

South African Reserve Bank  
From the Office of  
the Registrar of Banks

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**To all banks, branches of foreign institutions, controlling companies, eligible institutions and auditors of banks or controlling companies**

**Circular 7/2014 issued in terms of section 6(4) of the Banks Act, 1990**

**External auditors of newly acquired or established entities**

**Executive summary**

The Office of the Registrar of Banks (this Office) periodically reviews the conditions attached to approvals granted by it in terms of section 52 of the Banks Act, 1990 (Act No. 94 of 1990 – the Banks Act). Most recently this Office reviewed the condition that the external auditors of a newly established or acquired subsidiary need to be the same as those of the group. Following due consideration of the matter, this Office concluded that the condition should be amended. This circular informs banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as banks) of the approach that will be followed by this Office in future to consider applications received in this regard.

**1. Introduction**

- 1.1 In accordance with the provisions of section 90(1) of the Companies Act, 2008 (Act No. 71 of 2008 – the Companies Act), a public or state-owned company is required to appoint an auditor upon its incorporation, and each year at its annual general meeting.
- 1.2 Furthermore, in accordance with the provisions of section 90(2)(c) of the Companies Act, in order for an auditor to be appointed as a company's auditor, the company's audit committee must be comfortable with the proposed auditor's independence.
- 1.3 The responsibility regarding the actual appointment of the external auditors therefore vests with the relevant company.
- 1.4 This Office has been approached by various persons who raised concerns regarding the section 52 approval condition imposed requiring the external auditors of the newly established or acquired subsidiary to be the same as those of the group.
- 1.5 According to International Standard on Auditing (ISA) 600, should the external auditors of the holding company be different to those of an individual entity, the audit firm responsible for the reporting on the financial statements of the holding company (principal auditors) may still make use of the services of another audit firm.
- 1.6 Furthermore, ISA 600 also states that the engagement partner needs to be satisfied that component auditors<sup>1</sup> have the necessary competence.

<sup>1</sup> According to ISA 600, a component auditor is defined as an auditor who, at the request of the group engagement team, performs work on financial information related to a component of the group audit.

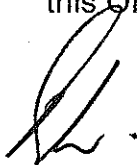
- 1.7 A component may take the form of a division, branch, subsidiary, joint venture, associated company or other entity whose financial information is included in the financial statements audited by the principal auditor. However, ultimately the group engagement partner remains responsible for the performance of the audit.
- 1.8 Taking into account ISA 600, the group's auditors may still make use of other audit firms' expertise should they wish to do so.

## **2. Auditors of newly established or acquired entities as per section 52 of the Banks Act, 1990**

- 2.1 According to section 52(1)(a) of the Banks Act, a bank shall not without the prior written approval of the Registrar of Banks establish a subsidiary or create a division in the manner prescribed within or outside the Republic of South Africa (the Republic) or enter into an agreement having the effect that any company becomes its subsidiary or such division within or outside the Republic.
- 2.2 One of the governance conditions currently imposed as part of a section 52 application approval is that the auditors of the newly acquired or established entity should be the same as those of the group.
- 2.3 This Office periodically reviews the conditions attached to approvals granted by it in terms of section 52 of the Banks Act. Accordingly, this Office recently reviewed the condition that the external auditors of a newly established or acquired subsidiary need to be the same as those of the group.
- 2.4 In view of the above, this Office has decided that should the newly established or acquired entity want to appoint different auditors to those of the group, such requests will be considered on a case-by-case basis.
- 2.5 To allow this Office to make an informed decision regarding the proposed auditors of the newly established or acquired entity, the group should for all future applications submit, together with the section 52 application a motivation detailing the reasoning behind the appointment of the proposed auditors.
- 2.6 This circular can also be applied retrospectively in respect of small- and medium-sized audit firms that performed audits for entities prior to such entities being acquired by banks as subsidiaries. However, the discretion to reappoint such audit firms vests solely with the relevant bank, and formal requests in this regard are to be submitted to this Office for prior approval.

## **3. Acknowledgement of receipt**

- 3.1 Two additional copies of this circular are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer and the said auditors, must be returned to this Office at the earliest convenience of the aforementioned signatories.



René van Wyk  
**Registrar of Banks**

The previous circular issued was Banks Act Circular 6/2014, dated 2 June 2014.