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Change of audit firms and whether it enhances independence

A research report submitted by

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In partial fulfilment of the requirement for the degree of

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DECLARATION

I, Keshika Govender (student number 1510903), hereby declare that the work contained in this thesis is my own and can, therefore, be submitted in my name in partial fulfillment of the degree of Masters in Commerce in Accounting for the School of Accounting at the University of Witwatersand.

Signed Dated

Keshika Govender

ABSTRACT

This paper explores the change in auditors and whether it enhances auditor independence and credibility of financial statements.

In recent years due to financial crises and accounting scandals, the rotation of a company's auditors, after long standing relationships, have come into the limelight. The independence of auditors has come into question and the credibility of financial statements.

Interviews were conducted to gain an understanding of how an audit client, referred to in this report as the Company, changed its auditors. The interviews gained an understanding of how the Company:

- Made the decision to change and appoint new auditors
- Determined whether this change enhanced independence and
- Created processes in order to manage the changeover.

The Company carrying out the change was analysed in order to understand the processes which were put in place to manage the change. Understanding the criteria and skills required from the new auditor was also investigated.

The study finds that the process of appointing and transitioning to new auditors is a comprehensive and rigorous task. This process requires proper and careful planning, risk identification and process and project management. Throughout the process, the Company met with business its operations and provided feedback to members of the boards to ensure gaps were filled and targets and milestones were met.

The onboarding of the new auditors required engagement with both the auditors and different functions and businesses of the Company. The success of this project required intense planning and incredible momentum, which the study shows, over the period of time in which the change took place. It required integration with all businesses of the Company and the group finance function.

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ABBREVIATIONS

CPA	Certified Public Accountant (CPA)
CPC	Code of Professional Conduct
EU	European Union
IFRS	International Financial Reporting Standards
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
JSE	Johannesburg Stock Exchange
MAFR	Mandatory Audit firm Rotation
PCAOB	Public Company Accounting Oversight Board
PWC	PriceWaterhouseCoopers Inc.
SAICA	South African Institute of Chartered Accountants
UK FRC	United Kingdom Financial Reporting Council
USA or US	United States of America

GLOSSARY

Big Four	A widely used reference to the four largest public accounting firms which perform most of the external audits in the United States for large publicly owned corporations. The Big Four include PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young, and KPMG. The group was long known as the Big Eight until it was reduced by mergers; it was called the Big Five until the Enron scandal led to the collapse of Arthur Andersen (For Wall Street Words).
BU	Business unit
CA	A Chartered Accountant (CA) is an accounting professional registered with the South African Institute of Accountants.
CFO	Chief financial officer
The Company	A listed company on the JSE which changed audit firms after 60 years.
The auditor	The successor audit firm of the company
CPA	A **Certified Public Accountant** (**CPA**) is an accounting professional who has passed the Uniform **CPA** examination and has also met additional state certification and experience requirements in the United States of America.
Group function	Group reporting function of the company responsible for financial statements to JSE

JSE Top 40 Index	In South Africa, the JSE Top 40 Index consists of the largest 40 companies ranked by investable value in the JSE all-share Index.
PA	The predecessor auditor firm
Reporting practice committee	A forum where complex and unusual accounting matters are debated, based on the background and issue at hand and a recommendation is put forward for the committee to approve based on the IFRS accounting principles and accounting guidelines
Subject matter expert	Person who is key in his/her role in the business and understands the operation and the risks in the function
Transformation Committee (TC)	The committee responsible for the transition of the new auditors

Interviewee Key

A1	Senior manager and transitions team member
A2	A CFO of a division of the company and Transitions Team Lead
A3	risk manager for group transition
A4	A CFO of a division of the company
A5	Financial Manager for a major division of the company
A6	Senior Manager for major division in the company
A7	Financial Manager for another major division of the company
A8	Head of information systems
A9	Initial lead engagement audit partner
A10	Associate director group audit

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1. Introduction and background

1.1 Purpose of the study

The purpose of this study is to investigate the reasons that companies change audit firms, whether the change enhances auditor independence and the challenges which audit firms may encounter during the auditor transition process in the context of the South African regulatory landscape.

1.2 Context of study

Since the 2008 global financial crisis, auditor independence has been brought in the limelight and has been the centre of many discussions which have raised questions about the auditing profession and audit quality. The Enron debacle further emphasised the failure of the auditing profession to create independence and Enron's collapse was a pivotal point in US business history (Moore, Tetlock, Tanlu, and Bazerman, 2006). Research indicates that audit fees affect auditor judgement about accounting policies in place and effectively have an impact on the audit opinion expressed. Studies also provide evidence indicating that, whether an auditor exercises professional scepticism depends on the auditors' character and motivation (Nelson, 2009). Key motives investigated include adapting audit tests which were planned and willingness to overlook adjustments of identified misstatements (Nelson, 2009). This raises the concern that audit quality and audit opinions may be affected by an auditor's lack of professional scepticism and, therefore, adversely impact audit quality (Nelson, 2009).

Changing auditors may be used by firms which wish to minimise the motivation or incentive problems which are likely to occur when an audit-clients relationship goes on for a long-term basis (Nelson, 2009). The concern is that frequent changing of auditors may jeopardise gaining client-specific knowledge which allows the auditor to foresee audit problems that maybe encountered and, as a result, maintain professional scepticism (Nelson, 2009).

This research is exploratory in nature and explores the reasons why a South African company, listed on the JSE, changed its audit firm and whether it enhanced auditor independence.

In August 2016, the Independent Regulatory Board for Auditors (IRBA) announced that it began a process to implement Mandatory Audit Firm Rotation (MAFR) for audit firms, to build up the auditors' independence for clients in South Africa. The Board's decision to implement MAFR was in accordance with its goal to increase audit quality, independence and transformation, which contribute to public and investor credibility of the financial statements and ultimately their protection (IRBA, 2016).

The research will investigate the challenges faced by auditors with new engagements and whether a change in auditors enhances independence in South Africa. The research will be conducted by performing interviews and corroborating evidence in a South African context. The research is important and relevant to understanding the reasons that a company switch audit firms and the impact that this has on both the company being audited and the new audit firm. Reference will be made to research papers which have been written on the subject.

1.3 Research question

In what respect can a change in auditors enhance auditor independence in South Africa? What are the challenges faced by a company when changing auditors? The research investigates how a JSE listed Top 40, referred to as the Company, changed auditors after a long-standing client-audit relationship. What was the process involved and what were the procedures in place to manage the transition?

1.4 Significance of the study

The study will enable users to understand the reasons why the Company changed their auditors after a long-standing relationship in South Africa even before mandatory audit firm rotation was implemented by IRBA.

Most research indicates that auditor rotation has followed audit scandals which resulted in the damage to audit firm reputation, and a breakdown in trust of the investor reliance on financial statements. The most important characteristics of audit quality are auditor aptitude or auditor effort, and the ability of the auditor to be independent (Bing, Huang, Li and Zhu, 2014).

The quality of audit services is attributed to the joint probability that a given auditor will both (a) discover a break-down in the client's accounting system, and (b) report that break-down (Bing, et al, 2014). Firm reputation or status is ultimately a firm-specific characteristic which is constant across the term of the audit engagement. With expertise and skills, audit has the role of assurance to "develop a brand name reputation for providing higher quality assurance, with a resulting increase in the quality of audited financial statements" (Li et al. 2009 as cited in Bing). Reputation is actually, only supposed characteristics of audit quality and it has an impact on how credible stakeholders interpret and reflect on that information (Watkin et al 2004 as cited in Bing). It is proposed that "Firms with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid the capital market consequences of potentially unreliable financial reporting" (Li et al. 2009 as cited in Bing).

Research indicates that the Big 4 firms have greater motive to safeguard their world renowned brand names and standings by offering better service in the form of high quality audits (Bing, et al, 2014). Access to the best resources also provide large size audit firms the ability to offer high quality audits (Bing, et al, 2014). Though, alternate arguments can be as modest as implying that ‘good’ firms generally are more likely to and willing to appoint auditors from the Big 4 and are seen as less likely to manipulate earnings (Bing, et al, 2014). Therefore, it is not feasible to reason that high audit quality is established from content and meaningful earnings because auditor selectiveness is ‘endogenous’ (Bing, et al, 2014). It is recommended that the quality of audits is influenced by the client size rather than the auditor size, even though most empirical evidence has a tendency to agree with the phenomena that the bigger the size (Big 4) of an auditor, the more enhanced the audit quality will be. (Bing, et al, 2014).

Industry specialisation has always been a reflection of industry know-how and allows auditors to differentiate themselves from others. (Bing, et al, 2014). Alternatively, auditors' resources defined in knowledgeable employees, and downright skills and expertise are said to be aligned with audit quality (Bing, et al, 2014). Auditor know-how is developed over time through work experience, on-the-job and specific training in a particular industry. Being a specialist implies that they have well-established industry-specific expertise which allows them the benefit to identify financial statements' misstatements in a better way (Bing, et al, 2014).

The research will provide information to assist companies with implementing processes when changing audit firms. It will assist companies to understand the intricacies involved in the transition phase. The research will empower and enable firms to make key decisions in this process when phasing out the old auditors and bringing in the new auditors, to ensure that company meets its reporting timelines, both internally and externally whilst retaining existing financial staff. The research highlights processes followed by the company changing auditors and the plan and process which was followed. This paper provides insight into the risks identified and mitigated during the changing of auditors.

1.5 Limitations of the study

The study is exploratory in nature and is limited to a change in audit firm, in a South African context and the impact it has on the audit firms and the audits client. This study has been limited to a change in audit firm by a single JSE Top 40 company with a long-standing audit relationship and may not be representative of audit rotations of other listed or non-listed firms. The study does not explore whether a change in audit firms will enhance transformation in South Africa or not.

The study is only concerned with the plan, processes and decisions taken by the JSE Top 40 Company, whilst transitioning auditors from the point at which the decision was taken to change. The study also researches the reasons for the change of auditor firms, from participants in the research, who formed part of transition process. The study investigates whether the rotation of audit firms within five years is also feasible.

The change in auditors by the JSE Top 40 Company was voluntary and not directed by legislation but by choice. The company took the decision to change since it had the current auditors for close to 60 years. This may not be the same for other companies, the findings may however still be used by firms that will change auditors due to legislation.

The study does not measure the cost of changing auditors or it implementation in any monetary means or in labour hours. The company did not keep record of the time spent on the change over and charge-out rate where not defined for each person on the project as such the total cost of changing auditors could not be established and it has not been investigated further in the study. The persons involved in implementing the plan took on these responsibilities as part of a career plan and enhancing their own professional work experience. The study provides details of the change process undergone by the Company, the outcomes and learning experience by both the audit-client and audit-firm.

1.6 Assumptions

This study involved detailed interviews between key members of the Company and the new audit firm involved in the audit-firm transition. Despite interviews being conducted until a point of saturation was reached, (O'Dwyer, et al. 2011, Wallington 2014, Maroun and van Zijl 2016), to ensure that the respondents provided accurate and complete responses, complete candor cannot be guaranteed.

2. Literature review

2.1 Introduction

In the early 2000's, even before the Enron debacle, Canadian Chartered Accountants expressed significant doubts about the notion of auditor independence and the future of the profession (Gendron and Suddaby, 2004). They also found it difficult to express the basic features of what it means to be a professional accountant (Gendron, *et al,* 2004). The reasons for this included cognitive, structural, legislative, and political arguing that the current arrangement is overwhelmingly blemished and requires intense and well directed change for independence is to be materialised (Moore, *et al*, 2006). This

emphasised concerns that many professional accountants do not fully understand what auditor-client independence entails and what it means to practise professional scepticism in a long-standing audit-client relationship. This not only jeopardise's audit quality but also raises risks of an incorrect audit opinion being reported.

In the United States, the Public Company Accounting Oversight Board (PCAOB) solicited public comment on proposals for enhancing auditor independence, objectivity, and professional scepticism. Mandatory audit firm rotation was offered as a possible solution (Daugherty, Dickins, Higgs, and Tatum, 2013). In South Africa for IRBA, MAFR appears to be the solution to achieve independence. The question remains: is this really the case and will IRBA's objective be met?

Audit-firm rotation has been questioned internationally for ages, and again in 2011 when papers were issued by Public Company Accounting Oversight Board (PCAOB), the United Kingdom, Financial Reporting Council (FRC), and the European Commission (Elder, Lowensohn, and Reck, 2015). The proposals were focused initially on two types of policies: mandatory rotation and periodic assessments of criteria for reappointing auditors (called ''retendering'' in the United Kingdom), which would require audit committees to reconsider whether the audit firm appointed be reappointed or not. In April of 2014, the European Parliament approved new audit guidelines necessitating public companies that met specific criteria to change auditors every ten year cycle (Elder, *et al,* 2015). Audit quality is commonly characterized as the likelihood that an error or omission which can materially affect the financial statements, will be uncovered and dealt with appropriately by the auditor. Audit quality is therefore operationalised as the level of auditor compliance with ethical and professional standards with regard to the audit of financial statements (Elder, *et al,* 2015). PCAOB have reported its concerns about audit quality, since audit deficiencies have increased during its reviews in later years (Elder, *et al,* 2015).

