

Audits and the Companies Act

According to SAICA, the anticipated commencement date for the new Companies Act 2008 (Act No. 71 of 2008), is expected to be 01 October 2010.

A first draft of the proposed Regulations to the Act was published on 22 December 2009 for comment, and the final Regulations have not yet been promulgated. These will have a pivotal impact on the implementation and impacts of the Act. According to Stuart Mcllroy, an Audit Manager at Moore Stephens Johannesburg, if the draft regulations are promulgated as they stand then significant changes to the administration of companies are about to take effect, not least of which is that most companies will no longer require an audit.

“Although all companies will still be required to prepare financial statements, only public companies and state-owned enterprises will require accompanying audit reports.”

“The financial statements of private companies that are not owner managed are required to have an independent review report. However, shareholders have the option to replace the review with a statutory audit,” explains Mcllroy.

“At this stage, an independent review has yet to be defined and all that we currently know is that the procedures will not necessarily be the same as those set out in the International Standards on Review Engagements (ISRE).”

“Furthermore, the people eligible to perform these reviews have not been named - the general feeling is that such engagements will not be the exclusive domain of IRBA members.”

So what do these draft regulations mean for the future of auditing?

“If the current draft regulations are promulgated the Companies Act will lead to fewer audits for many accounting firms whose vast majority of clients are private companies, which will not require an audit. However, this will not necessarily lead to less work as in many cases audits will be replaced with reviews,” states Mcllroy. “In other cases firms may be required to only prepare financial statements.”

“Firms will most definitely need to develop a new engagement methodology and may look to offer this type of engagement to clients that do not legally require it but value the comfort of knowing that their affairs have been scrutinised by an extra, independent and expert pair of eyes.” The implications of this Act are still uncertain. There are certainly benefits to all shareholders and their businesses, however the Act also forces more accountability on anyone responsible for, or involved in, the governance of a company, including their external advisors.

“The revised Act provides that any person that is involved with the preparation, approval, dissemination or publication of financial statements that are false, misleading or not in compliance with the Act, shall be guilty of an offence. All firms need to carry out projects with the same levels of integrity and professional competence as always.”

“There may still be some noteworthy changes to the final regulations of the Companies Act when it is promulgated and South African business owners and managers as well as audit and accounting firms need to wait and see what the final outcome is towards the end of this year. Whatever the outcome, we will see significant changes in the accountability of businesses,” concludes Mcllroy.