



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**STATEMENT BY THE HONORABLE MINISTER OF FINANCE ON THE
RECOMMENDATIONS OF THE MINISTERIAL PANEL FOR THE REVIEW OF
THE ACCOUNTING PROFESSIONS' BILL**

We are pleased to publish Minister Trevor Manuel's response to the Report compiled by the Ministerial Panel for the Review of the Accounting Professions' Bill ("the Panel") received on the 17th of October 2003.

The Panel was established to review the Accounting Professions' Bill and make recommendations within the context of nine terms of reference developed by the Minister.

The Ministry has had sufficient opportunity to consider the recommendations carefully. Responses are as follows:

The Minister accepted the recommendations made by the Panel except in three areas, namely minimum statutory prohibitions on the provision of consulting services, audit partner rotation and the framework for regulating corporate governance in South Africa.

In supporting the recommendation that auditors should be regulated separately from accountants, the Minister indicated that a holistic approach to improving corporate governance would be critical.

Legal backing for accounting standards should be simultaneously introduced with legislation to regulate auditors and increase the liability of management with regard to the presentation of financial statements. This would require amendments to the Companies Act, 1973, the promulgation of the Financial Reporting Bill and the establishment of a new system for regulating auditors.

The new system to regulate auditors would include an authority that would subsume the current Public Accountants' and Auditors' Board ("PAAB").

The Government of South Africa is committed to ensuring that the new authority would be entirely independent of the profession. Funding for such an authority would be sourced from the profession, relevant entities and the *fiscus*.

The recommendation on the role of the audit committee as adjudicator over the impact of consulting services on the independence of the auditor was accepted. In so doing, the Minister stated that the new regulatory authority should have the ability to issue regulations governing the way in which the external auditor would provide any consulting services to a client. He noted that this would be particularly important in the area of business consulting services. While this area has the greatest potential for compromising the independence of the external auditor, it is also, however, very difficult to define precisely in statute.

The Minister supported the contention that no statutory limit be imposed on the proportion of audit versus non-audit fees. The matter should rather be determined by the new regulatory authority as an element of guideline-regulations for assessing auditor independence.

The Minister did not accept the recommendation that no minimum statutory prohibitions be placed on consulting services. There should be flexibility in regulation allowing for further prohibitions to be introduced or repealed by the new regulatory authority. The reason underlying this is that there are certain services that should never be performed by the external auditor for the client. Examples include book keeping, accounting and internal audit.

The recommendation to introduce audit partner rotation was also not accepted. Further investigation of international trends would need to take place in this regard before the Minister takes a view on the matter.

The recommendations on changes to the regulatory framework governing corporate governance in South Africa were not supported. The Minister is of the view that any fundamental changes to the framework should be a result of collaboration between the department of Trade and Industry (DTI) and the National Treasury.

The National Treasury will redraft the Accounting Professions' Bill and other relevant legislation affected by the review. A redraft of the Bill is expected to be available for public comment in the second half of this year.

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Logan Wort
012 315 5395
083 4437734