Supporters of mandatory audit-firm rotation emphasised that applying a limitation to the auditor tenure enhances audit quality by deliberately reducing clients' persuasiveness over auditors (Elder, *et al,* 2015). Opponents of audit-firm rotation pointed out that

substandard audits still happen almost inevitably for new clients due to insufficient of knowledge obtained by auditors in the first few years of audit. Concerns over recovering initial costs of the audit compromise the auditor's judgement and can lead to the auditors being persuaded more easily by the client (Elder, *et al,* 2015). A developing phenomena is that audit-firm rotation may not be a mandatory requirement, as long as the clients audit committees assess whether the current auditor still meets the objective of high quality audit services (Elder, *et al,* 2015). Regular tenders or requests for appointment of auditors improve the transparency of the process by which audit firms are selected. This then encourages the audit committee to proactively consider the reappointment or replacement of the audit firm (Elder, *et al,* 2015). The benefits of this approach enable the audit committee to establish a criteria by which auditors are appointed and apply this criteria with due consideration when reappointing the auditor (Elder, *et al,* 2015).

In the procurement process an audit-client contracts for a certain expectation and level of audit quality (Elder, *et al,* 2015). This is usually determined by identifying the audit firm through a tendering or bidding process which then leads to higher quality audits. It is through this process that clients select an audit firm which provides an acceptable level of audit quality (Elder, *et al,* 2015). Tendering or bidding allows selectivity in audit quality at a certain time (Elder, *et al,* 2015). An auditor rotation policy may also have the same effect on audit quality since it requires the entity to select (or retain) an audit firm which provides an acceptable level of service (Elder, *et al,* 2015). The company is likely to compare the quality of the audit firms during the bidding process, selecting the most optimum audit quality in light of professional standards and agencies (Elder, *et al,* 2015).

The level of audit quality expected by the client should be defined by a rotation policy (Elder, *et al,* 2015). The quality of the audit firm selected will impact audit quality (Elder, *et al,* 2015). Research does not specifically link a rotation policy with a company's decision to choose a specialised audit-firm, clients consider industry knowledge and expertise whist selecting the audit firm that meets the client's requirements. Companies with established procurement practices which have adequately selected audit firms previously are more likely to appoint knowledgeable audit firms (Elder, *et al,* 2015). The

potential negative impacts of firm rotation and lack of knowledge are mitigated by auditor expertise and know-how (Elder, *et al,* 2015).

This is reiterated in research where the level of auditors' client-specific knowledge has been positively associated with performance (Knechel, Krishnan, Pevzner, Shefchik, and Velury 2013) and auditors gain client-specific knowledge by servicing the same client over a period of time (Chi, Huang, Liao, and Xie 2009). Rotation policies therefore can positively affect audit quality as well as the quality of the auditor selected (Elder, *et al,* 2015) and lead to contracts with quality audit firms, which ultimately result in better quality audits (Elder, *et al,* 2015).

2.2 Auditor independence

Independence is described in the code of professional conduct as follows: The auditor should be independent of mind.[1] The state of mind which permits the expression of a conclusion without being affected by influences which compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

The auditor should be independent in appearance (CPC). This means the avoidance of facts and circumstances which are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional scepticism has been compromised (CPC). It is impossible to identify every situation in which there are threats to independence and to specify the appropriate mitigation plan. A framework is established which requires firms and members of audit teams to identify, evaluate and address threats to independence rather than merely comply with a set of specific rules which may be arbitrary. This is in the public interest (CPC) and investors require credibility of financial statements (Moore, et al, 2006).

Auditors are expected to use professional scepticism and judgement and put safeguards in place to mitigate risks (Moore, et al, 2006). The adeptness of capital markets depends

[1] Section 290, Independence – Audit and review engagements, Code of Professional Conduct (CPC)

primarily on the availability of relevant and reliable information about the business, to assist users and decision makers (Moore, et al, 2006). Regulations are in place to ensure that all publicly traded firms have their financial statements audited, and that auditor's act independently in conducting these audits (Moore, et al, 2006). Independence necessitates that these audits be undertaken without any bias or subjectivity (Moore, et al, 2006). Auditors are responsible for ensuring that their clients' publicised financial statements have been prepared in accordance with appropriate reporting standards or to issue an opinion stating otherwise (Moore, et al, 2006).

Most professionals are unaware of the pressure to comply with management and slant conclusions (Moore, et al, 2006). This is called *moral seduction*[2] when there is complacency among practitioners to act unethically and believe they are not doing anything wrong (Moore, et al, 2006). The auditing profession is regulated with standards and codes of conduct. Changing auditors is perhaps one way of ensuring credibility without compromising the audit profession (Coyle, 2010).

Audit firms provide knowledge-intensive professional services which require an inter-dependent relationship with the client (Moore, et al, 2006). The moral conduct between the client and the audit firm is critical in understanding its impact on audit independence and professional scepticism (Moore, et al, 2006). However, not much research has been done in this area, particularly in South Africa. This research will explore the switching of auditors and the perception of independence due to long-standing audit-client relationship.

S*elf-determination theory* suggests that autonomous support from others[3] is important (Zheng, and Li, 2010). The audit firm's opinions can influence client behaviour and so the

[2] Moral seduction occurs consequently over a period of time. For example, in one year, on auditor might not engage with a client to change an accounting practice that is inappropriate. The next year, the auditor may justify the decision made in the previous year and turn a blind eye again to inappropriate accounting policies. The following year, the auditor might continue to avoid admitting the errors of the past two years, hoping that the client will take corrective measures before the audit coming up. By the fourth year, the auditor and client will both be actively engaged in cover-up to hide their past practices. (Moore, et al, 2006)

[3] In the case of audit firms important others will be business partners of client companies (Zheng, and Li, 2010)

audit firms must have proper attitude and actions (Zheng, *et al*, 2010). This intimate relationship endeavours to meet both client requirements and professional disciplines (Zheng, *et al*, 2010). The rational economic person assumption does not always provide the best choice for accounting firms and social welfare (Zheng, *et al*, 2010). The codes of professional conduct regulate the behaviour of accounting firms and keep them from behaving unethically (Zheng, *et al*, 2010). Professional service is important and influential in the market because it presents an impression professionalism (Zheng, *et al*, 2010). So, the influence mode of accounting firms still swings between economic person and ethical person. The theory of virtue ethics is a neglected desire to act morally, so audit firms should have a moral code directing their actions to influence others ethically (Zheng, *et al*, 2010).

There is also the risk of psychological dependence because of the affiliation of the client auditor relationship (Bates, Ingram, and Reckers, 1982). This dependence is more dangerous than financial dependence since it can easily go undetected (Bates, *et al*, 1982). The auditor forms a belief in the client's financial system and integrity to the extent that misrepresentation of the client's financial statements is unconsciously overlooked (Bates, *et al*, 1982). The auditor's beliefs affect his/her perception of new information regarding the client (Bates, *et al*, 1982).

When an auditor receives significant income from one client, it has often been suggested that reappointment concerns may dilute auditors' incentives to maintain independence from management. A response to this issue may be to mandate the rotation of auditors. This is costly since new auditors must repeatedly invest in learning a new client's accounting system (Gietzmann, and Sen, 2002). Although historically it may not have been economically desirable to adopt mandatory rotation, currently, with increased corporate merger activity taking place, for instance, in the oil sector, markets may now have become sufficiently thin to warrant the introduction of rotation (Gietzmann, et al, 2002). The US report of the Quality Control Committee of the Securities and Exchange Commission (SEC) Practices section of the CPA (1992) concluded that the frequency of audit failure was three times greater after the first second periodic audit than in successive periods (Gietzmann, et al, 2002). The study has been used by some commentators to

conclude that mandatory rotation is, therefore, more likely to expose the financial community to more 'new auditor' failures and none of the sample firms, consequently, in the US study changed their auditor in a systematic fashion, as would be the case under a condition of mandatory rotation (Gietzmann, et al, 2002). As a result the audit failures occurred in firms where auditors were changed in the prior period for some non-legislative (non-mandatory) reason (Gietzmann, et al, 2002). Some of these changes were motivated by weaker firms conducting opinion shopping or auditors dropping their high risk clients. (Gietzmann, et al, 2002)

For instance, it is conceivable that the reason there were increased failures in the early years is that the incumbent auditor recognised serious problems with the client (such as the going concern assumption) or, the observation of auditor change simply indicates audit firms removing the perceived 'lemons' from their portfolio (Gietzmann, et al, 2002). That is, the increased failure rate may not only be the result of new auditor failures *per se* but instead also the result of previous incumbent's lack of desire to stay with certain risky clients (Gietzmann, et al, 2002). Another suggestion contained in the European Union's Fifth Directive was that there should be an upper limit on the number of years for which an accounting firm can act as auditors to any given company (Gietzmann, et al, 2002). After a maximum of five years, the company would have to find another auditor (Gietzmann, et al, 2002). This means the auditor will not have to worry about the effects of upsetting the directors because he will know he is going to be replaced after five years (Gietzmann, et al, 2002). This proposal was also considered unacceptable by the accountancy profession, on the grounds of time and cost (Gietzmann, et al, 2002).

A study was performed where 67 CPA's in the US were asked to make a quantitative materiality judgement on a lawsuit contingent disclosure. Materiality is the basis of all audit decisions and requires great exercise of professional judgement. Group 1 assumed the role of partner in charge of new client, group 2 assumed the role of partner in charge for the first time audit of an existing client of the firm which had been audited for 5 years and group 3 assumed the role of partner in charge for five years of the audit of a continuing client. The highest level of materiality was determined by group 3, with the greatest degree of auditor-client affiliation. Materiality was significantly less, with lesser degrees

of affiliation (group 1 and 2), despite all factors being considered by the groups. This implies that auditor judgements are affected by long term client associations. The result indicates a need for rotation to mitigate the psychological effect of long-term audit client relations, and that rotation of the audit partner within the firm has been effective as was rotation of the CPA firm (Bates, et al, 1982).

2.3 Professional scepticism

Professional scepticism implies that the auditor will plan and perform an audit with professional scepticism recognising that circumstances may exist which cause the financial statements to be materially misstated (ISA 200). Professional scepticism includes being alert to, for example, audit evidence which contradicts other audit evidence obtained, information which brings into question the reliability of documents and responses to inquiries, to be used as audit evidence, conditions which may indicate possible fraud and circumstances which suggest the need for audit procedures, in addition to those required by the ISA's (ISA 200).

Prior research in psychology and accounting has identified that auditors' judgements are susceptible to various problems, such as difficulty recognising patterns of evidence, applying prior knowledge to the current judgement task, weighting evidence appropriately and preventing incentives from affecting professional judgement unconsciously. All of those difficulties can affect the extent to which judgements reflect professional scepticism (Nelson, 2009).

Pattern recognition and specialisation imply that experienced auditors possess relatively accurate knowledge of more common error causes and error effects (Libby 1985), and that knowledge of, at least, error causes increases with experience (Nelson, 2009).

Specialists and auditors with other domain specific experience are more likely to identify the potential for specialty-specific errors (Wright and Wright 1997) and modify their audit-planning decisions as a result (Wright 1994). In general, experienced auditors are more likely to have more detailed and abstract problem representations (Christ 1993), are better able to disregard irrelevant information (Shelton 1999), and are more likely to

recognise combinations of evidence which suggest a heightened risk of error (Brown and Solomon 1990).

Industry specialists are particularly able to identifying patterns of evidence which indicate a particular misstatement (Bédard and Biggs 1991b), recognising and filling in incomplete patterns and suggesting effective and efficient procedures designed to determine whether a potential misstatement is present (Hammersley 2006). For example, experienced auditors increase planned audit hours when they perceive the possibility of a client having an explicit incentive to misstate and there being minimal corroborating evidence supporting the client's non-error explanation (Glover, Jiambalvo, and Kennedy, 2000), illustrating an effect of knowledge on judgement and then on action. Auditor knowledge of errors and error patterns can serve to enhance professional scepticism (Nelson, 2009).

Consideration must also be given to the impact of professional scepticism which is exhibited by the audit team which is affected by rotation of staff, partners, and firms. These different rotation possibilities differ in their implications for knowledge loss, and responsibility for past actions. This brings into consideration the circumstances that establish the optimal rotation level and frequency. Also when auditor rotation undermines professional scepticism (Nelson, 2009). The industry the client is in, history and knowledge of the client, materiality, and also risk assessments for the client all play a part (Herda and Lavelle, 2013).

