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Disputed interpretations and active strategies of resistance during an audit regulatory debate

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Disputed interpretations and active strategies of resistance during an audit regulatory debate

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Abstract

Purpose – The paper examines disputed interpretations of 'key meanings' between the audit regulator and Big 4 firms during a highly contentious regulatory debate, showcasing their use of 'strategies of resistance' to achieve their intended outcomes.

Design/methodology/approach – A qualitative analysis is performed of the discourse in a South African audit regulatory debate, set within the country's unique political and historical context. The analysis is informed by the theoretical construct of a 'regulatory space' and an established typology of strategic responses to institutional pressures.

Findings – Our findings show how resistance to regulatory intentions from influential actors, notably the Big 4 firms, was dispelled. This was achieved by the regulator securing oversight independence, co-opting political support, shortening the debate timeline and unilaterally revising the interpretation of its statutory mandate. The regulator successfully incorporated race equality into its interpretation of how the public interest is advanced (in addition to audit quality). The social legitimacy of the Big 4 was then further undermined. The debate was highly contentious and unproductive and likely contributed to overall societal concerns regarding the legitimacy of, and the value ascribed to, the audit function.

Practical implications – A deeper appreciation of vested interests and differing interpretations of key concepts and regulatory logic could help to promote a less combative regulatory environment, in the interest of enhanced audit quality and the sustainability and legitimacy of the audit profession.

Originality/value – The context provides an example, contrary to that observed in many jurisdictions, where the Big 4 fail to actively resist or even dilute significant regulatory reform. Furthermore, the findings indicate that traditional conceptions of what it means to serve 'the public interest' may be evolving in favour of a more liberal social democratic interpretation.

Keywords: Public interest, Audit regulation, Audit quality, Auditor rotation

1. Introduction

The audit profession is built on the foundational ethic of 'serving the public interest' (IESBA, 2018, p. 16), with this phrase regularly employed to justify both current practice and regulatory change (Dellaportas & Davenport, 2008; Lee, 1995; van Brenk, Renes, & Trompeter, 2020). Researchers likewise use the concept to examine the consequences of, and motivations behind, accounting and audit practice (see, Baker, 2005; Baudot, Roberts, & Wallace, 2017; Lee, 1995; Paisey & Paisey, 2020). The traditional interpretation of the concept, as it applies to auditors, revolves around their obligation to deliver high quality audits and avert costly corporate failures (Hopwood, 1989; IESBA, 2018; Mautz & Sharaf, 1961). Yet, as such failures persist, and regulatory audit inspections (practice reviews) increasingly identify deficient audit practice, auditors' rhetoric of serving the public interest rings hollow and is increasingly questioned (Sikka, 2009; van Brenk et al., 2020; Westermann, Cohen, & Trompeter, 2019). Audit failures also reflect poorly on regulators, causing them to threaten more onerous intervention. It appears that regulatory debate is becoming increasingly contentious and unproductive (Dowling, Knechel, & Moroney, 2018; Horton, Tsipouridou, & Wood, 2018; Malsch & Gendron, 2011) with traditional conceptions of the public interest perhaps becoming "inadequate to define a principle which must stand as a measure of public policy" (Dellaportas & Davenport, 2008, p. 1080).

Prior research indicates that the profession, dominated by the Big 4 firms, often successfully resist regulators in certain local contexts, resulting in regulatory compromises and diluted rulings (see, Horton et al., 2018; Malsch & Gendron, 2011; Reid & Carcello, 2017; Shapiro & Matson, 2008). The agenda of the Big 4 to protect their interests incentivise behaviours which allow considerable influence in turning regulatory reform outcomes in their favour (Canning & O'Dwyer, 2013; Malsch & Gendron, 2011; Sikka, 2009). Audit regulators have tended to adopt more 'passive' compromise or acquiescence 'strategies of resistance' (Oliver, 1991) as they find themselves confronted with more 'aggressive' opposition by the profession. Furthermore, regulatory debates provide evidence of disputed understandings of key regulatory premises and regulatory logic, which inhibit productive outcomes (e.g., Canning & O'Dwyer, 2013; Caramanis et al., 2015; Hazgui & Gendron, 2015; MacDonald & Richardson, 2004; Malsch & Gendron, 2011; Young, 1994). Consensus around such meanings, as well as actor success in applying resistance strategies, whether active or passive, influences final regulatory outcomes (Hancher & Moran, 1989; Oliver, 1991).

Due to growing concerns of deteriorating audit quality and the success of the profession to slow and dilute regulatory interventions, the resolve and resistance from audit regulators is growing, together with political backing for stricter reform (see, Dowling et al., 2018; The Economist, 2019b, 2019a). Differences in local jurisdictions and 'regulatory spaces', with the "contextually contingent factors that local regulators must confront" (Canning & O'Dwyer, 2013, p. 170), present rich contexts for the development of better understandings of different interpretations of public interest and strategies of resistance (Hazgui & Malsch, 2020; Spence, Zhu, Endo, & Matsubara, 2017). Accordingly, we contribute to understandings of the meaning and use of the term 'the public interest' in audit regulatory debate, as well as explore differing interpretations of what an audit regulator's mandate should entail (see, Baker, 2005; Baudot et al., 2017; Dellaportas & Davenport, 2008; Hopwood, 1989; Paisey & Paisey, 2020). The distinct historical context of our South African case study uniquely reveals new conceptions of public interest, which has implications for audit regulation elsewhere in the world. The objective of such research is not merely to document the debate or the self-interested behaviour of the actors,

"but also to examine the specific strategies, rationales, and resources the agents mobilize to achieve their goals" (Shapiro & Matson, 2008, p. 202). We seek to examine, within a theoretical framework, the strategies used by actors to influence regulatory discourse and its outcome (as for example, in Canning & O'Dwyer, 2013; Caramanis, Dedoulis, & Leventis, 2015; Hazgui & Malsch, 2020; Malsch & Gendron, 2011; Young, 1994). This specific contextual understanding illustrates enhanced social empowerment to exercise extra-professional 'democratic' control over auditors, attempting to align auditor behaviour with the public interest, and improve audit quality (Cooper & Robson, 2006; van Brenk et al., 2020).

The South African case study provides a recent, highly disputed and globally relevant policy debate over mandatory audit firm rotation (MAFR), a highly topical and globally contested audit regulation. MAFR has been contested in multiple jurisdictions in recent years, perhaps most notably in the European Union (EU) and the United States (US) (Horton et al., 2018; Reid & Carcello, 2017). Internationally, as in South Africa, the Big 4 firms argue it to be unnecessary, disruptive and costly in comparison to the more established 'partner-only rotation' rules[1] (Harber & Maroun, 2020; Horton et al., 2018). Yet, unlike what unfolded in the EU and the US, and counter to the trend in the literature, the South African profession, dominated by the Big 4 firms, was wholly *unable* to resist the intentions of the regulator. Opposition to MAFR in the EU significantly "watered down" the original proposals (Horton et al., 2018, p. 991) and in the US fully repelled it (Reid & Carcello, 2017). This provides the opportunity to examine how the audit regulator was successful in their resistance. We examine the historical profession-state nexus of the audit regulator to contextualise the unfolding MAFR debate that began with a consultation phase in 2015 and ended contentiously and abruptly in June 2017 with a ruling to adopt the policy. To inform our interpretation of the discourse we mobilize the theoretical construct of a 'regulatory space' (Hancher & Moran, 1989; Scott, 2001) where 'actors' respond strategically in that space to institutional pressures (Oliver, 1991) to affect regulatory outcomes.

Despite increasing research into accounting regulatory processes, more focus is needed on "the processes through which new regulatory arrangements are formulated in different national contexts" (Canning & O'Dwyer, 2013, p. 171; Cooper & Robson, 2006; MacDonald & Richardson, 2004; Malsch & Gendron, 2011). Understanding the local context of the regulatory space helps interpret the "regulatory styles, and their impact on national economic and social 'performance'" (Cooper & Robson, 2006, p. 436). The historical and political context of a society has a direct bearing on the strategies of actors within regulatory debate (Oliver, 1991). As highlighted by Spence et al. (2017), research is biased in favour of Western European and North American empirical contexts, and the 'rules of the game' of regulatory debate may differ in non-Western countries. In any specific local context actors are constrained or encouraged by "the approbation of external constituents or society" to enhance their legitimacy or sustain their logic (Oliver, 1991, p. 153).

Our findings evidence unique adoptions of resistance strategies and disputed meanings, which were highly influential in determining the regulatory outcome. The South African regulator, whether expediently or with a genuine intent to protect the public interest (or both), redefined public interest to incorporate race equality outcomes, in accordance with the political ideology of the state. Enabled by a historically more 'independent' positioning relative to the profession, the regulator co-opted state support, embraced the disputed meanings and successfully

[1] The Big 4 audit firms in the United Kingdom are currently resisting such regulations as MAFR and the splitting of their audit and advisory divisions (House of Commons, 2019; The Economist, 2019b, 2019a).

compromised the social legitimacy of the Big 4 to achieve an undiluted policy reform proposal, such as was not able to be achieved in the EU or the US on this most topical of audit reforms (i.e., MAFR). Our findings support those of Canning and O'Dwyer (2013, p. 171) which highlight the importance of "regulator vigilance" to vested interests and the need to secure "wider legal and political backing for regulatory agendas". Using these 'resistance tactics' (Oliver, 1991) the South African regulator was able to fully resist both the profession and its aligned capital market interest groups. The strategic paradigm shift by the regulator surrounding what it means for auditors 'to act in the public interest' not only reflects the historical context of South Africa's history of racial segregation but may constitute a theoretical widening of the concept consistent with changing understandings of the role of accountants. There is a growing appreciation for the obligation of accountants and auditors to prioritise wider social interests, rather than narrowly focusing on capital interests (Baker, 2005; Gallhofer & Haslam, 2019; Hopwood, 1989; Lehman, 2019). Our findings have international application, as social justice concerns, such as race (Annisette & Prasad, 2017) and gender (Haynes, 2017; Lehman, 2019) equality, are becoming an increasing concern within accounting contexts (Gallhofer & Haslam, 2019).

