



**MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA**

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**ADDRESS ON THE OCCASION OF THE LAUNCH OF THE NEW NAME AND
IDENTITY OF THE SOUTH AFRICAN INSTITUTE OF PROFESSIONAL
ACCOUNTANTS**

Johannesburg, 31 August 2006

Minister Trevor A Manuel, MP, Minister of Finance

Master of Ceremonies,

Mr Saleem Kharwa, Chairperson of the South African Institute of Professional Accountants,

Members of the Board of SAIPA,

CEOs of various organisation present tonight,

Distinguished Guests,

Ladies and gentlemen,

I am honoured to be present at this launch, as it signifies an important paradigm shift in respect of the role this Institute will in future fulfil within the accountancy profession. SAIPA is being launched at a time when the accounting profession is experiencing credibility problems. The launch is also a culmination of serious introspection done by the members of the institute to define the role the institute ought to play within the confines of existing legislation. I congratulate the board and the members of the institute for maturity displayed in addressing the challenges the changes SAIPA sought to introduce in the past two years. The resolution and this launch lays a foundation for all stakeholders in the accounting profession to work together to ensure the country produces the financial management skills that are needed to attain the desired levels of economic growth.

The amendments to your constitution that allow for broad participation in the affairs of this board creates an environment in which more innovative and cooperative strategies can be developed to address the shortage of accountants in the South African economy. As I will indicate later it should be possible for members of this institute to become registered auditors if they so wish and meet the requirements the regulatory board may prescribe.

Programme director; allow me to talk briefly about the importance of the accounting profession in the South African as well as the world economy. The observations made by the Nobel Prize-winning economist, Joseph Stiglitz are relevant in this regard. In his book "The Roaring Nineties", he said:

"Corporate financial reports are tremendously complicated. That's why accountants get hired. They are supposed to present profits and losses, and net worth and so on, in standardised ways that can be widely understood. Some argue that capitalism - and the modern corporation - could not have arisen without a reliable accounting industry able to provide a reasonably accurate picture of a firm's net worth and profits.

"Without that information, how can anyone assess the value of a firm? Equities are supposed to give the stockholder a share of a firm's profits; but if the firm could simply make up any old number, who would buy a share?

"Accountants are required in part because shareholders know that they can't trust firms - there is simply too strong an incentive, even in the presence of fraud laws, to provide misleading information..."

This observation alludes to the importance of the accounting profession as well as accountants who are professional, observe the highest standards of ethical conduct and deliver a service of the highest quality to the organisation they belong. This expectation is consistent with the role that the profession has played throughout its history. The survival of businesses during the industrial revolution in Europe depended largely on accountants to help corporations understand the health of their businesses. It is the accountants that brought innovation to trade that allow price discrimination based on the intrinsic value of the product and the status of the buyer as was the case before 1770. Accountants provided valuable information to the

shareholders during the times of depression that allowed the captains of the industry to steer their ships to safety. There are numerous positive examples of the contribution accountants made in the economy, but as we all know there have been regrettable instances of malfeasance and corruption committed by corporations with assistance of accountants. The impact of these practices has caused untold hardships to ordinary citizens whose lifetime savings were lost as a result.

It is this fact, that leads me to challenge SAIPA on its launch to ensure that it develops an institute that will distinguish itself by hosting a group of accountants who are professional, observe the highest ethical standards and provide quality services. It is critical that SAIPA establishes mechanisms both to provide an environment of life-long learning and skills upgrades and ensures that those of its members who bring the accounting profession and the institute into disrepute are appropriately sanctioned.

I am mindful that many of the members of SAIPA offer an invaluable service to many small and medium businesses. The overwhelming majority of these businesses are unlisted and too small to hire a battery of skills in-house. Consequently, many SAIPA members are, in effect, the CFO's and investment advisers to these businesses. Too many small and medium businesses in South Africa face untold growth constraints. Some of the simple things that hinder the small businesses growth such as :-

- Well constructed business plans;
- Well maintained financial records that allow the providers of capital with intelligible information;
- Limited financial management skills; and
- Limited knowledge of where to raise funds.