Audit client relationship and the effects on objectivity of the audit firm indicate that audit quality is positively related to audit independence but if there is lack of competence, the auditors must rely on management of the client's, and so independence may be jeopardised. Audit quality, auditor independence and auditor competence are positively related to each other, (Jamal, 2011), which states that audit quality is always equated with independence. Auditing is a form of monitoring which constrains managerial reporting discretion and reduces information risk. Value of auditing stems from the auditor detecting and correcting material misstatements in the financial information presented. Audit quality can be conceptualised as a continuum ranging from very low to very high

audit quality. Low audit quality is taken to mean audit failure which would cause a negative impact on business (Sundgren, 2011).

In the accounting profession, audits play an important role in serving public interest by increasing the accountability of managers and reinforcing trust and confidence in financial reporting. Audit quality is the assessment of whether audits have served the public interest through increasing the accountability of managers and reinforcing trust and confidence in financial reporting (Bing, et al, 2014).

Independence is fundamental to the validity of auditor's reports. Truly independent auditors are able to provide the public with higher-quality audits due to the lack of "ties" with the audited client. Enabling auditors to exercise professional judgement when planning and conducting the audit, and reporting the results of their findings in their audit report. In terms of impairment of independence, the audited financial statements, and so audit quality, are the joint effort of the auditor and the client and arising from a process of negotiation between the two (Bing, et al, 2014)

2.4 Professional identity, insecurity and culture

Professional identity is seen as a set of traits which form the essence of what it is to be a member of a given profession. These traits may include expert knowledge in a given area, particular ways of dressing at work and in other public settings, and, more important attitudes and points of view about professional matters such as auditor independence and criteria for admitting new members into the profession. One’s professional identity matters because it plays a significant role in the professionalisation processes. (Gendron and Suddaby, 2004).

Professional insecurity arises when one feels uncertain about the basic features of one’s identity as a professional. Professional insecurity encompasses feelings of confusion, lack of confidence and discomfort. The concept of professional insecurity emerged through interviews with 15 experienced Canadian chartered accountants (CAs) in 2000 and 2001. Empirical analysis indicates that accountants feel insecure about their identity as professionals and the notion of auditor independence, which is typically seen as one

of the cornerstones of the accounting profession. They also expressed concern about work diversity within the CA profession and emphasized the difference between the past (when accounting firms were involved mainly in the core areas of accounting, auditing, and taxation) and the present (when accounting firms are transforming into multidisciplinary practices). The vocabulary used by interviewees in expressing their concerns suggests that current trends are sufficiently unsettling to undermine professional identity. A sense of urgency and apprehension emerged from the interviews. Interviewees described the profession as being “on its way to a serious decline”, suggested that a subset of the profession is being “alienated”, and deplored a particular group in the profession for “not giving a shit” about the difficulties in recruiting new entrants (Gendron and Suddaby, 2004).

Given unstable jurisdictional boundaries, accountants’ professional insecurity may be seen as the result of a growing tension between the precisely defined role expectations of individual professionals and the increasingly broad and vague jurisdictional boundaries of the profession as a whole (Gendron and Suddaby, 2004). The difficulties accountants experienced in their day-to-day lives in sustaining a coherent sense of self-identity were particularly stressful to them, given people’s fundamental need for coherence, and this significantly affected the capacities of their profession to hold jurisdiction (Gendron and Suddaby, 2004).

The international expansion of the Big Six firms has created new problems. Local partners must not only continue to meet diverse needs of local clients with improved service levels in response to the high level of competition; they must also now address the global coordination problem. This is not just a matter of providing a seamless, high quality international audit service to their global clients. It includes worldwide management of the standardization of activities such as auditor process, hiring and promotion criteria, implementation of the firm’s code of professional conduct at the local level in a wide diversity of cultures (Cohen, Pant, Sharp, 1993).

According to the American Institute of Certified Public Accountants Council, “Independence, both historically and philosophically, is the foundation of the public

accounting profession and upon its maintenance, depends the profession's strength and its stature" (Moore, et al, 2006). In the late 1980s, some accounting firms, particularly the largest ones, expanded in both scale and scope. More significantly, firms which were once viewed as indivisible from the accounting profession became heterogeneous amalgamations of diverse professions and occupations, affecting partners' and employees' attitudes and, of course, the nature of the work carried out within these firms (Gendron and Suddaby, 2004). The interests, values, and aspirations of the accounting profession and the large conglomerate firms diverged. Individual accountants within the profession were caught between the interests of increasingly powerful conglomerate organisations and the interests of a profession increasingly uncertain about its future (Gendron and Suddaby, 2004). As a result, auditing professionals changed with the profession and independence became questionable once non audit services became a big part of Big 4 services (Gendron and Suddaby, 2004).

2.5 Auditor switching and perceived value

Value-added services include management comments and other types of auditor advice, as well as feedback on accounting, internal controls, and general business issues. Auditors, as a consequence of performing audits and rendering audit reports, can also report to the client useful observations and recommendations (Fontaine and Pilote 2011, 2012). The websites of several of these firms convey their assurance services as services which provide value in addition to the traditional audit to help clients to improve decision-making, profitability, and administrative practices (Herda and Lavelle, 2013).

How is professional scepticism exhibited by the audit team, affected by rotation of staff, partners, and firms? These rotation possibilities differ in their implications for knowledge loss, mitigation of formal and social incentives for continuance, and responsibility for past actions. What circumstances rationale behind firm rotation, because the auditors work will be perceived as being more objective and independent, more confidence will be placed in the opinion expressed. This will result in business stability. With limited tenure it is argued that the auditor is in a better position to resist management pressure (Richard and Cuganesan, 1996).

There is a growing demand for reliable information, trustworthiness and transparency from public interest companies in order to protect the investor. The history of audit failures including Enron / Author Andersen, WorldCom, Parmalat have raised concern over the independence, ethics and quality of audit services (Antonio, and Bassetti, 2014).

Advocates in support of firm rotation believe that it will increase professional scepticism and audit quality, whilst those opposing changing auditors argue that there is a loss in key business knowledge and great value comes from the auditor having a long-standing relationship with the client (Antonio, and Bassetti, 2014). Countries which have implemented MAFR, where MAFR is still in effect, include Italy, China, Brazil and India. Portugal has implemented firm rotation on a "comply or explain" basis.

The rotation of firms may produce a more competitive edge and reduce audit costs (Richard P., Cuganesan, S., 1996). In an environment where a long-term relationship is not an advantage of rotation, reinforces the view that the introduction of mandatory rotation of auditors is a costly exercise which professional groups will find difficult to justify in cost benefit terms to Australian businesses (Richard P., Cuganesan, S., 1996).

Countries in which mandatory rotation has ceased indicate that in Austria, the Commercial Law of 2004 required a mandatory audit firm rotation every six years with a minimum time lag of three years before the previous auditor could be reappointed. However, the implementation of this rule was postponed awaiting developments at EU level. In 2005, it was finally dropped by the company law which changed the articles of Austrian Commercial Law on auditing (Coyle, 2010).

In 1990, Spain introduced the system of mandatory audit firm rotation with a maximum term of nine years, but, this system was abolished in 1995, and four years before the first rotation was due to take place. Spain cannot be held up as a proven practical example of the failings of mandatory audit firm (Coyle, 2010). Based on the repeals above, it is evident that these countries expressed concerns about the introduction of rotation rules (Coyle, 2010).

In South Africa, mandatory audit firm rotation has not yet been implemented, the researcher will investigate a firm that voluntarily elected to change its auditors after a long standing relationship. The researcher investigates the company's process of selecting a new audit firm and the process of changing over to the new auditors.

In terms of partner rotation, it is a requirement of paragraph 290.150 of the Code, to implement the safeguards to the familiarity and self-interest threats created by using the same senior personnel on an audit engagement over a long period of time. While partner rotation is mandatory for Public Interest Entities (PIE), companies which do not meet the definition of PIE in terms of the code have the option to implement other safeguards to address the threats to their independence.

Some researchers found that people believe that "it doesn't make a big difference in rotating the engagement partner every few years from a client. It would make much more sense to rotate the whole team from clients every few years, as these are the ones that ask all the questions and tick all the boxes so they would probably get more acquainted with the client's staff" (Coyle, 2010). This would then result in high quality audits.

There is a substantive amount of literature regarding "the amount of time it takes an auditor to gain a thorough knowledge of a business, its policies, operations, accounting system, internal controls, key personnel, is an essential requirement for an effective audit in today's environment" (Porter, Simon, and Hatherly, 2003).

Good auditor and client relationships are prematurely terminated by compulsory rotation (Richard P., Cuganesan, S., 1996). There is a higher risk of not being able to uncover any issues in the earlier years of an auditor's tenure, as the new firm may not have fully developed and applied an in-depth understanding of the firm's financial reporting practices. Audit staff and training is also essential in detecting material misstatement (Coyle, 2010) since errors and irregularities are more likely to go undetected (Richard P., Cuganesan, S., 1996) during the first years of rotation.

There is a concern that audit staff may not have the skills and competence to perform new audits. Research indicates there is a high risk that material misstatement will go

undetected in the early years of audit tenure since business knowledge and an in-depth understanding of the business's processes and procedures may not be fully understood (Coyle, 2010). Due to the learning curve that audit firms must face in each new audit, audits may be less efficient in early years. Audit firms can effectively manage transitions but this is not without costs or risk, both the auditor and the company incur costs at the beginning of the work with an external auditor. The cost of firm rotation may be increased because of the particular circumstances of a company. For example, changing an auditor in the middle of a large capital or loan injection into the company with specific dates for completion whilst rotating audit firms could pressurize the process in volatile market conditions (Antonio, and Bassetti, 2014) and (Richard P., Cuganesan, S., 1996).

2.6 Audit quality

The debates on the effects of auditor tenure on audit quality have continued for more than 50 years (Mautz & Sharaf, 1961). The purpose of an audit is to lend credibility to financial reports by verifying the accounting information prepared by management (Watts & Zimmermann, 1986). Perception of audit quality in turn depends on the investors' evaluation of the auditor's ability to detect and correct accounting irregularities (DeAngelo, 1981a).

The financial crisis and the demise of Arthur Andersen brought focus on audit quality, audit performance and auditor liability. As much as the audit environment has changed through changes in legislation and government, the fall of one of the Big Five firms created dissatisfaction with the auditing profession and its inability to identify material misstatement (IOSCO round table, 2007).

This is termed "audit failure" which has economic consequences for auditors, clients, and third parties. An audit failure occurs if the auditor is not independent, or if an independent auditor incorrectly issues a clean audit report due to the failure to collect sufficient competent evidence as required by auditing standards (Francis, 2011).

The audit process includes audit testing and approach, engagement team and decision and judgement's made for specific tests implemented and evidence obtained at

engagement level. Audit quality is impacted by legislation and professional bodies which govern the profession and encourage auditors to comply with the Code of Professional Conduct (CPC) and International Standards on Auditing (ISA) with particular attention to International Standard on Quality Control (ISQC1). SEC enforcement has also helped reduce audit failures (Francis, 2011).

Audit quality is influenced by the audit firm, the processes followed and policies and procedures in place to ensure high audit quality. Audit firms are responsible to lead and to engage with staff to mentor and guide the audit team to deal with insufficient and contradictory audit information. With sufficient guidance and training a high quality audit can be achieved. This includes regular discussions with the audit team, timely review of working papers and proper supervision of high risk audit areas ensure that audit partners and the engagement team adequately review audit evidence and reach the right conclusions (Francis, 2011). It is also a well-known that the Big 4 firms drive audit quality through internal review processes of audit partner files and lead the way with high quality audits (Francis, 2011).

In respect of audit quality, in the initial years of a new engagement, the auditor depends more on management to provide information. The lack of client knowledge reduces the auditor's ability to detect irregularities (Knapp, 1991) and there is a risk of a decline in audit quality which invariably takes place because the client will be dealing with a new auditor every seven years. In other words, with ongoing tenure the auditor obtains a deeper understanding of the client and this increases his ability to detect irregularities (Beck, Frecka & Solomon, 1988).

The tenure of the audit firm can also adversely affect auditor independence and create a familiarity threat which adversely affects audit quality and this may result in the auditor overlooking material misstatement in the financial statement. This brings to light the benefits of audit rotation and the questions surrounding its effectiveness in enhancing audit quality and improving credibility of financial statement for decision makers (Francis, 2011).

Auditor independence is widely assumed by financial markets. Investors, employees, and strategic partners rely on audited financial statements as if they represent truthful and reliable information regarding firms' financial health. While a corporation's managers often have powerful incentives to make their performance appear better by improving reported earnings, yearly audits are supposed to help protect the company's financial reports from the threats posed by incentives. Shareholders count on auditing firms to provide these independent reviews. Yet, for independence to exist, audit firms' reports must not be affected by the interests of the client or, for that matter, the auditor's (Moore, *et al*, 2006).

