KPMG saga exposes cracks in auditing oversight

The ongoing KPMG saga and corporate governance failures at international retail giant Steinhoff have exposed cracks in the auditing profession, writes **Legalbrief**. **Fingers have also been pointed at auditing watchdog the Independent Regulatory Board for Auditors (Irba) as well as boards of directors and audit committees** over their inadequate oversight (see Analysis section below). Big-four audit firms such as Deloitte and PwC have come under fire too for their roles in auditing the likes of Steinhoff and SAA.

Irba has just five investigators to probe 150 open cases of alleged misconduct in the auditing profession, the regulator noted as it admitted to Parliament yesterday (Wednesday) that it has resource constraints. A **Fin24** report says Irba told the Standing Committee on Finance resource and personnel constraints forced the regulatory body to prioritise high-profile cases, including audit practices of firms like KPMG, Nkonki Inc and Deloitte. Irba CEO Bernard Agulhas said **the majority of cases it is still processing suffer because there aren't enough investigators**. He said Irba has spoken to Parliament and National Treasury about accessing more resources to build investigative capacity. Agulhas said Minister of Finance Nhlanhla Nene had asked Irba to look at strengthening regulation and legislation for the auditing profession. He said Irba hopes to conclude adjustments legislation once National Treasury approves its submissions. Irba board chair Abel Dlamini said the regulator needs to do more to improve risk management in the auditing profession. The longer intervention and investigations are delayed, the more the reputation of the profession suffers, he warned.

Irba says it will undertake a review of KPMG's turnaround strategy to identify 'weaknesses in its operations', adding an 'unprecedented crisis also calls for unprecedented measures', notes a **Fin24** report. 'The independent review ... will form part of a continuous process to monitor improvements to the firm's operations,' Agulhas said in a recent address at a senior partners' forum. **Irba is feeling the heat to crack down on allegations of several errant auditors.** It is investigating KPMG for signing off on Gupta-owned companies' financial statements. It is also looking at KPMG's report about the SARS 'rogue unit' as well as Deloitte for its role in auditing beleaguered international retailer Steinhoff.

The fallout from the recent auditing scandals has put the focus on risk management. The reputational risk fears of firms ditching KPMG in the wake of the auditing failures is taken up in a **Moneyweb** report which states that **in the court of public opinion, you may be found guilty by association**. It says certain practices in some offices have tarnished the whole firm's reputation. 'While the firm should take responsibility for its transgressions and deserves a lot of the criticism it has received, one also has to feel for the many hardworking employees who have devoted years (sometimes decades) of their careers to the firm and whose credibility and capability have been called into question even though they had nothing to do with the transgressions.' The **Moneyweb** report notes that a complicating factor is that there is often a difference between what the public expects professionals to be doing and what they are actually paid for. The public mandate is often much broader and sets the bar much higher.

KPMG is losing another two clients, Redefine Properties and Sibanye Stillwater, says an **eNCA** report. Redefine Properties announced on Friday that its board has resolved to terminate its association with the auditing company. Sibanye Gold said it has decided to look for a new external auditor following developments at VSB Bank. KPMG has suspended a senior employee in connection with audits for the Venda-based bank, which has been placed under curatorship. Both Redefine Properties and Sibanye initially endorsed the re-appointment of KPMG. Redefine made the reappointment contingent on the proviso that the audit and risk committee monitor and act on the outcomes of investigations into its audits. **Meanwhile, KPMG is reviewing its business model and will be assessing how large it needs to be and how long it will take to rebuild its business, now that it is losing some of its biggest clients.** The firm's future was already unclear after it lost its largest private-sector audit client, Barclays Africa, last week, and AG Kimi Makwetu cancelled its government auditing contracts in April, says a **Business Day** report. And with more annual general meetings of listed companies coming up in the next few weeks, the firm could lose more clients. KPMG SA's CEO, Nhlamu Dlomu, reportedly said that KPMG had already started looking at what sort of model would be appropriate for the type of firm it wanted to build in the future. 'We have a number of clients who are holding their AGMs in this month and we have to be realistic about the size of the business that's left so that we can appropriately deal with it,' she said.

Makwetu told MPs the independence of the Auditor-General's Office was sacrosanct and could not be jeopardised by the risks that had emerged in relation to certain audit firms. Makwetu was addressing Parliament's Standing Committee on the Auditor-General and Scopa to explain why he had terminated the audit mandates of KPMG and Nkonki Inc. **BusinessLIVE** says he emphasised the need for trust in the work of the AG and its credibility. The AG's office uses more than 90 audit firms to conduct annual audits of national and provincial government departments, municipalities and state entities. The bill for this work is about R450m annually, of which KPMG and Nkonki received a combined R90m. The mandates of KPMG and Nkonki Inc to conduct some of these audits were terminated in April for different reasons. The tipping point in the case of KPMG was the revelation that two auditors involved in the audit of VBS Mutual Bank, which is under curatorship, had been extended loans by the bank. The firm was already under Makwetu’s watch following a report in September last year by KPMG International which pointed to an apparent breakdown in risk management and audit practice disciplines. **Makwetu said his office needed to determine whether this breakdown was an isolated case or whether it was systemic, but before investigations were concluded the VBS Mutual Bank matter came to light.** With regard to Nkonki Inc, the question was whether or not its shareholders were registered auditors as required by the law, which the firm’s leadership was not able to answer. In both cases there was a need to make an urgent decision because of the approaching deadline for signing off on statutory audits, Makwetu told MPs.