



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

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G2/2018

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

Guidance Note 2/2018 issued in terms of section 6(5) of the Banks Act 94 of 1990

Meetings to be held during the 2018 calendar year with the boards of directors of banks and controlling companies

Executive summary

The purpose of this guidance note is to inform all banks, branches of foreign institutions, controlling companies and eligible institutions (hereinafter collectively referred to as 'banks') and the auditors of banks, of the flavour-of-the-year topic for the discussions to be held with the respective boards of directors during 2018.

1. Background

1.1 In order to assist the Office of the Registrar of Banks (this Office) to discharge its supervisory responsibilities, the scope of the meetings with banks' boards of directors (boards) and in the case of the branches of foreign institutions, the executive committees, to be held during the 2018 calendar year, will include a discussion on the flavour-of-the-year topic, "Auditor independence and audit quality measures".

2. Format of the meetings to be held with the banks' boards

All banks' boards will be required to make a presentation and engage in discussions on the above-mentioned flavour-of-the-year topic. The duration for the presentation should be targeted at approximately 45 minutes. It is intended that the presentation should cover only the key elements of the topic. This Office also requires to be provided with a copy of the presentation at least three weeks prior to the board or executive committee meeting. The flavour-of-the-year topic is elaborated below.

3. Auditor independence and audit quality measures

3.1 Background

Section 64(2) of the Banks Act No 94 of 1990 and sections 94(7) and 94(8) of the Companies Act No 71 of 2008 stipulate the requirement for a bank's Audit Committee to ensure that the appointed auditors remain independent. The matter of auditor independence is also specifically addressed in various papers issued by the Basel Committee on Banking Supervision (BCBS) which cover matters related to auditors and audit committees of banks, specifically "External Audit of Banks, released during March 2014, principle 1 and 2", as well as "Corporate Governance Principles for Banks, published in July 2015, paragraph 69".

High levels of audit quality, enhanced by auditor independence, are important prerequisites to sound reporting and oversight, and hence crucial in assisting this Office in fulfilling its mission to promote the soundness of the domestic financial system in the interest of financial stability.

In light of the increased focus placed on auditors and the audit profession, this Office continues to monitor developments pertaining to the strengthening of auditor independence and the quality of audits, as a key responsibility of the Audit Committee of a bank, to ensure that the requirements surrounding auditor independence and quality of external audit are met.

3.2 Format of discussion

This Office requires the Chairperson of the Audit Committee or an Audit Committee member to present to this Office on how the Audit Committee ensures that it is able to attest on an annual basis to the auditor independence as stipulated in the various legislative requirements and BCBS papers, with specific reference to policies set and processes followed to determine and ensure ongoing independence.

The presentation should clearly indicate the practical steps followed by the Audit Committee to enable it to come to the conclusion that all the various requirements pertaining to auditor independence have been satisfactorily met, and that the integrity of its audits is preserved to ensure a high quality audit.

The Audit Committee should also indicate how it assesses the relevant quality control standards applicable to the external auditor and whether it requires the external auditor to report on its own internal quality control procedures.

The Audit Committee will also be required to present on how compliance with Section 90(2) of the Companies Act is ensured in terms of non-audit work performed by its external auditors and other firms. Reference to other requirements such as those set by the Johannesburg Stock Exchange and the King Committee on corporate governance could also be stipulated and referenced.

4. Acknowledgement of receipt

- 4.1 Kindly ensure that a copy of this guidance note is made available to 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.



Kuben Naidoo
Deputy Governor and Registrar of Banks

Date: 5 MARCH 2018

The previous guidance note issued was Guidance Note 1/2018, dated 8 February 2018.