I am not suggesting that members of SAIPA should be limited to servicing only small and medium businesses, but I am simply affirming that the diverse membership of SAIPA as opposed to other professional bodies places it in a unique position to respond to these challenges. Understanding this role is the key to understanding how we must dynamise the South African economy and, very importantly, create the much-needed employment opportunities. To achieve these objectives, your client base is likely to remain more important than the large corporations.

It is also worth thinking laterally about some of the unique attributes of SAIPA members. Accountants in India, much like the members of SAIPA do an incredible

amount of outsourcing work for firms in the USA – a recent article tells of how increasing numbers of tax returns in the USA are completed by accountants who live and work in India - the article advises, “American firms scan an individual's tax documents into a computer. An Indian accountant logs on, fills out the return on his computer, and then it's printed out in the US, checked, signed and sent to the IRS.” The future of SAIPA, and its ability to attract an ever-increasing number of members will be determined by the institute's ability to innovate, to assist its members to operate at the cutting-edge of technology and to utilise the competitive edge that small partnerships have in an increasingly interconnected world.

In the Second King Report on Corporate Governance for South Africa in 2002, it is noted that,

“The 19th Century saw the foundations laid for modern corporations; this was the century of the entrepreneur. The 20th century became the century of management ... The 21st century promises to be the century of governance, as the focus swings to the legitimacy and the efficiency of the wielding of power over corporate entities worldwide.”

This profound characterisation was written at a time when the corporate world was badly tainted by a series of major corporate collapses and corporate fraud on a scale previously never experienced. Global confidence in corporates and the accountancy profession dropped to an unprecedented low, necessitating a radical review of legislation and regulatory systems. Sadly, we in South Africa also experienced similar collapses and fraudulent behaviour, with many examples that we can refer to.

The recently promulgated Audit Professions Act is an example of our ongoing efforts to ensure better mechanisms to strengthen our corporate governance, responsibility and accountability. Not only does this Act protect and define the role and functions of registered auditors, but it also seeks to ensure the integrity, reliability and validity of the attest function they perform. We appreciated that in today's more empowered world, we need to act decisively, as, in the words of Arthur Levitt, former Chairman of the US Securities and Exchange Commission,

“It serves us well to remember that no market has a divine right to investors' capital ... If a company does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of

disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country – regardless of how steadfast a particular company’s practice may be – suffer the consequences.”

As a developing economy we face greater scrutiny in our efforts to attract foreign direct investment. In a study conducted at the Stanford Law School to examine the relationship between a company’s corporate governance behaviour and its market value, it was found that institutions looking to invest in emerging economies were much more likely to invest money in companies that had sound corporate governance practices.

Ladies and Gentlemen, by legislatively defining the space for auditors and accountants, we are intent on removing confusion in respect of these disciplines in the minds of the public. Never was it our intention to stifle the very important role accountants play within our economy. On the contrary, we believe that their role, especially within the small and emerging business sector, has in fact been enhanced. Their role in assisting businesses and individuals conduct their financial affairs in the most responsible and productive manner is strongly recognised and appreciated. Those who portray their role and functions as inferior to the attest function performed by auditors, are deliberately malicious. Without their services and skills, our economy would be unable to function.

I also need to emphasis that the Auditing Profession Act does not preclude any one from conducting an audit. It simply specifies that in order for audit services to be provided by any firm or individual, such firm or individual ought to be registered with the Independent Regulatory Board for Auditors. The legislation seeks to level the playing field in this regard, but we are mindful of the needs for the highest professional standards that need to be maintained. I have also requested a comprehensive review of the entrance requirements in an endeavour to facilitate entry for persons who may have undertaken a route of study other than an accounting degree. I therefore would urge SAIPA to ensure that it influences the processes with the Regulatory Board that are intended to allow for more professional bodies to be recognised.

You now need to tirelessly work towards implementing your comprehensive transformation policy by eradicating all vestiges of racism and sexism from your

Institute, and by ensuring that an ever-increasing stream of black learners enter the accountancy profession and are afforded a worthy professional home.

I look forward to in future working with this Institute in the service of all our people, as we steadfastly to the values enshrined in our Constitution. Your new name and identity now requires every member of this Institute to give substance and meaning to it. Build this Institute with pride. Grow its membership as part of the deepening of our skills base. Link arms with other institutes in the profession. Let us build a better future, together.

I thank you.