

Ref.: 15/8/1/3

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

Proposed Directive issued in terms of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990)

Appointment of auditor in terms of section 61(2) of the Banks Act, 1990 (Act No. 94 of 1990)

Executive summary

Section 61(2) of the Banks Act, 1990 (Act No. 94 of 1990) (Banks Act) requires a bank or controlling company to apply to the Prudential Authority (PA) for the approval of the appointment of the bank's or controlling company's auditor(s).

The purpose of this proposed Directive is to direct banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as "banks") to submit specified information as part of the submission of the bank's application(s) to the PA for the approval of the appointment of its auditor(s).

1. Introduction

- 1.1 Section 61(2) of the Banks Act states that a bank shall, within 30 days of the appointment of an auditor, apply to the PA on the prescribed form for the PA's approval of such appointment.
- 1.2 Regulation 53 of the Regulations relating to Banks (Regulations) prescribes that a form BA 006 must be submitted by a bank for the approval of the appointment of the bank's auditor(s) in terms of section 61(2) of the Banks Act.
- 1.3 Regulation 52 of the Regulations states that every application form submitted by a bank in terms of regulation 53 of the Regulations shall include every prescribed item as indicated in the application 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 BA 006 does not list the confirmation of the proposed engagement partner's current work commitments and the outcomes of the proposed audit firm and/or the proposed engagement partner's audit quality reviews as prescribed items.

2.3 Therefore, to conclude on the suitability of banks' proposed auditors, the PA must request documentation to substantiate the key areas of the PA auditor assessment process mentioned in paragraph 2.2 to be submitted to the PA as part of every application. The current process of specifically requesting the additional documentation for both the proposed audit firm and the proposed engagement partner often delays the application process. This proposed Directive aims to improve the efficiency of the auditor application process.

3. Proposed Directive

3.1 Based on the aforesaid, and in accordance with the provisions of section 6(6) of the Banks Act, banks are hereby directed as follows:

3.1.1 In addition to the prescribed BA 006 application form, banks must submit the following documents to the PA:

- a list of engagements that are currently 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 of Auditors' (IRBA) inspection report of the proposed audit firm(s), where applicable;
- the latest IRBA inspection report of the proposed engagement partner(s), where applicable (please note that this report must not be older than five years);
- the proposed engagement partner's latest internal quality review report (please note that this report must not be older than five years);
- if the outcome of the IRBA inspection report(s) or the internal quality review report(s) above is/are unsatisfactory or non-compliant, or signifies that some or significant improvement is required, the proposed audit firm/engagement partner must also submit a root cause analysis and action plan that addresses the deficiencies identified during these reviews; and
- any other document that may be necessary for the PA's auditor assessment process.

3.1.2 The appointment of an auditor for banks must be in accordance with the respective requirements specified in section 61 of the Banks Act read with section 90 of the Companies Act, 2008 (Act No. 71 of 2008).

3.1.3 Both proposed and approved auditors are required to grant permission to the IRBA and the South African Institute of Chartered Accountants to disclose any information to the PA that is relevant for assessing whether the quality of the audit may be compromised during the PA's auditor assessment process and throughout the approved auditor's tenure. The auditor(s) 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 In certain cases, the PA may grant approval with conditions, the conditions 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 approval conditions are met.
- 3.3 In accordance with section 61(2) of the Banks Act, banks must submit their application(s) for the appointment of auditors to the CEO of the PA within 30 days of the auditor appointment.

4. Invitation for comment

- 4.1 All interested persons are hereby invited to submit their comments on this proposed Directive to PA-ITS-Accounting_and_Auditing@resbank.co.za for the attention of Ms Amanda Madikizela by no later than 23 May 2025.
- 4.2 All comments received may be published on the PA's website, unless the respondent specifically requests confidentiality.

Fundi Tshazibana
Chief Executive Officer

Date: