There's a better way to inspire more trust in banks and auditors

The three year term limits proposed by the Central Bank of Kenya (CBK) for auditors of banks is a clear response to corporate governance concerns. As an auditor, I support the objective of improving the quality and independence of audit reports and as a Kenyan, I am just as angry as anyone else about the lack of transparency and governance that has led to three bank failures in the last 18 months. But I do not think that mandatory auditor rotation on a three-year basis for banks is the right prescription. In fact, I think it could do more harm than good.

There is no doubt in my mind that public figures who advocate for banks' auditor rotation have the best interests of our country at heart. They need to be seen to be doing something to protect the integrity of our financial markets and institutions. I applaud the commitment that many of them have made to fight corruption. At the same time, I worry that the emphasis they place on auditor rotation could divert attention from the underlying issues that should drive policymaking.

Experience globally has shown that a sound, robust and independent corporate governance regime is the most effective protection for an independent audit. Achieving good governance is a complex task that offers many practical benefits to organisations, economies and stakeholders.

South Africa's King III code is a world-class corporate governance regime. The code's three core principles of leadership, sustainability and corporate citizenship have transformed the quality of reporting by listed entities on the Johannesburg Stock Exchange with a knock-on effect across all sectors of South Africa's economy. In particular, I would highlight the King codes' historical emphasis on leadership, sustainability reporting and corporate citizenship and King III's efforts to address the trust deficit within civil society regarding the intentions and practices of big business.

The King codes show that good corporate governance inspires trust. Other practices like increased oversight by the Board Audit Committee in the form of five yearly comprehensive reviews have shown results in countries like Canada.

Globally, increased competition among auditors has also served the public good. Auditors compete on the basis of quality, insight, value and trust. Increasingly, we compete on the basis of technological advances that provide even more clarity and consistency. Decisions about which auditors and consultants an organisation will work with often boil down to geographic compatibility, industry sector experience and the ability to deliver complex work.

When I read that the three year auditor rotation for banks in Kenya will improve competition among audit firms, and specifically benefit mid-tier firms, I can only shake my head in disbelief. The high frequency of a three year rotation requirement will cause more disruption, not less, and organisations will seek the stability of similar audit firms: similar in size, scope, experience, geographic reach and similarly trusted by the market. By contrast, the EU's model of ten year rotation cycles with the scope to increase this by a further ten years on the basis of a tender have provided a greater degree of consistency for international companies. There is a big difference between three years and ten or 20 years.

That said, it is rare to come across an organisation that has not given audit tendering any thought at all. Many international organisations are subject to restrictions concerning other services that they can buy from their auditors, which has expanded their array of external advisors and consultants and consequently the competitiveness and quality of services provided by these advisors. Since many professional services firms provide audit as well as tax and consulting services, organisations that work with multiple advisors can build trusting

relationships with multiple firms. Down the road, this exposure can lead to the choice of new auditor. The process of selecting an auditor, or any other advisor, should be made on the basis of quality, insight, value and trust—not a three year requirement.

Meanwhile, Board audit committees are becoming much more aware of their role and interested in the detail of an audit. Kenya's Capital Markets Authority recently released The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 which becomes effective 15 December 2016 and applies to all listed entities. The Code's principles and recommendations are organised into six pillars including Board Operations and control, Ethics and Social Responsibility and Transparency and Disclosure. Requirements like rigorous disclosures by the Board are supported by guidelines on implementation.

I believe that the Code constitutes several steps in the right direction and it will serve to build more trust in public companies. Many of Kenya's banks are also public companies and the Code will strengthen governance and trust in them, too.

Over the last 18 months, the CBK has played a distinguished role in helping to shore up trust in Kenya's banking sector. It issued instructions to external auditors to carry out more detailed reviews of banks' ICT systems and report to the CBK. We can expect the CBK to enforce new capital requirements that became effective 1 January 2015 as part of its focus on risk-based capital supervision.

Our bank failures have been singular events, not structural. We have not experienced a devastating financial crisis like those that occurred in Southeast Asia in the 1990s, in Western Europe and the US in 2008 or in Nigeria in 2009. I believe that auditors and banks should reinforce the trust that Kenya's Central Bank has worked hard to shore up and work together to progress policymaking in a useful, effectual and trustworthy direction.

We all have a role to play and we must have the courage to do what must be done. Courage will inspire hard choices that lead to improved governance. It will improve the quality of an audit, such as when we auditors raise difficult questions with management—early and as often as necessary. Shareholders must have the courage to select Board members with the experience and integrity to serve well. Boards and management must show courage, even when the going gets tough, to demonstrate their trustworthiness in the market.

In my view, the three-year mandatory auditor rotation for banks is too frequent and will not contribute to greater trust or accountability. Far better to focus on what will work for Kenya based on lessons learned (the hard way) elsewhere.

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