Influence of Self-Regulation in the South African Accounting Profession: Perspectives from Small and Medium Enterprises (SMEs) Owners and Professional Accountants

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Abstract

This study investigated the way professional accountants and SME owners experienced the self-regulation of professional accountants within South African SMEs. Furthermore, this study adopts an interpretivist approach, and dispels why traditional positivist accounting methods have been unable to reveal and investigate the complexities within the SME environment. The key findings of this study were that self-regulation posed significant risk to public interest and the liability of the professional accountant, and resulted in role confusion. A significant contribution of this research is the concept of 'implied assurance' that emerged due to the self-regulatory environment. This paper is the first to explore the views and make recommendations on accounting policy reform. It also adds to scarce literature on the structure and functioning of the accounting environment within developing economies and SMEs in South Africa.

Key words: accounting profession, implied assurance, professional accountant public interest, self-regulation, SME

Introduction

The recent South African public accounting failures (Steinhoff , VBS Bank and African Bank) and the subsequent apparent lack of accountability of the accounting profession, have again placed the focus on the importance of protecting public interest in the accounting profession (Crotty, 2017; Ziady, 2018). The accounting profession's involvement and status within an economy is associated with the extent to which policymakers recognise the role of professional accountants within the economy (Verhoef, 2011). The national development of accounting structures is therefore linked to how government positions the accountancy profession within an economy (Miller, 1990). According to the International Federation of Accountants (IFAC), regulation of the profession is a specific response to the need for specific standards to be met by members (IFAC, 2011).

In South Africa, the appointment of auditors is governed by the Auditing Professions Act No. 26 of 2005 (APA), which replaced the Public Accountants and Auditors Act No.80 of 1991 (RSA, 1991, 2005). Under the Public Accountants and Auditors Act No. 80 of 1991, both accountants and auditors were dealt with under a single Act. The APA currently regulates only the auditing pillar of the accountancy profession. At this time, there is a lack of regulation of the non-audit pillar of the accountancy profession in South Africa, with indirect supervision being fragmented through PAOs and other stakeholders (FAB, 2013; World Bank 2013b). Accordingly, professional accountants providing non-audit services in South Africa are not subject to any statutory code that details their responsibility as to how these services are provided.

Unfortunately, the image of the accounting profession has been tarnished by various recent accounting scandals, both nationally and internationally, and the self-regulatory nature of the accountancy profession has placed professional accountants under scrutiny (Crotty, 2017; Robinson, 2018; Ziady, 2018). These scandals have damaged the credibility of the professional accountant, given the perception that professional accountants should act in the interest of the public (African News Agency, 2018; Barron, 2018).

Against this backdrop, the credibility crisis of the South African accounting profession was raised indirectly in 2013 by the World Bank's *Report on Observance of Standards and Codes* (ROSC Report) (World Bank 2013a). This paper contributes to the academic accounting literature in three ways: by exploring the causes and effects of an unregulated accounting profession, by expanding research into accounting policy reform for South Africa and by extending the analysis of the role that professional accountants play within South African SMEs. To this end, this paper investigates how professional accountants and SME owners experience self-regulation of professional accountants within South African SMEs.

Literature Review

The researcher applied the principles of a Systematic Literature Review (SLR) to ensure that the literature review is comprehensive, relevant and aligned with the research question. The principles of an SLR were selected for the review of relevant studies as it provides for identifying, evaluating, and interpreting all that is known about a particular issue and identifies the foundation of that knowledge (Budgen & Brereton, 2006; Kitchenham, 2004). Furthermore, the use of the SLR has recently been adopted in similar qualitative accountancy studies (Dumay, Bernardi, Guthrie & Demartini, 2016; Engelbrecht, Yasseen & Omarjee, 2018; Massaro, Dumay & Guthrie, 2016; Massaro, Handley, Bagnoli & Dumay, 2016).

Public interest and the Influence of neoliberalism on SMEs

Research has shown that professional accountants use the public interest argument continuously as a means of protecting their economic self-interest (Lee, 1995). However, the professional accountant has an essential role to play in the regulation and distribution of economic resources that have a significant impact on a broad range of stakeholders (Baker, 1993).

Stakeholders are reliant on the information to make decisions that influence use of economic resources. For example, owners of SMEs will use the information prepared by the professional accountant to satisfy legislative requirements, while lenders to the business might want information regarding its ability to uphold debt repayments. Employees and the community might require information to satisfy themselves that the SME will exist sustainably in future to ensure economic stability, while taxation authorities might require information about current and future taxation revenue from the SME. Public interest therefore places a high responsibility on the professional accountant to serve all stakeholders beyond the contractual relationship with an entity such as an SME and requires the PAO to serve all stakeholders beyond the organisation’s members.

A neo-liberal public interest ideology encompasses the notion that society would operate in a more effective and efficient manner if government were minimally involved in economic affairs and if market mechanisms were permitted to operate in a relatively unregulated manner liberated from all forms of state interferences (Baker, 2005; Brenner & Theodore, 2002). A neo-liberal ideology extends to beliefs about interactions between civil society and the public sphere, contending that business and corporate entities have a right to pursue their interests and participate in the discourses surrounding the establishment of public policy (Baker, 2005).

