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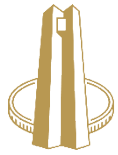

SOUTH AFRICAN RESERVE BANK
Prudential Authority

Ref.: 15/8/2/3

To: All mutual banks and auditors of mutual banks

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

Appointment of auditor 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 the mutual bank's auditors.

The purpose of this proposed Directive is to direct mutual banks to submit specified information as part of the submission of the mutual bank's application(s) to the PA for the approval of the appointment of its auditor(s).

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 such 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 the application form DI 005 does not prescribe documentation to substantiate both the proposed audit firm and proposed engagement partners' competence, experience, capacity, resourcing, independence and integrity. Therefore, to conclude on the suitability of the mutual banks' proposed auditors, the PA must request the additional documentation to be submitted to the PA as part of every application.

2.3 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 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 that are currently allocated to the proposed engagement partner at the time of submission, including name of the entity, the financial year-end of the entity and the position held by the proposed engagement partner must be included;
- the latest Independent Regulatory Board of Auditors' (IRBA) inspection report of the proposed audit firm, where applicable;
- the latest IRBA inspection report of the proposed engagement partner, 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 should not be older than five years);
- if the outcome of the IRBA inspection report or the internal quality review report above is/are unsatisfactory or non-compliant, or signifies 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;
- 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, from both the proposed audit firm and the proposed engagement partner;
- confirmation from the proposed engagement partner, stating that:
  - the proposed engagement partner is qualified to act as an auditor, keeping in mind the disqualification criteria covered in section 90(2) of the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act);
  - there are no pending or current lawsuits or professional liability suits pending against the proposed engagement partner that the PA should be aware of;
  - the proposed engagement partner has never been the lead partner engaged by a regulatory authority to perform a special investigation on its behalf that failed to reveal a problem that was subsequently shown to exist; and
  - the proposed engagement partner has never been removed as a responsible partner of a regulated institution by a regulatory authority; and

- any other document that may be necessary for the PA's auditor assessment process.

3.1.2 The appointment of an auditor for mutual banks must be in accordance with section 45(18) of the Mutual Banks Act read with section 90 of the Companies Act.

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 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 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 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

Fundi Tshazibana
Chief Executive Officer

Date: 11/04/25