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Parliament of the Republic of South Africa  
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Dear Hon. J Maswanganyi

**Re: Comment into the amendment of the Audit Profession Bill (B2 -2020)**

I have read the Audit Profession Amendment Bill with interest. I have pleasure in responding to the public call to comment on this bill. My comments have been transmitted electronically in accordance with the official communication channel designated for all submissions.

I personally welcome the opportunity to comment on this very important bill for the audit profession. In my view, this bill plays an integral role in enhancing auditor independence, strengthening the capital market and assisting in timeously responding to adverse economic shocks that may potentially be brought by audit failures.

Furthermore, I am of the view that this is indeed an opportune moment to incorporate the recommendations as set out in the *2013 World Bank's Report on Observance of Standards and Codes* (The ROSC Report) on South Africa. I annex this report *under Appendix C – The ROSC Report* for ease of reference. The report offers an essential recommendation that audit regulators should be incorporated in such a way that they become a comprehensive regulator. I extend my comments on this matter *under Appendix A – Detailed Comments* for detailed context.

I offer my comments and suggestions with the intention to assist the Standing Committee on Finance and the National Treasury to come up with a bill that will transform the audit profession, close the audit expectation gap, increase investor confidence and incorporate all the role players in the entire financial reporting chain within the bill.

**Key points:**

1. I have provided some detailed comments in Appendix A, responding to the section of the bill as called for by the submission; including the suggestion to expand the bill reflecting the recommendation of the ROSC report.
2. The bill should not only cover the audit profession but also include all the role players in the governance, financial reporting and assurance value chain to enable greater accountability.
3. The proposal to disband the Independent Regulatory Board for Auditors in its current form to enable it to become a comprehensive regulator. See *Appendix C – IRBA AS A COMPREHENSIVE REGULATOR*.

I am happy and available to assist members in further refining this bill for the wider benefit of the accountancy profession and establish a regulator that is relevant and fit for purpose.

If you would like to discuss any of my comments in more detail, do not hesitate to invite me for a presentation.

Yours sincerely,  
Dumisani Mahlangu  
Audit Activist.

## Appendix A – Detailed comments

Section	Paragraph	Comments	Rationale
<b>Name of the Act</b>		The name of the Act should also be amended to enable the Regulatory Board to have oversight and regulation of the Auditing (external), Auditing (Internal), Governance professionals (e.g. board members) and Financial Reporters (e.g. Chief Financial Officer and those who prepare financial statements); and its name of the Act should be named in such a way that reflects that the Regulatory Board has oversight over these practitioners.	<p>External Auditors come after the fact once the financial report has been prepared by the financial reporters and as it currently stands the preparers of financial statements and those who approve them such as the audit committee are not regulated. There is no law that prescribe that those who prepare these reports fraudulently may face consequences.</p> <p>The Act only provides sanctions to auditors. The auditors therefore have an incentive as a consequence of this Act and its amendment to exercise duty of care in discharging their responsibilities conscious of the fact that failure to do so may subject them and their firms to a disciplinary process that might be damaging to their individual careers and the reputation of the registered firm they represent.</p> <p>Auditors after all audit what has been prepared by financial reporters and these practitioners cannot be left unregulated.</p> <p>To address this deficiency, the act therefore needs to make provision for the board members, financial reporters (e.g. CFOs) and internal auditors to be regulated.</p>
<b>8</b>	<b>8 (a)</b>	In my view the statement should read as follows " <i>(1A) An individual may only be registered with the Regulatory Board if he or she is a <b>professional</b></i> "	Professional bodies may have different types of membership for its constituencies. However, for

Section	Paragraph	Comments	Rationale
		<b>accountant</b> belonging to a professional body accredited in terms of section 32 (2)."	<p>one to be registered as an auditor, the International Federation of Accountants through its International Education Standard prescribes that a Registered Auditor must be a Professional Accountant. An individual may be a member of a professional body without he or she be a professional accountant as defined by the International Federation of Accountants (IFAC). Example hereto are members of the South African Institute of Chartered Accountants (SAICA) who use the designation Associate General Accountant (AGA) who by IFAC's definition are not Professional Accountants. Only Chartered Accountants (South Africa)/ CAs (SA) are Professional Accountants. SAICA is accredited in terms of Section 32 (2) and only its members who are CAs (SA) can register as RAs, whilst its members holding an AGA designation cannot be registered as RAs as they do not satisfy the requirements of being Professional Accountants.</p> <p>It for this reason that I propose that this section be worded as such to remove potential ambiguity.</p>
10	(b)	In my view this paragraph suggest that the Regulatory Board is effectively empowering professional bodies to self – regulate. If the Act can be expanded to include the regulation of those who would have been complicit in a non – audit matter, the investigating committee of the Regulatory Board would be able to act on this individual as well, thereby fast tracking the process.	To refer a non – audit issue to a professional body has an unintended consequence of the investigating and disciplinary committee to prolong its work thus weakening trust in the ecosystem.