The paper is structured as follows: the next section discusses the theoretical framework adopted, emphasising the resistance strategies available to actors (Oliver, 1991) operating within a regulatory space construct (Hancher & Moran, 1989). Here we review the literature examining how accounting regulation has been resisted in other jurisdictions. The next section provides a brief description of the regulatory logic of MAFR, together with a political and historical discussion of the South African context, which informs the analysis. We then describe the qualitative method applied, including a description of the data, which is then followed by our analysis and interpretation of the regulatory process and discourse. The paper concludes by linking the analysis to the theoretical framing, providing summative observations as well as implications for future practice and research.

2. Theoretical framework

2.1 Vested interests within the 'regulatory space'

As the central guiding ethic of the audit profession, indeed its 'distinguishing mark' (IESBA, 2018, p. 16), serving 'the public interest' is traditionally interpreted as the delivery of 'audit quality' while acting with integrity uncompromised by economic interests (IESBA, 2018; Lee, 1995; Mautz & Sharaf, 1961). Understandably then, appeals to the ideal are pervasive throughout audit regulatory debate (Dellaportas & Davenport, 2008; Lee, 1995; Paisey & Paisey, 2020), and those unable to demonstrate this ideal convincingly within a 'regulatory space' cease to maintain the legitimacy required to impact the debate (Hancher & Moran, 1989; Scott, 2001; Young, 1994).

This notion of 'regulatory space' (Hancher & Moran, 1989; Scott, 2001) has frequently been employed in research examining regulatory debate to understand how regulation is developed, debated and interpreted (see, Canning & O'Dwyer, 2013; Hazgui & Gendron, 2015; MacDonald & Richardson, 2004; Malsch & Gendron, 2011). Developed by Hancher and Moran (1989), a 'regulatory space' refers to "an abstract conceptual space constructed by people, organisations, and events acting together upon a set of specific regulatory issues subject to public decisions" (Canning & O'Dwyer, 2013, p. 172). As an "analytical construct" (Young, 1994, p. 84) constituting "a range of regulatory issues subject to public decision" (Hancher & Moran, 1989, p. 277) this space is shared by 'actors' who have obtained, and need to sustain,

their legitimacy to negotiate within the space. The concept allows researchers to "reconceive regulatory processes" (Scott, 2001, p. 2) and investigate the strategies of bargaining between interdependent and powerful actors who are admitted into the space, each with their own vested interests and potentially different interpretations, yielding a better understanding of *why* a certain regulatory outcome was reached (Hancher & Moran, 1989; Scott, 2001; Young, 1994). The political ambitions, vested interests, historical contexts and different interpretations of regulatory principles by actors are considered as influential to regulatory outcomes (Hancher & Moran, 1989; Scott, 2001). Furthermore, actors' interpretation of, and co-operation with, *the regulator's mandate*, including how the regulator itself "handled the ambiguity of its mandate and powers given under the law", is an important aspect influencing outcomes and behaviour (MacDonald & Richardson, 2004, p. 520).

Auditors clearly have economic self-interest, yet it should be recognised that regulators, as quasi-state bodies, do as well. Ideally, government regulation within a liberal democracy is a tool to selflessly realign private interests and behaviours with 'the common good' (Cochran, 1974). However, conflicting social, economic and political incentives by actors, including government actors, may thwart this objective, infiltrating the regulatory space and impacting legislative outcomes. As Peltzman (1976, p. 215) argues; "what is basically at stake in regulatory processes, is a transfer of wealth". As the concept of 'the public interest' is appropriated and employed in political dialogue, it has been identified as an indication for "the way the wind is blowing" in politics (Cochran, 1974, p. 328).

> *"Regulation is indisputably a political process and it thus exhibits one of the defining features of any such process - it involves the contest for power"* (Hancher & Moran, 1989. p. 4)

Audit practice and regulation is not without its "contestable relations… highly situated in the context of human interests" (Arrington & Puxty, 1991, p. 31). Research into the dynamics of audit regulatory debates must therefore actively consider vested interests and how actor behaviour is "implicated in the construction and propagation of notions of organizational and social control" (Hopwood, 1989, p. 141). Politically powerful actors (perhaps regulator or auditor) will inevitably act to prevent changes which "undermine their power, autonomy, or survival" and thus researchers need to examine the "specific strategies, rationales, and resources" these actors use to do so (Shapiro & Matson, 2008, p. 202).

2.2 Strategic responses to institutional pressures

Prior accounting research indicates that influential actors, most notably the Big 4, are able to influence regulators strategically to compromise regulation in their favour. Shapiro and Matson (2008, p. 199) show how "powerful organizations and individuals employed active strategies of avoidance, defiance, and manipulation" (refer to the typology in Table 1) to defeat regulation designed to require companies to assess and publicly report internal financial controls. Malsch and Gendron (2011, p. 464) show how the Canadian Public Accountability Board (CPAB) was subtly captured by the profession from its inception to reduce it to a benign "monitoring device", "whose main functionality is to reassure capital markets about the quality of financial audit work". This was shown to have been subtly achieved by the profession over time through strategic rhetorical influence and agenda setting, resulting in "a private circuit of power" aimed at preserving a measure of self-regulation under the guise of an 'independent regulator' (Malsch & Gendron, 2011, p. 473). Malsch and Gendron (2011), as well as Hazgui and Malsch (2020)

in a Canadian and French context respectively, show how the Big 4 firms use their international resources and political clout to impact local regulatory spaces.

These strategic actions by influential actors may help or hinder the regulator, leaving it either "toothless or dominant" (Hazgui & Gendron, 2015, p. 784). To examine the various strategies employed within such regulatory disputes we will use Oliver's (1991, p. 152) typology of strategies of resistance to institutional processes, which theorises "how elite and powerful institutions will attempt to actively shape and defeat legislation and regulation that adversely affects their interests" (Shapiro & Matson, 2008, p. 201). The typology, summarised here in Table 1, conceptualises strategies and tactics as ranging from *passive* to *active*, as predicted by specific circumstances.

Table 1: Summary of Oliver's (1991) strategic responses to institutional pressures

Strategies of response	Tactics	
Acquiescense	Habit: Following invisible, taken-for-granted norms	Passive
	Imitate: Mimicking institutional models	
	Comply: Obeying rules and accepting norms	
Compromise	Balance: Balancing the expectations of multiple constituents	
	Pacify: Placating and accommodating institutional elements	
	Bargain: Negotiating with institutional stakeholders	
Avoidance	Conceal: Disguising nonconformity	
	Buffer: Loosening institutional attachments	
	Escape: Changing goals, activities, or domains	
Defiance	Dismiss: Ignoring explicit norms and values	
	Challenge: Contesting rules and requirements	
	Attack: Assaulting the sources of institutional pressure	
Manipulation	Co-opt: Importing influential constituents	Active
	Influence: Shaping values and criteria	
	Control: Dominating institutional constituents and processes	

Source: Adapted from Oliver (1991, p. 152)

Research testing this theory, mostly conducted in non-accounting contexts, has confirmed Oliver's predictions namely, that the more active (or aggressive) resistance strategies are more likely "where proposed institutional changes reduced targeted actor discretion, were inconsistent with the goals of the targeted actors, and where targeted actors were less dependent on pressurising constituents for resources" (Canning & O'Dwyer, 2013, p. 174). Oliver (1991, p. 159-172) explain how actors are incentivised to oppose a regulator more vociferously the *less* concerned they are with their social legitimacy, the *greater* the stakeholder support they can muster and the *less* dependent they are on the regulator for resources (amongst other factors).

The more active resistance strategies include *avoidance*, *defiance* and *manipulation* (Table 1) of the regulatory processes, some of which were exhibited in the settings where actors successfully, or at least partially, resisted the regulators intentions (e.g., Malsch & Gendron, 2011; Shapiro & Matson, 2008). The success of the Big 4 firms in Canada for example, to align themselves strategically with the regulator, as described by Malsch and Gendron (2011), allowed them to create a form of self-regulation under the guise of independent regulatory oversight. Malsch and Gendron (2011) provide examples of what Oliver (1991, p. 152) describes as "contesting rules and requirements", "shaping values and criteria" and

"dominating institutional constituents and processes" in a regulatory space. In the face of such active resistance, the regulator conceded to the pressures with *compromise* and *acquiescence*. The result was diluted regulatory outcomes and regulatory authority. Canning and O'Dwyer (2013) showed how *both* the regulator and the actors in opposition may employ active resistance strategies against each other, and even varying strategies at different points in time. In this Irish context it was the multipronged defiance strategy of the regulator that won the day as it obtained legal support for its interpretation of its regulatory mandate and garnered "the sheer weight of local political backing for its establishment and its mandate" (Canning & O'Dwyer, 2013, p. 191).

Although it appears that the Big 4 firms, with aligned capital market interests, have been highly successful in influencing accounting regulation in their favour (see, Malsch & Gendron, 2011; Suddaby & Greenwood, 2005)[2], there are some examples of regulatory successes, as shown in the Irish context of Canning and O'Dwyer (2013). Another example is the Canadian Public Accountants Council of Ontario's strategy to implement the Public Accountancy Act of 1950, which opposed resistance "by limiting access to licences and amalgamating to suppress dissension, the Council effectively limited the number of challengers in their regulatory space" (MacDonald & Richardson, 2004, p. 520). Such successes appear to be uncommon, as regulators face different local contextual dynamics, compromising their ability to fully resist influential external pressures that align with "capital markets and their laissez-faire logic" (Malsch & Gendron, 2011, p. 463).

3. MAFR and the South African case narrative

In this section we provide a brief description of the regulatory logic of MAFR, followed by a discussion of the South African socio-political context which surrounds the empirical setting.

3.1 The regulatory logic

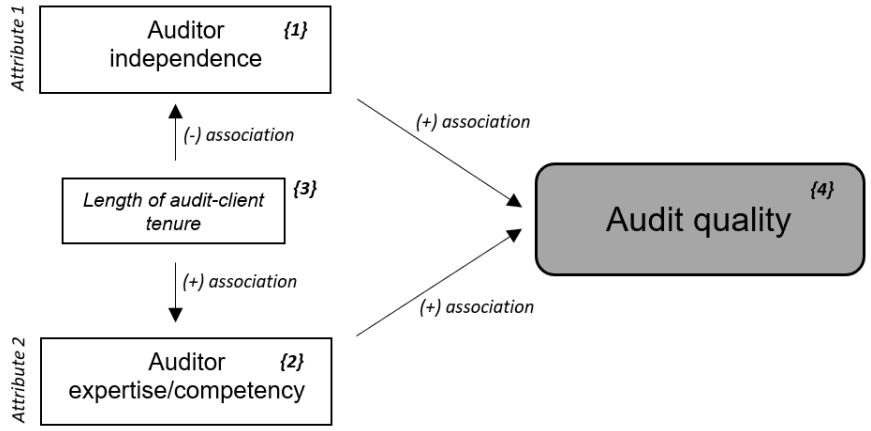
In principle, MAFR is designed to *improve audit quality* by limiting the tenure of the consecutive appointment of an individual audit firm and thus preserving auditor independence (Casterella & Johnston, 2013; Garcia-Blandon, Argilés-Bosch, & Ravenda, 2020; Tepalagul & Lin, 2015). Indeed, most audit regulation focuses on either strengthening the competency (expertise) or the independence (integrity) of the auditor (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013; Tepalagul & Lin, 2015). MAFR is a stricter form of auditor rotation in comparison with the more traditional partner-only rotation rules recommended by international accounting guidelines (IESBA, 2018). To date few countries have adopted or retained MAFR (Casterella & Johnston, 2013; Harber & Maroun, 2020), but the recent adoption in the EU and then South Africa is perhaps evidence that this could be changing. Understandably, with the likelihood of major disruption to audit firms' client bases and revenue streams, MAFR is deeply unpopular with audit firms, especially the Big 4 (Harber & Maroun, 2020; Horton et al., 2018; The Economist, 2019a).

In Figure 1 we illustrate the regulatory logic of auditor rotation. Each attribute (independence and expertise), **{1}** and **{2}**, is positively associated with the quality of the audit outcome **{4}**

[2] The Big 4 success in both the US and EU to prevent or dilute MAFR rules are further examples (refer Section 3.2), as is the success of the Big 4 in expanding their business models into 'multidisciplinary' professional service firms in the early 2000s (Suddaby & Greenwood, 2005).

(Knechel et al., 2013; Tepalagul & Lin, 2015) and in turn, presumably, the ability of the auditor to act in the public interest.

Figure 1: The logic of auditor rotation



Lengthy auditor tenures, whether audit firm or partner tenure **{3}**, spanning many years, if not decades in the case of audit firm tenure, has long been argued to impair auditor independence (- association) and thereby compromise audit quality (Mautz & Sharaf, 1961). This is the primary argument put forward by regulators to justify adoption of MAFR or stricter (shorter tenure) partner rotation rules (Garcia-Blandon et al., 2020). As evidence of independence compromise, regulators appeal to audit failures and adverse findings in practice reviews (Dowling et al., 2018; Westermann et al., 2019). Opponents to MAFR however, appeal to the 'switching costs' associated with rotation, most notably the negative impact on audit quality of removing the more experienced auditor, the auditor who is familiar with the financial complexity of the client's operations. The argument is that an auditor's knowledge and experience of the client increases over the years the audit firm remains appointed, improving their ability to detect and then report on error and fraud (+ association) (Casterella & Johnston, 2013). The extant research has not settled the disagreement, presenting a considerable degree of mixed findings, both concerning the efficacy of MAFR and the merits of long audit firm tenure (Casterella & Johnston, 2013; Garcia-Blandon et al., 2020; Tepalagul & Lin, 2015).

3.2 Active resistance in the US and the EU

The EU implemented MAFR in 2016 (European Commission, 2014), whereas in 2013 the US House of Representatives settled the US debate by voting against its implementation (Garcia-Blandon et al., 2020; Reid & Carcello, 2017). In both jurisdictions the Big 4 lobby was influential and, even in the EU where the regulation was adopted, the Big 4 opposition was not entirely resisted. The finalised rules in the EU were described as "a much-watered down version of the original proposals" (Horton et al., 2018, p. 991) and "an especially politically-driven process" that provided a multitude of "fragmented regulatory arrangements" (IFAC, 2017, p. 4) to apply within member states. The European Commissioner for Internal Market and Services initially advocated strict MAFR rules, which met opposition from the Big 4, who lobbied politicians in Brussels to dilute them (Horton et al., 2018). In the US the resistance from the profession achieved even greater success, as the profession received the support of federal legislators to defeat the efforts of the Public Company Accounting Oversight Board (PCAOB) (Reid & Carcello, 2017). The successful lobbying of legislators is what Oliver (1991)

calls a highly active manipulation strategy of "co-opting" and "importing influential constituents" into the regulatory space (Table 1).

3.3 The South African case

3.3.1 Regulation of auditors

An understanding of the historical context is important to properly examine a regulatory space and its constituent institutional pressures (Canning & O'Dwyer, 2013; Cooper & Robson, 2006; Hancher & Moran, 1989; MacDonald & Richardson, 2004). Globally, and indeed in South Africa, auditors enjoyed a quasi-independent system of oversight until a higher degree external oversight was enforced in the early 2000s (Dowling et al., 2018; Verhoef, 2013). True self-regulation came to an end much earlier in South Africa with the Public Accountants and Auditors (PAA) Act, Act 51 of 1951 (Gloeck & de Jager, 1994; Verhoef, 2013). Prior to this, prolonged contestation of regulations by the profession ultimately raised the South African state's concerns about the public interest and the unchecked independence of the auditors, causing the Minister of Finance to initiate state regulation.[3] The Public Accountants and Auditors Board (PAAB) was formed through this legislation as a statutory body authorised to regulate the profession. The PAAB comprised both state appointees (senior civil servants) and profession appointees. Over time the various professional bodies representing auditors consolidated into one body, the South African Institute of Chartered Accountants (SAICA). This consolidation of power also allowed greater influence of the profession on the PAAB, as 7 of the 11 board members were appointed by the profession (Verhoef, 2013, p. 180). This status quo was disrupted in the late 1980s when the PAAB became increasingly concerned that the majority of the accounting profession (represented by the SAICA) were not practicing auditors and thus should not be so influential in selecting its board members. The PAAB thus moved to prevent the SAICA from nominating members onto the board, arguing that it needed to protect its relationship with the state and that audit matters needed to be governed by those specifically within public practice[4].

Nonetheless, given that all auditors were also members of the SAICA, the composition of the PAAB still gave *de facto* control to the accounting profession. The funding model was also dependent on the profession, subjecting the regulatory body to criticism as lacking independent authority (Gloeck & de Jager, 1994; Verhoef, 2013) - a case of 'the fox guarding the hen house' so to speak. Corporate failures in the 1980s and 90s increasingly called the efficacy of the PAAB into question, both its independence from the profession *and* its ability to maintain rules which kept auditors independent from their clients (Gloeck & de Jager, 1994). Despite concerns, there was strong support globally to retain a measure of self-regulation of auditors. Allowing auditors to at least partly oversee their profession was touted as efficient, effective and prudent, with the argument being that only they have the expertise to regulate the complexities of their field (Paisey & Paisey, 2020; Westermann et al., 2019).

Change came globally following the high-profile Enron-Arthur Andersen scandal in the US and the subsequent promulgation there of the Sarbanes-Oxley Act of 2002 (Dowling et al., 2018). At this time the South African Minister of Finance initiated a review process that eventually resulted in the Auditing Profession Act, 26 of 2005 replacing the PAA Act. To instil

[3] As archival sources we refer to the South African National Archives, Pretoria: TES 2257/5361/1 Ref F33/263/3 SC 1934; SC12/38; SC 8/39; and TES 2258/9/349/2.

[4] PAAB Minutes, dated 8th June 1987.

further regulatory independence the PAAB was replaced by the Independent Regulatory Board for Auditors (IRBA), with its board members appointed by the Minister of Finance for a maximum period of only two years, and its composition restricted to a maximum of 40% 'registered auditors' (RSA, 2005, section 11). The funding model was also changed, with IRBA now partly funded by the National Treasury, rather than wholly by the profession itself (RSA, 2005, section 25)[5].

To illustrate the emphasis on independence from the profession, when IRBA began its debate on MAFR in 2015/2016, its board consisted of eight members, including a chairperson deemed independent of the audit profession and three registered auditors, one from a medium-sized firm and two from the Big 4 (IRBA, 2015b). The chairperson was a practicing advocate not an accountant and, from 2015, an appointed High Court judge. In addition, although the IRBA CEO (Bernard Agulhas - IRBA's primary representative in the regulatory space), had some audit experience, he was never an audit partner, and he was not an IRBA board member. To maintain the accounting expertise and competency to oversee the audit profession, the Minister of Finance ensured that all members of the board except the chairperson were professional accountants registered with the SAICA (as stated, only three were actual auditors). Evidently the tension here was to balance need for audit expertise with that of maintaining independence from the interests of auditors, especially the Big 4.

3.3.2 The legacy of apartheid

As it will become relevant to our examination of the discourse surrounding the South African MAFR debate, the period prior to 1994 was dominated by the apartheid system of oppressive racial segregation. Thereafter, starting with the democratic election of Nelson Mandela as President, the government began a process of "dismantling" apartheid (Hammond, Clayton, & Arnold, 2009, p. 705). Specifically, the government implemented a wide-ranging policy, called 'Black Economic Empowerment' (Clark & Worger, 2016; RSA, 2013), or 'transformation', to improve opportunities and reverse apartheid's inequalities, to create a more equitable, diverse and inclusive society.[6] These policies are not universally supported by all political parties represented in Parliament, including the main opposition party[7].

