 'public interest', P7's (AP) response was *"Public interest? As in the public interest score, or…?"* P1's (ACM) response to the same question was similar, but expanded upon somewhat: *"I know that there's a public interest score and companies with a certain public interest score, they have to have their auditors… But it's really to mean that the activities of that company affect the broader public at large versus where the effect would be narrow and just (…) limited (to a) group of individuals."*

Since the 'public interest score' in the Companies Act is something that is frequently used in determining whether an organisation needs to be independently audited or not, it is expected that research participants would think the concept of 'public interest' may be related to it. Furthermore, the 'public interest score' is a quantitative measure, which makes it easier to apply than a qualitative concept, like the definition of 'public interest' derived for the purposes of this research in Section 2.2.9.

If those responsible for regulating the profession were to consider defining the term 'public interest' for use in the context of the auditor's 'public interest' objective, it may be worthwhile to link the definition to the concept of the 'public interest score' from the Companies Act.

5.2.1.8.5 Sub-theme 1.8.5: Responsibilities of other role players

‘Responsibilities of other role players’ refers to the obligations of other parties, including management and the audit committee, in addressing the ‘public interest’ by providing the auditors with financial statements that are a fair representation of the underlying transactions.

While research participants acknowledge that the external auditor has a ‘public interest’ responsibility, participants from the group of audit partners expressed concern about why the responsibility of other stakeholders towards the ‘public interest’ is not acknowledged. P10 (AP) had the following to say: *“We seem to draw the line very early on, at the door of the auditors. But there’s actually (…) a proper step before that, which is, what is the role of the board of directors? What is the role of the audit committee? What is the role of management in the company? And, so there’s, I think, the first step that we actually have to acknowledge, and get right (…). Do companies actually understand that they have a role in society? And that they’re not just, supposed to be geared towards shareholders? So, if you look at where King IV and King III and all of that go, they’re all sort of very good in terms of saying that. But has that, in reality, actually sunk in for companies as a starting point? That for me would be kind of the starting point around it.”*

P11 (AP) had a similar perspective to P10 (AP), stating that, *“I think, (there is) a (lack of) awareness and understanding (from) the broader public as to, what do you expect from an auditor? But also awareness as to what are the lines of defence. So, management does something wrong, when are they going to jail first? Because they’ve misrepresented to you. So, it’s very quick that… In 9 out of 10 cases you’ll see, you’ll say ‘where was the auditor?’ When can we sue the auditor because you’ve got PI insurance, right? So, that’s the default position in almost all of these cases. Then you go back and say, ‘okay when did you press charges against management?’ And ‘when do you put them in jail?’ So, unless someone goes to jail for fraud, they’re going to continuously lie to whoever they’re dealing with. And it’s helluva easy to manipulate data sets. You can get something and show all of this is looking decent.”*

These concerns are valid, because as much as auditors have a ‘public interest’ responsibility, they rely on the information provided by management, as discussed in Section 5.2.1.9. Therefore, if management fail to act ethically or provide high quality financial information, the auditor would be limited in terms of the audit quality the auditor can provide. As a result, the ‘public interest’ objective may not be met. To hold the auditor solely responsible for this would not be fair.

As explained by P10 (AP), management and the audit committee of an organisation also have obligations to the broader public, as outlined in the King Code (IoDSA, 2016). This makes the question asked by P11 (AP) very valid – why doesn't someone press charges against management? Why is the responsibility for 'public interest' placed squarely at the door of the external auditors when, firstly, they are not the only party responsible for 'public interest' and secondly, they are reliant on the work of management and the audit committee to be able to properly fulfil their responsibilities? These are some questions that need to be addressed by future research, and perhaps by a future audit model.

5.2.1.9 Theme 1.9: Management's role

Management's role refers to the responsibilities of an organisation's management team in ensuring that the business operations are conducted in accordance with all applicable laws and regulations (IRBA, 2018b). Management's responsibilities include the preparation of financial statements in accordance with the applicable financial reporting framework, authorising transactions, designing and implementing internal controls and setting the policies and strategic direction of the organisation (IRBA, 2018b). This theme comprises five sub-themes, each of which has been summarised in Figure 39.

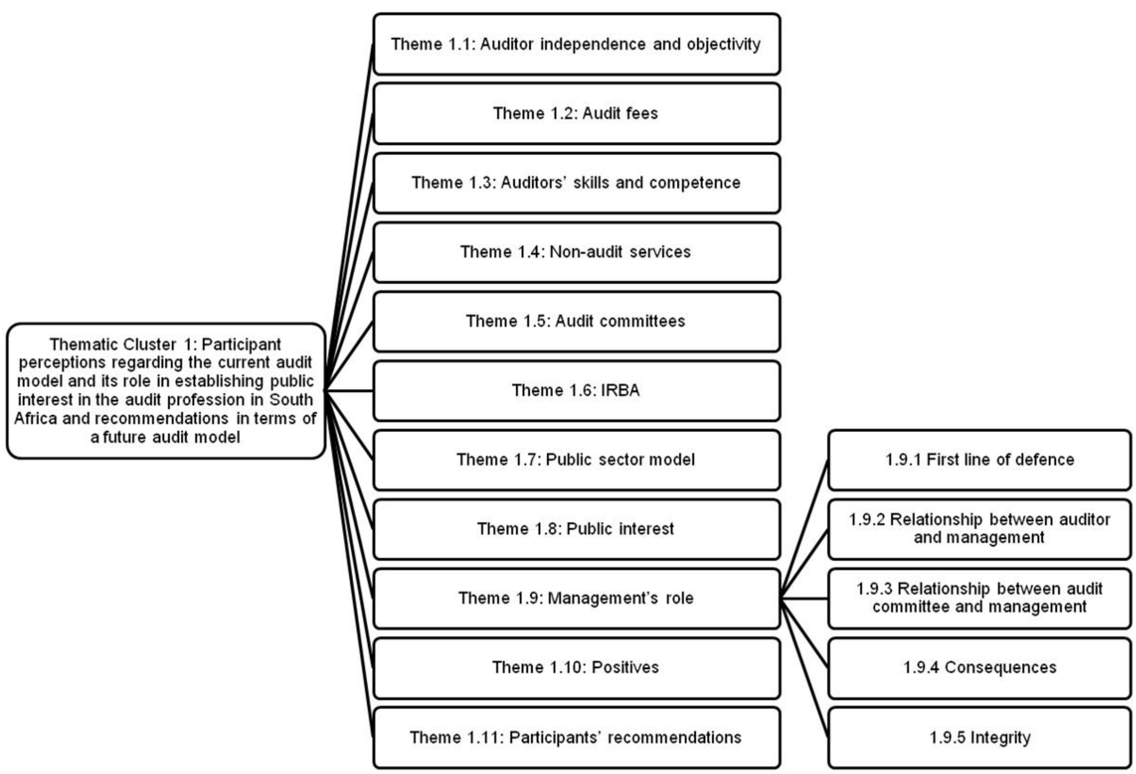

Figure 39. Theme 1.9 and sub-themes

5.2.1.9.1 Sub-theme 1.9.1: First line of defence

The management team of an organisation is primarily responsible for setting up an effective governance, risk and control environment. This is known as the first line of defence in the combined assurance model.

While a lot of focus is given to the role and responsibility of the external auditor in ensuring the accuracy and completeness of a set of financial statements, the auditor is not the only responsible party. The responsibility for the preparation of financial statements in accordance with the appropriate accounting framework and for the entity's compliance with laws and regulations lies with management of the organisation. Research participants across both audit partner and audit committee member groupings mentioned these responsibilities of management.

P12 (AP), stated that, *"A part of me feels like, management in this whole thing, does not want to take responsibility for the fact that, at the end of the day, the financial statements are theirs. So, audit committee does have a responsibility to approve and, to take these forward to the shareholders. We (auditors) have a responsibility to opine, but the originator of those financial statements, and the responsibility lies with management. And, the quality and the integrity of management, has that ripple effect on everyone else. You know? If you don't have the integrity, the ethical leadership, and just, that pride, in producing quality financial information, at management level, chances are, as much as, you can try and instil those through the audit committee, through the auditors, it's going to be difficult because, already, your job is going to be difficult, as management's going to be a stumbling block."*

This perspective was echoed by P10 (AP): *"What is the role of management in the company? And, so there's, I think, the first step that we actually have to acknowledge, and get right, is, (…) do companies actually understand that they have a role in society? And that they're not just, supposed to be geared towards shareholders? So, if you look at where King IV and King III and all of that go, they're all sort of very good in terms of saying that. But, has that, in reality, actually sunk in for companies as a starting point?"*

P11 (AP) also shared a similar sentiment, saying that, *"If you take governance in a business, where's the first layer of defence? Its management and the board. So how much is being said on management and the board before you get to the audit committee and before you get to the auditors? Because your management forum together with your internal audit is your first line of defence. I don't know if we as, as a country and, and as a business world* *place enough focus on how much responsibility management's taking for what they doing as well."*

The above comments make it clear that the research participants acknowledge the responsibility of management in ensuring that the financial statements are prepared in accordance with the relevant accounting framework. They also take it further, to indicate that if the quality of the financial statements provided by management is poor, the auditor cannot miraculously change this. This can be likened to a computing principle, garbage in garbage out, which reflects that poor quality input will result in a poor quality output. P1 (ACM) shared this view as well: *"It is the quality of the information that management gives as well. Because if they give you bad information, you know, they give you garbage, then you know, it will be difficult for you, to audit it and then be able to express a good opinion."*

Ultimately, if management are not appropriately fulfilling their responsibility for providing the auditor with high quality financial information, it is unrealistic to expect the external audit to provide a high quality output. If the audit output is not of a high standard, chances are the 'public interest' will not be met. However, this cannot be made the responsibility of the auditors in the above scenario, where it is clearly a case of where management has fallen short. Perhaps there needs to be some way of ensuring that management fulfil their responsibilities in ensuring that the financial information provided to auditors is of a high quality, and thereby contributing to the 'public interest'. This is discussed in more detail in 5.2.1.11.5.

5.2.1.9.2 Sub-theme 1.9.2: Relationship between auditor and management

This theme refers to the nature of the relationship between management and the auditor. Close relationships between management and the auditor could impair the auditor's independence. Examples of such relationships may include the following:

- The auditor accepts gifts or hospitality from management,
- A family or other personal relationship exists between the auditor and a member of the management team; or
- A member of the management team used to work for the auditor before becoming a member of the management team.

In such instances, the auditor may fail to act in the 'public interest' in order to protect the relationship with management.

If the auditor has a close relationship with management, it could impair the auditor's independence and objectivity, as expressed by P12 (AP): *"If I think about the corporate* *failures or what we've seen in the recent past, it's because there was that line that was breached between what your responsibilities are and who you're actually reporting to, versus what you were actually doing. You know, the close relationships with management, as much as we don't want to admit it, it does hamper our objectivity."*

This opinion was shared by P1 (ACM), who highlighted the fact that management pays the auditor: *"How independent and objective are the auditors given the fact that they rely on management to renew their audit contracts?"* P6 (ACM) shared the same concern: *"The auditors report to management. Who pays the bill? How much do they pay? Management makes the recommendations to the board for the auditors to be appointed. This represents a conflict of interest. If the auditor has to issue a qualified audit report, management says that the auditor is being difficult. There is a clear conflict of interest."*

These statements from research participants reflect that the relationship between management and the auditors can negatively impact auditor independence and objectivity. This is likely to have a knock on negative impact on audit quality. Using the scenario presented by P6 (ACM), if the auditor wants to issue a qualified report, but knows that management could tell the audit committee that they're being difficult; the auditor may be less likely to issue the qualified audit report in order to keep the audit client (and related revenue stream) for future years. A less extreme example may be where the auditor is just slightly less objective than necessary in conducting the audit, and fails to investigate a potential fraud indicator. The auditor may still get to the right audit opinion, but the quality of the audit work provided by the auditor in that moment would have been substandard. If a new auditor were appointed the following year and that new auditor identified that the previous auditor had failed to investigate potential fraud, the old auditor's reputation may be tarnished. It would not be good for 'public interest' because the public would be hesitant to rely on the old auditor's opinions based on that discovery.

P3 (ACM) reflected that *"An auditor must not stray from acting in the public interest, in spite of the dangers as you know, as he forms business relationships and as he gets closer to client management, he might compromise. He might, there might be a potential to compromise his standards of ethics or whatever. It should not, should never be. His code of ethics must be upheld."* This comment from P3 (ACM) would reflect that auditors need to be aware of the potential that their relationship with management could have on their independence and objectivity. If the auditor is constantly aware of this, they may be able to identify behaviours that could negatively impact their independence and actively work to address these.

5.2.1.9.3 Sub-theme 1.9.3: Relationship between audit committee and management

This theme refers to the nature of the relationship between management and the audit committee. The audit committee members are dependent on the organisation, and therefore management, for their remuneration as members of the audit committee. This may impair the independence of the audit committee, as they may not want to act contrary to the wishes of management.

Ideally, the audit committee should be able to fulfil their responsibilities independently of management. However, this is sometimes difficult because the audit committee only meets several times per year, and therefore has limited knowledge of the business and the external audit. The audit committee is therefore reliant on management to provide them with some of the requisite information. As P2 (ACM) explains, *"As the audit committee you can actually only know what you hear. If management doesn't want to tell you something you won't know about it."* This creates the risk that the audit committee could become overly dependent on management, as well as allow management to provide only selective information to the audit committee. The audit committee therefore needs to get more involved in the external audit and understanding the business of the entity by themselves. They should not be relying on management.

This goes to the matter of the appointment of the auditor and the determination of audit fees as well. If the audit committee leaves management to go through all the proposals from external auditors to determine who to appoint as the auditor, there is a risk that management could suggest an auditor for appointment who is not ideally suited to the engagement. Further, if management determines the audit fee without the involvement of external audit, this could negatively impact the independence of the external auditor. P15 (RPI) explains as follows: *"We also talked about the independence of the audit committee and the management. So, if they challenge the management, on a fee that they present, then you will find that the "payor model" will work. But, the problem at the moment, goes back to the audit committee not being independent enough or challenging enough, to the management to challenge them. And, also, leaving it up to the management to decide. So, obviously, management will present a proposal, but the audit committee must sign off on the audit fee. And, if that happened, then this shouldn't really be a problem."*

Therefore, the audit committee must be actively involved in the appointment of the auditor and determination of the audit fees. The audit committee must know enough about the business and the requirements for external auditors to be able to challenge management on their recommendations to ensure that the auditor ultimately appointed is ideally suited for the position of external auditor of the organisation.

If the audit committee is not independent from management, because of the fee they earn from the organisation, and indirectly from management, this could impact the ability of the audit committee to properly fulfil their responsibilities, as explained by P7 (AP): *"If it's not a functional audit committee, in terms of the King Code, they're not appointing the auditor. They have been swayed by management on who would be a favourable auditor. The proposals would have come, would have gone through management, management would have assessed who they want, and then it's easy for management to sway the audit committee, and say… But I think if you're a functional audit committee, you would have… I suppose, once again, it's human emotion. So, even sitting on that audit committee for the person that sits there, so whose audit committee are you on? You're sitting on client X's audit committee. Should I be pleasing client X, because client X is actually paying me my fees? So, yes, I should be, so, management is saying I should be appointing this firm, so then maybe that is the firm I should be going with. So, I don't know. (…) Money is the root of all evil, at the end of the day. It's very difficult to maintain independence when money is at play."*

The explanation provided by P7 (AP) poses a challenge that may be difficult to address. As much as audit committees should be independent, non-executive directors; it is going to be difficult for the audit committee to act independently due to the receipt of fees for serving on the audit committee. One cannot expect the audit committee members to provide their services for free, as a way of ensuring their independence, as they are skilled individuals providing a service for which they are entitled to remuneration. How a future audit model would address the independence of the audit committee from management and the organisation is an area for future research.

5.2.1.9.4 Sub-theme 1.9.4: Consequences

'Consequences' refer to the repercussions, or lack thereof, faced by management when they do not fulfil their responsibilities. While only one research participant directly addressed the matter of management not facing repercussion for not fulfilling their obligations, the researcher considered this an important sub-theme. This is because auditors have been suffering repercussions for not fulfilling their responsibilities via IRBA investigations and public shaming by the newspapers. However, no one has really mentioned what management's responsibility was in these recent corporate and audit failures, and the consequences that management should be facing don't seem to be taking place, i.e. management has not been jailed for failing to fulfil their responsibilities.

P11 (AP) explains this as follows: *"So, management does something wrong, when are they going to jail first? Because they've misrepresented to you. So, it's very quick that… In 9 out of 10 cases you'll see, you'll say where was the auditor? When can we sue the auditor because you've got PI insurance, right? So, that's the default position in almost all of these cases. Then you go back and say, okay when did you press charges against management? And when do you put them in jail? So, unless someone goes to jail for fraud, they're going to continuously lie to whoever they're dealing with. And it's helluva easy to manipulate data sets. You can get something and show all of this is looking decent."*

On the assumption that P11 (AP) is correct, that management has made a misrepresentation to their auditors in some of these recent audit / corporate failures; then auditors should not be the only ones facing consequences. Management should be investigated as well. Management should face repercussions of their actions as well. One way of doing this would be to have IRBA responsible for regulating not only auditors, but also other role players in the audit model, like management. This would give IRBA the ability to investigate the role management played in these audit / corporate failures, and impose sanctions and penalties on management as well.

5.2.1.9.5 Sub-theme 1.9.5: Integrity

Integrity refers to the practice of being honest and consistently and uncompromisingly adhering to strong moral and ethical principles and values. Research participants expressed concern as to how a lack of integrity on the part of management could negatively impact the quality of financial information and therefore audit quality.

P4 (ACM) provided the example of, *"If the CFO and CEO decide to write cheques to themselves, and they're both signatories, or, they find a mechanism to invoice the company from their own company, which nobody else checks, and they approve and they sign off…"* In such a scenario, the CFO and CEO clearly lack integrity. As a result of this, and their collusion in conducting fraud, it would be virtually impossible for the external auditor to be able to detect this in the ordinary course of conducting an audit. This would likely result in a poor quality audit report which does not address the 'public interest'. However, the fault here lies with the CEO and CFO, not the external auditor. The only way the external auditor could know about this fraud, is if the external was provided information on this by a whistle-blower.

Even then, without physical evidence of the decision to collude, it would be challenging for the external auditor to prove the existence of this fraud.

P12 (AP) shared a similar perspective to P4 (ACM), saying that, *"A part of me feels like, management in this whole thing, does not want to take responsibility for the fact that, at the end of the day, the financial statements are theirs. So, audit committee does have a responsibility to approve and to take these forward to the shareholders. We have a responsibility to opine, but the originator of those financial statements, and the responsibility lies with management. And, the quality and the integrity of management, has that ripple effect on everyone else. You know? If you don't have the integrity, the ethical leadership, and just, that pride, in producing quality financial information, at management level, chances are, as much as, you can try and instil those through the audit committee, through the auditors, it's going to be difficult because, already, your job is going to be difficult, as management's going to be a stumbling block."* P9 (AP) also agreed with this sentiment, explaining that *"…tight deadlines, pressure from the client's management, lack of information from management to give you a real story… So you would use your professional scepticism to find something that's, let's call it suspicious… you're going to ask about it and they give you incomplete information, incorrect information, it will impact audit quality…"* The above provides clear evidence that if management of an organisation lacks integrity, audit quality will suffer. This would have a direct, negative impact on the 'public interest'.

5.2.1.10 Theme 1.10: Positives

The tenth theme, 'positives', refers to the aspects of the current audit model that are advantageous. This theme comprises two sub-themes, each of which has been summarised in Figure 40.

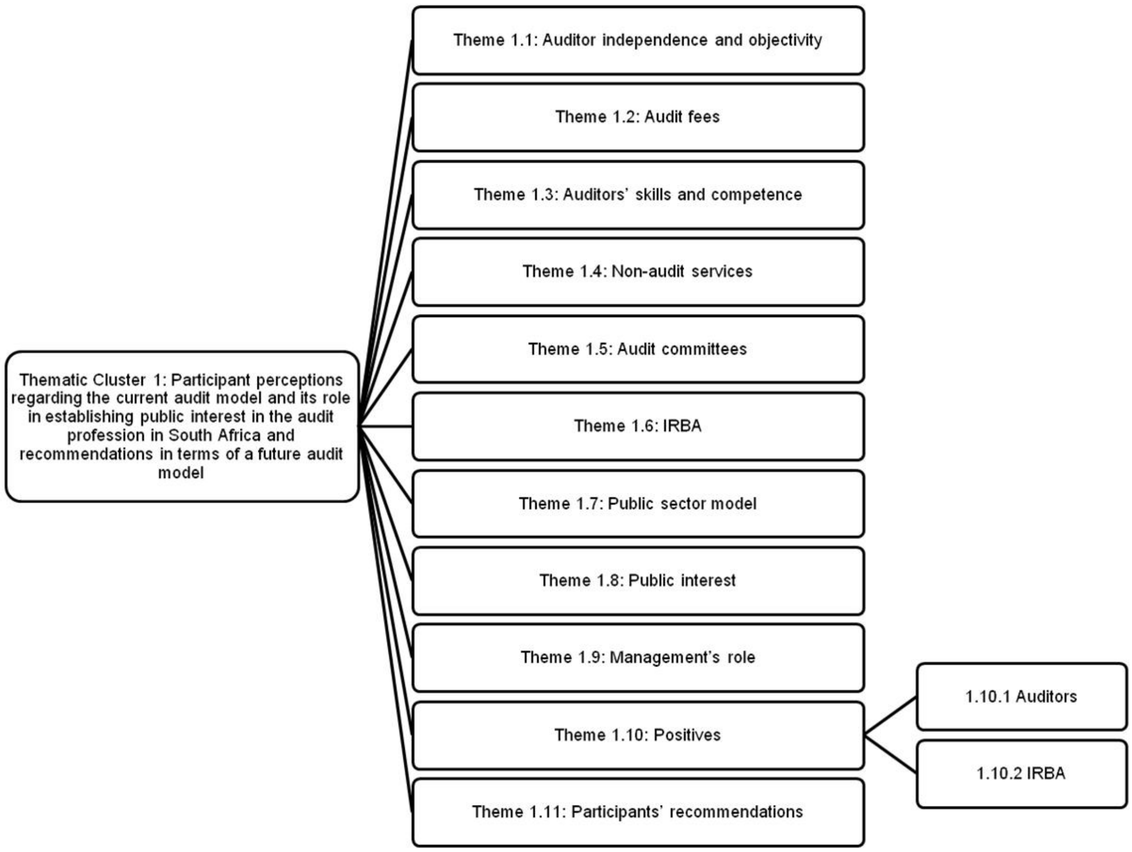

Figure 40. Theme 1.10 and sub-themes

5.2.1.10.1 Sub-theme 1.10.1: Auditors

Under the current audit model, auditors conduct audits in accordance with the ISAs. South African auditors undergo rigorous training and examination before being allowed to practice as RAs. Many audit firms provide ongoing training to their staff to ensure that they are always up to date with the latest developments in the field.

While there are many challenges facing the auditing profession, and numerous critics of auditors, there are some positives as well. P11 (AP) stated the following: *"So, you'll still see, even today, with the cloud over South African auditors, you're still massively wanted in other parts of the world. So New Zealand, Australia, massively still, our auditors are still wanted there."* If this statement by P11 (AP) is indeed true, then the South African auditors must be doing something right. This is *"massively positive"* to use the words of P11 (AP).

Furthermore, P14 (RPI) shared that South African auditing standards were voted number one in the world for a few years. While this has changed in recent years (Engelbrecht, 2017), it is attributable to questionable behaviours by a handful of auditors, rather than the profession as a whole, as asserted by both P6 (ACM) and P11 (AP). P11 (AP) stated *"I think* *you need to reflect on the number of audit opinions that are signed in South Africa every single year and what's the error rate; it's probably quite minimal at this stage."* P6 (ACM), echoed this sentiment, stating *"the South African auditors are good. It is sad that a bunch of auditors have fallen."*

Based on these positives, the South African auditing profession can try to look forward and build a future where our auditing standards are once again ranked number one in the world. If the profession is able to overcome the challenges it faces, specifically in terms of auditor independence, then overall audit quality should improve.

5.2.10.2 Sub-theme 10.2: IRBA

IRBA is an independent regulator of the auditing profession in South Africa. As part of fulfilling this role, IRBA conducts independent reviews of RAs. IRBA publishes their review findings, expose auditors who do not act in the 'public interest', but also try to assist firms in restoring their credibility.

While IRBA is an independent regulator of auditors, and has no jurisdiction over the other role players, like audit committees; IRBA are actively trying to capacitate and assist audit committees in fulfilling their obligations. This includes the likes of the *"audit quality indicators project"* and the *"transparency reporting project"* as discussed by P15 (RPI). These projects are primarily to get the necessary information to the audit committees to enable them to evaluate the auditors bidding for the audit and to make the right decision in terms of which auditor to appoint. The audit quality indicators project also allows audit committees to have sight of the quality provided by their audit firm to other clients. This effectively allows audit committees to monitor audit quality on an ongoing basis.

The same could be said for auditor independence. By IRBA introducing MAFR, IRBA has made more audit committee members aware of the importance of auditor independence (P15 – RPI). By making audit committee members aware of the importance, it is anticipated that audit committee members will ask potential auditors more questions before blindly nominating the audit firm for appointment as the auditor of the entity.

The efforts by IRBA do not go entirely unnoticed by the role players in the profession. While virtually all the research participants recognise the challenges faced by IRBA, as discussed in Section 5.2.1.6.7, some participants did acknowledge the positives associated with IRBA. P12 (AP), for example, stated the following, "*you have the IRBA, which does, in a way, try and instil that independence and objectivity, you know, and, if you look at it from that angle,* *it's that restoration of trust."* This reflects that the role players in the audit model are aware of IRBA's efforts to restore trust in the profession, and acknowledge it.

What creates cause for concern is that although IRBA are putting in tremendous efforts to improve the perception and reality of the audit profession, the majority of the role players would appear to be unaware of these. This goes back to the issue of IRBA's visibility as discussed in Section 5.2.1.6.4. This is discussed further in Section 5.2.1.11.3, which considers participant recommendations around IRBA under the current audit model.

5.2.1.11 Theme 1.11: Participant recommendations

Participant recommendations refer to the suggestions made by research participants as to how the current audit model could be tailored to better serve the 'public interest'. This theme comprises eight sub-themes, each of which has been summarised in Figure 41.

