



SOUTH AFRICAN RESERVE BANK
Prudential Authority

DRAFT FOR FORMAL CONSULTATION – OCTOBER 2020

Prudential Standard FC03

Auditor requirements for holding companies of financial conglomerates

Objectives and key requirements of Prudential Standard FC03

This Standard is made in terms of section 164 read with sections 105 and 108 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) and requires the holding company of a financial conglomerate to operate within the principles and comply with the requirements relating to auditors.

It is the responsibility of the board of directors of the holding company of a financial conglomerate to ensure that the financial conglomerate meets the auditor requirements on a continuous basis.

This Standard prescribes the Prudential Authority's requirements in terms of auditors of a financial conglomerate and specifies the requirements for approval to be an auditor of a financial conglomerate.

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1. Commencement

- 1.1 This Standard commences on 1 January 2022 (proposed).

| Version number | Commencement date |
|----------------|-------------------|
| 1 | 1 January 2022 |

2. Legislative authority

- 2.1 This Standard is made under section 164 read with sections 105 and 108 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)(FSR Act).

3. Application

- 3.1 This Standard applies to the holding company of a financial conglomerate as designated by the Prudential Authority in terms of section 160(1) read with section 160(2) of the FSR Act.
- 3.2 Where a requirement applies to the financial conglomerate, the requirement is imposed on the holding company. The holding company must ensure that the financial conglomerate as a whole complies with the requirements applicable to the financial conglomerate, unless otherwise specified in this Standard.
- 3.3 This Standard applies in addition to the financial sector laws which are applicable to specific financial institutions within a financial conglomerate.

4. Definitions and interpretation

- 4.1. The terms used in this Standard, unless indicated otherwise, are defined in the FSR Act and the financial sector laws, and have the same meaning in this Standard.

‘auditor’ means a registered auditor as defined in the Auditing Profession Act, 2005 (Act No. 26 of 2005) and includes an ‘engagement partner’ as defined in the International Standards on Auditing issued by the International Auditing and Assurance Standards Board;

‘board’ means the board of directors of the holding company of the financial conglomerate; and

‘holding company’ means the holding company of the financial conglomerate as designated by the Prudential Authority in terms of section 160(1) read with section 160(2) of the FSR Act.

- 4.2 The ‘Objectives and key requirements of Prudential Standard FC03’ that is italicised in the preamble of this Standard must not be used in the interpretation of any paragraph of this Standard.

5. Roles and responsibilities

- 5.1 The Prudential Authority recognises the important role of the audit profession in the supervision of financial conglomerates. As has been the case in the past

for both banking and insurance regulation and supervision, the Prudential Authority will place reliance on the auditors of the holding company with regard to verifying the completeness, accuracy and validity of specified information provided to the Prudential Authority for regulatory purposes.

- 5.2 The board is ultimately responsible for ensuring that the financial conglomerate complies with the principles and requirements of this Standard.

6. Principles and requirements

- 6.1 The holding company must appoint an auditor for the financial conglomerate in accordance with the provisions of sections 90 to 94 of the Companies Act, 2008 (Act No. 71 of 2008).
- 6.2 No person or audit firm may act as the auditor of the holding company of the financial conglomerate without the approval of the Prudential Authority.
- 6.3 All reports by the auditor relating to the regulatory returns of a holding company must be signed off by the audit firm and the engagement partner approved by the Prudential Authority.
- 6.4 The application for approval of the auditor of the holding company must be made to the Prudential Authority, in the form and manner determined by the Prudential Authority, within 30 days after the appointment of the auditor by the holding company.
- 6.5 The appointment of the auditor only takes effect once the Prudential Authority approves the appointment. Any notification of the auditor's appointment to any other stakeholders, prior to approval from the Prudential Authority, must clearly indicate that the appointment is subject to the approval of the Prudential Authority.
- 6.6 The auditor appointed by the holding company must have sufficient understanding of the nature of the business of the financial conglomerate.
- 6.7 The Prudential Authority may require the holding company to appoint more than one audit firm to jointly conduct the audit of the financial conglomerate based on the nature, scale and complexity of the financial conglomerate or any other factors contributing towards the risk profile of the financial conglomerate.
- 6.8 In addition to the information that the Prudential Authority may request directly from an auditor to assess the suitability of the auditor, the proposed auditor is required to grant permission to the Independent Regulatory Board for Auditors and the South African Institute of Chartered Accountants to disclose to the Prudential Authority any information that may be relevant to the appointment of the auditor by submitting a duly completed and signed consent form, the form and manner of which will be determined by the Prudential Authority.