Section	Paragraph	Comments	Rationale
			An audit issue is directly related to a non – audit issue because it is that non - audit issue that is being audited in most cases. To leave those who would have participated in a non - audit issue is to inadvertently compensate them for not doing their work with professional competence. In most cases they are they one who perpetrate fraud in a non – audit issue that an auditor needs to express an opinion on. Many a times, even though an auditor has exercised all the necessary care, a fraud thus perpetrated by those participating in a non – audit issue might be missed during an audit process.
<b>The name of the Regulatory Board</b>		The name of the regulatory board should be called " <i>The Independent Regulatory Board for Audit, Assurance, Governance and Accounting Professionals</i> " or something similar to that effect.	If the name of the Regulatory Board is named " <i>The Independent Regulatory Board for Audit, Assurance, Governance and Accounting Professionals (IRBAAAG)</i> ", this will empower the Regulatory Board to implement its strategic pillar of comprehensive regulation amongst other pillars and thereby realise its stated vision.
<b>Matters not covered by the Bill</b>			
1. Auditors do not operate in isolation. Their practice is regulated in terms of the Principal Act. They are also required in terms of the Principal Act to report any irregularities. However, the Principal Act does not deal with sanctioning company directors who knowingly mislead auditors or wilfully perpetrate fraud in their financial statements. If IRBA is established as a comprehensive regulator, then they would be empowered to deal with such directors as it may determine necessary.			

## **The Independent Regulatory Board for Auditors as a comprehensive Regulator: A case for comprehensive regulation**

In the past few years, the accountancy and auditing profession suffered a loss of reputational harm and erosion of trust. Similarly, the government through the Public Investment Corporation lost billions of Rands in pensioners savings. This does not bode well for the strength of the capital market and investors confidence. The Independent Regulatory Board for Auditors has since been at work trying to bring irate auditors to books. However, professional accountancy bodies have done its fair share in doing the same, yet some of the well – known culprits remain undisciplined or their disciplinary processes remain slow.

Auditors who were complicit in these audit failures, through the IRBA disciplinary process have faced sanctions as IRBA is empowered by the Principal Act to do so. The bill also empowers the minister to impose a fine that will hopefully serve as a deterrent for auditors from conducting their profession in a way that may potentially bring the profession into disrepute. The proposed bill then prescribes that IRBA may refer registered auditors to their home professional bodies for their own further disciplinary processes and sanctions. However, there is no law that regulates those professionals that prepare the financial statements audited by registered audit professionals. Consequently, this mean that these accounting professionals who knowingly mislead auditors or wilfully perpetrate fraud in the financial statements are not disciplined at a rate fast enough acceptable by members of the public or the investing community.

As the law empowers the Regulatory Board to enter and search premises of auditors and issue warrants, the same privilege is not extended to the professional accountancy bodies who wish to discipline its members. Comprehensive regulation will enable professional accountancy bodies to “piggy – back” on the work done by the Regulatory Board as it enjoys legal privileges to do so.

*“The IRBA is evolving to be an internationally recognised regulator of the auditing profession and other assurance services relevant to the South African environment”* reads the vision statement of the entity. Attention should be paid to the words **“other assurance services”**. IRBA as it stands does not necessarily regulate professionals who offer other assurance services. Its vision speaks to its goal of being a comprehensive regulator, however, in this current environment, legislation does not assist IRBA to realise its own ideal. A legislative framework that will empower IRBA to be a comprehensive regulator will enable it to realise that goal and implement one of its strategic pillars – *comprehensive regulation*.

It is therefore incumbent on the members of this committee to incorporate provisions in this bill that will enable IRBA to be a comprehensive regulator. By so doing, the promises made by the Minister of Finance, Honourable Tito Mboweni to strengthen regulatory oversight will come to fruition. Comprehensive regulation is one way in which a stronger regulatory oversight can be achieved. It is therefore an opportune moment for this bill to incorporate provisions that will enable the Regulatory Board to become a comprehensive regulator that is relevant and fit for purpose.

The 2013 World Bank Report on the Observance of Standards and Codes (ROSC) makes compelling recommendations that will enable the Regulatory Board to be an effective and a stronger comprehensive regulator. I cite relevant ROCS recommendations below:

1. South Africa should enact appropriate legislation to provide for the regulation of both professional accountancy organisations an audit regulatory body (Paragraph 8.2 of the ROSC)

2. IRBA resources and capacity should be increased and funding model should be stabilized (paragraph 8.4 of the ROSC).

I believe that IRBA is capable of being that proposed oversight body in recommendation 1 above. For it to achieve its independence, the government must see to it that IRBA is well funded and perhaps human resources be provisioned at the budget of the state to make the entity independent so that it can effectively discharge its mandate.

South Africans and those who invest in her economy deserves an environment where regulatory oversight is strong, its Financial Regulatory Bodies are independent, and the entire auditing and accountancy profession is comprehensively regulated. It is therefore a duty of the members of the 6<sup>th</sup> Parliament to make this a possibility!

- **Ends**