

**SPEECH FOR THE DIRECTOR GENERAL OF THE NATIONAL
TREASURY – LESETJA KGANYAGO**

Sun Intercontinental Hotel, Sandton. Johannesburg. 18 March 2004

ADDRESS TO NEWLY QUALIFIED CA'S - ABASA

Good evening ladies and gentleman, distinguished guests, and of course those of you who have brought us together this evening, the bright young individuals seated around the room who have recently qualified as chartered accountants.

Congratulations to each and every one of you on this important achievement.

All those years at university studying when your friends were out at parties or relaxing, all those courses and difficult exams.... WELL DONE!

Your hard work and dedication has paid off and you are now qualified to begin a career that will most certainly take you where ever it is you would like to go in life. The sky is the limit.

Part of my address this evening is going to highlight the National Treasury as an employer of choice and the opportunities that people like you may find there. However, I want to start by talking about certain important issues and challenges regarding the public responsibility of accountants.

We are all acutely aware of the urgent need to transform the profession. Transformation is not going to happen without a conscious effort on behalf of corporate South Africa, associations like SAICA, organisations like ABASA, government, the profession collectively, and each and every one of you.

Transformation is a key requirement for government procurement decisions and it is also going to be a key requirement in the financial services sector once the charter has been implemented. Going forward transformation and competitiveness are going to be inextricably linked.

Currently there are a total of 21 964 CA's registered with SAICA of which only 408 are black. Of the 408 black CA's only 125 are female. This implies that slightly more than half a percent of all CA's in South Africa are black females. What a challenge!

I would like to see that next year the numbers of newly qualified black CA's sitting here in the audience will have increased. Most importantly, the numbers of newly qualified black women would have dramatically increased. It is of paramount importance that the profession transforms in order for it to survive.

Currently only chartered accountants can register with the Public Accountants' and Auditors' Board and practice as auditors. This implies that the growth and transformation of the accounting profession is of paramount importance to the growth and transformation of the auditing profession.

There is a growing concern that fewer and fewer accountants are choosing auditing as a career. There are many factors that could be attributable to this phenomenon, but one that is often cited is the risk or liability that auditors incur.

Could I just ask you to raise your hand if you intend practicing as an auditor?

The National Treasury is currently reviewing the regulation of the auditing and accounting professions.

The Ministerial Panel for the Review of the Accounting Professions' Bill concluded its Report towards the end of last year. The Minister of Finance has had the chance to consider all the recommendations made and is going to make a statement about his response most likely tomorrow, but he has given me permission to talk about his response this evening.

Most of you in the audience will be pleased to hear that the Minister has accepted the Panel's recommendations except in three areas. Before I say what these three areas are, I want to point out that the Minister is very concerned about introducing a holistic approach to improving corporate governance in South Africa.

The recommendation to separate the regulation of auditors and accountants has been accepted by the Minister. I know there was a lot of comment from the public about this specific recommendation, but the Minister has stressed legal backing for accounting standards should be simultaneously introduced with new legislation to regulate auditors and measures to enhance the liability of management with regard to the presentation of financial statements.

This will require amendments to the Companies Act, 1973, the promulgation of the Financial Reporting Bill and the establishment of a new system of regulating auditors.

The new system to regulate auditors will include an authority that will subsume the current Public Accountants' and Auditors' Board ("PAAB").

The Government of South Africa is committed to ensuring that the new authority will be entirely independent of the profession and funding for such an authority will be sourced from the profession, relevant entities and the *fiscus*.

The Minister (of Finance) identified the challenge of creating a policy environment that guarantees an acceptable level of auditor independence as a key issue for the Panel to deliberate.

In accepting the recommendation on the role of the audit committee as adjudicator over the impact of consulting services on the independence of the auditor, the Minister stated that the new regulatory authority should have the ability to issue regulations governing the way in which the external auditor can provide any consulting services to a client.

This will be particularly important in the area of business consulting services that are viewed as the most compromising to the independence of the external auditor yet very difficult to define precisely in statute.

