

Growing resistance to long-term audit tenure

By Nicci Botha

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Revelations in the media about KPMG's professional relationship with Gupta-owned companies could not have come at a better time and strengthened the Independent Regulatory Board for Auditors' (Irba) case for mandatory audit firm rotations (MAFR) from 2023.

What is interesting is that shareholders are starting to take notice judging by the increased percentage voting against reappointing auditors, particularly those with a long tenure.

Company	AGM Date	Auditor	Tenure	For	Against	Preceding AGM No Vote	Increase
Lonmin Plc	26-Jan-17	KPMG	Undisclosed	58.310%	41.690%	1.39%	40.30%
Reunert Ltd	13-Feb-17	Deloitte	31	63.050%	36.950%	0.00%	36.95%
Spar Group Ltd	07-Feb-17	Deloitte & Touche	49	64.070%	35.930%	0.31%	35.62%
Telkom SOC Ltd	24-Aug-17	EY	19	83.880%	23.660%	0.01%	23.65%
Telkom SOC Ltd	24-Aug-17	Nkonki	11+1	83.890%	23.300%	0.01%	23.29%
Barloworld Limited	08-Feb-17	Deloitte	98	81.840%	18.160%	0.01%	18.15%
Woolworths	30-Nov-16	EY	84	81.380%	18.620%	0.52%	18.10%
Astral Foods Limited	09-Feb-17	PwC	16	83.050%	16.950%	0.00%	16.95%
PPC Ltd	28-Aug-17	Deloitte	14	84.680%	15.320%	0.42%	14.90%
Tiger Brands	21-Feb-17	EY	13	84.890%	15.110%	0.47%	14.64%
Aspen	06-Dec-16	PwC	19	85.560%	14.440%	0.00%	14.44%
Pioneer Food Group	10-Feb-17	PwC	69	87.140%	12.860%	0.00%	12.86%
Investec Limited	10-Aug-17	KPMG	47	87.720%	12.280%	0.34%	11.94%
Anglo American	24-Apr-17	Deloitte	17	83.910%	16.090%	4.35%	11.74%
Investec Limited	10-Aug-17	EY	22	87.830%	12.170%	0.90%	11.27%
Grinrod Ltd	24-May-17	Deloitte & Touche	13	90.240%	9.690%	0.00%	9.69%
Rhodes Food Group	09-Feb-17	Deloitte	17	90.430%	9.490%	0.00%	9.49%
AngloGold Ashanti	16-May-17	EY	73	90.560%	9.440%	0.16%	9.28%
Barclays Africa Limited	16-May-17	EY (joint)	24	92.070%	7.930%	0.01%	7.92%
Octodec Investments Limited	27-Jan-17	Deloitte	25	92.280%	7.720%	0.03%	7.69%
Nedbank Limited	18-May-17	Deloitte (joint)	43	92.510%	7.490%	0.26%	7.23%
Nedbank Limited	18-May-17	KPMG (joint)	43	92.510%	7.490%	0.28%	7.21%
Oceana Group Ltd	16-Feb-17	Deloitte & Touche	74	94.500%	5.100%	0.00%	5.10%
Adcorp Holdings	19-Jul-17	Deloitte & Touche	16	92.440%	7.560%	3.75%	3.81%

"The most recent AGMs to be subject to this increased shareholder opposition were Telkom and PPC Ltd, which reflected 23% and 14% increases in the no vote. While such an increase may seem insignificant in some instances, it indicates to us that even minority shareholders are finding their voice."

Reading between lines, the Telkom and PPC votes took place after the KPMG story broke, and although neither corporate employed the audit firm, the media reports have no doubt shaken shareholder confidence in industry as a whole. It will be interesting to see if forthcoming AGM votes show the same trend.

Disclosing tenure

Irba has been tracking the results of shareholder voting at annual general meetings (AGMs) since the MAFR announcement. There has been a visible movement towards voting against the reappointment of auditors, with 27% of the surveyed ordinary resolutions increasing the opposing votes by up to 40%, says Bernard Agulhas, CEO of Irba.

In December 2015, IRBA issued a regulation requiring audit firms to disclose their tenure in the independent auditor's report to shareholders. This was to ensure that shareholders were aware of the length of the relationship between the auditor and their client, which should have also been considered by the audit committee when the auditors were up for reappointment.

Increased opposition

“What is clear is that the shareholders are beginning to make their voice heard at AGMs regarding the necessity for firm rotation to end excessively long relationships. Where audit committees may feel a 20-year, 50-year or longer relationship might not impair auditor independence, shareholders are saying otherwise,” he says.

“Of the 102 auditor appointment resolutions tabled at annual general meetings since November 2016, 51 recorded an increase in opposition; of these 24 resulted in significant shareholder opposition to the auditor’s reappointment. The most significant opposition recorded an increase of up to 40% year on year in the votes against the reappointment of auditors.

Shareholder education

Of those 24 resolutions that recorded an increase in the vote against the reappointment of auditors, only three had previously recorded an opposing vote above 1% (but less than 10%); the remainder had seen shareholders almost unanimously adopt the recommendation of the audit committee at the preceding AGM.

“The reality is that even with some shareholders opposing the reappointment of auditors, the vote is not binding without a majority. This is not in the best interest of minority shareholders.

“As a first step, we are satisfied that the rule to disclose tenure of audit has served the purpose of highlighting excessively long relationships between companies and their auditors. However, there is still more shareholder education to be done, as it is the shareholder – and not the management of the company - who is the auditor’s real client,” Agulhas says.

ABOUT NICCI BOTHA

Nicci Botha has been wordsmithing for more than 20 years, covering just about every subject under the sun and then some. She's strung together words on sustainable development, maritime matters, mining, marketing, medical, lifestyle... and that elixir of life - chocolate. Nicci has worked for local and international media houses including Primedia, Caxton, Lloyd's and Reuters. Her new passion is digital media.

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