Therefore, less credibility in financial information may have substantial consequences for capital markets, as investors can implicitly assume incorrect financial information reported by the firm and perceive a high information risk which, in turn, can lower their investment activities (Watts & Zimmermann, 1986).

The new and revised auditor reporting standards require, among other things, that the auditor makes an explicit statement that the auditor is independent of the entity, in accordance with the relevant ethical requirements relating to the audit (SAICA, Discussion paper).

2.7 Stakeholder theory

Managerial agency level stakeholder research assumes that the ultimate corporate goal is the satisfaction of shareholder demands for market returns (Robert and Mahoney, 2014). The statutory auditor has an essential role in providing credibility to company financial statements because users of financial statements regard the audit report as a guarantee of their reliability (Baker, Bédard, and Prat dit Hauret, 2014). Investors have both a moral and legal right to expect their investments to grow in value (Robert and Mahoney, 2014).

The audit profession is highly regularised but there are questions as to whether there is enough done to ensure independence and professional scepticism (SAICA, Discussion paper). The IRBA announced in September 2016 that it will begin a process to implement MAFR for audit firms to strengthen the auditors' independence from clients. The decision

follows a year-long process of extensive research and industry consultation, both locally and abroad on how best to enhance audit firm independence and the implementation of MAFR does not exclude the possible inclusion of additional measures such as mandatory audit tendering or joint audits, as a combination with firm rotation, in certain circumstances.

MAFR, as critical to the credibility and transparency of audited accounts, is enhancing public and investor confidence in the accuracy of financial reporting (IRBA, 2016).

In other countries authorities investigate the dismissal of PWC as auditors of Tesco after a thirty-two year auditor relationship. The Financial Reporting Council opened an investigation into the roles of PwC and various members of the accountancy profession involved in the preparation, approval and audit of Tesco's accounts after Tesco had overstated its profits by £263m over a two year period. (Economia, 2017). As long as such events continue in the wake of the Enron debacle the independence of auditors will always be questionable.

This exploratory research is introductory to research related to a change of auditors in South Africa and will form a sound foundation for other such research in South Africa and many other countries.

3. Research method

3.1. Research methodology

A change in auditors impacts both the auditors and the company changing auditors. A qualitative approach helped the researcher understand the impact of this change. The qualitative research approach examined the views of a JSE Top 40 company, referred to in this report as the Company, to protect the company and the researcher's interests.

The Company changed auditors during the past six years and is an ideal case study, reflecting exactly how a huge conglomerate changed its auditors' and the impact the change has had on its environment and whether it has enhanced credibility of the financial statements and independence.

The research involved interviewing key personnel from the new audit firm and the audit client to obtain an understanding of the process which was followed in transitioning from the old auditors who were the auditors for about sixty years to the new auditor firm. The research is exploratory and based on a theoretical framework. The theory on changing audit firms, related reasons for change, as well as the impact the change has on audit quality and independence was used as a basis to develop questions and formed a grounded base for the research. Since the research was exploratory, interviews were conducted to allow the researcher to gain an understanding of the process of change, decisions taken, procedures which followed these decisions and the eventual effect the change in audit firms had on the Company.

The results of the interviews were interpreted and analysed. The results were correlated to the theory to provide an interpretation of and conclusive evidence as to the contrasts and similarities which the study provided in conjunction with the theory. This interpretative framework with a qualitative base provided the results are related to both the new audit firm and the Company. (Parker *et al* 2011), and (Rowley, 2012).

3.2 Research design

Semi-structured Interviews were conducted with the financial and other staff involved in the transition of auditors in the Company. The interviewees played an integral part in the transitions and, obtaining these views firsthand, ensures that the contents of this report are valid and accurate.

There were pilot interview questions used before the full study began. This ensured that the interview questions were sufficiently clear and that the prescribed questions appropriately addressed the research question (Rowley, 2012) and (O'Dwyer *et al*, 2011). The questions were open ended to certain participants enabling them to provide their full experience of the transition. Participants were given the opportunity at the end of the interview to provide additional comments they felt relevant to the subject matter to ensure completeness of data collection. The data from the interviews were examined to develop themes and establish the overall relevance of firm rotation in South Africa and if these enhanced independence in South Africa (Rowley, 2012). Interview questions were formulated based on the theory literature available on changing auditors in relation to independence and audit quality.

A qualitative method which avoids the use of statistical data was used with the intention of producing results which can be used for future research. (Parker, Guthrie, and Linacre, 2011). This in-depth understanding will highlight complexities which would not have been possible with quantitative research (O'Dwyer, Owen, and Unerman, (2011). The study is, therefore, exploratory in nature (Leedy and Ormrod 2013).

The research includes analysis of literature related to firm rotation in other countries and the developments in South Africa. In this way, the research provides a backdrop for companies which intend to change auditors in the near future, which will provide an in-depth analysis of the researcher's findings and will contribute to how a change in auditors may enhance independence in South Africa, rather than merely describing the policy of changing audit firms (Parker et al (2011), Coetsee (2011) and Leedy and Ormrod (2010).

3.3 Selection of interviewees

Semi structured interviews were carried out amongst members of the new audit firm and the Company's finance team involved in the transition of auditors. The interviewees were selected based on their involvement in the transition. This included a Chief Financial Officer of a significant division in the company, the Head of Information Systems for group reporting, a Senior Financial Manager of a large and significant division of the Company, a Financial Manager of an international division with a complex consolidation and controversial technical matters with particular investor interest, the Risk Manager, the two transition team members. This Risk Manager was selected for the project to manage the group's risk process and continued with his other responsibilities alongside this portfolio. The team responsible for the transition was also managing group reporting requirements for the first year engagement as well. The transition team included a Chief Financial Officer responsible for sox and internal controls in the group and a Senior Manager part of the transition team which ran with the transition project. All the participants interviewed were senior professionals who have worked for the Company for a minimum of seven years to a maximum of twenty-nine years and were part of the process of changing auditors. The participants were selected for their specific knowledge and expertise in their areas of responsibility (Wyk and Rossouw, 2009, Creswell, 2007). This ensured that they were experienced in the company and audit environment and understood the requirements of the transition and the challenges that new audit client engagement would entail.

The interview participants also included the lead engagement partner who was partner for eighteen years and with the audit firm for twenty-five years and the associate partner who was with the audit firm for eleven years and on the group audit team which headed up the audit. The research considered the interview responses and continued interviewing until a point of saturation was reached (O'Dwyer, et al. 2011, Wallington 2014, Maroun and van Zijl 2016).

Although this sample may be biased, it was purposive and provided inside views on the effects of changing auditors in the Company, large conglomerate, multi-faceted and highly

integrated in a South African context providing insightful information which has not been provided in research of this nature before (Rowley, 2012). The aim of the research was to explore the change in auditors in detail and by interviewing a small group of individuals the intimate group of respondents provided a detailed view for the exploratory research (Rowley 2012, Leedy and Ormrod 2013).

3.4 Data collection

The interviewees were contacted by e-mail to establish their availability and willingness to participate in the study. The e-mail sent to participants explained the purpose of the study and the confidentiality clause was included, emphasising that the interview responses would be included in the report on an anonymous basis. Relevant and appropriate questions were asked from a semi structured agenda to enable comparisons between participants and also bring out the relevant details in their specific areas of responsibility which may be different from other participants (Leedy and Omrod, 2013).

Interviews were conducted face-to-face and were audio recorded which was considered to be most effective way of collecting data. Participants were advised that the recording was for accuracy and completeness purposes and confidentiality was to be maintained. Interviewees were also given the choice to request that the researcher incomplete recording the interview (O'Dwyer et al, 2011). Participants were informed that the recording and the transcripts based on the recording would be kept confidential (O'Dwyer et al, 2011). The recording ensured data were accurate and enabled the researcher to analyse the data with ease of reference (Rowley, 2012). The interview was transcribed from the audio recording into formal text and kept secure to ensure confidentiality. (Rowley, 2012).

3.5 Data analysis and interpretation

Data analysis and interpretation of the findings were enhanced by the grounded theory approach involving an iterative process. (Rowley, 2012). The researcher derived themes from the interviews, alternating between analysing the interview data and reading further literature related to themes arising in the interview (Rowley, 2012; Leedy and Omrod,

2010, Holland, 1998). Data analysis and interpretations of interviews related to the Company changing audit firms and sought to establish the extent to which data corroborated or refuted well established theories. Where data from interviews supported less developed theories, it was further analysed and theory related to this was investigated to understand the reasons behind statements (Lukka and Modell, 2010). This understanding and analysis enabled the researcher to understand the validity of the information provided by interviewees and avoid reductionist tendencies which can eliminate subtle complexities inherent in the transition of auditors (Leedy and Omrod, 2010; Gergsen and Gergsen, 2000, in Lukka and Modell, 2010).

The interviews were transcribed onto Microsoft Word for interpretation and commentary by the researcher. The data were analysed using a formal process of data reduction, data display, and conclusion drawing and verification (O'Dwyer et al, 2011). A detailed reading of all notes and transcripts resulted in identification of key themes most frequently raised by interviewees (Smith-Lacroix et al, 2012). These themes were then incorporated into a series of theme summary diagrams which identified the key themes, the respondents who addressed these themes, and the location of these themes in the transcripts (O'Dwyer et al, 2011). This assisted with structuring the key findings and formed the basis of Chapter 4 of this research report. Further readings of the transcripts took place until conceptual saturation and familiarity with the content were gained (Smith-Lacroix et al, 2012; O'Dwyer et al, 2011). The identification of themes took place in conjunction with re-reading of the key literature, in order to place these themes in an appropriate context (O'Dwyer et al, 2011). Each theme was coded to assist in the above analysis (Rowley, 2012; Leedy and Ormrod, 2010). Interpretative understanding of codes took place to ensure valuable comparisons have been made and research has been intensified by depth of understanding (Leedy and Omrod, 2013). Specific interest was given to apparent contradictions or disagreements among different interviewees and within specific interviews, in order to gain a complete picture of the data collected. This is consistent with the tradition of qualitative research which requires continuous challenging of interpretations (Alvesson, 2003). It also assisted in ensuring the validity of the findings of the study (refer to Section 3.7 below).

Contradictions identified were evaluated to identify whether there was a need to conduct shorter follow-up interviews with some of the interviewees (Leedy and Ormrod, 2010). The above process was followed so as to present the findings of the study in a meaningful way which highlighted the insights gained and the themes developed (Rowley, 2012).

All findings were challenged and disagreements and similarities scrutinized and documented (Alvesson, 2003). Ambiguous comments were further investigated.

3.6 Limitations of the study

The study was explorative in nature and as a result views of the individuals interviewed may not necessarily be the views of all Big 4 audit firms and other JSE-listed Top 40 companies or the entire population. The researcher considered the participants honesty and if responses were rehearsed this was an unavoidable risk which could be attributed to social pressures the interviewee felt and could have arose due to the need to remain consistent with the view of their organisations (Alvesson, 2003).

The research does not measure the cost of time or hours spent by the company to change its auditors as records of this were not kept. Although the Company changed its auditors by choice the process of selecting and planning the change to the new auditors would be the same if it were required by law to change its auditors.

The research is intended to provide information to other companies which intend to change auditors in the current South African environment or anywhere else in the world. The research will also form a basis for future research on the actual long-term effects of changing auditors in a firm over time and the subsequent effects on audit firms, audit quality and investor credibility, especially where audit firm change is a policy adopted by the firm and is consistently applied.

3.7 Validity and reliability

Validity to qualitative research is important (Leedy and Omrod, 2013) and comprehensive research design was followed and all data from interviews and interpretations of this data were fully documented. Validity was ensured in many ways. Firstly, the design of the interviews (semi-structured) provided the opportunity for the researcher to gain an in-depth understanding of the practitioners' viewpoints on change of auditors in a reliable manner (Cohen and Crabtree 2006). Secondly, the development of rapport and dialogue between the interviewer and interviewee was facilitated by tape-recording the interview. Interviews were confidential and interview responses were transposed into a Word Document and reviewed for accuracy by the researcher (Leedy and Omrod, 2013).This ensured only reliable data was used (Cohen and Crabtree 2006, Leedy and Omrod, 2013).

The open-endedness of the questions mitigated the risk of rehearsed responses (Rowley 2012), and enhanced the validity and reliability of data. Suitably experienced and knowledgeable participants were included in the interviews, further contributing to the validity of the study (Wyk and Rossouw 2009, Wallington 2014). All interviews were conducted in the same way, the tone and manner of the interview was treated with care and consciousness to avoid coercion (Rowley, 2012).

A detailed design, analysis of data and open-ended questions ensured integrity of findings and validity. Further external validation will be obtained through the use of an independent researcher who will review data analysis (Rowley, 2012) Since interviewee responses are subject to interpretation, peer reviews will be conducted to avoid misinterpretation of results and inherent subjectiveness (Rowley, 2012).