In South Africa, an example of a neo-liberal agenda is the promotion of the idea that professional accountants can be self-regulated through their membership of a professional accounting organisation (PAO). The organisation and the accountant then establish the public policy surrounding their roles, responsibilities and accountability within a limited legislative context. Given the recent accounting scandals, however, the credibility of the accounting profession in the promotion of public interest has been brought into question.

The self-regulatory environment

The World Bank's review assessed the institutional framework underpinning accounting and auditing practices in South Africa in comparison with international standards and good practices (World Bank 2013a) and came to a worrying conclusion. Paragraph 24 of the ROSC Report identified the self-regulatory environment that professional accountants are operating under in South Africa as a risk to the economy.

The ROSC findings regarding the regulatory environment in South Africa are summarised under themes that are mapped to the recommendations of the ROSC report in Table 1. It has been more than five years since the recommendations of the ROSC report were published, but limited progress has been made in addressing any of the suggested recommendations. Table 1 contains the researcher's summary of the ROSC findings and recommendations (World Bank, 2013: 43).

Table 1: Summary of the ROSC Findings and Recommendations Regarding the Regulatory Environment in South Africa.

THEMES	RECOMMENDATIONS	CURRENT STATUS
Lack of oversight of professional accountancy organisations operating in South Africa in promoting public interest.	Appropriate legislation should be enacted to provide for the regulation of all PAOs and should not be limited to an audit regulatory body. The proposed legislation should provide the mandate to an institution (regulatory body) that would be responsible for defining and categorising the education and training (framework) requirements for different accounting services (e.g., audit, independent review, actions required of accounting officers, and bookkeeping) and respectively align the professional accountancy organisation's qualifications to these categories (i.e., align a professional accountancy organisation's qualifications to services that members can offer). In addition, the regulatory body should have stringent accreditation criteria. The accreditation criteria should take into consideration the Statements of Membership Organizations (SMOs) of the International Federation of Accountants (IFAC) that provide a framework to support an accountancy profession of high quality. More specifically, these criteria should require that PAOs should set high quality membership requirements in accordance with the International Education Standards (IES) and adopt and adopt and implement high level ethics standards such as the IESBA Code of Ethics for Professional Accountants. They should also establish effective investigations into questionable conduct and institute disciplinary mechanisms. Furthermore, the regulatory body should monitor compliance with the accreditation criteria on an ongoing basis. This would promote and strengthen the profession and reinforce its supervision, which is now fragmented among numerous PAOs. It would also ensure that providers of different accountancy services are suitably qualified to undertake and provide quality services.	The status quo remains the same. The Independent Regulatory Board of Auditors (IRBA) is in discussion with government about working on a possible regulation framework that will encompass the full profession.

Lack of comparability and accountability of professional qualifications offered by PAOs in the South African market.	In addition to promoting qualifications and supporting the strengthening of all Professional Accountancy Organisations (PAOs), the regulatory board should accredit, register, monitor, and sanction PAOs. The regulatory body should also support promotion of all the qualifications in partnership with PAOs. Such an initiative would increase the visibility of all available qualifications to all prospective accountants, employers, tertiary institutions and the public.	There have been attempts by PAOs to register their professional qualifications at a particular level on the National Qualification Framework as well as the Quality Council for Trades and Occupations.
Lack of benchmarking of educational programmes offered by or on behalf of PAOs in SA	While each PAO would continue to support and regulate its members, the proposed regulatory body should ensure that the education and training offered by PAOs is appropriate to the types of services being offered through their membership. In addition, the regulatory board should also promote an initiative, in partnership with these organisations, to ensure that most, if not all of the accounting service providers are registered with a PAO, to ultimately ensure the rendering of the highest-quality accounting services countrywide. Similar practices have been adopted in Australia and the United Kingdom, through the establishment of financial reporting councils.	The status quo remains unchanged.

There is consequently limited indirect regulation by PAOs in terms of their qualification, capacity, and mechanisms to monitor members (FAB, 2013; World Bank 2013a). While it could be inferred from the ROSC report that a legislative approach may be necessary for the realisation of anticipated economic and social outcomes, regulation does impose costs on society and this would affect SMEs (Blackburn, Eadson, Lefebvre & Gans, 2006). The risk is that a lack of self-regulation by accountancy organisations and lack of oversight over professional accountants may result in an organic crisis that may endanger public interest.

According to Hall, (as cited in Goddard, 2002), an organic crisis is one in which there is a breakdown of the societal relations and institutions that hold society together and enable it to maintain and reproduce itself.
According to the ROSC report, the fragmented supervision of the accounting profession within South Africa could negatively influence the quality of professional qualifications, the services offered by members of PAOs, and the ability to promote different accountancy organisations in the economy (World Bank 2013a). Each accountancy organisation will have divergent professional missions which need to be reconciled to ensure the protection of public interest (Fogarty, Zucca, Meonske, & Kirch, 1997). Consequently, a lack of oversight at government level has resulted in a question about whether public interest is indeed being protected.

South Africa currently has 13 POAs, which contribute to the development and service of the accounting profession at different levels (IFAC, 2018; World Bank 2013a). Four of the 13 PAOs are members of IFAC (World Bank 2013a). Of the IFAC-members, two of the organisations are based in South Africa; the other two in the United Kingdom.

