

Ref.: 15/8/2/3

D2/2025

**To: All mutual banks and auditors of mutual banks**

**Directive issued in terms of section 4(6) of the Mutual Banks Act, 1993 (Act No. 124 of 1993)**

**Appointment of auditors in terms of section 45(18) of the Mutual Banks Act, 1993 (Act No. 124 of 1993)**

### **Executive summary**

**Section 45(18) of the Mutual Banks Act, 1993 (Act No. 124 of 1993) (Mutual Banks Act) requires a mutual bank to apply to the Prudential Authority (PA) for the approval of the appointment of its auditors.**

**The purpose of this Directive is to direct mutual banks to submit specified information as part of their application to the PA for the approval of the appointment of their auditors.**

## **1. Introduction**

- 1.1 Section 45(18) of the Mutual Banks Act states that a mutual bank shall, within 30 days of the appointment of any auditor, apply to the PA for the approval of the appointment.
- 1.2 Regulation 33 of the Regulations relating to Mutual Banks prescribes that a form DI 005 must be submitted by a mutual bank for the application for the approval of the appointment of an auditor in terms of section 45(18) of the Mutual Banks Act. The regulation further states that the submitted application form shall include every prescribed item as indicated on the form.

## **2. PA approval process**

- 2.1 The PA's auditor approval process assesses the following key areas regarding the proposed audit firm and proposed engagement partner:
  - the competence, experience and resourcing of the audit firm;
  - the audit quality review outcomes of the audit firm;
  - the competence, integrity and experience of the engagement partner;
  - the capacity of the engagement partner to take on an additional engagement;
  - the audit quality review outcomes of the engagement partner; and
  - the independence of the audit firm and the engagement partner.

- 2.2 The existing version of form DI 005 does not include, as prescribed items, documentation that substantiates both the proposed audit firm and the proposed engagement partner's competence, experience, capacity, resourcing, independence and integrity.
- 2.3 Therefore, to assess the suitability of mutual banks' proposed auditors, the PA must, as part of every application, request additional documentation to substantiate the key areas of the PA's auditor assessment process mentioned in paragraph 2.2 from the mutual bank.
- 2.4 Consequently, the current process where the PA must specifically request additional documentation for both the proposed audit firm and the proposed engagement partner often delays the application process. This Directive aims to improve the efficiency of the auditor application process by prescribing all the documentation required to accompany the form DI 005 for submission to the PA.

### **3. Directive**

- 3.1 Based on the aforesaid, and in accordance with the provisions of section 4(6) of the Mutual Banks Act, mutual banks are hereby directed as follows:
- 3.1.1 In addition to the prescribed DI 005 application form, mutual banks must submit the following documents to the PA:
- a list of engagements<sup>1</sup> that are allocated to the proposed engagement partner at the time of submission, including the name of the entity, the financial year-end of the entity and the position held by the proposed engagement partner;
  - the latest Independent Regulatory Board for Auditors (IRBA) inspection report<sup>2</sup> of the proposed audit firm, where applicable;
  - the latest IRBA inspection report<sup>2</sup> of the proposed engagement partner, where applicable (note that this report must not be older than five years);
  - the outcome of the proposed engagement partner's latest internal quality review, where applicable (note that this review must not be older than four years);
  - a root-cause analysis and remedial action plan that addresses the deficiencies identified during these reviews if the outcome of the IRBA inspection or the internal quality review above is unsatisfactory/non-compliant or signifies that some or significant improvement is required;
  - the proposed engagement partner's latest curriculum vitae;
  - a list of audit specialists that will support the proposed engagement partner on the audit of the mutual bank;
  - a declaration of independence from the mutual bank, by both the proposed audit firm and the proposed engagement partner;
  - confirmation from the proposed engagement partner, stating that:

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<sup>1</sup> This refers to all the work commitments allocated to the proposed engagement partner, including, but not limited to, work commitments where the proposed engagement partner serves as an engagement partner, an engagement quality reviewer, a practitioner for non-assurance engagements, and so forth.

<sup>2</sup> The PA acknowledges that IRBA takes a risk-based approach to inspections. As such, if the proposed audit firm and/or proposed engagement partner has never been subjected to an inspection or the latest inspection report of the proposed audit firm and/or proposed engagement partner is older than five years, either instance must be clearly indicated in the submission. It should also be noted that not having an IRBA inspection report or having an outdated inspection report will not necessarily have a negative impact on the assessment.

- the proposed engagement partner is qualified to act as an auditor, keeping in mind the disqualification criteria in section 90(2) of the Companies Act, 2008 (Act No. 71 of 2008);
  - there are no pending or current lawsuits or professional liability suits against the proposed engagement partner that the PA should be aware of;
  - the proposed engagement partner has never been the lead partner appointed by a regulatory authority to conduct a special investigation on its behalf and failed to reveal a problem that was subsequently shown to exist; and
  - the proposed engagement partner has never been removed as the responsible partner of a regulated institution by a regulatory authority;
  - any additional documents or information that may be necessary for the PA's auditor assessment process; and
  - any amendments/updates to the information submitted, before the mutual bank receives formal feedback from the PA must be communicated to the PA by no later than 5 business days of becoming aware of the amendment/update.
- 3.1.2 The appointment of an auditor for a mutual bank must comply with section 45(18) of the Mutual Banks Act read with section 90 of the Companies Act.
- 3.1.3 Upon request, both proposed and approved auditors are required to grant permission to IRBA and the South African Institute of Chartered Accountants to disclose any information to the PA that may be relevant for assessing the suitability of the mutual banks' proposed auditor during the PA's auditor assessment process and throughout the approved auditor's tenure. The auditor will be required to grant permission for the disclosure of this information in a form and manner that will be determined by the PA.
- 3.2 Mutual banks must note that the PA may grant an approval with conditions, which will be stipulated in the approval letter of the proposed engagement partner. An engagement partner who has been granted an approval with conditions will not be considered for any other auditor application until the stipulated conditions are met.
- 3.3 In accordance with section 45(18) of the Mutual Banks Act, mutual banks must submit their applications for the appointment of auditors to the PA within 30 days of the auditor's appointment.

#### **4. Acknowledgement of receipt**

- 4.1 Kindly ensure that a copy of this Directive is made available to your institution's Board of Directors, Audit Committee and external auditors. In addition, the attached acknowledgement of receipt, duly completed and signed by both the CEO of your institution and said auditors, should be returned to the PA at the earliest convenience of the signatories.

*Fundi Tshazibana*

**Fundi Tshazibana**  
**Chief Executive Officer**

**Date:** 20/11/25