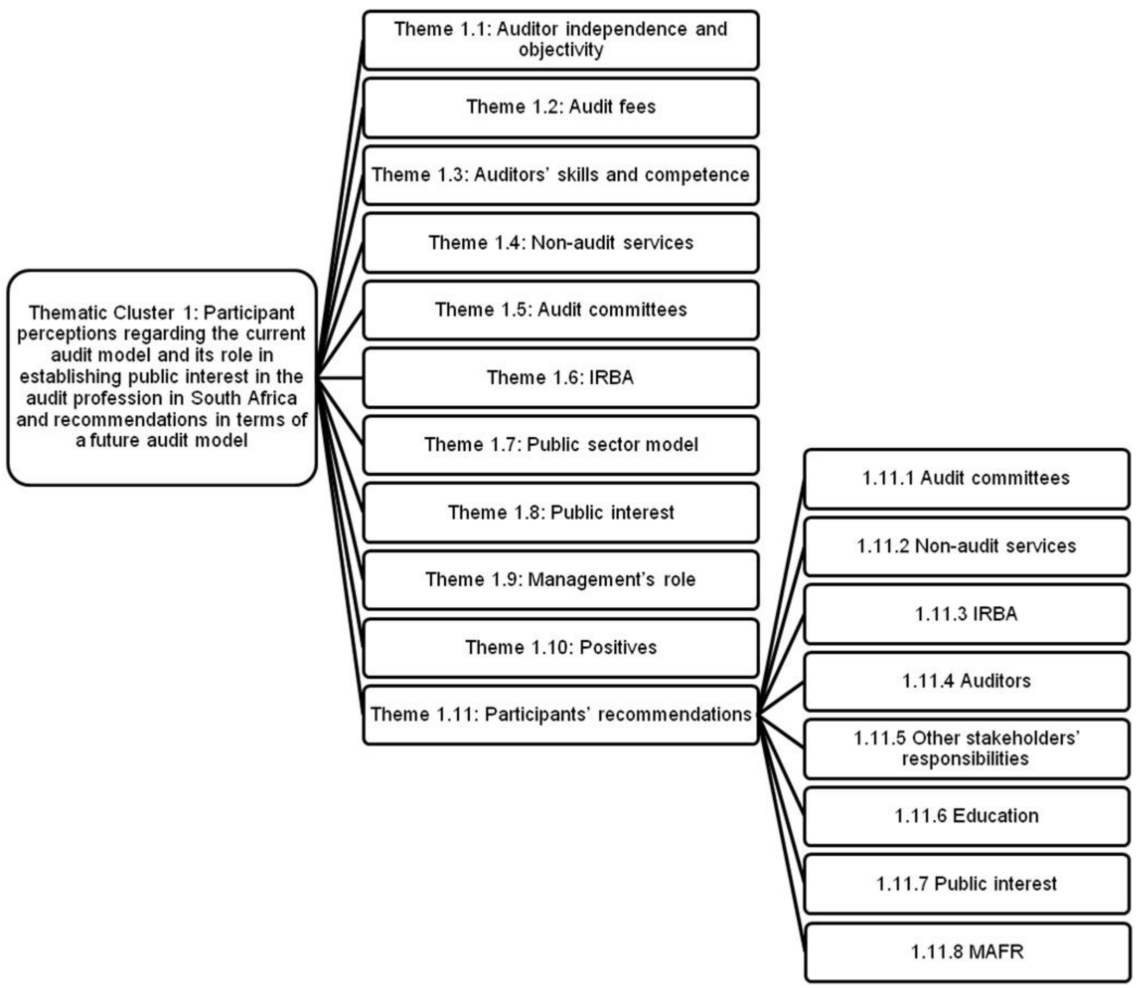

Figure 41. Theme 1.11 and sub-themes

5.2.1.11.1 Sub-theme 1.11.1: Audit committees

The audit committee is a sub-committee of the BoD that comprises independent, non-executive directors (IoDSA, 2016; Marx, 2009; RSA, 2008). The audit committee is responsible for the risk management of the organisation and for providing independent oversight of the combined assurance model (IoDSA, 2016; Marx, 2009). The combined assurance model comprises internal audit, external audit and the finance function of the organisation (IoDSA, 2016; Marx, 2009). The recommendations made by research participants about audit committees covered the responsibilities of audit committees, the independence of audit committees and the regulation of audit committees.

Audit committees have duties which they need to fulfil and be held accountable for. Statements made by research participants would reflect that audit committees are better able to fulfil their responsibilities when they are independent. In order to be able to do this, audit committees need to be free from outside control, and not subject to the authority of others. This includes being outside the control of management and the auditors, as well as not being just to authority of management and the auditors.

P13 (RPI) shared that if audit committees are independent and properly apply their minds, they are able to add to the quality of financial information provided by management to the auditors: *"If they're really independent, if they're really independent of mind, if they really apply their mind to what they should do, it can be beneficial. But, the whole thing of financial statements goes to the audit committee, they have a look, before it's signed off and it comes to you as the auditor. If they do a proper job, you should get quality."* This statement makes sense, as audit committees do have a responsibility to ensure the integrity of the financial statements (IoDSA, 2016). In effective audit committees, where audit committee members are independent and provide proper oversight of the finance function of the organisation, the financial information provided to the external auditors is likely to be of a better quality which should lead to a better quality audit. This would allow auditors to properly fulfil their 'public interest' obligations. Based on P13's (RPI) statement, the researcher can infer that there needs to be some kind of regulation around audit committees to better enable them to fulfil their responsibilities and act with independence.

The matter of audit committee independence is also linked to audit fees, as shared by P15 (RPI): *"We also talked about the independence of the audit committee and the management. So, if they challenge the management on a fee that they present, then you will find that the "payor model" will work. But the problem at the moment, goes back to the audit committee not being independent enough or challenging enough, to the management to* *challenge them. And, also, leaving it up to the management to decide. So, obviously, the management will present a proposal, but the audit committee must sign off on the audit fee. And, if that happened, then this shouldn't really be a problem."* If audit committees are truly independent of management of the organisation and the external auditors, then they would be best positioned to determine the audit fee to be paid to the external auditors, as is required by the Companies Act (RSA, 2008). However, if the audit committee is not sufficiently independent of management, as per the statement from P15 (RPI), then the audit committee is unlikely to challenge the audit fee as suggested by management. This could have a range of implications, from impairing auditor independence to poor audit quality, as discussed in Section 5.2.1.2. Based on the statement from P15 (RPI), the researcher could once again infer that there needs to be something done to ensure that audit committee is independent of management and the external auditor. This would enable the audit committee to satisfactorily fulfil their obligations and hold both management and external auditors to account.

When discussing audit committee independence, some research participants recommended that retired auditors be subject to a cooling off period before joining the audit committees of their firm's clients. P9 (AP) said the following in this regard: *"There should be at least a two-year cooling off period, you can't move as an auditor or as a… again, depends on what role right? If you were a trainee and after three years of articles you finish and, I'm surprised if you become an audit committee member, but I'm saying if you do, then you may not be having the relevant experience. If you're a partner on the job and if you're the existing partner, you retire and then you become… I think there should be a two year cooling off period before you become an audit committee member, because again, you're just fresh out of the old firm you now becoming an audit committee chair, this again, independence, perceived independence, perceived conflict of interest, you're loyal to your firm. You know, there are still payments that the firm makes to you in the first year or two years around your pension and all your other stuff. So you're not clean. Give you two years, then you're clean."* Several other research participants shared a similar perspective.

On the other hand however, P6 (ACM) believes a cooling-off period would not help in ensuring the independence of the audit committee from the auditors: *"No (an ex-auditor should not join the audit committee of an ex-client). Even after a two to three year cooling off period, the DNA remains the same. The same goes from previous members of management becoming part of the audit committee."* There is a definite argument for this, as it would aid in ensuring that the audit committee is independent of the external auditor. However, there would be advantages to have an ex-audit partner as part of the audit committee that would be lost. This could include things like business and industry knowledge, as explained by P1 (ACM): *"one of the committee members, our audit committee member, used to be a partner at one of the big four who used to be our auditor. So he understands our business, he understands the audit risk issues. So if our current auditors actually, are missing some of the issues, it's easier for him to say, by the way, guys, have you looked at these things? These are some of the things you should look out for, and so on and so forth."*

In the current audit model there is no recommendation as to any sort of cooling off period before an auditor can join the audit committee of his ex-firm's audit clients. This reflects a missing link in ensuring audit committee independence. Perhaps, if there was to be regulation of audit committees, consideration could be given to whether ex-audit partners can join the audit committees of their old firm's clients at all, or perhaps after a cooling off period.

In commenting on the audit committees, research participants made some direct recommendations that all relate to regulation of audit committees. P9 (AP), for example, questions why audit committees are not held accountable for not fulfilling their responsibilities and recommends that there be a body that monitors and holds audit committees accountable: *"What is the consequence – there's no consequence management for audit committees, the chairs… for example, if you have a corporate failure and you have an audit failure, who does the media attack, who does the companies, who do they sue, you know… You don't sue the audit committee chair... Yet, the audit committee is the one who appointed the auditor. Yet, the audit committee is the one that's supposed to look at three tiers, I mean the, what's it, combined assurance model… Okay… Monitor the quality of the audit, the independence of the auditors, it is only afterwards that challenges are being raised about independence of auditors, you know the issue around quality of the audit… So I'm saying, there needs to be some, if you ask me what needs to change in the current model… there (should be) governance processes for a body that monitors and holds audit committees accountable."*

P11 (AP) recommended that audit committee members be appointed to audit committees by a regulatory authority rather than by the company themselves, as explained, *"I think one of the proposals I would probably have made if it was really just in my hands, was really just to change the way audit committee members' are selected, and audit committee's chairmen are allocated or selected by companies. I don't think it should be left to the entity, I think it should be a regulatory authority, together with an oversight that actually looks at how people are appointed or not appointed onto boards."* This would aid in ensuring that audit committees are independent of management. Perhaps, if this regulatory board were to take into consideration the background of potential audit committee members, for example, which audit firms they come from, this would also assist in ensuring the independence of audit committees from external auditors.

Lastly, P15 (RPI) recommended that IRBA be given regulatory oversight of audit committees as well: *"our comprehensive regulation model tries to, what we'll propose that the minister, probably in the next couple of weeks, is to say that audit committees, management, all those other people in the financial reporting chain, must be subject to some form of oversight, as well. And, once you introduce that, I think, it strengthens the whole system."* If IRBA has the right skills and available capacity to regulate auditors as well as audit committees, and is able to implement some of the measures discussed in this section, then one would expect that overall audit quality would increase. This should aid auditors in addressing their 'public interest' responsibility.

5.2.1.11.2 Sub-theme 1.11.2: Non-audit services

The second theme, 'non-audit services' refers to the provision of consulting or other non-audit services (i.e. services other than audit services) by auditors to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others.

Research participants provided conflicting points of view around non-audit services. While some participants, like P15e (RPI), expressed "*there is no sufficient evidence to support the fact that audit quality suffers because of non-audit services";* other participants, like P15 (RPI), expressed the view that non-audit services are currently not regulated. The regulation of non-audit service could be further researched and possibly incorporated into a future audit model, as discussed in Section 5.2.1.4.3.

Research participants who believe that non-audit services could impact on audit quality were split. The first group was of the opinion that audit firms should only be audit firms (i.e. audit firm should be unable to provide any non-audit services at all). P15 (RPI) who was part of this first group stated that *"we feel very strongly that audit firms should be audit firms. Because, they lose their focus when they also have other, also provide to the same audit client, other services."* The second group deemed it necessary only to limit the amount of non-audit services that audit firms can provide to their audit clients. P8 (AP) was part of this second grouping. P8 (AP) suggested that *"there has to be, there has to be a limit, that you know, if your audit fee is X amount, you're allowed either one to one ratio, or one to zero* *point seven ratio, or whatever the ratio that is acceptable by the, by the, either the firm or by the practice, you know. I believe research was done, by the European market, where, they made a conclusion that audits fee versus non-audit fees; they came to a conclusion of one to zero point seven ratio there. So that was, the research that was done by European market around non-audit fees."*

In considering an environment of audit only firms, there would be a definite increase on the focus given to audit work. Auditors would not be distracted by trying to sell consulting services to their audit clients. P3 (ACM) shared the following, if firms were audit only: *"you're not distracted from driving revenue. I think, quite often, auditors are out over there, you've got the advisory practice that says, what there are weaknesses over there, you need to give us some kind of view, around us selling our skills to the audit client."*

However, audit only firms may also see a sharp decline in revenue, as they would not be earning any other income. P1 (ACM) expressed concern for the viability of audit only firms, stating "*I don't know if the auditing firm will survive. Because over the years they, some of them actually, the non-audit fee departments generate more revenues and profits than the audit division."*

This may also cause the audit firms to shrink considerably in size, as currently all the Big Four audit firms in South Africa have relatively large consulting practices, which would have to be gotten rid of, somehow. This may not go down well with the partners of these firms, as they may perceive the consulting practices as being more profitable. The audit profession as a whole could lose skilled professionals to the consulting side of the business. These consequences are largely speculation on the part of the researcher. While there is some research around audit only firms (Velte & Stiglbauer, 2013), these findings were inconclusive. More research would need to be conducted on how such an action would implement the South African environment, before such a drastic step could be taken, as mentioned in Chapter 6.

On the other hand, in limiting the ratio of non-audit services to audit services that the audit firm can provide to its audit clients; research would first need to be conducted on what the ideal ratio for this would be in South Africa. P8 (AP) shared the ideal ratio for the European market, being 1:0.7, but an ideal ratio would need to be determined for the South African market. Assuming an ideal ratio can be determined, it would take away the challenges posed by audit only firms as discussed above. However, it would also take away the advantage of audit only firms, since audit partners would still be trying to sell consulting services to their audit clients, albeit to a limited extent. This recommendation would not be too dissimilar to the SOX regulation, which, in an attempt to limit loss of auditor independence, prohibits auditors from providing non-audit services to their audit clients, with few exceptions (DeFond & Francis, 2005; Grinberg, 2007; Parles et al., 2007; Riotto, 2008).

Of course, the statutory limitations and safeguards are still in existence, with Section 90 (2) of the Companies Act limiting the type of non-audit services the auditor may provide (RSA, 2008) and the Companies Act also requiring audit committees to approve all non-audit services provided by their auditors (Marx, 2009; RSA, 2008). Given the nature of some of the responses from participants around non-audit services, one would be inclined to conclude that the current safeguards are inadequate. Further research needs to be conducted in the South African market to consider how best the challenges associated with the provision of non-audit services to audit clients can be addressed, as mentioned in Chapter 6.

5.2.1.11.3 Sub-theme 1.11.3: IRBA

The Independent Regulatory Board for Auditors ("IRBA") is a regulatory body that was established by the APA to protect the auditor's professional integrity and independence (De Koker, 2007; RSA, 2005). IRBA is responsible for ensuring that RAs are adequately trained, that they act in accordance with professional standards, and to ensure that RAs do not act improperly. Recommendations from research participants around IRBA covered diversity, effectiveness and stakeholder relationships.

Firstly, research participants suggested that IRBA should comprise people showing a great deal of variation and differentiation, including with respect to race, religion, gender, profession, etc. This perspective was shared with the researcher by P13 (RPI), who stated that, *“There’s a small group of people that try and protect the profession from their point of view, and that means protecting profit. It can’t be healthy. So, IRBA, if they want to be real, they need to be far more independent. They don’t necessarily need to be made up of auditors; they need to be made up of people that understand public interest, which would be the public.”* P5 (ACM) had a similar perspective, stating that, *“IRBA’s board should be reconfigured. It should represent people that have previously audited; it should have members of the public… so the public interest sector, broad business, and people that are risk specialists. Now, when you look at the current IRBA board, not one is a practicing member.”*

Based on these declarations by research participants, the researcher got the impression that some participants may perceive IRBA as being biased and protective of themselves. This in light of the view that IRBA comprises individuals that trained at the audit firms, and wouldn't want to compromise those relationships. This view was expressed by P1 (ACM), stating that, *"you want to protect what you are associated with. So if I was trained at company A, and then now I'm at IRBA, the regulator, there are things, and I just have like, you know, strong stances on it, or will I call them in and say guys, you know, I don't know… I think, inherently, the fact that these very same people who trained you and now we have to oversee them, it just gives you that conflict…"*

Based on these perspectives, perhaps IRBA's BoD needs to be more independent of the profession, and IRBA needs to be more transparent about how they fulfil their responsibilities. This will enable both the stakeholders of the profession and the public at large to understand how IRBA discharges its obligations. It would also allow stakeholders and the public to hold IRBA accountable and question IRBA when they do not appear to be acting independently. At the same time, it probably would not be helpful if IRBA's BoD does not include any auditors, because doctors and lawyers and other members of the public may not have as thorough an understanding of what an audit entails as an auditor does. Therefore, there is a need to find the right balance for the composition of the BoD of IRBA to ensure that they are independent of the profession, but also able to comprehend what an audit entails.

Secondly, research participants made recommendations to take into consideration to ensure that IRBA is successful in its existing role, and is better able to monitor audit quality and reduce audit failures. P1 (ACM) suggested that IRBA conduct reviews in a more robust manner, saying, *"more robust reviews, more surprise reviews, more progressive reviews… Not just… 'give me all the files of client A'… and I don't even know how they can copy the model of how the Reserve Bank, the banking regulator, regulates banks on a continuous basis… So if the reviews could be a bit more continuous it could actually help to… One of my colleagues always says stop the thing of dressing the bride for the… so that you know the files are not prepared for the occasion… So if it can be more spontaneous, (a) surprise."*

This is an interesting perspective, and definitely something to consider. Based on P1's (ACM) explanation, the banks have to make daily submissions to the Reserve Bank. They do not have time to fix any errors that may have taken place during the day. However, in the current audit model, audit files go to IRBA for review months after the audit has been conducted. This gives the auditor time to prepare the audit file for IRBA's review, i.e.

“dressing the bride” according to P1 (ACM). Future research should be conducted around how IRBA can conduct their reviews more in real time, rather than after the fact. This research could include how IRBA could conduct more spontaneous reviews.

P10 (AP) made another suggestion for ensuring IRBA’s effectiveness, saying, *“I’d be strengthening the disciplinary action that IRBA is able to take against these auditors.”* This is important, especially as currently IRBA are perceived by some *“as a bulldog with false teeth” (P6 – ACM)*. If auditors and the public at large are going to take IRBA more seriously as a regulator, IRBA needs to have the ability to impose sanctions and take whatever other necessary disciplinary actions against rogue auditors. One would hope that this would also work to discourage auditors who are tempted to act in a manner that is contrary to the ‘public interest’.

Lastly, research participants noted that there are many parties that are interested and concerned with IRBA’s actions. These parties include auditors, audit committees, BoD, shareholders, the government and the general public. IRBA needs to manage these stakeholder relationships better. According to P11 (AP), *“I think IRBA needs to be able to engage with their members better. I think it needs to become about adding value, and helping prevent audit failures, as opposed to trying to get someone on something stupid. It’s as simple as that.”* This perspective was shared by P7 (AP), who thinks that IRBA should *“go out to members, go out, as the face to members… Maybe do a roadshow. Maybe show certain instances where you’ve helped members, where you’ve helped members set up something if you identify an issue. Be it… Set up a call centre, where members have, I don’t know, I mean, not every issue can come through to you, but if there’s something significant, is there some sort of direction you can give them?”*

Research participants’ perception of IRBA was generally lukewarm, as discussed in Section 5.2.1.6. If this perception is to be improved, IRBA has to engage better with all their stakeholders. This could include something like what was recommended by P7 (AP), or P11 (AP), with IRBA assisting their members with issues, rather than just finding fault. It could even start with something as simple as the following recommendation made by P4 (ACM): *“They need to be more visible and give a better understanding of their role within, I’m sure, they probably think my, our, members know exactly what we do.”* When interviewing P15, the researcher learnt a lot about what efforts IRBA has been making in the profession. However, this did not come through in any of the other research interviews. Therefore, if IRBA just communicated better about what they’re doing to restore confidence in the profession, there is a chance that their image in the eyes of their stakeholders and the public would start improving.

5.2.1.11.4 Sub-theme 1.11.4: Auditors

'Auditors' refer to those independent individuals, or teams thereof, that conduct an official financial examination of an organisation's records (Lexico, 2020a). Research participants provided recommendations to ensure auditor independence, address some of the challenges around audit fees and to ensure the accountability of auditors.

An auditor is independent when the auditor is able to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b). Research participants stressed the importance of ensuring the independence of the external auditor. P15 (RPI) stated that, *"although it's difficult to teach somebody ethics and scepticism and independence, if they operate in your firm, creates an environment where the partners and the top leadership, and you will see I talk about the importance of leadership at the top, where all of them behave in a certain way, these people will start behaving that way."* This suggestion of P15 (RPI) would indicate that the leaders of audit firms need to behave in accordance with the highest ethical standards. This will encourage other people in the firms to also act ethically, and over time, the entire organisation would transform into an ethical one.

On the topic of auditor independence, P10 (AP) suggests *"strengthening the training, around auditors to make them understand what it is, and what are ethics, and independence"*. P7 (AP) supported this view and added to it, stating that, *"Maybe the independence checks, etc. that are being done at a firm level are actually not as rigorous, as they need to be. Because they're very much dependent on the person actually giving the information without any detailed sort of background checks, etc."*

While it is important for the leaders of audit firms to act ethically and embody the principles of independence and objectivity, auditors also need to be trained more around ethics and independence. Ethical and independence training probably need to happen on an ongoing basis to ensure that the messages therein are reinforced. Furthermore, when it comes to ensuring the independence of their staff, audit firms cannot merely rely on their employees to make 100% accurate and complete declarations. Audit firms should have a system in place to verify the independence declarations of employees, and to do detailed background checks at random to ensure that independence declarations are complete and accurate.

In terms of audit fees, P13 (RPI) suggests that auditors determine audit fees using zero-based budgeting techniques: *"I just think we've learnt over time, that if you go to zero based, proper on what your mandate asks, you can't compromise."* While some audit firms may already be using zero-based budgeting techniques to determine the audit fee, the researcher consider this to be a simple recommendation that should be relatively easy for audit firms to implement. This perspective was shared by P8 (AP): *"We should be going into a process of zero-based budgeting, on an almost (…) annual basis. If not annual, at least, (a) two to three year basis, to go onto a zero-level basis."*

P7 (AP) reflected that audit fees may be too high for smaller audit clients, and suggested reconsidering the charge-out rates based on the size of the client and the client industry: *"I think your charge-out rates, going out to big corporate clients, blue chip clients, your charge-out rate fits in nicely (with) those clients, because, I mean, they're high profile clients, and they're able to meet your charge-out rates. But, the minute you get into a smaller entity, my clients, those charge-out rates are actually extremely high, for that client base. And that actually, and maybe that's why, you have issues in terms of quality, because people, I don't know how you get that out, but people are only worried about recoveries… And, that's, maybe that's one thing… Audit firms are very much focused on recoveries. And I think sometimes, when your focus is recovery, you drop on quality. So, charge-out rates need to be looked at, depending on the client and the client's industry."* P7's (AP) recommendation may not be as easy for audit firms to implement, as they may find it hard to justify charging different clients different charge-out rates.

Another aspect that P7 (AP) mentioned that deserves consideration is that audit firms are extremely focused on recoveries. This may be reflective of a risk area, as audit firms should be focused on providing the highest levels of audit quality and addressing the 'public interest' as their first priority, rather than being concerned about recoveries. This links back to the issue of audit firms focusing primarily on profit making (Cassim, 2012; Tudor, 2013), as discussed in Section 2.4.2.3.

The last of the recommendations made by research participants regarding auditors was the reminder to auditors that they act in the 'public interest'. P15 (RPI) states the following in this regard: *"I wish auditors understood that the service they provide is a public interest service. (…) I think, the, auditors have forgotten that an audit is not just a, a normal service. It's a service for the public interest."* P9 (AP) echoed this perspective, and added to it, saying, *"I think the auditor's role needs to change in the sense that they executively appointed the public interest. They need to understand their client is not management, their client is not* *(the) audit committee, (and) their client is not even the board. Their client is the public. If you take Eskom, Transnet, you know, if we are reporting to an ineffective board, ineffective audit committee, it's wrong. We should actually be reporting to the shareholders, at an AGM, we should actually be reporting to the citizens and we need to be accountable, as auditors, to those people. Not to the audit committee, to the ineffective audit committee or incompetent audit committee and that's where I think the problem is."*

This comment by P9 (AP) is quite important, auditors need to be reminded of their responsibility to 'public interest', they need to be reminded that their ultimate responsibility is not to the management of the organisation, but to all those who are directly and indirectly impacted by the actions of the organisation. This links to the need for a definition of 'public interest', expressed by P14 (RPI) who says, *"When you define what is in the public interest, I think, it needs to be clearly defined to say, but this, this and this. Because of the work that we do, people rely on us."* If a working definition of 'public interest' can be determined and agreed upon, it will be easier for auditors to address the 'public interest', as at least they will know what they are working towards.

5.2.1.11.5 Sub-theme 1.11.5: Other stakeholders' responsibilities

'Other stakeholders' responsibilities' refers to the obligations of other parties, in ensuring the success of the audit process. There are role players other than the auditors who have a responsibility to ensure that the financial statements are prepared in accordance with the relevant accounting standards and free from misstatement, whether due to fraud or error. This includes the management of an organisation, who are responsible for the preparation of the financial statements (IAASB, 2018c; IRBA, 2018b), and the audit committee of an organisation, who are responsible for ensuring the integrity of the financial statements (Marx, 2009). The general public however, do not seem to be aware of the responsibilities of these role players.

Participants from the auditor grouping, noted that the responsibility for corporate failures is far too often left only at the door of the auditors. However, if management have misrepresented the financial position to the auditors, shouldn't they be held accountable? If the audit committee has not reviewed the financial statements to ensure the integrity thereof, should they not be held accountable? The general public should be made aware of the role of management and audit committees in preparing and reviewing the financial statements, and the relevant authorities should start holding management and audit committees responsible for not upholding their regulatory commitments.

P11 (AP) shared the following in this regard: *"So, if you take governance in a business, where's the first layer of defence? It's management, and the board. So, how much is being said on management and the board before you get to the audit committee and before you get to the auditors? Because your management forum together with your internal audit is your first line of defence. I don't know if we, as a country and as a business world place enough focus on how much responsibility management is taking for what they doing as well."* This sentiment was echoed by P12 (AP), who stated that, *"A part of me feels like, management in this whole thing, does not want to take responsibility for the fact that, at the end of the day, the financial statements are theirs. So, the audit committee yes, does have a responsibility to approve and to, take these forward to the shareholders. We have a responsibility to opine, but the originator of those financial statements, and the responsibility lies with management. And the quality and the integrity of management, has that ripple effect on everyone else. You know? If you don't have the integrity, the ethical leadership, and just, that pride, in producing quality financial information at management level, chances are, as much as you can try and instil those through, you know, audit committee, through the auditors, it's going to be difficult because, already, your job is going to be difficult, as management is going to be a stumbling block."*

In addition, P10 (AP) asked the question, *"Where do you draw the line, in terms of, like corporate behaviour? Because we seem to draw the line, very early on, at the door of the auditors. But, there's actually like, a proper step before that, which is, what is the role of the board of directors? What is the role of the audit committee? What is the role of management in the company? (…) The first step that we actually have to acknowledge, and get right, is the step around, do companies actually understand that they have a role in society? And that they're not just, supposed to be geared towards shareholders? So, if you look at where King IV and King III, they're all sort of very good in terms of saying that. But, has that, in reality, actually sunk in for companies as a starting point?"*

P10 (AP) went even further, stating that, *"I'd do work around shareholders holding the audit committees accountable."* All these comments made my audit partners are valid. Management and the audit committee definitely have regulatory responsibilities in terms of preparing financial statements and ensuring the integrity thereof. A future audit model should take these responsibilities into consideration and include implications for audit committees and management who fail to fulfil their obligations. This is especially important as failure on the part of management or the audit committee to properly carry out their duties can result in the auditor having to work with poor quality financial information. This has a knock-on effect on audit quality, which ultimately impacts the 'public interest'.

