



The development of an SME risk analysis tool for professional accountants

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“For want of a nail, a horseshoe was lost... for want of a horseshoe, a horse was lost... for want of a horse, a horseman was lost... for want of a horseman, a message was not delivered... for want of a message, a war was lost.”

Anonymous

“Those who build the wall and those who bore burdens loaded themselves so that everyone worked with one hand and held weapons with the other hand,”

Nehemiah 4:17

“Books should be closed each year, especially in partnership because frequent accounting makes for long friendship”

Pacioli

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ABSTRACT

The development of Small and Medium Enterprises (SME) evolved to a stage where these types of enterprises comprise staggering portions of the economic activities in the Western World. It is therefore only natural that the development of all supporting services takes full cognizance of this important economic sector.

Most recent developments in the fields of accounting and auditing did not accept the fact that there is no standard agency agreement between the Professional Accountant and the client. This caused the eventual development of the SME sector's International Financial Reporting Standards (IFRS) and International Standards for Auditing (ISA) by the International Federation of Accountants (IFAC) to be nothing more than watered down versions standard IRFS and ISA. The unique agency relationship between Professional Accountants and their clients highlights the need to revisit the service level standards of Professional Accountants.

Recently, various governments implemented more simplified methods for the SME sector to comply with statutory obligations; such as taxes, the compilation of statistical returns, establishment of legal entities, and employment conditions to name a few. Added to the simplified processes, governments generally accepted the fact that this type of enterprise constitutes a very important national asset in terms of future growth and increased employment potential.

This research proposes that Professional Accountants utilise a tool derived from a problem-solving approach, essentially assisting SMEs targeted by any statutory authority. Six case studies have been analysed in order to establish the possibility that an SME may be able to effectively defend itself against any general commercial litigation as well. Once it was established that these investigations indeed occur on a regular basis, the contributions obtained from the current set of international accounting and audit standards

have been tested against the backdrop of the investigations and were found to be lacking substantially.

The proposed tool developed by this research should be added to the skill set of Professional Accountants to assist their SME clients. Although the science of forensic accounting predominately developed within the past five years, particularly due to the much-published cases of corporate failures not only in South Africa but also in the United States, it will not assist SME clients to counter any action they may face cost effectively.

This thesis therefore proposes a tool that will assist the Professional Accountant to concentrate only on the essential elements of the investigation, while still maintaining the level of professionalism expected from established IFRS and ISA. The tool is unique in the sense that, contrary to established norms in forensic investigations, the Professional Accountant and the client are alerted quite early on in the process of what the reasonable outcome of an investigation is going to be.

An important limiting factor to the application of this tool is the requirement that the Professional Accountant must be a specialist in IFRS as well and ISA. Secondly, during the first phase of the application of the tool the Professional Accountant is subjected to relatively high risk as a lot of reliance is placed on the input of the client.

KEYWORDS: Accountancy, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), International Federation of Accountants (IFAC), Professional Accountant, Revenue Laws, Risk Analysis Tool (RAT), Small and Medium Enterprises (SME's), South African Institute of Professional Accountants (SAIPA), South African Institute of Chartered Accountants (SAICA).

DEDICATION

To:

TERSIA, FANIE and CAROLINE, THEO, CORNÈ and NICOLE, CARIKE and LAELA

And

ROLAND, KATHLEEN, ANGELA and JONATHAN (JR)

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LIST OF ABBREVIATIONS

ACCA	Association of Certified Chartered Accountants
AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
AR	Audit Risk
B-BBEE	Broad-based Black Economic Empowerment
CF	Conceptual Framework
CP	Client Preferences
CR	Control Risk
CRT	Client Relative Trustworthiness
DR	Detection Risk
FC	Financial Capital
FICA	Financial Information Centre Act
FIVE P's	Paradigms, Pragmatism, Praxis, Proficiency, Publishing
GAAP	Generally Accepted Accounting Practices
HM	Human Capital
IAESB	International Accounting Education Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IM	Intellectual Capital
IR	Inherent Risk
IRBA	Independent Regulatory Board for Auditors
IRS	Internal Revenue Service
ISA	International Standards for Auditing
LPC	Limited Purpose Company
MC	Manufactured Capital
MCM	Multiple Capital Model
MCMB	Major Chartered Merchant Bank
MMR	Mixed Methods Research
NC	Natural Capital
NSF	National Science Foundation

OODA Loop	Observe, Orientate, Decide, Act
PIC	Public Interest Company
PIS	Public Interest Score
PAAB	Public Accountants and Auditors Board
RAT	Risk Analysis Tool
SAICA	South African Institute of Chartered Accountants
SAIPA	South African Institute of Professional Accountants
SAPS	South African Police Service
SARB	South African Reserve Bank
SARS	South African Revenue Services
SEAA	Social and Environmental Accounting and Auditing
SEC	Securities Exchange Commission
SME	Small and Medium Enterprises
SOE	State Owned Enterprise
SPV	Special Purpose Vehicle
SRA	Society for Risk Analysis
SRC	Social and Relational Capital
SWOT	Strengths, Weaknesses, Opportunities, Threats
VAT	Value Added Tax

CHAPTER 1

1. THE DEVELOPMENT OF AN SME RISK ANALYSIS TOOL FOR PROFESSIONAL ACCOUNTANTS

“In entrepreneurship (unlike in, say, car design) we still rely in real-life crash tests which leads to costly failures” (Osterwalder, 2011:1).

1.1 Introduction

During 26 years of practicing as a Professional Accountant, the researcher found the following statement to be appropriate in the daily activities of every Professional Accountant:

When to speak out, when to be silent, how to say or write that which is necessary but awkward, courage to face up to the need for doing so, talent to be firm yet diplomatic, imagination to see beneath and beyond the surface, perceptivity not only for what has happened but also for what may happen, consistency in ethical behaviour, sagacity to avoid errors of omission as well as those of commission: these and other attributes like them are qualities, not definable as knowledge but inherent in individuals. Without them a CPA [Certified Public Accountant] can be nothing more than a technician, regardless of the scope of his knowledge; possessing these attributes plus the requisite knowledge, he is a professional (Carnegie Corporation, 1967: 1).

This research will only be successful if a new manner of solving problems could be developed that will add value to the services rendered by Professional Accountants in the Small and Medium Enterprise (henceforth SME) sector and if an applicable research instrument with a new problem-solving tool could be incorporated into the academic training programme of future and present Professional Accountants. There are numerous manners and approaches available to Professional Accountants that they can use when

faced with any type of risk or problem. This research focuses on providing a unique and new approach that is much needed by both Professional Accountants and their SME clients.

1.1.1 Background to the research area

The SME sector of any economy is regarded as important to most of the economies in the world in terms of job creation, especially in developing countries (Palma, 2005:71-99).

Added to the above, SMEs worldwide account for over 95 percent of the business population, and constitute 60 to 70 percent of total employment. Moreover, micro-enterprises represent more than 90 percent of all business in certain activities, such as computer services (Anon., 2006:2).

A study conducted by the McKinsey Global Institute (Foroohar, 2014:19) indicates that between 2014 and 2025, seven out of ten of the largest global firms likely to arise from emerging markets will be mostly family owned enterprises, and not be dictated by the markets. This research centres on the provision of an additional capacity building approach or thought process that Professional Accountants, as defined by the International Federation of Accountants (IFAC), can use to support these enterprises to reach this level of maturity and develop into global enterprises.

SMEs in the South African context contribute 36,1 percent of the country's gross domestic product while at the same time it employs 68,2 percent of the workforce in the private sector. The contribution in respect of employment opportunities in the agricultural, construction, and retail sector are even bigger; with more than 80 percent of all employment in these sectors attributed to the SME sector (FIAS, 2007:1).

Professional Accountants serving the SME market are constantly faced with clients that lack the financial resources which the larger enterprises have ready access to, and in

most cases these enterprises cannot afford the costs associated with rendering of a complete suite of professional support services. The SME entrepreneur in South Africa is also faced with a huge challenge, both financially and in terms of risk, in respect to statutory compliance demands (Section 11 of Tax Administration Act) and will in most cases require the services of both the Professional Accountant and legal professional.

Detailed research also found that in most countries smaller accounting practices and particularly those that serve the SME sector, are experiencing dwindling profit margins for compliance work due to the increase in regulatory requirements, and Professional Accountants are finding it difficult to increase their fees for fear of losing their clients (Doran, 2006:24).

Furthermore, there is a trend in the legal industry in South Africa where legal firms are now establishing their own tax consultancy services in an effort to extend their service levels to clients (West, 2002:4). This trend may also be fuelled by the general belief of statutory authorities in general that the audit function, in particular, should be completely divorced from any other services performed by the Professional Accountant (Nel, 1997:9).

1.1.2 Literature review of the research area

Extensive literature is available regarding the plight of the SME worldwide. In addition, considerable research was conducted on how the access to financial resources and the compliance burden of SME can be more effectively addressed (FIAS, 2007: ix; World Bank, 2011). Not only in South Africa are we experiencing radical changes in terms of the Companies Act and relevant regulations as well as our revenue laws, but it would seem that the importance of SMEs is also being recognised by the various governments in the Western world for the first time (OECD, 2006).

In addition, quite a lot of progress has been made by national as well as international organs of states and non-state organisations with the primary objective to make SME's more sustainable and economically viable. It is quite obvious that much effort was also

put into the question of ethics in the business environment, and since the advent of the first Ponzi scheme in the early 1900's, state regulators were faced with ever-evolving schemes perpetrated by individuals and groups of individuals with the distinct objective of obtaining wealth by criminal means (Ponzi, 2014).

1.1.3 Motivation and significance of topic actuality

The current regulations pertaining to the duties of Professional Accountants are inadequate in terms of general financial management and, sometimes, litigation or compliance support.

Added to this and taking into account the huge impact SMEs have on the worldwide economy and the fact that the public at large is quickly losing trust in the current controlling environment (Berenson, 2003: 111) due to a string of scandals that shook the local and international accounting establishment during the last 10 to 15 years, has become crucial that SMEs receive much better protection and support in order to survive the critical first few years after start-up. One approach is to equip Professional Accountants with an enhanced set of problem solving methods or ways of thinking about problems that can assist the SME client. It is important to create an environment in which the SME entrepreneur can become involved and where the Professional Accountant can focus his attention on results and not merely the following of procedures.

However, no problem-solving method will be viable if such a method cannot become part of the current legislative and control framework in which Professional Accountants are executing their duties. One example regarding standardisation is the agreement amongst most Western jurisdictions to adopt a standard form of financial reporting. A total of 81 percent of all jurisdictions in the world adopted the use of IFRS for all public companies, and in most cases these jurisdictions also accepted IFRS for SMEs as the standard for financial reporting (IFRS Foundation, 2013:10). It will, therefore, be important that this basis of financial reporting be maintained during the development and utilization of any problem-solving method. The basis for financial reporting will be relevant in terms of the

provision of eventual court admissible evidence. Even where doubt exists whether a matter will eventually be referred to a court, a Professional Accountant should at all times expect that the evidence gathered and procedures followed will eventually be analysed in a court.

Irrespective the eventual development of any particular problem-solving method, such a method will have to be utilised by Professional Accountants in such a manner that it adds value to the work performed by the incumbent. Added to this, the clear path and or sequence of events identified by this method must also ensure not only the participation of the SME entrepreneur but also provide the entrepreneur with a clear expected end result. Lastly, this proposed problem-solving method must eliminate or at least limit the additional employment of specialists such as attorneys and forensic experts while at the same time ensure the application and adherence to the highest level of ethics. The accounting profession currently suffers under enormous pressure that is the result of negative press reports portraying Professional Accountants as everything but the protectors of the public interest (Speckman, 2014:1). For a long time, it has also been the approach of higher education to relegate Professional Accountants predominantly serving SMEs as professionals in need of inferior qualifications while the opposite is actually true in most cases.

Furthermore, this research will prove that it is becoming important for Professional Accountants to become so qualified that they will be able to provide, “expert specialist accounting work performed for court or other legally sensitive purposes. It involves gathering information and providing accounting analysis that is suitable to the court which will assist in the discussion, negotiation and ultimately, dispute resolution” (Brennan & Hennessy, 2001:5). The reason why so much emphasis is put on the issue of court admissible standards, is so that Professional Accountants become aware and understand that whatever they do has the potential to end up in a court and can at any time be subjected to statutory scrutiny.

1.2 Statement of the problem

Various efforts have been aimed at alleviating the perceived shortcomings in service delivery and/or performance related gaps of Professional Accountants in terms of their service delivery to the SME which include aspects such as compliance burdens faced by SMEs, financial reporting structures, and the educational requirements of Professional Accountants. A number of traditional institutes such as the American Institute of Certified Public Accountants added a specialized sub-discipline titled “Forensic Accounting” to their various fields of specialisation. The reason for this new trend could probably be attributed to the sheer desperation of the general public, government and entrepreneurs seeking other forms of assistance to curb fraud and theft in the business environment after the traditional disciplines such as auditing proved to be lacking in some respects.

Nonetheless, current regulation and practice that is supposed to govern Professional Accountants seems to be lacking in many respects. In addition, the current emphasis in the field of forensic accounting as a method to combat fraud, corruption, and theft seems to be focused on the quantitative aspects of an occurrence and then also as a control measure to, once again, provide a set of procedures to follow after an event has taken place. There is an urgent need to provide a problem-solving method that Professional Accountants can use to not only combat any form of crime or an event of non-compliance in the workplace but also to minimise the risk of this happening.

Furthermore, the apparent increase in the aggressive tax collection methodology of the revenue authorities with the unfortunately added challenge posed by the corrupt activities that seem to prevail lately (De Bruin, 2005:17; Regchand, 2004:3). The actions of corrupt officials are widely published and the aggression levelled at these targeted and unsuspecting taxpayers are nothing short of criminal (Ayoob, 2002:8; Cokayne, 2002:7; De Lange, 2004:4; Jardim, 2003:24; Venter, 2004:7).

1.3 Establishment of the research question of this thesis

As it will be noted in Chapter 3 of this thesis, it would seem that case studies have become the primary research method in accounting research. The case study approach invariably focuses on contemporary events and it does not require any control over behavioral events and the form of research question will, therefore, be limited to the “why” and “how”.

Taking into consideration the statement of the problem and the various objectives of the thesis stated, the following research question is asked:

How can case studies be harnessed to provide Professional Accountants with the necessary skills to improve their service delivery to their SME clients and why is this additional skill set required?

1.4 Objectives and purpose of the study

The objectives and purpose section provides an overview of what wants to be achieved by the research project. The following objectives have been identified:

1.4.1 Main Objective

The main objective of this research project is to develop a problem-solving method that Professional Accountants can use in the analysis of case studies which in turn will assist SMEs to combat the various forms of business related challenges. However, the most important requirement of the chosen method will be to provide the SME with a way to combat statutory compliance risk issues before they become serious transgressions (South Africa Tax Administration, 2011). The underlying principle in any form of Accounting research, and this research will not be different, will always be the achievement of the quality of truth (Flynn, 1995:7).

1.4.2 Secondary Objectives

The first secondary objective is to develop the envisaged method in such a manner that Professional Accountants can also use it as a simulation tool to assist clients that are faced with statutory compliance issues as well as critical decision-making issues; such as the acquisition of other enterprises, the selling of separate business units within their own enterprises, and strategic planning.

Secondly, there seems to be a critical shortcoming in the manner in which SMEs can safeguard themselves against unfair treatment from banks and the unfair use of statutory powers by competitors that wish to destroy particular enterprises for their own benefit. This research is, therefore, also going to endeavor to provide a problem-solving method that the Professional Accountant will be able to use to provide their SME client with sufficient court admissible or highly scrutinizable proof to ward off any unnecessary long court hearings and/or undue assaults from the revenue authorities in particular.

Thirdly, and with equal importance, the research will develop a problem-solving method that Professional Accountants can utilize for their own internal decision-making processes, taking into account issues relating to ethics in particular. However, the method sought must also provide the Professional Accountant with a system that will test all the elements required to make an informed decision regarding a particular enterprise challenge faced by the SME client irrespective of its nature, but limited to enterprise type challenges such as compliance issues, preparing for court cases and other commercial matters.