3.3.3 The MAFR debate

We now describe the timeline and process of the South African MAFR debate. Following the 2014 EU ruling in favour of MAFR (European Commission, 2014), and in response to perceived deterioration in audit quality in South Africa, IRBA initiated a consultation process in 2015 with a "research and pre-scoping phase" running from July 2015 to May 2016, alongside private meetings with various "key stakeholders and stakeholder groupings" (IRBA, 2017a, p. 12). Following this "the board resolved after due process and consultation" that legislating MAFR was the required (IRBA, 2017a, p. 2).

[5] According to IRBA's 2015 annual financial statements, approximately 36% of revenue was from government funding, 35% from registration, license and related fees from auditors, and 25% from fees paid to cover practice reviews (inspection fees).

[6] From this point we will refer to this race-based economic empowerment policy as 'transformation', as it is commonly referred to in South Africa. The South Africa government employs legislated race categories for economic empowerment policies, comprising (in addition to 'white') those races oppressed and disadvantaged under apartheid namely, 'African black', 'Coloured', and 'Indian/Asian', all referred to simply as 'black' (Clark & Worger, 2016; RSA, 2013).

[7] Since 1994, the African National Congress (ANC) has been the ruling party in parliamentary, winning 62% of the votes in the last election (2019). The Democratic Alliance (DA), the largest opposition party, are opposed to the economic 'transformation' policies enacted by the ANC (Clark & Worger, 2016).

On 25 October 2016 IRBA released its official 'Consultation Paper', requesting 'affected parties' to submit response (comment) letters to IRBA by 20 January 2017 (IRBA, 2016b). In this Consultation Paper IRBA presented its case for MAFR, expressing a desire to follow the direction of the EU rather than the US. Following the submission deadline for comment on the Consultation Paper, two 'public hearings' on MAFR were held in Cape Town at the South African Houses of Parliament (on 15 February 2017 and 17 March 2017), before the National Assembly Standing Committee on Finance (SCoF). As a committee of Parliament, comprised of elected Members of Parliament from at least four political parties, the SCoF is responsible for oversight of National Treasury, as well as statutory entities such as IRBA[8]. The SCoF has no operational relationship with IRBA, no representation on the IRBA board and has never systematically considered or debated IRBA's regulatory role. The SCoF involvement followed a decision by "the Chairman of SCoF [who] agreed to host parliamentary hearings on MAFR to support the process of consultation" (IRBA, 2017a, p. 20).

On 15 February 2017 the following organisations presented at the hearing (in order):
IRBA CEO; CFO Forum; SAICA, King Committee; IFAC; KPMG and Deloitte (Big 4); Nkonki (mid-sized 'black owned' audit firm)

At the hearing on 17 March 2017 (in order):
IRBA CEO; EY and PwC (Big 4); Association of Black Accountants in Southern Africa (ABASA); RSM (mid-sized audit firm); South African Reserve Bank (SARB); Black Chartered Accountants Practitioners (BCAP); Ngubane & Co (small 'black owned' audit firm)

After each presentation there was a brief opportunity for questioning by the members of the SCoF, addressed to either the respective presenter or the IRBA CEO. As evident from the selected presenters, opportunity was primarily given to the audit profession (Big 4 and others), as well as two other interest groups namely, capital market interests and representatives of black professional accountants.

Only two weeks after the hearings, the IRBA board resolved in meeting (on 28 March 2017) in favour of officially adopting MAFR into law. After consultation with the Minister of Finance the decision was publicly communicated in June 2017 by Government Gazette (IRBA, 2017c), as required by the Auditing Profession Act. IRBA was satisfied and described the consultation process as "robust" (IRBA, 2017a, p. 12). We note that, in contrast to the EU ruling, the regulation was issued as it had originally been intended by the regulator (i.e., without compromise), requiring all public-interest entities, including exchange-listed companies, to rotate audit firms *every 10 years*. Affected organisations are expected to implement audit firm replacements before April 2023.

[8] The SCoF comprises 11 members in total, including the chairperson. At the February hearing there were ten members of the SCoF present and only four at the March hearing. The lack of participation of the members of the SCoF to either be present at the March hearing or to actively engage in the debate was noticed by the observers and participants present at the hearings (including an author of this paper in attendance). Most of the engagement with the SCoF was with its chairperson, Yunus Carrim.

4. Qualitative method employed

To address the paper's objective of extending our understandings of the strategic mobilization of appeals to 'the public interest' and interpretation of the audit regulator's mandate in a disputed regulatory space, we conduct a qualitative analysis of various communications constituting the discourse from 2015 until the ruling in June 2017.

4.1 Description of the data

Documentation by way of minutes or transcripts of the private meetings held with stakeholders by IRBA were not provided to the authors despite requests for such evidence. We were however able to understand the process and nature of such discussions through our interview with the IRBA CEO (Bernard Agulhas) in November 2016[9] which informed our selection of the organisations to contact. After the 20 January 2017 submission deadline, we then contacted the relevant organisations separately to obtain copies of their letters submitted in response to the IRBA Consultation Paper (listed in Table 2). Therefore, these comment letters can be considered to represent the views of 'key actors' prior to the Parliamentary hearings. The organisations represented in Table 2 cover the Big 4 firms who represent, in our view, primary actors in opposition to IRBA, plus key representatives of capital market interests, the local accounting professional body (SAICA) and the international accounting professional body (IFAC). The length of the response letters ranged from six to 21 pages and were authored by an executive leader of each respective organisation. We could not obtain any comment letters from the smaller (non-Big 4) firms, nor any from the organisations representing 'black' professionals (BCAP and ABASA). However, representatives of these bodies presented at the hearings before the SCoF, from which we have the hearing minutes, official audio recordings and our own field notes of the hearings. We thus believe this data is sufficient to represent the views of all key organisational stakeholders in the discourse.

[9] This interview was conducted by one of the authors and was designed to better understand the IRBA consultative process and seek further clarity on the regulator's interpretation of key meanings and its mandate.

Table 2: Response (comment) letters obtained

Organisation	Author (with citation)
Big 4 audit firms:	
• PricewaterhouseCoopers (PwC) South Africa	CEO, PwC South Africa (PwC, 2017)
• Ernst & Young (EY) South Africa	Professional Practice Director, EY South Africa (EY, 2017)
• Deloitte South Africa	CEO, Deloitte Africa (Deloitte, 2017)
• KPMG South Africa	CEO, KPMG South Africa (KPMG, 2017)
Professional accounting bodies:	
• The International Federation of Accountants (IFAC) *Primary global professional body.*	CEO, The IFAC (IFAC, 2017)
• The South African Institute of Chartered Accountants (SAICA) *Primary local professional body.*	CEO, The SAICA (SAICA, 2017)
Other key organisations:	
• The Johannesburg Stock Exchange (JSE)[10] *Primary South African stock exchange.*	CEO, The JSE (JSE, 2016)
• The Chief Financial Officer's Forum (CFO Forum) *Association comprising the CFOs of JSE-listed companies.*	Chair of the forum (CFO Forum, 2016)
• The Association for Savings and Investment South Africa (ASISA) *Association representing all large investment management companies in South Africa.*	CEO, The ASISA (ASISA, 2017)
• The Banking Association of South Africa (BASA) *The mandated industry representative/trade association of all licensed commercial banks operating in South Africa.*	Managing Director, The BASA (BASA, 2017)

The Consultation Paper represents the primary articulation of IRBA's argument. This document outlines (1) IRBA's reasons for pursuing MAFR and (2) IRBA's understanding of its mandate. We supplement this data source with other IRBA communications namely, IRBA's strategic plan, which was released concurrently with the MAFR debate, newsletters issued and other relevant IRBA communiques. This allows us to understand and interpret how the regulator views its mandate and key meanings central to the regulation (Canning & O'Dwyer, 2013; Hancher & Moran, 1989; MacDonald & Richardson, 2004). We pay careful attention to examine how IRBA (and then other actors) employ 'public interest' rhetoric, together with related key meanings such as 'independence' and 'audit quality'.

One of this paper's authors attended both hearings in Cape Town in February and March 2017 and allowed us to observe the proceedings and take field notes. This provided a means of documenting observations of actors in the space and the capturing of contextual information, such as the 'tone' of discussions, which would not otherwise have been discernible in the data. Observers were disallowed electronic recording devices in the chambers of the South African Parliament, but official audio recordings were obtained from the committee secretariat office,

[10] The JSE letter included both the position of the JSE itself, as well as a summary of responses received from 63 JSE-listed companies who provided their views on MAFR to the JSE.

as were the minutes. Finally, to supplement these data sources, interview and survey data was obtained from researchers who had conducted a detailed review of auditor and audit committee views on MAFR[11]. The data from this source were as follows:

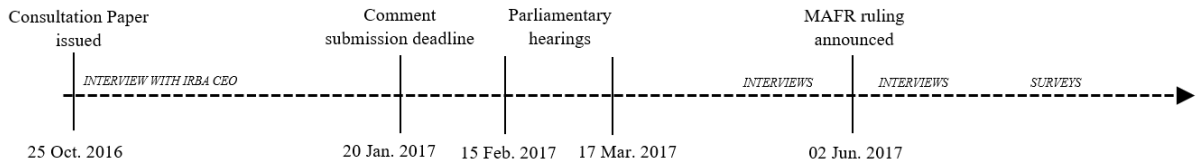
- Interviews with 14 JSE-listed company audit committee members;
- Interviews with 14 senior audit partners; and
- Written comments obtained from surveys of auditors (112 participants) and audit committee chairs (41 participants) of JSE-listed companies

These interviews and surveys were conducted to determine *individual practitioner views* on the IRBA Consultation Paper. The criteria for inclusion in the interviews and survey was direct affiliation with JSE-listed companies impacted by MAFR, i.e., they were either the auditor of a JSE-listed company, or a member of its audit committee (often the chair). The auditors comprised both Big 4 and non-Big 4 firm partners. In total it comprises qualitative data from 29 interviews and 153 survey participants. Some of the interviews and all the surveys, were conducted after the IRBA ruling in June 2017.