The accounting scandals that have taken place in South Africa bear testimony to the concerns raised by the ROSC report. Adding to the problem is the fact that only four of the PAOs operating in South Africa are members of the IFAC. This deepens the divide on the enforcement of oversight by the IFAC as a supreme institution that could hold the organisations accountable to their peers. In addition, current legislation also allows any individual (even those that are not members of PAOs) to serve as an accountant and prepare financial statements for different entities, except close corporations (CIPC, 2018; World Bank 2013a). As these individuals are not required to belong to a PAO, the quality of financial information could be negatively affected, which poses a risk to the reputation of the profession (FAB, 2013; World Bank 2013a).

SMEs are particularly at risk. The professional accountant is often the only professionally qualified person trained to service the SME (Sharland, 2017). Employing an unregulated accountant in the current South African environment means that there is no legal recourse for an SME or for the public if the professional accountant is providing irresponsible advice that doesn't serve public interest. A professional accountant who is a member of a PAO might be subject to disciplinary sanctioning should they breach the bylaws and constitution of a specific organisation. The professional accountant might also be disciplined by the organisation, but the organisation has no law enforcement power. Furthermore, a PAO cannot prevent the sanctioned professional accountant from moving to another organisation. The only restriction of movement will relate to organisations within the IFAC network.

The role and function of government as perceived by accountants and other professionals have long been debated in academic literature (Jessop, 1977; Miller, 1990; Tinker, 1984; Yee, 2012). The debates have ranged from Marxist views of regulation and political domination of the social order (Jessop, 1977), to views on the government's role in addressing social issues through conflict resolution (Lindblom, 1982). Regardless of the expectation of government, the literature has advocated that the responsibility of government should be associated with the establishment, progression and regulation of the accountancy profession (Chua & Poullaos, 1993, 1998; Chua & Sinclair, 1994; Loft, 1986; MacDonald & Richardson, 2004; Poullaos, 1993; Puxty, Willmott, Cooper, & Lowe, 1987; Richardson, 1989; Sian, 2006; Walker & Shackleton, 1995; Yee, 2012).

Seen from this perspective, the recommendations of the ROSC report are not that far-fetched in terms of the regulation of the accountancy profession. The implications of the ROSC report are that the regulation of professional accountants needs a two-pronged approach in the form of a profession-government combined strategy. This combined strategy first involves regulation by the professionals themselves through a PAO, and second, regulation from outside the profession by an oversight body through the government.

Accounting research has adopted a prudent stance towards regulation, while pointing out that regulation could possibly oversimplify inherent challenges, thereby leading to unforeseen implications (Brivot & Gendron, 2011; Low, Davey, & Hooper, 2008; McMillan, 2004; Roberts, 1991, 2001; Vakkur, McAfee, & Kipperman, 2010). In addition, the threat emerges that increased regulation may lead to negative behaviour by promoting the very behaviour it seeks to prevent (McMillan, 2004).

Defining an SME

The meaning embedded in the term "SME" was of significance to the objective of the current research study. Without establishing the definition of an SME, the study would lose focus and lack contextualisation. The reason for this is that literature on SMEs does not propose a convincing definition of an SME (Maseko & Manyani, 2011; Mohamed, 2017; Mohamed, Yasseen, & Omarjee, 2019).

However, to understand exactly what an SME is, depends on the criteria prescribed by the relevant authority governing the SME (P. Carey & Tanewski, 2016; P. J. Carey, 2015). It was found that, depending on the geographical locality, what constitutes an SME could have varied interpretations. Despite this, it is a term that is used globally and no one definition can encapsulate its parameters in terms of size, locality, industry and stage of development (Maseko & Manyani, 2011; Mohamed, 2017; Mohamed et al., 2019; Tudor & Mutiu, 2008).

Based on the above discussion, the proposed definition of an SME for the purpose of the current study is as follows for a South African context: small and medium-sized enterprises are owner-managed businesses. Such businesses are incorporated in terms of the requirements of the South African Small Business Amendment Act of 2004. As these businesses have neither public accountability nor publish general-purpose financial statements for external users, they are able to select IFRS for SMEs as a basis to prepare their financial statements. Furthermore, the businesses must be eligible in terms of the South African Companies Act 71 of 2008 to be exempt from an audit and must have a public interest score[1] of below 349.

The role of the professional accountant may be influenced by how the South African government deals with the recommendations of the ROSC report, coupled with how the accounting scandals of 2017 and 2018 are addressed. Unless a clear legislative policy is developed by government, the professional accountant's role will remain unclear and will contribute to the risks discussed. This research aims to explore the self-regulatory environment as experienced by SME owners and professional accountants.

Methodology

This study is conducted within an interpretivist research paradigm that employs a qualitative research method. In more complex settings, where the research question focuses on the social construction of contemporary systems (such as accountancy) there is a need to use methods that provide detailed insights that mainstream positivist approaches often cannot gain access to (Ahrens *et al*., 2008; Brennan & Solomon, 2008).