Added to the above, there seems to be a huge shortcoming in the management of liquidations in South Africa in particular. It would seem as if the liquidation process is being abused to eliminate competitors in the SME sector. This research will provide a problem-solving method that Professional Accountants will be able to successfully employ in order to execute optimum business rescue procedures and/or liquidation procedures

or to initially ward off any unfair attempt by competitors to force an SME into either business rescue or provisional liquidation.

In order to serve the many applications mentioned above, the problem-solving method will have to be sufficiently robust to be eventually developed into a computer software application to be used by Professional Accountants as part of their value-added service.

1.4.3 Tertiary Objective

As mentioned in the statement of the problem, the current regulatory framework and service delivery levels that Professional Accountants are serving the SME enterprise is lacking in many respects. The addition of a problem-solving method will not only serve the SME entrepreneur in providing court admissible evidence in a very cost-effective manner, but also provide the Professional Accountant with a preventative method that will be able to limit the risks associated with fraud, theft and statutory compliance issues for both the Professional Accountant and their client.

The method to be sought must, therefore, be able to perform a pro-active as well as reactive function. In order to provide a comprehensive service to their clients, Professional Accountants recently started to perform data analytics in three distinct areas where predominantly quantitative analysis is performed (See Chapter 4). This research will propose a fourth area of data analytics which will include both quantitative and qualitative data analysis.

1.5 Research Design/Method

The research was conducted as follows:

1.5.1 Literature review

The literature review is focused primarily on current developments in the provision of preventative rather than only reactive measures, in the fields of forensic accounting, auditing, and statutory compliance issues. This research is based on the idea that although many years have elapsed since the first scholars provided an insight into what accounting in general- and the functions of a Professional Accountant are expected to be, there still seems to be a gap between these expectations and reality (Carnegie Corporation, 1967:1; Visser, 2013).

However, it would seem that the root of the problem lies in the different perceptions regarding the need for technical knowledge only versus the absolute requirement that technical knowledge, as well as honesty in judgment coupled with a high level of fearlessness, is required in order to be able to act in a manner expected of a professional. This research endeavors to fill this performance gap.

An analysis of court findings is executed with particular attention given to court rulings where the respective revenue authorities were involved. A broad and general analysis is then conducted in order to establish current trends in aspects such as the successful provision of court-admissible evidence by Professional Accountants (Manning, 2005: iii), as well as a closer look at the possibility that revenue authorities are employing strong-arm tactics either in order to collect income for the state and or with the distinct view of assisting politically acceptable entities with sinister methods to remove any perceived competition.

The rules and regulations currently employed to govern the conduct and duties of Professional Accountants are also analysed including but not limited to financial reporting requirements, the tax landscape, auditing, and the requirements pertaining to any other value-added services.

The sources that are used range from various publications as issued by IFAC, the various forms of legislation as issued by the Governments of the various countries that will be researched, and newspaper and journal articles. There are also quite a number of

published books available pertaining to the fields of forensic accounting, auditing, taxation, financial accounting as well as financial management. Lastly, all acts pertaining to commercial and criminal law, as well as the Constitution of the Republic of South Africa with its subordinate laws, will be studied in order to identify the complete environment in which the Professional Accountant currently finds himself (Sergeant, 2013:20).

Relevant literature is studied in order to establish a primary point of departure in the development of the problem-solving method this research will ultimately propose (Strydom, 2000). This methodology will form an integral part of the eventual development of the envisaged method in the search for truth, as invariably accounting needs to achieve the quality of truth (Flynn, 1995:7).

Various approaches to problem solving are analysed in order to identify the most appropriate problem-solving method that can be utilised as the basic format in the development of the envisaged standardised method, if such a method can be standardised at all.

1.5.2 Empirical research

A problem-solving tool will be developed from the literature review and this tool is tested against the backdrop of real qualitative case studies. The qualitative case study approach is, furthermore, used in order to test the limitations and sphere of applicability of the tool. The population is limited to South African cases only as the costs attributed to international cases might be too high and time-consuming. Two types of case studies are subjected to this way of thinking, namely tax and compliance cases, and fraud and theft cases. A total of six independent case studies are used.

In all case studies, the researcher acts independently from the case under investigation, as all cases relate to actual occurrences. However, the researcher is involved in all the research subjects. The approach taken in the thesis is the inductive process. The cause

and effects of each individual case study is properly analysed and then tested against the proposed problem-solving tool.

These case studies are classic case studies as they will focus on single entities. In all these case studies, a clear distinction exists between “context and phenomenon” (Yin & Davis, 2006:4-5). Although the case studies are limited to qualitative evidence only, these case studies will explain the “presumed causal links in real-life interventions that are too complex for the survey or experimental strategies” (Yin, 2009:19).

The reports that the proposed problem-solving tool produces are explained for each case study in order to prove the appropriateness of the method. This will also form the basis in identifying the shortcomings of the approach and identify possible topics for future research, in this important area.

1.6 Overview of the thesis

This thesis is divided into the following chapters:

1.6.1 Chapter 2

Chapter Two represents the literature study and will provide a background of the development of the accountancy profession from its origins to the current environment. International developments in the field of accounting will also be analysed as well as the current drive for an improved worldwide regulatory environment including increased levels in terms of financial reporting standards for SMEs.

This chapter will also review the popular types of enterprise entities in the South African context taking into account the legal environment. This will include an in-depth analysis of the Companies Act (71 of 2008), the various revenue laws, and the criminal and civil law environment in which enterprises in South Africa have to operate. In addition, the current discretionary legal powers pertaining to the manner in which the South African Revenue Services executes its mandate will also be analysed. Current trends of the

Constitution's (in)adequacy in ensuring the rights of individuals and enterprises will also be researched (Shoba, 2014:12).

Moreover, the possible fusion of the historical principles of conflict in general with modern accountancy theory and practice will be analysed in order to provide the platform on which the problem-solving method will be based (Anderson, 1988; Hale, 1986).

The need and application possibilities for problem-solving as an additional skill set for Professional Accountants will be researched (Brennan & Hennesy, 2001:ix).

The general workload and variety of functions to be performed by the Professional Accountant serving the SME sector will then be analysed in order to identify the various forms of risks and/or challenges as well as the level of importance of these. These functions will include but not be limited to B-BBEE Verification, valuations, tax practice, drafting of annual financial statements, independent reviews, internal systems design and implementation, specific licencing requirements and general enterprise support. This chapter will highlight the fact that the traditional training focus on the four core skills - namely accounting, assurance, tax practice and financial management - has become inadequate. There is a need for an additional skill.

1.6.2 Chapter 3

This chapter will provide a broad overview of the methodological approach and accounting philosophy adopted in this thesis, in order to research the manner in which problems can be solved by Professional Accountants. Particular attention will be given to the positive philosophical issues regarding accounting in general. Furthermore, attention will be given to the development of an accounting philosophy from the 1950s through to the 1980s (Engelmann, 1954:383-390; Carnegie Corporation, 1967: 1).

The philosophical views expressed by a number of researchers and scholars in this social science will then be analysed against the backdrop of current practice and evaluated

against various performance criteria of which trust will be the most important. The purpose is to establish a conceptual framework that is fully aligned with this researcher's own ontological and epistemological views. The chapter culminates with the establishment of a well-defined research paradigm, methodology, methods and strategy that will form the very foundation of the empirical study and eventual development of the problem-solving method.

As with most problems (gaps) that are identified to be in need of further research, a number of assumptions are usually made. These assumptions may differ from researcher to researcher in terms of the, "nature of truth or knowledge and its acquisition" (Phiri, 2014:1). These differences can be attributed to either the different ways in which reality (ontology) is constructed or the different forms of knowledge of the reality being researched (epistemology) or the particular ways of knowing that particular reality (methodology) (Phiri, 2014:2). In particular, the SME sector, the required insights of a Professional Accountant regarding the limitations of his/her knowledge and technical abilities, seem to be contentious issues. This chapter will create a foundation on which this performance gap can be analysed

This thesis uses the qualitative paradigm and is based on a mixture of the Interpretive/Constructivist and Pragmatic paradigms. The ontological aspects of these paradigms in this particular study are that the research will start with a research question where the inductive approach will be used to ultimately reduce data to numerical indices. On the epistemological level, the facts will have an objective reality as the facts will be based on real case studies where variables can be identified and the various relationships between particular standards can be measured (Phiri, 2014: 6-12). The methods used to establish the eventual choice of problem-solving method will be design-based and qualitative in nature. Lastly, the appropriateness of case studies will be discussed as a possible instrument that can be used to gather information and to code it.

1.6.3 Chapter 4

This chapter establishes the general criteria for sample selection. The SME economic environment is firstly divided into recognisable economic sectors by studying all the client files of the client base of the researcher's own accounting practice. A number of clients are then randomly chosen per economic sector and these clients were individually interviewed. Armed with the knowledge obtained through the studying of the files and the responses in the interviews, a limited number of cases are selected based on the uniqueness of the experiences illustrated. These cases also cover all the economic sectors that are identified, and ensure that all selection criteria in terms of legislation and regulation is covered.

1.6.4 Chapter 5

This chapter is devoted entirely to describing each of the six case studies selected in Chapter 4. All details explained will be limited to the facts obtained through the files. The reason why these six completely unrelated case studies are selected is to establish the total environment of the SME sector. These selected case studies will also illustrate the hostile operating environment of the SME sector, where competitors even unfairly coerce organs of the State to employ actions with the distinct purpose to literally remove a competitor. These types of actions are increasingly common (Serrao, 2014: 1).

1.6.5 Chapter 6

This chapter is divided in two distinct parts. The first part of this chapter focuses on the development of a problem-solving tool, namely the Risk Analysis Tool (RAT). This problem-solving tool also comprises the ultimate contribution of this thesis. The requirement that the RAT be widely applicable has been identified as one of the objectives

of the study, and it is important to that this chosen problem-solving tool be applicable to a variety of SME challenges.

The second part of this chapter will comprise of the application of the RAT to the six case studies described in Chapter 5. The tool will firstly be applied to five SMEs where there is common fraud and theft involved. The individual case studies chosen relate to cases that occurred in different enterprise sectors and cases where the circumstances differ extensively. A final case study was selected purely to test the administrative capabilities of the method where a non-compliance order was issued by a statutory organ of the state.

The intention of the application of the RAT will be to prove that it is not only a preventative tool, but can also be employed to provide SME entrepreneurs with a properly researched set of documents and court admissible evidence within a much shorter time than normally expected with concomitant cost savings.

1.6.6 Chapter 7

Chapter 7 will identify the advantages and limitations of the problem-solving tool. Secondly, the findings of the research will provide the recommendations for the future development of the problem-solving tool for use by Professional Accountants. The limitations of the study will also be disclosed and suggestions for future research will be provided in order to refine the research.

CHAPTER 2

2. THE DEVELOPMENT OF THE ACCOUNTING PROFESSION FROM ITS ORIGINS TO THE CURRENT EVERCHANGING ENVIRONMENT

“The Business of an accountant and auditor is innately unsympathetic, and it is liable to suffer in efficiency when undertaken in a more or less obliging and friendly spirit” (per Meredith J. in the Supreme Court in *Leech v. Stokes brothers and Pim* [1973] I.R. 787 at 832) (Sourced from Brennan & Hennessy, 2001: ix).

This chapter analyses the functions of Professional Accountants taking into account their environment. This is done to create the first leg of the development of proper problem solving capabilities for Professional Accountants. This chapter will also illustrate where the Professional Accountants currently find themselves in the regulatory environment, in respect to accounting functions, and what statutory requirements, in terms of disclosure, Professional Accountants have to adhere to. In this chapter, the International Accounting Standards (IAS) and International Standards for Auditing (ISA) relating to the SME sector will be analysed and its applicability tested against the current developments in accounting for litigation and decision making. The impact of the regulatory environment on the processes of accounting, in particular, will be analysed and the agency relationship of the Professional Accountant with his SME client will be established.

2.1 Introduction

The Carnegie Corporation study was the result of the in-depth analysis of scandals, such as the 1933 financial statement scam executed by the Swedish businessman Ivan Kreugers. Kreugers, also known as the “Match King”, issued stocks and bonds to gain match monopolies from foreign governments. At some point, these securities were the most widely held securities in the United States of America and the world. The total of his operations was nothing more than a huge pyramid scheme, but as the laws of the day

allowed the company to elect whether or not it wished to have its financial statements audited, not one investor could find fault with the company until after Kreugers' suicide (Dale, Miranti & Previts, 2004:3-9).

This case and other less important cases prompted the United States of America Congress to mandate audits. However initial problems—such as not requiring that inventories be observed at year end as well as the fact that the confirmation of receivables was not a basic audit requirement—resulted in the concealment of a total of \$19million (US) of fictitious current assets in 1939, by a company that was registered as McKesson & Robbins Incorporated, with devastating effects (Chatfield & Vangermeersch, 1996:409).

More elaborate accounting practices led to the collapse of companies such as the Enron Corporation during the latter half of 2001 (Clulow, 2002). Closer to home, we experienced the body blows of the failures of the Masterbond Group (Nel Commission: Accessed 2003), the South African government's questionable arms deal (Cohen, 2005), the very well-publicised Tigon saga (Wessels & Dlamini, 2003:2), and most recently the alleged Ponzi scheme managed by Cobus Kellerman (Weavind & Collins, 2015).

The ultimate example that should have objectively destroyed the validity of the fiduciary role of the Professional Accountant for a company irrespective the size is the matter relating to First Strut (Pty) Ltd. It is alleged that the company incurred debts totaling more than R3,5bn over a period of approximately 20 years. To add insult to injury, over and above the bad debt incurred by the Industrial Development Corporation SOE Limited, major banks such as Investec lost nearly R700m (Benjamin, 2013). Another article stated that Investec Asset Management lost R800m of the funds of a pension fund it administers on behalf of seven targeted portfolios. The fund managers made it very clear that the loss represents only 2,9 percent of the total funds under their management (Cameron, 2013). The same article also states that the due diligence was performed by both Rand Merchant Bank and Standard Bank. The net effect is that all funds participating in this loss due to the default will cause a drop in earnings of approximately 0,4 percent over the life of the

funds. It is unclear whether this statement was made to calm down the fears of the individual members. The matter passed without much publication if taken into account that the CEO of First Strut was a qualified accountant. During the liquidation process, it also became apparent that there were absolutely no financial records of any kind. According to the rescue specialists, members of the personnel could not even produce salary records for individual members of staff (Benjamin, 2013). A question that begs an answer is how the sophisticated investors managed to put a total of R938m in the hands of a CEO of a company without proper financial records.

The amounts in this particular article refer to another set of figures, namely R435m from the credit fund held by Investec, as well as a direct loan of R240m. It is also stated that other major investors' exposure consists of R263m from Sanlam Capital Markets, Fairtree Capital issued bonds worth R131m, Prudential lent R51m, Rand Merchant Bank R50m, and Stanlib Asset Management R22m (Benjamin, 2013). It is obvious that the entities mentioned must have had exceptional due diligence practices that have been tested over time. Taking into account that the chairman of First Strut was a well-qualified accountant, one needs to find a solution to limit this is the type of fraud. Clearly, the best accounting developments over the past one hundred years could not stop this from happening. Apart from the actual financial loss incurred, the demise of the company is singled out as one of the primary reasons for the delays in the completion of the Medupi Power Station, and a loss of between 5 000 and 7 000 semi-skilled jobs (Smith, 2013). The uncomfortable question that begs an answer is how a company of this size managed to get away with this type of fraud and corruption for nearly twenty years, without sophisticated enterprises with sophisticated systems and personnel being able to identify any wrongdoing. Secondary to this question, one cannot help questioning the total absence of any form of statutory intervention. It would seem, once again, that all efforts to liquidate the company and its subsidiaries became the only priority.

It also appears, taking the above failures into account and irrespective of the developments of the past century in the accountancy related disciplines, that no real progress was made. (Financial fraud that occurred at the beginning of the Twentieth

Century is consistently being repeated, only with differing amounts involved). On the contrary, it could be that progress was made, but in the wrong direction. It would seem that to focus developments in the accounting science only on technical issues has no real benefit. In addition to the technical issues, too much emphasis might have been placed on the theory of auditing. The parties responsible for the accounting function –the non-audit Professional Accountants– received no real attention, apart from imparting technical knowledge which results in the vigorous application of generally accepted accounting practice in its various forms and formats. Consequently, by the time the financial statements of a company are subjected to auditing it is already too late, as there seems to be a reluctance on the part of registered auditors to qualify financial statements or at least execute the required alterations. The registered auditors are closely involved with the drafting of these financial statements as is the case with many small, medium and unlisted large corporations to this day.