Each participant was asked (in either the interview or survey) whether they agreed with IRBA's position as communicated in the Consultation Paper and to comment on how they perceived the consultative process driven by the IRBA until the ruling announcement in June 2017. As such, this data presents a rich source of information concerning individual practitioner perspectives, to supplement our examination of organisational responses. This data is considered *secondary* to the data which contains the discourse between actors 'within' the regulatory space. The individual practitioners did not themselves engage the regulator directly. Nonetheless, given the seniority and roles (auditor and audit committee members) of these participants, they were no doubt influential voices within their respective organisations (audit firms and JSE-listed companies) and thus indirectly influenced the regulatory space. We believe that this data of influential 'outsiders' to the regulatory space may be insightful to inform our interpretation of the discourse.

Figure 2 illustrates the timeline of the regulatory debate and the data collection.

Figure 2: Events and data collection timeline



[11] This interview and survey data has resulted in the following publications - Harber and Maroun (2020) and Harber, Marx and De Jager (2020). These papers focus on a distinctly different research agenda i.e., understanding participants views on the cost-benefits of MAFR. Our purpose is to understand their views on the consultation process itself and IRBA's motivations.

4.2 Method of analysis

The data were analysed in a sequential manner corresponding to the timeline of the debate (Figure 2). Beginning with the Consultation Paper, supported by other IRBA communications, we categorised the core argument being articulated by IRBA, surrounding key terms and associated meanings such as 'audit quality', 'auditor independence', 'transformation' and 'the public interest'. All discourse surrounding IRBA mandate interpretations were also extracted. Actor rhetoric was constructed around these key meanings which, although first extracted from the Consultation Paper, were developed iteratively as further data, especially that of counter voices to the IRBA position, such as that expressed by the Big 4, were examined. The view of the government was represented by the members of the SCoF, most notably the expressions of its chairperson (Yunus Carrim).

The data from the public hearings then allowed us then to determine the following:

(1) Whether the IRBA argument at the hearings differed from that laid out in the Consultation Paper;
(2) The views of the SCoF, as democratically elected members of parliament, and as chaired by a senior ruling party member; and
(3) Whether the views of the representatives of 'black' audit professionals (e.g., BCAP, ABASA and Nkonki), *supported* the IRBA position.

Our intention here was to also capture and understand counter opinions to the narrative of the dominant voices in the discourse, these dominant voices coming from IRBA, the Big 4 and the capital-market interests. There is a noticeable absence in the data we obtained of the views of 'non-Big 4' audit firms in the discourse. Only three such audit firms (Nkonki, Ngubane & Co and RSM) presented their positions to the SCoF during the hearings, and we failed to obtain any response letters from such firms. However, of the 14 partner interviews, nine were conducted with 'mid-sized', non-Big 4 audit partners (i.e., Grant Thornton, Mazars and BDO), six of whom were managing partners of their respective national firm networks. These data sources serve as our data to examine the positioning of the mid-size firms in the regulatory space negotiations (refer to section 5.6)[12].

We present our analysis in the next section by first outlining IRBA's argument for MAFR, as established by their Consultation Paper. This sets the parameters of key meanings and logic disputed within the space (Hancher & Moran, 1989; MacDonald & Richardson, 2004). We pay specific attention to the use of 'public interest rhetoric' and the deployment of what is traditionally understood as 'serving the public interest' i.e., the production of high audit quality. In addition, the manner in which IRBA *interprets*, and in this case has *extended* its mandate, is of vital importance to the regulatory space conception of how regulatory alignment and consensus is achieved (Hancher & Moran, 1989; Scott, 2001). We will then discuss the opposition to, or support for, the IRBA position expressed by different actors as the debate progressed. Following the analysis, we offer a conclusion, outlining the contribution of the paper in relation to the existing literature and theoretical framework adopted.

[12] As the MAFR regulation is designed only for large organisations and JSE-listed companies, many of the non-Big 4 firms recognise that they are too small to compete for such engagements. This explains the limited participation of the smaller of the non-Big 4 firms in the debate.

5. Analysis of regulatory discourse

5.1 The IRBA positioning

Effectively we find that the IRBA establishes its position in favour of MAFR on its evidence and reasoning that audit quality is in decline in South Africa, which it attributes to compromised independence between audit firms and their clients (IRBA, 2016b). Consistent with the policy reform in the EU effective in 2016, IRBA motivates for the need to move beyond the more traditional partner-only rotation rules currently legislated in the South African Companies Act (No 71 of 2008).

Whereas IRBA, through its 'mandate extension' imposes a *secondary objective* into the discourse (discussed below), which was disputed by actors in the space, the Consultation Paper did *not* emphasise these objectives. Rather, IRBA here confined its argument to the regulatory logic outlined in Figure 1 i.e., the regulation was intended to improve audit quality by limiting audit firm tenures, to address concerns over auditor independence. The secondary objective surrounding 'transformation' (race equality), was brought (we argue strategically) to the fore in the parliamentary hearings before the SCoF. We first discuss the primary IRBA argument in the Consultation Paper.

IRBA believes that South Africa is experiencing a decline in audit quality, evidenced by high-profile local corporate failures[13] and findings from regulatory audit inspections (practice reviews). The 2015/16 regulatory inspections of audit work indicated a trend of adverse findings, which continued in the years following the June 2017 ruling. The IRBA attributed this deterioration to long audit firm-client relationships (IRBA, 2019c, 2019a). As further evidence IRBA cited the decline in global ranking of South Africa's in categories of audit quality and corporate governance by the World Economic Forum (WEF)[14].

The IRBA Consultation Paper aligned very closely to the MAFR logic (Figure 1) in attributing causal effects. The "familiarity threats between auditors and audit committee chairs, and auditors and Chief Financial Officers (CFOs)" was impairing auditor independence and professional scepticism (IRBA, 2016b, p. 5). These threats were borne from, and grew with, long audit firm tenures, and therefore it is this tenure that needed to be regulated. The Consultation Paper contained a table of JSE-listed companies, together with their respective audit firm tenures (IRBA, 2016b, p. 18). Thirty companies had not rotated auditors in over 20 years (all Big 4 firms), with two companies having had the same audit firm for over 100 years. IRBA also argued there to be a systemic problem of JSE companies appointing non-executive directors (often also acting as audit committee members) who had a prior relationship with the company's incumbent Big 4 audit firm. Often these directors had worked at these Big 4 firms or were even retired partners from these firms.

IRBA attempted to show that the profession has lost *legitimacy* on grounds (and using 'key meanings') that were well-established within the regulatory space, namely 'audit quality'

[13] Recent examples of South African corporate scandals include Steinhoff International Holdings (in 2017), Oakbay Investments (in 2016), African Bank Investments (in 2014) and VBS Mutual Bank (in 2018), among others. In each of these cases the auditor is accused of compromised independence and, in some cases, complicity in fraud with management.

[14] In 2015 and 2016 the WEF Global Competitiveness Reports ranked South Africa 1st and 3rd respectively (of approx.140 countries) for "Strength of auditing and reporting standards" and "Efficacy of corporate boards". In 2018, this had slipped to 55th and 34th respectively (WEF, 2018).

decline and 'independence' compromise. As actors interact within a regulatory space, various aspects of the discourse are important in determining regulatory alignment outcomes. Firstly, the actors must be perceived by the regulator, society and other influential stakeholders (such as government authorities) to be legitimate according to *established values* (Hancher & Moran, 1989; Power, 2003; Scott, 2001). This was the first major obstacle for the Big 4 firms – they needed to defend their professional legitimacy to deliver audit quality and act as independent professionals without a policy reform. Audit quality was a non-negotiable established value. Furthermore, it was clear and relatively undisputed that IRBA had the legislative authority in terms of the Auditing Professions Act to set the debate parameters[15] (Hancher & Moran, 1989; Scott, 2001), as long as the parameters were *confined to audit quality outcomes in the public interest*. The contestation did not involve IRBA's regulative authority *per se*, but rather the fundamental questions of (1) whether audit quality was indeed in decline and then, as would become more influential as the debate progressed to the public hearings, (2) the legitimacy of adding race-based objectives to the discourse.

As a subtle but, we believe, deliberate tactic, care was taken by IRBA in the early stages of the debate, as expressed in the Consultation Paper, to describe *both* investors and 'the public' as the beneficiaries of improving audit quality. IRBA clearly articulated that both capital market interests and those of broader society were priorities in the MAFR regulation.

> *South Africa relies substantially on external capital… foreign direct investment… and a well-regulated and reliable capital market… [requiring] a reputable audit profession… on which investment decisions can be made* (IRBA, 2016b, p. 4).

This neo-liberal perspective was often incorporated with a more social democratic perspective of the wider public/society. The two groups (investors and 'the public') were often conflated without acknowledgement of potential conflict of interest concerning MAFR outcomes, for example:

> *The IRBA considers the development of [audit quality] to be in the public interest as it aims to improve the protection of the investing public from potential audit failures that might result in substantial financial losses for investors* (IRBA, 2016b, p. 7).

As we now discuss, this conflating of interests allowed, at least in part, the regulator's change to an 'extended mandate' that sought to broaden IRBA's ambit and justify its inclusion of additional societal values into the MAFR discourse.

5.2 The extension of the regulatory mandate

According to the regulatory space conceptualisation, not only must the actors be perceived as legitimate, and there be agreement on key meanings surrounding the regulatory logic, but there must also be consensus over interpretation of the *regulatory mandate* itself. The mandate sets debate parameters, especially in the early stages of the discourse (Canning & O'Dwyer, 2013;

[15] Some comment letters showed contestation of the legal right of an audit regulator to pursue legislation binding on companies, as this was argued to be within the purview of the Companies Act, not the Auditing Professions Act, and thus outside IRBA's jurisdiction (e.g., ASISA, 2017; PwC, 2017). However, this argument was not pervasive nor influential in the discourse.