4. Findings

4.1 Background

The background provides context to the study and the researcher describes the chain of events from the moment the decision to change auditors was made by a JSE Top 40 company. This is set out in section 4.1 and highlights the transition planning process, describes the process and decisions made to effect the change of auditors and is written in the researcher's own words based on interviews conducted with mainly interviewees, A1, A2 and A3. The findings also contain an analysis of the interviews conducted in section 4.2 with reference to the theory with contrasts and comparisons to the literature. The JSE Top 40 Company's name has not been mentioned to protect its identity and is referred to as the Company.

4.1.1 Decision to change auditors

The process to change auditors followed a stepped approach the first part being the formal decision to change auditor, the second being the criteria established that the new auditors had to meet and the third step the transition to the appointed auditors.

The group's decision to change auditors came after reflection by the audit committee of the Company. This was after considering that the Company had a long-standing relationship with the incumbent auditors, approximately sixty years, and the issue of perceived independence by the market was a consideration. As a result, the decision to change auditors and create a rotation policy was taken, through a confidential paper. The Board of Directors gave a mandate to the Chief Financial Officer to appoint auditors through a rigorous review process. The CFO then mandated the financial team to arrange a designated transition team who was responsible for the process and began the tendering process for the new auditors, based on set criteria. The criteria required that the auditor be an audit firm with a global reach.

An opportunity was then given to Big 4 qualifying firms as well as smaller firms with the necessary expertise to tender. A transition team was set up which consisted of two

members who led the group transition process. A sub committee was formed which consisted of key members, Chief Financial Officers of the different operating businesses across the group and key project owners who were responsible for managing the transition and internal workings.

4.1.2 The right fit for the Company

The Company has subsidiaries around the world and required the newly appointed auditors to audit its subsidiaries efficiently and to handle joint venture associates in those locations around the world with ease and effectiveness. The main stream auditor was required to head the whole process and liaise with their offices to ensure a smooth audit and that reporting requirements of the JSE were met on time.

> "So the company is a huge company, it's got its complexities. It's got something different than any other company, it's got a lot of uniqueness. Got a lot of pride. The people work very hard in the company, they're very proud of their work. So we needed auditors that would understand that. We wanted a cultural match, so it can work. We don't want to go for an auditor, for example who has a very aggressive approach when we are very conservative. We knew it was going to be a big change. Changing auditors in any accountants' life is massive because you know you have to redo a lot of work." (A2)

There were questions like: how do we go about appointing new auditors? And what do we need to do? A project plan was put in place to manage the process and this is what the transition team member said:

> "So we did a proper stakeholder engagement plan saying who are our stakeholders and planned with ok let's engage with them. When do we want to make the change? When do we have to approve it at the Audit Committee, Board, Annual General Meeting and then we worked backwards to plan it." (A2)

4.1.3 How the process began

The process was managed as a risk management process. A commercial process was undertaken which included the vetting of an audit firm which was suitably qualified based on set criteria, to perform the audit and effect the transition process. The transition team

engaged with the functions to obtain continual feedback from them on work being done and on preparation. The project was phased into different work streams and included a transition timeline phase. The work stream also supplemented a draft risk register and a transition plan which was signed off by senior leadership and the lead engagement partner. A risk log was created and mitigating activities identified. A draft change and communication plan was then derived. Some of the prerequisites required from this process included but were not limited to: time from the predecessor audit firm (referred to as PA), the auditors of the company and key company resources which included, finance personnel that effected the change, the PA's approach for disengagement and the auditors approach for starting the new audit, the company's financial calendar and deliverables to the JSE.

4.1.4 The risk management process

A Risk Manager (RM) was nominated by senior leadership because of his financial and risk expertise and on his understanding of the reporting requirements of the Company. The RM was effectively a risk business partner responsible for overseeing the process from start to finish and manage the transition from the predecessor auditors to the newly appointed auditors (referred to as the auditors) of the Company. The RM being a qualified Chartered Accountant and having worked in risk previously had the knowledge of risk management processes and was able to manage the day-to-day activities effectively.

> "My role is to facilitate and to obviously compile the risk profile and information but it was really a facilitation role. So to ensure those controls were working became a project responsibility and that would be driven through the project streams and the project manager. I would obviously facilitate that process to make sure it was occurring and they would give the feedback. So I didn't physically go and offer any level of assurance to say that their control is in place. My role was to facilitate and they would give me their assurance from a management level." (A3)

His role was to facilitate the process, compile the risk profile and drive the risk process. The project manager provided feedback on what actually took place in the business. The RM was in no way accountable for the controls or offered assurance of any kind to the

group or otherwise. This was management's responsibility and was agreed upfront. The project manager was responsible for the controls and developing mitigations.

The whole risk management process identified its main objectives which included identifying key internal and external risks which impacted on achievement of objectives, the risks related to ensuring that the transition process was effectively handled.The essential purpose of risk management was to increase the probability of meeting objectives by avoiding surprises, through systematic identification, exploration, assessment of and response to planning for risks. The risk manager worked closely with the transition team through the whole process of changing auditors. Risks were identified and a risk register was created through discussions with the PA and the auditors of the company.

There were concerns about having two auditors onsite with the current staff compliment and ensuring staff were not stretched in terms of capacity. Since the Company was still ultimately responsible for the accuracy and completeness of financial statements of the company and operating effectiveness of internal controls.

4.1.5 The workshops with project streams

The RM held numerous workshops and engagements, with project streams, the PA and the auditors. This was to understand the challenges in each stream. The project streams identified current practices and whether changes were required.

Work project streams were identified in each area of responsibility and functions or service provided by the company, for example, consolidations, reporting and information management. A person was assigned responsibility for risks in each stream including: the Finance department, the Tax department and the Information Management department since these functions were impacted by the change of auditors. This person was effectively the custodian of the change management process.

On the project itself there were people from finance who were considered subject matter experts (SME) who were responsible for work streams in their specific areas. The SME

and project representative identified the controls in the environment that would mitigate the risks that were identified. There were also other senior managers responsibly to the transition team in their specific areas. The risk were identified and scrutinised in the workshops to ensure it was actually a valid risk in the transition process.

The persons responsible in the project were accountable for the risks being addressed in their areas of responsibility.

> "I didn't try to phrase it into specific risks at that point. I just wanted to understand their concerns from a challenge point of view. What do they see as the biggest issue which might arise and concerns which they might have that this is now just occurring and we are really going to be changing auditors? "This session was simply to collate all the information and disseminate it to the more core team and create a draft risk register both from the company's perspective, the PA's and the new auditors. Then we had numerous sessions with all participants and the people that were assigned risk responsibility in each of the areas to get their input, controls, to position the risks from a level point of view. The workshops held was a process that assisted with fine tuning risks identified and phrasing them. We would have debated the merits of that risk or if it's applicable." (A3)

The risks were categorised and weighted according to the company's risk measure. Preventative measures were identified and put in place to ensure that these risks were addressed and mitigated. This risks identified were presented to seniors in the company to evaluate and ensure that the risk management process was consistent in application. This process took a lot of time.

4.1.6 Identifying risks in the transition process

The RM understood that managing relationships was important and obtained an understanding of the internal relationships, and the effect the transition would have on internal business practices and the people involved.

There was a big focus on internally and externally on managing relationships to facilitate the transition. Engagements took place between the auditor and the PA as part of a

handover and knowledge sharing exercise. This was to ensure all risks were identified and mitigating controls put in place. The PA were given an opportunity to raise any concerns in these engagements and workshops. The handover process took extensive amount of time and effort for members of the audit team.

The risks identified were scrutinised and discussed at length to ensure that the risk process was well defined. Eight risks were identified and some of them were: 1. Risk of misstatement, 2. Obtaining buy in from all stakeholders within the company to ensure all criteria were met and the venture was a success; 3. insufficient transfer of knowledge to new auditors. This referred to the handover between the PA firm and the auditors; Risk of two auditors on sight and the work required from current financial staff; the loss of key information with the PA leaving, this referred to sharing relevant and detailed knowledge of business operations and the divisions to the successor audit firm was an efficient process; 4. Lack of adequate staff from new auditors and the company to enable the transition; 5. Risk of not meeting critical deadlines such as JSE. 6. sharing of how will the changeover take place with other financial staff.

4.1.7 The tendering process and selection of the audit firm

The process of selecting a new audit firm entailed a tendering process. The audit firms tendering included two Big 4 firms and another firm which was not a Big 4 firm. The Company's executive committee gave a directive with set criteria which were required for the new auditors. This was in order for the process to be fair and gave all firms an equal opportunity at gaining a chance at the audit. The transition team lead commented that

> "We selected basically three firms, the key firms that we wanted to bid and that included various credentials. We did a beauty parade eventually at the audit committee. We were quite strict so we managed very senior people in this process. To get the auditors ready, and to help them do a proper pitch we also took them around the company." (A2).

The firms were required to prepare a proposal which was presented to the Chief Financial Officer and his team. Audit firms vying for the appointment presented their strategies which were based on their auditing business in South Africa, their place in the market and

their audit approach. The process of selecting a new audit firm was a rigorous process which required discussion and presentations from audits firms which were vetted. Each firm was required to present its company's audit strategy and approach. The audit process and plan and the Company being a global company spanning many regions across the world required the successful audit firm to have audit firms in the same regions. This would ensure professional audit services in those regions.

When the opportunity presented itself to tender for the audit it was in mid-October 2012 and the process ran to March 2013. It was a 6-month process during which the appointed auditors and those bidding were involved in the writing formal proposals, attending meetings.

> "So to help the business get ready we agreed on a lot of information facts to being provided upfront. So it was really managing quite a level of detail upfront on if you were new to the company what would you need to be ready to do an audit. We took them to all the key plants before they did their pitch. We did presentations by all our group SVP's. Basically, we covered the whole business to enable them to pitch. We managed the supply chain process extremely strictly. So if there was a question from one we answered to everyone. We had two question sessions. We had a lot of late hours. We put packs together, sometimes very late at night, because our turn-around had to be very quick. We had a really good project plan and feedback up to the CFO. There was a lot of planning and if you ask me what's the success? It's planning, planning, planning, planning, planning." (A2)

4.1.8 The auditors who stood out

The successful firm were required to meet the following criteria, and those included being well versed with industry-specific knowledge and having global reach. The firm were required to have the technical skills to handle a large audit and be able to perform an integrated audit and have the relevant skills and expertise together with firms around the globe to facilitate audits in other locations across the world. (A1, A2).

The appointed auditors having a strategic approach, became acquainted with the Company in advance of the opportunity to tender for the audit. The auditor had a team

which focused on the Company and followed its business, developments and identified whether there were opportunities posed to engage with the Company's management. The lead partner said:

> "We started focusing on the Company probably two to three years before the tender actually came out. It was always on our radar as a client we would like to have." (A9)

This is a clear indication of pro-activeness which worked in favour of the new auditors since they were informed.

The lead partner prepared and coordinated the tender for the audit and commented:

> "We had a beauty parade in front of the audit committee where we did a formal presentation. We brought quite a lot of technology into that and some of our other clients commenting on what we've done with previous transitions. Following that, a formal decision was made and we were notified and soon we started with our transitioning efforts." (A9)

4.1.9 The engagement partner's expertise and skill

The lead engagement partner took responsibility for efforts in the audit firm's tendering process. He was the key contact person in the audit-client relationship. This partner organized all the teams which were going to participate in the tender process. He also wrote the proposal. Audit teams including audit partners, managers and specialists (IT, Tax, Actuaries) were defined in every location in which the Company operated. These people were informed and mobilized as part of this process. The lead audit partner played the coordinating role.

There was a series of interactions between the partners of the audit firm with management of the Company. The lead audit partner attended all client meetings and was prepared to learn about the client, the industry and to put his best foot forward in those interactions. That culminated in the audit firm submitting a proposal document which had two elements to it: It was a technical proposal and a commercial proposal. The technical dealt with the firm's skills, industry expertise, and experience and delved into audit methodology and

ability to handle audits of this scale. The commercial dealt with mainly audit fees and the firms BEE credentials. It was deliberately kept separate because procurement was dealing with the commercial side and management and the audit committee with more so the technical side.

The lead engagement partner for the audit company has been with the audit firm for twenty-five years, of which eighteen years was as a partner. The same partner was overseas working in the USA for three years and specializing in US registrant work which placed him in a good position for an audit like the company from a SOX perspective, industry knowledge and the financial statement audit. This industry was where he specialised in since 1995. The audit firm organizes itself by industry (Financial institutions, Energy and natural resources, IT) at the firm. The audit firm had energy resources and utilities group which oversees mining, oil and gas, chemicals companies primarily all those which fit in that industry.

The audit partner also indicated that he was involved in three listed company transitions of which in his opinion the Company was the best structured and best organized. (A9) The auditors were appointed in April 2013 to perform the audit of the Company. The engagement letter was signed in May of the same year and was the start of the process.

When the audit firm was appointed as auditor of the Company, being a major conglomerate, it became the engagement partner's only client. The partner having a wealth of experience in audit of mining clients also managed the audit firms audit business in Gauteng. This created capacity for the lead partner to be able to dedicate himself to the Company during the transition period entirely.

4.2 Analysis of Interviews

4.2.1 Onboarding[4] and obtaining knowledge about the company

There is a lot of time, effort and emotional energy that was taken to change auditors and this is evident when the CFO, transition team lead said:

> "Then obviously the day came when you transition. You transition out and you transition in and its quiet emotional to say goodbye to business partners you have for such a long time like … But then you welcome in the new partners. And then reality strikes hey. So now you have to work with people you have no relationship with, which is fine if you have no issues." (A2)

The auditors obtained business knowledge through presentation, site visits and were introduced to the organisation key financial staff. Each underlying division presented their business, its key operations and the role it plays in the larger business to the auditors. The auditors attended those risk workshops with the broad finance team across the business including subject matter experts.

The interviewee also commented on the timeframe in which the transition took place, saying, "We signed that plan probably I would say end of April 2013." The plan was signed by the lead engagement partner together with transition lead on behalf of the audit firm, and the CFO who was the individual responsible for auditor rotation at the time on behalf of the Company. This was also an important so that it was not just left to the auditors to transition. It was essential that the company enabled the auditor to transition into the audit in order to work on it and empower them. This entailed the company arranging meetings, visits, site tours for the auditors to get them to know the business. The auditor partner went to each and every information and business meeting in the introductory phase of the

[4] Onboarding refers to a process of introducing a customer to your business by showing them the services available and ensuring their experience is a simple and streamlined (Agius, A, entrepreneur). In this case a structure approach to ensure understanding of the business and moving forward into auditing the business.

engagement. This was because the partner was ultimately signing off on group opinion and needed to know everything about the group.

> "That plan effectively ran from April 2013 right up to end of September 2014. Which was the time we signed our first auditor opinion. During that time the plan catered for a lot of activities and interactions between the auditors and the company for us to be able to obtain an understanding of the business. This included information packs per business unit that's been compiled for us as the auditors which we had to work through. Process descriptions, control matrices etc. The requirement was that we had to work through all of that information prior to doing walkthroughs of internal control environments, which we did in October and November 2013." (A9)

In this way the process was facilitated. The auditors worked closely with the company and its management toward a joint transition plan. This was relevant since the transition could not be left to the client and this enabled them to do that.

During the first phase the auditors had to get acquainted with the company. There was a lot of information provided to the auditor in terms of location of companies, key contacts at different locations, e-mail addresses, physical locations, representative offices, and finance personnel, business presentations that provided details of the structure of businesses, subsidiaries, joint venture and associates, revenue, assets and was very intensive. The researcher was also part of this process at the time being part of the finance team. The auditor engaged directly with business to obtain. All of that helped the auditors obtain an understanding of the company's business and was as a good starting point before looking at the numbers. So the first half year review, coming in new and without any relationships, the auditors were under the spotlight to perform in this highly integrated and complex environment. The audit associate went on to say that it indeed took time and effort to build relationships, this is what he had to say:

> "I guess, I think, you know with any company, with any individual change it is not always easy and I would be lying if I told you it was always easy. People were used to the previous auditors doing things a certain way and the auditors came in and we have our own way of doing things. Sometimes people struggled with that. It's also difficult when you come in you don't have the relationships necessarily, you don't have, you don't know

> people. People are reluctant to provide you with information because they don't know you. It was difficult the first year definitely. To find your feet to know who to speak to, who do you need to ask." (A10)

This is in line with research which indicates "in the initial years of a new engagement, the auditor depends more on the management to provide information on which he has to rely. The lack of client knowledge reduces the auditor's ability to detect irregularities (Knapp, 1991) and it takes so much time to obtain information to verify that it is tempting to cut corners and maybe the only way to get the audit completed." (Coyle, 2010)

Also audit quality, auditor independence and auditor competence are positively related. Jamal (2011), audit quality is always equated with independence. Auditing is a form of monitoring which constrains managerial reporting discretion and, therefore, reduces information risk (Jamal, 2011).

4.2.2 Audit risk and material misstatement

The audit risk for the engagement partner was that an incorrect audit opinion would be signed or that the group audit report would be signed off late. The other concerns which surrounded the engagement was the previous auditors were finishing off their audit work and, if the auditors took up much of their time providing group information the previous auditors would also be at risk of running late in delivering their audit report in their final year. It was evident that a plan to mitigate this risk had to be in place so that the auditors did not encroach on the previous auditor's time and planning.

In terms of resources, the team was planned and organized, this was effectively the approach of the audit firm that, using skilled staff at a more senior level, the interviewee commented:

> "The agreement we had with the Company at the time is that when we do the walk through we would get senior people to do the walk through of the internal control environment. Well senior is not the right word, experienced people, so we typically involved 3rd year trainees together with junior managers to do that work together with supervision from senior managers and partners. We had trainees involved but the more

> experienced trainees. The junior guys only came in when we executed on the half year review and the year end audit. We had to transfer that knowledge. In some shape or form to junior staff to avoid the Company employees being frustrated with trainees asking questions they would expect they would know the answer to already. Obviously from our perspective we had to get people up to speed because there was an expectation from management that whatever they provided us with, together with our walkthroughs, provided us that base." (A10)

There is a higher risk of not being able to uncover any issues in the earlier years of an auditor's tenure, as the new firm may not have fully developed and applied an in-depth understanding of the firm's financial reporting practices. Also Audit staff and training is essential in detecting material misstatement (Coyle, 2010). The audit firm takes measures to mitigate the risk of misstatement.

Auditor expertise is gradually developed (Bing, et al, 2014) and the expertise brought to the table by the auditor implies that industry specific knowledge does play a significant role in audit quality. Industry specialisation has always been an indicator of industry expertise and allows auditors to differentiate themselves from others (Bing, et al, 2014). In this way the auditors were able to detect financial statements' misstatements better (Bing, et al, 2014). The audit firm uses it industry knowledge to increase audit quality in the early years.

In the partner's opinion it was easy deriving the risks but what was more complex was to work back and say what do I need to know and what do we need to do to ensure the risks were covered. The lead partner being in the industry for more than 15 years had industry knowledge which was harnessed and assisted with mitigating audit risks identified.

The risk of restatement is a reality in the first year and was well known by the auditors; the literature indicates that out of 53 restatements by Russell 1000 Companies, 4 were identified as "fresh eyes" restatements, restatements adjusting a misstatement which occurred during the predecessor auditor's engagement and was found with the assistance of the newly engaged auditor. This number represents 7.5% of the 53 restatements identified (Audit Analytics, 2012.). Restatements disclosed prior to the

predecessor auditor's departure represent about 64% of the 53 restatements identified. These misstatements were addressed before the engagement of the new auditor (Audit Analytics, 2012.). In the Company's case the lead partner indicated that there were no restatements on the prior year audit

> "There were no restatements but we did have fairly significant adjustments in the first year. We also had a fairly large adjustment to share based payments which there was just an error in the model which was just never picked up but now that's been fixed. But now again you know that's a fresh pair of eye's looking at something. That was the two big things. It was the impairment and the share based payment. So if you don't do a good job at fully understanding, you could put the firm and company at risk by missing something" (A9).

This seems contrary to most research which indicate that in the first year there are often restatements.

4.2.3 Around the world with the auditors

Most interviewees recollected the meetings held between the auditors and the financial teams with respect. The lead partner went on to say:

> "There was a lot of planning around how we get to know the business of the Company. So all the BU engagement sessions where we went around all the businesses around the world meeting with management. They presented to us. We presented to them. There was a lot of planning around that. Meetings with the GEC, the audit committee. Box that into meetings with management really to learn and understand the business of the Company, there was a lot of that." (A9)

The audit partner, together with another partner, the Company's CFO and a member of the transition team visited Eurasian operations, Italy, Germany, Canada, and the U.S. In this way the auditor and the new client were able to spend time together and this was the start of the days, planning for success. This also provided an opportunity to ask key questions, for example, what they needed to do as the auditors and what was required by management to make a success of this transition effort. The audit firm also introduced the Company to a client in South America which transitioned from another audit firm to

the new auditors the year before. This brought knowledge, talking to the previous client about their experiences so management could talk to someone who had just gone through a similar process and find out what exactly to look out for and to consider whether they had covered all their bases.

These visits brought to light both the financial information, structures, processes and operational processes in the business. This process enabled the auditor to obtain vital information relevant to its pre engagement activities, audit strategy and risk.

There were change management activities that assisted the process from the point the auditors were appointed right to introducing them to every business and getting them up to speed with the Company so they could do the audit. There were information packs provided to auditors.

> "Every business had a standard pack to prepare to cover which they introduce to new auditors to their business to their teams. How they work, their key risk areas, the business processes they have, the systems they use. So we really covered the whole scope as to what auditors should know when they start and a lot of work upfront for them to fill in their new client questionnaires. To do a proper risk assessment on the client. We did a lot of it centrally to support them in that function." (A2)

> "There were a couple of informal dinners or even when we went to... there was a braai after the full days of activities. So you were able to connect with people socially as well. Just to sort of get to know the person and not just the worker." (A9)

The plan was created taking into account all deliverables by the Company to the JSE and auditors during the audit process and the reviews that were required at all levels of the organisation. Since the reviews were intense and encompassed many levels in the organisation as well as processes followed by the Company, the timeline was broken down into tasks and activities and due dates to each relevant party. Overall on a holistic level, the timeline was discussed with senior leadership in relevant functions in the business and CFO's in business units. The key was the communication at all levels and debating the realistic potential of the plan. Once the comprehensive plan was established, it was communicated at all levels of the organisation to ensure that business

units kept to the plan when creating their own timelines for deliverables to the group function. (A9, A2)

The audit partner met with the Company and the transformation committee on a weekly basis during the audit to report back on milestones, and if certain things fell behind, a sub plan was devised to catch up. This plan devised did not become a replacement plan nor did it overshadow the original plan, in other words the original plan did not change constantly or become a moving target. (A9)

4.2.4 Reviewing work of the previous auditor

The first-year audit engagement began about fifteen months prior to signing the first audit opinion. There were pre-engagement activities which took place before the audit began and took care of details like how to deal with the incumbent auditor. The first-year audit report sign-off was June 2014. The fifteen month transition plan was underway with the professional letters between the firms issued, a review of predecessor audit working papers ensued in terms of ISA510.

The auditor engaged with the PA in order to review prior year files and, in terms of ISA510, confirm opening balances and audit approach. It was not just a matter of reviewing prior year files and being satisfied with the audit. Thorough investigations were performed by the auditor to understand the audited numbers from the prior year and establish if they were satisfied with the numbers. In complex areas of the business prior year consolidations were reviewed and an understanding was gained as to how the PA auditor signed off on those reported numbers. When the auditor engagement with the PA did not meet their knowledge requirements they went to the auditor staff in that business area to obtain further understanding. There was intense collaboration between the PA, the auditor and the client in order to ensure that the auditor understood the business before the upcoming audit.

The auditors also began Information Technology (IT) testing early in June to have reliance on the accounting system the Company was working on at the time. This was to ensure that there were no issues with the system on which reliance was placed. It was part of the

plan to have information technology tested and perform a review of the Company's international IT audit reports. The audit firm had a standard methodology used on all client software and reliance was place on this method

The first year is rather intense as described by many respondents (A1, A2, A3, A4, A5, A6, A8, A9 and A10). One interviewee went on to comment:

> "Obtaining knowledge in the first year, sort of gathering this knowledge and documenting that for the first time because once you got a good set of work papers you can roll it forward. You know you don't have to re-invent the wheel every year. So I think it was really tough in the first year." (A9)

This also ensured sufficient knowledge was gained (Nelson, 2009). Research also indicates that Big 4 firms protect their reputations by providing high quality audits (Bing, et al, 2014) which is what the audit firm effectively worked on.

> "The good thing about the Company was the reporting practice committee process, everything is documented. All the key accounting complex matters are documented. Which is great because we basically work through 3 years' worth of RCP papers prior to taking over to make sure we've got comfort in the decisions we've taken previously. That took us a hell of a lot of time." (A9)

4.2.5 The control environment

The control environment and alignment of policies and procedures was a key part to the transition of auditors. Ensuring that policies and procedures followed by the Company was up-to-date and presented in a polished format. This meant that what the business did in its daily operations was actually aligned and documented in the policies and procedures. The auditor recognised that there may be limitations in the transition process and that there may be lack of clarity in what was required by the Company in some instances. This meant the Company would have to define its processes more clearly.

The RM went through the project related information and challenged risks identified. This took between two to three hours per session and was held with the Company's divisional CFO's and Senior Manager. There were approximately ten formal sessions with bigger

groups held twice a month with the project team, and stream leads, this ran throughout the project. It filtered down with the project and the updates were provided in the months that followed. The focus on risks was up to the start of the audit. These risk sessions ended after the first-year audit closed and risks were addressed, some risks had an end date but some carried on after the audit and when the process moved back to the department it belonged to the risk moved to the business units where they were monitored.

