

4 Bogey Street
WATERKLOOF x1
0181
20 January 2005

Auditing Profession Bill
Director: Local Government Implementation
Office 1809
Private Bag X115
PRETORIA
0001

Dear Sirs

Please find attached my comment on the Draft Auditing Profession Bill, 2004.

Thank you for the opportunity to comment on this Bill.

Thank you for your kind attention to this letter.

Kind regards



Jannie Rossouw

COMMENT ON THE DRAFT AUDITING PROFESSION BILL, 2004

Jannie Rossouw

In view of recent well-publicised financial reporting problems at public companies extending over a number of financial years without timely detection by the external auditors of such companies, Government's initiative to introduce a revision of the legislation covering the activities of external auditors is to be welcomed.

This comment, however, is not aimed at the Bill in its entirety, but deals with the question of the ultimate accountability and reporting responsibility of the external auditors.

Shareholders of public companies have a number of responsibilities at the annual general meetings of shareholders. These responsibilities include, *inter alia*, the:

- approval of the annual financial statements of the company, subject to their prior audit by the external auditors;
- approval of the annual remuneration of the external auditors; and
- appointment of external auditors for the company for the ensuing period.

The current practice that shareholders appoint the external auditors (albeit on the recommendation of the Board of a company) should indeed not only be retained, but also expanded as it provides the answer to the question regarding the ultimate accountability and reporting responsibility of the external auditors, posed above.

The discharging of their responsibilities by shareholders in respect of external auditors cannot but lead to the conclusion that external auditors are ultimately responsible to the shareholders of the company. This naturally implies that shareholders should be informed in good time of any action aimed at the removal of external auditors, as the external auditors were appointed by them in the first instance. Provision for such removal is imperative, particularly in instances where a controlling shareholder and the external auditor might be in cahoots to the detriment of the minority shareholders.

However, any decision to remove the external auditors, not taken by the shareholders who appointed such auditors in the first instance, implies that they should question seriously the basis for any initial decision to appoint the relevant external auditors.

Moreover, the current practice is that the shareholders appoint the external auditors without ever having sight of their conditions of appointment or the scope of their responsibilities. Given the conclusion that the external auditors are ultimately accountable to the shareholders, the further recommendation is that the letter or contract of appointment of the external auditors should be published in the annual financial statements of public companies for scrutiny by the shareholders. It is indeed peculiar to have a situation where the shareholders take responsibility for the appointment of external auditors who are accountable to them, but are not provided with any opportunity to scrutinise the conditions or scope of the appointment that they sanction.

The **RECOMMENDATIONS** in this submission can be summarised as:

- shareholders should be informed timely of any action aimed at the removal of external auditors on any occasion other than at an annual or a special meeting of shareholders; and
- the letter or contract of appointment of the external auditors, highlighting the full scope of their responsibilities, should be published in the annual financial statements of companies as a public document for scrutiny by the shareholders.