Cooper & Robson, 2006; MacDonald & Richardson, 2004). Influential actors may "severely test" the regulator's own legitimacy and "actively seek to restrict the interpretation of the regulators' mandate in order to dilute their regulatory powers" (Canning & O'Dwyer, 2013, p. 171). What we find is that the profession was wholly unable to do this. In fact, the opposite occurred - rather than a dilution of the regulator's legitimacy, the regulator was able to use its interpretation of its mandate to surprise the profession, change the paradigm of the debate and effectively and fundamentally challenge the Big 4's legitimacy.

Whereas a high degree of regulatory consensus was achieved in 1951 with the PAAB, that disintegrated over the MAFR dispute in 2015/16. Acting parallel (chronologically) with the consultation process, IRBA published its 'extended mandate', to provide "a more comprehensive regulatory model" in the form of a revised 'strategic plan' (IRBA, 2016a, p. iii). Using a form of 'public interest' rhetoric IRBA re-interpreted its mandate *during* the period of the MAFR regulatory discourse. We interpret that the timing of this re-interpretation of the mandate was deliberate and strategically concomitant with its promotion of MAFR. By doing so it evaded the attentions of the Big 4 until later in the debate.

The extended mandate, expressed within the 'strategic pillars' of IRBA in its newly published Strategic Plan (2016-2021) was as follows:

> *To influence transformation in the auditing profession {and thereby} to retain Black auditors in the profession, attract Black auditors back into the profession and address the imbalance in the demographic representation in the auditing profession (IRBA, 2016a, p. i, iv, 2017a, p. 2)*

IRBA justified this pillar as fundamental to restore confidence in the auditing profession. We refer to this change as unilateral because it was not the outcome of any legislative or democratic process[16]. IRBA thus unilaterally changed its mandate and communicated it to the profession. As a state-appointed statutory body, this mandate extension is a move beyond its statutory parameters of maintaining audit quality. IRBA showed its intention to regulate more than simply audit quality, now describing itself as a 'comprehensive regulator', and turning its focus specifically to racial equity, consistent with state policy of 'transformation'. These additional 'functions' or 'objectives' of IRBA are not contained in the Auditing Profession Act, where IRBA's purpose is confined "to promote the integrity of the auditing profession" and "take steps it considers necessary to protect the public in their dealings with registered auditors" (RSA, 2005, section 4). From this wording it is presumed that IRBA believes it may change its mandate so long as it prescribes to the logic of protecting 'the public interest'.

IRBA used this mandate extension to drive its race-equity agenda within the MAFR debate, but it did so rather subtly at first. The Consultation Paper certainly stated that transformation was a perceived benefit of MAFR, yet it emphasised the established regulatory logic (Figure 1) as primary.

> *[IRBA] concedes that the MAFR rule on its own will not achieve all the transformation objectives required in the South African context; however, it can contribute to building capacity.* (IRBA, 2016b, p. 19)

[16] The IRBA Strategic Plan document published stated the intention to obtain approval from the Minister of Finance and legislate it within "the next 5 years" (IRBA, 2016a, p. iii).

Notably, the profession does not appear to have actively resisted the mandate extension itself when it was communicated in 2015/16. We attribute this to (1) the need to maintain legitimacy and seek consensus within the regulatory space; and (2) the manner in which, as described, IRBA published its changed mandate interpretation i.e., without external consultation or official government sanction. Many see the transformation ideals in South Africa as a test of ethical corporate conduct. All the audit firms have over many years, supported "black economic empowerment' in principle. The Big 4 were well aware of "the way the wind [was] blowing" in politics (Cochran, 1974, p. 328) and we believe, at this point in the discourse, they were relieved that the debate over MAFR was largely confined to its regulatory logic.

The extended mandate now prompted IRBA to bring its transformation agenda to the fore:

> *MAFR will promote transformation by creating more opportunities for small and mid-tier audit firms to enter certain markets, provided they are competent to audit in those markets* (IRBA, 2015, p. 2)

The logic here is that MAFR, by forcing audit firm rotation, would contribute to a more equitable race representation in the audit profession as the smaller firms are given the opportunity to be appointed as auditors of JSE listed companies. Breaking the dominance of the Big 4 audit firms was argued to be in the public's best interest, as it would allow a greater number of 'black' accounting professionals to participate. Some of the smaller (non-Big 4) firms are considered 'more transformed' than the Big 4, meaning they comprise a higher proportion of black accountants[17]. Importantly, within the framework of its extended mandate, IRBA believes that transforming the race demographics of the profession is its responsibility and is in the public interest.

> *As the regulator, and with the public interest at heart, we have a responsibility to address all these concerns [i.e., transformation and market concentration, as well as audit quality]* (IRBA, 2019b, p. 2).

Interestingly, this 'transformation objective' for MAFR is prefaced on a desire for greater competition (and lower supply concentration) in the audit market. This market concentration benefit (but not linked to race equity) was a promoted benefit of MAFR in the EU debate (European Commission, 2014; Horton et al., 2018)[18].

The IRBA positioned itself ideologically with the government and beyond the scope of regulating audit quality exclusively. As described by the IRBA CEO in a 2017 IRBA newsletter:

> *…the harsh reality is that of the 4,283 registered auditors in South Africa, 74.8% are white and only 10.5% are black Africans. We believe that, while some initiatives have been implemented, more must be done… it is about giving black accountants and auditors long-term prospects in the profession – prospects that are equivalent to those of their counterparts. This requires a*

[17] IRBA offered no evidence to support this claim.

[18] The European Commission refers to how MAFR rules "help to foster diversity in the audit markets and enhance investors' trust" (European Commission, 2014, Audit reform in the EU section para. 3).

> *cultural shift and a more inclusive approach… it is about financial inclusion, ownership and access to markets and opportunities* (IRBA, 2017b, p. 2)

We argue that IRBA tactically positioned itself through its 'covert' mandate extension. The transformation agenda was deliberately de-emphasised in the Consultation paper where IRBA rather chose to emphasise the regulatory logic and its socio-democratic role to secure public values. The focus on race was then introduced in the public hearings to leverage the support of government via the SCoF. In effect the 'market failure' by the profession to secure 'public values' was then interpreted within a 'race equity' paradigm, consistent with the ruling party's political agenda. Here we see the societal and historical context impact the regulatory space and the 'rules of the game' (Cooper & Robson, 2006; Spence et al., 2017). This re-alignment allowed IRBA to position itself as the 'regulator of politically mandated ethical conduct' rather than simply audit quality. We interpret this as a significant departure from the function and role of audit regulators globally.

5.3 Key organisational responses to the Consultation Paper

The structure and logic of the response letters were in accordance with that of the Consultation Paper to which they were responding. As shown in Table 3, there was overwhelming pushback by certain key organisational stakeholders against IRBA's position. The strongest opposition was expressed by the Big 4 firms, who argued that IRBA had not effectively demonstrated that audit quality was in decline.

> *No empirical evidence has been produced to support the suggestion of a perceived lack of independence… no 'so called' audit failures in South Africa have been factually attributed [to a compromise of independence]* (KPMG, 2017, p. 2)

> *We do not believe that MAFR increases auditor independence or enhances audit quality. There is no empirical evidence that it does… The IRBA has not yet provided the research that evidences that the current independence measures in South Africa are not working.* (PwC, 2017, p. 5)

Table 3: Summary of views in response (comment) letters obtained

Organisation	Supportive of IRBA position?	Summary
Big 4 audit firms:		
• PwC South Africa	No	• Strongly opposed to MAFR and the premise that audit quality is in decline. • Supports the 'transformation objective', but not using MAFR.
• EY South Africa	No	
• Deloitte South Africa	No	
• KPMG South Africa	No	
Professional accounting bodies:		
• The IFAC	Neutral	• "We note that while IRBA has identified audit quality as the key objective for its mandatory audit firm rotation proposal, other objectives, such as transformation, are also noted. It is very important that competing objectives do not impede the outcomes of initiatives." (IFAC, 2017, p. 2) • The "demands are for enhanced audit quality" need to be met by a "range of other measures", not only auditor rotation (IFAC, 2017, p. 3).
• The SAICA	Neutral/No	• The SAICA as an institute held a neutral position on MAFR, while reporting that a survey of its members showed general opposition to IRBA position.

		• Supports the 'transformation objective', but not using MAFR.
Other key organisations:		
• The JSE	No	• The "overwhelming majority" of companies surveyed on the JSE "raise serious concerns" regarding MAFR (JSE, 2016, p. 1) • Supports the 'transformation objective', but not using MAFR.
• The CFO Forum	No	• "There is no clear demonstration of the magnitude and extent of research conducted" to show that auditor independence is a concern (CFO Forum, 2016, p. 1). • Supports the 'transformation objective', but not using MAFR
• The ASISA	No	• "The rationale for the decision of the board of IRBA to implement MAFR is not expressed in detail… MAFR is unlikely, at least in the short to medium-term period of a forced rotation cycle, to improve audit quality and/or improve auditor independence" (ASISA, 2017, p. 2) • Supports the 'transformation objective', but not using MAFR.
• The BASA	No	• The rotation of auditors should be the responsibility of a company's board and Audit Committee, not forced via legislation. • Supports the 'transformation objective', but not using MAFR.

The Big 4 argued that audit quality was not in decline, auditor independence was not compromised, there were less disruptive and costly policy options to pursue, and transformation was best progressed by internal firm initiatives. The Big 4 "unreservedly fully embraced the need to transform" (EY, 2017, p. 8) and thus there was no need to use regulation to mandate this objective, and certainly not MAFR. Each of the Big 4 firms' letters went further, claiming that counter-intentionally MAFR would likely *impair* audit quality rather than improve it. The KPMG and EY letters, for example, provided multiple reasons why the implementation of MAFR would escalate audit firms' costs, reducing their profitability to such a degree that the quality of audits would suffer (EY, 2017, p. 12; KPMG, 2017, p. 3-4).

We believe these letters adequately represent the views of the influential actors in opposition to IRBA, namely the Big 4 and representatives of investor and economic interests in the regulatory space (e.g., the JSE including CFOs, the banking industry and institutional investors). A review of these letters shows unanimous opposition to MAFR.