Once the project team understood the risk, they understood the process and this made room for optimisation. Looking at the business and its processes closely improved the Company's control environment and improved the Company's processes. The Company has a unique way of working and some businesses are unique.

> "You cannot expect the auditors to understand your business if you don't have a clear understanding yourself. Stop and take count of what they do …gave a chance for reflection and optimisation. Sometime we do stuff for the sake of doing." (A3)

The auditor approach was different and they would ask questions which were out of the norm of the established auditors. The auditors questioned processes and practices. Many of the interviewees were of the opinion that with the PA, management get used to the auditors and their way of working. The new auditors bring a fresh look at audit procedures and question more how things work with a respondent saying, "A new broom sweeps clean "(A2) and another respondent saying:

> "I think it improved our control environment and also made us improve our processes because their approach was different and their approach was new. So you have inefficiencies from them taking a while to understand our processes, and I think that's something we also realized through this process. The Company as a whole has a very unique way of doing things because our businesses are different and unique. It's not one-size-fits-all, it's not uniform." (A3)

The Company wanted the auditors to understand these points and act accordingly without the transition largely impacting its staff.

4.2.6 Grey matter and controversial technical matters

Respondents indicated that there were indeed differences of opinion on accounting decisions made in prior years and that predecessor auditors were not uncomfortable with. In some instances the auditors intensely reviewed these same accounting principles over months, sometime 4 to 6 months. This did not necessary mean it was wrong: it was just heavily debated and to ensure it met the IFRS standards and ISA standard.

Research indicates that the large Big 4 firms have greater incentive to protect their well-established brand names and reputations by providing higher audit quality. Resource availability also bolsters the relationship between large size audit firms and high audit quality (Bing, et al, 2014).

Respondents agreed that IFRS is open to interpretation and the technical issue hinged on the interpretation of words. The timing was such that at interim reporting period when results had to be released, this put pressure on the process. A few respondents indicated that the relationship in that business itself between the CFO and the audit partner didn't work well and it was escalated then to group but the relationship between the parties was immature and the parties went into almost a conflict situation. Senior people across the organization and across the globe had different interpretations of words and its meanings.

There was a big accounting issue in that first year. This coincides with research articles which place emphasis on the first-year audit and identify instances where advocates in support of firm rotation believe that it will increase professional scepticism and audit quality, whilst those opposing changing auditors argue that there is a loss in key business knowledge and a lot of value comes from the auditor having a long-standing relationship with the client (Antonio, and Bassetti, 2014).

Technical accounting debates encountered over the impairment of a cash generating unit, and meetings ensued in order to understand the assumptions and managements judgement. The difference of opinion could not be resolved by the auditor and management and escalated to the audit committee. The CFO and transition team lead went on to say:

> "The audit- client relationship was too immature to handle differences of opinion. One thing I would have changed is I would have had that conversation 3 months earlier because we could have then resolved it." (A2)

A few of the respondent's agree that this was a good example of an approach which the auditor would follow to test for impairment of assets which may be different from the way that it was done previously under the previous auditors.

The respondents agreed on the methodology in the 2014 half year review which is still applied now for the Company's operations. So there were issues that were not anticipated and not part of the plan and only once getting into the detail of the audit, the auditor realised that discount rates for shale gas assets was where there was a difference of opinion.

The respondent's opinion was to build risk the cash flows or build the risk into the discount rate and it wasn't properly considered and, in our opinion, in neither of the discount rate or the cash flows it would have resulted in a higher impairment. This is what the partner had to say:

> "I would like to believe had that technical issue happened 6 months later we would have dealt with it differently but at that point in time we weren't comfortable yet as in how do we deal with conflict between the two parties ….I'm right, no I'm right….the auditors knew in the audit they need to make a stand, with management pulling out their hair like I don't get what you're saying. We don't agree with your interpretation." (A2)

4.2.7 Industry specific knowledge, the edge

Respondents agreed that when technical matters arose, a recommendation by the client was be discussed and debated at length. The matter would be brought in to the technical partner and, if required the U.S SEC partner would get involved as well. The important thing respondents agreed on was that they had the luxury of time to debate and this is not always possible; having time to debate meant that both the client and auditor could take a break and consider matters creating a dilemma and reconvene after digesting the technical and operations aspects which the accounting issue brought to the table. This

would facilitate the decision making process which required a great degree of judgement and interpretation; this is not to say that if less time was available anything less was accomplished in the process. It would just place the same individuals under a great amount of pressure and mean less sleep.

This did impact the audit team after that since the audit client at this point realised that it was important to have a partner which was more pragmatic and it did not mean only one person's view would be considered. The client required a constructive debate to ensure the right accounting treatment was applied using the facts and the theory and then make a judgement. Both the auditors and client agree that there was an important lesson here and that things only got better after as a results of this and that this was part of the relationship building process.

> "If we know year-end is coming end of June, we will bring those things to the auditors here in March April. And agree upfront on methodology. How we were going to work with this. Let's interpret this sentence before we have numbers because if we saying this will make a write-off of R2 billion or R5 billion or R10 billion, then suddenly there's numbers involved so now it clouds judgement. We were pulling all of these judgemental issues and because of IFRS interpretation and there was a lot of management judgement which applies so a lot of the areas are very grey. We now debate those things outside reporting cycles. So when it comes to reporting cycles we apply what we've agreed with the auditors. And it's not like they tell us accounting. I can honestly tell you and I have the highest respect for our auditors because they are very independent." (A2)

The feeling from respondents was generally that the time constraints put pressure on technical accounting matters and if these issues could have been identified early enough and resolved it would not have put pressure on the results. Eventually a way forward was agreed upon by the audit committee. And we also agreed a way forward, in two ways: How to deal with the issues going forward, as well as how to improve the relationship and that was probably the better outcome. Both the auditors and the client agreed that the relationship had not progressed enough for both parties to have to deal with the matter in the best way possible but rather it was a course of events which had to have taken place in the first year of audit, it cannot be perfect

When asked about the technical knowledge and experience the audit partner replied that,

> "It was very intense … the Company is highly complex company, fully integrated, you just don't get to figure that out in a month or two, it takes time and it's quite intimidating. There were parts of the Company's business which could be listed companies… in their own right. A lot of time and effort went into getting to know the business and I think it's not easy because you've probably done the research but, if you look at audit failures, they normally happen in the first year or two of clients taking over. So if you don't do a good job at fully understanding, you could put the firm and company at risk by missing something. I still learn today. I'm rotating off this year but, I still need to learn small little things here and there as we go along. So it's just, it's just a big beast." (A9)

The auditor spent a considerable amount of time and effort getting to know the business especially with the risk of audit failures occurring in the first year. The auditor's were acutely aware of this fact and that many hours would have to go into understanding this "big beast" that the Company was described as in order to mitigate the audit risk of an incorrect audit opinion or being late with the audit opinion. The audit firm attended risk workshops and followed a risk-based approach.

Despite the audit firm having industry specific knowledge, the interviews indicate that significant time was taken by the auditor to understand specific accounting principles. This is not uncommon, and is in line with the literature industry knowledge that this does result in high quality audit. (Bing, et al, 2014)

Another respondent from a complex division also said:

> "It took 6 months or so to get the auditors onboard with accounting principles and it was purely because they didn't understand the complexity of the business they were actually discussing." (A5)

4.2.8 What culture fit meant for the company and audit team

It was important to the Company and to find auditors who were pragmatic and conservative and the CFO, transition team indicated this by saying,

> "I must say after the first audit we did make some changes. We made changes to the audit team. There were some audit partners who just didn't work for our business. There were some partners who we needed to rotate. There were some who clashed and we couldn't solve, that either the partner was not willing, the business could not accommodate. For example in the plant you are not allowed to wear high heels, that's a business rule. We had some people coming in extremely high heels and that didn't fit. So that wasn't a nice fit." (A2)

> "People were used to the PA doing things a certain way and the auditors came in and we have our own way of doing things. Sometimes people struggled with that. It's also difficult when you come in you don't have the relationships necessarily and you don't know people. People are reluctant to provide you with information because they don't know you. It was difficult the first-year, definitely." (A10)

> "This is our auditors and we actually took a time out as business with the auditors and we went on like a team building institute which actually works with teams to better build the team for a combined Company and auditors. And both parties were committed to make the relationship work and we made it work and to this day our relationships are extremely good. But it was willingness and realising where we can be better and then working on it." (A2)

When asked if the partner was a people person and a technical person the partner commented:

> "I think so you need to, yeah, look you need to be independent. I think that's what you ultimately need to be, that's your job right on behalf of the shareholders but you also need to get along with management. You spend 10 hours a day working, you need to at least, have that personal aspect to things as well." (A9)

Personal traits are important in any person-to-person engagement. Two interviewees pointed out this was lacking and an interviewee commented:

> "Just in general we do pick up that there's just no personal approach to the auditors to a certain extent. You coming to ask me a question but I don't even know who you are. First thing you don't even explain the context of the question and I'm trying to understand why you are asking it. You kinda come in, I need this information but first who are you and where might I help." (A5)

4.2.9 Time, effort and resources

Two respondents actually encountered a lack of audit resources and inconsistent team members during the first years of the audit and emphasised that this actually put pressure on the audit because the audit team was always changing. One respondent commented:

> "We spent a lot of time and cost to try and transition the audit which is obviously for our own expense. Our own cost for the investment we were prepared to make to win the audit. It can be from anything from 50% to 100% of the audit fee you invest to transition the audit properly." (A9)

In terms of the effort and time, the risk workshops did take a lot of time and extensive hours this was echoed by an interviewee commenting, "very costly transition." Although most participants expressed the same sentiments on the changeover being costly, when asked to quantify the hours or the cost most participants were unable to provide a specific number of hours or cost but rather said that they multitasked their responsibilities between the project and original job responsibilities over the duration of the project.

The transition team member also indicated that the amount of time for the auditors to grasp technical issues might have been underestimated saying:

> "We might have underestimated specifically at a group level, how much time it would take to get the auditors to buy-in to all the decisions made at the accounting practice committee during the last two or three years. One of the key things was the awful amount of time it took from a group perspective." (A1)

The auditor kept strictly to the timelines and attended weekly meeting at which milestones were discussed and a fall back plan set up for items which fell behind. Basically this

meeting consisted of the transition lead and the new auditor together with the Group CFO. This was to establish whether the auditors were ahead of the curve or behind.

The risk of the auditor missing deadlines was high, and the transition team were cognisant of this, they also understood that the auditors would not meet all timelines. The transition team tracked the timelines and emphasised those deadlines which could not be missed.

All respondents agreed that the independence of auditors was essential, and that is the primary requirement in the audit, in order to ensure shareholders' interests were managed and that the auditors needed to in some way get along with management. Long hours are spent with management and there will be a personal aspect to things as well. This was attested by the partner, "Took time to team build…We had to start from the bottom."

Most respondents agreed that the cost of transition was more, due to the hours spent and the integrated audit. The audit firm incurred at least 50% of the cost at its own expense to transition the audit. This makes transitioning highly capital intensive in the first years. As time went on, the costs do come down and this is why a long-term view is essential. With a respondent saying: "As with any transition the process required a lot of time and effort from both sides." (A3)

Another respondent went on to say:

> "So it's a lot of work to do it. You going to have people coming out of their jobs to manage auditor rotation. You have to as a business risk assess all these activities and ask yourself is this the right time to add this on top of the business or can we finish these key activities and do this? Also finding that sweet spot and managing risk from a company side." (A3)

Respondents agreed that high risk areas were recomputed by the auditors. This was to ensure that in the financial statement close process, where in addition to the controls comfort you need to have some evidence of having re-performed some calculations. This was not necessarily done in payroll testing because the controls were good enough, the risk was low and the auditors did not have issues, but in the consolidation or in the impairment area or the derivatives area, these were risky areas for the auditors.

4.2.10 Stakeholder lessons learnt, people and commitment

All respondents agreed that the transition was planned and implemented well and buy-in from financial staff at all levels was a key factor in the plan. The lead partner also said:

> "The Company's process was a lot more professionally run and planned but a company of this scale you have to do that. You can't just not have a plan and run to it blindly. Not to say that other clients don't do that but it was a lot less formal at other companies I've been involved with. I've been involved in three listed company transitions of which the Company by far was the best structured and best organized." (A9)

> "The time and effort that people in the organisation committed to the transition is what made it work in the end. It's basically doing double time on year end. People become frustrated because they are already stressed and stretched out and don't have time and now you have to help the auditors as well. You want to give them the quick answer almost so they can go away but you have to give them the proper answer." (A3)

The change management process was led from the Chief Financial Officer at the group and involved the buy-in of all leaders within the organisation. This led to the successive buy-in by senior management and other lower level staff even though it required extensive planning, preparation and delivery of information to the new auditors.

