

# INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF SOUTH AFRICA

## DRAFT ORAL SUBMISSION ON THE CO-OPERATIVES BILL

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Institute of Certified Public Accountants of South Africa: Submission Co-operatives Bill  
Presented by CEO: Shahied Daniels

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## The CPASA

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1. The CPASA is the second largest accounting institute in South Africa, boasting a membership of more than 5000, (excluding students and other associates) 78,5% of whom are in public practice.
2. Close to 20% of the members of the CPASA are black (African, Coloured or Indian)
3. The CPASA is a full voting member of the International Federation of Accountants (IFAC) as well as the East, Central and Southern African Federation of Accountants (ECSAFA).
4. The CPASA was the first Institute in South Africa to implement mandatory Continuous Development Programme (CPD) attendance and Professional Indemnity insurance protecting members of the public.
5. CPASA qualifications are recognised at level 7 by the National Qualifications Framework (NQF) in terms of the South African Qualifications Authority (SAQA).
6. The Financial Services Board approved the Institute as a Recognised Representative Body for the purposes of the Financial Advisory and Intermediary Services Act.
7. The CPASA employs more than 20 staff members to operate as its secretariat. The highest decision making body of the Institute is its Council. Various committees support the work of the secretariat.
8. Membership to the CPASA is dependent on: obtaining a relevant degree; obtaining the necessary experience and competence to be recognised as professional accountant; and by successfully completing the Professional Evaluation as administered by the Institute. As a member of IFAC the Institute has to comply with the education and training requirements for professional accountants as determined by IFAC.

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9. CPASA members act as professional accountants in business, public practice, government and academia.
10. CPASA Practising Members can perform certain statutory attest functions (where legislation permits) and issue statutory reports. These are issued for example, in terms of the: Micro lending industry regulations, Sectional Titles Act, Non Profit Organisations Act, Schools Act, Debt Collectors Act, Co-operatives Act, National Lottery Board Regulations, SABC Television Licensing Regulations, Immigration Regulations, Department of Trade and Industry's Industrial Development Programme, as well as the Close Corporations Act. A Trust Deed may allow a CPA member to perform the audit function. A CPASA member may also accept the appointment as an honorary auditor for a club, institute, or association.
11. CPASA members are recognised, upon application, as Compliance Officers in terms of the Financial Advisory and Intermediary Services Act.
12. CPASA members are recognised as Commissioners of Oaths.

## Objectives of our Submission

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### Recognising:

- The co-operatives value of self-help, self-reliance, self-responsibility, democracy, equality and social responsibility;
- That the co-operative movement can play a major role in the economic and social development of South Africa by providing an additional business vehicle with legal personality;
- That the South African economy will benefit from the increase in sustainable economic enterprises;
- That an increase in the number of persons that can provide assurance services to co-operatives will increase access to assurance services; increase the rate of empowerment; increase the quality of assurance services whilst also reducing the cost of assurance services;
- The need for balance between a legislative environment that is enabling and one that is regulatory or restrictive;
- The need for assurance standards that are fit for the purposes of Small and Medium Enterprise Development Programmes

### We wish to:

- Express our support for the increase in the functionality of Co-operatives as an enterprise form;
- Express our support, in principle, of Chapter 7 (Co-operative audit) of the Co-operative Bill;
- Make proposals on Chapter 7 of the Bill, which we believe will bring the Chapter inline with international precedent, reduce the cost of the reporting function, increase the number of persons that can provide assurance services, as well as better correlate the Chapter with other South African legislation.

In the wake of Africa's renaissance, economic development should be encouraged and not prohibited. Therefore bill should apply the well known principle of "thinking small first".

We believe a “public entity audit framework” as currently applies to all types of companies is inappropriate for Co-operatives. If a “public entity audit framework” is forced on an environment that is in need of enabling legislation, it will not only entrench monopolies and restrict access to services but will also limit empowerment.

This will only increase the cost of doing business in South Africa.

We want to state categorically that we do not advocate a lowering of standards; instead we are of the sincere belief that standards should be fit-for-purpose.

A balance should be struck between a regulatory environment for public interest entities or listed entities and an enabling environment for non-public interest entities or non-listed entities.

Even the international community is starting to realise that the needs of developing countries are different than that of developed countries.

