



The South African Institute of Chartered Accountants

17 February 2006

Natasha Pilley
Department of Public Services
Pretoria

Email: Natasha@bpsa.gov.za

Dear Ms Pilley

**AFRICAN PEER REVIEW: SAICA SUBMISSION ON QUESTION 2,
OBJECTIVE 5 (CORPORATE GOVERNANCE)**

In response to the question noted above in the Africa Peer Review Mechanism (APRM), questionnaire, please find the comments prepared by the South African Institute of Chartered Accountants (SAICA), as a contribution to the process. We trust the comment will assist you in preparing the South Africa response to APRM.

Please do not hesitate to contact me on (011) 621-6652 or e-mail me on patrickm@saica.co.za should you wish to discuss any of our comments.

Yours sincerely

Patrick Maranya
Project Director – Public Sector and Africa

**SAICA SUBMISSION ON APM, QUESTION 2, OBJECTIVE 5
(CORPORATE GOVERNANCE)**

We have reviewed the APM questionnaire, and consider the questions below to relate to the role undertaken by SAICA and its members. We have therefore prepared comments on each question for your consideration.

Question 2: To what extent are the accounting and auditing standards and practices in line with international standards?

Describe the auditing and accounting standards in the country and, where appropriate any material differences with International standards on auditing and accounting.

Auditing Standard

South Africa adopted International Standards of Auditing (ISAs), with effect from January 2006. Previously, South African Auditing Standards, which were based on ISAs, were applied in performing audits. The standards are issued by South African Auditing and Assurance Standards Board (AASB), a body of the Public Accountants' and Auditors' Board (PAAB). The PAAB will be renamed the Independent Regulatory Board of Auditors (IRBA) with effect from 1 April 2006, as a result of enactment of Auditing Profession Act (Act 26 of 2005), promulgated in November 2005 and signed by the President on 12 January 2006. The IRBA is responsible for regulating the auditing profession.

Accounting Standards – Private Sector

South Africa adopted International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board.

Since 1993, South Africa has been harmonising its Statements of Generally Accepted Accounting Practice (GAAP) with international standards. The harmonisation was recently completed (2002), and the Accounting Practices Board (APB), that issues the accounting standards in South Africa, has since agreed to issue IFRSs as Statements of GAAP without amendment, with effect from January 2005. We therefore apply IFRS as Statements of GAAP when preparing financial statements.

Accounting Standards – Public Sector

South Africa is currently developing Standards of Generally Recognised Accounting Practice (GRAP), that are to be applied by public sector entities (as noted below) in preparing financial statements. The standards are being developed based on International Public Sector Accounting Standards (IPSASs), issued by International Public Sector Accounting Standards Board (IPSASB). IPSASs are based on IFRS. GRAP are only effective from a date determined by the Minister of Finance. As of February 2006 he had approved application of 3 GRAP standards.

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GRAP are being developed by Accounting Standards Board (ASB), a board which was established under the Public Finance Management Act, Act No. 1 of 1999, (PFMA). The ASB determines GRAP for departments (national and provincial) public entities, constitutional institutions, municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality, Parliament and the provincial legislatures.

The ASB has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as noted under accounting in private sector above, to be GRAP for: government business enterprises (as defined in the PFMA), trading entities (as defined in the PFMA), any other entity other than a municipality whose shares, or debt are publicly tradable on the capital markets, and entities under the ownership control of any of these entities.

It is important to note that, other than those entities applying GAAP, most of the other public sector entities currently use the modified cash basis to prepare financial statements. As noted below, all entities are subjected to audit.

Provide details of the requirements regarding the audit of corporations annual financial statements, distinguishing between the requirements in the private sector and those which apply to the public sector.

Private sector

All companies registered in terms of the Companies Act (private and public companies), are required to be audited and an audit opinion expressed on 'fair presentation' of financial statements. Audits are conducted in terms of the auditing standards referred to above.

In terms of the Public Accountants' and Auditors' Act (PAAA) as well as the Auditing Profession Act, as previously noted, that replaces it, audits may only be conducted by auditors registered in Public Accountants' and Auditors Board.

Entities established as close corporations under Close Corporation Act, do not require to be audited. However, such financial statements are subject to an accounting officer's report that reports on the policies applied to compile the financial information.

Public Sector Entities

All public sector entities financial statements require to be audited by the Auditor-General. However, the Auditor-General may opt not to audit public entities. These are the entities which are owned by Government but undertake transactions which generate profits and do not necessarily rely on Government for funding. Such entities activities also involve offering social services. In instances where the Auditor-General decides not to audit public entities, such entities appoint their own private audit firm. It is important to note public sector entities falls under 3 tiers of government namely national, provincial

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and local (municipal) government with year ends of the first two tiers being 31 March and that of local government being 30 June.

Though the Auditor-General is required by regulation to audit the public sector entities, except public entities as noted above, it is allowed to contract out the audits to private audit firms. Such firms then conduct audits of sector entities on behalf of the Auditor-general.

In both instances, audits are conducted using the International Standards of Auditing.

The Public Audit Act stipulates the South Africa Auditor-General's powers and responsibilities.

Discuss the regulation and qualification requirements of the audit profession as well as it's oversight and disciplinary role including requirements for the auditor to inform the supervisory authorities and/or the shareholders about any involvement of board members or senior management in illegal activities, fraud or insider abuse.

Regulation of auditors

Currently, the auditors are regulated under the Public Accountants' and Auditors' Act (PAA Act). Only qualified South Africa Chartered Accountants (CA(SA)) are qualified to be registered as auditors with the PAAB. The PAAB has a disciplinary process that addresses all matters relating to alleged improper conduct by registered auditors.

Auditors are obliged in terms of the PAA Act, to report any material irregularities noted in the performance of the audit, to the PAAB. In addition, in respect the auditing standards, auditors also inform those charged with governance in an entity of any reportable issues.

With effect from 1 April 2006, the audit profession will be regulated in terms of the Auditing Profession Act, as previously noted.

The objectives of the Act are:

- (a) to protect the public in the Republic by regulating audits performed by registered auditors;
- (b) to provide for the establishment of an Independent Regulatory Board for Auditors;
- (c) to improve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic;
- (d) to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession; and
- (e) to provide for procedures for disciplinary action in respect of improper conduct.

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Under the new act, different professions will apply to IRBA for accreditation. Once accredited, members of such a profession will register to undertake audits. Registered auditor continue to be subject to disciplinary process of the member institutes e.g. CA(SA) are subject to SAICA's Code of Professional Conduct hence disciplinary process.

In South Africa the JSE Limited in partnership with SAICA established a GAAP Monitoring Panel. The Panel is responsible of investigating any complaints received from members of public or investors relating to inappropriate treatment of transactions in financial statements.

The results of the investigations are reported to JSE who takes action against the company. At the same time the accountants and auditors of such listed companies are reported to SAICA and the PAAB respectively. These matters are fed into the respective disciplinary processes.

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