"The process of changing auditors was amazing." (A2) Leadership, and buy-in for the change happened at all levels within the Company.

> "I still learn today. I'm rotating off this year but I still need to learn small little things here and there as we go along. There were matters that we had to apply our minds to, to get to the same answer. I mean there were errors in the first year which we picked up that management corrected. Which I guess brings that fresh perspective, you know new pair of eyes looking at things…It was tough, it was very tough." (A9)

> "Realising our own mistakes, so no-one's perfect. The Company make mistakes just as well as the auditors and then saying let's take a look at how we can meet each other. And what is key for me is the different thinking style of people. So people think differently, some are more analytical, some are more organized, some are more strategic and it was about what is that common language we can speak between company and auditor,

person to person. Group engagement partner to controller. How do we meet, how do we have this meeting of minds and how do we remove conflict from this relationship? So we did a lot of conflict management and that process is actually saying we're going to make it work, these two individuals, A2 and A9, you two are going to make it work. As a team the team will make it work if the leaders make it work, drive the process and the mutual understanding." (A2)

The challenges faced by the team was echoed by the transition lead who said:

"To change auditors when you are changing the operating model is not necessary. Change the operating model and then change auditors. It's just easier to do. We were teaching the new operating model and onboarding the auditors was too many challenges at the same time and to manage the level of change in the organization took effort." (A2)

Audit independence and fresh eyes not tainted by audit client management's opinion is the ultimate objective to any audit client relationship and the way this is established by the public investor adds credibility to the financial statement.

"Fresh eyes...It's absolutely that. The important role of the auditors and having that governance view and making sure we act, we present our view to our shareholders accurately and to the best of our ability. You need people to challenge you in your thinking. You may think it's the same way but after three years you've actually forgotten the reason why. Now you get a challenge on it. It makes you think. It's definitely the fresh ideas, different ways of doing things. I think we sharpened our processes a lot in getting ready for this, so we cleaned up, we sharpened, we said you know what if we can do this better, let's do this better. Just the different thinking on how you would explain this to someone coming from the outside and if you can't explain it then maybe you not doing it the right way. It was the willingness of the whole organization to change. I forgot to mention one thing. We did do bench marking with a lot of other companies which changed auditors." (A3)

Respondents felt that independence is imperative when it comes to how the auditing profession is perceived.

"The perceived independence, in terms of real independence I don't think there is much difference. Yes, new auditors bring new ways of thinking and fresh ideas but in terms of

real independence at this point I don't think they make a difference; they have same risk strategy, same accounting standards, same proof is better than I hear you. I am not so sure that smaller firms have the capacity to be as diligent as do Big 4 firms." (A1)

4.2.11 What respondents said about a five year rotation policy

When asking respondents how they felt about auditor rotation every five years, most responded agreed that every five years would be cost intensive and time consuming and would not enhance audit quality. One interviewee commented by saying:

"I think that's rough, hey. I don't think that will be a good thing. Couple of reasons, I think it's very costly. We just spoke about all this time that not only the auditors need to invest in the new relationship but also management need. If you want to make a success of this, management also needs to invest time. I think it certainly would not enhance audit quality. Your knowledge of the business, you don't just, it takes time to gather that so I think the risk of an audit failure would be higher. So I don't think that would enhance audit quality. I'm not suggesting that you get too close to management but you need to understand the issues and the business if you want to do a proper audit. I think rather deal with partner rotation every five years to bring that fresh pair of eyes, that fresh pair of perspective than firm rotation and I think that's a much better way to go." (A9)

All respondents agreed that knowledge of the business was acquired over time and a lack of knowledge increased the risk of an audit failure. They thought that a five year rotation would not necessarily increase audit quality. This did not mean that respondents felt that a closer relationship would enhance the audit at all, it was merely an observation from their experience.

Some respondents felt that a company should rather deal with partner rotation every five years as that will bring that fresh perspective than firm rotation and this is a better option. Most respondents were of the opinion that partner rotation after five years would achieve this with the same audit firm. The Company adopted a policy of rotating auditors every seven years. Respondents felt that rotating auditors is not just a checker of an exercise, but rather that the process must be value adding to both parties and if a firm rotates too quickly it's just too costly and there is huge risk. Respondents felt that new auditors may

not necessarily understand the risk of what they're auditing and, as a result, they may miss things just because they don't know where to look. The respondents felt that if a client wanted to hide anything the first, second or third year would be compromised and the auditors would not pick it up. Respondents were of the opinion that it takes a lot of integrity from the business to show that this is how it should be done and we actually made a mistake. It's just not practical to gain a full understanding of the client in just one year, for a large organisation, especially since the financial year goes so fast and very soon the client is reporting and working toward the next annual general meeting. This is the reality of a large organisation.

So in terms of onboarding, a firm may not have the luxury of time to onboard a firm whilst transferring its knowledge of the business, and minimizing misstatements by current or predecessor auditors. So the year before is quite important in the transition and that is crucial in terms of the auditors being ready for the first year of audit and still the auditors learn through the first year, second year, third year and then you get to this point at year four or five and now they understand but the business evolves. The business is not static, so the organisation keeps on changing and the auditors are required to stay up-to-date with business and this take a lot of effort on their part. The transition took place during changes in senior leadership and change in the operating model of the entity and, this changes the whole dynamics and thinking process. Later on a new CEO came in and new Executive Vice Presidents. These changes in leadership, changes in strategy and changes to where the Company was going, took time for the auditors to keep up with and to make the link between what the businesses were doing, what they were being told by leadership, especially for areas that required judgement. The auditors in essence needed build trust in management and be assured of management integrity. The issue is that trust is not built in a year and this takes time. The auditors had to apply professional scepticism because sometimes there were thing's which could not be audited, there was no paper to go and tick. It was management judgement that had been applied, to that circumstance at that point in time.

One of the realisations at that point was that the client could of gave the auditor a management representation letter but that would only provide so much coverage. The

reality was that the auditor's exposure to risk as a firm was catastrophical on a major client. Reputation is what the audit profession lives on and if the audit firm made a mistake, it would have became public knowledge. The Company's reputation is very strong so reputation risk existed from both sides. This is what a respondent said:

> "Rotating every five years is extremely inefficient. It's costly and I think not value adding at all. It will not be value adding to the economy. It won't be value adding to businesses. We would probably find many more errors because things were missed. It takes some time to understand the company. It's not a box audit it's a great amount of work involving intricate complexities in the companies for example: how the Company structure works and how it fits together. I've been with the Company now for eleven years and I learn something new every day. You come in from the outside and you try to audit this, it's difficult. Every company's is different, five years is too little, and I think seven years. I think the other lesson learnt is be very aware when you make these changes of what else is happening in the Company." (A2)

Rotation of auditor is seen as value adding when the term is longer than five years with a minimum of seven years. This proposal was also considered unacceptable by the accountancy profession, on the grounds of time and cost (Gietzmann, et al, 2002).

5. Answering the Research Question

5.1 Part A: Will a change in auditors enhance auditor independence in South Africa?

There is a growing demand for reliable information, trustworthiness and transparency from public interest companies in order to protect the investor. The history of audit failures has raised much concern over the independence, ethics and quality of audit services (Antonio, and Bassetti, 2014).

The Company changing auditors was an evolution in its own right for a corporation of this size and complexity and it was exactly for that reason, independence, whether this is

perceived or not. Investors rely on credible financial statements and that's what they will have. This not only makes sense but is obvious in the whole scheme of events: having the same auditors for sixty years in this day and age is unthinkable. The world is changing and the Company must change with it as no one wants to suffer the consequence of being left behind. In South Africa with the current audit profession landscape floating on ice this was perfect timing for a company of this scale to change auditors with no counter arguments from the public or questions about why the change was necessary. The power of hindsight now makes the decision to change seem to be the right one at the time. Call it fresh eyes, or even enlightened eyes, essentially the need will arise for a new perspective which is what any public company seeks and this is echoed in the comments of interviewees. Companies taking this change in their stride will enable South Africa to leap toward evolutionary practices which impact reporting and investors with confidence and credibility.

Research indicates that the quality and competence of an auditor's work tends to decline over time as auditors become over-familiar with their audit clients and, as a consequence, begin to lose their professional scepticism and make unjustified assumptions (Coyle, 2010). This would imply that a change in firms and independence are ultimately what results in high quality financial statements investors rely on.

5.2 Part B: The challenges faced by a company when changing auditors

Change, as difficult as it is, comes with stretching the mind, the person, the process, the organisation and leaves behind the mediocrities and moves toward greatness. Sometimes this may be faster or slower but the ultimate effect is renewed focus into processes and functions which support financial reporting. Like any global change, the change of auditors began with a thought and translated into a decision and took on shape through people in the organisation. One thing which stands out is ultimately buy-in by people at all levels in the organisation. Whether change is warranted, self-elected or welcomed is how the product is sold and packaged. This is echoed by an interviewee saying, "Change management and dealing with the people in that process is probably one of your bigger aspects."

The change of auditors took a lot of time and effort whilst other projects were also being pursued by the Company and this posed a challenge since resources were limited and time and energy were spread across various different key projects. This is echoed by one interviewee who said, “So it’s a lot of work to do it. You are going to have people coming out of their jobs to manage auditor rotation.”

Relationship building takes time: by relationship, I mean a state where people trust one another because of openness, honesty, and a sincere demonstration of willingness to contribute. (Manni, (2013). New auditors face the anxiety which comes with new people and ways of working so it’s not a surprise that an interviewee commented, “It’s also difficult when you come in, you don’t have the relationships necessarily, and you don’t know people.” (A9)

The integrated nature and complexity of the business also presented its challenges to the auditor who needed a significant amount of time to understand the business and its technical aspects.

6. CONCLUSION

6.1 Concluding remarks

The review of current and previous literature indicates a lack of research on the impact of audit firm rotation in South Africa. This paper brings to light the impact of rotation on the audit firm and audit client. Although a change in auditors for the Company was a cumbersome exercise as indicated by all respondents of the Company, the value it brought to the organisation far outweighed its initial cost.

Effective communication, the timeless golden rule, was the greatest means to success aided by a formal plan. The age-old approach of leading and communicating from top to bottom proved worth the time and effort, coupled with information streams which aided the onboarding of the auditors.

The energy and enthusiasm conveyed was depicted in the interviews, gave the researcher an indication of the effort which went into the transition. Changing auditors required time and effort, though the immediate team had clear purpose, the extended teams followed diligently, giving meaning to the process. Despite the poor first encounters, disagreements and the length of time it took to get on the same page, all the interviewees of the Company still think that changing auditors was a long awaited and inevitable change. Whilst changing auditors for the Company was perceived by most individuals interviewed as a success, other listed companies may not have the same or similar operating structures which ensure a smooth change-over.

As fear is overcome by knowledge, this study brings to light the intricacies of changing auditors and the opportunities it brings to relook at the control environment, judgements used in accounting practice and financial processes. Current literature on changing auditors tends to suggest a negative connotation towards the subject. This research brings to light the positive impact a change in auditors can provide.

6.2 Opportunities for further research

The study provides a basis for understanding the changing of audit firms in a large conglomerate listed on the JSE Top 40. The study provides information on how the process worked for an organisation with solid processes, procedures and project management expertise. Future research exists in areas of audit independence in relation to rotation in other listed and unlisted companies in South Africa and the impact on investor credibility. The aspect of professional identity in relation to rotation can also be explored together with organisations that may not have as many resources as the Company and the challenges that this would bring and if audit quality and perceived independence is enhanced in a similar way.

Future research may be able to contrast the findings in this paper or agree with the hypothesis in this report. This study and future research may encourage the change of auditors and, in this way, also challenge the service of and competitiveness amongst the Big 4 in South Africa.

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8. APPENDIX A

Interview agenda

The interview agenda was designed to obtain key information from members of Company A in their different roles, key audit staff from partner to audit clerks. The questions are not the same in all instances and were devised to prompt the interviewers into providing a view of their specific experience during the transition of auditors.

Theme 1: Reason for change in auditors

What in your opinion was the reason for change in auditors?

Describe your working relationship with the previous auditors.

Describe your working relationship with new auditors.

Do you think that the change in auditors increased independence?

Do you think that the change in auditors added credibility to the financial statements?

Theme 2: The transition from previous auditors to new auditors

What was the process followed when changing auditors?

Describe your role in the changing of auditors.

Describe your role in the Company and your work experience.

Describe your experience during the transition process.

Theme 3: The process of change management and outcomes

Describe the onboarding of the new auditors.

What was the timeline in place to perform the transition?

What was the process followed?

What were the risks identified?

How were the risks identified managed?

What were the outcomes of the change in auditors?

Did the change in auditors bring about fresh eyes and enhance independence

What were the lessons which came out of the entire process?