Two other common themes emerged in the letters. There was a pervasive call from the Big 4 and capital market representatives for more extensive research and consultation before reaching a final decision. The consultation process to date was described as "insufficient and rushed", and as described by the JSE, IRBA was 'strongly urged' to "start the process of consultation on MAFR afresh" (JSE, 2016, p. 4). These stakeholders wanted more opportunity to engage with the regulator. Also, while all letters expressed wholehearted support for IRBA's 'transformation objective', they were against the use of MAFR as a tool to achieve this end. There was a caution "that competing objectives do not impede the outcomes of initiatives" (IFAC, 2017, p. 2). Respondents were concerned that the regulator was pursuing 'multiple objectives' with a regulatory tool which was designed *exclusively* to address threats to independence caused by extended audit firm tenures.

> *The public interest will be best served by a more focussed approach to developing regulation* (Deloitte, 2017, p. 2)

5.4 The public hearings before the SCoF

The hearings before the SCoF took place only a few weeks after the Consultation Paper response deadline at the Houses of Parliament in Cape Town (RSA, 2017a, 2017b). IRBA had not (and still to date has not) issued formal replies to the response letters. Each session began with a presentation from the IRBA CEO, followed by short presentations from select invited

individuals representing key affected organisations, followed by a time of questioning by the SCoF.

We identify a deliberate change of emphasis when comparing the content of the IRBA presentation, which initiated each session's proceedings, with that contained in the Consultation Paper. Whereas the Consultation Paper emphasised investor protection and the regulatory logic, the rhetoric of IRBA's CEO at the SCoF forum, placed the focus on the role of the regulator in protecting broader society and public values, consistent with its mandate extension. As an example of this emphasis, the IRBA presentation slides commenced picturing poor and vulnerable communities and children in South Africa. The IRBA CEO claimed that MAFR, by improving audit quality and limiting occurrences of corporate misconduct, would protect public retirement funds and corporate employees. The presentation quickly proceeded to highlight the potential for MAFR to contribute towards racial transformation – an emphasis not articulated in the Consultation Paper. We thus argue that IRBA strategically adjusted its rhetoric to appeal to the political audience.

The Big 4 displayed noticeable frustration with the preoccupation of the SCoF and IRBA with race considerations[19]. The chairperson (Yunus Carrim), a senior member of the South African ruling party, controlled the discourse and interacted the most with presenters. He afforded little time to the presumably central question of whether MAFR would improve audit quality. Furthermore, with few exceptions, comments and questions from members of the SCoF were directed at race transformation and the perceived unwillingness of the Big 4 to take transformation seriously. The chairperson of the SCoF stated it unequivocally - he *"wanted to see a deconcentration of the market, because South Africa was overly monopolistic, in a racial form… [I am] not convinced why independence was separate from transformation and market concentration, because the debate was about transformation whether one likes it or not."* (RSA, 2017a).

The chairperson furthermore claimed:

> *It cannot be that 23 years after democracy we still have a sector that is not transformed…. But also, the government must ensure that through [MAFR]'s framework it has initiated, there is an increase in the use of black firms for auditing both in the public and private sectors… As such we want to determine: to what extent can the [MAFR] facilitate the transformation of the auditing industry?* (RSA, 2017a)
>
> *This debate is about transformation. Explain why the primary aim is not related to the secondary aims?* (RSA, 2017a)

Calling for clarity on objectives, the CEO of the SAICA stated that *"we need clear research on what exactly we are concerned about - different objectives should not be mixed."*. In response, the SCoF chairperson told the Big 4 leadership present: "*we are telling you, you have to move faster on the need to transform*" (RSA, 2017b). The IRBA CEO responded, agreeing that transformation had to *"move beyond numbers and begin to empower black accountants and black-owned auditing firms*".

[19] This was observed by the author present at both sessions.

It is perhaps not surprising that most members of the SCoF (at least those in attendance - refer footnote 8) agreed with the chairperson, as the majority of the SCoF comprise members of the ruling political party. Those present from the opposition party, while not expressing support for or against MAFR, did oppose the transformation view of the chairperson, as would be expected given their respective party ideologies on the matter (refer footnote 7). The chairperson and the majority of the SCoF were not interested in discussing the merits of MAFR on audit quality grounds. The platform of the hearings appeared to be an opportunity to rebuke the Big 4 for poor performance on race transformation. Despite being entrusted with financial oversight, the SCoF did not appear to share IRBA's primary concern over audit quality, and the IRBA CEO evidently understood this. The persistent focus on race equality, and aggressive tone from the chairperson in particular, accusing the Big 4 executives of unethical behaviour, caught the profession and the Big 4 executives off guard. IRBA's CEO was able to use this to IRBA's advantage and leverage the support of the SCoF in favour of MAFR.

5.4.1 Defending their legitimacy

Of the Big 4 firms, KPMG and Deloitte were invited to the February session, PwC and EY to the March session. There was no opportunity for each respective Big 4 executive to make a second presentation to the SCoF and perhaps adjust their positioning and address the transformation arguments posed by the SCoF[20]. The Big 4 attended the sessions intending to debate MAFR in its merits to improve audit quality, as they had done so in their response letters to the Consultation Paper. Yet, in response to aggressive questioning from the chairperson of the SCoF in particular, they had to defend their firms' performance on transformation. It was thus transformation rhetoric which established or diminished their legitimacy in this setting.

The Big 4 executives understood the non-negotiable imperative of race transformation and strategically embraced it throughout the debate. They were evidently well-versed in extolling their firm's progress in transformation and this rhetoric was clearly understood as a necessity to maintain legitimacy within the regulatory space. As discussed, all ten comment letters reviewed (Table 3), including those defending capital market interests (e.g., the JSE, ASISA, ABASA), embraced this ideology.

> *[we are] firmly committed to accelerated transformation, not only within our own Firm, but also of the profession as a whole* (Deloitte, 2017, p. 14)

PwC told the SCoF that the firm was "the most transformed firm" in the industry (RSA, 2017b) in terms of absolute numbers of black accountants. The retort from the SCoF chairperson to this comment was that the rate was nonetheless unacceptably slow. Deloitte stated: "we currently have 45% black representation across our national audit practice" (RSA, 2017b). KPMG claimed that the Big 4 were "the biggest contributors" to improving race equality in the profession (KPMG, 2017, p. 21). Not only did the Big 4 claim to be transforming adequately on their own, MAFR was argued to be an *inhibitor of their progress* in this regard by disrupting the industry, distracting auditors and firm leadership, lowering profitability in the industry (to loss-making levels) and undermining the profession's appeal to young black accountants.[21]

[20] As a subjective comment, the author present at both sessions did notice that the CEOs of PwC and EY, having heard about what transpired at the first session in February, were more prepared (and less off guard) to engage on transformation.
[21] These were arguments contained within each Big 4 firm response letter.

> *The impact on the transformation agenda could also be acute. In a market where the retention of skilled black professionals is a challenge, such measures may only serve to make the profession that much less attractive. With the increased pressure on audit fees and staff compensation, audit firms are already challenged to retain top talent with better prospects being offered in other markets and other industries* (PwC, 2017, p. 3)

IRBA placed the profession in a difficult position. Race equality is a dearly held public value by many in South Africa, as well as being a national government policy objective. All actors in the debate had to, on the one hand, not only embrace this ideal, but show objective evidence of progress. On the other hand, those opposed to MAFR argued that the regulation would not promote transformation. We argue that by embracing transformation, even if disputing MAFR, the profession has conceded that race equality is *an audit market ideal* 'in the public interest'. Even ASISA, the representative of institutional investors, i.e. capital market interests, acknowledged this (ASISA, 2017, p. 1). All actors in the regulatory space agreed (at least publicly) with the South African government that auditors, in their quest to serve the public interest, can not only deliver high audit quality outcomes, but must also deliver race equity outcomes. This is a development *beyond* the traditional understanding of auditors acting in the public interest through delivering audit quality outcomes (Francis, 2004; IESBA, 2018; Knechel et al., 2013).

5.5 The views of smaller audit firms and representatives of black professionals

As it was impossible to obtain response letters from the 'mid-tier' firms, the presentations from the three non-Big 4 firms (Nkonki, RSM and Ngubane & Co.) at the hearings provide insight into how these 'next tier' firms view the IRBA position. These are the firms that presumably stand to gain from MAFR, as they compete for appointment from companies previously audited by the Big 4.

RSM is an international firm network, while Nkonki and Ngubane & Co are referred to as 'black-owned' firms (i.e., black audit partners). Interestingly, RSM's presentation aligned with that of the Big 4, despite the potential for the policy to allow RSM to grow market share. However, Nkonki and Ngubane & Co expressed support for MAFR, together with the two organisations representing black accountants: the Advancement of Black Accountants in Southern Africa (ABASA) and the Black Chartered Accountants Practitioners (BCAP)[22]. These organisations argued that the increased competition, and the resulting growth of their black-owned firms, would improve *both* transformation and audit quality in the profession. MAFR would grow its pool of black professionals *and* create more competition for the Big 4, both factors being beneficial for audit quality. The SCoF chairperson expressly agreed with the following reasoning from BCAP:

> *"we can break the dominance of the [Big 4 and create] a way of black firms getting access to private sector audits, levelling the playing field and lessening the concentration of the market"* (BCAP chair)

[22] The acting chairperson of BCAP (Victor Sekese), who presented the BCAP position before the SCoF, was the CEO of the largest black-owned audit firm in the country, SizweNtsalubaGobodo (SNG). It is thus likely that the views expressed by the BCAP are consistent with those of SNG.

The Big 4 counterargued that forcing transformation through an ill-suited regulation would counter intentionally inhibit the ability of their firms to achieve their race equity goals and make the profession less profitable and less appealing to aspiring black professionals. Inability to retain such talent would impair audit quality in the longer term.