The International Federation of Accountants recently established a Developing Nations Task Force to assess the needs of developing nations. The APB in the United Kingdom is currently commencing a project that will establish Assurance Standards that addresses the needs of small entities:

”The APB is conscious of the inexorable increase in the complexity of accounting, auditing and ethical standards and the burden that these place on small companies and their auditors. (The) APB is therefore commencing a project to re-evaluate the needs of small companies and the users of their financial statements with a view to introducing a new form of assurance that is tailored to their needs.” (APB Completes Ethical Standards for Auditors, Media release, 17 December 2004)

Different forms of assurance are already part of the South African environment.

The involvement of the CPASA in the South African economy contributes to economic growth and social development. We estimate that CPASA members in public practice service more than 400 000 business entities consisting of sole proprietors to private companies. More participants in the field of public accountancy will increase competition, decrease cost and increase service delivery. On the eve of South Africa and Africa's economic awakening we would like to offer our professional services to the Southern African community.

We hope this offer will be accepted.

Regards

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CEO:

ShahiedDaniels





**Alternative Auditors**

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01

Chapter 1 of the Bill, (Definition, Purpose and Application), requires the appointment of an auditor that is registered in terms of the Public Accountants' and Auditors' Act (PAA Act). **However, where appropriate, any other person may be authorised to conduct an audit of a cooperative. The Bill thus provides for an "Alternative Auditor".**

02

Chapter 7 of the Bill elaborates on the "Alternative Auditor" provision by exempting a Co-operative from the provisions of chapter 7, especially those that relate to the appointment of a PAAB registered auditor. Chapter 7 allows the appointment as auditor of a person that is not registered with the PAAB. Such a person can be referred to as a Non-PAAB registered auditor.

03

**We submit that the provision for Alternative Audit Providers be retained within the Bill.** This provision is similar to current legislation with regard the Sectional Titles Act, Schools Act, Debt-Collectors Act and National Lottery Board Regulations. This provision assists in economic growth and empowerment.

04

**We do however propose that Alternative Auditors be required to comply with qualifying criteria, which criteria should be legislated within the act. These criteria should be built around the current Accounting Officer regime as it applies to Close Corporations.**

05

As the Bill currently reads it is theoretically possible for a person with no qualification or experience to act as an auditor for a Co-operative. This is not an ideal situation.

06

The CPASA, as a professional institute, requires its members to adhere to a professional Code of Conduct when services are rendered to the public. This code also governs their duties as accounting officers and as Non-PAAB registered auditors.

07

Assistance is also provided by way of a "Working Paper Compilation Guideline". The guidelines provide a quality control mechanism for members that offer professional accounting services to the public.

08

We are of the opinion that the value of the work performed by our members is enhanced by CPASA's Code of Conduct and Working Paper Compilation Guidelines, especially in the performance of their duties as accounting officers and Non-PAAB registered auditors.

09

**We submit that the CPASA Code and Guidelines should be codified into South African Accounting Officer Standards (SAAOS) or Co-operative Alternative Auditing Standards (CAAS). We will initiate this process but it should ultimately be the accounting profession in consultation with government and other stakeholders that will determine SAAOS or CAAS. All persons acting, as accounting officers or as alternative auditors for Co-operatives, should be required to follow this standard, once approved.**

10

Although the current PAA Act is built on a public entity framework, provision is made for those entities for which the appointment of a Public Auditor would be inappropriate.

Section 14 (b) (ii – v) of the PAA Act recognises the SME character of certain entities and provides for the appointment of persons as auditors even though they are not registered with the PAAB.

11

We submit that the SME or Non-Public Entity Auditor is recognised within South African law. This is evident not only in Section 14 of the PAA Act but also in various other acts.

12

We submit that all of these acts recognise the fact that certain entities, by their very nature, require and demand a different approach. As a result, these acts provide for the appointment of an SME or non-PAAB registered auditor under the following circumstances:

- A PAAB registered auditor is not available **or**
- The cost of a PAAAB auditor would be too high **or**
- The size of the entity to be audited makes the appointment of a PAAB auditor unpractical **or**
- The close relationship between the owners or participant of the entity **or**
- A unanimous decision by the owners or participants of the entity

13

Given South Africa's peculiar history that contributed to the current evils of unemployment, lack of empowerment and participation and lack of service delivery it is of the utmost importance that all forms of artificial barriers that supports these evils be eradicated.