5.2.1.11.6 Sub-theme 1.11.6: Education

‘Education’ refers to the process of receiving systematic instruction (Lexico, 2020b). While typically this is received in a school or university setting, it could be received via other platforms. Recommendations around education related to both auditor training and education of the general public.

Auditors require certain skills, necessary for them to appropriately fulfil their roles and responsibilities. If auditors are to be able to adequately fulfil their responsibilities under the current audit model, including their responsibility to address the ‘public interest’, participants recommend that auditor training needs to be modified.

Firstly, from the perspective of the quality of education, potential auditors need to be provided with worthy instruction at both a secondary and tertiary level. P4 (ACM) stated; “*a lot of stuff that we took for granted that you would know, now you need to re-teach”* expressing concern that new graduates need to be re-taught concepts that historically would have been assumed knowledge. This needs to change, as audit firms are not responsible for teaching potential auditors basic concepts and principles.

Secondly, the curriculum that prospective auditors are trained under at universities need to be modified. While universities teach theoretical data analytics, that is no longer good enough. P12 (AP) shared the following: *“A lot more focus around data-enabled auditing, we’re going to start introducing things like robotics, but I don’t know if, at a varsity level, we’ve started incorporating this, a lot more tangible, and not theoretical data analytics, because those are the people we’re going to start needing, focus on professional scepticism, and those kinds of things.”* When entering the audit profession as a new graduate in this day and age, university training in respect of robotics and practical data analytics should be a given. Unfortunately, however, the university curriculum for prospective auditors has remained relatively unchanged in the last 10 years or so, with P11 (AP) saying: *“The way we trained auditors at varsity ten years ago is still the way we train them today – 90% of it hasn’t changed. There have been small changes… but that’s not good enough for the modern world. So, when people get to us, we have to put a lot of effort to getting them, thinking of how they need to audit. So the whole training model at the varsity needs to change.”*

Prospective auditors continue to be taught highly technical accounting and tax, with concepts like ethics and integrity being add-ons rather than the focal point. P12 (AP) shared: “*Things like ethics were an add-on. It wasn’t the main focus. The main focus was tax and* *accounting and whatever, but, what I think plays out on a day-to-day basis, are actually those softer things, like ethics, integrity, etc. and it's not a focal point."* P11 (AP) and P12 (AP) both suggested that universities restructure their training programs for prospective auditors to ensure that they are better prepared for the audit of the future.

These are definitely valid points and should be taken into consideration by universities when developing their curriculums for future trainee auditors. IRBA and SAICA who are involved in setting the university curriculums for prospective auditors should also get involved in this process, and ensure that these aspects are also considered when evaluating potential auditors in the Initial Test of Competence ("ITC") and Assessment of Professional Competence ("APC") examinations.

Research participants also recommended that instruction to be provided to the people of South Africa as a whole, about what the role of the auditor actually is, versus what it is perceived to be. A problem expressed by the majority of research participants is that much of the general public does not actually understand what an auditor does. P7 (AP) stated that *"(There) should be more public awareness. How do you make the public more aware of what an auditor does, so that they firstly know what they're getting in terms of financial… Because, I think, the public just thinks you go out there and you tick everything, and that's it. But maybe, to have some sort of awareness of what an auditor really does, it's not about ticking every invoice; it's not about giving this absolute assurance to everyone."*

There is an inherent, yet incorrect, understanding that auditors provide absolute assurance that the financial statements of an organisation are free from material misstatement whether due to fraud or error. However, auditors only provide reasonable assurance that the financial statements audited are free from material misstatement, whether due to fraud or error. P2 (ACM) provided an example, stating that *"I just think there needs to be more education in terms of what the auditor does. Like, for example the sample case that I have given you. You know, people just think that the auditors when they come they look at your January to December, each and every invoice and everything. And once the auditors are there, then it means… if the auditor says I'm giving you a clean audit it means everything is clean, forgetting that it is actually (a) clean audit on what I have audited."*

The IAASB Glossary of Terms defines a reasonable assurance engagement as "an assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion" (IAASB, 2018a, p. 13). To provide context, absolute assurance would be reducing the audit risk to zero, that the financial statements are free from material misstatement whether due to fraud or error (IAASB, 2018c). In other words, absolute assurance would mean there is no risk that the financial statements are materially misstated, whereas reasonable assurance means that there is a low risk that the financial statements are materially misstated. Auditors are not required to provide absolute assurance as there are inherent limitations in an audit (IAASB, 2018c).

The general consensus amongst research participants was that the public as a whole does not understand this differentiation, and is under the impression that the auditor provides absolute assurance. For this reason, when there is a corporate failure, the question is always asked, where were the auditors? The auditors could have conducted an audit in accordance with the ISAs that met IRBA's quality review standards, and yet there could still have been a corporate failure. The general public needs to understand this differentiation between absolute assurance and reasonable assurance, as this would aid in eliminating the expectation gap, between what the public expects from the auditor and what the auditor is actually responsible for.

5.2.1.11.7 Sub-theme 1.11.7: Public interest

'Public interest' has been defined as follows for the purposes of this research, as established in Chapter 2: The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism. While the recommendations of research participants included in this section pertain primarily to the current audit model, they could be applied under the proposed audit framework as well.

While the term 'public interest' has been defined for the purposes of this research, it has not been defined officially by the South African audit profession, as discussed in Section 2.2. This makes it difficult for auditors to act in accordance with the 'public interest', as well as for audit committees, IRBA and other stakeholders to hold auditors accountable for acting in the 'public interest'.

While P15 (RPI) was adamant that auditors need to realise that their responsibility is to act in the 'public interest', P15 (RPI) did not address the lack of a definition thereof. P15 (RPI) stated the following: *"I wish auditors understood that the service they provide is a public* *interest service. And, I think, the auditors have forgotten that an audit is not just a, a normal service. It's a service for the public interest."*

P13 (RPI) on the other hand, was quite proud that the AG (SA) and the public sector auditors know what 'public interest' is. However, even P13 (RPI) admitted that one would be hard pressed to find a *"sexy two-liner"* definition for 'public interest'. P14 (RPI) summarised what the other participants expressed more indirectly, the term 'public interest' must be properly defined, stating: *"When you define what is in the public interest, I think, it needs to be clearly defined to say, but this, this and this. Because of the work that we do, people rely on us."*

If the term 'public interest' is not defined, how can auditors be held to account? If not defined, how can auditors be held responsible? Since the recent audit failures, newspaper reporters have been criticising the auditing profession for not acting in the 'public interest' (Crotty, 2018a, 2018b, 2018c). Can this be considered a fair reaction, if no one truly knows what it really means to act in the 'public interest'?

5.2.1.11.8 Sub-theme 1.11.8: MAFR

MAFR refers to mandatory audit firm rotation, which means that a different audit firm is appointed after the prescribed rotation period (maximum 10 years), and the new firm designates the new engagement partner for the audit (RSA, 2008). MAFR becomes effective in South Africa in 2023 (RSA, 2008).

Research participants had conflicting views as to whether the implementation of MAFR would actually improve auditor independence and audit quality. P5 (ACM), for example, was very clear that the participant did not *"buy into"* MAFR. P12 (AP) shared a similar sentiment, providing the example of a client who had been the client of the audit firm in excess of 100 years, and the audit firm had, when necessary, issued qualified (or other, less than clean) audit opinions. Yet, the client remained the audit firm's client, and the audit firm remains objective and independent of the client.

Other participants, while perhaps not agreeing with the concept of MAFR, were more accepting of the fact that this is coming into effect, come 2023. P10 (AP), for example, made the suggestion that the new auditor could shadow the previous auditor as the previous auditor finalises the last audit. That way the new auditor would become familiar with the client and the previous auditor's audit findings, and there would be no need for a further *"handover process"* (P10 – AP) between the new and prior auditor. P10 (AP) went further to advise that this would be part of the new auditor's initial investment in the audit. This is a valuable recommendation and should be considered by those responsible for ensuring the smooth implementation of the MAFR regime in 2023.

5.2.1.12 Summary of participant perceptions of current audit model

Research participants identified a range of challenges in the current audit model that could prevent the auditor from achieving the 'public interest' objective of the audit. These primarily included threats to auditor independence and how this could negatively impact audit quality, the role of the audit committee and management in ensuring that the auditor is provided with high quality financial information and the challenges faced by IRBA in being an effective regulator of the profession. Research participants also provided some recommendations as to how the current audit model could better address the 'public interest'.

5.2.2 Thematic cluster 2: Participant perceptions regarding the proposed audit framework and its role in establishing public interest in the audit profession in South Africa

This 'thematic cluster' deals with the perceptions of the research participants around the proposed audit framework and its role in establishing 'public interest' in the audit profession in South Africa. The findings are discussed in terms of the themes and sub-themes that emerged from the data through thematic analysis. Each theme is introduced by providing a brief summary thereof as was provided in Chapter 4. This is followed by the naming and discussion of the each of the sub-themes within each theme. The discussion of each sub-theme ends with a brief summary.

This section is structured according to the themes as presented in Chapter 4 and summarised in Figure 42.

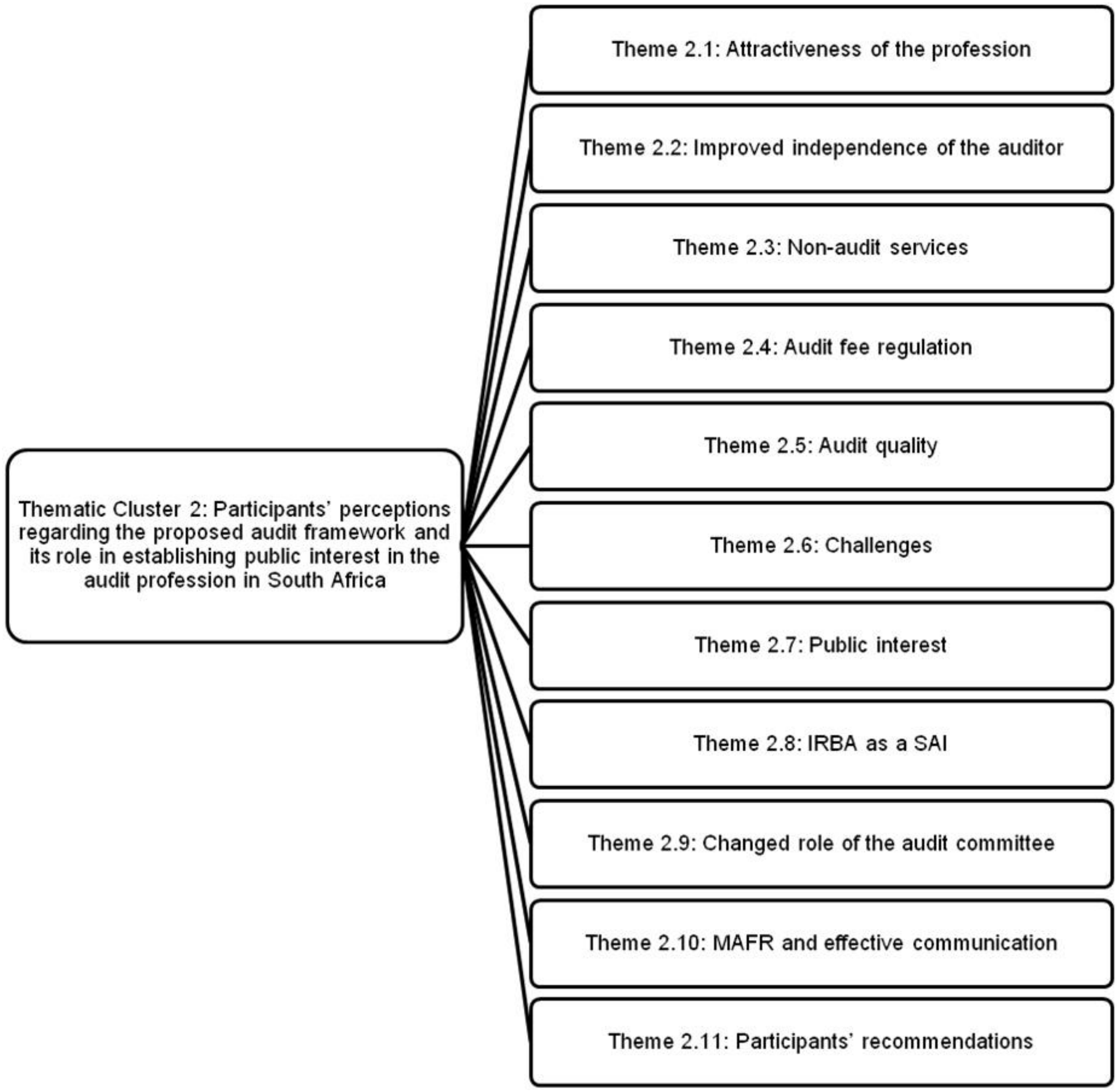

Figure 42. Summary of themes identified as part of 'thematic cluster' 2

5.2.2.1 Theme 2.1: Attractiveness of the profession

The first theme, 'attractiveness of the profession' refers to the interest that individuals will have in the profession or the desire of individuals to enter the profession, should the proposed audit framework be introduced in South Africa (Cambridge Dictionary, 2020). This theme comprises three sub-themes, each of which has been summarised in Figure 43.

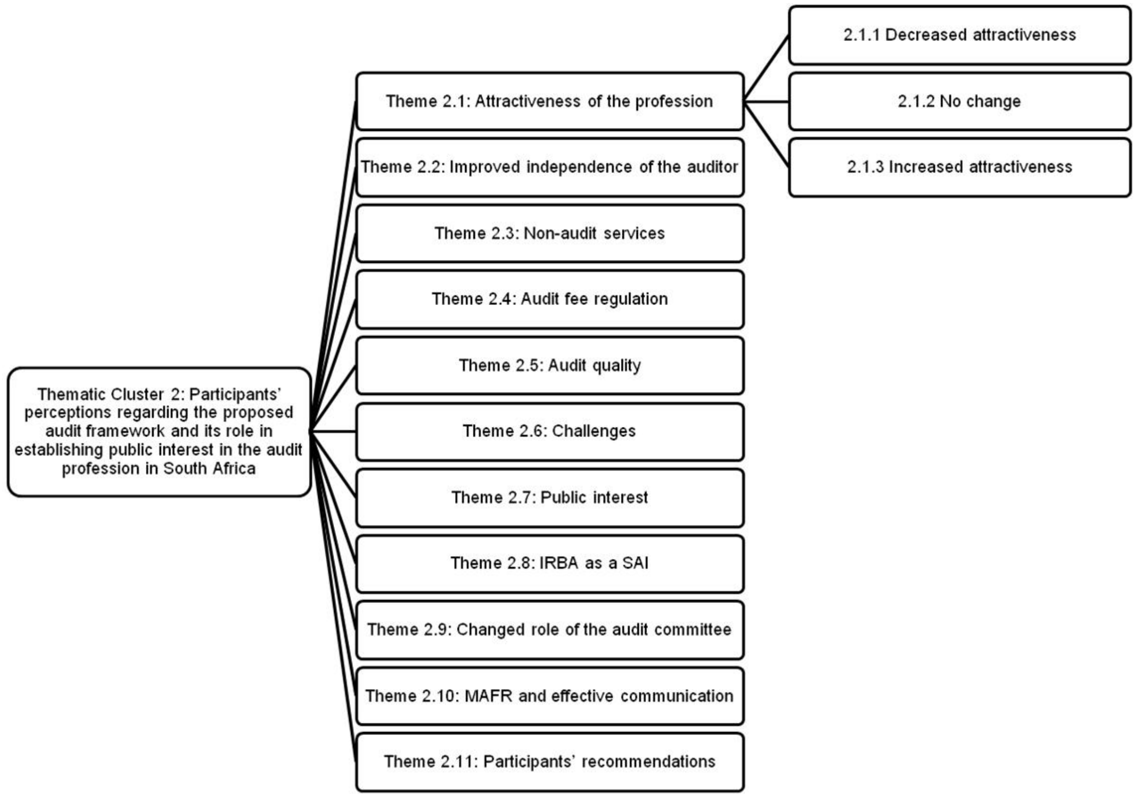

Figure 43. Theme 2.1 and sub-themes

5.2.2.1.1 Sub-theme 1.1: Decreased attractiveness

Decreased attractiveness refers to the reduction in the appeal of the audit profession that could occur, should the proposed audit framework be introduced in South Africa. About 50% of research participants perceive that the profession would become unattractive, should the proposed audit model be introduced in South Africa. Surprisingly enough, the majority of these participants were from the participant grouping, representatives of 'public interest'.

Participants cited numerous reasons for this decrease in the attractiveness of the profession, but primarily these related to a reduced income and impaired social status. P11 (AP) expressed shock when discussing whether the proposed audit framework would attract people to the profession, stating: *"Absolutely not. You'll have a fraction of people wanting it, but we already in our current state people don't want to enter the profession."* P14 (RPI) expanded on this, saying: "*The ones that would be in it for the money, that would be chasing money, might be discouraged. And they would be going to the consulting side."*

P6 (ACM) shared another reason why the profession may lose its appeal, asking, *"If this turns the auditors into government employees, what does it do for the status?*" Existing auditors could consider this a demotion from a status perspective, and may prefer not to continue being associated with the profession.

These reasons caused the researcher to question some participants as to whether people enter the profession for the wrong reasons, implying a desire to make money and have an elevated social status. P10 (AP) was particularly vocal in response to this, saying, "*I don't think there's such a thing as the wrong reason. I think everybody has their own reason, I don't think any of (these) are the wrong reasons. So, I think, even if you enter the profession to kind of, to make money…"* P10 (AP) went on to say: "*I don't know why that is the wrong reason, right. There are many people who become doctors to make money. As long as, at the end of the day, you're making sure that you're providing the right service. And that you're actually not, doing your clients down. So, the wrong reason implies that there's a right reason, and I don't know what the right reason is…"*

This led the researcher to consider, what could or would a right reason be for entering the profession? It is probably worth researching what attracts people to the profession in the first place. It may then be worthwhile to find ways to link the attraction to the 'public interest' objective of auditors, to assist auditors in achieving their personal desires and ensuring that the 'public interest' objective of the audit be met.

5.2.2.1.2 Sub-theme 2.1.2: No change

The theme 'no change' refers to the possibility that the proposed audit framework would result in an unchanged appeal of the audit profession in South Africa. Those people that enjoy auditing would continue to enjoy auditing, as the proposed audit framework does not change the work that an auditor does. This sentiment was shared by P14 (RPI), who said, *"Yes, they would. You will find crazy people like me that like auditing."*

At the centre of the spectrum, there were participants who believe that the proposed audit framework would have no influence on the attractiveness of the profession. There would still be those people who enjoy auditing, or who perceive it as a versatile career which could lead to many future opportunities. This view was shared by P5 (ACM), stating: *"You know, it's a versatile career. I (joined) the audit profession, because I wanted a career that's versatile, that I could sit on boards and do corporate finance and do advisory and internal audit and forensics, etc. That shouldn't be a bar."* A similar view was shared by P12 (AP), who said that *"I don't think people enter the profession, necessarily being attracted by the current model… I think they come into the profession because they're passionate about financial reporting, servicing people, developing talent…"*

This is quite an interesting perspective, as it goes back to what attracts people to the profession in the first place. It may well be that if individuals are passionate about financial reporting and servicing people; the money and status aspects may not weigh as heavily on all potential entrants to the profession.

At the end of the day, not every person who enters the profession will necessarily become an audit partner. If individuals who enter the profession conduct themselves to the highest ethical standards and are able to fulfil their responsibilities with the appropriate level of professional conduct and quality, until such time as they find their true calling, this may be good enough. For example, 10 individuals may enter the profession at the same time. If, by 15 years later, only one of these 10 is left to become an audit partner, but the other nine served the profession honourably until they chose to leave, the profession should not only be able to survive, but thrive.

5.2.2.1.3 Sub-theme 2.1.3: Increased attractiveness

Increased attractiveness relates to the possible greater interest in the audit profession, should the proposed audit framework be introduced in South Africa. The proposed audit framework provides more structure and support from IRBA than auditors obtain currently. This would make the profession more agreeable, as there would be less risk of failure and the stigma associated therewith if IRBA is providing consistent support. This view was shared by P2 (ACM), who stated that: *"So, if this is implemented and we all know that proper processes are there, CA's can't commit fraud, most people would be attracted to the profession."*

Approximately 15% of the research participants perceived that the proposed audit framework would enhance the attractiveness of the profession. For the most part, the reason for this was status. If auditors all work under the supervision of IRBA, the risks to which auditors are exposed from an audit quality perspective are lowered significantly. As P9 (AP) reflected: *"Right now I think people are not only entering the profession because they saying 'ooh, it depends which firm I work for. And which one is the flavour of the month this month. This is x, next month is y. Ooh now I'm working for y, now they're the flavour of the month.' It's a high risk. People don't want to enter the audit profession. So this thing may help…"* By putting IRBA in the middle of auditors and auditees, auditors would not have as much risk exposure, and therefore are less likely to be on the receiving end of the negative publicity themselves.

However, this would imply that IRBA carry the risk for poor audit quality and/or audit failures. IRBA may not be willing to accept this reputational risk, especially if their mandate were to be expanded to that of a SAI. As a SAI, IRBA would need a stellar, blemish free reputation, in order for the public to have confidence in them. This aspect of the proposed audit framework would need further investigation, to determine how best these risks could be addressed. IRBA as a SAI is discussed extensively in Section 5.2.2.8.

5.2.2.2 Theme 2.2: Improved auditor independence

The second theme, 'improved auditor independence', addresses the fact that an auditor is independent when the auditor is able to reach a conclusion without being affected by influences that could compromise the auditor's professional judgement (IRBA, 2018b). The majority of research participants agreed that the proposed audit framework would result in enhanced auditor independence. This theme was identified by all three of the participant groupings, and it was not deemed necessary to break this theme down into sub-themes.

Some research participants provided interesting perspectives on the importance of auditor independence. In particular, P4 (ACM) compared the role of the auditor to that of a judge: *"…you want your auditor to act as a judge, effectively they play the role of a judge on your financial statements…your auditors coming are now completely independent, you know, it's purely performing the judge function…"* In the same way as one would like a judge to be impartial in listening to the case brought before the judge, and provide a fair ruling; so too an auditor should be impartial in evaluating the financial statements of an organisation and fair in the opinion provided. In order for a judge to fulfil that role effectively, the judge would need to be independent of all the parties involved in the trial. In exactly the same way, for an auditor to conduct an audit effectively, the auditor needs to be independent of all the parties involved in the financial statements process. This includes management, the BoD and the audit committee of the organisation.

Across all three participant groupings, the participants unanimously agreed that the proposed audit framework would result in enhanced auditor independence. This was evidenced by P15e (RPI) stating *"My initial thoughts are that the proposed audit model is a good idea and would assist in strengthening auditor independence in South Africa."* This view was echoed by P9 (AP) who said *"…the auditors are not relying on management to say, if you don't play ball we not going to give you the assignment. So, it will really improve the independence of the auditors…"*

This is definitely a positive, since audit quality is directly influenced by auditor independence, as discussed in Section 5.2.1.1. While the proposed audit framework may not be implemented in South Africa for whatever reason, these findings show that it is important to find ways to enhance auditor independence. Enhancing auditor independence would be a definite positive to the audit environment, as shown by the research participants' reactions to the proposed audit framework in respect of auditor independence.

5.2.2.3 Theme 2.3: Non-audit services

The third theme, 'non-audit services' refer to the provision of consulting or other non-audit services (i.e. services other than audit services) by auditors to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others. The proposed audit model would prohibit auditors from providing non-audit services to their audit clients. This theme comprises three sub-themes, each of which has been summarised in Figure 44.

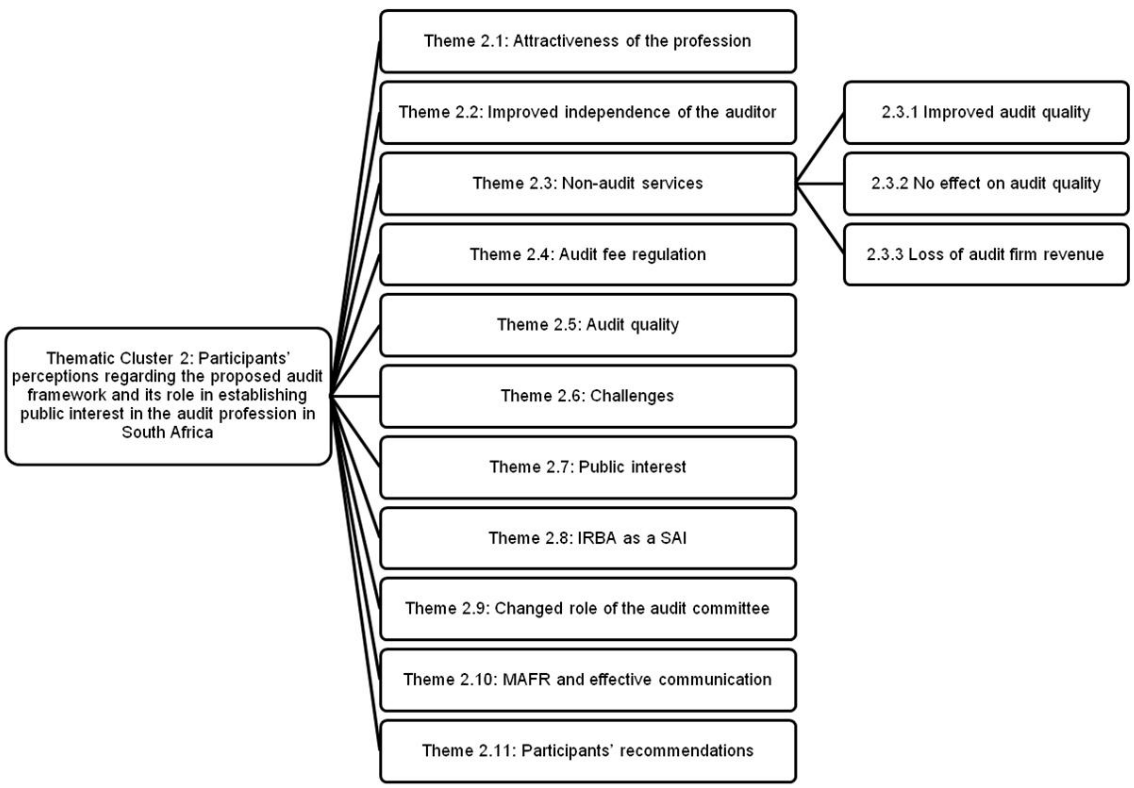

Figure 44. Theme 2.3 and sub-themes

5.2.2.3.1 Sub-theme 2.3.1: Improved audit quality

Improved audit quality refers to the possibility that the level at which a client or other interested party can rely on the validation provided by the auditor would be increased by prohibiting auditors from providing non-audit services to their audit clients. The objective of the audit is to provide confidence to investors that the financial statements are free from material misstatement, whether due to fraud or error. The audit opinion is considered reliable when the assurance engagement is conducted with the highest levels of expertise and professional scepticism. Some participants would believe that auditors would be more independent, and therefore provide better assurance quality, if auditors were prohibited from providing non-audit services to their audit clients.

