|  |
| --- |
| **COSATU Submission:**  **Auditing Profession Amendment Bill**  **12 October2020** |
|  |
| |  | | --- | | Cosatu logo |   **Submitted to:**  **Standing Committee: Finance**  **National Assembly**  **Parliament**  **Republic of South Africa** |

1. **Introduction**

COSATU welcomes and supports the AuditingProfession Amendment Bill.

COSATU supports the broad objectives and provisions of the Bill with some critical proposed amendments recommended for the 6th Parliament to consider to further strengthen its anti-corruption provisions with regards to its proposed amendments of the Board meetings’ frequency and search and seizure powers.

The Federation is however alarmed at the failure to formalise the IRBA rule requiring mandatory rotation of auditing firms after set periods.

Whilst the Bill seeks to address problems experienced in the auditing profession as seen recently where some auditors helped cover up corruption in the firms and SOEs they were contracted to be playing an auditing and oversight role in, it requires further strengthening to ensure it achieves the progressive objectives it has set.

1. **Proposed Amendments of the Auditing Profession Act for Consideration by the 6th Parliament**

COSATU supports the Bill’s proposed amendments of the Auditing Profession Act.

These are badly needed and long overdue as seen with recent exposure of collusion between auditors and the companies and SOEs overwhom they were paid to provide oversight.

One of the key causes of this failure has been the cosy relationship between some auditors and their clients. Some auditors are contracted by their clients for decades.

The King Report has highlighted the failure to require mandatory rotation as a key cause of an at timesfatal and incestuous relationship. Auditors will turn a blind eye or even be complicit in illegal activities etc to protect their long standing contracts.

The King Report recommends time limits to such auditing contracts.

**COSATU supports the provisions of the Bill, in particular its provisions for:**

* Setting criteria to serve on the IRBA and its committees, in particular that practicing auditors cannot serve on these structures whilst still practicing toavoid conflicts of interest.
* The capacitation of the IRBA to investigate and discipline offending auditors.
* The bold and comprehensive search and seizure powers allocated to the IRBA and its structures.
  + However, the IRBA and its structures need to be urgently and fully capacitated to ensure these progressive provisions will be implemented.
* The bold and decisive disciplinary powers allocated to the IRBA, including the deregistration of offending auditors.

These progressive provisions are critical in the fight against corruption and state capture. They must be supported, strengthened and implemented.

Any attempts to water them down, must be opposed and rejected.

1. **COSATU Proposed Amendment for Consideration by the 6th Parliament:**

Whilst supporting the progressive clauses in the Bill and its speedy enactment, the Bill needs further strengthening in order to ensure the IRBA is fully capacitated to deal with delinquent and corrupt auditors.

**COSATU’s Proposed Amendments:**

* **Delete Clause 5 (5) on page 3** which reduces the required number of meetings of the IRBA and its committees from a minimum of 4 to 2 a year.
  + The task of the IRBA and its committees are of such importance that reducing the number of required meetings per annum by half, from 4 to 2, sends a wrong message in fact will then allow the IRBA and any nefarious elements to in effect downgrade its critical work whilst remaining in compliance with the law.
  + This is extremely reckless in the era of state capture where auditors have been found complicit in allowing the capture and collapse of the state.
* **Delete “normal office hours” from Clause VII (e)’s** provisions dealing with search and seizure.
  + There is no need to limit search and seizure operations to normal office hours.
  + This will weaken such critical operations and is not in line with standard practise with regards to search and seizures.
  + Diplomacy is not needed when dealing with criminals and their accomplices.
  + The IRBA should be capacitated to undertake search and seizure 24/7.
* **Insert in a new section in theBill formalising in law the existing IRBA rule providing for mandatory rotation of auditing firms.** 
  + IRBA has instituted a rule requiring the mandatory rotation of auditing firms after 10 years.
  + This mandatory auditing firm rotation rule needs to be entrenched in law.
  + Otherwise the IRBA can simply delete that rule in the face of massive resistance from compromised auditors.
  + The rule providing for this to be done every 10 years itself is too broad. It must be reduced to 5 years.

1. **Conclusion**

COSATU would like to thank the StandingCommittee for the opportunity to share its views on this critical and progressive bill.

The federation strongly supports its proposed amendments of the AuditingProfession Act.

COSATU urges the Standing Committee to pass this important and progressive bill.

These are in line with the progressive anti-discrimination values and requirements of the Constitution.

However, COSATU feels that these checks and balances and oversight mechanisms need and must be further strengthened as outlined in our proposed amendments by the 6th Parliament.

It must be further strengthened as indicated in our proposed amendments dealing with:

* The number of meetings that must be held per annum;
* When search and seizure operations can take place; and
* Most critically requiring the mandatory rotation of auditing firms.

Failure to do so will give comfort for those who are determined to continue looting.

Thank you for your time and consideration.

Yours comradely,

|  |  |
| --- | --- |
| cid:image005.jpg@01CC26CB.2C4815C0 | Matthew Parks  Parliamentary Coordinator  Cell: 082 785 0687  Email: [matthew@cosatu.org.za](mailto:matthew@cosatu.org.za)  6th Floor, 124 Adderley Street  Constitution House  Cape Town 8000  South Africa |