14

**We submit that the current distinction in South African law between Public Auditors and Non-Public Auditors/SME Auditors/Alternative Auditors contributed to the eradication of the above mentioned evils. The provision for Non-Public Entity Auditors/SME Auditors/ Alternative Auditors is an economic and social imperative.**

15

As the PAAB does not regulate section 14 (b) (iii) auditors (Non-PAAB registered auditors) these persons have to adhere to the self-regulatory rules as determined by individual professional bodies. In this regard the CPASA's "Working Paper Compilation Guidelines" and professional Code of Conduct as well as the CPASA's membership of IFAC, provides a framework for non-registered auditors to operate in.

16

**We submit that these self-regulatory rules be codified so that they will apply to all those that provide Non-PAAB registered auditor services.**

17

Current legislation permits CPASA members to perform certain statutory audit functions and issue statutory reports. These are issued for example, in terms of the Micro lending industry regulations, Sectional Titles Act, Non Profit Organisations Act, Schools Act, Debt Collectors Act, Co-operatives Act, National Lottery Board Regulations, SABC Television Licensing Regulations, Immigration Regulations, Department of Trade and Industry's Industrial Development Programme, as well as the Close Corporations Act. A Trust Deed may allow a CPASA member to perform the audit function. The appointment as an honorary auditor for a club, institute, or association may also be accepted by a CPASA member.

### **Assurance Providers**

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Members of the CPASA are statutorily recognised as assurance providers. CPASA members issue statutory reports as, amongst others, Accounting Officers, Tax Practitioners, Accredited Persons and Non-PAAB registered auditors.

19

An Accounting Officer reports to the Registrar of Companies, as well as to the members of the close corporation.

He reports on whether the financial statements are in agreement with the financial records, whether the accounting policies were appropriate and whether a contravention of the act occurred. It is thus submitted that the Accounting Officer does more than just report on the Compilation of financial statements or on factual findings as a result of Agreed-Upon-Procedures. **A conclusion on a subject matter is reached and an opinion on financial information is expressed.**

20

In an Income Tax Return completed by a Tax Practitioner on behalf of a client, the South African Revenue Services require the practitioner to sign a declaration that requires an opinion from the practitioner. The practitioner declares that all the information, details and schedules furnished in the return are to the best of his knowledge correct and discloses all the income and relevant information as furnished by the taxpayer. **A conclusion on a subject matter is reached and an opinion on financial information is expressed.**

21

As part of the Industrial Development Programme (SMEDP) administered by the Department of Trade and Industry, an Accredited Person signs a Declaration and issues a Report. In the Declaration the Accredited Person declares that the information submitted with the claim is true and fair. Although the Report is based on agreed upon procedures the Accredited Person has to state more than just factual findings. **An opinion has to be expressed** on whether the financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and whether the accounting policies have been applied consistently. **It is therefore not left to the users of the report to draw their own conclusions.**

22

**We submit that based in the SME nature of Co-operatives the legislator could also consider whether to make the Accounting Officer regime mandatory for Co-operatives instead of providing for “Alternative Auditors”.**

23

Such a provision will be inline with the current provisions in the Non Profit Organisation Act (NPO act). That NPO act requires that

“every registered non-profit organisation must arrange for a written report to be compiled by an accounting officer and submitted to the organisation stating whether or not--

- a) the financial statements of the organisation are consistent with its accounting records;
- b) the accounting policies of the organisation are appropriate and have been appropriately applied in the preparation of the financial statements; and
- c) the organisation has complied with the provisions of this Act and of its constitution which relate to financial matters.”

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It is a contravention of the NPO act not to prepare financial statements in accordance with generally accepted accounting practice (gaap). The accounting officer has to verify if such a contravention occurred.

### **The Audit Objective**

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Chapter 7 of the Bill, Co-operative Audit, requires that an audit of the affairs of a Co-operative must be conducted annually in respect of each financial year, in order to:

- ensure that financial statements are drawn up in conformity with generally accepted accounting practices;
- verify that the co-operative has maintained adequate records in accordance with the requirements of its constitution and this Act;
- report generally as to whether the assets and facilities of a co-operative are being properly managed and the operations of a co-operative are being conducted in accordance with co-operative principles; and

- report on any other matter the auditors are required to report on in terms of a co-operative's constitution.

26

**We submit that this requirement, rather than being regarded as an audit, should be regarded as an assurance service. Recognised assurance providers such as Accounting Officers are currently empowered by South African legislation to perform such services.**

27

In terms of the Handbook of International Auditing, Assurance and Ethics Pronouncements (2004 Edition) as issued by the International Federation of Accountants (IFAC), auditing is but one part of the Assurance Framework. International Standards recognise the fact that assurance engagements deal with a broader range of subject matter and reporting arrangements than the issue of an audit opinion by external auditors on financial statements.

28

The International Framework for Assurance Engagements (IFAE) attaches the following meaning to assurance engagements:

“an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.”

29

However according to the International Standard on Auditing 200 (ISA200), as issued by the International Auditing and Assurance Standards Board (IAASB), the objective of an audit of financial statements

“. . . is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework.”

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It is clear from the above that the scope of the audit is much more limited than the scope of assurance.

### **The Effect of Selective Auditor Independence**

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Due to the fact that auditors should be independent current South African law prohibits the performance of non-audit services for public companies, by the auditor. However auditors for private companies determine for themselves when their independence will be impaired. They are allowed to perform non-audit services as long as they deem their independence not to be impaired.

32

Not only does private company auditors have statutory monopoly on the provision of audit services, they are also allowed to perform bookkeeping, tax, financial statements preparation, business planning, employment services as well as financial planning and insurance services to the audit client. In other words whilst having a statutory monopoly they will be performing additional services. This is truly an “advantaged” position as, whilst competing with other professions, they will have advanced and exclusive knowledge, being the statutorily appointed auditor.

33

**We submit that of it is left to the auditor to determine and maintain independence with regard private companies; concepts of independence, public accountability and social control become less important. In these circumstances the audit should not be a statutory requirement placed on private companies and similar entities as the reasons for making the audit a statutory requirement in the first place, loses its urgency and in some cases becomes redundant.**



34

**We submit that if the legislator, in spite of the above, still demands an audit of private companies or co-operatives, whilst simultaneously allowing auditors of private companies and co-operatives to perform non-audit services to their audit clients, then that part of the audit profession focusing on the private company or co-operative audit should be subject to a different framework.**

35

It has been shown that other professionals are currently performing assurance engagements, and that section 14 (b) (iii) of the current PAA Act recognises “SME” auditors.

36

**We submit that the recognition model proposed in the bill should be amended to give recognition to the above and allow as auditors all those currently performing assurance and audit engagements. If this is not done the public company framework should be applied consistently, thereby prohibiting the delivery of non-audit services to audit clients.**

### **Cost of the Audit**

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According to recent media reports (Attachment 1), various audit experts believe that the proposals as contained in the Draft Auditing Profession Bill (which will replace the current Public Accountant’s and Auditor’s Act), will cause the cost of the audit to be increased by as much as 40%.

38

This estimate is based on the additional requirements that will be imposed on auditors. These include more comprehensive audit procedures and more attention to the risk profile of a client which will require the gathering of more audit evidence.

39

**We submit that as government views the Co-operative movement as a “variant of small business development” and as government has identified its role as to “ensuring that the legal framework does not hinder the development and growth of co-operative enterprises” an increase in the cost and complexity of the audit requirement has the potential to overly regulate the Co-operative environment. An enabling environment will thus not be achieved.**

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**We submit that the cost of reporting can be reduced if the Alternative Auditor regime is strengthened. The cost can also be reduced if the Accounting Officer regime is made applicable to Co-operatives.**

#### **United Kingdom: Auditing Practices Board Study**

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According to a December 2004 media release on ethic standards issued by the Auditing Practices Board (APB) of the United Kingdom, the APB will conduct research into ways the increased cost and complexity of audit standards can be addressed with regard smaller entities. The media release stated that:

“ . . . the APB notes that as accounting, auditing and ethical standards are progressively tightened to respond to concerns regarding the quality of larger audits (especially of listed companies) those requirements are becoming increasingly too complex and burdensome to be appropriate for smaller entities. These tensions are not sustainable in the medium term.

**The APB will initiate a programme of research and consultation to investigate how the needs of users and preparers of small entity financial statements can best be met. Matters to be considered will include the feasibility of an alternative assurance service to meet the needs of users of small entity accounts taking account of:**

- the extent to which companies have taken advantage of the increased level of audit exemption;

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- the reasons for, and main users of, small audits that continue to be undertaken;
- the views of owners of small entities and other users of small entity accounts on the trade-off between the absolute need for auditor independence and objectivity and the cost of an audit.”

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**We submit that the view of the APB of the United Kingdom supports our proposed solution that the Alternative Auditor regime be strengthened or that the Accounting Officer regime be made mandatory for all Co-operatives.**

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## **Part 2: The Bill and Related Legislation**

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## Types of Statutory Reports

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01

In general, South African statutory financial reports can be divided between three types of assurance reports. This is based on the need to create an enabling environment that reduces the cost of doing business in South Africa. Issuers include:

- An accounting officer
- A non-PAAB registered auditor (SME auditor)
- A registered PAAB auditor.

02

The duties of the different issuers of reports, as well as the content of each report are determined by separate legislation. The Close Corporation Act determines the duties and content for accounting officers. Various other legislation and self-regulatory rules determine the duties and content for non-PAAB registered auditors. Whilst the PAAB Act in conjunction with PAAB standards determine the duty and content for registered PAAB auditors.

03

Historically the primary reason for the statutory audit has been the separation of ownership from management.

04

It is the auditors function to determine whether the financial statements of a company fairly reflect the company's position in order to firstly assist the company in detecting errors and secondly to provide shareholders with reliable information to enable them to evaluate the conduct of managers.

05

**We submit that forcing a public audit framework, on companies or other entities where the separation of ownership and management does not apply or requiring the appointment of an auditor where management, shareholders or other stakeholders can obtain relevant and reliable information from other sources is both inappropriate and impractical. Under these circumstances other assurance reports can better address the needs of different stakeholders, including government, and shareholders.**

### **Audit Exemption, Auditors and the Close Corporation**

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06

Prof Henning, one of the main innovators of the close corporation, in a recent article on Business Entity Law as published in the Kentucky Law Journal stated, “The (CC) Act introduced a new form of incorporation for closely-held enterprises with several unique and innovative features. The act combines some of the partnership attributes with the corporate attributes of legal personality and limited liability. It provides a simple, inexpensive and flexible form of incorporation for the enterprise consisting of a single entrepreneur or small number of participants”

07

One of the major distinguishing factors between a close corporation and other incorporated entities are therefore the small number of persons that are allowed as owners. The underlying principle is that the owners of a close corporation will also be the managers of the corporation.

08

This principle influenced the drafters of the close corporation act when they had to decide whether the audit should be mandatory for close corporations as it is for companies. It is submitted that, taking into account the break with the English derived model, the drafters of our act followed the Canadian/American model in that the audit was made voluntary. The voluntary audit for private companies has been part of Canadian and American legislation for centuries.

09

South African company law however could never dislodge itself from the United Kingdom model and has always made the audit of financial statements mandatory for all type of companies, irrespective of whether they are private or public companies. This mandatory requirement is a remnant of a by-gone era where the only company recognised in UK legislation was the public company. As UK company law is based on the principle of contract; the company is seen to be the result of the contractual relationship between the shareholders, and between the shareholders and the company. This principle does not sufficiently address the needs of those companies where the owners or shareholders are also the managers.

10

As the companies act could not brake with its UK past the private company in South Africa was left with the requirement of having audited financial statements whilst the audit was made voluntary for close corporations.

11

In a unitary system, as proposed by the DTI Policy Paper on Corporate Law Review, one in which a single act provides for incorporation instead of the current two, one of the major issues to be decided will be the mandatory audit requirement.

12

However before it can be decided whether the audit exemption as principle should be accepted the drafters of our new company law should first decide the audit model to be followed. In general it seems that the following models are available: the UK model with its threshold approach, the Canada/American model with audit exemption for closely held companies or a combination model.

13

If a UK model is chosen then a company will be audit exempt if it falls below a combination of turn over/assets/number of employee thresholds. If a Canadian/American model is chosen the owner/manager relationship will determine whether an audit is required or not.

The latter model does not take into account any size criteria except the number of owners.

14

Given the South African context however, it is submitted that a combination model is a strong possibility.

15

Since 1993 audit exemption has been part of UK company law. The initial threshold was determined at a very low level but has in recent times been increased significantly to make the voluntary audit regime applicable to 80% of all UK companies that have to file accounts. 891 000 of 1 115 000 companies in the UK can make use of the audit exemption regime.

16

This increase was necessitated by recent developments in the European Union to increase the audit exempt threshold as well as the waning influence of UK company law.

17

In the UK a company would be audit exempt if it fell below two of three criteria for two consecutive years. The thresholds were recently increased and are currently set at £5.6 million turn over; £2.8 million balance sheet total; 50 employees.

18

If it is decided that South Africa should follow the threshold approach, South African policy makers should take note of the percentage of companies exempt from the audit in the UK. The concerns that were raised against the threshold increase in the UK should also be considered as they were in all cases rejected by the UK Department of Trade and Industry. It is submitted that similar objections will be raised to the audit exemption in South Africa; however they should also be rejected as being invalid.

19

Thresholds are not used by New Zealand, Canada or the United States in determining when an audit is required. Owner/managed or private companies are exempt from the audit requirement. Shareholders can by unanimous resolution decide not to appoint an auditor or minority shareholders can be protected by allowing a minimum number of shareholders to demand an audit.

20

**We submit that although the audit should be made voluntary for most companies and co-operatives, the need for a professional accountant to prepare financial statements and provide related services remains.** This is evident from the UK DTI comment on the role of a professional accountant.

21

With regard the close corporation, the appointment of an accounting officer is mandatory. Given the need for professional accountants to assist in the preparation of financial statements it is submitted that the accounting officer, as assurance provider, should still be required for all closely held companies. Alternatively a two-tiered audit profession could also address the issues raised.

### **Assurance, Professional Accountants and Legal Backing for Accounting Standards**

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The role of the professional accountant becomes increasingly important in that government has made clear its intention to give legal backing to financial reporting standards.

23

If financial reporting standards receive legal backing it is submitted that companies will require the assistance of properly trained and professional persons to prepare the financial reports on their behalf. Professional accountants can fulfil this role in the new company dispensation.



24

Legal backing for accounting standards will bestow the power of law on the standards. This will mean that the legislator will enforce the standards. This makes the auditor redundant, as the legislator will now act as watchdog. Directors or management will be held accountable if financial statements are not prepared according to the determined standard.

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**We submit that, as management will engage professional accountants to prepare financial statements on their behalf, legislative recognition should be given to professional accountants in public practice.**

### **Assurance Providers and Reporting**

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The accounting officer report has been accepted for the past 20 years by the South African Revenue Services, all the major Banks as well as other users of financial statements.

27

It is estimated that 25 000 professional accountants service the more than 800 000 close corporations whilst only 4 500 auditors service the more than 300 000 companies. Any change in existing legislation should take note of this fact.

28

**We submit that introducing voluntary audits for all closely held entities, consisting of the current close corporations, most private companies and co-operatives, will increase the pool of professional accountants that can give services to these entities as accounting officers.**

As the audit will be voluntary nothing will be taken away from the auditing profession. An entity can still choose to have an audit performed.

29

If however the audit is made mandatory for all or even some closely held entities it would mean that if an entity were previously audit exempt, it will now be forced to have an audit performed. This will increase the cost of doing business in South Africa and would be inappropriate as the current audit profession operates in a public entity framework.

30

The current companies act makes the audit mandatory for all types of companies, if the mandatory regime will be carried forward into the new company law then the audit and accountancy profession should be restructured in order to address the reality of public interest entities as opposed to non-public interest entities.

31

If the audit is made mandatory, the company's act should prohibit the auditor from also preparing the books or financial statements of the company he is auditing. In a mandatory audit regime the companies act should separate the auditor and the preparer of financial statements. This will be truly in the public interest.