END OF STANDARD

This section is not part of the Standard and will be determined by the Prudential Authority in terms of paragraphs 6.4 and 6.8 of the draft Standard

Application form for approval of auditor(s) for the holding company of a financial conglomerate

The applicable information detailed in Part A and Part B below shall accompany each application.

APPLICATION FOR APPROVAL OF THE APPOINTMENT OF AUDITOR(S)

1. I, the undersigned chairperson/chief executive officer of.....
hereby declare that in accordance with the provisions of (select as applicable)
☐ section 90(1) of the Companies Act, 2008 (Act No. 71 of 2008), as amended,
a resolution was passed at the annual general meeting of the said company on
☐ section 91 of the Companies Act, 2008 (Act No. 71 of 2008), as amended, a
resolution of the board of directors was passed on.....(yyyy-mm-dd)
to appoint..... (name of firm) of
.....(address) and
..... (name of firm)
of(address) as
auditors(s) of the said company from (yyyy-mm-dd).
2. The following person(s) has/have been nominated to act as engagement partner(s)¹
on the audit of the entity stated above:
3. In terms of Prudential Standard FC03, I hereby apply for your approval of the
appointment(s) set out in paragraphs 1 and 2.

.....

Date

.....

Chairperson/Chief Executive Officer

¹ 'Engagement partner' means the auditor responsible for the effective functioning of all phases in the audit and for exercising his/her professional judgement, based on the results of the audit procedure, to express an opinion on the fair presentation of the financial statements of the regulated institution.

Part A: Information required by the Prudential Authority in considering the approval of the appointment of an audit firm for the holding company of a financial conglomerate

(i) Administrative and audit firm profile information

a. Name of audit firm to be appointed as auditor of the financial conglomerate:

.....

b. Business address, e-mail address and telephone numbers:

.....

c. Active engagements²: Please list all of your firm's engagements with regard to the entities within the financial conglomerate that are active at the time of this application:

i. Statutory audit of annual financial statements:

| Name of entity | Year of appointment |
|----------------|---------------------|
| | |
| | |

(Please add rows if necessary)

ii. Non-audit services – audit-related (e.g. required by a regulator/law that the services be performed by the appointed statutory auditor) and permitted services (e.g. Attest and assurance services such as comfort and consent letters in securities offerings):

| Name of entity | Type of engagement | Year of appointment | Total value of contract (R) |
|----------------|--------------------|---------------------|-----------------------------|
| | | | |
| | | | |

(Please add rows if necessary)

iii. Other (e.g. consulting work):

| Name of entity | Type of engagement | Year of appointment | Total value of contract (R) |
|----------------|--------------------|---------------------|-----------------------------|
| | | | |
| | | | |
| | | | |

(Please add rows if necessary)

d. Past engagements: Please list any of your firm's engagements with regard

² Active engagements are those that are in progress at the time of this application or for which final approval has been obtained.

to the entities within the financial conglomerate that were completed during the past four years:

i. Statutory audit of annual financial statements

| Name of entity | Year of completion |
|----------------|--------------------|
| | |
| | |

(Please add rows if necessary)

ii. Non-audit services – audit-related (e.g. required by a regulator/law that the services be performed by the appointed statutory auditor) and permitted services (e.g. Attest and assurance services such as comfort and consent letters in securities offerings)

| Name of entity | Type of engagement | Year of completion | Total value of contract (R) |
|----------------|--------------------|--------------------|-----------------------------|
| | | | |
| | | | |

(Please add rows if necessary)

iii. Other (e.g. consulting work)

| Name of entity | Type of engagement | Year of completion | Total value of contract (R) |
|----------------|--------------------|--------------------|-----------------------------|
| | | | |
| | | | |

(Please add rows if necessary)

(ii) Independence of the audit firm

- Explain the corporate governance processes that are in place within the audit firm that are designed to strengthen independence in fact and appearance.
- Are there any reasons why the audit firm might not be considered independent from the financial conglomerate? If so, please provide details.

(iii) Professional proficiency of the firm

- Are you of the opinion that sufficient and relevant knowledge, skills and disciplines are available in your firm for the audit engagement of the financial conglomerate? Please elaborate, inter alia, on the following elements of professional proficiency:
 - Relevant qualifications of staff that will be involved in the audit of the financial conglomerate.
 - Access to Technical Department.
 - Adequately specialised training.