Being exploratory in nature, semi-structured interviews were therefore conducted with a purposive sample of 20 professional accountants and 20 SME owners. There are no pre-fixed rules regarding sample size selection in qualitative inquiry (Patton, 2002). In qualitative research, samples are smaller than in quantitative studies, as generalisation is not the aim (Marshall, Cardon, Poddar & Fontenot, 2013). Furthermore, qualitative

[1] The Public Interest Score is a measure to categorise entities in South Africa.

research often involves small numbers of participants to ensure that the data is analysed in sufficient depth.

While the sample size might be small, the amount of data gathered can be large in terms of significance (Fossey, Harvey, McDermott & Davidson, 2002). The approach to justify sample size is to evaluate it in terms of saturation. Saturation for the study was reached at 10 interviews with professional accountants and SME owners respectively. This was considered appropriate as, according to Rowley (2012), saturation is reached at between eight and 12 participants. However, the researcher elected to conduct 10 more interviews with both professional accountants and SME owners after saturation was reached.

Selection criteria for professional accountant participants[2] included that they must hold a professional designation from a POA that applies the International Education Standards and Code of Ethics issued by IFAC. Professional accountant participants had to have at least six years' experience of delivering accounting, financial or other services to SME owners, as per the criteria set out for SME participants.

The selection criteria for SME participants were as follows:

- The SME must be owner managed;
- The SME must be incorporated in terms of the requirements of the South African Small Business Amendment Act of 2004;
- The SME must be exempt from an audit in terms of the South African Companies Act 71 of 2008;
- The SME must have a public interest score of below 350;
- SME Participants had to be the owner-manager of an SME for at least six years; and
- SME participants had to have a minimum of six years' experience of working with a professional accountant as SME owner-manager.

The professional accountants were selected from SMEs that complied with the public interest category of below 350, as defined by the South African Companies Act No 71 of 2008 (RSA, 2008). The rationale for the selection of SMEs below the 350 score was, first,

[2] A professional accountant, for the purposes of this study, has been defined as a member holding a professional designation of a POA that has displayed competence and professionalism by applying the standards issued by IFAC in the provision of accountancy services. Professional accountants perform numerous functions and issue various financial and non-financial reports in terms of South African legislation and governance codes. They serve as business advisors who actively participate in the decision-making processes of a business and can perform a broad range of service functions depending on the expectations and needs within a specific context at a particular time. Underpinning the service offerings of a professional accountant is the consciousness of advocating public interest.

that these SMEs would not be subject, in principle, to an audit and would therefore use professional accountants as opposed to registered auditors.

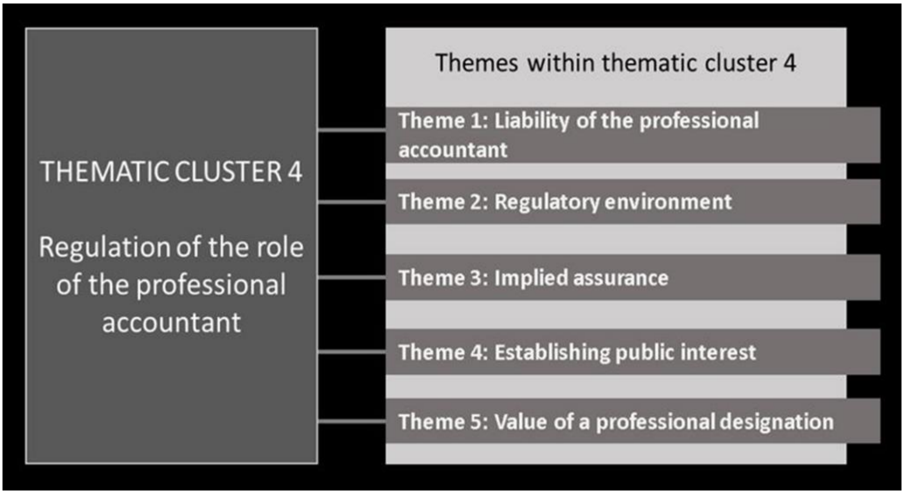
The criterion stipulating that SME participants had to be owner-managers of an SME firstly corresponds to the definition of an SME developed for this study but, secondly, as owner-managers the participants would have personal, first-hand and in-depth experience of the SME business and its unique circumstances and requirements. This was done to enhance the trustworthiness of the study. The analysis followed step-by-step process of thematic analysis as proposed by Braun and Clarke (2006; 2014), namely, familiarisation with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing a report .The interview transcripts were transcribed and coded using a qualitative data coding software called Atlas.ti.8 for themes. Themes was then analysed using the guidance of Braun & Clarke, 2006.

Findings

Regulation of the accountancy profession is a specific mechanism through which the role of the professional accountant may be constructed as a consequence of the legislative environment. The purpose of any regulation or code of good practice should result in benefits and accountability to its stakeholders.

The thematic cluster of “regulation of the role of the professional accountant” consists of five themes as depicted in Figure 31, namely, liability of the professional accountant; the regulatory environment; implied assurance, establishing public interest and value of a professional designation. Each of these categories will be discussed under subsections that follow.

Figure 1. Thematic cluster 1, themes and sub-themes



Liability of the professional accountant

A professional accountant's liability refers to his/her legal liability while performing his/her professional duties. A liability for the purpose of this study refers to any legal obligations that may arise through the professional accountant's actions when engaging with SME owners within South Africa. The legal liability of the professional accountant may potentially influence how professional accountants embark on their role within SMEs, and therefore warranted exploration.