The Minister supports the contention that no statutory limit be introduced on the proportion of audit versus non-audit fees be imposed. Rather, that the matter should be determined by the new regulatory authority as part of guideline regulations for assessing auditor independence.

The Minister did not, however, accept the recommendation that there be no minimum statutory prohibitions on consulting services. There should be flexibility in regulation for further prohibitions to be introduced or repealed by the new regulatory authority. This is because there are certain services that should never be performed by the external auditor to the client, for example, book keeping, accounting and internal audit.

The recommendation to introduce audit partner rotation is also not accepted. The Minister has not taken a view on this matter and has decided to further investigate international trends in this regard.

The recommendations on changes to the regulatory framework governing corporate governance in South Africa were also not supported. The Minister is of the view that any fundamental changes to the framework should be a result of collaboration between the DTI and the National Treasury.

Ultimately, the Treasury faces the challenge of improving the independence of the regulatory authority responsible for ensuring that policy is implemented, standards are enforced, ethics are upheld and above all, discipline is swift and fair. At the end of the day, accounting is too important to leave up to the accountants. Self-regulation has failed.

After the spectacular collapse of Parmalat, the Europeans have come to realise that Enron is not just an American phenomenon. The Americans

responded swiftly, and some might argue harshly, to the collapse of Enron and Worldcom by introducing the Sarbanes-Oxley Act. It's early days yet, but thus far the sweeping reforms that Sarbanes-Oxley has introduced seem to be having the desired impact.

The Europeans are currently talking about an appropriate response to Parmalat and it is rumored that they are considering introducing audit firm rotation. The Americans went very far in the measures they introduced, but stopped short of introducing audit firm rotation. It is going to be very interesting to see what comes out of the EU in the next couple of months.

Here in South Africa, we have had Saambou, MacMed, Regal Treasury and lets not forget LeisureNet.

You should be mindful of the fact that government and all our various regulatory authorities like the Financial Services Board and the Banking Supervision Department at the Reserve Bank rely heavily on audited financial statements to make key decisions about the financial health and stability of our financial services industry. Government has a key role to play in ensuring that the profession takes very seriously its responsibility to protect the public interest by ensuring that financial statements are accurate and a fair reflection of the financial health of the entity concerned.

The integrity of our financial markets is critically dependent on the accuracy, timeliness and appropriateness of financial information.

As accountants, principles of corporate governance and the regulatory system governing your profession will be an important part of your future careers whether in the public or private sectors, whether or not you practice as auditors or accountants, become financial officers, consultants, or CEO's. I have no doubt that you will all try your best to ensure that the integrity of our financial system is never compromised by short sightedness.

On that note I now want to briefly discuss the career opportunities and possibilities that exist at the National Treasury for people like you.

As I mentioned, the Treasury is currently reviewing legislation and regulation governing the profession. Before I became DG I was Head of the Division in Treasury responsible for financial sector policy amongst other things.

The idea that there are career opportunities in the Treasury in the governance of the profession has possibly not cross your minds. Whilst a newly qualified CA may not have any experience in regulation or governance issues, the Treasury has a number of learnership programs that offer the opportunity to train in a new area of expertise whilst working. Think about it when you have the chance, a career in regulation could be very exciting.

More traditionally, the Treasury offers career opportunities in the Office of the Accounting General. Mr Freeman Nomvalo is here this evening in the audience. Freeman please raise your hand. Seated next to Freeman is Ms Samantha Anderson who is currently running with the regulation of the profession. If you're interested, get their contact details and send us your CV.

Within Freeman Nomvalo's office there are many interesting projects underway. For example, the development of GRAP, the development of policies for implementing and monitoring GRAP, developing a framework for the implementation of internal auditing in government and many other exciting challenges.

Maria Ramos always used to say that the career opportunities for young people working in the Treasury are far more exciting than in the private sector. This is because you will get so much more exposure in the Treasury to different areas of expertise, policy issues and have a far steeper learning curve than anywhere else.

Please consider a career in Government and come and talk to us at the Treasury if you need advice and insight.

In conclusion I would once again like to congratulate each and every one of you and wish you all the success in your future careers.

THANK YOU