An ancient Chinese General, Wang His, stated “There is but one root-principle underlying victory, but the tactics which lead up to it are infinite in number.” Many years later Colonel Henderson stated that “The rules of strategy are few and simple. They may be learned in a week. They may be taught by familiar illustrations or a dozen diagrams. But such knowledge will no more teach a man to lead an army like Napoleon than a knowledge of grammar will teach him to write like Gibbon” (Giles, 1910:12). These views are highly applicable to the Professional Accountant as well; one can be taught all the correct principles but to be a Professional Accountant requires much more than only mere technical knowledge.

Furthermore, taking into account the dismal performance of Professional Accountants the past one hundred years, it is a fair comment to state that irrespective of the knowledge of the Professional Accountants of IFRS, IAS, and ISA, there is still no guarantee that a highly professional individual has been trained with sufficient competence to serve their clients optimally, without the requisite ethical awareness and application.

This chapter will be divided into two distinct sections. The first section (section 2.1 to 2.5) will concentrate on the environment that the modern Professional Accountant finds himself in and provide some background on the evolution of this environment. The second section will focus on the required skills set for a Professional Accountant and how this skills set should be harnessed in order to provide the required one-stop service SME entrepreneurs demand lately (sections 2.6 to 2.11). This skills set will include ethical standards as well as the current risk assessment models available for Professional Accountants. The last part of the second section will provide a short summary of wider demands placed by owner managers, and how the original skills set as discussed only provides limited solutions to everyday SME challenges. As will be elaborated on later in the thesis, it is indeed these wider demands that resulted from the environment which the SME sector finds itself in that prompted the development of the research instrument.

2.2 The history of accounting theory

2.2.1 The original roots of accounting

According to Mattesich, “token accounting became the impetus through which writing as well as abstract counting, was created. Thus, the first cultural mission of accounting was to be midwife to two of the most important inventions in the history of humanity: the creation of writing and counting” (cited in Flynn, 1995:3).

During the second half of the fifteenth century, a Franciscan monk by the name of Luca Pacioli developed the double entry system as we know it today (Stevelinck, 1994:1-6). Pacioli wrote a book titled *De computis et scripturis* where he explained the double entry system, then known as the “Method of Venice”. He also included a section describing accounting ethics and it is widely accepted that he wrote the first standards on accounting ethics which are still used by various professional bodies to this day. The whole accounting cycle he proposed ended with the trial balance, and to him the proof that accounting records were kept correctly was when the credit and debit columns had the same value. His ledger included assets, liabilities, capital, income and expense accounts

(Smith, 2002). Chapter 3 will explain how Pacioli provided the groundwork for modern accounting and how even modern valuation methodology has been derived from his initial works.

The second development in accounting theory was to seek ways in which the financial information provided by accountants could be qualitative, reliable, and relevant. However, it has to be kept in mind that in communicating reality, Professional Accountants have to construct these accounts by giving attention to phenomena by transforming such phenomena into numerical values. It is during this transformation process where preparers of accounting information will admit that this process is subjected to numerous disputable judgments being made as well as the application of debatable principles (Flynn, 1995:5). It would seem that the root cause of current accounting problems is therefore not the recording of various transactions, but the application of judgment in the preparation of the final accounts.

2.2.2 Judgement and professionalism in accounting

There are currently two main factors that require analysis about Professional Accountants in general; the first being the historical view of the duties of Professional Accountants and secondly, the current general perception regarding the professionalism of the modern day Professional Accountant.

2.2.2.1 The historical view of the duties of a Professional Accountant

An unknown auditor in 1896 proclaimed that:

“The Professional Accountant is an investigator, a looker for leaks, a dissector and a detective in the highest acceptation of the term; he must have a good knowledge of real estate, machinery, buildings, and other property. His business is to verify that which is right and to detect and expose that which is wrong; to discover and expose facts which exist, whether they be plainly expressed by clear and distinct records or whether they be concealed by the cunning knave or hidden plausibly arranged records

or as is frequently the case omitted from the records entirely [...] He must interpret, rearrange, and produce simple but distinct form, self-explanatory and free from mysteries of bookkeeping, the narrative of facts... He is the foe of deceit and the champion of honesty" (cited in Berenson, 2004: 25).

This entire seemingly complicated paragraph can be summarized in two words, namely relevant and reliable. Regarding the first sentence of the abovementioned statement it would seem that quite early during the development of the profession, it was expected that Professional Accountants be quite proficient investigators. To be a good investigator in any profession today will always require knowledge of the environment. The digital environment is in all probability the most prominent environment that Professional Accountants will find themselves in and it is of utmost importance that these Professional Accountants know and understand the manner in which information technology is used in committing fraud and other financial crimes (Pearson & Singleton, 2008: 545). A second, but equally important environment is the global environment. The effects of globalisation, economic reforms, and the general liberalisation of cross-border trade led to economic ailments such as bad debts and issues like Base Erosion and Profit Shifting (Mann, 2010: 1). In the case of the Professional Accountant operating locally, knowledge of the client and their business is an important environmental issue.

The second part of the statement requires a Professional Accountant to apply judgment in respect of what is right and wrong. This judgment is not only limited to what is identifiable but to also judge any omissions or hidden facts. Lastly, the Professional Accountant must be able to interpret and rearrange information in such a manner that the presentation of his knowledge and judgment is without deceit and honest.

2.2.2.2 The current general perception regarding the professionalism of Professional Accountants

The following question can be posed: Is there anything amiss regarding the (perceived) professionalism of Professional Accountants? The answer seems to be most eloquently

expressed by a quote from *The Jungle* (1906), a book written by Upton Sinclair at the beginning of the 20th century. When asked about the high incidence of corruption in Chicago at the time, the main character, Jurgis Rudkus, replies “It is difficult to get a man to understand something when his salary depends on him not understanding it” (Berenson, 2004: viii; Sinclair, 2007:1).

If one is to open certain chapters of Upton Sinclair’s book, (particularly Chapters 28 and 29) and compare it to parts of *The Number* (2004) by Alex Berenson and *Brett Kebble, the inside story* (2006) by Barry Sergeant, it is frightening to find that by implication the accounting profession and business ethics as a whole may not have evolved at all in over one hundred years.

To illustrate, in Chapter 29 of the book *The Jungle* the writer declares the following concerning the Beef Trust:

“In Chicago, the city government was simply one of its branch offices; it stole billions of gallons of city water openly, it dictated to the courts the sentences of disorderly strikers, it forbade the mayor to enforce the building laws against it. In the national capital, it had the power to prevent inspection of its product, and to falsify government reports; it violated the rebate laws, and when an investigation was threatened it burned its books and sent its criminal agents out of the country” (Sinclair, 2007: 6).

This publication provides a well-defined illustration of the lack of ethical awareness development between the beginning of the 20th and 21st centuries. To illustrate the following is a quote out of the book *The Number*:

“In December 1936, James Landis, the second chairman of the Security Exchange Commission (SEC), had complained that Accountants’ ‘loyalties to management are stronger than their sense of responsibility to the investor’” (Berenson, 2004:23).

With the detection of huge accounting fraud after the collapse of the previously mentioned company registered in the United States of America as McKesson & Robbins, a total investigation also included a referendum on accounting and auditing practices to the point

where it was stated that “The entire profession was, in effect, on trial” (Carey, 1970:23). In a 1976 report, the Senate sub-committee reported that:

“the traditional public image of The Big Eight accounting firms as impartial and objective experts is not a founded fact.... As political partisans and purveyors of non-accounting (*sic*) services, they become loyal agents of the clients who employ their services. It appears that The Big Eight Firms are more concerned with serving the interests of corporate managements who select them and authorize their fees than with protecting the interest of the public” (Stevens, 1981:134).

In reply to the 1976 sub-committee findings the AICPA appointed and funded the Cohen commission whose findings were:

“The public accounting profession has failed to react and evolve rapidly enough to keep pace with the speed of change in the American business environment. In general, users [investors] appear to have reasonable expectations of the abilities of auditors and of the assurances they can give. The burden of narrowing this gap falls primarily on the auditors and other parties” (Berenson, 2004:62).

The book furthermore covers the ENRON collapse extensively and mentions the shredding of evidence by its auditors, Arthur Anderson (Berenson, 2004:201).

Sergeant (2006:167) again points to the inadequate application of professional rules and ethics by Professional Accountants through the following statement made by the registered auditors days before the final application for the liquidation of DRD:

“We have had the opportunity to examine the ... [Gobodo] affidavit and the assertions therein regarding the ability of Durban Roodepoort Deep ... to meet its obligations to its creditors and we respectfully disagree with its conclusions. In our view as auditors of DRD who have recently concluded its annual review, DRD was a going concern as at 30 June 2003, and was in a position to discharge its obligations to its current creditors at that date, hence we had no difficulty in issuing an unqualified audit opinion on its financial statements for the year ended 30 June 2003” (Sergeant, 2006:167).

The sad conclusion that can be made from the above is that all three books could have been published in either 1908 or 2006. Apart from the reference to technology, a reader would never notice that the books were published more than a century apart.

2.3 International trends in the improvement of the regulatory issues pertaining to financial reporting

Apart from the various issues pertaining to judgment, the general feeling started to develop that users of financial information need to understand the information provided and in order to do so, it will be a requirement that the format of these financial reports is standardised on an international scale.

The major drivers that are currently seeking means to converge and improve the regulating of accounting standards for the SME sector worldwide have been trying to achieve this since 1974. As these eventual new accounting standards will be driven and executed by Professional Accountants, some insight into what the role of the Professional Accountants should be needs to be analysed. The Professional Accountant should provide a one-stop service which will ensure that the financial status of an enterprise is comparable and fairly presented. In addition, the Professional Accountant should adopt a certain frame of mind that will ensure that his client is provided with sufficient professional support services, including accounting and statutory compliance services.

2.3.1 Small GAAP versus big GAAP for the SME sector

As to be discussed in in section 2.3.2.3, quite a lot of effort and time was expended in the establishment of a unique set of IFRS for the SME sector, or as it is also popularly known, “Small Generally Accepted Accounting Practice (GAAP)”. There is an expectation that in future, out of the ten globally developed firms, seven will have developed from emerging markets and most will have been family owned enterprises. Therefore, some research is

required to confirm that Small GAAP will add value in this sector or whether it will create other problems once the enterprise is on a growth path.

Due to the less complicated nature of transactions executed by most SMEs, the application of all the various IAS in the SME sector is quite feasible, as applying these standards will ensure that the SME maintains the required standards throughout its lifecycle. An example that one can use is the application of the disclosure regarding deferred taxes. The calculation of deferred taxes for a large multi-national enterprise is to a large extent complicated due to the abundance of individual transactions involved in calculating the deferred tax asset or liability. While at the same time, applying the same calculation for a medium sized enterprise will not be that difficult due to the limited number of transactions and the scope of operations of said enterprise. The emphasis should, therefore, be placed on the true and fair presentation of financial reports. In South Africa, the SME sector has experienced the following problems:

2.3.1.1 The unnecessary costs relating to the statutory audit or review of SME sector profit companies

The drafting of the annual financial statements of profit companies and close corporations was always based on the primary books of entry of that particular enterprise. The added requirement of an audit, in the case of proprietary limited companies, was always a nuisance as the same person(s) who draft the set of financial statements also sign the audit or review report. It would now seem that this requirement has been abandoned and will most definitely simplify the day to day activities of these types of enterprises. The applicability of IFRS that was published for the SME sector will be analysed later in section 2.3.2.3.

In terms of the newest version of ISA, there are predominantly two types of audits, namely the statutory audit and the special purpose audit. The applicability of both these types of audits is tested in this thesis

Although it is important for the SME to disclose all types of financial information accurately, past experience by many countries in the Western world prompted governments to ease the statutory compliance burdens of the sector.

2.3.1.2 Excessive regulations in certain sectors of the economy and their costs

A survey, executed by the Small Business Project, found that particularly the automotive, clothing and textile, pharmaceutical and tourism industries face more regulatory costs than any other sector of the economy (Ntingi, 2005). The survey found that:

“Most businesses reported that they spent time complying with VAT and other tax regulations, labour laws and the requirements associated with the sector education and training authorities. While excessive regulation affected all businesses negatively, small firms were the hardest hit, with labour and employment equity regulations cited as the most damaging compared with tax laws.” (Ntingi, 2005).

The same article reports that the South African government produced 2 864 separate regulatory instruments between 2002 and 2004.

It is an acceptable norm for SMEs to carry compliance costs; purely due to the fact that SMEs found that not only does accounting compliance save money regarding tax costs but it also opens the field for the procurement of credit, and more recently also allows them to qualify for the various forms of state assistance. However, the expectations pertaining to service delivery by Professional Accountants are much more than purely the drafting of compliance reports and the provision of financial information to third parties.

Furthermore, matters regarding compliance with Broad-Based Black Economic Empowerment (B-BBEE) codes of good practice adds quite a lot of costs to enterprises with an annual turnover of above R10m. The issuing of a compliance certificate for an Exempt Micro Enterprise entity will normally cost less than R1000. However, the moment a Small Qualifying Enterprise or Generic Certificate is to be issued, the costs can become

crippling. Most of these excessive charges can be attributed to the fact that special care must be taken while compiling these assessments, as the fines for non-compliance and so-called fronting can have dire consequences.

Therefore, SMEs view the cost attributable to accounting compliance as an investment in the future of the enterprise rather than a cost. However, there has always been a negative perception regarding the statutory audit requirement for enterprises in this section, as the perception still exists that a statutory audit does not really add any value to the reader or the entrepreneur.

2.3.1.3 The South African tax regime and the general administration of justice

The discretionary powers given to the South African Revenue Services are a challenge for the SME sector. Too many SMEs are victimised by the over-zealous and sometimes mercenary tactics of this organ of the state. Although there are numerous avenues propagated that aggrieved taxpayers can follow, these avenues frequently do not provide the taxpayer with any temporary relief, and in most cases the taxpayer cannot afford the professional assistance required to utilise these avenues. The fact that the perception exists that Small GAAP is a very light form of GAAP may add to the vulnerability of SMEs, as they find themselves in a position where their own systems can be used against them; particularly when they have to defend themselves against an adversary with limitless resources. Examples of how these powers are perceived to be abused will be highlighted in two of the case studies in Chapter 5.

The challenges faced by SME entrepreneurs is not limited to the South African Revenue Services, but includes the administration of justice in general. Mr. Danie Olivier, council member of the Law Society of the Northern Provinces, identifies the following four problem areas in the administration of justice (De Bruin, 2003:2):

- (a) Attorneys found that where the judgement against the state was obtained, that it was nearly impossible to execute such judgments.
- (b) There seems to be a general decline in the standards pertaining to the compilation of new legislation.
- (c) There seems to be a general decline in the professional standards of legal practitioners, and
- (d) Quite a lot of criticism has been lodged against magistrates.

To add to the misery of limited resources of the SME sector, the costs associated with the litigation processes lodged against any organ of state is not only crippling; in most cases, it is devastating. Referring to costs of doing business in general, South Africa has many more private mining concerns than large international corporations. There is currently a minefield of legislation that potential mining investors have to navigate in order to obtain the right to mine in any area. Since the private mining operations operate on a much smaller scale, their activities have a smaller impact on the environment in comparison to those impacts caused by the international enterprises. The health of the mining industry always had, and will continue to have, a direct effect on the economic health of the rural communities.

However, apart from the legal framework in terms of the right to mine, it is also the view of many Professional Accountants that the mining sector in South Africa, once the centre of gravity of the economy, has become the worst industry to invest in for the singular reason that the tax regime in respect of mining is neither fair nor rational (Jones, 2005). South Africa was reliant on the mining industry as a catalyst for regional economic development for many years. It is, therefore, disquieting to have noticed one particular article that states the following:

“Before we get into the main issue, it should be understood that few, if any [Professional Accountants] are prepared to go on public record as criticising the doings and screwings of the South African Revenue Service (SARS). Understandably, they fear that public criticism will simply result in a vindictive assault on the financial affairs of their clients. And yes, when SARS spokesmen come bleating that this is

unfair, the writer of this article could reel off a string of real-life experiences” (Jones, 2005).

Another example of how irrationally the tax regime is applied in the mining industry is the one pertaining to the late Bret Kebble. This individual did not submit a tax return for eleven years (Loxton, 2005:6). Under the current tax legislation in South Africa, it is impossible to escape a criminal charge if no tax returns are submitted. How this has happened will remain a part of the mysterious manner in which the South African Revenue Services hides behind its self-imposed confidentiality clause. Current tax legislation causes the taxpayer to always be in an unfair and grossly unequal position in relation to the South African Revenue Service (Visser, 2005:9). From the examples stated above, it should become very clear that the environment in which the SME operates is everything but friendly and static.

2.3.2 The applicability and the inherent need for the audit function to be replaced by another set of rules and regulations in the preparation of the financial reports in the SME sector

At the turn of the century, the South African corporate environment was operating within the confines of a Companies Act that was developed in 1973; Act 61 of 1973. One of the most important shortcomings of this act was that it focused on the larger corporate entity, despite the fact that research endeavors suggest that the SME should become the main focus of any establishment of a legal framework for companies to operate in.

Added to this rigid corporate arrangement with particular reference to the statutory audit requirement for owner-managed smaller companies, the act also did not include the rules and regulations governing the most popular SME legal entity in South Africa, namely the close corporation. Section 56 of the Close Corporations Act (Number 69 of 1984) provides details pertaining to the type of primary records a close corporation is supposed to keep updated. Section 59 of the same act provides the requirement of the appointment of an accounting official, while Section 60 provides the requirements an individual has to

adhere to in order to qualify to be appointed as such. These requirements are much more onerous than those that govern the preparation and presentation of financial information for private companies registered under the current Companies Act (Act 71 of 2008).

2.3.2.1 A comparison between International and South African standards

As stated previously, in South Africa, the new Companies Act (Act 71 of 2008) (South Africa, 2008:9) provides for the following two categories of companies:

- (a) Profit companies
- (b) Non-Profit companies

The Act then introduces public interest companies, those companies which have a greater responsibility to a much wider public and overlay all the above categories as outlined. As this thesis only covers the SME sector, no further comments will be made regarding public companies.

Chapter 1, Part C, Sections 28-30 of the Companies Act, states the requirements regarding the keeping of a company's financial records (South Africa, 2011:84-92). These sections make no distinction between any of the aforementioned types of companies. However, Section 90 states that "Each year at its annual meeting, a public company must appoint an auditor" (South Africa, 2011:193). This singular statement represents a vast departure from the former Companies Act of 1973 where it states very clearly that all companies must appoint an auditor. The criteria for when any type of company qualifies to be a public company is illustrated in Diagram 2.1.

The new direction in respect to the audit requirement for profit companies seems to have fallen away for private companies since the Companies Act (Act 71 of 2008) was promulgated. Private companies, under certain conditions, are in future not obliged to be subjected to statutory audits.

The above direction is quite sensible as the purpose of a statutory audit is defined by the Institute of Chartered Accountants in England and Wales (ICAEW, 2007:8) to be the following:

“to provide an independent opinion to shareholders on the truth and fairness of the annual accounts and on whether the annual accounts have been properly prepared in accordance with the Companies Act 1985 and where appropriate, Article 4 of the IAS Regulation. In line with the requirements of company law, the auditor also reports by exception to the shareholders on certain other areas, such as whether, in the auditor’s opinion, proper accounting records have been kept.”

From the abovementioned explanation by the ICAEW, it can be deduced that where the shareholders are 1) not involved in the daily running of the enterprise and 2) have a need to rely heavily on the independent observations of an auditor, then the statutory audit will always be a requirement. In the South African context, the Companies Act 71 of 2008 follows the same pattern and insists on an audit if the activities and/or circumstances relating to the company or enterprise consists of any one of the activities listed in Diagram 2.2. In the South African context, the statutory audit is then also a reporting tool for other stakeholders than merely shareholders only.

To test if a company should be subjected to a statutory audit irrespective whether such a company is registered as a private or public company depends on the Public Interest Score (PIS) of such an entity. The essentials of a PIS is illustrated in Diagram 2.3.

Diagram 2.1 Types of Profit Companies

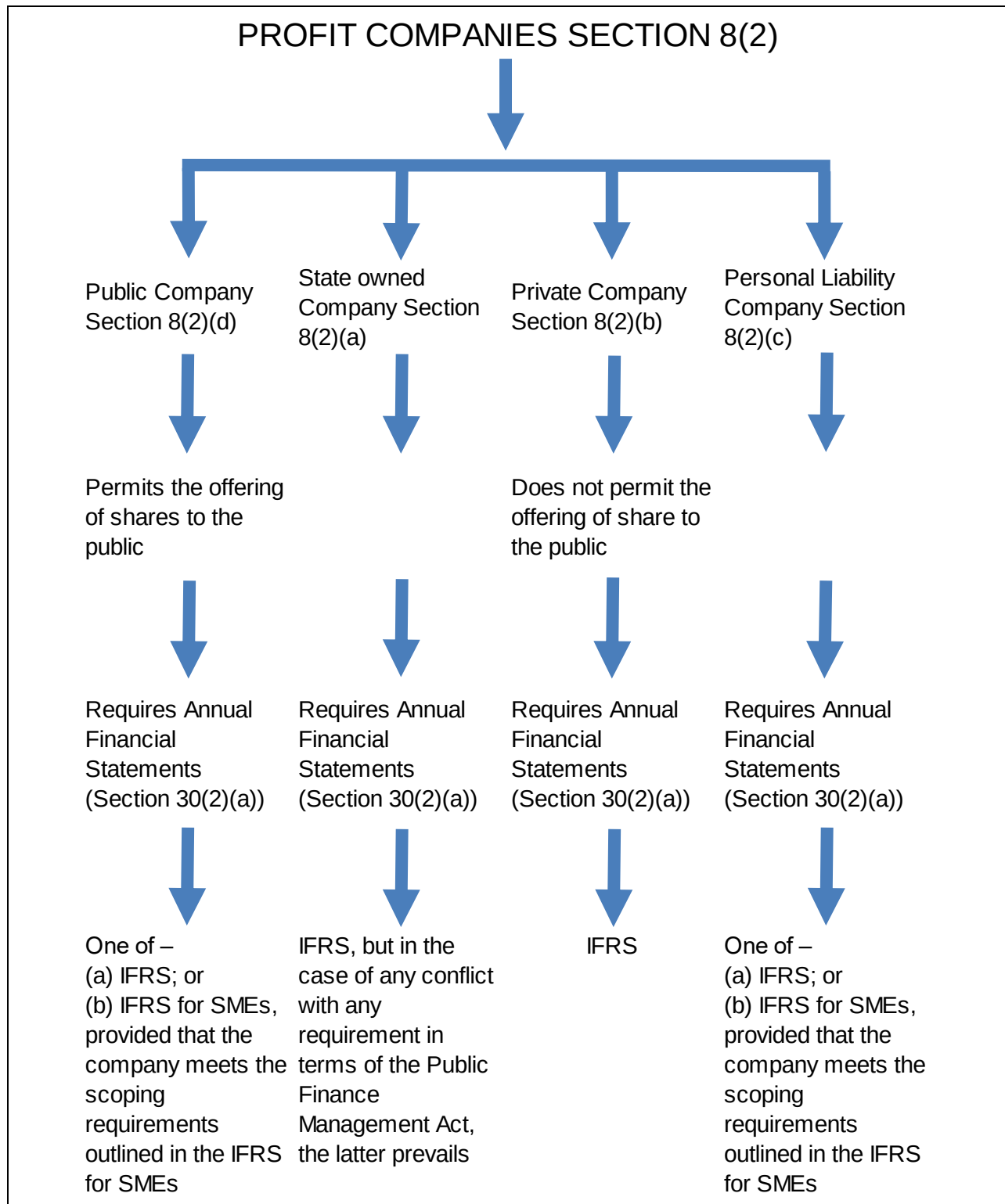


Diagram 2.2 Analysis of the Public Interest Score (PIS)

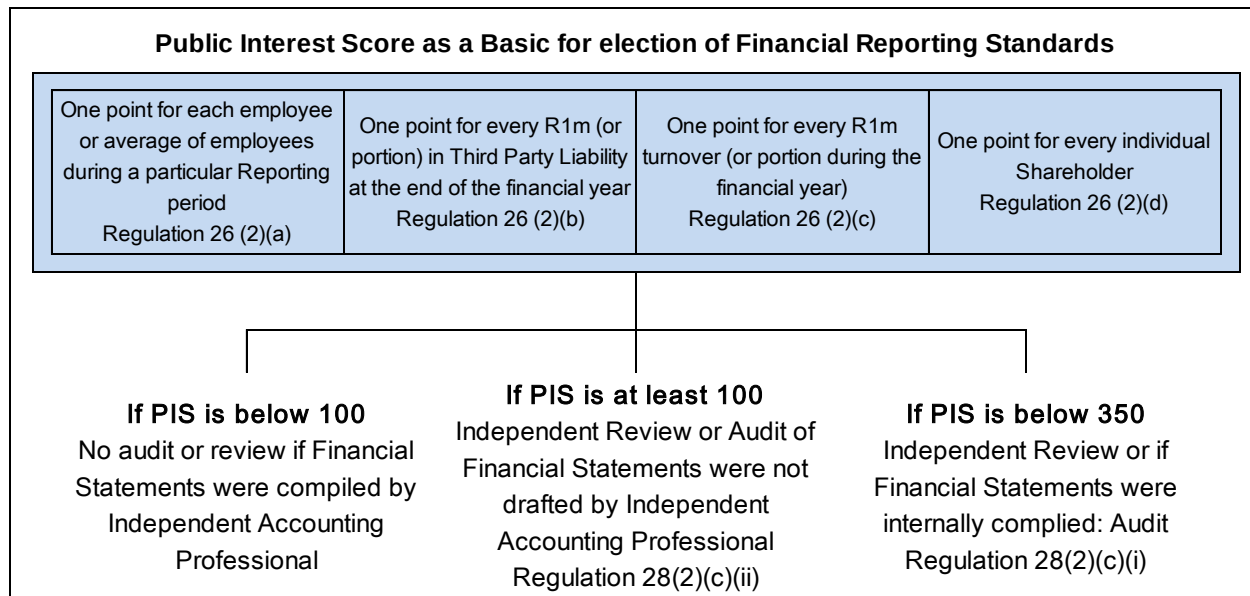
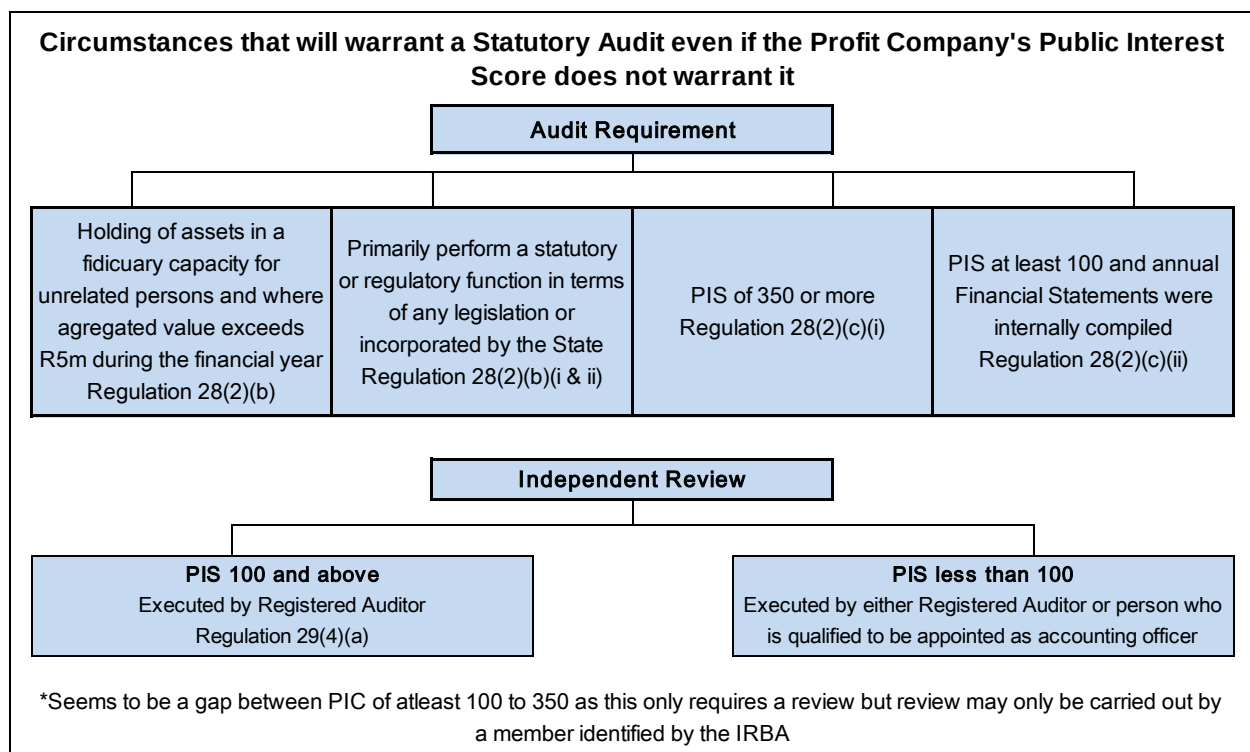


Diagram 2.3 Other Factors That Will Require an Audit or Review



Two circumstances pertaining to a private company will render a statutory audit redundant. The first circumstance is where the shareholders or comparatively large proportion of shareholders manage the enterprise on a day-to-day basis. The second circumstance is where shareholders, although not involved in the day-to-day management of the enterprise, are related or inter-related to those individuals that manage the enterprise. It can therefore be safely stated that where the Agency Agreement does not exist in the format of the agency theory regarding public companies, the audit requirement becomes redundant.

It remains interesting that although the Companies Act and regulations are quite clear about the execution of the independent review for private companies with a PIS of less than 100, the peculiarity exists where a private company has a PIS of less than 350. Here the Regulations (Number 29(4)(a)) also require an independent review, but state that such a review may only be executed by a registered auditor or a member of a professional body that has been accredited by the Auditing Professions Act.

2.3.2.2 The replacement of Auditing Standards with Accounting Standards in the SME sector in order to ensure the maintenance of high reporting standards

As will be explained in section 2.5.2 of this chapter, the relationship between the auditor and the shareholders of a public company is an agency relationship. There is also an agency agreement between the directors of a public company and its shareholders. In the case of the SME sector, such a relationship is basically non-existent. However, while the agency relationship is the basis for the developing of auditing standards, the absence of this relationship requires the development, application, and maintenance of accounting standards by Professional Accountants serving the SME sector. This should ensure similar levels of reliability for the financial information provided.

Probably the two most critical shortcomings originally identified in the South African Companies Bill of 2007 was that the Bill failed to ensure that public companies comply

with IFRS, and that accounting standards are properly maintained as well (De Beer, 2007:13). This was subsequently corrected in the Companies Act (71 of 2008).

As there is, therefore, a legal enforcement for public companies to comply with IFRS, it is accepted that the same will apply for private companies but to a lesser degree. The previous non-committal to the highest international standards caused a lapse in the educational requirements for financial directors of all types of private companies. In a world where there is an increased demand for tax transparency, it should have been expected that the minimum qualification and experience levels of financial directors be established. Many companies that fell afoul of irresponsible tax regimes in the past caused great losses for their shareholders and at times even caused companies to be liquidated as a result. Apart from the inherent costs of non-compliance, there is an ever-increasing pressure on central governments around the world to provide the masses with the least basic essentials, and therefore the expectation to conform to even higher professional standards is becoming a reality. According to Hickey, "In a competitive world, tax is a lever that governments have used to attract or retain investment [...] But they still need to fund increasingly expensive social spending." (quoted in Priest, 2007). It can, therefore, be accepted that governments will become increasingly reliant on financial disclosures in order to receive their fair portion of earnings.