The IFAC is a private governance body whose members are PAOs and the members of these organisations "regulate" professional accountants in different jurisdictions.(Humphrey, Loft, Jeppesen, & Turley, 2006).

''I was unaware that there is no legal liability for compensation from the professional accountant in the business failing.''
SME01

The accounting profession's involvement and status within an economy is associated with the extent to which policymakers recognise the role of professional accountants within the economy (Verhoef, 2011). SME owners primarily attributed the liability of the professional accountant to the risk of non-compliance in fulfilling their traditional roles as professional accountants.

The data revealed that SME owners were under the impression that professional accountants could be held accountable legally in the event that there was a failure in the exercising of their professional role with due care and competence. Furthermore, the data revealed that SME owners appeared to be under the impression that professional accountants could be sued in the event of misconduct. SME owners did, however, not know how and under what legislation this legal recourse could happen. This revealed that SME owners do not understand how the accountancy profession operates, nor that there is limited recourse for them in terms of the legal liability of the professional accountant.

Upon realising the situation during the semi-structured interviews, SME owners expressed concern over the lack of accountability of the professional accountant. SME owners further questioned their options for recourse if professional accountants behaved recklessly in their role when servicing the SME. Apart from the limited liability of the professional accountants within the traditional role, SME owners were also concerned about the lack of recourse that they would have when professional accountants fulfil non-traditional and emergent roles as discussed above.

This is not surprising, given that the accounting profession is changing so rapidly that any summary of current issues is liable to be dated by the time it appears in print (Anderson-Gough, Grey & Robson, 2002).

''Financial statements are the first line of defence to inspect whether a business is solvent. If us as professional accountants are careless in our preparation, then we should be held liable for our role in the business failing.''
PA13

As a discipline, over time accounting has been expected to serve a variety of different and changing stakeholder needs (Hopwood, 1987). Professional accountants who were interviewed supported the view that expectations exist regarding standards of due care and competence when performing compliance engagements, which implies recourse to be held legally liable should the professional accountants fail to uphold these standards. Professional accountants also made reference to professional indemnity insurance that was sourced by them in the event that they could be held liable in terms of the South African Companies Act No. 71 of 2008 for their actions as a director of their accounting practice.

The compliance liability stems from Section 4 of the SA Companies Act No. 71 of 2008, according to which the professional accountant is required to conduct a solvency and liquidity test before financial statements are finalised. A number of the professional accountants viewed their legal liability to be limited to providing financial accounting indicators in terms of liquidity and solvency problems. Application of the provisions of the Companies Act implies that if financial statements are signed off, the professional accountant gives a level of professional assurance that the business will continue as a going concern, which means there is no solvency or liquidity risk. Furthermore, if the business goes into financial distress within 12 months of the end of the reporting period, then the professional accountant will have a liability in terms of claims against that particular organisation in the case of liquidation.

This, however, is very hard to prove in practice. Professional accountants participating in this study were adamant that they do not provide any assurance work, and as such have no legal liability in respect of how they operate.

In the following subsection (4.2) the regulatory environment is further analysed based on the findings of this study.

The regulatory environment

The regulatory environment significantly influences the organisation of a profession and the requirements to practice it in a given country (Slapničar, Zaman Grof & Štumberger, 2013). The data suggests that an underlying tension exists between different understandings of the role of the professional accountant and the evolving nature of this role, which can create opportunity or anxiety or both for professional accountants and SME owners. Furthermore, it could be inferred from the data that the regulatory environment is one of the root causes of this underlying tension. This could be attributed to the fact that there is a lack of economic governance structures that support the regulatory environment within the SME environment.

''I think if you asked me this question a year ago I would have said no, we don't need more regulation, but after the recent events, I'm also starting to question myself. I'm starting to look very closely at some of the things I do and say, and we tend to take things for granted. Unfortunately, we are not going to self-regulate, if we could do that then we wouldn't be having the issues we have at the moment. I think regulation is necessary, I think there's a need for it. I think audit procedures, the way we carry out audits need to be redone, when you look at the samples we do, we do the sample and then put out a reassurance report, I mean, are we really satisfied that everything is as it should be?''
PA15

The data indicates a disparity between professional accountants' role within the listed environment as compared to the SME environment. The South African economic governance framework for larger listed companies such as the Johannesburg Stock Exchange, Auditing Professions Act No. 25 of 2005, as well as other regulatory requirements work together in supporting governance codes such as the King Code for Corporate Governance and the IR Framework. These provide more structure to the role of professional accountants within a listed enterprise environment in South Africa (IIRC, 2016; IOD, 2016; JSE, 2018). This seems plausible, since in countries like South Africa the accounting profession is not harmonised and depends on national legislation (Altintas & Yilmaz, 2012).

''Accountants should be regulated because of the expectation from the owners and government to ensure that accountants are, to use a very loose term, gatekeepers to the sustainability and success of the SMEs.''
SME09

This is not the case within the SME environment where the landscape requires self-regulation and navigation. The regulatory environment in South Africa consists of the established taxation and company legislation, and regulations that SMEs must adhere to. In the absence of enforceable regulations and supporting governance bodies, the professional accountant has to interpret and shape their role within the SME environment by developing their own governance framework or adapt the existing governance framework for larger, listed companies to establish a regulatory framework for their service offering.