The concept of auditors not providing non-audit services to their audit clients is not a new one. In the public sector, the AG (SA) does not provide any non-audit services to their clients. P13 (RPI) shared that the participant believed prohibiting auditors from providing non-audit services would positively impact audit quality: *"I think it will drive the right behaviour. It is a principle that we believe (in) and you don't mix it. I think, there's a beautiful act that says you don't get your hands dirty on something you would need to audit one day. That's a golden rule for the public sector. It will have the right impact."* P3 (ACM) had a similar perspective, stating the following: *"I think it will influence the audit quality hugely. Because you're not distracted from (your auditing task by) driving revenue. I think, quite often, auditors are out over there, you've got the advisory practice that says, what there are weaknesses over there, you need to give us some kind of view, around us selling our skills on to the audit client."*

By preventing auditors from providing non-audit services to their audit clients, the proposed audit framework would eliminate the self-review threat to auditor independence, i.e. the risk that auditors would audit their own work. As discussed in Section 5.2.1.1.1, auditor independence is directly linked to audit quality. By eliminating a risk to auditor independence in the profession as a whole, auditor independence should reflect an overall improvement. This is expected to translate into universal improvement in audit quality.

Furthermore, auditors would not be distracted by the objective to drive revenue for the firm as a whole, i.e. in trying to sell non-audit services to their audit clients. This will allow the auditor to fully focus on the audit work itself. If auditors apply their minds fully while conducting the audit, the expectation is that audit quality would improve due to the increased efforts put into the audit process.

P8 (AP) shared a similar perspective with a twist: *"It will have some impact. Because, auditors (will not be) chasing the revenue, they will be chasing the hours. So, if they're not getting the non-audit work from a particular client, there will be other channels that will be* *available, for them to spend the hours. So that non-audit fee, it will have a good impact, you know, on the audit quality."* Effectively, what P8 (AP) was saying is that for auditors to earn the same (or similar) amounts of revenue from their clients from audit services alone, auditors would have to put more time and effort into their audit engagements (because auditors generally charge clients an hourly rate). Putting more time and effort into audit engagements should have a similar effect, namely, improved audit quality because of the improved efforts.

Of course, this is a qualitative research project and therefore the findings cannot be generalised. It would however be worthwhile to conduct some quantitative research in future around the impact of auditors effort on audit quality, as stated in Chapter 6.

5.2.2.3.2 Sub-theme 2.3.2: No effect on audit quality

No effect on audit quality refers to the possibility that the level at which a client or other interested party can rely on the validation provided by the auditor would be unchanged by prohibiting auditors from providing non-audit services to their audit clients. The objective of the audit is to provide confidence to investors that the financial statements are free from material misstatement, whether due to fraud or error. The audit opinion is considered reliable when the assurance engagement is conducted with the highest levels of expertise and professional scepticism. A number of research participants believe that prohibiting auditors from providing non-audit services to their audit clients would make no difference to audit quality.

P15e (RPI), stated that: *"There is insufficient evidence to support the fact that audit quality suffers because of non-audit services."* This seems strange, because if there truly was insufficient evidence to support the notion that audit quality suffers due to the provision of non-audit services, why would the SOX regime in the US, as discussed in Section 2.5.2.3, prevent auditors from providing all but a very limited range of non-audit services to audit clients (DeFond & Francis, 2005; Grinberg, 2007; Parles et al., 2007; Riotto, 2008)?

Surprisingly, P12 (AP) shared a similar view to P15e (RPI), stating the following in relation to whether prohibiting auditors from providing non-audit services to audit clients would impact audit quality: *"I actually do not think so. Because, those business are run in, literally, silos, right. So, you know your responsibilities as the assurance part of the practice, you know your responsibility as the non-assurance part of the practice. And, not only is it, just the firm processes that hold you accountable, but audit committees also do, management also does."* What's concerning about this response is that it relies on, amongst other things, management and audit committees to limit the auditors on the nature and extent of the non-audit services the auditor can provide. This implies that if the audit committee is ineffective, there is no real restriction on the non-audit services that the auditor can provide to their audit client.

Of course, Section 90 (2) of the Companies Act does restrict the provision of non-audit services to audit clients to a limited extent, as discussed in Section 2.4.2.4. However, this may not be sufficient as a safeguard to the loss of auditor independence attributable to the provision of non-audit services by audit firms to their audit clients.

According to P12 (AP) above, the firms operate in silos, implying that the audit and non-audit divisions are evaluated independently. However, profitability for the firm is likely measured as a whole. This is possibly the reason that a multitude of participants expressed the expectation for audit quality to improve if auditors were unable to provide non-audit services to their audit clients, as discussed in Section 5.2.2.3.2.

5.2.2.3.3 Sub-theme 2.3.3: Loss of firm revenue

Loss of audit firm revenue refers to the lost income that the audit firm could have earned from the provision of non-audit services to audit clients. Under the current audit model, audit firms earn returns from the provision of both audit and non-audit services. Oftentimes, both revenue streams come from the same clients. Some research participants expressed concern that the loss of consulting income would represent a significant reduction to the overall receipts of audit firms.

P1 (ACM), for example, expressed concern about the ability of audit firms to survive without the revenue earned from non-audit services: *"I don't know if the auditing firm will survive. Because over the years they… Some of them actually… The non-audit fee departments generate more revenues and profit than the audit division."* P14 (RPI) shared a similar sentiment, saying, *"this is taking a major chomp off the revenue of audit firms…"*

This raises concerns about non-audit services impairing auditor independence right. Simply because, if audit firms are earning so much revenue from non-audit services that it could impact their survival, surely it wouldn't be too much of a stretch to think that auditors may compromise their independence on an audit engagement to ensure the continued income from non-audit services.

This presents a conundrum – on the one hand there's a need to ensure the financial viability of audit firms as businesses, but on the other hand this shouldn't come at the expense of auditor independence. Further research should be conducted on the impact that disallowing auditors from providing non-audit services to their audit clients would have on audit quality in South Africa, as stated in Chapter 6. If the findings of this research are positive, research may then need to be conducted on the best way to impose this restriction without impacting the financial viability of audit firms.

5.2.2.4 Theme 2.4: Audit fee regulation

'Audit fee regulation' refers to the prescription of the compensation auditors receive for the professional service they offer and for which they are entitled to fair compensation by IRBA. This theme comprises four sub-themes, each of which has been summarised in Figure 45.

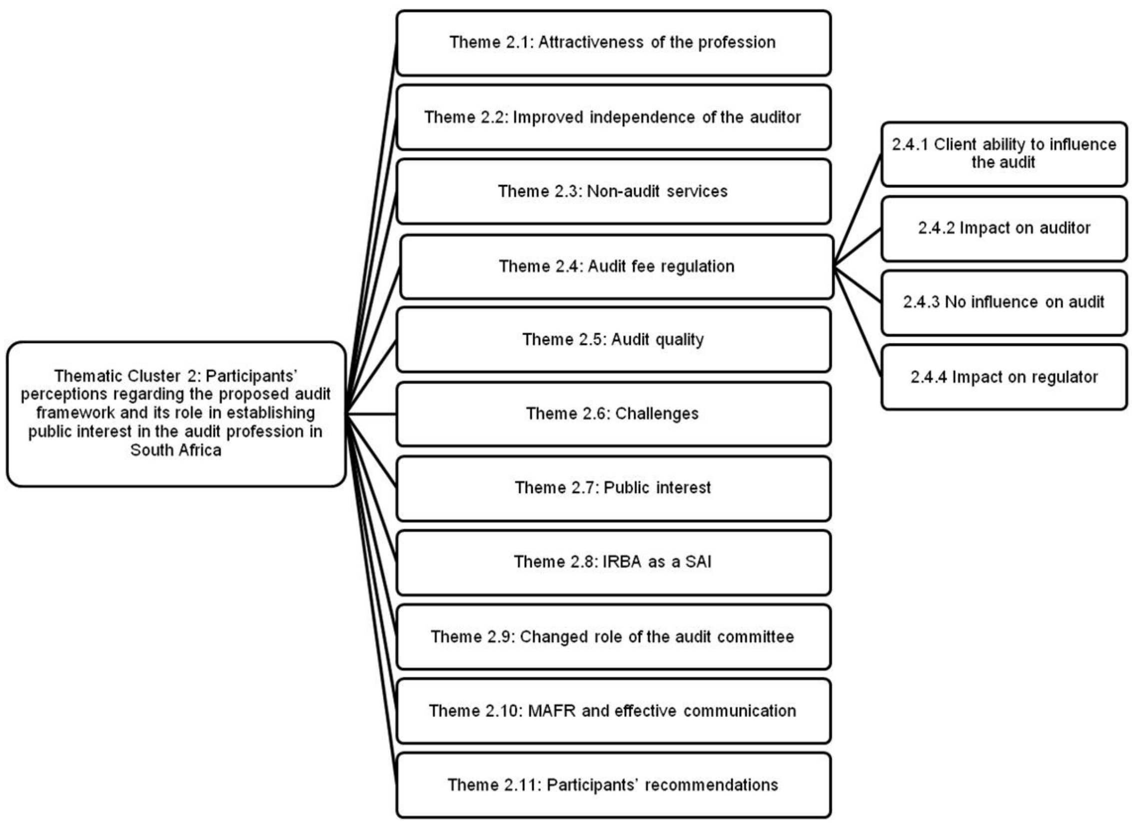

Figure 45. Theme 2.4 and sub-themes

5.2.2.4.1 Sub-theme 2.4.1: Client ability to influence audit

The client's ability to influence the audit in this context, refers to the impact that regulation of audit fees would have on the capacity of the auditee to affect the assurance engagement. The proposed audit framework requires that audit fees are regulated by IRBA and the auditor gets paid the audit fee irrespective of the final audit opinion. The expectation is that this would limit the client's ability to manipulate the audit outcome.

Some research participants, particularly the representatives of 'public interest' and audit committee members, agreed that the regulation of audit fees would limit the audit client's ability to influence the audit. P15b (RPI) stated that; *"The regulation of the audit fee will limit the audit client's ability to influence the audit opinion. This is particularly true of audit clients that pay audit firms a significant amount or where that audit client's fee contributes significantly to the revenue or survival of that audit firm or particular partner within the firm. In these instances, the audit client usually has a lot of influence on the outcome of an audit."*

This perspective was shared by P1 (ACM), who said, *"Yeah, definitely… So, if the auditee has to pay what they have to pay, the auditor doesn't have to be subservient to the auditee. Because sometimes the relationship feels that way… You know, I depend on you to pay my bills… But if I don't depend on you, I'll just get the work done… And the quality of the work will be much better…"* In addition, P4 (ACM) also agreed with this perspective, *"Your client is no longer directly responsible for paying the auditor his fee. The auditor's going to get his fee, whether or not the client agrees with the audit opinion or not. It definitely will limit the influence that you have."*

The above-mentioned comments from research participants would indicate that as much as audit partners may not think audit fees impact audit quality, as discussed in Section 2.5.1.2.5, the perspective of audit committees is that audit fees do actually impact audit quality. This might imply that audit committees' members believe that they can use audit fees to manipulate the auditor. Alternatively, it is simply a reiteration of the principles in the IRBA CPC, which sets out the possible threats to auditor independence due to audit fees (IRBA, 2018b). Ultimately, irrespective of whether the proposed audit framework is ever considered for implementation in South Africa or not, it would likely be worthwhile to consider whether there is a need for the regulation or perhaps, standardisation, of audit fees..

5.2.2.4.2 Sub-theme 2.4.2: Impact on auditor

'Impact on auditor' refers to the effect that the regulation of audit fees would have on the sustainability of the audit firm and the way in which the auditor conducts the audit. Even as the primary responsibility of an auditor is to provide a 'public interest' service, audit firms are also businesses. In order to remain in operation, as a business, audit firms need to remain financially viable. This means that the firms need to be able to generate adequate earnings to cover their operating costs, meet their liability obligations and invest in new technologies.

With IRBA determining the audit fees, there is a risk that firms will not earn enough to remain sustainable. P10 (AP) shared the following in this regard: *"… the ability of the IRBA to negotiate fees on behalf of somebody who's providing a… what is supposed to be an independent service…I think there are two things, that kind of, keep people around. The one is the level of compensation that you receive, the level of experience that you receive and the job satisfaction that you get out of it."*

P10's statement would imply that if IRBA is unable to negotiate a good enough audit fee on behalf of the auditors, there is a risk that people will leave the profession due to not receiving the expected compensation. This would link back to the sustainability of the audit firm and the audit quality that the firm can provide. If auditors leave the firms because they are not getting paid enough, the overall skills and experience of the staff at the firms would decrease. This is likely to result in an overall decrease in audit quality, with the resultant impact of the 'public interest' objective of auditors not being addressed.

On the other hand however, some research participants felt that the regulation of audit fees would be a positive thing. According to P15c (RPI), it would result in the *"removal of cost pressure from the audit team."* This perspective was shared by P6 (ACM), who stated that *"The level of accountability would make the auditor more concerned with audit quality and less concerned with money."*

There are two things to consider in terms of the possible positive impact the regulation of audit fees might have. Firstly, if the auditors are not worried about chasing revenue, they would have more time and energy to spend on the actual audit work. This should result in an increase in audit quality. Secondly, with IRBA regulating audit fees, and holding auditors accountable for providing a certain level of audit quality; auditors would be concerned that if they do not meet the required audit quality standards, they could lose their audit fee, but also future clients being allocated to them by IRBA. This, again, should result in an increase in audit quality. Ultimately, an improved audit quality is more likely to enable the auditors to address their 'public interest' responsibilities.

The questions around the regulation of audit fees in this research were very generic. It may be worthwhile conducting more detailed research around the impact of regulation of audit fees on audit quality.

5.2.2.4.3 Sub-theme 2.4.3: No influence on audit

The theme, ‘no influence on audit’ refers to the possibility that the regulation of audit fees would have no impact on the ability of the auditee to affect the assurance engagement. While audit fees represent the remuneration to which auditors are entitled to for providing a professional service, there are some who would argue that audit fees do not have any bearing on the audit outcomes or audit quality.

P11 (AP) proposed that, *“I don’t think fees have got anything to do with quality because, when I go through an AQR or a QP review internally – one of my defences is not I got paid less. The rules are very strict in an audit firm, right. You get reviewed, (when) something (goes) wrong, depending on the severity, either you’re up for re-review, or either you stop signing audit opinions and you pay a fine. None of those reasons can be, I didn’t get paid enough.”* The researcher would agree that this is a valid point, no auditor is likely claim that a lack of audit fees was the reason for poor audit quality. That does not however mean, that while conducting the audit, the auditor was not conscientious of what the audit fee and related recovery was likely to be. It further does not prove that the auditor did not cut corners in order to achieve a better recovery.

Nevertheless, there were some research participants that agreed with P11’s (AP) perspective. P12 (AP) shared that, *“I don’t think that there’s a direct correlation between audit fees and quality.”* P3 (ACM) echoed this sentiment, saying, *“Fees are not what drive quality. Fees are really what is out there in the market place and whether the demand for services…”*

If audit fees had no bearing on audit quality, why would the IRBA CPC and IAASB Handbook have sections dedicated to addressing the threats that audit fees could have on auditor independence and audit quality (IAASB, 2018b; IRBA, 2018b)? These perspectives are also completely contradictory to the research of Bae et al. (2013); Cunningham (2005); Fiolleau et al. (2013); Mayhew and Pike (2004); Ronen and Cherny (2002) and Tang et al. (2017) which supports the argument that audit fees have an influence on audit quality.

P11 and P12 are both representatives of the participant audit partners grouping, and P3, while an audit committee member currently, who retired from one of the Big Four firms as a partner sometime in the last 10 years. These participant perspectives may therefore be based on an inherent desire to protect the profession, whether consciously or sub-consciously. Alternatively, these research participants could be very ethical and upright in the way in which they conduct audits, not letting audit fees influence their objectivity, independence and professional scepticism. It is challenging to conclude on this, as this is a qualitative research project and the findings are not generalisable. It would therefore be recommended, that future research is conducted in the South African audit environment around how audit fees impact audit quality, as mentioned in Chapter 6.

5.2.2.4.4 Sub-theme 2.4.4: Impact on regulator

IRBA's role under the current audit model is that of an independent regulator of the profession. The proposed audit framework recommends expanding IRBA's mandate, to equal that of a SAI. As a SAI, IRBA would be responsible for determining the audit fees. This is likely to be a complex task, which representatives of 'public interest' felt may place undue strain on IRBA.

P15a (RPI) shared that, *"The proposed model is highly administrative in nature, what impact would fulfilling this mandate have on the funding and resource requirements of the IRBA? If the IRBA is to fulfil this further requirement, what safeguards would be required from an IRBA point of view to mitigate the risks of perceived biasness toward certain audit firms, in terms of work allocation?"* P15c (RPI) echoed this view, stating that, *"There is the unintended consequence of overburden on the regulator."*

The above perspectives represent valid concerns, especially as under the current audit model IRBA appears to be under-capacitated, as discussed in Section 5.2.1.6.2. The proposed audit framework would require IRBA to do a lot more administrative, time-consuming tasks, including assessing the inherent risk and complexity of audit clients, allocating these audit clients auditors and determining the audit fees for these audits. IRBA would therefore need a significant increase in staffing capacity. This would require IRBA to increased funding as well. While a portion of this funding would come from the audit fees paid by the audit client to IRBA (with IRBA paying the balance over to the auditor), this may be insufficient. Future research should consider alternative funding models for IRBA that would ensure their independence, including from government, the audit profession and audit clients.

At the same time, IRBA regulating the audit fees could have an impact on IRBA's independence, due to the ways in which audit fees are determined and audit clients are allocated. P15c (RPI) stated that, *"This will create possible self-review and (an) advocacy threat for the IRBA. The IRBA, as a regulator, is required to be independent of the audit firm and audit engagement."* IRBA's independence under the proposed audit framework represents one of the challenges posed by the proposed audit framework. This is discussed in Section 5.2.2.6.2.

5.2.2.5 Theme 2.5: Audit quality

The fifth theme, 'audit quality', refers to the level at which a client or other interested party can rely on the validation provided by the auditor. An audit engagement is considered to be of a high quality when it is conducted with the highest levels of expertise and professional scepticism. This theme comprises three sub-themes, each of which has been summarised in Figure 46.

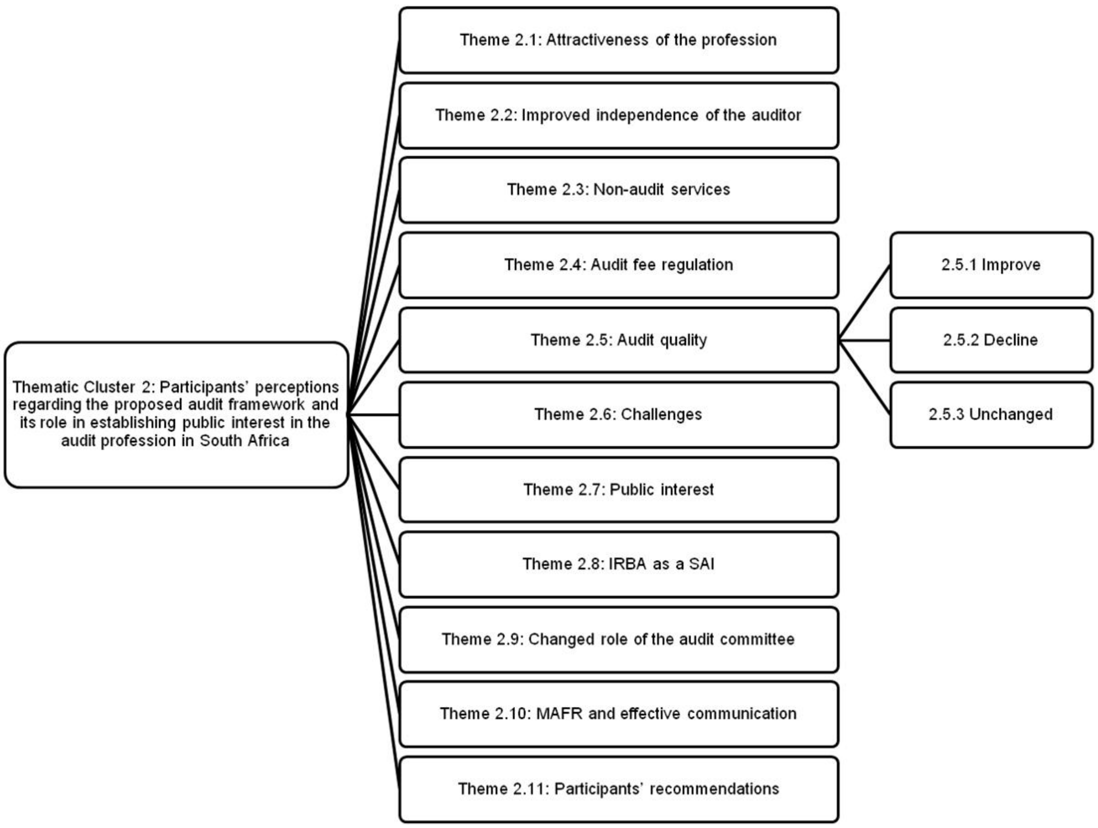

Figure 46. Theme 2.5 and sub-themes

5.2.2.5.1 Sub-theme 2.5.1: Improve

This theme refers to the perception that the level at which a client or other interested party can rely on the validation provided by the auditor would increase under the proposed audit framework. The expectation of some research participants is that the proposed audit framework is likely to result in enhanced audit quality.

P15d (RPI) shared that *"The increased regulation and separation between client and auditor in terms of fees is likely to encourage audit quality due to greater independence."* This view was shared by research participants across all three participant groupings. P4 (ACM), echoed this view, stating, *"I think, it would probably improve your assurance quality, simply because your auditor is coming in cold and he's performing his job as he needs to do."* This would imply that the auditor appointed to the auditee under the proposed audit framework would not have any pre-existing relationships with the auditee. As a result, the auditor is likely to be more independent and objective when conducting the audit, as opposed to if the auditor had a pre-existing relationship (whether positive or negative) with the auditee.

A representative of audit partners, P8, shared a very unexpected perspective why this participant expected audit quality to improve: *"It will remove the competition, if I can say, on that basis. At the moment firms are competing with each other, to get that benefit… Cash flow benefitting. So, that competition will be, eliminated. Which is good. You would like to drive the quality up; you have to eliminate the competition."* This is contrary to the general free market perspective, which is to allow individuals to make the best choice for themselves based on the available options, i.e. the competition in the market. This concept was explained by P10 (AP): *"if you look at the concept of the free market. Then the base concept behind that assumes that entities have the ability to, make the right choices around a whole range of things."* One would expect that competition would drive quality up, rather than down, simply because audit clients would want the best audit quality for the cheapest audit fee possible. However, this expectation is based primarily on the presumption of the researcher. Perhaps, it is worth further investigation in a different study, as mentioned in Chapter 6.

5.2.2.5.2 Sub-theme 2.5.2: Decline

This theme refers to the perception that the level at which a client or other interested party can rely on the validation provided by the auditor would decrease, should the proposed audit framework be implemented in South Africa. On the opposite end of the spectrum to that discussed in Section 5.2.2.5.1, this sub-theme deals with the expectation of some research participants that the proposed audit framework may result in mediocre audit quality.

P13 (RPI) sums up one reason for this quite succinctly, stating *"That thing may over time, have an unintended consequence of mediocre results. The guys say, 'well, what the hell, there is no money in it, let me just click over, I need to do this, my year's allocation is this'. Tick, tick, tick. 'Whether I do a good job or whether I do a bad job, it's the same money'."* This perspective was shared by P15a (RPI), "*Is there motivation to go the extra mile if the* *audit fee is guaranteed on completion, regardless of the quality of the actual audit?"* This is a real risk of the proposed audit framework. If auditors perceive that the audit fee is guaranteed, irrespective of the audit quality, it is likely that auditors would conduct the audit work just for the sake thereof without any consideration for audit quality. However, this risk is easily mitigated, in theory. IRBA would need to put into place proper quality controls which need to be met before the auditor is paid. How this would work practically is beyond the scope of this research.

P10 (AP) shared another reason for declining audit quality that relates to the magnitude of the audit fees received by auditors from IRBA: *"At what point, do you kind of start slipping into, almost the British healthcare system? Kind of, not enough people actually wanting to be in the system because they're poorly paid because the IRBA has determined what the audit fee is, for example… (Discouraging) people from actually joining, not having that, people with the right skills, and the right levels of experience, and, as a result, reducing audit quality as a whole."* According to this perspective, if the audit fees paid by IRBA are insufficient to attract and retain highly skilled and experienced auditors, they may leave the profession for consulting, or seek other avenues to earn an income. If there is a mass exodus of skilled professionals from the audit profession; the quality of auditors left in the profession would suffer an overall decline. This is likely to translate into poorer audit quality, which ultimately would result in auditors failing to meet their 'public interest' objective. Once again, there is a relatively simple theoretical solution to this challenge, IRBA need to ensure that auditors earn a fair fee that is commensurate with the effort and risk involved in conducting an audit. How this would work practically is, once again, beyond the scope of this research.

5.2.2.5.3 Sub-theme 2.5.3: Unchanged

This theme refers to the perception that the level at which a client or other interested party can rely on the validation provided by the auditor would not be impacted under the proposed audit framework. The expectation of some research participants is that the proposed audit framework would have no impact on audit quality compared to the current audit model.

Some of the research participants expressed that audit quality would remain unchanged under the proposed audit framework. P15d (RPI), for example, stated that *"Whether this would result in better audit quality is debatable as there are numerous factors that impact audit quality. One of which is the dependence on fees from the client."* Within the debate around factors that influence audit quality, is the question around the impact that audit fees have on audit quality. The impact of audit fees on auditor independence and audit quality was extensively discussed in Section 5.2.1.2. Ultimately, more research would need to be conducted in the South African audit environment as to the quantitative impact that audit fees have on auditor independence and audit quality, as mentioned in Chapter 6. The other aspect to take into consideration around the comment from P15d (RPI) is that fees are not the only factor that influence audit quality. The other factors would also need to be considered and ranked in terms of which factors have the most influence on audit quality.

Another research participant, P9 (AP), expressed that the delivery of the audit would remain unchanged, and therefore audit quality is likely to remain unchanged: *"You've got to question the delivery of the audit. Will that change? No. With this model, how will it change? All you're doing is you're saying the appointment process, hiring and firing is changing, fee negotiation and fee paying is changing, you're not changing the delivery…"* This is a very valid comment, especially as the proposed audit model does not address any changes in the way the audit is actually conducted. This includes the back office of audit firms; their staff training, staff support, technology available to individual firms, skills and expertise available to individual firms, etc. This goes back to the comment made by P15d (RPI), that there are factors other than audit fees that influence audit quality.

While the proposed audit model may well have a positive impact on auditor independence, it does not change the way in which an audit is conducted or the way in which audit firms operate. Both these factors, in conjunction with auditor independence and audit fees, would have a bearing on audit quality. There is however a possible risk that audit quality may not change under the proposed audit framework.

5.2.2.6 Theme 2.6: Challenges

The sixth theme, challenges, refer to the issues that might make it difficult for the proposed audit framework to accomplish its objectives. This theme comprises five sub-themes, each of which has been summarised in Figure 47.

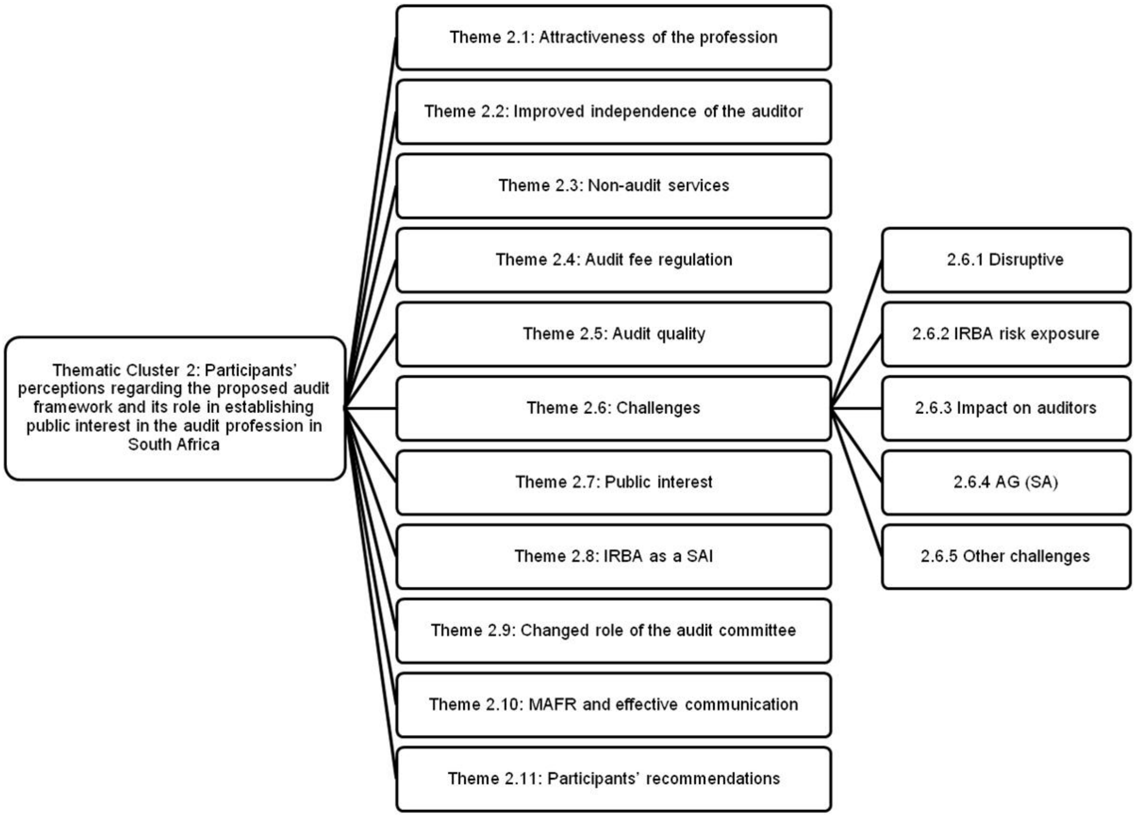

Figure 47. Theme 2.6 and sub-themes

5.2.2.6.1 Sub-theme 2.6.1: Disruptive

Disruptive refers to the turbulence the proposed audit framework might bring to the audit environment. Research participants expressed concern over the potential disruptive effect the proposed audit framework could have on the audit profession, and indirectly, on audit quality.

P9 (AP) stated: *"This will be too disruptive. I don't think, personally, it'll fly right now. If you look at the AG, it took them years, more than ten, fifteen, twenty years to get this model right. So, to move the private sector, to get this mind-set…"* P3 (ACM) echoed this sentiment, saying, *"So, it's just, layers and layers of bureaucracy, I don't like it. Bureaucracy never works. It slows things down."*

Although these comments represent valid concerns by the research participants, the researcher believes that they can be addressed and the disruption to the profession and therefore audit quality could be minimised. One way of doing this could be to phase in the proposed audit framework, as opposed to implementing it all at once. Perhaps the phasing in could happen on an industry by industry basis, with time between each phase to address any challenges along the way. IRBA would need to continually be assessing audit quality to ensure that the risk of audit failure is kept to a minimum, and that the ‘public interest’ is addressed. It would not be expected that the proposed audit framework would work overnight. The phasing-in would take a considerable amount of time. However, if the proposed audit framework could enable auditors to better address ‘public interest’, it will be worth the time and effort invested.

At the same time, these concerns from participants could be coming from a place of fear for loss of income. P13 (RPI) had the following to say regarding the proposed audit framework: *“It’s a hell of a changed thing, for somebody that sat there as a private sector, rich auditor. But, that’s what we’re trying to eliminate, isn’t it?”* When considering this angle, it may reflect that auditors are hesitant to accept the proposed audit framework as it could result in them earning less money. The proposed audit framework would also result in the audit committee having a diminished role, which would result in audit committee members earning significantly less than they currently do.

Of course, this is speculation on the part of the researcher. If the proposed audit framework were to be considered for implementation in South Africa, more research would need to be conducted across a wider participant grouping to understand just how disruptive the implementation of this framework could be, as stated in Chapter 6.

5.2.2.6.2 Sub-theme 2.6.2: IRBA risk exposure

IRBA’s risk exposure relates to the potential future losses IRBA may be exposed to by the implementation of the proposed audit framework in South Africa. The proposed audit framework may result in IRBA being more vulnerable to previously unknown threats.

Research participants have expressed the importance of IRBA being independent. However, the proposed audit framework puts IRBA’s independence at risk. P15 (RPI) shared that, *“If, for example, something goes wrong with an audit, then the first thing they will say is but the IRBA thought that this (…) Whenever we think about this model, that’s, the first thing, is our independence, our own independence, not the auditor’s independence. But, obviously, I mean, there must be ways of dealing with that. A lot of people are talking about such a model and it’s something that could possibly be considered. When people propose this model to us, I always… I never say to them no, we have to be independent. I say to them, the independence is an issue, but we need to explore it a little bit further.”*

In considering the need for IRBA to be independent, one also needs to consider IRBA's role in the proposed audit framework. IRBA would be primarily responsible for allocating audit clients to auditors, determining the audit fees to be paid in exchange for the provision of audit services and assessing audit quality on an ongoing basis. IRBA would need to be fair and equitable in the allocation of audit clients, taking into consideration client industry, magnitude of audit fees, the auditors' capabilities, etc. If IRBA is not independent and objective in fulfilling these roles, they could be involved in bribery scandals for allocating audit clients, as mentioned by P15e (RPI).

The proposed audit framework currently does not include any safeguards to ensure IRBA remains independent and unbiased in fulfilling their responsibilities. Future research could consider what safeguards would be most appropriate to ensure that IRBA is able to properly fulfil its mandate while ensuring the independence and objectivity of IRBA.

Furthermore, IRBA could be exposed to the risk of being held accountable for any audit failures, as explained by P7 (AP), *"So, it will take away the low-balling, for sure. But quality… Unless IRBA is training all of these people, then you've got a new body that needs new people, that needs to train every person within the profession… So does IRBA have the skills to do that, and do they have the finances to do that? If they can do that, then obviously, you're responsible for the quality of all member firms…"* P15e (RPI) echoed this sentiment, stating, *"The IRBA could be blamed for the inability of the auditor to detect material misstatements which might lead to an audit failure… IRBA employees could be involved in bribery scandals when awarding tenders to respective audit firms."*

This risk of being held accountable for audit quality is a serious concern. Auditors would still have the responsibility to act in the 'public interest', but may offer resistance if they cannot negotiate their own fees or target clients of their choice. If the public were to hold IRBA accountable for audit quality, auditors may not be motivated to work as hard, as they would not be held accountable for their actions. One way of IRBA ensuring that auditors conduct the highest quality audit work, may be for IRBA to withhold the audit fees until the audit file has been reviewed by IRBA. However, this may be a time consuming and onerous task for IRBA. Other methods of ensuring high audit quality and auditor's taking responsibility for this should be considered in future research endeavours.

5.2.2.6.3 Sub-theme 2.6.3: Impact on auditors

The theme 'impact on auditors' refers to the possible effects to which external auditors may be exposed, should the proposed audit framework be introduced in South Africa. These potential impacts specifically relate to lost revenue for audit firms and a reduction in auditor accountability.

Firstly, research participants expressed concern about the lost revenue, with P14 (RPI) saying, *"Now you want to take all the firms powers away, all the revenue streams…"* P7 (AP) shared a similar view, but included the concern that audit firms may have due to not getting the clients they want, stating that, *"So, I think there might be some sort of hostility… Because, say, Firm X decides this is the client I want to propose for… So, the issue you'd have is now, you hope this is in the bag; but now you're going to IRBA, with your proposal, and then they're going to send that proposal out to various people, within the IRBA network, to say, please can you all propose for this. And there's a high risk that firm X doesn't actually get that client, then… Firm X might get another client… But, I think, they might not be happy with the fact that this is the client they wanted…"*

While the researcher appreciates that research participants are concerned about lost revenue and not getting the clients they want; if IRBA is able to properly assess the inherent risk and complexity of organisations to determine the appropriate audit fee, this should not be a problem. Appropriate audit fees should ensure that firms are fairly compensated for the services they provide, and should enable the firms to retain staff and invest in the necessary technology to remain in line with developments in the profession globally. Furthermore, if IRBA is equitable in allocating audit clients amongst auditors, based on the skills required to audit the audit clients; then while a firm may not get the exact client it wants, it should get similar clients with similar revenue profiles, assuming the firm has the necessary skills and experience to conduct the audit in question.

A representative of 'public interest', P15d, raised the matter that the proposed audit framework could result in reduced accountability of the part of the auditor: *"This may also have the impact of reducing auditor accountability which would not be the objective of the model."* This is a very valid concern, especially if the proposed audit framework were to require that IRBA be responsible and accountable for audit quality. However, as discussed in Section 5.2.2.6.2, there should be ways of holding auditors accountable for audit quality.

5.2.2.6.4 Sub-theme 2.6.4: AG (SA)

AG (SA) refers to the public sector auditor. There are similarities between the way that the AG (SA) operates and the way that the proposed audit framework would function. In this context, the participants noted some unfavourable similarities between the proposed audit framework and the audit model followed by the AG (SA).

Research participants expressed concern that the AG (SA) does not provide audit quality that is as high as the private audit firms provide. P11 (AP) states that, *“The Auditor General was responsible for, if you look at Eskom, if you look at Transnet, all of that, those have had massive corruption in them. Go and pick up SAA’s financial statements. There’s a year where there was no going concern issues raised in those financial statements. So, where’s strength and independence or quality?”* This statement by P11 (AP) is not reflective of the recent findings which show that, actually, before being audited by the AG (SA), SAA was audited by PwC and Nkonki (Mahlati, 2020; Maphanga, 2020; Mvumvu, 2020; Zulu, 2020). In the years during which SAA was audited by PwC and Nkonki, the audit reports were clean and reflected no qualms about SAA’s ability to continue as a going concern (Mahlati, 2020; Maphanga, 2020; Mvumvu, 2020; Zulu, 2020). However, when the AG (SA) took over the audit in 2017, the audit report reflected a qualified audit opinion with serious concerns (Mahlati, 2020; Maphanga, 2020; Mvumvu, 2020; Zulu, 2020). This actually completely contradicts P11’s (AP) comments, and supports the researcher’s expectation that in being similar to the AG (SA), the proposed audit framework could result in a more objective audit with improved audit quality.

P10, an audit partner, stated the following: *“I think you get into this fear of, are there certain things which just have to be provided on a public basis, as opposed to, on a private basis? You could almost compare it to, I would think, how different is that from, sort of, the discussion we’re having around private healthcare and public healthcare? So, at the moment there’s South Africa, what you have is, a whole bunch of state hospitals, and the quality that you get out of the state hospitals, is, kind of, variable. And, I suppose, in some cases, questionable. There’s a question around whether they’re meeting the actual health needs of all of their (…) patients. And you’ve got private hospitals, who apparently do a, a pretty good job.”* P10 (AP) compares the AG (SA) with the public healthcare system in South Africa. The researcher is not intimately familiar with the public healthcare system in South Africa to be able to provide a comparison with it to the AG (SA). However, the findings of Chipkin (2013); Ferreira and Bayat (2005); Khale and Worku (2013); Koelble and Siddle (2014); Mahlati (2020); Maphanga (2020); Mpehle (2012); Mvumvu (2020); Ngoepe and Ngulube (2013); Ngulube and Ngoepe (2013); Rispel (2016); Schoeman (2006) and Zulu (2020), discussed in Section 2.5.1, would reflect that the AG (SA) is an objective, independent auditor that conducts external audits to a high standard. Furthermore, the findings of Fombad (2014) and Jack (2011), also discussed in Section 2.5.1, do not reflect that the AG (SA) is unable to provide audit quality that is superior to that provided by the private audit firms.

Lastly, another audit partner, P9, reflected that, *"The model in some of the countries are not like the way it's done here, where the AG is the auditor of all the companies, of the whole government, allocates the audit out, pays the fees, you know that type of thing, some of them are still doing it like (the) private sector. So you got to ask that question; why? And the pros and cons of doing it our way versus… that way."* This comment was implying that the AG (SA) model is not ideal, and if it was, then surely other countries across the world would be applying a similar audit model. While the auditor designation regime in Korea, discussed in Section 2.5.2.2 is not identical to the proposed audit framework, it does provide real world evidence of where an audit model similar to the audit model proposed by this research is working effectively at ensuring improved audit quality (Bae et al., 2013; Chi et al., 2013; Kim & Yi, 2009; Lee et al., 2013; Oh et al., 2017; Ryu, 2015; Woo Jeong et al., 2007).

While the research participants provided some strong opinions about why a model similar to that of the AG (SA) would not provide enhanced audit quality, the existing literature does not support these views. The researcher was therefore not convinced that the concerns around the proposed audit framework being similar to the AG (SA) model would negatively impact audit quality. In addition, all three participants who expressed these concerns were part of the audit partners participant grouping. It is possible that there is an inherent negative bias against the AG (SA) by audit partners in private sector. This would need to be researched further in order to conclusively determine what the perspective of audit partners is regarding the AG (SA), and to determine if similarities between the private and public sector audit models in South Africa would negatively impact audit quality.

5.2.2.6.5 Sub-theme 2.6.5: Other challenges

Other challenges relates to other issues that could make it difficult for the proposed audit framework to achieve its objectives, should it be introduced in South Africa.

P15e (RPI) shared that: *"The way I interpret this proposed model is that it is primarily targeted towards improving auditor independence, which I agree is a significant factor in audit quality. However, audit failure is a broad term with several variables contributing to it. One of these variables would be a lack of auditor independence. I would recommend more research to be performed to obtain a better understanding of the variables which contribute to audit failures. Those variables that are within a regulator's control should also then be factored into this to strengthen the audit and regulatory model."* This is a very valid comment, and should be taken into consideration by future researchers in determining how the proposed audit framework could be tailored to address other factors which result in audit failures and therefore, audit quality.

P7 (AP), was concerned about resistance from auditors, saying that, *"It's like saying I'm going to a court, and the judge is going to decide, what is in my favour. Do people like going to a court? They hate going to a court. So, it's like, okay, this is the judge, be all, end all, he chooses, who's my clients, he chooses, what's my fee, is that really fair? What sort of freedom are you giving to the firms in terms of negotiations, etc.?"* In Section 5.2.2.8.5, the researcher acknowledges that the proposed audit framework does not currently include processes and procedures for disputes and negotiations. If the proposed audit framework were to be seriously considered as an alternative audit model in South Africa, it would need to include proper processes and procedures for disputes. This would address the concern raised by P2 (ACM) as well, *"The problem is if it doesn't work because of relationship issues, then that's where the problem is..."*

5.2.2.7 Theme 2.7: Public interest

The seventh theme, 'public interest', refers to the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy by an RA. In upholding the 'public interest', the RA must act with the highest levels of integrity and ethical conduct, maintain independence and objectivity, comply with all applicable laws and regulations, obtain an understanding of the needs of all of society (in relation to the external audit) and conduct audits with the appropriate degree of professional scepticism. This definition of 'public interest' was derived for the purposes of this research by the researcher in Chapter 2. This theme comprises two sub-themes, each of which has been summarised in Figure 48.

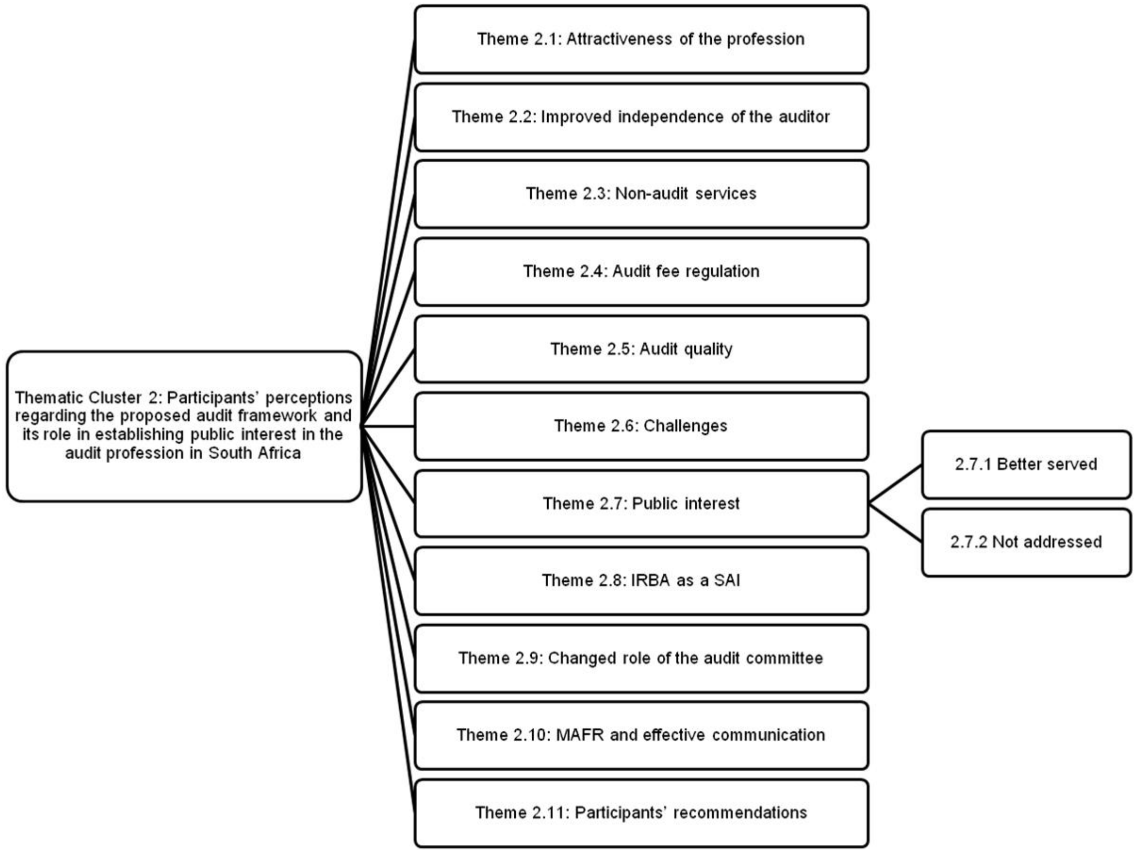

Figure 48. Theme 2.7 and sub-themes

5.2.2.7.1 Sub-theme 2.7.1: Better addressed

The theme 'better addressed' relates to the perceptions of research participants that the implementation of the proposed audit framework in South Africa would result in auditors being able to address their 'public interest' objective at a superior level than under the current audit model.

As a starting point, the majority of research participants concurred that the proposed audit framework would result in improved auditor independence. This, they argued, would result in auditors being better able to serve the 'public interest'. For example, P15e (RPI) stated: *"The model will certainly serve the public interest in that auditors' independence will be strengthened."* P15d (RPI) provided a similar response, reflecting that: *"The proposed concept of creating distance between the client and the auditor in terms of fee negotiation would work well to lessen the dependency of audit firms on audit fees from certain clients, this would therefore also strengthen independence and encourage auditors to focus more on those they are actually accountable to- the shareholders rather than the client. These factors indicate a better service to the public interest."*

Research participants also expressed that, should the proposed audit framework work at enhancing auditor independence, confidence and credibility in the profession would be restored. To this end, P15e (RPI) stated that: *"I think it will serve the public interest in that auditors will be viewed as being more independent which will also assist in restoring some of the confidence and credibility that the profession has lost in the recent past."* Public confidence and credibility in the profession would create the perception that the profession is addressing the 'public interest'. However, there is a need for the profession to be actually addressing the 'public interest' as well. This can only happen if there is an official definition of 'public interest', against which auditors can be held accountable, as discussed in Section 5.2.1.11.4 and 5.2.1.11.7.

5.2.2.7.2 Sub-theme 2.7.2: Not addressed

The theme 'not addressed' relates to the perceptions of research participants that the implementation of the proposed audit framework in South Africa would result in auditors being unable to serve the 'public interest', as is the primary objective of the audit. Some research participants expressed a lot of negativity about the proposed audit model, and this extended into their feedback as to how this model would impact the 'public interest' objective of auditors.

P15c (RPI), for example, stated the following: *"Remember that the auditing profession is going to object to this proposal in the strongest terms and that court action is, I believe, inevitable. If this proposal was in fact passed and came into being, the auditors may be resentful or may even leave the profession… A resentful auditor who is auditing the client because he is obliged to do so is, I believe, not good for the client and not good the public interest."* This reflects that the participant expects that the auditing profession as a whole would show great resistance against the proposed audit framework. This participant went on to share that many auditors would leave the profession. The loss of skills would drive down audit quality in general, which would have a direct negative impact on the 'public interest' objective of auditors. This makes sense, because a loss of skills at senior levels would mean there would be fewer experienced auditors to share insight and knowledge with new entrants to the profession. There would be a huge loss of institutional memory. This would likely result in poorer audit quality, which would not be in the 'public interest'.

P9 (AP) was more pragmatic in expressing why the proposed audit framework would not address 'public interest': *"You see, it's a yes and no, right, because, if you're going to have the same auditing firms, only on a different model, how's it going to help audit quality? Who* *are they reporting to? Are they still reporting to the same audit committee who's totally incompetent? Then you're not fixing anything. So changing the operating model doesn't mean you're fixing the outcome. As I said to you earlier, you've got to look at all the challenges around audit committees, one. (You also need to consider) the quality of the people, the competence of the audit committee, the composition of the audit committee members, the hours versus the fees we're getting, the issue around the training of the firms. So, this whole eco-system that needs to be fixed to get to the outcome."*

This is an accurate reflection, inserting IRBA in the middle of the auditors and audit committees does not change firms internal processes and procedures, it does not change how much commitment the firm has given to training their staff, and it does not change their back office. Furthermore, if audit committees are incompetent for the most part, as P9 (AP) is concerned, and firms are still reporting to audit committees, how would this address 'public interest'? These are valid considerations and concerns, and recommendations on how some of these may be addressed are included in Section 5.4.2.2.

P10 (AP), on the other hand viewed the proposed model as adding additional complexity rather than anything to do with addressing 'public interest'. P10 (AP) reflected that the role of IRBA would be akin to *"a second audit committee"* which P10 (AP) perceived as a waste of resources in a country already scarce on resources: *"I don't know why an auditor who was not doing what they should (have been) doing, would be able… I don't know why it would be any different? I don't think, adding the IRBA in, as an additional layer of complexity, necessarily adds to the quality of it. I don't think the… so, if we're saying that, effectively, the IRBA would be like a second audit committee, then I think we're wasting resources, in a country that is already scarce on resources."* The phrase *"wasting resources"*, suggests that P10 (AP) doesn't believe that the proposed audit framework would address the 'public interest'.

Overall, these arguments for why the proposed audit framework may not address the 'public interest' are all valid ones. In order to determine whether they carry any weight, the proposed audit framework would have to be presented to a larger audience, firstly for recommendations on how it could be improved, and secondly for feedback as to whether it would assist auditors in achieving their 'public interest' objectives.

5.2.2.8 Theme 2.8: IRBA as a SAI

The eighth theme, 'IRBA as a SAI' refers to the expanded mandate of IRBA under the proposed audit framework. This theme comprises five sub-themes, each of which has been summarised in Figure 49.

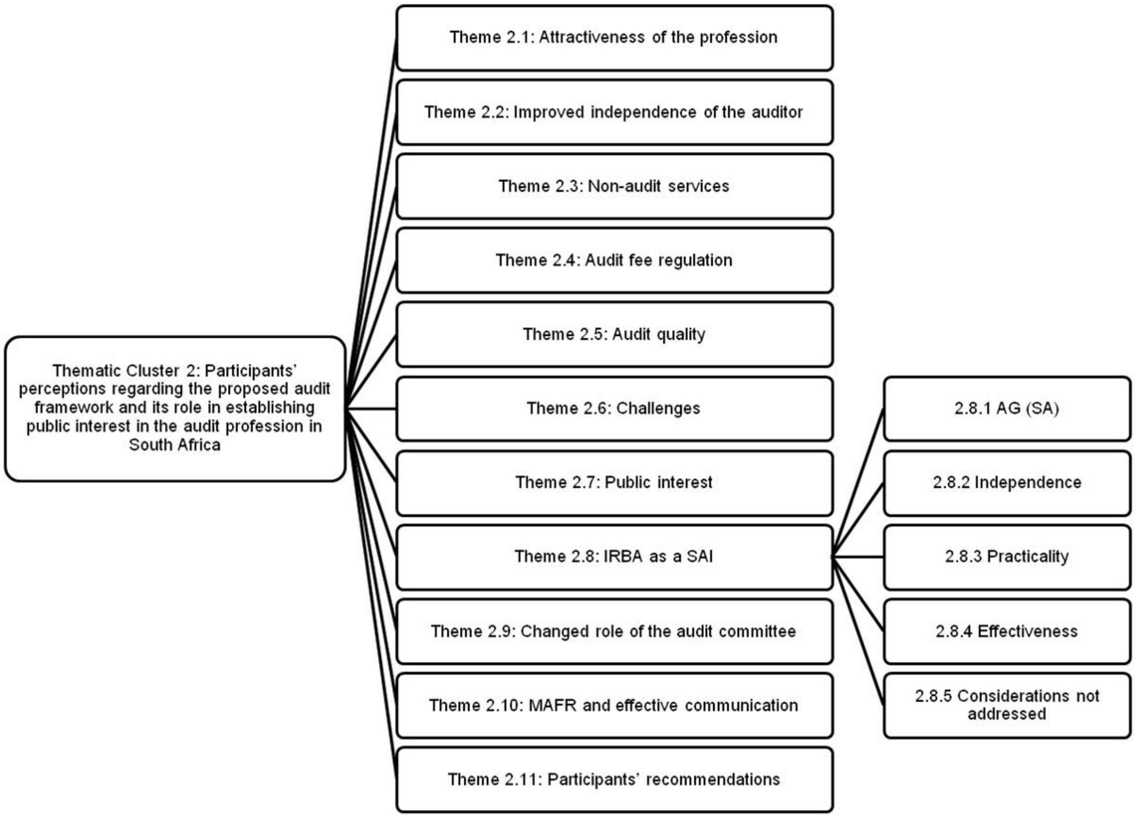

Figure 49. Theme 2.8 and sub-themes

5.2.2.8.1 Sub-theme 2.8.1: AG (SA)

AG (SA) refers to the public sector auditor in South Africa, who is regarded as a SAI under the Constitution. Research participants expressed concern about expanding the mandate of IRBA to that of a SAI.