It is also for this reason that analysts are becoming increasingly aware of this new challenge. According to Hickey, "The analyst community accepts that it does not specialize in tax, but what concerns them is that sometimes the companies they speak to do not seem to instill confidence that tax is under control and is adding value wherever appropriate." (quoted in Priest, 2007). Governments are increasingly becoming more vigilant, particularly when there seems to be a shortfall in its own annual budget. The resultant penalties for not being tax compliant are geared not only to act as deterrents but also as an additional source of income. It is, therefore, irresponsible for any company to have a financial director who is not fully qualified to ensure that the correct taxes are paid, based on the correct calculations.

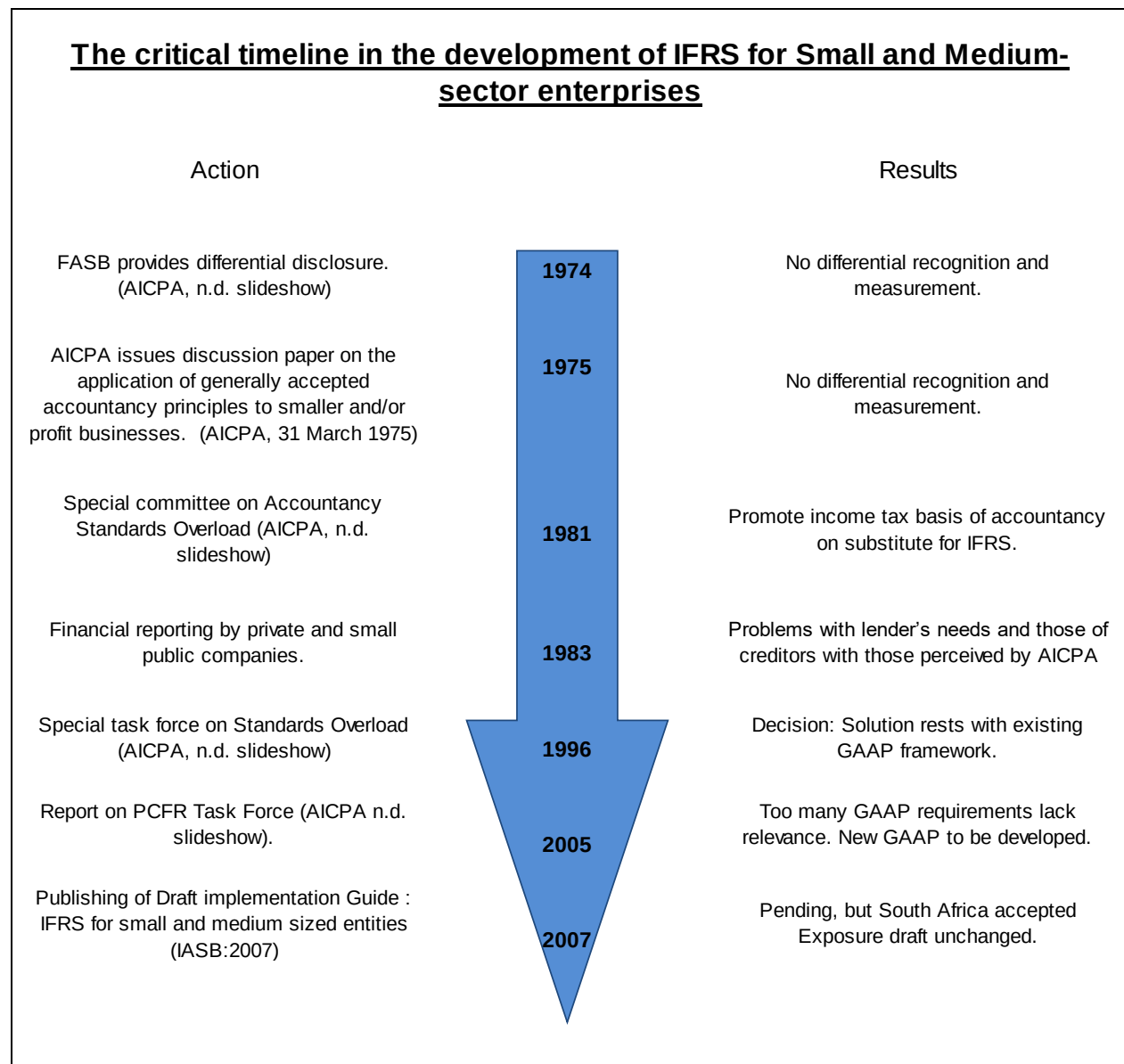
An acceptable standard would be that a director can only function as a financial director of a public interest company if such a director is a registered member of a professional body of Accountants, who are also registered as full members of the International Federation of Accountants (IFAC) (Ngwenya, 2015). The primary reason for this move can be found in the Report on the Observance of Standards and Codes, issued by the World Bank in January 2004, which mentions the establishment of core standards and codes relevant to economic viability and private and financial sector development (World Bank, 2004).

2.3.2.3 IFRS for SMEs

As the audit function has not been proven to add any value in the SME sector in particular, quite a lot of effort was put into the development of a unique set of accounting disclosure standards for SMEs. In the beginning of 2007, the IASB issued a draft implementation guide titled “IFRS for Small and Medium-sized Entities” (IASB, 2007). The full impact of this development is discussed in section 2.10 of this chapter. In order to understand the eventual issuing of this guide, it should be noted where the drive to establish this type of IFRS started. The best manner to illustrate this is to analyse the timeline depicted in Diagram 2.4

As can be seen in Diagram 2.4, it took the profession thirty three years to issue a guidance document on IFRS for the SME sector. IFRS was officially introduced much later, and in some parts of the Western world such as the United States of America, IFRS is still not the accepted norm. In section 2.10.3 of this chapter, the relevance of ISA to the SME sector will be analysed with particular reference to the new proposed auditing standards pertaining to audits in the SME sector. The relevance of ISA 800 in respect of Special Purpose Audits will also be touched upon.

Diagram 2.4 IFRS Developmental Timeline



2.3.2.3 The Tax Administration Act

In South Africa, another set of rules were introduced that currently have far-reaching implications in accounting as a whole. These rules are found in the Tax Administration Act, Number 28 of 2011. This act might have accidentally contributed to the replacement

of the audit rule for private companies with the Independent Review. Section 29 of the Act states that a tax practitioner is required to ensure that:

- (a) “proper tax records have been kept in one of the official languages of the Republic in connection with that person so as to reflect and explain all transactions as required in terms of the relevant Acts administered by the Commissioner; (Section 29(c)), and
- (b) that tax practitioner has obtained all information, vouchers, and other documentation which in the opinion of that tax practitioner was necessary for the proper performance of those duties” (South Africa, 2006:19).

From the aforementioned, it is evident that the paper trail for all transactions must be available for inspection and verification. This requirement fulfills one of the basic requirements of the presentation of financial information, which includes but is not limited to annual financial statements. In terms of a private company, it is therefore fair to deduct that the audit function, over and above the requirements mentioned here, will be completely unnecessary and clearly not a value-added service to any private company.

2.4 The current regulatory and statutory framework that governs the actions of Professional Accountants

On 19 July 2005, South Africa issued the Companies Amendment Bill, the forerunner of the current Companies Act (Number 71 of 2008) and published it in the Government Gazette of 2005 under number 27784 (South Africa, 2005). At this early stage it was already reported that the new bill –and therefore the eventual Act– intends to deal with the following:

- (a) The development and enforcement of financial reporting standards.
- (b) The promotion and maintenance of the independence of auditors.
- (c) The review of the procedures of the Securities Regulation Panel.

- (d) The indemnification and imposition of a duty of confidentiality on inspectors.
- (e) Issues to be contained in the prospectus. (South Africa, 2005:3)

The above was adopted, as expected, in full of the promulgated of the Companies Act (Act 71 of 2008) on 1 May 2011. As this particular study only concerns the SME sector of the economy, only the first two aspects will be concentrated and remarked upon.

2.4.1 The development and enforcement of Financial Reporting Standards

For the first time in the history of South African Corporate Law, a clear distinction was made between a Limited Purpose Company (LPC) and a Public Interest Company (PIC) (South Africa, 2005:6). The LPC is defined as a company that:

- (a) does not take deposits or loans from the public
- (b) does not offer shares to the public
- (c) does not act as a holding company in respect of a PIC
- (d) is not a subsidiary or associate of, or joint venture with a PIC
- (e) is authorized by unanimous consent of its members to operate as an LPC for purposes of this Act; provided that such consent is given annually in respect of each supervening financial year (South Africa, 2005:6)

The above was further refined in the eventual Companies Act (No 71 of 2008) where profit companies were divided into private companies and public companies (see Section 27 of the Companies Act Regulations). With the division and clear distinction between these two types of profit companies, a new Section 286(a) was originally proposed in the Companies Amendment Bill dated 19 July 2005 to be inserted after Section 286 of the former Companies Act, which solely deals with accounting standards. In respect of LPCs, it is stated that LPCs must also comply with the same financial reporting standards as those of PICs. However, the proviso is that “directors may depart from any requirement of these standards if the particulars of the departure and reasons for it are disclosed in

financial reports.” (South Africa, 2005:27). This proposal was eventually confirmed in Section 27 of the Regulations of the Companies Act (No 71 of 2008).

It is, furthermore, important to note that this particular notice required that the word “annual” be removed from any reference to financial- or other types of company reporting. The relevance of this change is that now any type of financial information presented to shareholders and third parties must be compiled taking into account all the requirements pertaining to the preparation and presentation of annual financial statements. The end result is that even preliminary and management reports will have to comply with the accepted financial reporting standards (See Section 29(6)(a) of the Companies Act No 71 of 2008). Additional to this strict requirement, it must also be accepted that any financial information disseminated to anybody and in any format, must be subjected to the strict oversight of these financial reporting standards.

Another departure is that private companies may also elect not to present consolidated financial statements if these private companies form part of a group (South Africa, 2005:32). In the final analysis, a company’s PIS dictates the level of assurance required in terms of the financial disclosures of the company. This thesis will only apply to owner managed private companies with a PIS of less than 350 (Section 30(2)(a) of The Companies Act). For the purpose of this research, an SME is a company with a PIS of less than 350.

However, not all enterprises in South Africa are registered companies. Some are operated as sole proprietors, some as partnerships and there are even some enterprises registered as co-operatives. Where there is valuable agricultural land involved, some of the older entrepreneurs still favour the trust as a means of conducting business. In terms of the Tax Administration Act (No 28 of 2001), all the entities not covered by the Companies Act or other legislation will at all times conform to the generally accepted accounting practices of the country.

2.4.2 The promotion and maintenance of the independence of registered auditors

Due to all the corporate failures in the past ten odd years, the functions, duties and responsibilities of particular auditors were subjected to severe scrutiny. In South Africa, this public dissection of the functions, duties and responsibilities of auditors eventually culminated in the following requirements by the Companies Act:

- (a) Section 30 of the Act amends the requirement regarding the duties of the auditor. Previously, the duty of the auditor was to satisfy himself that the annual financial statements “fairly present the financial position of the company and its subsidiaries and the results of its operations and those of its subsidiaries, in conformity with generally accepted accounting practice applied on a basis consistent with that of the preceding year”. This has been completely deleted and replaced with “satisfy himself that the annual financial statements or group annual financial statements comply with the financial reporting standards issued under the regulations” (South Africa, 2011). It is important to note that it is only in the sections referring to the duties of the auditors that the word “annual” was retained before the phrase “financial statements”. It is therefore accepted that the auditor will not have any other responsibility in terms of the Companies Act, but to provide the abovementioned assurance in respect of annual financial statements only. Interim and provisional reports may, therefore, be issued without an auditor’s report. In the case of a private company, the benefits of the mandatory audit are therefore quite questionable.
- (b) Section 93 prescribes the rights and restricted functions of auditors, and also states that the nominated auditor may not perform non-attest services. This will, however, defeat the purpose of ensuring auditor independence, since the nominated auditor is rarely also the consultant/advisor or Accountant for the company, purely due to the complexity and size of the clients’ enterprises. It is general knowledge that the greater portion of particularly larger firms’ income is derived from non-attest services (South Africa, 2005:22).

2.5 The overall relationship between the Professional Accountant and the SME sector

2.5.1 Professional behavior of the Professional Accountant towards the SME client

It would seem from the abovementioned, that there is no doubt in the minds of the public on what a Professional Accountant should be and in which areas Professional Accountants have been lacking considerably the past one hundred years.

In particular, for the SME sector of any economy it is of the utmost importance that the Professional Accountant be constantly reminded of their very important contribution towards the success of the enterprises owned by their clients. Professional Accountants must at all times understand the importance of the performance of the SME sector for the economy of that particular country, and the skill and competence that the Professional Accountant must display will at all times emphasise not only technical knowledge but also virtues to be found in the moral compass of individuals irrespective of the source of these morals. Adhering to certain morals ultimately leads to the establishment of ethics, and it would seem that morals and ethics are not developed by individual professions and industries or religions, but are those yardsticks that communities themselves decide over many years to make their own and adhere to it.

One of the earliest sources of morality can be found in the teachings of military leaders. For example, the virtues of the ancient Chinese military leaders have been identified as “humanity or benevolence, uprightness of mind, self-respect and self-control, wisdom and sincerity” (Giles, 1910:2). Even prior to these teachings, were the teachings of the Holy Bible, particularly those pertaining to the Ten Commandments. It would seem that modern accounting theory and the developments associated with it could be augmented if supported by similar attention to morals and ethics. It is for this reason only that other disciplines, such as those disciplines supporting military science, be researched in order

to find some examples of morals and ethics that can be applied in the same highly disciplined environment as accounting.

To explain the relation between the ancient virtues of a military leader and the modern day Professional Accountant, it is necessary to draw the following analogies between the Chinese warlord and Professional Accountants:

- (a) Humanity and benevolence. In much the same manner as a soldier must display his humanity to his soldiers, it is important for the Professional Accountant to display the same attributes to his clients and own employees. It is common for a Professional Accountant to assist a client in starting up his enterprise and then remain the Professional Accountant for as long as the enterprise is in operation. The client must always feel safe and protected by his Professional Accountant.
- (b) Uprightness of mind. In this phrase, Sun Tzu refers to courage and strictness. There should be no more opportunities for advancement for a Professional Accountant who cannot display acts of courage and strictness in the SME sector, as it is in this sector that the Professional Accountant delivers the biggest contribution. Most enterprises in the SME sector cannot afford a full-time Professional Accountant due to economies of scale and in most, if not all, cases lack proper accounting knowledge themselves.
- (c) Self-respect and self-control. It is a known fact in military circles that a commander that practices self-respect and self-control will be able to embody these attributes to his soldiers as well. While engaged in the South West African Border War, it was common for the older Citizen Force regiments to evaluate the competence of an officer in the field on these two interconnected virtues. No less will a Professional Accountant find his own personnel very well disciplined and his clients focused on their enterprises if both personnel and clients perceive the Professional Accountant not to be a so-called “loose cannon”.

(d) Wisdom and sincerity. Wisdom is the ability to apply knowledge in such a manner that is beneficial to those individuals and parties within a particular responsibility sphere. Sincerity is the application of honesty in a constantly fair manner. The Professional Accountant, in particular, cannot be seen as being honest with his client when applying tactics that will ensure that the client avoids taxes or paying other debts. Furthermore, applying a brilliant interpretation to an accounting standard may be regarded as knowledge of the highest order, but by applying it in such a manner that causes the enterprise of the client future harm, is not wisdom.

In short, the Professional Accountant has to start accepting the fact that he is, apart from being an accountant and rendering a professional service, also a leader. The demands of leadership are much more involved than mere technical knowledge. General Colin Powell summarises this as follows, "Leadership is solving problems. The day soldiers stop bringing you their problems is the day you have stopped leading them. They have either lost confidence that you can help or concluded that you do not care. Either case is a failure of leadership." (Satterfield, 2015) By the same token, a client expects a Professional Accountant to be a problem solver over and above the fact that such a Professional Accountant must have technical expertise. Moreover, a client must never be left with the impression that the Professional Accountant cannot solve his problems, as this leaves the impression that he does not care. The moral high ground in the execution of the duties of a Professional Accountant must be sought from whatever sources are available. It would seem that those virtues found in the military sciences are well suited for Professional Accountants, as those virtues have been developed from a similarly disciplined environment.