The regulatory framework of the role therefore largely depends on standards of compliance and the demands of the particular service that is required at any given time. Unfortunately, the image of the accounting profession has been tarnished by various recent accounting scandals, both nationally and internationally, and the self-regulatory nature of the accountancy profession has placed professional accountants under scrutiny (Crotty, 2017; Robinson, 2018; Ziady, 2018). In light of this it can be argued that the absence of an enforceable governance framework restricts the opportunities of expanding the role of the professional accountant as this void could add to the resistance of SME owners to explore broader role fulfilment from professional accountants.

Furthermore, it can also be inferred from the data that there are potential risks when professional accountants establish their role in an environment that is not strongly regulated. The first risk is the assessment of the competence of the professional accountant in understanding the SME's needs, due to the lack of training professional accountants might have in areas that fall outside of their traditional roles.

The second risk is the quality of work rendered by the professional accountant in the absence of enforceable codes. Based on the data, it can be said that there is a concern that, without established codes, there is no enforceable standard of quality and a subsequent lack of accountability. This lack of accountability may in itself pose further risks to SMEs and the economy at large, as well as to the professional accountancy profession in general, but more specifically for the professional accountants themselves in the SME environment.

The data further suggests that there is an underlying sentiment of role confusion between the role of a professional accountant and the role of the auditor. SME owners used these terms interchangeably during the interviews. This could be a possible reason they are unaware that professional accountants cannot be held legally liable under a separate legislative act and that the Auditing Professions Act No. 25 of 2005 was confined to the role of the registered auditor of the IRBA and does not apply to the professional accountant.

SME owners further discovered that the professional accountant may only be subject to the disciplinary processes of a PAO that they are members of, and that the fines and penalties could be insured against through professional indemnity insurance. The SME owners found this situation concerning. They also felt that there has to be role clarity between the term “professional accountant” and “registered auditor” with the liabilities of the respective groups clearly defined. SME owners were supportive of a possible Accountants Act relating to SMEs, however they also expressed concern that the SME would be the end cost bearer of more regulation.

The ‘agency’ of professionals is both a condition and outcome of the professional institutions and the structure of their environment (Dirsmith, Heian & Covaleski, 1997) . The professional accountants who were interviewed for this study are members of a PAO of IFAC and believed in the current self-regulatory model.

In the current model, professional accountants are members of these organisations, which enforce codes of professional conduct. These professional accountants, however, expressed concern for the work done by professional accountants who were not members of IFAC-accredited accountancy organisations. They felt that the lower quality of work delivered by some of these professional accountants is one of the reasons professional accountants’ competence is being questioned by SME owners.

In light of this, they also supported a clearly defined Accountants Act. It was stressed that such an act should be very clear on the requirements to be admitted as a professional accountant. There were also numerous concerns expressed about the existence of so many (13) PAOs. Professional accountants highlighted the fact that to be a member of an IFAC accredited accountancy organisation was more costly and onerous in compliance than for members of organisations that didn’t belong to IFAC. It could be inferred that issues such as maintaining continuous professional development (CPD), adhering to the numerous IFAC requirements such as International Standards for Quality Control and Standards and the consequences of non-compliance to laws and regulations by IFAC members resulted in better quality self-regulation than those who created their own codes of conduct.

Both groups of participants concluded that the accounting profession should be regulated, as this will establish the boundaries for the role of the professional accountant and also prevent the role of the professional accountant within SMEs from being tarnished by unethical professional accountants. This may be contested within the literature, which argues that there are important relationships between professional qualification, competences, knowledge and service provision-related variables, but that the findings do not conclusively support the regulation of the profession (Slapničar et al., 2013).

Implied assurance

Implied assurance is an original concept developed by the researcher as the semi-structured interview process unfolded. Implied assurance, for the purpose of this discussion, refers to the trust that is placed in the work of a professional accountant by SME owners and its stakeholders due to the elevated social standing of the professional accountant.

While the assurance landscape is outside the scope of this research, the researcher investigated whether the role of the professional accountant, by virtue of his/her professional standing, increases the confidence that SME owners have in professional accountants and in their work.

"I think audit procedures, the way we carry out audits need to be redone, when you look at the samples we do, we do the sample and then put out a reassurance report, I mean are we really satisfied that everything is as it should be?"
PA15

The data indicates that SME owners are confused about roles where they apply to assurance activities. They could not distinguish between the roles of a professional accountant as compared to the role of a registered auditor of the IRBA.

Although the services rendered by professional accountants to the SME market are non-assurance functions, and involve either a compilation or an independent review, many professional accountants were of the view that because they do not express an assurance opinion for the compilation or review of the financial statements, that no assurance was provided. While this may be factually true in terms of legislation, a perception emerged among a large proportion of the professional accountants interviewed that because they are required by the Companies Act to sign the set of financial statements, that their signature carries weight in terms of them applying their competency skills and their professional judgement.

Even though professional accountants explicitly state that they are not providing an opinion or assurance, SME owners nevertheless experience this as implied assurance, due to the status and perceived integrity that is associated with the accountancy profession. This was confirmed by the majority of the SME owners.

