

DE BEERS

A DIAMOND IS FOREVER

FACSIMILE

TO Director: Local Government
COMPANY National Treasury, Implementation Office
FAX NO (012) 315-5890/5790

FROM Mr GPL Kell
DATE 11 February 2005
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Subject: SUBMISSION ON THE DRAFT AUDITING PROFESSION BILL

Please see the attached letter.

Your faithfully



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11 February 2005

Director: Local Government
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Dear Sir or Madam:

DRAFT AUDITING PROFESSION BILL, 2004
ALONG WITH PROPOSED AMENDMENTS TO THE COMPANIES ACT, 1973

We welcome the publication of the Draft Auditing Profession Bill, 2004 and the related proposed amendments to the Companies Act, 1973.

We would like to comment on the following matter:

The Rotation of Auditors

The rotation of Audit Partners is recognised by the International Federation of Accountants as a safeguard to respond to the threat Proximity poses to Independence.

However, the proposal of a four year period would jeopardise the quality and effectiveness of an audit as well as increase the cost exponentially. Further, the proposal does not align with best practice established under the Code of Ethics of the International Federation of Accountants or the period of audit partner rotation established by the PCAOB or proposed in the draft 8th Directive in the European Union.

This requirement also conflicts with the requirements established by some Public Entities and those established by the Registrar of Banks.

Further, there are a number of practical aspects that would need to be regulated, or for which guidelines should be established. It is recommended that the legislation only sets a broad framework regarding term limits for auditors, and that the detailed guidance be provided by the regulatory body. It is our view that the Standard Setting Board for Auditor Ethics ("SBE") would be the appropriate body to perform this function.

In this manner, the SBE would provide a basis for consistency of rotation of audit partners. Audit committees would then be able to consider this framework in deciding on the extent of rotation the audit committee believes appropriate to each entity.



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The operation of the Securities Exchange Commission and the Public Company Accounting Oversight Board in the United States of America is a good example of the activities of regulators, empowered and charged by the Sarbanes-Oxley Act to issue rules on independence, regulating the framework of auditor independence.

We believe that rotation requirements should apply only to the engagement partner and such other partners who play a significant role in the performance of the audit.

The definition of significance should be considered by the SBE and guidelines prepared. We believe that significant roles within an audit engagement are typically played by the engagement partner and the advisory partner.

Further, rotation rules should allow for the deployment of partners at subsidiaries of public interest entities - particularly complex Multi National Entities - in preparation of performing the engagement partner role on the lead entity at a later stage.

Where rotation is applied, the SBE should set the period before the engagement partner may become re-involved. We recommend a minimum period of two years in this regard.

We do not believe rotation should apply to specialists consulted by an engagement partner, including tax consultants, technical consultants, computer specialists and the like. As these skills are limited, and the engagement partner determines the involvement of such specialists, we believe it unnecessary and impractical to enforce rotation on such specialists.

The SBE should provide detailed transitional guidance on the implementation of partner rotation.

This would need to address the implementation timeframe and how to handle situations where engagement partners have already exceeded the term limit when the Accounting Professions Bill is enacted, i.e. there should be some clearly defined transitional rules.

We recommend the following changes:

- 8.1 Requirements regarding the rotation of Audit Partners should be set by the Standard Setting Board for Ethics rather than by inclusion in legislation.
- 8.2 The Rotation requirements should deal with the various roles partners play on audits, and a more onerous set of requirements should be applied to partners who participate in the audit of Public Interest Entities.
- 8.3 In any event, the Rotation period adopted should align with the requirements of the International Federation of Accountants, which requires rotation of the audit engagement partner after a continuous period of 7 years on the audit of a Public Interest Entity, with a 2 year "cooling off" period. The proposal of a 4 year term limit would have undue consequences, without delivering any additional value.

Yours faithfully



G P L Kell
Finance Director