The world economy is waging a much more serious war of late; the war against poverty. As stated by Master Sun Tzu, "The art of war is of vital importance to the state. It is a matter of life and death, a road either to safety or to ruin. Hence, it is a subject of inquiry which can on no account be neglected" (Giles, 1910:11). Master Sun Tzu then proceeds with his deliberations and states that the art of war is governed by five constant factors, namely:

- (a) The moral law
- (b) Heaven
- (c) Earth
- (d) The commander and
- (e) Method and discipline

The above five constant factors can be applied to the duties of Professional Accountants, when taking the following into consideration:

- (a) The moral law. The moral law causes “the people to be in complete accord with their ruler so that they will follow him regardless of their lives, undismayed by any danger.” (Giles, 1910:2). The analogy that can be drawn here is that the Professional Accountant has a moral obligation to abide by the laws of the country. Reference must also again be made to the opening paragraph of Chapter 1 where the definition of a Professional Accountant is described.
- (b) Heaven and earth references are purely in the military sense and do have some relevance in the world of the Professional Accountant. The reference to the seasons, day, night, and distances can be related to the various limitations put on the Professional Accountant regarding working hours, distances travelled to various clients, and lastly the various seasons in a particular fiscal year such as tax filing seasons, the pressurised period after a fiscal year where annual financial statements need to be presented to third party creditors, as well as the preparation of budgets for the new fiscal year to be approved by the owners of the enterprise.
- (c) The Commander. Reference to the Commander is done in respect of the five virtues which have already been discussed on the previous pages and requires no further comment.

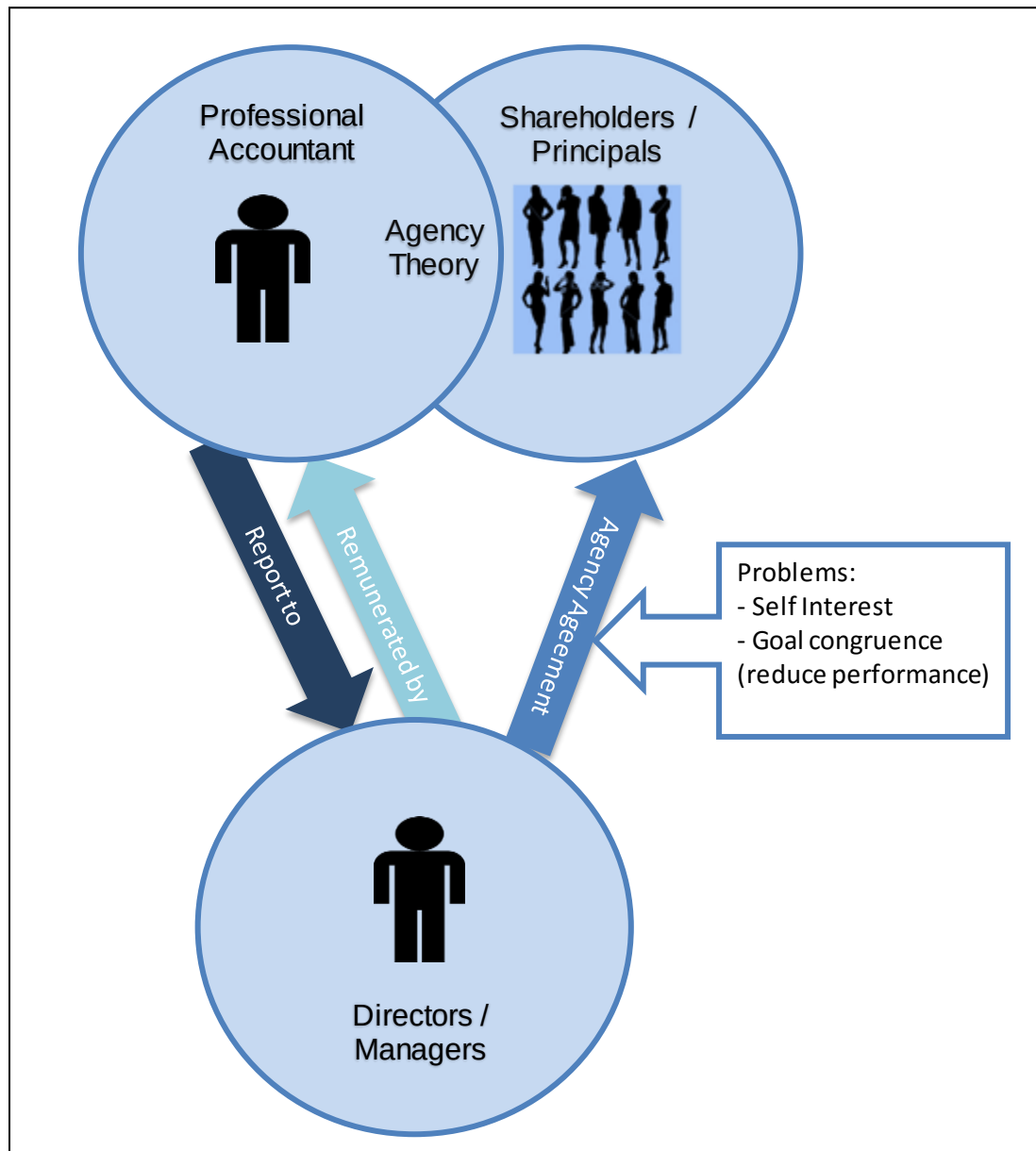
(d) Method and discipline. Master Sun Tzu refers to the “marshalling of the army in its proper subdivisions, the graduations of rank among the officers, the maintenance of roads by which supplies may reach the army, and the control of military expenditure.” (Giles, 1910:2.) In the same manner, the Professional Accountant will utilise all practice personnel to each members’ full potential, promote members when and where competence levels have been attained, maintain offices and equipment to a serviceable level, and control total expenditure thereby ensuring that clients are billed fairly.

2.5.2 The agency principle and theory as a unique link between the Professional Accountant and the SME client

Although comparisons can be found in the execution of the duties of a Professional Accountant and any military leader, the Professional Accountant has one distinct element which is unique to the accounting profession that requires analysis, and that is the issue relating to the agency theory.

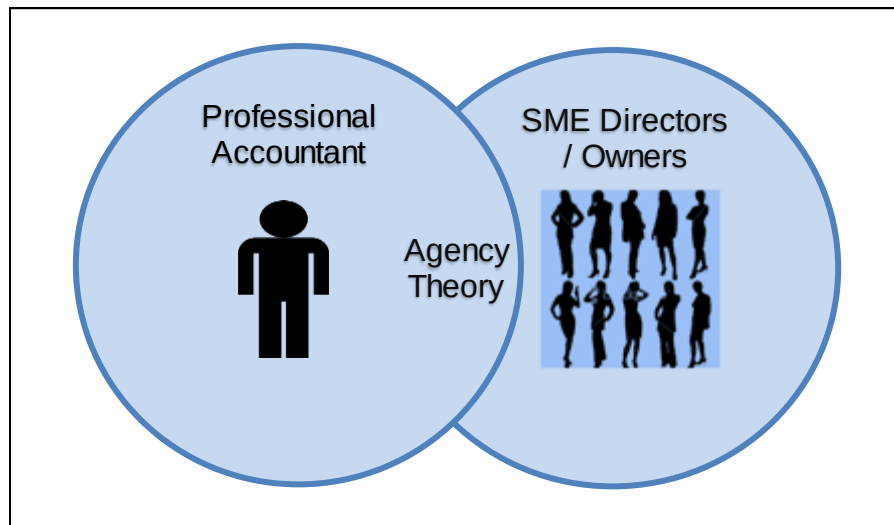
The traditional agency agreement between the three tiers of a public company (i.e. a company that has shareholders and management that are not the same individuals) is depicted in Figure 2.1 below. It is important to note that there is, first of all, a relationship between the directors and/or managers and the shareholders or principals of the company. The challenges in this relationship are generally of a self-interest and goal congruence (harmony) nature. In many incidents in the past, there seems to be a constant performance gap between the expectations of the shareholders and those of the directors or management. To add to the mix, in cases such as these, there is also an agency agreement between the Professional Accountant and the shareholders. The figure below indicates it as an “Agency Theory”. It is accepted that the Professional Accountant will at all times protect the shareholders and public in the execution of its duties. Even here, there seems to be a dominant performance gap.

Figure 2.1 Agency Agreement Illustration: Public Companies



In contrast with the above scenario is the agency agreement between the Professional Accountant and the directors of the SME Enterprise, depicted in Figure 2.2. In this case, the agreement is more clearly defined, as the same person who requires the services rendered by Professional Accountants is also responsible for paying them. This is not the case for the scenario depicted in Figure 2.1, and this might be the reason for quite a lot of unprofessional behavior by Professional Accountants.

Figure 2.2 Agency Agreement: SME Sector Companies



This thesis will only focus on the scenario depicted in Figure 2.2.

2.6 National and international education standards for Professional Accountants

Taking the new legal environment into account as well as the clearer relationship between the Professional Accountant and the SME client, a question that begs an answer is, what are the optimal academic and competency qualifications for Professional Accountants working in the SME sector of the economy in a country like South Africa?

It would seem that although the South African authorities are in the process of developing a unique set of education standards for Professional Accountants, the current international education standards as promulgated by IFAC can be used as a positive yardstick. This approach will not only prevent time from being unnecessarily wasted for the development of a unique set of standards, but individual Professional Accountants complying with international requirements will find themselves qualified sufficiently to ply their profession on a worldwide scale, and also be in a position to serve their clients optimally regarding cross-border transactions and issues such as Base Erosion and Profit Shifting. The latter is becoming quite a challenge for SMEs that are expanding their own markets on an international scale.

For a number of years, each jurisdiction decided upon its own education standards for Professional Accountants. However, as the world started to shrink, it became evident that international standards had to be considered, particularly due to the development of IFRS and the fact that even small enterprises started to compete beyond their own borders.

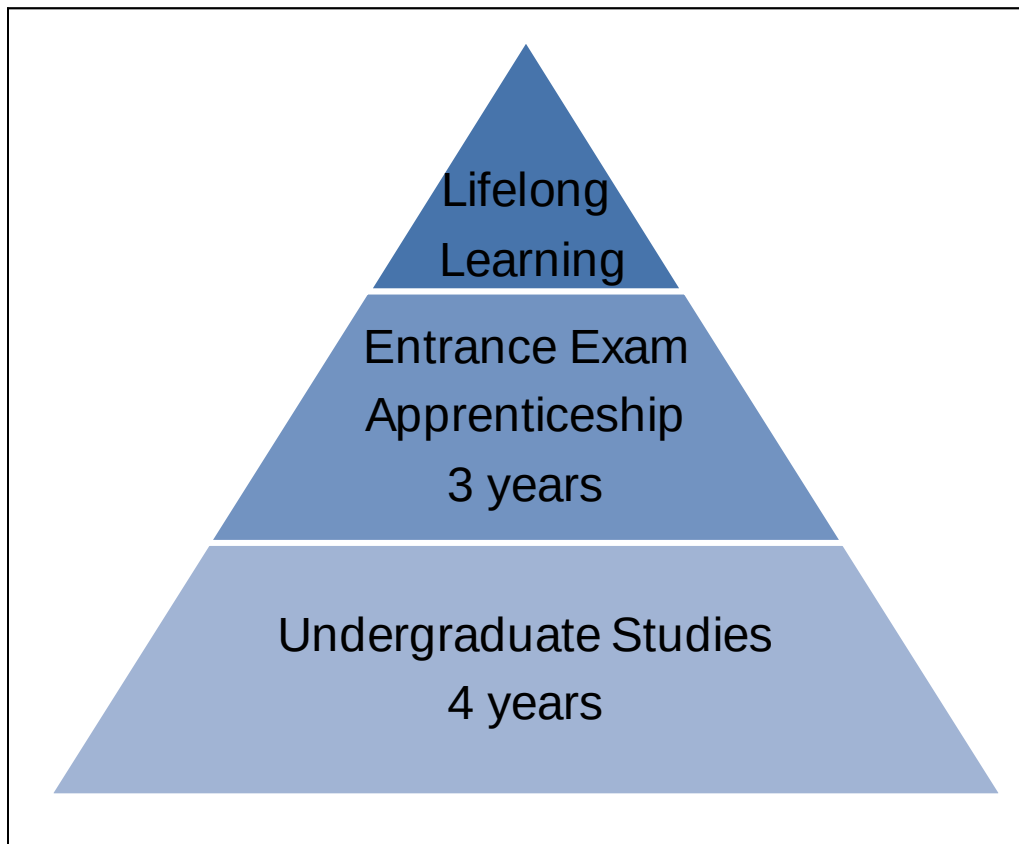
The Continuing Professional Development (henceforth CPD) standards applicable to the two bodies in South Africa that are members of IFAC once differed to a large extent, but since the acceptance of the international standard these two bodies now adhere to the same standards. These standards also assist in limiting any confusion the general public may have of accountants in general.

The international norm is to have a Professional Accountant's education standards measured and controlled at three levels, namely:

- (a) The obtainment of an initial degree with particular subjects. Most jurisdictions require a bachelor's degree with specific majors such as accounting, auditing, financial management, and tax law.
- (b) To obtain basic exposure to the profession by completing an initial period of articles. It has also become a standard requirement that after the initial serving of articles for a period of approximately three years that candidates also write a final entrance examination.
- (c) To adhere to a strict program of CPD. Continuing Professional Development is becoming a very strict requirement in order to maintain the right to operate a public practice. The newest South African requirements are exactly the same of that of IFAC, and a total of 20 structured and 20 unstructured hours per calendar year is now a fixed requirement. (IFAC, 2002:1-20)

These three levels are depicted in Figure 2.3 below.

Figure 2.3 Career Development Pyramid of a Professional Accountant



2.7 Competence requirements for the Professional Accountant practicing in the SME sector in the 21st Century

Once all basic requirements have been met, Professional Accountants also have to adhere to specific requirements depending on the type of clients they wish to serve and the type of service they wish to render. In the SME sector, this kaleidoscope of service delivery possibilities is very prevalent purely because the SME client normally demands from the Professional Accountant to be everything at the same time. The more simplified agency relationship between the Professional Accountant and the SME director/owner (as depicted in Figure 2.2 above) poses its own challenges, due to the fact that this arrangement invariably causes independence challenges on the one end, and on the other end the Professional Accountant needs to be very well versed in a variety of related subjects since the SME director/owner cannot afford to remunerate a lot of individuals.

These challenges sometimes cover issues of a multi-disciplinary nature and also cover aspects pertaining to specific economic sectors that are subjected to constant change, such as B-BBEE legislation.

2.7.1 General requirements

As indicated in Chapter 1, the ultimate driving force in respect of economic growth in South Africa and the rest of the world will in all probability remain in the SME sector for the foreseeable future. Notwithstanding the fact that large public entities, such as public companies and public utilities, are required to perform a level of economic activity that the SME sector cannot fulfil, such as the provision of electric power and communication, the SME sector provides economic growth through job creation which results ultimately in a broader tax base on a national level.

It is also in this sector where the duties and responsibilities of the Professional Accountant need to be more clearly defined. Alternative avenues are pursued in order to ensure that the participation of the professional becomes much more active and visible in respect of their ultimate contribution. The Professional Accountants' initial training in South Africa lasts approximately seven years. This period will include undergraduate study, an industry standard apprenticeship, and eventual entrance examination. Figure 2.3 above illustrated this development path and illustrates the importance of lifelong learning as a requirement by IFAC. Prior to the IFAC requirements, much less onerous requirements were established and governed by IFAC member bodies individually. In South Africa, all professional bodies that are full members of IFAC discontinued their own standards in favour of the IFAC requirements.