As shared by P15e (RPI): *"SAI's are generally accepted to be an external audit entity responsible for oversight on government spending as opposed to a regulator overseeing audits in the private sector. In South Africa we already have a SAI, that is, the Auditor-General of South Africa and it is a Chapter 9 Constitutional Entity."* The researcher did not consider this to be a serious challenge, given that this research project represents an exploratory study that is ultimately just considering whether a future audit model with a SAI, or other body with similar characteristics to a SAI, could better address the 'public interest' objective of auditors. The mandate of this future body could be akin to a SAI, with the exception that it would focus on private sector organisations rather than those in the public sector.

Another representative of the 'public interest', P14, was concerned over the use of the term 'SAI', saying *"First of (all), you cannot use this… That is the AG… It's who they are…Don't say supreme audit, you're not the Auditor General, you're not in the Constitution…"* Once again, this concern was not considered to be a material problem to the researcher. As stated in the paragraph above, this is an exploratory study. It does not represent an audit model that is going to be introduced in South Africa next month. The naming of the body that fulfils the function suggested in the proposed audit framework is not as important as what the responsibilities of the body would be.

P3 (ACM) also contributed to this theme, stating that, *"you know, we have a supreme audit institution…That's the Auditor General. And, the Auditor General doesn't have capacity to do all the audits. I mean it's a solid institution…"* Once more, this did not reflect a cause for concern for the researcher, as the proposed audit framework does not in any way recommend that the AG (SA) take over the responsibility for conducting all the audits in South Africa's private sector.

While all these considerations from research participants are valid, they would have more worth in a study with a more developed audit model, rather than in a study that is exploratory in nature with a very basic proposed audit framework as the basis thereof.

5.2.2.8.2 Sub-theme 2.8.2: Independence

In this context, independence refers to the ability of IRBA as a SAI to reach conclusions without being affected by influences that could compromise the SAI's professional judgement. As a SAI, IRBA would be required to allocate auditors to audit clients, and determine the audit fees to be paid to the auditor.

Research participants were concerned that the SAI would need to be independent, especially of government, as expressed by P15e (RPI): *"I think in South Africa independence of this SAI from other government entities is important and therefore the entity's funding model is also important to ensure that it is seen to be independent from those it is regulating."* P3 (ACM) went on to add that the implications would be devastating if the SAI was not independent: *"And the kind of corruption we witness in our country, if people take hold of the supreme audit institution, and are not committed to the best of ethics and* *transparency, you could create a real monster."* P9 (AP) also added to this, citing the importance of ethics and integrity in an organisation such as a SAI: *"Well, I think, the big thing is around ethics and integrity. So, in a supreme audit institution, it's reputation. The people that run that thing must be (committed to a high standard of) ethics (…) You can't have your supreme audit institution being compromised in terms of reputation (…)."*

The above are all valid concerns of the research participants. Ultimately, if the proposed audit framework were to be considered for implementation in South Africa, the SAI would have a lot of power. If the SAI is not independent from government and not committed to the highest ethical standards, then there is a real risk that the auditing profession as a whole could be destroyed. Mechanisms for holding the SAI accountable and ensuring that they fulfil their mandate in accordance with the highest ethical considerations are critical to the success of the proposed audit framework. More research would need to be conducted in this regard.

5.2.2.8.3 Sub-theme 2.8.3: Practicality

The theme 'practicality' relates to the perceptions voiced by research participants about the actual functioning of IRBA as a SAI on a day-to-day basis, rather than the idea of this.

P10 (AP) considered the idea of IRBA as a SAI as being impractical, stating : *"I don't think, adding the IRBA in, as an additional layer of complexity, necessarily adds to the quality of it. I don't think so. If we're saying, that effectively, the IRBA would be like a second audit committee, then I think we're wasting resources, in a country that is already scarce on resources."*

While the researcher considers the comment by P10 (AP) a valid one, especially in instances where audit committees are fully functional and effective, unfortunately, this is not always the case. As discussed in Section 5.2.1.5, audit committees are not always functional, and this impacts on audit quality. Having IRBA takeover the decision-making ability of the audit committee in as far as the appointment of the auditor is concerned, is more akin to taking the responsibility away from the audit committee, rather than adding in a second audit committee, in the opinion of the researcher. If audit committee members continue to earn the same income for attending audit committee meetings while their responsibilities are reduced, then the researcher would agree with the perspective that this is a waste of resources. However, if the audit committee members remuneration for attendance of audit committee meetings is reduced somewhat, in line with the change in their responsibilities, then this would not be a waste of resources.

Other, less drastic options may be available to address the 'public interest', rather than changing the audit model. Research participants made some recommendations in respect of this, and these recommendations were discussed in Section 5.2.1.11.

Another concern around the practicality of the proposed audit framework was expressed as follows by P15d (RPI): *"My concerns are primarily around the practicality of requiring the audit regulator to assess risk and complexity of clients and appoint auditors to these clients."* This is a reasonable concern and would require future research and ideas to determine how IRBA would practically assess the risk and complexity of audit clients to determine which auditors should be appointed to them and what the audit fees should be.

5.2.2.8.4 Sub-theme 2.8.4: Effectiveness

'Effectiveness', in this context, refers to the degree to which IRBA is successful in fulfilling all their roles and responsibilities as a SAI. Research participants expressed their perspectives on how effective IRBA would be in fulfilling their role as a SAI.

Research participant P3 (ACM) shared that, *"The failures we find with audit firms, you could find the same with supreme audit institutions."* While the researcher agrees that this is possible, the researcher believes that a SAI would be more independent than the audit firms and audit partners currently are. Therefore, by including the SAI in the process of appointing the auditor process, the determination of audit fee process and the review of audit quality processes; the researcher believes it would be less likely that the audit failures experienced by audit firms under the current audit model would be experienced under the proposed audit framework.

Other research participants suggested that in order for IRBA to be effective as a SAI, IRBA needs to be able to impose consequences on rogue auditors, and there needs to be consequences for IRBA when they miss something. P6 (ACM) shared that, *"The supreme audit institution needs to have teeth. At the moment the IRBA are like a bull dog with false teeth."* P11 (AP) echoed this perspective, saying that, *"So, we took drastic action as firms when there was an issue on audit opinion. Deloitte are here to take drastic action. So then you ask again, the regulator missed all of this, what's the action taken against the regulator?"*

Both of the above are very relevant and applicable to ensure the effectiveness of IRBA as a SAI. First of all, a SAI would not be able to be effective if the SAI did not have the power to make rogue auditors suffer appropriate consequences. At the same time, to ensure IRBA's effectiveness, there need to be consequences for IRBA if they do not detect mediocre audit quality and impose the necessary sanctions on perpetrators.

5.2.2.8.5 Sub-theme 2.8.5: Considerations not addressed

‘Considerations not addressed’ refer to those aspects of the proposed audit framework, specifically in relation to the role of IRBA as a SAI, that have not been examined under the proposed audit framework.

P7 (AP) expressed the following concern: *“So, if you had any issues, in terms of, your relationship with the client and in terms of your fee with the client, you’d have to go back to the IRBA, and… Would they reimburse you for anything the client could not reimburse you for?”* The proposed audit framework does not provide all the intricate details of exactly how it would work, as this is an exploratory study and would require a considerable amount of further research before a fully fleshed out alternative audit model could be developed. This concern from P7 (AP) reflects the need for a final alternative audit model to include detailed dispute processes, in terms of audit fees and relationship challenges between the auditor and auditee. P2 (ACM) expressed a similar concern to P7 (AP), questioning, *“So, if IRBA says you going to audit, Company X… Company X is a listed company, and you can only charge a million…?”* The researcher expects that in order for the proposed audit framework to have any chance of truly being considered as an alternative audit model in South Africa, it would have to allow for auditors to be paid a fair audit fee that is reflective of their skills, experience and effort expended in conducting the audit in question.

P8 (AP) questioned what impact the proposed audit framework would have on IRBA’s review processes: *“Would that mean that… Will they be eliminating the review process? Or that the review process will continue? Because that will derive what sort of responsibility they would be willing to take, you know?”* This goes to the discussion about who would take responsibility for audit quality under the proposed audit framework. The objective would be for the auditor to take responsibility for audit quality delivered. This has been discussed as part of Section 5.2.2.6.2.

5.2.2.9 Theme 2.9: Changed role of the audit committee

The ninth theme, ‘changed role of the audit committee’, refers to the new capacity of the audit committee under the proposed audit framework. This theme comprises two sub-themes, each of which has been summarised in Figure 50.

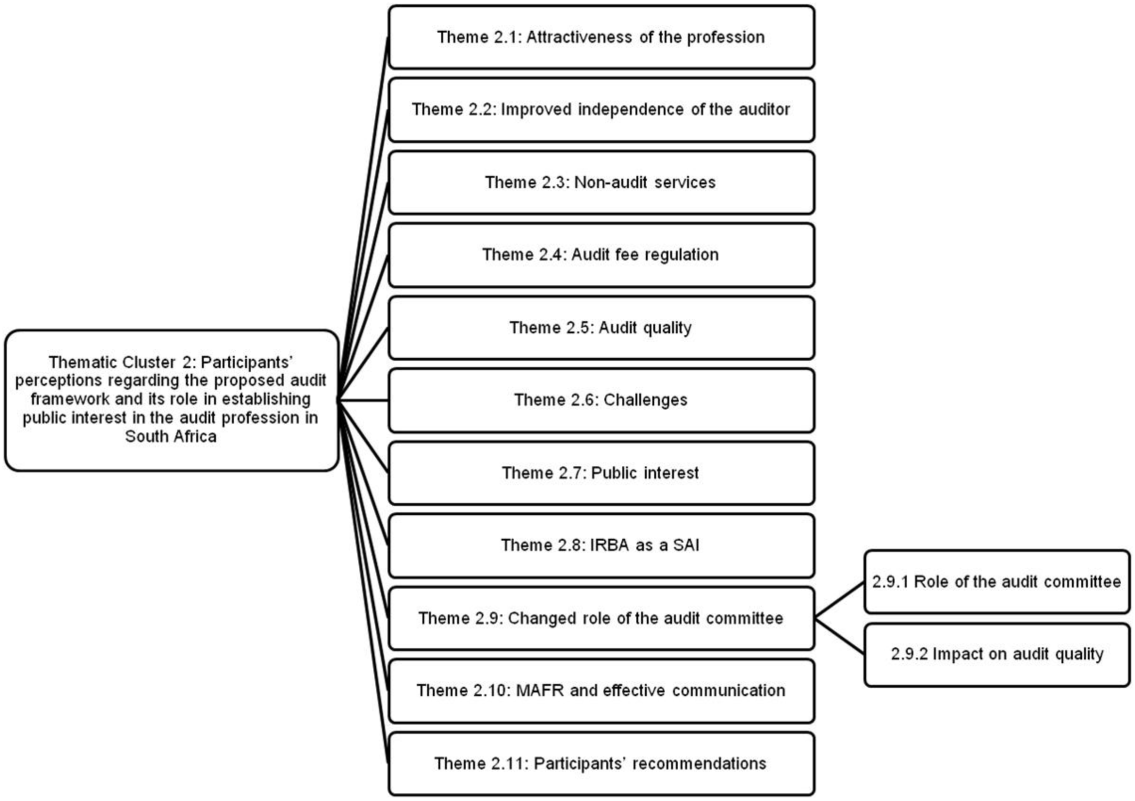

Figure 50. Theme 2.9 and sub-themes

5.2.2.9.1 Sub-theme 2.9.1: Role of the audit committee

The 'role of the audit committee' refers to the function of the audit committee under the proposed audit framework. This sub-theme relates the function assumed by the audit committee under the proposed audit framework. Under the proposed audit framework, the role of the audit committee would differ significantly from what it is under the current audit model. Audit committees would have no say in who their auditors are, nor the audit fee that is paid to them. Audit committees would also not have any control over non-audit services, as auditors would not be allowed to provide these to their audit clients. The research participants had mixed views on how this would change the role of the audit committee.

Some participants, like P7 (AP), believe that the proposed audit model would render audit committees *"redundant"* and that is unfair to those functioning audit committees. For those audit committees who are dysfunctional, there would be no real difference, except the organisation would not have to incur the cost of fees paid to audit committee members for attending meetings. On the other hand, P14 (RPI) perceives audit committees to be generally ineffective and considers that the audit profession would be best served if audit committees were eliminated entirely. P9 (AP) reflected that implementation of the proposed audit framework would be a *"wake up call"* for audit committees. These responses all infer that the majority of audit committees are somewhat ineffective currently and that the proposed audit framework may be *"a bit of a wakeup call"* (P9 – AP) for these audit committee members, to be relegated to one side and stripped of the majority of their responsibilities.

Yet, the proposed audit framework is not quite that harsh. This was recognised by a number of research participants, who acknowledged that the proposed audit model still left the audit committee with their oversight of management responsibilities, focus on internal controls, responsibility for the combined assurance model and more time to focus on these other responsibilities. P12 (AP) shared the following in this regard: "*I think that, there's just so much pressure now on audit committees. But if this is one thing off their plate, being the appointment of auditors, and then they can focus more on the quality of financial statements, the quality of financial reporting, and the quality of the finance function. Making sure there's compliance with laws and regulations. In that respect, they're not burdened by, 'okay, let's appoint an auditor.' That shouldn't be something… That will be one less thing (on) their plate. And then they can focus on your other aspects, yeah…"*

P15e (RPI) mirrored this sentiment, stating that "*Appointment of auditors is one of the committees' many functions. Therefore, the committee still have other roles to play such as overseeing the audit."* P4 (ACM) echoed this view, and added why there might be other responsibilities for the audit committee under the proposed audit framework: "*you'd probably have to perform a bigger role in terms of the review of the auditors. You know, an understanding from management in terms of the process and were they happy with the appointment of the auditors, and the work and the quality that was provided by your auditors. Simply because, you'd expect your audit committee then to be the people who then, decide as to whether they continue with the auditors or, lodge the necessary complaint with IRBA. The new IRBA. To say, 'guys, you need to take us forward'. Or, you know, 'we are not happy with the auditor because of x, y and z'."*

However, these participants also brought it to the researcher's attention that not all audit committees are ineffective. Furthermore, by stripping the audit committee of some of their responsibilities, the proposed audit framework lessens the role of the audit committee and could have the unintended consequence of undermining governance structures. The audit committee would be *"disempowered"* from making decisions in the best interests of the company (P10 – AP). While these are valid concerns, the researcher noted that there is no real governance of audit committees, and therefore no accountability on the part of audit committees. The proposed audit framework may not represent the answer to the problems faced in the auditing environment as a whole, but something does need to change so that audit committees can be held accountable for fulfilling (or not fulfilling) their regulatory responsibilities.

5.2.2.9.2 Sub-theme 2.9.2: Impact on audit quality

This sub-theme relates to the influence that the new role of the audit committee would have on assurance quality, if any. This sub-theme links back to the first theme discussed in this research paper, namely, 'auditor independence'. The underlying premise is that if the audit committee was not involved in the appointment of the auditor or the determination of the audit fee, the auditor is likely to be more independent of the audit committee. Therefore, one would expect that audit quality would increase.

The research participants had conflicting views around this idea, with some reflecting that the audit committee no longer being involved in the appointment of the auditor would enhance audit quality and others being convinced that audit quality would decline. There was a third group as well, those participants who believe that who appoints the auditor has no bearing on audit quality.

P15e (RPI), for example, stated: *"I don't think audit quality is (a) function of who appoints the auditor."* One would expect that this would be true if all parties involved in the process were fully independent in mind and in appearance. The auditors appointed would need to be truly independent of the audit committee and the organisation. The moment these parties are not truly independent of one another, there is a risk that that lack of independence could negatively impact audit quality, as discussed in Section 5.2.1.1.1.

A small number of participants expressed concern that not including audit committees in the appointment of the auditor process would result in a decrease in audit quality. P15d (RPI), for instance, shared the following: *"The proposed model would take away the ability of clients to appoint auditors of their choosing. This may impact audit quality as clients may have perceptions of different levels of audit quality amongst firms. This may impact clients being less willing to co-operate with auditors and potentially undermining auditors. This may be further exacerbated if auditors have received unsatisfactory inspection results and/or are under investigation and these auditors are appointed to a client."* If the audit committee and audit client are unwilling to co-operate with the auditor or undermine the auditor, because they weren't involved in the appointment of the auditor, this could have a negative impact on audit quality. After all, auditors can only work with what has been provided to them by management, as discussed in Section 5.2.1.9. If all audit committees and audit clients were to react in this way, it would *“wreak havoc in the auditing profession”*, as expressed by P3 (ACM).

However, for the most part, participants agreed with the premise established by the researcher above – that the audit committee not being involved in the appointment of the auditor or the determination of audit fees would result in the auditor being more independent, and thus improving audit quality. P4 (ACM) stated: *“You expect that the audit quality would improve, simply because, there’s no longer influence. From a client as well as audit committee… you’d expect (…) improved assurance quality…”* This perspective was echoed by P13 (RPI), who responded with *“probably positive”* when asked about the impact of audit committees not being involved in the appointment of the auditor on audit quality. P14 (RPI) also mirrored this view, saying: *“If it’s done properly, then, it should actually improve the assurance quality...”* in relation to the question about the impact on audit quality if IRBA is appointing the auditors of an organisation rather than the audit committee.

Being an exploratory study, and being qualitative in nature, these findings are not generalisable to the general population of stakeholders in the audit profession, but it does however, point towards enhanced audit quality due to the expected improvement in auditor independence. More research would therefore need to be conducted with a significantly larger group of research participants around how excluding the audit committee from the appointment of the auditor and determination of audit fees processes would influence the behaviour of both the auditor and the audit committee, and ultimately how auditor independence and audit quality would be impacted, if at all.

5.2.2.10 Theme 2.10: MAFR and effective communication

MAFR refers to mandatory audit firm rotation, which means that a different audit firm is appointed after the prescribed rotation period (maximum 10 years), and the new firm designates the new engagement partner for the audit (RSA, 2008). MAFR becomes effective in South Africa in 2023 (RSA, 2008). ‘Effective communication’ relates to the requirement under the proposed audit framework that the previous and new auditor engage in a productive manner in the audit handover process. This theme deals with the existence of some evidence that MAFR could result in audit failures due to poor communication between the previous and new auditors (Gavious, 2007). By requiring constructive divulging of information between the previous and new auditors, the proposed audit framework, aims to reduce this risk. This theme was identified by all three of the participant groupings, and it was not deemed necessary to break this theme down into sub-themes.

The research participants had contradictory perceptions around whether the mandated effective communication between the previous and new auditors would mitigate the risk of audit failure in the first year of the new auditor's tenure. Some participants expressed support of the idea, believing it would reduce the possibility of audit failure in the first year of the new auditor's tenure. Other participants reflected that communication between the previous and new auditors has always been a requirement of the IRBA CPC, and therefore this suggestion under the proposed audit framework is not anything new. Lastly, P11 (AP), was of the view that expecting the previous and new auditors to communicate effectively is problematic and as good as *"telling a divorced couple to communicate better"*.

Amongst those participants that were indifferent about the suggestion, P15b (RPI) stated: *"The requirement to communicate with the predecessor auditor prior to taking on a new audit client has always been a requirement of the IRBA Code of Professional Conduct which is a safeguard to the proposed auditor. I'm not sure that this will have an additional impact given that it is already a requirement of the IRBA Code."* While this is a valid point, as the requirement to communicate with the prior auditor has always been a requirement under the IRBA CPC and the ISAs (IAASB, 2018e; IRBA, 2018b); the comments made by the audit partner participant grouping are sufficient for one to understand that this communication is very strained. P7 (AP), for example, has the following to say; *"God, if that previous auditor could talk to you! You know, I've been (in) a previous auditor meeting… The man had no time to talk to me… That communication is already forced. If he could have it his way, he would not have me there. He would just sign a letter to say, please go ahead, everything is fine."*

This would imply that the existing requirement for communication with the previous auditors is ineffective in terms of ensuring there is a proper handover between the previous and incoming auditors. Previous auditors may be loath to lose the revenue stream from the client, and this may be the reason for their hesitance to communicate effectively with the new auditor. Alternatively, the previous auditor may be glad to get rid of a difficult client, but does not want to share with the new auditor that the client is not worth getting involved with. Whatever the reason, the resultant effect of poor communication between the previous and new auditors, is poor audit quality.

For this reason, the proposed audit framework suggests a more regulated form of communication between the old and new auditors. P10 (AP) was very positive about this suggestion: *"I think it is critical that the new auditor and the old auditor sort of, work together. When I say work together… (I mean) that there is a proper handover process, right. So, yes,* *anything that, sort of, says, 'you've got to work together better', I think that would (…) be fantastic."* When discussing whether more effective communication would mitigate the risk of audit failure in the first year of the new auditor's tenure with P13 (RPI), the participant had a similar perspective to P10 (AP); "*Yes, it would. (But) mitigate does not mean exclude… So, it should, minimise, the risk."*

Ultimately, if MAFR is to work effectively under any regime, be it the current audit model or the proposed audit framework, the previous and new auditors have to be willing to work together. The profession and its regulators need to work together to find ways of encouraging effective communication between the current and previous auditors. Some suggestions were made by research participants as to how this could be achieved. These are discussed in Section 5.2.1.11.8 and Section 5.2.2.11.3.

5.2.2.11 Theme 2.11 Participant recommendations

Participant recommendations refer to the suggestions made by research participants as to how the proposed audit framework could be tailored to better serve the 'public interest'. This theme comprises three sub-themes, and these have been summarised in Figure 51.

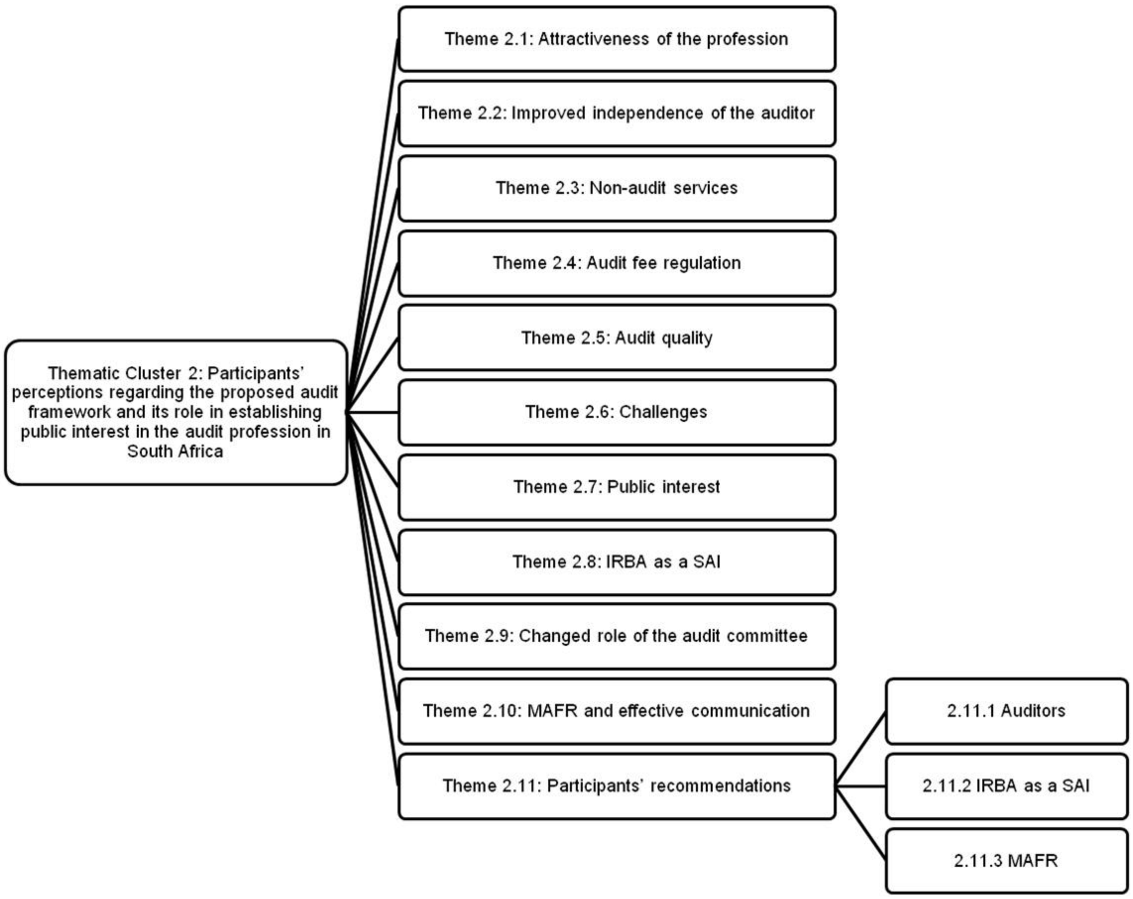

Figure 51. Theme 2.11 and sub-themes

5.2.2.11.1 Sub-theme 2.11.1: Auditors

'Auditors' refer to those independent individuals, or teams thereof, that conduct an official financial examination of an organisation's records. This sub-theme specifically relates to participant recommendations around auditors under the proposed audit framework. These recommendations specifically addressed the issues of audit fees and the restrictions around auditors providing non-audit services to audit clients.

Auditors provide a professional service for which they are entitled to fair compensation. Under the proposed audit model, auditors would continue to be entitled to fair remuneration for the services rendered. The audit fee would however be determined by IRBA, rather than by mutual agreement between the auditor and the auditee. Research participants seemed quite shocked by this concept, but were able to sufficiently recover to provide some recommendations around how the audit fee structure under the proposed audit framework could be adjusted.

P12 (AP) noted that audit firms have some very skilled employees that need to be well remunerated in order to be retained. These employees are critical when conducting the audits of large, complex organisations, as well as when finalising an audit opinion, between for example, unqualified and a disclaimer of opinion. P12 (AP) expressed concern that if auditors do not have a say in the audit fees charged to clients, would the audit firm be able to retain the services of these specialists? What would happen if the firms find a way to retain these specialists, but then do not have sufficient work for them due to the clients allocated to them by IRBA? P12's (AP) complete statement in this regard was as follows: *"The audit fee would be unchanging irrespective of whether the audit report is qualified or unqualified. I guess, as much as you're not going to change your fee, based on qualification or non-qualification; qualification or no qualification also, speaks to the expertise, the specialism that you would need, to be able to get to, the answer of, qualified or non-qualified. So, that would be something that I guess would have to be looked at, to say… Do you build a firm that has all of that specialism? Some are going to be redundant, and some are not going to be redundant? But do you have enough? Are you getting enough fees to actually pay for those that you don't use?"* Overall, P12 (AP) recommendation was to re-look at the audit fee structure under the proposed audit framework to ensure the sustainability of the audit firm.

An alternative suggestion was made by P7 (AP): "*I think you would have to have everyone in. If you want that, everyone must be working for IRBA. And then, you would get… Then the fee wouldn't matter… So what IRBA should do is, they should get the fee, and they should then pay their members for the time they've spent. Do a timesheet, and say how many hours you've spent at the client, and then I'll pay you for all the hours you've spent there."* This would result in IRBA operating on a similar basis to how the AG (SA) operates. This would eliminate the challenges associated with audit firms needed to be sustainable and maintaining their own specialist support staff. There would be no issues with different training received from different audit firms, or different audit software resulting in different outcomes.

However, this would bring about its own challenges. As expressed by P6 (ACM), "*If this turns the auditors into government employees, what does it do for the status?"* Would people still want to enter the profession then? Would IRBA have the capacity to manage such a large workforce effectively? While this is definitely an interesting perspective, it warrants its own research paper entirely, as it would involve a range of different opportunities and challenges.

On the other hand, P15a (RPI) expressed concern with the notion that the audit fee determined by IRBA could not be challenged by the auditor or the audit committee. P15a (RPI) shared the following: *"I do not believe the statement that the auditor may not challenge the audit fee. Anything can be challenged. It is how one deals with those challenges. Will this be on review to the High Court, or is there a lower appeal process?"* This question led the researcher to the understanding that the proposed audit framework should include a detailed appeals process for firms and audit committees to challenge the audit fees as established by IRBA. This would include detailing whether such appeals would go directly to the High Court of South Africa, or if there would be a lower appeals process. This is a worthwhile recommendation and deserves more consideration. The researcher acknowledges that the proposed audit framework does not detail what an appeals process would look like, but agrees that it is definitely needed. The proposed framework may then also require a process for audit committees to appeal if they are not satisfied with the auditor they have been allocated by IRBA. All in all, the proposed audit framework needs to include a section dealing with disputes, disagreements and objections, and how these should be addressed by the relevant parties.

In terms of non-audit services, under the current audit model, auditors often provide consulting or other services to their audit clients. These services might include tax services, valuation services or assistance with mergers and acquisitions, amongst many others. The proposed audit framework would disallow auditors from providing non-audit services to their audit clients.

For the most part, research participants were satisfied with the proposal that auditors do not provide non-audit services to their audit clients. However, there were some concerns and associated suggestions raised by some participants. P5 (ACM), for example, suggested rather than completely prohibiting auditors from providing consulting services to audit clients, that consulting services be limited to a maximum of 25% of the audit fee. The researcher is doubtful as to whether this would provide the same auditor independence benefits as prohibiting auditors from providing non-audit services to audit clients entirely, but believes that the idea deserves further research before being finalised.

Several participants expressed concern about audit firms losing significant revenue if they were not allowed to provide non-audit services to audit clients. P4 (ACM) went so far as to state that firms may opt to rather only do consulting work for organisations. This would allow them the ability to drive revenue independently of the auditing process, and avoid being regulated. This is in line with what many participants expressed when discussing why participants might leave the profession should the proposed audit model be introduced in South Africa – it would be easier to make money in the consulting space. While P4 (ACM) did not provide a recommendation on how this loss of auditors could be addressed, the researcher opted to include this as it is a valuable point that deserves further consideration, before such a model could be suggested for implementation in South Africa.

5.2.2.11.2 Sub-theme 2.11.2: IRBA as a SAI

IRBA as a SAI refers to the expanded mandate of IRBA under the proposed audit framework. This sub-theme specifically deals with participant recommendations around IRBA as a SAI under the proposed audit framework. The recommendations from research participants around IRBA as a SAI included recommendations to ensure IRBA's effectiveness, independence, accountability and some practical considerations.

In order for IRBA to be effective as a SAI, IRBA would need to be successful in fulfilling all their roles and responsibilities. The research participants provided some recommendations to ensure IRBA's effectiveness in fulfilling their roles and responsibilities.

Firstly, *"as a supreme audit institution the IRBA should have greater access to funding"* – (P15d – RPI). This would enable IRBA to be more effective as it would allow IRBA to employ more skilled employees. IRBA would further need tighter quality monitoring processes and procedures in place to ensure that audits are conducted in accordance with the highest quality standards. This was perceived as a recommendation based on the question "*Will there be measures in place to ensure that each audit is conducted according to the highest quality standards?"* as asked by P15a (RPI). This would require IRBA to make significant investments in both human and technological resources.

Secondly, IRBA would need to build an audit library of the type of audit clients auditors might encounter in the private sector, and how one would go about auditing these. This was suggested by P14 (RPI): *"There's going to be a lot of work going into research, to say, almost building up the audit library, of clients, and your type of companies that you get in the private sector."* This would require investment of massive amounts of time and effort, which once again, would cost money. IRBA would also need to ensure that this audit library is kept updated, to ensure that auditors are not following outdated procedures. This library, if sufficiently detailed and well-maintained, would be a source of reference for all auditors in the profession. It would aid IRBA in ensuring consistent audit quality across the various auditors and client industries.

Thirdly, in order for IRBA to have control over audit quality, IRBA would need *"greater inspection, investigative and prosecutorial powers"* (P15d – RPI). P15 (RPI) made a very similar comment: "*Maybe, we should, instead of doing reviews after the event, maybe we should do reviews during the audit. You know? It's, new ideas, we're not going to do it. But, we just have to see how we can be more proactive. So, as a regulator our theme for the next five years, is how do we come up with more proactive (procedures), because we are seen as being reactive. Not because we want to, but because our Act says, you're doing inspections on audits that have been completed."* To enable IRBA to be legally empowered to monitor audit quality on an ongoing basis, rather than after the event, would probably require a change in legislation.

Changing legislation could be a time consuming process. As part of this change in legislation, IRBA should be granted the ability to license audit practices. As stated by P15b (RPI) *"I believe audit practices should be created and licenses granted only to those who have a genuine passion and desire to provide high quality audit services and develop the profession."* While this might be an arduous task initially, it should benefit the profession overall, if only those who are truly passionate about the profession are accredited as auditors.

Lastly, P13 (RPI) suggested that IRBA should *"lead by example"*. If IRBA are able to conduct itself in an upright and ethical manner, there is a better chance of those who are supposed to follow IRBA's leadership, also to act in an upright and ethical manner. This is in line with the HELSON model as mentioned to the researcher by P15 (RPI) and briefly discussed in Section 5.2.1.3.9. IRBA's leadership would need to act in accordance with the highest ethical and moral standards, so that as not to risk tarnishing IRBA's reputation. If IRBA's leadership is able to achieve these high ethical and moral standards, then auditor integrity and acting in the 'public interest' should naturally fall into place.

In terms of independence, IRBA should be able to act in their capacity as a SAI and reach conclusions without being affected by influences that could compromise IRBA's professional judgement. Research participants were quite insistent on this point, stating that if IRBA were to be able to fulfil their mandate as a SAI effectively, IRBA would need to be completely independent. This would include independence from government, independence from the profession, and independence from audit clients.

Participants further provided some recommendations as to how IRBA could achieve this independence. Firstly, participants suggested that IRBA's funding model should be of such a nature that IRBA remains independent from those it aims to regulate and government. P15b (RPI) stated the following in this regard: *"I think in South Africa independence of this SAI from other government entities is important and therefore the entity's funding model is also important to ensure that it is seen to be independent from those it is regulating."*

How such a model would work was not discussed by the research participants. In the proposed audit framework, the researcher suggested that IRBA be funded by keeping a portion of the audit fees received from audit clients before these fees are paid over to the auditors. However, there may well be better funding models available globally, either in practice or in existing literature. Further research should be conducted around the best funding model to ensure IRBA's independence, while guaranteeing that IRBA has sufficient funding to fulfil its mandate.

Another suggestion made by research participants to ensure IRBA's independence, would be to have IRBA consist of people who are independent of the profession, as P9 (AP) reflected: *"So, who makes up this supreme audit institution. Is it IRBA or is it someone else? Okay. Because (…) they should be totally independent. It should be made up of people outside the profession. Like lawyers, or whatever, doctors or somebody else; that are not compromised; because you can't have the same people regulating themselves."* P13 (RPI) shared this view, and expanded on it, *"So, IRBA, if they want to be real, they need to be far more independent. They don't necessarily need to be made up of auditors. They need to be made up of people that understand public interest, which would be the public. So, my mom can go sit there even though she's got Standard Five… And, she probably have a much better sense of what public interest is, than a chartered accountant."*

People who understand what 'public interest' means could be anyone who understands what an auditor does and how this should protect the 'public interest'. It could even include representatives from bodies like the JSE or the King Committee as suggested by P12 (AP): *"So I wouldn't necessarily think it's like the government, but maybe a government representative because, the government is a part to the public interest. So, I think it would be, you know, the JSE, or the King… Multiple people, who represent that public interest collectively."*

The ideal composition for a SAI and its reporting mechanisms, to almost guarantee, the independence of the SAI should be further researched. A broader variety of research participants should be involved in this research as this would have far reaching implications.

Another of the factors that need to be considered when imagining IRBA as a SAI, is the question of IRBA's accountability. How would IRBA, as a SAI, hold itself accountable, or be held accountable. Research participants reflected that IRBA would need to be able to justify their actions and decisions to an independent, objectivity party to ensure that they are held responsible for their actions and decisions.

Specifically, participants felt that if the mandate thereof were changed to that of a SAI, IRBA would be a Chapter 9 institution of the Constitution. In accordance with the Constitution, Chapter 9 institutions are accountable to National Treasury (RSA, 1996). For this reason, the majority of research participants recommended that under the proposed audit framework, IRBA be held accountable by reporting to National Treasury. However, some participants suggested IRBA could report to Parliament.

While agreeing with the recommendation for IRBA to report to National Treasury or Parliament, a few research participants cautioned that whoever IRBA is accountable to, should not take away IRBA's independence from government, auditors and audit clients. IRBA's independence and objectivity must be upheld at all times to ensure the ongoing independence of IRBA. Further research may consider what other options are available for holding IRBA accountable while still maintaining the independence and objectivity thereof.

While participants acknowledged that the idea of IRBA as a SAI might sound promising, there are concerns to be addressed relating to the actual practice of IRBA as a SAI that have not been addressed by the proposed audit framework.

Firstly, participants recommended the use of the term SAI with caution. This is because the AG (SA) is already a SAI in South Africa (RSA, 1996). A SAI is generally understood to be responsible for the audit of government (public sector) entities (RSA, 1996, 2004), rather than those in the private sector. P15b (RPI) stated: "*I think the use of the term SAI needs to be qualified as this proposed mandate is not one that is typically fulfilled by a SAI. SAI's are generally accepted to be an external audit entity responsible for oversight on government spending as opposed to a regulator overseeing audits in the private sector. In South Africa we already have a SAI, that is, the Auditor-General of South Africa and it is a Chapter 9 Constitutional Entity. Whilst I am not sure about the appropriateness of referring to this extended function/mandate as being one commensurate with a SAI, I do, however, support this proposed extended mandate of the IRBA and for the IRBA to be given Chapter 9 status in fulfilling this mandate.*"

Therefore, if the proposed audit framework were to be considered for implementation in South Africa, the use of the term SAI in this context would need to be qualified, that is to say, in this application, it relates to the oversight of audits conducted over private sector organisations.

Secondly, participants proposed incorporating into IRBA's extended mandate the regulation of all the role players involved in the audit process. This would include all professional accounting bodies and their members (SAICA, SAIPA, etc.), audit firms, audit committees, and RAs, as expressed by P15b (RPI): "*I would also support the idea of the IRBA being a comprehensive regulator of the accounting and auditing profession in South Africa, where all professional accounting organisations and its members (e.g., SAICA, SAIPA, etc.), audit firms, registered auditors, and audit committee members fall under the regulation of the IRBA."* P15 (RPI) shared this perspective, saying *"our comprehensive regulation model tries to, we'll propose that the minister, probably in the next couple of weeks, to say that audit committees, management, all those other people in the financial reporting chain, must be subject to some form of oversight, as well. And, once you introduce that, I think, it strengthens the whole system. Because, when there's a failure, when there's a business failure or an audit failure, it's a systemic failure. It's not the auditors that gave the wrong opinion, it's something that went wrong with the internal controls, audit committee not being independent, the board, the internal audit not doing their job, somewhere, along the line there are shortcomings. So, if we can strengthen that system, then I think it will work a lot better."* In this way, IRBA would have regulatory authority over all these participants in the audit model. It would make it easier for IRBA to hold individual groups accountable for fulfilling (or not fulfilling) their mandates.

Thirdly, in order to guarantee a consistently high audit quality across the different auditors, IRBA would need to develop unique audit software that all auditors must use. P9 (AP) shared the following in this regard: *"You'll have a standard, one software, one audit software. One tool. And it must all be fixed. Rated all the time, updated all the time. I mean, think about Audit firm A versus Audit firm B, Audit firm C, how much investment are you willing to put into that software? How much investment are you going to put into that methodology? How well do you train your staff? Again, once I got this software, once I got the methodology, then the question is how do I take that, and now get it (…) my people trained?"*

This is similar to how the AG (SA) operates when they subcontract audits to be conducted by private firms on their behalf, as expressed by P9: "*the AG uses one software. One tool. One methodology… to get a consistent audit outcome."* P13 (RPI) shared a similar view saying the following in terms of audits that the AG sub-contracts to private audit firms: *“they’ve got to follow the same methodology. Absolutely. The AG methodology.”*

IRBA would need the input of experts to ensure that the audit software is comprehensive enough. IRBA would further need to consistently monitor and update this audit software. IRBA would also need to provide training to auditors on how to use this audit software, as firms may not be willing to invest time into training their staff on software that isn’t their own.

Lastly, there would need to be proper policies and procedures in place to assure auditors and audit clients alike, that the allocation of auditors to audit clients is ethical and equitable, and is based on the auditors’ skills and experience being matched with the audit clients risk profile and industry specialism. This is especially important because audit firms are businesses and want to remain sustainable. If the process of allocating of clients is not equitable, some audit firms may lose money to the extent they may have to go out of business. Furthermore, audit clients want the best quality audit for their money. If clients are not satisfied with the auditors allocated to them by IRBA, this could lead to not only regulatory action against IRBA, but also a loss of faith in the system, which could cause the whole system to collapse.

For IRBA to be able to successfully implement any of the above recommendations, IRBA would need to have an increased staff capacity as well as sufficient funding. Further research could be conducted around each of these recommendations to determine which of them, if not all (or none) would better enable IRBA to be successful in its role as a SAI, under the proposed audit framework.

5.2.2.11.3 Sub-theme 2.11.3: MAFR

MAFR refers to mandatory audit firm rotation which means that a different audit firm is appointed after the prescribed rotation period (maximum 10 years), and the new firm designates the new engagement partner for the audit (RSA, 2008). MAFR becomes effective in South Africa in 2023 (RSA, 2008). This sub-theme specifically focuses on participant recommendations around the MAFR regime under the proposed audit framework.

Due to some evidence that MAFR could result in audit failures due to poor communication between the previous and new auditors (Gavious, 2007), the proposed audit model requires effective and constructive communication between the old and new auditors. In this way, the proposed audit framework, aims to reduce this risk of audit failure in the first year of the new auditor’s tenure, as discussed in Section 2.6.2.

While Gavious (2007) expects effective communication between previous and new auditors to assist in mitigating the risk of audit failure in the first year of the new auditors tenure, research participants had mixed reactions to this, as discussed in Section 5.2.2.10. However, participants did not merely provide a reaction to this mandated effective communication, but had some suggestions on how this could be made more specific so as to be more effective.

P8 (AP) suggested the following: *"The previous auditor that is supporting the new auditors... They're also going to be spending hours. So there has to be some sort of a compensation that needs to be provided, you know, in (such a) case. Because, it has to be a win-win situation."* This makes sense, since both the new and previous auditors would be spending time on the handover process, whatever that may be, and therefore both auditors should be compensated for the time spent. That would assist in reducing some frustration on the part of the old auditor that he would be losing the client, and make it worth the while of both auditors to be actively involved in the handover process.

Other research participants stressed the importance of the maximum auditor tenure not being overly short. P5 expressed that *"you need a ten-year tenure to give people. Five years is not enough for you to understand and add the kind of value that you should be."* P12 (AP) shared this sentiment and discussed the auditor tenure from the perspective of the client, stating that *"I think it also depends on the tenure that we're putting in place. Because you don't want to also be too disruptive to the client to a point where they're not even so open about helping you understand them. So, it's a trade-off between the two."*

This comment by P12 (AP) is quite critical for the future of the profession. Ultimately, audit clients are running a business. Clients do not want to have to dedicate copious amounts of time to assisting a new auditor understand the business, every few years. Therefore, the auditor tenure should be reasonable so as not to be overly disruptive to client businesses. If it is overly disruptive to the extent that the client does not wish to assist the auditor, audit quality will suffer, because the audit quality can only be as good as the information and input provided to the auditors by management of the organisation. Poor audit quality would impair the ability of auditors to address their 'public interest' objective.

Ultimately, these may well be valuable contributions to MAFR, not only in relation to the proposed audit framework, but also in terms of the current audit model and the upcoming implementation of MAFR. More research should be conducted as to what the ideal auditor tenure is, in balancing loss of institutional knowledge and auditor independence. Further research could also be conducted about the most effective methods of auditor handovers.

5.2.2.12 Summary of participant perceptions regarding proposed audit framework

For the most part, research participants agreed that the proposed audit framework would result in enhanced auditor independence, which should have a positive impact on audit quality and therefore, 'public interest'. A lot of research participants expressed concern about the gaps in the proposed framework, in terms of there not being detailed processes and procedures for every possible eventuality. As stated earlier, this is an exploratory study which considers the proposed audit framework for the first time. It is expected that the proposed audit framework would not be fleshed out in considerable detail. It was also expected that research participants would experience some degree of anxiousness by the proposed audit framework, as the suggestion of change is often accompanied by uncertainty (Herzig & Jimmieson, 2006).

Other concerns noted by research participants included the diminished role of audit committees under the proposed audit framework, the ability of IRBA to implement such a model, the risk of corruption in a SAI and the likely havoc that would have on the South African economy. As this is an exploratory study, it is expected that research participants would have a lot of concerns around the proposed audit framework but these concerns represent a large number of opportunities for future research, to determine how the proposed audit framework could be taken further.

5.3 Summary of participant recommendations regarding a future audit model for South Africa, taking into consideration its role in establishing public interest

Overall, the recommendations made by research participants regarding a future audit model for South Africa are very practical.

Firstly, a future audit model in South Africa would have a clear cut definition of 'public interest'. This would allow regulators and the public at large to hold auditors accountable for fulfilling their 'public interest' responsibility. Once this definition is determined, auditors would be subject to training to understand exactly what it means to act in the 'public interest'. Auditors would further be reminded of the importance of their independence in ensuring audit quality and the ability to address the 'public interest'. Auditors would be subject to this training periodically, to ensure that it never falls to the back of their minds.

Secondly, IRBA would have more power over other role players in the audit model. This would allow IRBA to regulate the auditors, audit committees and financial management of an organisation. This would be directly linked to ensuring that role players other than auditors are held accountable for ensuring that the ‘public interest’ is addressed. IRBA would also have the ability to impose fines and sanctions due to non-performance by any of the individuals it is responsible for regulating. IRBA would have greater access to funding and manpower to ensure that they can effectively fulfil their mandate. Furthermore, IRBA would have the ability to regulate, or at least monitor, the non-audit services provided by auditors to their audit clients.

Lastly, by giving IRBA regulatory power over audit committees, audit committees would be more likely to be held accountable for fulfilling their regulatory responsibilities. A future audit model would also see audit committee members and chairpersons being taken to task when the auditors appointed are found to not be independent of their audit clients and being answerable to regulators and the public for audit failures.

CHAPTER 6: SUMMARY AND CONCLUSION

6.1 Introduction

This chapter begins with an overview of the study. The context of the study is shared, after which the research question is re-examined. Thereafter, the literature review, research method, research findings and discussion of research findings have been summarised. The chapter continues a discussion of the contributions of the research, the limitations thereof and concludes with recommendations for future research.

6.2 Summary of the study

6.2.1 Chapter 1: Introduction

Chapter 1 began by providing context to the research, which was discussing the recent challenges faced by the auditing profession and the resultant fallout. The fact that auditors are agents of society with a 'public interest' responsibility was discussed (Ardelean, 2013; Crotty, 2018c; Rezaee, 2004). While the profit-making objectives of auditors are valid (Cassim, 2012), they should come as secondary to the 'public interest' responsibilities of the auditor (Bazerman et al., 2006). The multitude of audit failures in recent years have culminated in a loss of confidence in the audit profession's commitment and ability to act in the 'public interest' (Ardelean, 2013; Crotty, 2018c; Da Silveira, 2013; Firth et al., 2012; Maroun & Solomon, 2014; Rezaee, 2004).

Audit failures can be attributed to certain factors influencing the audit profession (Citron & Taffler, 2001; Tepalagul & Lin, 2014; Watts & Zimmerman, 1983). Some of these include fraudulent financial reporting, new legislation, regulations and standards, the agency problem, audit costs and audit fees, auditor independence and the provision of non-audit services, staff training and transformation and the audit expectation gap, and auditor litigation (Citron & Taffler, 2001; Marx & Dijkman, 2009; Tepalagul & Lin, 2014; Watts & Zimmerman, 1983). Firstly, there is the agency problem, as auditors are paid by those very same financial managers whom they are responsible to audit (Citron & Taffler, 2001; Watts & Zimmerman, 1983). Secondly, there is the issue of determining appropriate audit fees, and audit firms having profit-making (i.e. the furthering of their own interests) as their main objective (Cassim, 2012; Tudor, 2013). Lastly, there is the matter of auditor independence, which is easily and inevitability compromised based on the above two issues (Tepalagul & Lin, 2014). Safeguards to these challenges do exist, such as regulation in various forms (Maroun & Atkins, 2014; Maroun et al., 2014; Maroun & Solomon, 2014). However, recurring audit failures would imply that such safeguards are possibly inadequate (Maroun & Atkins, 2014; Maroun & Solomon, 2014). The existing research around solutions to these challenges in the auditing profession in South Africa is quite limited. This has been discussed in detail in Chapter 2: Literature Review.

The research question in Figure 52 was formulated to guide the study:

Figure 52. Research question and sub-questions

The researcher firstly aimed to uncover the problems associated with the audit model in its current form, and secondly, to establish what the perceptions are of an alternative proposed structure, wherein auditors are regulated by a SAI. Lastly, the researcher aimed to understand what a future audit model in South Africa could look like. This is represented in Figure 53.

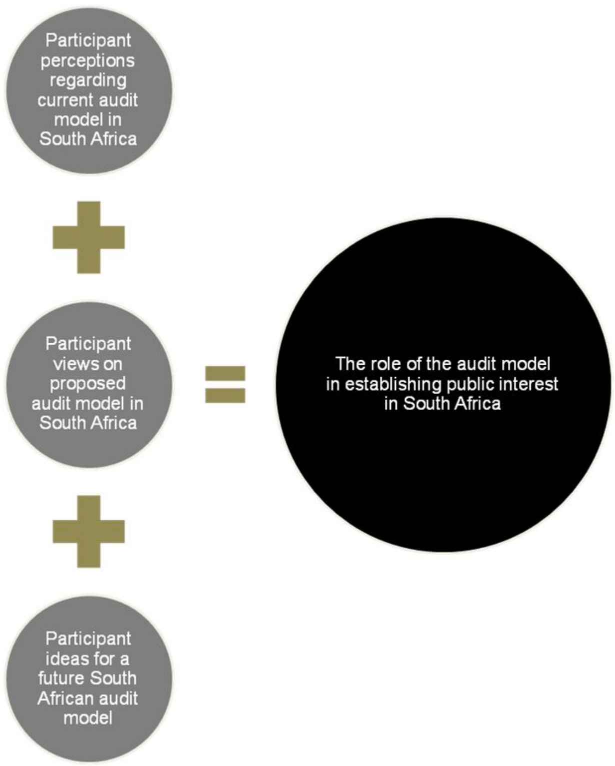

Figure 53. Objectives of the research

6.2.2 Chapter 2: Literature Review

The literature review was structured as follows. Firstly, the pertinent literature around the research question was presented. This presentation followed a logical progression. The chapter began by providing the reader with context to the study through a discussion around the concept of 'public interest' in the profession. This was critical because the study is aimed at uncovering what the role of the audit model is in establishing 'public interest' in South Africa. 'Public interest' was therefore a key concept in this study. Since there is currently no official definition of 'public interest' in the auditing profession, the researcher also derived a definition of 'public interest' in this section for the purposes of this study.

Thereafter, a detailed outline of the current audit model in South Africa was provided. This included a focus on the primary role players and their regulatory responsibilities. The objective/s of the audit, the challenges that obstruct the objective/s of the audit being met and the safeguards currently in place to address these challenges were also examined.

While there has been research conducted globally on these issues, the existing research from a South African perspective is quite limited. Furthermore, there is even less research available about alternative audit models for the South African market. The researcher therefore used global literature in conjunction with South African literature in conducting the research. The challenges in the current audit model were investigated by referring to existing literature on the topic, and based upon this literature an alternative audit model for the private sector of the auditing profession in South Africa was constructed.

Subsequently, based on existing literature, the alternative audit models and solutions available to the challenges in the current audit model were discussed. This included the public sector audit model in South Africa, alternative audit models and tools used in the global audit environment, and lastly, those suggested alternative audit models and recommended solutions as available in the literature on the audit profession. The chapter concluded with the presentation of a proposed audit framework for the private sector in South Africa.

6.2.3 Chapter 3: Methodology

In the third chapter, the basis on which a qualitative method was chosen was argued and framed within an ontological and epistemological context. This was followed by a discussion of the particular research method that was applied and an overview of the research strategy in terms of sampling, data collection, data recording and data analysis. The chapter concluded with a discussion of criteria applied to ensure the trustworthiness of the study as well as the ethical considerations that were taken into account.