32

**We submit that the accounting officer report as a hybrid report is a possible solution to those entities that will be audit exempt. A legislated appointment of an accounting officer will ensure that a professional accountant will assist with the preparation of financial statements in accordance to a financial reporting framework. A two-tiered auditing profession should also be considered.**

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#### **Part 4: Synopsis of Recommendations**

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**01**

**We submit that the provision for Alternative Audit Providers be retained within the Bill. We do however propose that Alternative Auditors be required to comply with qualifying criteria, which criteria should be legislated within the act. These criteria should be built around the current Accounting Officer regime as it applies to Close Corporations.**

**02**

**We submit that the CPASA Code and Guidelines should be codified into South African Accounting Officer Standards (SAAOS) or Co-operative Alternative Auditing Standards (CAAS). We will initiate this process but it should ultimately be the accounting profession in consultation with government and other stakeholders that will determine SAAOS or CAAS. All persons acting, as accounting officers or as alternative auditors for Co-operatives, should be required to follow this standard, once approved. We submit that the current distinction in South African law between Public Auditors and Non-Public Auditors/SME Auditors/Alternative Auditors contributed to the eradication of the above mentioned evils. The provision for Non-Public Entity Auditors/SME Auditors/ Alternative Auditors is an economic and social imperative.**

**03**

**We submit that these self-regulatory rules be codified so that they will apply to all those that provide Non-PAAB registered auditor services. We submit that based in the SME nature of Co-operatives the legislator could also consider whether to make the Accounting Officer regime mandatory for Co-operatives instead of providing for “Alternative Auditors”.**

**04**

**We submit that this requirement, rather than being regarded as an audit, should be regarded as an assurance service.**

**Recognised assurance providers such as Accounting Officers are currently empowered by South African legislation to perform such services.**

**05**

**We submit that if it is left to the auditor to determine and maintain independence with regard private companies; concepts of independence, public accountability and social control become less important. In these circumstances the audit should not be a statutory requirement placed on private companies and similar entities as the reasons for making the audit a statutory requirement in the first place, loses its urgency and in some cases becomes redundant.**

**06**

**We submit that if the legislator, in spite of the above, still demands an audit of private companies or co-operatives, whilst simultaneously allowing auditors of private companies and co-operatives to perform non-audit services to their audit clients, then that part of the audit profession focusing on the private company or co-operative audit should be subject to a different framework.**

**07**

**We submit that the recognition model proposed in the bill should be amended to give recognition to the above and allow as auditors all those currently performing assurance and audit engagements. If this is not done the public company framework should be applied consistently, thereby prohibiting the delivery of non-audit services to audit clients.**

**08**

**We submit that as government views the Co-operative movement as a “variant of small business development” and as government has identified its role as to “ensuring that the legal framework does not hinder the development and growth of co-operative enterprises” an increase in the cost and complexity of the audit requirement has the potential to overly regulate the Co-operative environment. An enabling environment will thus not be achieved.**

**09**

**We submit that the cost of reporting can be reduced if the Alternative Auditor regime is strengthened. The cost can also be reduced if the Accounting Officer regime is made applicable to Co-operatives.**

**10**

**We submit that the view of the APB of the United Kingdom supports our proposed solution that the Alternative Auditor regime be strengthened or that the Accounting Officer regime be made mandatory for all Co-operatives.**

**11**

**We submit that forcing a public audit framework, on companies or other entities where the separation of ownership and management does not apply or requiring the appointment of an auditor where management, shareholders or other stakeholders can obtain relevant and reliable information from other sources is both inappropriate and impractical. Under these circumstances other assurance reports can better address the needs of different stakeholders, including government, and shareholders.**

**12**

**We submit that although the audit should be made voluntary for most companies and co-operatives, the need for a professional accountant to prepare financial statements and provide related services remains.**

**13**

**We submit that, as management will engage professional accountants to prepare financial statements on their behalf, legislative recognition should be given to professional accountants in public practice.**

**14**

**We submit that introducing voluntary audits for all closely held entities, consisting of the current close corporations, most private companies and co-operatives, will increase the pool of professional accountants that can give services to these entities as accounting officers.**

**15**

**We submit that the accounting officer report as a hybrid report is a possible solution to those entities that will be audit exempt. A legislated appointment of an accounting officer will ensure that a professional accountant will assist with the preparation of financial statements in accordance to a financial reporting framework. A two-tiered auditing profession should also be considered.**