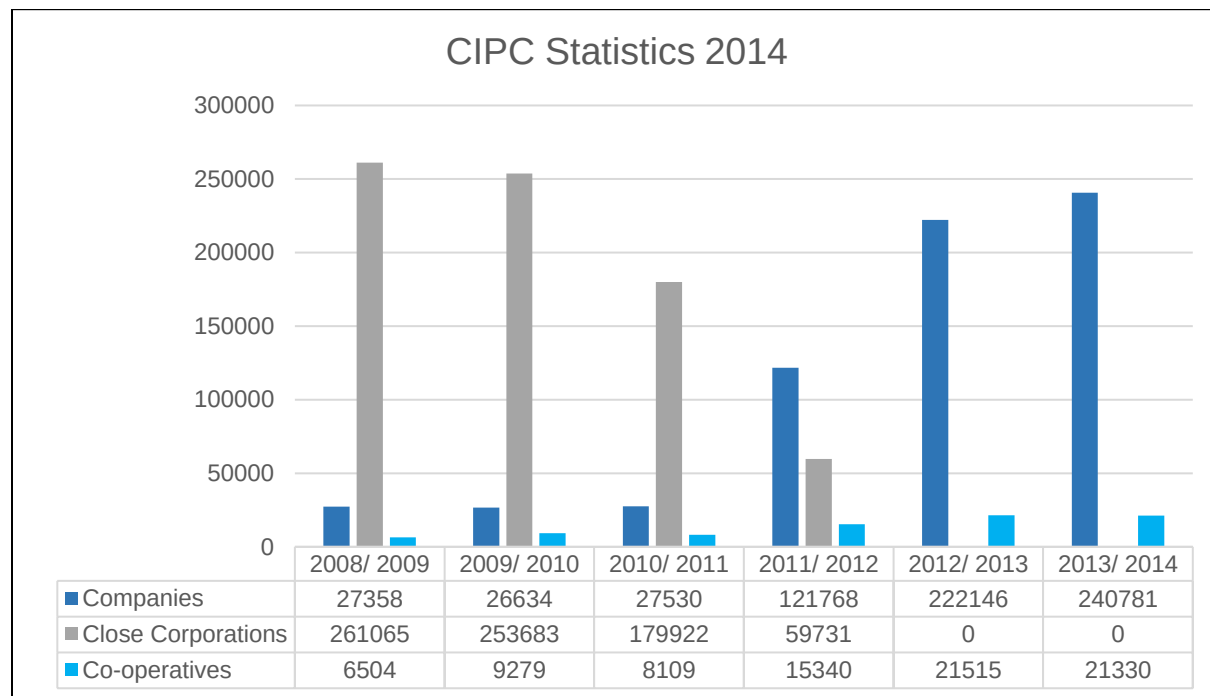
Apart from public companies, South Africa allows the registration and operations of enterprises under the following enterprise types:

- (a) Private Companies
- (b) Close Corporations
- (c) Partnerships
- (d) Sole Proprietorships
- (e) Trusts
- (f) Co-operatives

This research will only focus on private companies and other legal entities with a PIS of less than 350. Figure 2.4 and Table 2.1 illustrates the composition of all legal entities in South Africa where the close corporation is still the most favoured entity, although after the promulgation of the Companies Act, Act 71 of 2008 on 1 July 2011, no more close corporations could be registered. It is unclear how many close corporations have been converted into private companies since this date. As the requirements pertaining to the financial records and reporting of private companies are less onerous in terms of the new Companies Act (Number 71 of 2008), it would be expected that most close corporations would want to convert. However, when comparing the amount of registrations for new companies to new close corporations prior to this, it would seem that the increased numbers of registrations of new companies were driven by all-new registrations and not conversions. If this holds true, the fact of less onerous accounting requirements had not been communicated properly to the members of close corporations.

Figure 2.4 shows the number of registrations for each legal entity since 2008. There is a sharp increase in the registration of co-operatives. The graph provides an illustration of the trend. The effect of the new Companies Act (Number 71 of 2008) is clear. The registrations of companies have increased to such a level that it is on par with the annual registrations of close corporations, up until the promulgation of the Companies Act (Number 71 of 2008). Registrations of co-operatives have also increased more than two-fold effectively from the 2011/2012 fiscal year and this can be attributed to the new Co-operatives Act.

Figure 2.4 Legal Entity Registration Statistics



Since the promulgation of the Companies Act, Number 71 of 2008, the registration of private companies increased rapidly from a low just over 27 000 entities per year to just over 240 000 entities which are nearly as many close corporation registrations in the 2009/2010 reporting year.

It is clear from Table 2.1 that the close corporation was the dominant enterprise format up to the promulgation of the Companies Act (Number 71 of 2008), with close corporations accounting for 74 percent of the total registrations in 2006. This dominance can only be attributed to the sheer numbers of new registrations, which were in turn fuelled by the lower compliance costs associated with close corporations in comparison to companies. Before the promulgation of the current Companies Act (Number 71 of 2008), even very small owner-managed companies were subjected to a statutory audit. Although compliance in terms of particularly tax legislation was always critical, the perception persisted that the audit did not provide any value-added benefit to the owner-manager.

As will be noted from all the case studies in Chapter 5, the execution of a statutory audit could not prevent the problems and challenges experienced by those entrepreneurs and this, once again, highlights the urgent need for the development of another set of requirements, both educational and professional, which Professional Accountants should possess in order to make a difference and effectively serve these types of clients.

Since 1 May 2011, newly formed private companies became the new SME-vehicle and as the compliance requirements are less onerous as before, the challenge is to provide a compliance environment that not only serves the statutory requirements through good corporate governance, but also provides the necessary support systems and professional knowledge in a way that is affordable, fast, and efficient.

Table 2.1 Historical Company Registration Statistics

ENTITIES	NUMBER OF REGISTRATIONS OF LEGAL ENTITIES IN JUNE 2006
Close Corporations	1 276 157
Companies	412 233
Section 21 Companies	16 485
Incorporated Companies	7 976
Public Companies	3 757
External Companies	1 056
Companies Limited by Guarantee	85

Table 2.1 provides the total registered legal entities by type in June 2006. Comparing these figures to the newest registration figures noted in Figure 2.4 it is obvious that the private company is now favoured as the best vehicle for business. Taking into account the enormous growth in the registration of private companies, it is becoming imperative that the SME sector is provided with Professional Accountants that will be able, willing, and sufficiently equipped to provide the required professional support to their clients.

2.7.2 Private companies

The Companies Act (Number 71 of 2008) and particularly Sections 29 and 30 dictate the requirements pertaining to the format of annual financial statements and the level of assurance respectively. As indicated in Section 2.7.1 above, these requirements are much less onerous, but there are nevertheless standards that have to be adhered to.

2.7.2.1 Financial Reporting Standards

The Companies Act (Number 71 of 2008) accepted the international standards as can be seen in Section 29 of the Act. Table 2.2 summarises the current requirements pertaining to the financial reporting of various types of enterprises. It needs to be noted that even SMEs are now required to disclose their financial information in a standardised format. These standardised formats have also been included in all tax legislation, particularly the Tax Administration Act (Section 28). One particular court case, ITC 1636(1997) 60 SATC 267¹ held at the Eastern Cape Special Court clearly illustrates the importance of adherence to the highest accounting standards. Block Five on Table 2.2 states that any company with a PIS of less than 350 will apply IFRS or IFRS for SMEs.

2.7.2.2 Assurance requirements

There is a definitive difference regarding the issue of assurance engagements between private and public companies. Private companies, if subjected to any form of assurance, are limited to those assurances required by the International Standards of Review Engagements (Number 2 400) which requires a systems review, not a substantive audit.

¹ In this matter, the taxpayer entered into a lease-back transaction with a bank on its assets. The revenue authority deemed the transaction as a scheme. The Court held that the transaction was an arm's-length transaction as there was no special relationship between the bank and the taxpayer, the terms of the agreements were based on sound economics and the tax payer had a solid credit record. The tax effect of the transaction was allowed

Table 2.2 Financial Reporting Standards based on Public Interest Scores

Regulations: Financial Reporting Standards	
Category of Company	Financial Reporting Standards
1. State-owned company	IFRS, but in the case of any conflict with any requirement in terms of the Public Finance Management Act, the latter prevails
2. Public companies listed on an exchange	IFRS
3. Public companies not listed on an exchange	Either (a) IFRS; or (b) IFRS for SMEs provided that the company meets the scoping requirements outlined in the IFRS for SMEs
4. Profit companies (other than state-owned and public companies), whose PIS for the particular financial year is at least 350	Either (a) IFRS; or (b) IFRS for SMEs provided that the company meets the scoping requirements outlined in the IFRS for SMEs
5. Profit companies (other than state-owned companies), - (a) Whose PIS is at least 100 but less than 350; or (b) Whose PIS for the particular financial year is less than 100, and whose statements are independently compiled	Either (a) IFRS; or (b) IFRS for SMEs provided that the company meets the scoping requirements outlined in the IFRS for SMEs

However, part of the quality control requirements dictated by this standard is that should the Professional Accountant not have sufficient confidence that the systems are trustworthy, further tests are to be undertaken which might include substantive testing.

The statutory audit of the annual financial statements of a private company is not therefore mandatory. The reason for this decision was based on the fact that the benefit of the audit in these instances was always questionable, as the registered auditor in most of these cases also acted as the Professional Accountant. Section 41 of the Auditing Profession Act requires that the auditor be registered with the Independent Regulatory Board for Auditors (South Africa, 2006) and are subjected to a myriad of additional rules, which include more stringent engagement rules pertaining to the limitations on non-audit work and auditor rotation to name two examples.

There is an original school of thought that wanted to eliminate the need for an audit of this type of entity in its entirety, which now proved to be correct particularly due to the fact that the Tax Administration Act demands proper audit files of clients for possible future tax audits (Visser, 2008). As noted previously all private companies with a PIS of below 350 must be subjected to an independent review, which is an audit but without the substantive audit requirements.

2.7.3 Close corporations

If the PIS of a close corporation is less than 100, the compilation requirements of annual financial statements are much more onerous than those requirements of a private company with the same score. It is, therefore, quite surprising that most of these enterprises still have not converted to private companies. A close corporation with a PIS of more than 350 is currently subjected to a statutory audit. This results in the enterprise being subjected to higher reporting standards, but without the additional benefits

associated with a modern day private company; particularly the complete differentiation between shareholders and the enterprise.

Section 60 of the Close Corporations Act (Number 69 of 1984) states the requirements for recognized professionals to act as accounting officers for close corporations. (SAICA, 2005:713). These same requirements are also adopted in the requirements for accounting officers for trusts, micro financing enterprises, certain schools, and other forms of compliance reports.

In terms of the Tax Administration Act, the assurance and financial reporting requirements for close corporations are the same as in the case of private companies, irrespective the size of said enterprises. In the case of enterprises with a PIS of below 350, an Independent Review is required if the compilation of these financial statements was done internally. In the case of a close corporation, the financial statements will be subjected to the analysis by an Accounting Officer irrespective of whether it was compiled internally, and all annual financial statements will be drafted in terms of IFRS for SMEs.

However, the Tax Administration Act (Section 28) demands that whoever drafted the financial information on which a tax assessment is based will be held responsible for the correctness and completeness of such information, until it can be proven that the tax practitioner was not aware of any shortcomings of this information, and that it is reasonable that such a Professional Accountant could not have been aware of it. As shown in Figure 2.4 above, with the introduction of the Companies Act (Number 71 of 2008), the close corporation was cancelled as a legal enterprise form and the private company is now the most dominant legal form for SMEs.

2.7.4 Partnership and sole proprietorships

There are no legal requirements in respect of minimum qualifications for Professional Accountants to provide services in this sector. However, the tax authorities in South Africa

through the Income Tax Act, Number 58 of 1962 (as amended) provide the minimum reporting requirements of these types of enterprises. The Tax Administration Act once again provides the rules and regulations that will govern the rendering of these types of services. In terms of the Tax Administration Act, irrespective the type of enterprise, the accepted accounting practices will still apply and the preparer will be subjected to the same scrutiny as those preparers of annual financial statements for other types of enterprises.

2.7.5 Trusts

Trusts, whether Inter Vivos Trusts, Business Trusts, or Testamentary Trusts, must at least comply with the statutory requirements in terms of their financial reporting, as indicated in the Income Tax Act, Number 58 of 1962 (as amended). However, the engagement letter that the Professional Accountant of a trust provides to the Office of the Master of the High Court also provides the acknowledgment from the Professional Accountants of the following additional duties:

- (a) That the Professional Accountant will inform the Office of the Master of the High court if he/she no longer acts as the Professional Accountant.
- (b) That the Professional Accountant will inform the Office of the Master of the High Court of the name and address of the new Professional Accountants if such information is available.
- (c) That the Professional Accountant will immediately inform the Office of the Master of the High Court if the trust is being administered recklessly.
- (d) That the Professional Accountant will provide the Office of the Master of the High Court with audited or certified annual financial statements, whichever type of assurance is required by the trust deed.

- (e) That the Professional Accountant will, in the annual financial statements mentioned above, provide the Office of the Master of the High Court with clear indications of any changes to the trust capital during the reporting period/ period under review.

In terms of the Tax Administration Act, the same requirements apply to the preparation of annual financial statements for trusts than would apply for any other legal entity.

2.7.6 Co-operatives

In terms of the Co-operatives Act of 2005 (Number 14 of 2005) Section 21(1)(g), a co-operative must keep “adequate accounting records, including records reflecting the transactions between each member and the co-operative for the purpose of calculating the patronage portion” (South Africa, 2007:26). The adequacy of accounting records is further explained in Section 47(1)(a) and (b) where it is stated that the auditor must report that the financial records of the enterprise conform to the generally accepted accounting practices and also the constitution of the co-operative. It remains quite vague as to what qualifications the person authorized to act as auditor should have. In the definitions section of the Act, the auditor is clearly defined as a person registered with the Independent Regulatory Board for Auditors (IRBA) (former Public Accountants and Auditors Board (PAAB)), but in Section 47(2) it is stated that should a co-operative not be able to afford an auditor, written application for exemption may be forwarded to the Registrar (South Africa, 2007:42). The definitions section also defines an auditor as a member of the PAAB (now the IRBA) or any other person if the Registrar deems it appropriate.

The same reporting requirements in terms of the various revenue laws also apply to co-operatives.

All of the above types of enterprises will be found in the overall research area of this thesis. It is important to note that although these singular enterprises’ physical impact on

the economy will be limited, one must never lose cognisance of the fact that as a sector the SMEs are regarded as the future focus of economic development of South Africa and most other countries in the Western world. Furthermore, as a collective, this sector, if not properly supported by professionals of all types and if not allowed to develop in a safe and legal environment, can cause irreparable harm to the future growth of any country. A conducive legal and financial environment will support companies in the SME sector to grow into the world's next public companies.

2.8 Continuing Professional Development (CPD)

In an ever-evolving environment, Professional Accountants will find themselves at a very early developmental cliff if they do not renew their knowledge on a regular basis. Apart from changes to IFRS, the revenue laws of countries are subjected to constant changes. These changes function predominantly to create an enabling environment, not only for the country through effective revenue collection, but also for the enterprises operating in those countries to remain competitive. As indicated in Section 2.7 above, there are definitive technical requirements to which Professional Accountants need to adhere. However, these technical requirements seem to be lacking in many respects, particularly in abnormal situations perpetrated by either the statutory authorities or direct competitors.

CPD is not new and its origins can be traced back as far as the Yasa of Genghis Khan. Two of the cornerstones of these rules were that everybody had the same opportunities and that every individual had the obligation to develop himself to the utmost. This research found that it was even custom for all soldiers to carry a marshal's baton in their knapsack as anybody had the same right to promotion (Anon, 2005:12-14). In order to serve their SME clients, Professional Accountants need to sharpen their skills permanently and add even more to their own skills sets, as the SME client will always have limited resources but will always require professional support that in most cases will be of high caliber and up to date technical knowledge. As will be seen from some of the case studies in Chapter 5, the SME entrepreneur must at all times be supported in such a way that the larger

corporate enterprise will be unable to compete unfairly against it, or damage it beyond repair purely for the sake of competition or ridding itself of a small up and coming competitor.

All professional accounting and auditing institutes in South Africa adopted the CPD requirements as stated by IFAC. A Professional Accountant that is also a tax practitioner with the revenue authorities must adhere to the minimum compliance requirements over a three-year cycle; totaling 120 hours of which at least 50 percent of these hours must be verifiable. This implies that every year, twelve structured hours will be attributed to tax training, two hours to ethics training, four hours to accounting and two hours for optional training. Added to this, another twenty hours must be attributable to unstructured development derived from reading and ad hoc studies (SAIPA, 2015). The new IRBA has also published its CPD requirements and they conform to those of IFAC.