5.6 The views of practitioners outside the regulatory space

The interview and survey data provides an opportunity to understand the views of individual auditors and audit committee chairs, being those 'outside' of the regulatory space. The data, consistent with the Big 4 positioning, presents overwhelming opposition to MAFR. Adhering closely to the regulatory logic, the practitioners argue that the primary benefit of MAFR (i.e., improved independence) does not outweigh its costs, most notably the loss of client-specific expertise. As race and audit firm size identifiers were collected in the data, we are able to determine that surprisingly, the majority of 'black' participants also did not support MAFR. This indicates that the 'black' professional representation in the regulatory space by organisations such as BCAP and ABASA may not represent the consensus of individual black auditors. Audit practitioners (of all race identities) preferred to promote transformation through internal firm initiatives rather than legislation and were concerned of the impact of MAFR on talent retention. This data again indicates widespread support for race equality in the profession, but not by way of MAFR.

The interview and survey data was not originally collected to understand views on the regulatory debate *process* (see, Harber & Maroun, 2020; Harber, Marx, & De Jager, 2020) and hence the ability to draw conclusions for our purposes is limited. Nonetheless, the comments raised in the interviews and surveys clearly demonstrate dissatisfaction with the perceived intentions of IRBA and the manner in which the consultation was handled. The practitioners believed that *"biased political ambitions"*, rather than a bone fide pursuit of audit quality, drove the IRBA agenda, as illustrated by these separate practitioner comments:

> *The regulator steam-rolled this through!* (Auditor)
>
> *The IRBA has been "captured"*. (Auditor)
>
> *MAFR is political!* (Auditor)
>
> *Independence was used in an effort to push transformation.* (Audit committee chair)
>
> *IRBA's dishonesty in relation to MAFR has undermined its integrity, as well as the reputation of a profession build on honesty and transparency.* (Audit committee chair)

The participants evidently took great exception to the consultative process followed by the IRBA. Furthermore, there was a pervasive view that the politics of transformation, as congruent with the government's 'black economic empowerment' agenda, heavily influenced IRBA. One participant described the whole consultation process as a "façade", designed only to have the appearance of legitimacy. It was clear that the audit industry and its stakeholders desired more robust and honest debate from the regulator before a final decision was made. This was not granted. Following what can only be described as overwhelming opposition to the regulation from the Big 4 firms and capital market interests, IRBA issued its ruling two months after the

March 2017 hearing, after receiving approval from the Minister, officially ending the regulatory debate.

6. Concluding discussion

This paper has examined how the South African audit regulator successfully positioned itself to resist Big 4 efforts to prevent highly disruptive reform. Our purpose is to exhibit the self-interested behaviour of key actors, together with the specific strategies, rationales, and resources they mobilize within the regulatory space. In so doing we contribute to understandings of the meaning and use of the term 'the public interest' and explore differing interpretations of the audit regulator's mandate. As evidence of audit quality decline mounts, regulatory debate is becoming more contested and politically motivated. The Big 4 tend to be successful in re-shaping the profession to suit their commercialist interests and influence reform in their favour, by employing what Oliver (1991) refers to as 'active strategies of resistance'. The MAFR debates in the EU and the US are cases in point, with the Big 4 and capital market interests actively and successfully co-opting political support to their cause. The literature indicates that the 'powerful actors' in opposition to regulators usually succeed in their quest to 'water down', if not abandon, proposed regulations (Horton et al., 2018; Malsch & Gendron, 2011; Shapiro & Matson, 2008).

In this South African case study, we find that the Big 4, who were understandably concerned about the impact the regulation would have on their market dominance and profitability, were unable to overtly resist nor subtly influence regulatory intentions. They were wholly unsuccessful at infiltrating, lobbying or influencing the regulator. Evidently, the engagement in the regulatory space was highly combative, with little common ground reached before the ruling. Legislative changes to the composition of the oversight body of the regulator and (less so) its funding model, limited the ability of the Big 4 to influence the outcome. The regulator was able to detach itself to some degree from audit and capital market interests at a governance level, which also enabled it to unilaterally change its interpretation of its legislative mandate. IRBA capitalised on the 'ambiguity' inherent in the 'public interest' principle defining its mandate (Hancher & Moran, 1989; MacDonald & Richardson, 2004). This was tactically done concurrently with the MAFR debate and thus diverted attention and diluted challenge from opposition. This revision strategically provisioned race-based objectives within its purview, extending the regulator's jurisdiction beyond merely maintenance of audit quality. The framework of Oliver (1991) identifies this as an active manipulate strategy through influencing the values and criteria of the debate. IRBA did this in a manner which skirted the need for explicit approval from the Minister of Finance or amendment to the Auditing Profession Act.

The public hearings were instrumental in demonstrating to the profession how the debate had shifted on MAFR, at least as far as the government was concerned, towards a focus on securing the public value of race equality. This surprised the profession. The tactic of co-opting the support of the SCoF on a political issue had the effect of challenging both the norms of the regulatory space and the ethical legitimacy of the Big 4 (Oliver, 1991). Arguments provided at the public hearings that appealed to the logic of MAFR were side-lined as the profession was accused of a superficial (or at least insufficient) commitment to achieving race equality. IRBA was thus successful in attaching race equality and fair competition to the MAFR debate and indeed bringing it to the fore. From this point the profession had little room for active resistance, confined to formulating arguments which largely fell on deaf ears, and with no further opportunity afforded them by the regulator to revise their approach. By importing political

support from the ruling party and playing to their dominant political ideology, IRBA was emboldened to justify ending the debate abruptly after the public hearings, indeed without even providing formal response to the response letters requested in the Consultation Paper.

Despite coming from what some may perceive as a legitimacy deficient position, given the evidence of audit quality decline and slow rate of transformation, we find evidence that the Big 4 were nonetheless also able to mount *defiance* and *manipulation* strategies against the regulator. As demonstrated by Canning and O'Dwyer (2013) in Ireland, active strategies of resistance can be employed by *both* the profession and the regulator. The Big 4 used co-opt and challenge tactics (Oliver, 1991), aligning with influential capital market interests to resist MAFR and challenging IRBA's pursuit of multiple objectives, its flawed reasoning, insufficient evidence and rushed consultation process. These strategies used by both sides are "intended to actively change or exert power over the content of the expectations themselves or the sources that seek to express or enforce them" (Oliver, 1991, p. 157).

The failure to reach consensus and apparent industry-wide unhappiness at the political motivations and flawed consultation process, may seriously impede the success of the regulation's adoption. The prioritisation of politics over regulatory logic was a continual frustration for both actors within and observers outside the regulatory space. Attacks on actor legitimacy and conflicted interpretations of key meanings are unlikely to foster successful regulatory outcomes (Canning & O'Dwyer, 2013; Hancher & Moran, 1989; MacDonald & Richardson, 2004).

South Africa provides a unique historical and societal context, with both similarities and differences from North American and European countries where audit research is predominant (Spence et al., 2017). Regulatory changes affect opportunities for democratic control and legitimacy (Cooper & Robson, 2006), but there seems to be a shift towards regulators receiving legitimacy if they acquiesce to capital market interests (Malsch & Gendron, 2011). We provide an example where the regulator was in direct opposition to capital market interests, as well as a context where social (race) equality and fair competition with the Big 4 is considered a high enough public value as to be unopposed as an audit industry ethical imperative. Despite many opposing MAFR, all actors, including the Big 4, strongly embraced race equity as an ideal. Evidence from the growth in emancipatory accounting research, with its own 'shift in meanings' and resistance to excessive capital interests, indicates that this could be a global trend (Annisette & Prasad, 2017; Gallhofer & Haslam, 2019). The traditional interpretation of 'acting in the public interest' in audit may be evolving, and an interesting avenue for future research is to explore these diverse logics in the representations of the Big 4 to the public. There may be a similar move by other audit regulators, taking social democratic values into consideration, to reinterpret their legislative mandate.

The analysis here can inform regulators. Understanding the reasonable grounds for resistance can inform a more nuanced policy response to limit negative effects on the profession and audit quality. The audit profession decried the costly disruption of MAFR and indeed its potential to lower audit quality outcomes. For example, lower profitability and onerous regulations, if indeed occurring due to MAFR, reduce the attractiveness of the industry to young professional accountants and the ability of firms to invest training and retaining talent. PwC claimed that MAFR would further intensify the "level of fatigue in the profession… a lot of emotional energy is burned on these proposals... this is not attractive to a new generation of auditors"

(PwC, 2017, p. 3). These claims could provide interesting avenues for future research into the effects of MAFR rotation on the industry.

Auditing must enhance the credibility of financial reporting, meaning that audit quality must remain a primary objective. However, the demand for audit services, which is prefaced on perceptions of its effectiveness, will only continue so long as both investors and the public trust the audit firms and the regulator (Wallace, 1980). There needs to be trust in the intentions, communications and actions of both the regulator and the audit profession. Ideologically driven public disputes between the two parties undermines this trust and consequently the value of the audit. Continued corporate and audit failures, together with poor practice review findings, will continue to drive regulator unease and thus intervention. Rather than resist, the profession may consider putting forward constructive solutions and seek to cooperate with the regulator. The profession should be cognisant of changing norms around its obligations to society, especially those likely to be adopted by the regulator. The Big 4 in particular will always be susceptible to accusations of trying "to protect a threatened economic monopoly" (Lee, 1995, p. 64) and of aligning with investor interests (investors who ultimately appoint them). Their appeals to the public interest are understandably viewed with scepticism. Rather than active resistance, cooperation and compromise in regulatory debate may be more effective, even if market share and profitability is threatened. In the interest of maintaining the societal legitimacy of audit, regulators likewise should heed the legitimate concerns raised by auditors. For example, the talent retention concerns expressed by auditors in South Africa, who claim that regulation is making the profession less attractive to young professionals. If true, this could be detrimental to audit quality in the longer term. The profession and the regulator can be argued to be engaged in a balancing act between safeguarding the public interest and maintaining a career-attractive and financially sustainable profession, while supporting confidence in the value of the audit. The profession and the regulator need each other to achieve these aims.

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