Upon reflecting on the research question, it was clear that, it required an in-depth exploration of the experiences of participants of their current reality as it relates to the relationship between 'public interest' and assurance quality within the field of auditing and would require the researcher to explore the underlying meanings and perceptions of participants to find answers to the research question. It was therefore clear that the best way to investigate and present the subjective experiences, perceptions and opinions of participants would be to follow a qualitative approach which would allow meaningful patterns to emerge from the data and provide meaningful answers to the research question.

The research method that was selected as the most appropriate was thematic analysis of data collected through semi-structured interviews. This qualitative method allowed the researcher to identify patterns or themes from data (Boyatzis, 1998) as themes capture important insights and patterns that provide answers to the research question. The collected data was analysed using the six-step thematic analysis method (Braun & Clarke, 2006).

6.2.4 Chapter 4: Research findings

In Chapter 4, the researcher presented the detailed research findings with a selection of quotes supporting the themes and sub-themes. Two broad themes emerged from the data and contained smaller themes. The broad themes were labelled ‘thematic clusters’. The two ‘thematic clusters’ identified were identified as:

- Thematic cluster 1: Participants’ perceptions regarding the current audit model and its role in establishing public interest in the audit profession in South Africa and recommendations in terms of a future audit model
- Thematic cluster 2: Participants’ perceptions regarding the proposed audit framework and its role in establishing public interest in the audit profession in South Africa

Where appropriate, the ‘thematic clusters’ were broken down into a second unit of analysis that was labelled “themes”. In certain instances it was appropriate to break down the themes into even smaller units of analysis, and these were labelled “sub-themes”. Figure 54 shows the two ‘thematic clusters’ each broken down into their applicable themes.

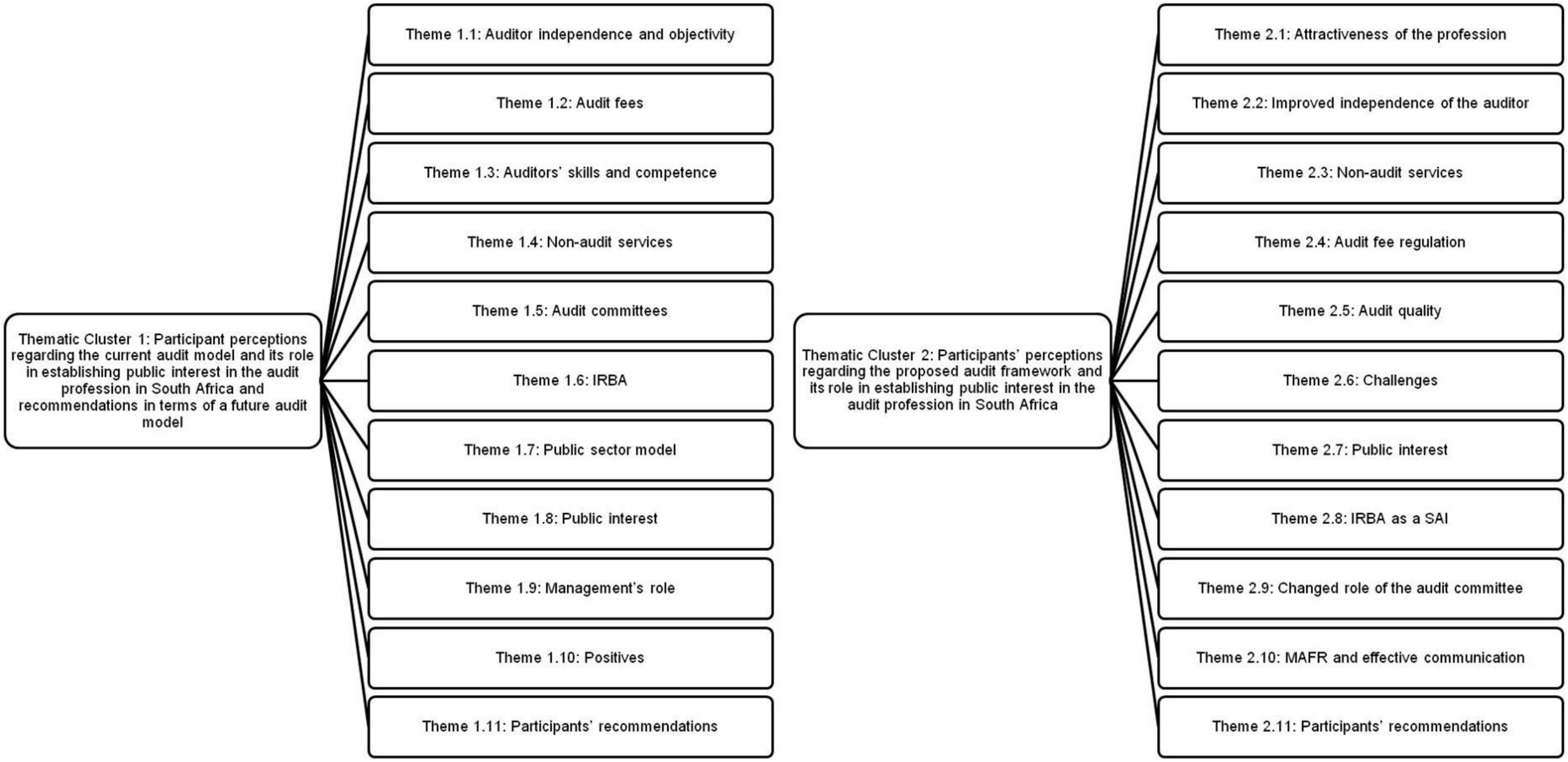

Figure 54. 'Thematic clusters' 1 and 2 and their themes

6.2.5 Chapter 5: Discussion of findings

6.2.5.1 Summary of participants' perceptions of current audit model

Research participants identified a range of challenges in the current audit model that could prevent the auditor from achieving the 'public interest' objective of the audit. These primarily included threats to auditor independence and how this could negatively impact audit quality, the role of the audit committee and management in ensuring that the auditor is provided with high quality financial information and the challenges faced by IRBA in being an effective regulator of the profession. Research participants also provided some recommendations as to how the current audit model could better address the interest of the public.

6.2.5.2 Summary of participants' perceptions regarding proposed audit framework

For the most part, research participants agreed that the proposed audit framework would result in enhanced auditor independence, which should have a positive impact on audit quality and therefore, 'public interest'. A lot of research participants expressed concern about the gaps in the proposed framework, in terms of there not being detailed processes and procedures for every possible eventuality. As this is an exploratory study which considers the proposed audit framework for the first time, it is expected that the proposed audit framework would not be fleshed out in considerable detail. It was also expected that research participants would experience some degree of anxiousness by the proposed audit framework, as the suggestion of change is often accompanied by uncertainty (Herzig & Jimmieson, 2006).

Other concerns noted by research participants included the diminished role of audit committees under the proposed audit framework, the ability of IRBA to implement such a model, the risk of corruption in a SAI and the likely havoc that would have on the South African economy. As this is an exploratory study, it is expected that research participants would have a lot of concerns around the proposed audit framework. However, this represents a large number of opportunities for future research, to determine how the proposed audit framework could be taken further as discussed in Section 6.5.

6.2.5.3 Summary of participants' recommendations regarding a future audit model for South Africa, taking into consideration its role in establishing public interest

Overall, the recommendations made by research participants regarding a future audit model for South Africa are very practical.

Firstly, a future audit model in South Africa would have a clear cut definition of 'public interest'. This would allow regulators and the public at large to hold auditors accountable for fulfilling their 'public interest' responsibility. Once this definition is determined, auditors would be subject to training to understand exactly what it means to act in the 'public interest'. Auditors would further be reminded of the importance of their independence in ensuring audit quality and the ability to address the 'public interest'. Auditors would be subject to this training periodically, to ensure that it is always at the top of mind.

Secondly, IRBA would have more power over other role players in the audit model. This would allow IRBA to regulate the auditors, audit committees and financial management of an organisation. This would be directly linked to ensuring that role players other than auditors are held accountable for ensuring that the 'public interest' is addressed. IRBA would also have the ability to impose fines and sanctions due to non-performance by any of the individuals it is responsible for regulating. IRBA would have greater access to funding and manpower to ensure that they can effectively fulfil their mandate. Furthermore, IRBA would have the ability to regulate, or at least monitor, the non-audit services provided by auditors to their audit clients.

Lastly, by giving IRBA regulatory power over audit committees, audit committees would be more likely to be held accountable for fulfilling their regulatory responsibilities. A future audit model would also see audit committee members and chairpersons being taken to task when the auditors appointed are found to not be independent of their audit clients and being answerable to regulators and the public for audit failures.

6.3 Contributions

Firstly, this research contributes by providing a definition for 'public interest' in the context of the auditing environment. This definition can be used by regulators of the profession in South Africa to drive a definition which they can use in the various ethical codes and pieces of legislation that govern auditor behaviours. The definition proposed in this research can also be used as a basis for future research by other researchers in the field of auditing.

Secondly, this research contributes to the body of literature available on alternative audit models for the South African auditing environment, and even globally. This is a significant contribution, as there is very limited research available on alternative audit models, both from a South African perspective as well as a global perspective.

Lastly, this research contributes to the body of literature available on the challenges faced by the auditing profession in South Africa, given the recent spate of audit failures, and provides practical solutions on how these could be addressed. This is very valuable, as there is very limited research available regarding the South African audit environment that includes solutions to address some of the challenges faced. The findings of this research can be used by regulators and those responsible for governance to explore alternative pathways to allow for reform in the auditing profession and restore South African auditors to their former glory as some of the best in the world.

6.4 Limitations

When conducting research into any problem there are restrictions and constraints. No research method is without its limitations. Therefore, the researcher acknowledges the existence of these limitations, and that they could be improved upon in future research. The following limitations of this research have been identified by the researcher:

- Being a qualitative research project, this research generated a significantly large volume of data. This resulted in some difficulty related to "dealing with the considerable amount of data generated during the course of the research" (J. Hussey & Hussey, 1997, p. 71).
- The findings of qualitative research cannot be generalised to a broader population with the same degree of accuracy as can be done with quantitative research (Yasseen, 2020). This is a result of the findings of qualitative research not being tested for statistical significance (Yasseen, 2020). Therefore, the replication of this study may not yield similar results (Yasseen, 2020).
- The study can be criticised for not being fully representative of South Africa's cultural diversity. However, this is a factor of the field itself, which is largely male dominated, and not yet reflective of South Africa's transformation objectives. Future research in this area should aim to obtain a better representation of South Africa's diverse population.
- Furthermore, the researcher must consider the invasion of privacy threat, bias and stereotypes that may prejudice the responses of research participants (Yasseen, 2020).
- As qualitative research is characterised by small sample sizes (Booysen, 2017; Braun & Clarke, 2006; Collis & Hussey, 2009; Diemer, 2002), there is a risk that particular characteristics of the population may have been under- or over-represented (Yasseen, 2020).

6.5 Recommendations for future research

Overall, there is limited existing research regarding alternative audit models in the South African audit environment. More research could be conducted in this regard. In this section recommendations for future research are made.

- Similar research could be conducted taking into consideration a wider range of people that are responsible for, or impacted by, the outcomes of the external audit function; for example, the individuals responsible for financial management of an organisation, members of the BoD that are not part of the audit committee, shareholders of entities and the general public.
- Research could be conducted around whether the proposed audit model derived from the literature would better serve the 'public interest' if all RAs were to directly work for IRBA, or if the audit firms continued to operate under the proposed audit model derived from the literature.
- The impact of MAFR on auditor independence in the South African environment is somewhat limited (Harber & Hart, 2018; Hart, 1999; Rademeyer & Schutte, 2018). While the implementation of MAFR is set to take place in 2023 (RSA, 2008), it may be worthwhile for South African researchers to consider conducting further research around whether this is the best way to ensure auditor independence. Incorporated into this, it may by valuable to compare the impact of MAFR on auditor independence as compared to in-house audit partner and manager rotation. It would further be beneficial to consider what the ideal time period is for MAFR tenure and for in-house audit partner and manager rotation to contribute to auditor independence, while ensuring that there isn't a significant loss of institutional memory and knowledge.
- There is research available on a global level that reflects that larger audit firms (Big 6) are associated with higher audit quality (Becker et al., 1998; Chen et al., 2013; Sundgren & Svanström, 2013). It may be beneficial to replicate this research in South Africa to determine if the findings hold true for the South African market.
- Consider conducting research around the extent to which audit fees influence the audit committee's choice of auditor, and what impact this has on audit quality.
- Khan et al. (2015) found that in Bangladesh, audit fees have an impact on the choice of auditor. It may be worthwhile to conduct similar research in South Africa, and then link this to the impact that audit fees and the level at which they are set, could have on audit quality.

- As part of the interview process, one research participant suggested conducting research around why some countries in the world do not use a SAI. Another research participant briefly mentioned that the SAI of New Zealand operates on a slightly different basis to the way the AG (SA) operates, and that this may be worth further research. Overall, there is room for additional research around how SAIs around the world operate, and whether there are any ideas from them that could be carried over and tailored to suit the private sector audit model in South Africa.
- There is limited research that directly links auditor independence and the auditor's ability to address the 'public interest' objective of the auditor (Chiang, 2016; Rezaee, 2004). Research should be conducted in this regard, especially from a South African perspective.
- There isn't much research around the link between the auditor's skills and experience and the impact on audit quality, especially in the South African environment. This could also be an area for future research.
- Future researchers could also consider researching exactly what is lacking from the external auditor that contributes to audit failures. Is it primarily auditor independence or are there other factors that contribute significantly?
- Research participants expressed concerns about audit committees, specifically ensuring that audit committees are independent from auditors, but also that they be sufficiently skilled and experienced to fulfil their responsibilities. Future research could focus on how the best balance between these two factors could be achieved. This research could also focus on the nature of the relationship between audit committee members and auditors.
- Research involving audit committees could also focus on how aware they are of their responsibilities and how effective they are at fulfilling these responsibilities.
- Further research should be conducted in a wider sample group around the effectiveness of audit committees and how their behaviours impact audit quality and the 'public interest'. This would provide greater insight around the true state of audit committees in South Africa, and thus better allow those with decision making powers to decide what the most efficient way forward for audit committees is.
- Research participants voiced their concerns about IRBA meeting the needs of its stakeholders. Future research could focus on who are IRBA's stakeholders and what do they actually want from IRBA. This would enable IRBA to better address their stakeholders' needs.

- There was mixed feedback from research participants about the effectiveness of the AG (SA). The researcher would recommend conducting focused research specifically on the effectiveness of the AG (SA), and what changes, if any, are needed to ensure that it is a world class institution, able to hold all public sector institutions to account.
- Future research could go further and give consideration as to whether the responsibility of addressing the 'public interest' should not only be borne by auditors.
- An alternative option for future research would be to explore how the independence of audit committees from management can be ensured, given that audit committee members are paid by management.
- Future research could also consider the provision of non-audit services by auditors to their audit clients. This research might include whether audit only firms would be successful and a potential solution to ensuring auditor independence in South Africa. Alternatively, would preventing auditors from providing non-audit services to their audit clients result in enhanced auditor independence in the South African environment?
- The factors that attract people to the audit profession could be considered to determine if there is any way that this could be linked to the 'public interest' objective of auditors.
- Quantitative research can be conducted to determine how much impact the efforts made by external auditors could audit quality.
- Research could be conducted to establish how better communication between new and previous auditors can be established.
- More research needs to be conducted in a larger sample about (a) what the problems in the South African audit environment are – is it an ethical problem in SA society? And, (b) how should we go about addressing them – do we need a drastic solution, or do we need to make minor changes to certain aspects in order to address the problems?
- Future research could also consider how audit fees could be regulated and establish whether the regulation of audit fees would have a positive impact on assurance quality.
- Another area for future research would include giving consideration to what alternative funding models are available for IRBA, to ensure their independence, both from the profession they seek to regulate and from government.

- An alternative option for future research includes how IRBA would go about deriving the audit fee, if the audit model proposed in this research, as derived from the existing literature, were to be implemented in South Africa.
- Consider how common referral fees and contingent fees are in the audit profession in South Africa. There is very little existing research about these types of fees.
- Currently, non-audit services in South Africa are largely unregulated (or self-regulated by audit committees). Research could be conducted around whether more stringent regulation of non-audit services would positively influence audit quality.

APPENDICES

Appendix A – Interview Agenda

Date:

Time:

a. Signing of consent form to participate, explaining research ethic and topic – Appendix B *(sent to interviewee before the interview)*
b. High level explanation of current audit model in South Africa *(sent to interviewee before the interview)* – Appendix C
c. Semi-structured interview on the current audit model *(sent to interviewee before the interview)* – Appendix D
d. Mind-clearing activity – Appendix E
e. Presentation and explanation of the proposed audit model – Appendix F
f. Semi-structured interview questions on proposed audit model – Appendix G

Thank you for taking the time to participate. Please note that your anonymity will be assured for the purposes of the research. You will be assigned a number to ensure confidentiality. Please be advised that the interview will be recorded to ensure data accuracy. The recorded interview will be password protected to ensure your identity remains protected.

Appendix B – Academic research and consent form

Research Project Name: Towards the establishment of public interest in the audit profession

We would like to invite you to participate in the above named study. Before you decide, please read the following information.

<u>What is the purpose of the study?</u>

The study is undertaken by the researcher as part of a Master's degree in Accountancy at the University of the Witwatersrand in Johannesburg, South Africa. The study considers the various factors that impact assurance quality and considers whether an alternative audit model could enhance audit quality and better serve the public interest.

<u>Who is doing the study?</u>

The study is being conducted by Azeema Ayob – a Master's student at the University of the Witwatersrand, supervised by Professor Yaeesh Yasseen and Fatima Zahra Omarjee.

<u>Who is being asked to participate?</u>

The participants of the study have been identified as being audit partners or associate directors, audit committee members and those who protect the public interest (this includes a representative from each IRBA, the AG and the SAIGA).

Your rights as a research participant

Participation in this study is completely voluntary and anonymous. Information gathered during the research will be used solely for the purpose of this study and all efforts will be made to ensure the confidentiality of participants' personal information. Please note that while your name will be recorded with the data, it will not be used in the report. All identifiable data will be stored securely on a computer with password-restricted access and only the researcher (and supervisor if applicable), and ethics committee members will have access to it. All identifiable information will be destroyed at the end of the study or after 5 years, whichever comes first. If you decide not to participate there will not be any negative consequences. Please be aware that if you decide to participate, you may withdraw from the study at any time and your data will be returned to you or destroyed. You may also decide not to answer any specific question.

What will happen to the findings of the study?

The findings of the study will be used to put together a dissertation on whether the proposed alternative audit model would better serve the public interest.

Thank you for taking the time to read this information sheet.

Consent Sheet – to be signed in duplicate (one to be returned to the researcher and one to be retained by the interview participant)

Thank you for your participation. By submitting this form you are indicating that you have read the description of the study, are over the age of 18, and that you agree to the terms as described in the short questionnaire that follows.

Please tick the appropriate box.

Question	Yes	No
I have read this form and received a copy of it. I understand the purpose and nature of this study and I am participating voluntarily. I understand that I can withdraw from the study at any time, without any penalty or consequences. I have had all my questions answered to my satisfaction.		
I agree to take part in this study and I hereby grant permission for the data		

generated from this research to be used in the researcher's publications on this topic.		
I grant permission for the interview to be recorded and saved for purpose of the review by the researcher, supervisor / principal investigator, and ethics committee.		
I grant permission for the research recordings to be used in presentations or documentation of this study.		

Full Name of Participant ____

Participant Signature ____

Date___________________

Researcher: Azeema Ayob

Date___________________

If you have any questions at any time about this study or the procedures, you may contact the researcher Azeema Ayob at 072 678 6167.

Appendix C – Current audit model in South Africa

The main role players in the current assurance model in South Africa are the audit committees of companies, the audit firms and IRBA. This assurance model is outlined below.

The audit committee of a company is responsible for appointing the auditor of the company. The audit committee needs to appoint an auditor every year. The company that is audited ("the auditee") pays the auditor an audit fee. The audit fee is negotiated between the auditor and the auditee.

IRBA is an independent regulator of the auditing profession with an independent oversight role. IRBA reviews a sample of audit files of auditors each year.

The auditor is responsible for conducting an audit and to provide reasonable assurance that the financial statements of the auditee are free from material misstatement whether due to fraud or error. The auditor is also required to report any reportable irregularities identified to IRBA.

A quality audit is one that is conducted rigorously, with the appropriate degree of professional scepticism and in compliance with the relevant standards.

Appendix D – Semi-structured interview questions regarding the current audit model

a. What are your thoughts regarding the current audit model?
b. Do you have any criticisms regarding the current assurance model?
c. Are there any positives within the current assurance model?
d. Are you familiar with the concept of 'public interest' in auditing, and what is your understanding of the concept of 'public interest' in auditing?
e. Do you think the current audit model addresses the 'public interest'?
f. What factors do you think impact assurance quality and why?

Role players in the current assurance model

The Auditor

a. The auditor is required to provide reasonable assurance that the financial statements of the auditee are free from material misstatement whether due to fraud or error. The auditor is paid by the auditee. What influence do you think this has upon assurance quality?
b. Do you think audit fees should be charged by the auditor? Why or why not?
c. Are audit fees too high or too low? Why?
d. Should an auditee pay audit fees? Why or why not?
e. What influence do audit fees have on the audit opinion?
f. Audit firms often provide non-audit services for audit clients. Does this have an influence on audit quality? Why or why not?
g. What impact does auditor independence have on assurance quality?

The Audit Committee

a. The audit committee currently appoints the auditor of a company. Does this have an influence on audit quality?
b. What are your thoughts on the role of the audit committee?
c. Should an auditor of the same audit firm be appointed to the audit committee (i.e. after an audit partner leaves the audit firm due to retirement or resignation)?
d. What challenges do audit committees face in appointing an auditor?
e. What factors do you think influence the audit committee's choice of auditor?

IRBA

a. What are your thoughts on the role of IRBA?
b. The IRBA reviews a sample of audit files each year. Is this sufficient for IRBA to be an effective regulator of the auditing profession? Why or why not?
c. What challenges do you think IRBA faces in trying to be an effective regulator?
d. What do you think IRBA could do differently to be a more effective regulator?

Closing

In your opinion, are there any other issues in terms of the role of the auditor currently that we have not discussed?

Appendix E – Mind clearing activity

The purpose of the mind clearing activity is to ensure that the interviewee considers the proposed audit model with a fresh eye. The mind clearing activity to be used is a one-minute video from the World Economic Forum, showing the results of trying something different. This video can be viewed by following this link: https://www.linkedin.com/feed/update/urn:li:activity:6448104462522281984

Appendix F – Presentation and explanation of proposed audit framework

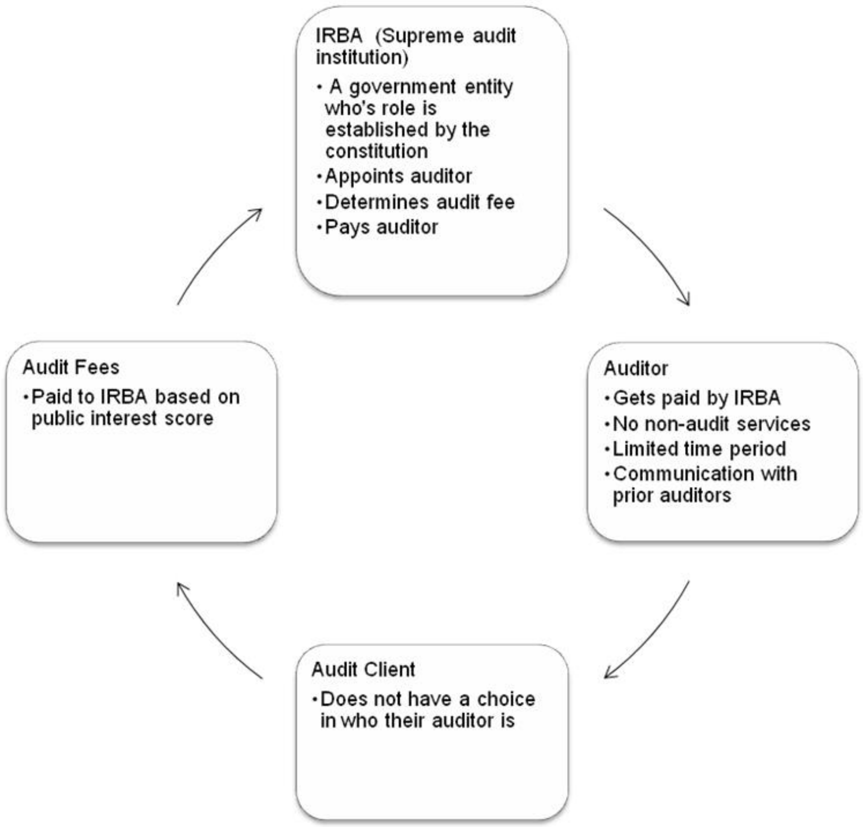

Figure 55. Simplified visual representation of proposed audit framework for discussion with research participants

The proposed audit model has three main components:

1. IRBA – the model proposes expanding the mandate of IRBA to that of a SAI. A SAI is a government entity whose role is established by the constitution. As a SAI, IRBA would be responsible for appointing the auditor based on the auditors skill set and the complexities of the company to be audited. IRBA would determine the audit fee and IRBA would pay the auditor.
2. The auditor – the auditor would get paid by IRBA. The auditor would not be able to negotiate audit fees with IRBA and the audit fee would be unchanging irrespective of whether the audit report is unqualified or not. The auditor would not be able to provide non-audit services, and the auditor would be allocated to the client for a limited time period. In order to mitigate the risk of audit failure in the first year of the audit, the newly appointed auditor would need to be in communication with the previous auditors who would be obliged to provide the new auditors with all the relevant information.

3. The audit committee and audit client – would not have a choice in who their auditor is. The audit client would pay IRBA an audit fee based on their inherent risk and complexity of the organisation.

Appendix G – Semi-structured interview questions regarding the proposed audit framework

a. What are your initial thoughts on the proposed audit model?
b. Do you think an audit performed under such a model would better serve the 'public interest'? Why or why not?
c. In your opinion, what impact would this model have on assurance quality?
d. What influence would the implementation of such an audit model have on fraud and material misstatement of financial statements by management?

Role players in the proposed assurance model

The Auditor:

a. The auditor would no longer be paid by the company they audit. How would this influence audit quality?
b. The regulation of audit fees would limit an audit client's ability to influence the audit opinion. Do you agree with this statement? Why or why not?
c. The proposed audit model would prohibit auditors from providing non-audit services to audit clients. How do you think this would influence audit quality?
d. If such an audit model were introduced in South Africa, would people still enter the audit profession? Why or why not?

IRBA:

a. This model proposes changing the mandate of IRBA to that of a SAI. What characteristics would you like to see in a SAI?
b. How do you think a SAI would hold itself accountable?

The Audit Committee:

a. This model would take away the ability of the audit client to appoint its choice of auditor. What impact do you think this will have on assurance quality?
b. How would the role of the audit committee be influenced by such a model?

Closing

a. What are your concerns regarding the proposed audit model? Why are you resistant to/(for) the proposed audit model?
b. What do you recommend that would better enable the proposed audit model to address the ‘public interest’?

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