



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

Confidential

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D6/08

TO ALL BANKS, CONTROLLING COMPANIES AND BRANCHES OF FOREIGN BANKS

**DIRECTIVE 6/2008 ISSUED IN TERMS OF SECTION 6(6) OF THE BANKS ACT, 1990:
AUDITOR ROTATION**

EXECUTIVE SUMMARY

Banks Act Circular 6/2007 dated 14 November 2007 regarding consultation with banks, controlling companies and branches of foreign banks in respect of directives, circulars and guidance notes refers.

In line with international best practice and in order to enhance the independence of auditors and, thereby, maintain an objective approach to the auditing and disclosure of banks' financial affairs this Office has since 2004 adopted the approach of auditor rotation.

1. Introduction

This Office adopted the process of auditor rotation and has implemented the said process during 2004 by means of Banks Act Circular 16/2004. The rotation of auditors does not require the rotation of an auditing firm, but rather the rotation of an auditing firm's partners. The rotation of auditing partners will apply only to the lead partners and engagement partners conducting the audit of a bank or controlling company of a bank when such a controlling company is registered in the Republic of South Africa.

The terms lead partner and engagement partner may broadly be defined as follows:

Lead partner – The lead partner is the partner who has overall and final responsibility for the audit of a bank or the controlling company of a bank. The lead partner would also have responsibility for signing the annual financial statements and presenting the findings of an audit to the audit committee of a bank.

Engagement partner - The engagement partner has responsibility for managing and coordinating the auditing work that is being undertaken in respect of a bank or its controlling company. The engagement partner may also have responsibility for auditing one or more of the segments, divisions or subsidiaries of such a bank or controlling company. The engagement partner would normally liaise with the lead partner on important matters relating to the former's area of responsibility.

In certain auditing firms, use is made of a concurring partner to provide another level of objectivity on the auditing work undertaken by the lead and engagement audit partners. This Office decided not to include the concurring partners in the rotation process. The roles and functions of the concurring partners in the audits of banks and controlling companies of banks should be managed by the auditing firms, in order to ensure that the roles and functions of concurring partners do not encroach on the roles and functions of the lead or engagement partners.

This Office does not require the rotation of so-called specialist partners, that is, partners dealing with issues of a specialised nature, such as taxation issues.

2. Implementation of auditor rotation

The implementation of rotation of partners was applied retrospectively. Lead partners who have audited a particular bank or its controlling company in that capacity for a period of five years or longer as at completion of the 2004 financial year-end audit should have rotated on completion of the year-end audit until and including 31 December 2004. Lead partners who have audited a particular bank or its controlling company in that capacity for a period of less than five years as at 31 December 2004 shall complete the remaining portion and shall rotate on completion of the five-year period.

To ensure continuity, the rotation of engagement partners was only implemented after completion of the 2005 financial year-end audits until and including 31 December 2005. Engagement partners who have audited a particular bank or its controlling company in that capacity for a period of five years or longer as at completion of the 2005 financial year-end audit should have rotated on completion of the 2005 financial year-end audit until and including 31 December 2005. Engagement partners who have audited a particular bank or its controlling company in that capacity for a period of less than five years as at 31 December 2005 shall complete the remaining portion and shall rotate on completion of the five-year period.

In cases where two auditing firms were appointed by a bank or controlling company, rotation of the first lead partner started on completion of the 2004 financial year-end audit until and including 31 December 2004. The second lead partner rotation started on completion of the 2005 financial year-end audit until and including 31 December 2005. Rotation of the first engagement partner will take place after completion of the 2005 financial year-end audit until and including 31 December 2005, and the second engagement partner will rotate after completion of the 2006 financial year-end audit until and including 31 December 2006.

3. Directive

A bank or controlling company shall ensure that auditor rotation takes place within the prescribed period of five years from the applicable date as determined in paragraph 2 above. After serving the five year period a lead or engagement partner will not be permitted to become the lead or engagement partner of the same bank or its controlling company for a period of three years.

4. Acknowledgement of receipt

Two additional copies of this directive 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 of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.



E M Kruger
Registrar of Banks

The previous directive issued was Directive 5/2008 dated 7 May 2008.