Some of the professional accountants argued that they do provide some implied assurance and their reasoning is on the basis that when a compilation of financial statements is performed, it has a certain level of implied assurance attached to it due to the fact that the financial statements are prepared in compliance with the accounting framework adopted, which is either IFRS for SME, or IFRS. The financial statements which are prepared need to also satisfy the qualitative characteristics as required by the financial reporting standards. These qualitative characteristics require a fair representation of the SME and its information as well as the presentation of reliable information based on the information provided by management. The banks and SARS use the financial statements as a basis to ensure that there is compliance to their needs and regulations. These professional accountants therefore believe that their signature provides an implied assurance, because third parties can rely on the information as stated and presented in the financial statements.

Some of the professional accountants were of the view that by not providing explicit assurance through opinions expressed in the financial statements, they believe that any risk associated with the content of the financial statements is fully vested in the SME's management. This view is based on the disclaimer that, because the accountant relies on the information presented by management, they cannot give an opinion based on the supplied information, and therefore, the risk for any misrepresentation in financial reporting resides solely with the SME owners.

In terms of the Companies Act, the professional accountant may be held liable where they act negligently or fraudulently. The participating professional accountants contested the concept of implied assurance, but taking into account the views of the SME owners who participated in this research, it is suggested that SMEs perceive that professional accountants provide implied assurance through signing the financial statements that they issue, and the concept of implied assurance is indeed influencing the role of the professional accountant within the SME environment, whether the professional accountant believes so or not.

Establishing public interest

It can be inferred from the data that a significant majority of both groups of participants neither implicitly nor explicitly recognised the responsibility to act in the best interest of the public as prescribed by IFAC, as well as aspects of South African legislation in terms of company and taxation law.

Parker (1987) defines public interest within the accounting context as "the interests of third parties who rely on the opinions and advice delivered by the members of the accounting profession". Hope and Langli (2010) advocate that public interest should imply compliance with the code of ethics of professional accountants. A very small group of professional accountants stated how important it is that the role of the professional accountant requires acting in the best interest of the public. This minority group of professional accountants reflected on the failure of the accountancy profession and professional accountants with reference to the various accounting scandals, and questioned the role of the professional accountant as a consequence of these scandals.

"We serve all aspects because if you look at it, yes we're also serving ourselves at the same time but when it comes to service delivery, there is an obligation on the person to first service the client, which obviously services the business at the same time. So it doesn't end only with the company's structure, it also deals with their personal needs if you want to call it that, and with that society is factored in because if there are jobs opening up, then you're just circulating and trying to cater for everybody."
PA14

These professional accountants shared a deep conviction that the public accounting scandals are symptomatic of a disregard for public interest at every level of the profession. For example, they are of the opinion that the professional accountant serving the SME without considering the impact of the decisions on society at large, was unacceptable. Public interest, according to the literature, requires that professional accountants consider the net benefits to society when producing information in their professional capacity (IFAC, 2012). This is supported by Bromell (2017), who advocates that public interest requires the development of technical and behavioural standards and guidance, establishing training requirements/opportunities, developing, monitoring and enforcing processes to help ensure that those standards are applied, and promoting thought leadership programmes within the accountancy profession.

The majority of professional accountants and SME owners were conflicted about whom the professional accountants serve. The professional accountants were of the opinion that their role implied that they serve the interests of the SME. SME owners were of the perception that the professional accountant served their personal needs. These very different perspectives indicate a significant conflict in attitudes.

Furthermore, no consideration of the needs of society (public interest) was mentioned unless the interviewer specifically asked participants to reflect on the role of public interest. The potential implication of this is that professional accountants may produce information that could be misleading and result in poor financial decisions by the SME owners. Research has shown that professional accountants use the public interest argument continuously as a means of protecting their economic self-interest (Lee, 1995). For example, the data reveals that if the professional accountant prepares information to meet the personal lifestyle needs of the SME owners; this focus in the preparation of financial information may misrepresent the financial needs of the business. It emerged from the data that professional accountants' role is to primarily serve the SME owners in terms of compliance with tax regulations and the needs and requirements of the SME owners to access financing. Another example of the role conflict is that professional accountants are generally of the opinion that SMEs don't have institutional investors, and they therefore consider the SMEs not to have a high level of public interest. The argument behind this perception is that as long as the SME is sustaining itself and operating without financial concern and is not overly exposed to risk, the professional accountant has served public interest.

Role confusion regarding the public interest role was further illustrated with reference to the compilation of financial statements by professional accountants that often do not require independent interpretation as for an audit. It is therefore deemed that the public interest is not of concern when assessing the quality of work in compliance with International Standards for Quality Control. The majority of professional accountants acknowledge or understand the IFAC definition of rendering quality service in terms of serving the client's needs. In their opinion, if the client is satisfied, the professional accountant is absolved of serving the public interest.