(iv) Disqualification of the audit firm

- Is the engagement partner qualified to act as the auditor, specifically taking

into consideration the disqualification criteria stated in section 90 of the Companies Act, 2008 (Act No. 71 of 2008)?

- b. Are there any pending or current lawsuits or professional liability suits against the audit firm or against any partners of the audit firm of which the regulators should be aware?
- c. Has the audit firm been placed on the list of disqualified auditors by the JSE? Please attach the relevant documentation from the JSE in this regard.

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Part B: Information required by the Prudential Authority in considering the approval of the appointment of the engagement partner for an engagement relating to a financial conglomerate

1. Engagement partner's information, qualifications and experience

- a. Full name and contact details of engagement partner (including any former names):.....
- b. South African Institute of Chartered Accountant's (SAICA) membership number:.....
- c. Independent Regulatory Board for Auditors (IRBA) membership number:.....
- d. Professional qualifications and year in which they were obtained:.....
.....
.....
- e. Number of years' experience within the financial service industry:.....

2. Independence of engagement partner

- a. Are you or your firm involved in the management or decision making of the financial conglomerate, or are you or your firm associated with a service provider of the financial conglomerate? If yes, please provide a list of services other than auditing provided to the financial conglomerate as well as an indication of the extent of such services, and whether such services are carried out independently of the engagement partner. (Actions such as being engaged in the preparation of the financial statements and statutory returns, involvement in the valuation of assets or liabilities for purposes of recording them in the financial statements, acting for the financial conglomerate in the resolution of litigation that may have a material impact on the financial statements, or performance of services having a direct impact upon senior management, such as their recruitment, could indicate involvement in the management of the financial conglomerate).
- b. Do you believe that you are independent from the financial conglomerate and that you are able to maintain an objective frame of mind in accomplishing your audit responsibilities?
- c. Do you as the engagement partner have (or intend to have) a direct line of communication and a working relationship with the board of directors and audit committee of the financial conglomerate?
- d. Is there anything known to you that will negatively affect the independence

of the engagement partner?

3. Professional proficiency of the engagement partner

- a. Have you been subject to an IRBA inspection or review (or inspection or review by an equivalent regulator) within the last 36 months? If so, please provide a copy of the inspection report.
- b. Are you, or will you be, able to show how all problems addressed in the most recent IRBA inspection or review report have subsequently been resolved?
- c. Are you subject to internal peer review from time to time by your partners with appropriate industry experience?

4. Disqualification of the engagement partner

- a. Are you qualified to act as the auditor, specifically keeping in mind the disqualification criteria covered in section 90(2)(b) of the Companies Act, 2008 (Act No. 71 of 2008) and relevant financial sector laws, as amended?
- b. Are there any pending or current lawsuits or professional liability suits pending against you of which the Prudential Authority should be aware?
- c. Have you ever been a responsible partner engaged by a regulatory authority to perform a special investigation on its behalf that failed to reveal a problem that was subsequently shown to exist?
- d. Has your registration as a Chartered Accountant or Registered Auditor ever been suspended or have you been sanctioned following a disciplinary proceeding instituted by a regulatory authority or professional organisation of which you are a member or subject to, for example, the IRBA or SAICA?
- e. For audits of listed entities, has the engagement partner and any other partner involved in the audit of the financial conglomerate been placed on the list of disqualified auditors by the JSE Limited? Please attach the relevant documentation from the JSE in this regard.

5. Declaration

I, the undersigned, the designated auditor of(regulated institution) certify that, to the best of my knowledge, the information given in answer to the above questions in Part A (if applicable) and Part B is complete and accurate and not untrue or misleading in any respect.

I undertake, as long as I continue to be a person responsible for the audit of the holding company of the financial conglomerate to notify the Prudential Authority of any material changes affecting the completeness or accuracy of the answers to the questions above, inclusive of any disciplinary action against me by not later than 12 days as from the day that such changes come to my attention.

Name:

Name of audit firm or partnership:

Signed:

Date:

Permission to request information relevant to my appointment as the engagement partner from the South African Institute of Chartered Accountants and/or the Independent Regulatory Board for Auditors

I,hereby grant permission to the South African Institute of Chartered Accountants and the Independent Regulatory Board for Auditors to disclose information that may be relevant to my appointment as engagement partner of the holding company of a financial conglomerate to the Prudential Authority.

Name:

Name of audit firm or partnership:

Signed:

Date: