



**NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA**

ADDRESS

by

**MINISTER PRAVIN GORDHAN
MINISTER OF FINANCE, SOUTH AFRICA**

On the occasion of the

**SOUTHERN AFRICAN INSTITUTE OF PROFESSIONAL ACCOUNTANT'S
CONFERENCE**

at

BIRCHHOOD, BOKSBURG, GAUTENG

12 July 2012

Ms Shirley Olsen, Chairperson of SAIPA

Mr Shahied Daniels, CEO of SAIPA

Delegates and distinguished guests

I am humbled to have been invited to give the opening address at your conference. I hope your deliberations over the next two days will be insightful and that by the end of the conference you will have made significant progress in improving your profession's contribution to the development and growth of our country.

I spoke on Monday this week at the World Economic History Congress being held in Stellenbosch, where I remarked that we live in troubled times and that the global financial crisis of 2008 has been a catalytic event.

Other than accentuating the political, social, and economic "fault lines", the financial crisis has also raised questions about the sustainability of the present path of socio-economic growth and development. It has forced us to reflect carefully about our decisions today, especially on what impact they will have five or ten years later.

Just as the financial crisis raised questions about the workings of the economics profession, it has also thrown up many challenges and lessons for the accounting profession. Financial markets, indeed all markets, depend for their efficient functioning on the availability of information that participants in those markets can trust. Seen this way, the accounting profession's reason for existence is based on the trust and confidence that participants in financial markets have on the profession, or more specifically, its output.

Modern accounting traces its roots to the work of a Venetian monk, Lucia Pacioli, who in 1494 described for the first time double-entry accounting. As for your profession, it owes its origin to the separation of ownership and management of companies. This separation created a need – or a market – for an independent and informed opinion on the financial affairs of a company whose day-to-day running had been entrusted by its owners to professional managers.

For this arrangement to work, owners must have confidence in the work of those who have been given the responsibility to provide independent and informed opinion on the state of a company's financial affairs. Therefore the relevance of your profession is, and will remain, tied up with retaining this confidence. These past few weeks we have had examples of how books have been cooked, or numbers manipulated, so that particular transactions look better than they really are.

Historically, accountants provided information to the shareholders of companies, but such information has also become useful to a wider set of stakeholders, including labour, government, the banking system, regulators and society more generally. In other words, as we have learnt from events globally and locally, the numbers that you produce and the advice that you give have a wider societal impact.

Your theme for this conference, "Accountancy as a catalyst for Change", places the accounting profession at the center of change. This means, I would suggest, that you should seek to influence rather than react to change.

Allow me to point to a few areas of opportunity and challenge for your organisation and profession as you strive to fulfill your ambition to be a catalyst for change:

- 1) Do your work with integrity. I am sure that most of you attending this conference and many other hard working accountants do your jobs as diligently as is humanly possible. But like any barrel, you do have a few rotten apples. A recent study on business ethics points out that the most significant lessons to emerge from the global economic crisis is that corporate ethics matter.

The corporate scandals of the early 2000s have left the accounting profession not only with egg on its face, but dented its reputation as an independent provider of informed opinion on the state of corporate finances. Accountants, as catalysts for change, must have the passion for clean governance, an uncompromising approach to ethics, and an absolute pride in sustaining and enhancing the reputation and trust that they have built over the years.

- 2) I am also mindful that the South African accounting profession faces many challenges, not the least of which is the shortage of accountants, especially black accountants. Much has been done, but there is much more still to be done to increase the pool of talent. I urge you not to treat our legacy of marginalization lightly. You can, and must, do more to give many young, unemployed graduates an opportunity to obtain their first work experience. Research around the world confirms that if by the age of 24-25 a young person has not had work experience that young person will find it a lot more difficult to work later. Your generation of accountants must go the extra mile to ensure that it does its best to end the frustration of joblessness and lack of experience for our young graduates. This is what it means to be a catalyst for change, change that will undoubtedly bring joy to the hearts of many families!
- 3) The Accounting Standards Board (ACB) continues to have half-hearted participation in its standards setting processes. Responses to their exposure drafts tell us that not enough accountants take an interest in the work of the ACB. I hope that SAIPA does and will participate fully in ACB processes. If not, I wish to encourage you to do so, to ensure that your voice as practitioners is heard.
- 4) Globally, the Financial Stability Board (FSB) has been working on the development of “macro-prudential policy and tools to limit the build-up of risks in the financial sector”. We call on the IASB and the FASB to complete their convergence project and meet the objectives set at the G20 summit in London in April 2009, especially those regarding the improvement of accounting standards for the valuation of financial instruments. We also call on the IASB to come up with ambitious proposals for the reform its governance framework. Institutions like SAIPA have an important role in influencing this work.
- 5) Capable and well-resourced governments have an indispensable role in stimulating growth, creating effective safety nets, assisting firms and protecting jobs. The 2008 financial crisis had a devastating impact on tax revenues. As a result, South Africa’s lost R60 billion in tax revenue for 2009. South Africa’s tax-to-GDP ratio dropped to just above 23 per cent from above 28 per cent before

the crisis. We are slowly clawing back to 25 percent. This is a phenomenon that you find in Europe and other parts of the globe.

Your profession needs a more profound introspection on the role it plays, wittingly or unwittingly, in undermining the fiscal capacity of governments.

- 6) Finally, let me share with you our increasing concern about corruption in government. We are in danger of becoming an “extractive” society where a few who are incentivized by self-interest seek only to “extract” for themselves benefits from the state at the expense of the vast majority of poor people. Some civil servants have created businesses in one guise or another so that they can benefit from crooked tender processes. Businesses on the other hand collaborate and bribe these civil servants to steal from the state. It is time that the majority of honest civil servants, civil society and business people took a firm stand against at the extractive behavior of the few. Help us to generate a vigorous debate on, and a rigorous look, at the creation of an ethical culture within all our organizations.

Ladies and gentlemen, I raise these issues because I believe that I am in the midst of people who can help us turn the tide against corruption. I raise these issues with you for I believe that recent events call for critical reflection on the role of your profession. We need to remind ourselves that all professions, including accountants, have social and altruistic responsibilities.

I would also urge you not to recoil from the task of undoing the harm that years of oppression and discrimination have done to South Africa. Those of you who have been activists in our country will know how much sacrifice it took for us to free South Africa from the shackles of apartheid. We need to continue the struggle to free our country from the tendencies of selfish individualism, short-termism, and the unquenchable thirst for easy wealth. To be an agent of change means facing opposition and resistance, and yet going on, with one’s eyes fixed on the bigger prize of a country where all, especially the vulnerable, are provided for.

Ladies and gentlemen, we are all aware that on the 18 July will be Madiba's birthday. He stands heads and shoulders above many in the world, as one who did not baulk at the enormous challenges that face all activists for change. I leave you with his words.

"I have walked that long road to freedom. I have tried not to falter; I have made missteps along the way. But I have discovered the secret that after climbing a great hill, one only finds that there are many more hills to climb. I have taken a moment here to rest, to steal a view of the glorious vista that surrounds me, to look back on the distance I have come. But I can only rest for a moment, for with freedom come responsibilities, and I dare not linger, for my long walk is not ended."

I wish you a fruitful conference.

Thank you.