Consequently, a constant conflict emerged between what the SME owner expects the services from the professional accountant to be, and what the professional accountant views as his/her responsibilities. The notion of accounting for the public interest has been used by the IFAC and PAOs (e.g., ACCA, CIMA, SAICA and SAIPA) in the foundation of their mandates, and also features strongly in the South African Companies Act No. 71 of 2008 (RSA, 2008). Public interest is poorly defined and understood within the SME environment and it is argued in the literature that the role of the professional accountant to act in the best interest of the public cannot be understated. What is, however, known based on existing literature, is that there is no established concept of the accountant as a public servant as compared to other professions such as lawyers and teachers who serve the public interest (Gibson, 2018). Given the expectation of IFAC and PAO that the professional accountant has to fulfil the role with a public interest mind-set, this is particularly concerning.

Value of a professional designation

A professional designation is earned by a professional accountant registered with a PAO after complying with strict criteria. The value of the designation is regarded as a hallmark of quality attesting that the professional accountant is competent to perform certain defined tasks (Millerson, 1964). It can be inferred from the data that, from the perspective of the SME owners, the value placed on the professional designation held by the professional accountants was of very little importance to them. Therefore, a professional designation had no influence on how the role of the professional accountant takes shape from the perspective of SME owners.

''To be honest, no. I think the SME is more interested in whether you are an accountant. I don't even ask, 'Show me a qualification that you are an accountant'."
SME01

The view held by the majority of SME owners was that the value of the role of the professional accountant to the SME is attributed to the ability of the professional accountant to meet the compliance needs of the SME. Professional designations do not matter. The data further suggests that the majority of the SME owners were not aware of the requirements of a professional designation and the importance of the professional accountant acting according to these requirements. For example, SME owners did not understand how professional accountants were trained and what the need for a professional designation was, as there was no need, from their perspective, to distinguish between the various roles that an accountant can embark on as compared to an auditor. A possible reason could be attributed to the fact that in South Africa the accounting and auditing professions have been developed as separate professions with different professional titles (Altintas & Yilmaz, 2012).

"The professional designation is important because it gives you the indication that the person has the necessary competencies and skills to provide information that can be used for business and financial decision-making. So yes, a designation is important because that gives you an indication that the information that is presented gives you a level of assurance that yes, you can rely on that information."
PA20

A minority view of SME owners and the dominant view of professional accountants was that the professional designation did influence the role of the professional accountant within the SME environment. The data here suggests that a professional designation is regarded as an indication of the competence that they possess based on a professional accountancy qualification. More importantly, the majority of professional accountants believe that their role is to render the services at the highest level within that particular industry.

Furthermore, it can be inferred from the data that, to the professional accountant, their signature and their designation are indications of the value that they can add to businesses. These mixed sentiments are supported by literature, which argues that that a professional designation means different things for individual professionals depending on environmental factors (Suddaby, Gendron & Lam, 2009).

The value of a professional designation indicates that in the absence of a regulatory framework, professional designations may potentially assist professional accountants to define their tasks. However, since the data suggests the designation is of no significance to SME owners, this may indicate a potential economic risk to the SME sector. The economic risk may arise due to a lack of regulated and competent professional accountants who are providing services to SMEs. Furthermore, there is no benchmark to measure competence in the absence of a professional designation.

Conclusion and Recommendations

The regulatory environment also affects the current role of the professional accountant within the context of SMEs in South Africa. The role influencers are: liability of the professional accountant, the regulatory environment, implied assurance, establishing public interest, and the value of a professional designation.

The implications of lack of regulation revealed that the current role of the professional accountant is often self-regulatory in nature and largely dependent on the ability of professional accounting organisations to regulate and discipline practitioners. No direct liability exists for the professional accountant operating within this space. Furthermore, there is an indication of role confusion between the current role of a professional accountant and that of a registered auditor. This results in the liability of the professional accountant being brought into question.

A current role influencer of implied assurance was uncovered. Implied assurance for the purpose of this discussion denotes a positive declaration that the professional accountant has the ability to provide confidence to the SME owners and its stakeholders. This confidence is not directly expressed and is therefore more implicit, through the professional accountant embarking on the current role due to the elevated prominent standing of the professional accountant. The current role of the professional accountant, by virtue of his/her professional standing, increases the confidence that SME owners have in professional accountants and their work.

Public interest, as argued in the literature, seems to be misunderstood and does not shape the current role of the professional accountant. This, in itself, is alarming, given the current reporting environment.

Last, it was revealed that the value of a designation has no influence on the current role of the professional accountant and the focus is on the delivery of services to SMEs. The findings and recommendations of this study could potentially contribute to the facilitation of positive change through the strategic alignment of future roles of the professional accountant with the possible expected objectives of all stakeholders within the service relationship with the SME.

This study may also benefit key stakeholders reflecting on the issues identified by the ROSC report, the current accounting scandals, as well as the goals of the NDP for 2030, and serve as a pathway towards achieving the transformational changes that are needed to ensure the continued relevance of the role of the professional accountant in the SME environment.

This study has emphasised the potential for further qualitative and quantitative research in the field of accounting policy reform within South Africa and SMEs in particular. It has uncovered several aspects regarding the value of the role of the professional accountant within a self-regulated environment. This calls for more research within this area.

In-depth research using a mixed method approach with a larger sample size could explore the issues identified. A quantitative analysis of the impact and legitimisation of the role could potentially be undertaken as further research on this topic, including extending samplers to larger companies and cross-country comparatives.

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