



MINISTRY OF FINANCE
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**SPEECH ON THE AUDITING PROFESSIONS BILL,
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NATIONAL ASSEMBLY

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Madam Speaker

Honourable Members

To attain growth levels of 6 percent and above it becomes critical for South Africa to ensure macroeconomic stability underpinned by an ethical business environment. This stable, transparent business environment plays an important part in generating investor and consumer confidence.

Hence measures to limit business failures and unethical behaviour are necessary ingredients to sustainable growth both for developing and developed countries. The failure or collapse of a business can

have catastrophic affects as recently experienced in South Africa, the United States, Europe and other parts of the world. This impacts on the economy in general and specifically on workers or investors that have worked or invested in a business; it would be prudent to minimise or to eliminate such losses.

This, Madam Speaker, underlines the important role that auditors play in assuring the investors, whose savings are risked in these businesses, that their savings are well looked after.

The world has recently seen corporate failures of such devastating proportions that the question of protecting the public interest features prominently in most governments' regulatory reforms. Part of the reason why these corporate failures materialise relates to what Joseph Stiglitz terms the natural asymmetries of information – some people have information that others don't. Professions like the auditing profession emerged to close this gap.

The list of the best selling books, during the past eighteen months, is littered with tales of how the greedy actions of a few have had grave consequences for the world economy. The effect of these actions has been the collapse of pension funds, job losses, financial market disruptions, government bail-outs, etc. These events serve to underscore the importance of the role auditors' play in protecting the public interest.

Since the amendment of the Public Accountants and Auditors Act in 1991, the challenge has been how the auditing profession reforms

itself in order to ensure its relevance in the future. However, the process has been slow. Corporate failures such as that of Enron, Parmalat, Masterbond, Regal, Saambou gave renewed urgency to the conclusion of these reforms, particularly those relating to the governance of the profession.

One of the lessons learnt from these failures is that corporate governance dispensations applied were either irrelevant or inadequate. A need for an effective regulation is apparent. Joseph Stiglitz accepts that accuracy of information could not always be assured but at least the incentives could be aligned. Equity options distort managerial incentives while consulting distorts auditors' incentives. Ineffective liability provisions in the legislation do not help.

One of the important elements that underpin good corporate governance is the independence and accountability of auditors. An impression is often created that the auditor's accountability is primarily to the directors of the audit clients. Nothing could be further from the truth. Shareholders appoint auditors. The financial statements, on which the auditors express an opinion, are used by a variety of stakeholders whose interest in these statements is direct and unambiguous. Some of these stakeholders are: -

- Shareholders or investors, pension fund members – interested in sustainable returns;
- Creditors interested primarily in receiving monies due to them;
- Employees interested in job security; and

- Government interested in receiving fair taxes, creating jobs, ensuring equity, economic growth, attracting investments, etc.

The aftermath of the corporate failures referred to earlier reflect the magnitude of the responsibilities the auditors have to a wide group of stakeholders.

A survey conducted by MORI for the Accountancy Foundation in the UK in 2002 revealed that: -

- 1) 65% of auditors' thought the quest for lucrative consultancy work had made audit a loss leader.
- 2) 62% of auditors believed their independence had been impaired as a result at least to some degree by the desire to gain lucrative non-audit work.
- 3) 83% of companies thought auditors' independence had been impaired by the quest for lucrative non-audit work. These developments compromised the effectiveness of self-regulation, a cause for concern for regulators.

While the object of the current legislation is to protect the public interest, it still lacks effectiveness to ensure the independence of the regulatory institution and the accountability of the auditors. The Bill currently before Parliament focuses on creating the framework for the regulation of registered auditors as opposed to imposing a set of rules. It also seeks to enhance the independence of the regulatory board, enhance its effectiveness and provide the regulatory board

with sufficient powers to carry out its duties. It seeks to ensure that auditors recognise their primary role of protecting the public interest.

The Objects of the Bill are to: –

- Contribute towards the protection of the public interest in the Republic of South Africa in respect of services rendered by registered auditors;
- Establish an Independent Regulatory Board for Auditors (IRBA) that must ensure that every registered auditor in South Africa is appropriately qualified and held accountable for their professional conduct, adherence to ethical practices, and the implementation of standards comparable to international standards;
- Ensure that a person or firm offering auditing services or services of a public accountant must be registered with, and subject to the jurisdiction of, an Independent Regulatory Board for Auditors;
- Ensure that all disciplinary proceedings brought against a registered auditor by the IRBA are conducted by independent persons, suitably skilled and qualified to ensure a fair hearing and an appropriate sanction for any wrong doing by auditors; and
- The Government of South Africa, represented by the National Treasury, should perform an oversight function with regard to the operations, decisions, and objectives of the IRBA.

It thus the intention of the Bill before us today, Madam Speaker, to ensure that the auditors conduct themselves in a manner fitting the enormity of their responsibilities. It seeks to ensure that they exercise their duties with independence and are also accountable for their actions. It provides a modern framework of regulation that gives credence to the object of protecting the public interest.

I present the Auditing Professions Bill for your consideration.

I thank you.