

## **COMMENT ON THE DRAFT AUDITING PROFESSION BILL, 2004**

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The introduction of a more comprehensive and modern framework to regulate the auditing profession and the provision of an effective oversight by the State is welcome by some of us who have an interest in this field as a career. I am not a professional accountant myself but am interested and studying towards the profession. I believe that this is one profession that the present government has done less to regulate and to ensure that it adheres to certain principles and practices in other transformation documents produced by the democratic government since its inception.

Recent scandals like Enron, Worldcom and the Parmalat saga in Italy have really sparked a lot of debate and concern about independence of auditors in the profession. The profession has been brought into disrepute by these scandals to the extent that the integrity and credibility of auditors at large is questionable. Auditing is aimed at ensuring that businesses are run in an economic, efficient and effective manner. This is achieved by examining the documents and records that contain financial information through which management asserts to the validity, accuracy and completeness of such information and also guarantees the stewardship over the operation of the business and its finances.

South Africa presently is operating a 'mixed economy' where there is some form of government intervention in our economy albeit that seems to shift more to a free market system through privatization of public enterprises. By mixed economy I mean a combination of private and government ownership of business enterprise in the economy and government intervention through fiscal and monetary policies. Obviously government cannot run a business efficiently as business is driven by profit motive. Therefore our economy depends largely on private enterprise which is both the domestic and multinational companies existing in the country. These companies contribute more in our GDP or GNP hence our economic growth. South Africa as a capitalist country requires more capital investment for purposes of economic growth. Therefore if businesses are not run efficiently then that means loss of jobs for the inhabitants of this country. However the objective of the auditor is not to run the business entity for the owners. It is the management of the business that is entrusted with that task of seeing to the smooth running of the affairs of the business enterprise. Auditors are there to express an opinion on the financial results, financial position and changes in financial

position as asserted to by those entrusted with the management of business enterprises.

I want to highlight the fact that my comment is not more on the details contained in both the IRBA and the PAA Act to be repealed. That I will leave to individuals fully conversant with laws and statutes. However in terms of being comprehensive and less complex, I will say the IRBA is better than the PAA Act. I know some in our society more so the privileged in terms of intellect will be concerned with the compromising of standards. It must be remembered that in the past these are some of the things that have excluded or tended to exclude other population groups from significant achievement in professions like these.

I have also noticed that some sections of the act to be repealed dealing with material irregularities and auditors' liability are still retained. What I appreciate with the new act is that these provisions are not as cumbersome and abstract as what was contained in the old legislation. The Code of professional Conduct has been amended in the current audit syllabus to include a different approach to the understanding and application of the independence concept by accounting practitioners. I think some of the concepts included in the current text that relate to independence, both of the mind and in appearance of practitioners in their audit work could be incorporated in the draft bill. This would create a better safeguard for practitioners challenged by instances where they have to accept engagements which would compromise their independence.

The other important aspect I commend on the draft bill and that I support is that of the government being a watchdog through National Treasury. As I have slightly highlighted above there is a need for the profession to be seen to observe other government legislation like the Constitution of the Republic, the Employment Equity Act, the proposed Broad Based Empowerment Equity Act with its code and other transformation agenda. Though the independence of the body itself (IRBA) must be respected and guaranteed, it must not be seen as a conservative type of institution not flexible to the broader changes in our society. The problem with such institutions is that there is no commitment shown to promote development of professionals from other population groups more so the black community. There is always a mention of the compromise of the standards of the profession and this (profession) is seen to belong to either white elite or only a few 'intelligent' black people. This type of conservatism has made it almost impossible for black people to get through this profession.

In recent years the Qualifying Examination (QE) set by the existing board has seen a few individuals passing and some have even decided to leave the career. This I attribute to the non-interference by our government structures to ensure that these exams are fair and set in an honest manner. There is also a need for government through its National and Provincial Treasuries to create a conducive environment towards ensuring that meaningful transformation in terms of developing young professionals in this field is achieved. This may be achieved by engaging with both the private audit firms, the South African Institute of Accountants (SAICA), government linked entities like the Southern African Institute of Government Auditors (SAIGA), and the Institute of Public Finance Auditors (IPFA) and also academic institutions to provide the necessary support to potential candidates due to write the Board exam. The other important aspect being the recognition of those who did not gain practice with private firms but have the necessary practical experience in the same field. This category is disadvantaged in the sense of not being considered for employment by companies though the necessary qualifications exist. They can also not register as public accountants and auditors and practise privately.

In conclusion I want to say my comment here is more on the appreciation of the change this piece of legislation is introducing and would also want more government intervention in promoting the advancement of the profession. I also appreciate the consultative process of our government when initiating changes like these, so that those with a vested interest can have a chance of voicing concerns. I hope professionals out there, more especially those already in the field of auditing and accounting will not see this as unnecessary interference by government, but will see it as being protective of this profession from scrupulous individuals and con artists with self-centred motives to enrich themselves unfairly. Professionals also have a significant role and contribution towards economic growth and development in our country and must not be seen as people whose sole intention is to become wealthy business persons. This intention lends them into committing fraud and corruption if things do not go their way. Government must recognise and respect professionals both in and outside the public sector and in turn professionals must respect government's endeavour to rebuild the economy and reforms in our society, socially, politically and economically.

Thank you.