2.9 Ethics and morality in Accounting, Tax Law and Financial Management as applied to SMEs

The Accounting Standards Division of the American Institute of Certified Professional Accountants issued a discussion paper as far back as March 1975. (AICPA, 1975). Already at this early stage, the main focus was on the Professional Accountants' responsibility in respect of unaudited versus audited financial statements. After this report, numerous accounting bodies, of which not the least IFAC, allocated considerable resources in order to develop more appropriate account standards for the SME sector. Unfortunately, to date, there is no agreement regarding the differentiation between small GAAP and normal GAAP.

The watering down of accounting standards for the SME sector will, in fact, not serve any purpose whatsoever. On the contrary, to safeguard the SME sector against any attacks from state organs, strict adherence to IFRS must be applied by all Professional Accountants taking into account the disclosures in terms of the Tax Administration Act.

Added to the more stringent application of IFRS, all Professional Accountants will have to act in a much more ethical manner in conducting the tax affairs of their clients. Professors Marx and Rossouw (2005:5-6) identify the lack of business ethics in the accounting profession as one of the root causes of major corporate collapses. They remark that “ethical behavior is no longer an optional luxury, but a vital ingredient of sustainable business.” (Marx & Rossouw, 2005:5-6.) Under the current Companies Act regime, a lot more emphasis will be placed on ethical behaviour by Professional Accountants, largely due to the fact that the auditing of most private companies in South Africa –particularly SME companies–will be eliminated, and third parties will still need to rely on the disclosures made on the financial reports of these companies.

Professional Accountants also need to start acting fearless on behalf of their clients with particular reference to the statutory authorities. There is no need for simplified IFRS or simplified audit procedures, mainly due to the fact that the prevalence of secondary legislation in South Africa, in particular, requires much more accuracy and accountability in terms of disclosures from Professional Accountants.

To establish all those essential elements that would make a good Professional Accountant would seem a futile exercise if the views of the old master philosophers are excluded. By studying their views, it becomes more evident that adherence to some of their views can somehow be woven into the accounting profession with quite interesting consequences.

One of these is the Mongol leader, Genghis Khan, who ruled much of the current Muslim and Christian world during the 1200s. Genghis Khan decreed a code of laws, known today as The Great Yasa and most of these values will be found quite unremarkable in its familiarity to any Christian or even Muslim. A few of these laws are:

- (a) Condemn the wicked
- (b) Do not steal
- (c) Third-time bankruptcy is a capital crime and punishable by death.

- (d) A golden rule is to love one another
- (e) Respect all people. Show no preference to any sect or religion.
- (f) Never subjugate a conquered people as you need them to function at their best in order to make a profit out of them.

However, the fact that the Great Yasa allows a person to be bankrupted three times before the law is considered broken shows a type of benevolence that cannot be found in any type of modern economic system. Taking into account the background of the harsh conditions within which the Mongol people had to survive, it does not seem to be that much of an odd idea (Palmer, 2003:6).

The current business environment in which the SME entrepreneur operates has its own harsh conditions and these conditions have resulted in quite a number of healthy enterprises disappearing from the scene altogether. Limited resources and, in many cases, extreme limitations on reaction time caused quite a number of enterprises to suffer an earlier than expected demise. Particularly time limitations set by the courts in the past during litigation processes, such as liquidations, caused a general reluctance to fight back, due to the fact that there was a misconception that an entrepreneur required a full legal team to resist a liquidation application. In South Africa, a whole new range of legislation is sometimes the cause for panic when entrepreneurs unexpectedly find themselves on the wrong side of the law. Examples of these can be found in the new environmental laws that are causing havoc amongst farmers with unregistered dams, and tavern owners are also experiencing sleepless nights due to the constant amendments to the current liquor laws.

The traditional approach of auditing the financial records at year end and then purely providing a certificate which states that the financial statements seem to provide a fair presentation of the results of operations of the enterprise, is not adding any value to the SME sector. The Professional Accountants rendering a service to the SME sector will need to re-establish accounting and related services on a much more continuous basis in order to ensure that the enterprise has access to a proper level of service.

Entrepreneurs in this sector are quite willing to remunerate good value-added service. However, due to the lack of some underlying skills of Professional Accountants particularly in the field of problem-solving, Professional Accountants more often than not only act as bookkeepers for their clients. Should the Professional Accountant be able to become an effective problem solver as well, the SME entrepreneur will only need to procure the services of one professional and not two or more.

Chapter 5 will illustrate how the incorrect application of basic accounting principles and the untimely withdrawal of the Professional Accountants resulted in the closure of one company, the levying of a crippling fine in another enterprise, and job losses that this country can ill afford under the current economic climate.

2.9.1 Moral issues regarding tax compliance worldwide

In terms of tax legislation, various jurisdictions focus on different aspects of ethics in order to drive compliance. One would suspect that this is primarily due to the various cultural influences prevalent in each individual jurisdiction. Although most jurisdictions support the notion of voluntary compliance, all jurisdictions also spent vast sums on sophisticated computer systems and other forms of co-operative agreements, such as the new drive pertaining to Base Erosion and Profit Shifting, in an attempt to govern even voluntary compliance. As it is mostly bigger corporations that are guilty of aggressive tax practices, such as the creation and utilisation of off-shore accounts to shift profits to more tax-friendly jurisdictions, SMEs competing in the same market often feel forced to start taking short-cuts regarding tax compliance issues in order to remain price competitive. Therefore, irrespective of the sophistication of the tax regime, Professional Accountants must be on guard to maintain the highest level of ethical behavior.

2.9.1.1 The American model

The federal tax system in the United States of America (USA) is steeply grounded in voluntary compliance. As will be discussed in Chapter 4, there seems to be a constant testing of tax administration and the legal obligations of citizens as well. For most, USA taxpayers are encouraged to comply through their own volition (Grasso & Kaplan, 1998:75). This framework of voluntary tax compliance forms the basis of taxpayers- and their tax preparers' moral decision making. This framework can be further described by providing the four underlying characteristics identified by Grasso and Kaplan (1998:75):

- (a) Moral issue – this is present where a person's actions, when freely performed, may harm or benefit others.
- (b) Moral agent – this is a person who makes a moral decision, regardless whether there is an awareness that moral issues are at stake.
- (c) Ethical decision – this is a decision that is both morally and legally acceptable to the larger community.
- (d) Unethical decision – this is a decision that is either illegal or morally unacceptable to the larger community.

The problem with the abovementioned four characteristics is that too much emphasis is placed on the responsibility of the individual. If the moral fibre of a community is under pressure for any reason whatsoever, the above definitions would imply that individuals may change their decision to still suit the larger community. Once again illustrating the need for a problem solving method that incorporates not only the four pillars on which Professional Accountants' technical knowledge are based, but also the ethical application of these four pillars.

Other scholars maintain that the agent must at all times be aware of his individual sense of obligation or duty. The theory in this instance is that, "making the right decision unaware that moral issues are at stake, or making the right decision on the basis expected pleasure or extrinsic gain would be considered amoral" (Grasso & Kaplan, 1998:75).

A third view that combines the above two views is that “An action is not a moral act unless the decision to act was made for the right reasons” (Grasso & Kaplan, 1998:75). Applying the above general statement to the case of the USA taxpayer, the taxpayers are moral agents and the amount of tax that they decide to pay is a moral issue. Non-compliance constitutes an unethical decision irrespective of whether there were any reasons for non-compliance.

Added to the above, Professional Accountants in the USA acting as tax preparers are also confronted with moral and ethical issues. In a survey prepared by the Internal Revenue Service (IRS), it was found that tax preparers experienced compliance problems with at least one client per tax season where such clients did not regard tax evasion as unethical. In another study, senior Professional Accountants (IACPA members) were required to disclose which single job situation poses the most difficult moral and ethical problem for them personally; 47 percent of them identified client proposals of tax alteration and tax fraud (Grasso & Kaplan, 1998:77). At the core of the problem is the dual responsibility of the tax preparer towards the client and the outside party, which in the case of the USA is the IRS.

A survey that was conducted with the purpose of identifying the types of questionable behavior among tax preparers (Grasso & Kaplan, 1998:77), listed the following:

- (a) Not probing for secondary sources of income,
- (b) Not being cautious about criminal violations when there is a suspicion that income is intentionally understated,
- (c) Signing a return when there is a strong suspicion it understates income, or signing a return that has a large, undocumented income, and
- (d) Showing deductions in such a way as to minimize the chances of being selected for an audit.

2.9.1.2 The United Kingdom model

In the United Kingdom, a new system for collecting and assessing tax was introduced on 6 April 1996. The system was called “Self-Assessment” (Pilkenton, 1998:82). The principle of self-assessment is that it transfers the legal obligation to charge tax from the Inland Revenue Services to the taxpayer.

Tax practitioners in the United Kingdom are also faced with the dilemma to find loopholes in tax legislation in order to favour clients, in much the same manner as their American counterparts do. Certain research in the United Kingdom proved, furthermore, that there is a direct link between ethical behavior in tax matters and the efficient running of the economy (Pilkington, 1998:85). Added to this it would also seem that individuals have a tendency to look to the behavior of other individuals in order to find justification for their own behavior (Pilkington, 1998:86). It is, therefore, obvious that behavioral norms are very fragile enforcement mechanisms.

2.9.1.3 The South African model

In South Africa, a more stringent compliance regime exists and most tax practitioners have dual professional registration as tax practitioners in accordance with Section 67A of the Income tax Act, Number 58 of 1962, as well as membership with one of two larger accounting institutes, SAICA or SAIPA. The fines attributed to tax evasion and the incorrect completion of returns are also very high, but its main purpose is to deter individuals from evading taxes. The regulation of the accounting profession in South Africa seems to be one of the priorities of the government after the particular disastrous failures of auditors to detect fraud in a few much-publicized cases.

Recently, the criticism levelled at the South African government pertaining to the spending of tax money caused quite a few observers to expect a tax revolt in the not too distant future. Some of these observers also expect the revolt to take place in the SME sector

(Lambrecht, 2015). This expectation, however, seems to be ludicrous as SMEs could never be in a position to apply the same level of aggressive tax practices as larger corporations, purely due to a limitation in resources. There are various schools of thought on the source of the level of regulation of accountants, and one recent school attributes the level of self-regulation of accountants to the inherent culture of the country (Riah-Belkaoui, 2002:272). This research proposes that the following four distinct cultural dimensions have an impact on the professional self-regulation of the accounting profession:

- (a) Individualism – individuals are deemed to look after themselves and their immediate families, while collective societies have a more emotional cohesiveness which ensures unquestionable loyalty.
- (b) Power distance – in large power distance societies, individuals accept the hierarchical order where everybody has a place that does not require any justification, while in short power distance societies there is a tendency for individuals to demand equality and justification for any existing power inequalities.
- (c) Uncertainty avoidance – in strong uncertainty avoidance societies, individuals are intolerant of ambiguity and try to obtain control at all cost, while the opposite is true in the case of weak uncertainty avoidance societies where individuals are prepared to live with ambiguity.
- (d) Masculinity – masculinity versus femininity represents the nature of societies' preferences for stereotypical masculine qualities (such as assertiveness and making money, without due consideration for anybody else) rather than stereotypical feminine qualities (such as warm relationships or care for the weak).

By analysing the above mentioned four criteria, the level of self-regulation of that particular country's Professional Accountants can be determined and also substantiated. Taking the above four criteria as basis for the study, it was found that countries such as the United Kingdom, the USA, Australia, and New Zealand had a high score of professional self-regulation, while countries such as South Africa, Chile, and Denmark

had a medium score, and countries such as Italy and Spain had the lowest scores of professional self-regulations (Riah-Belkaoui, 2002:272-275).

Added to the above, there also seems to be a much more biased manner in the management of taxation in South Africa if compared to other countries in the Western world. It would seem that certain groups are favoured by SARS to the point where they are allowed to not even register for taxes while another group is constantly being harassed by tax authorities. Prime examples are the two main case studies illustrated in Chapter 5 of this thesis and the findings that were made during a short investigation during the period 2005 – 2014.

2.10 The importance of international standards of assurance for the SME sector and the integration of IFRS and ISA in the current accounting environment

2.10.1 Types of accounting in accounting research

There are generally two types of accounting theory. The first is the proposal or normative type which refers to fair value accounting which is useful for users of financial information where financial instruments, in particular, are involved. The second type of accounting is known as the descriptive or positive of accounting where the present-day accounting systems or existing modes of accounting are being utilised (Humphrey & Lee, 2004:283). The latter type of accounting is also often referred to as theoretical or scientific accounting, and the fundamental purpose when doing research on this type of accounting is to establish how accounting exists and how it functions in society. The former type is closely related to research where the researcher tries to establish some way of improving the existing state.

This thesis adopts the proposal type of accounting wherein an alternative way of dealing with a specific accounting matter is illustrated. The macro area in which this research is being conducted is in the area of Social and Environmental Accounting and Auditing

(SEAA) research. Furthermore, it would seem that the classic research theories in respect of accounting and auditing are more a question of, “numerous examples of increasingly sophisticated techniques being employed to annihilate increasingly trivial problems” (Humphrey & Lee, 2004:32). These two editors cite David Owen, who notes that “[f]or most environmental (and social) Accountants their choice of research represents a central and fundamental part of who they are and how they wish to serve their community. Such beliefs are often amongst the most important elements of the researcher’s existence” (Humphrey & Lee, 2004:32). These matters will be elaborated on in Chapter 3.

As described in Chapter 1, the case study method has been decided upon in the evaluation of the Risk Analyses Tool purely for the reason that there was limited (and unpublished) prior research on this particular matter. This approach is the only approach that allows “rich insight into new research fields” (Humphrey & Lee, 2004:41). As stated in Chapter 1, the illustrative case study method is being applied in this part of the thesis. These types of case studies are not illustrating practices that are necessarily superior to others, but merely to, “provide illustrations of the way in which particular theoretical categorizations can be observed in practice” (Humphrey & Lee, 2004:259).

2.10.2 The current international view regarding the execution of assurance engagements of SME Sector entities

As was described in section 2.5.2 of this chapter, the agency relationship between the Professional Accountant and the director or shareholders of a private company is much less complicated and does not pose the same risks and intricacies as in the case of the relationship between Professional Accountant and the directors and shareholders for a public company. The question, however, is whether the non-existence of this relationship nullifies the applicability of assurance standards in respect of entities in the SME sector. In order to answer this, it is important to review the newest published auditing standards issued by IFAC for audits pertaining to the SME sector (IFAC, 2007).

2.10.2.1 The establishment of international standards for SME sector audits

IFAC issued these standards in order to, “assist practitioners... and to promote consistent application of the ISAs”. (IFAC, 2007:1). The guide has been divided into four distinct sections, namely:

- (a) Basic audit concepts;
- (b) Risk assessment;
- (c) Risk response; and
- (d) Reporting

Basic audit concepts

In terms of ISA 200, 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 applicable financial reporting framework” (IFAC, 2007:27) (Also see: IFAC, 2005).

The same ISA further states that the auditor should plan and perform the audit to reduce audit risk to an acceptably low level that is consistent with the objective of the audit (IFAC, 2007: 28). It is generally known that audit risk contains two elements:

- (a) The risk that the financial statements contain a material misstatement; and
- (b) The risk that the auditor will not detect such a misstatement.

To reduce audit risk to an acceptably low level, the auditor has to:

- (a) Assess the risks of material misstatement; and
- (b) Limit detection risk (IFAC, 2007:28)

ISA 500 then outlines the various assertions, but for the purpose of the SME sector audit only the following assertions are used:

- (a) C = Completeness
- (b) E = Existence, which will include occurrence
- (c) A = Accuracy, which will include cut-off, classification, and rights and obligations
- (d) V = Valuations

The various types of risks are also identified, namely:

- (a) Inherent risk – business and other types of risk that arise from the type of enterprise, and nature of its operations.
- (b) Fraud risk – misstatements resulting from fraudulent financial reporting and misstatements arising from misappropriation of assets.
- (c) Control risk – related to systems of internal control.
- (d) Combined risk – the auditor makes separate or combined assessments of inherent and control risks.
- (e) Detection risk – the identification of assertions where the risk of material misstatement prevails.

Once again, the auditor will use a risk-based approach in the execution of his duties.

More clearly identified is the standard audit risk model:

$$AR = IR \times CR \times DR$$

Where:

AR	=	Audit risk
IR	=	Inherent risk
CR	=	Control risk
DR	=	Detection risk

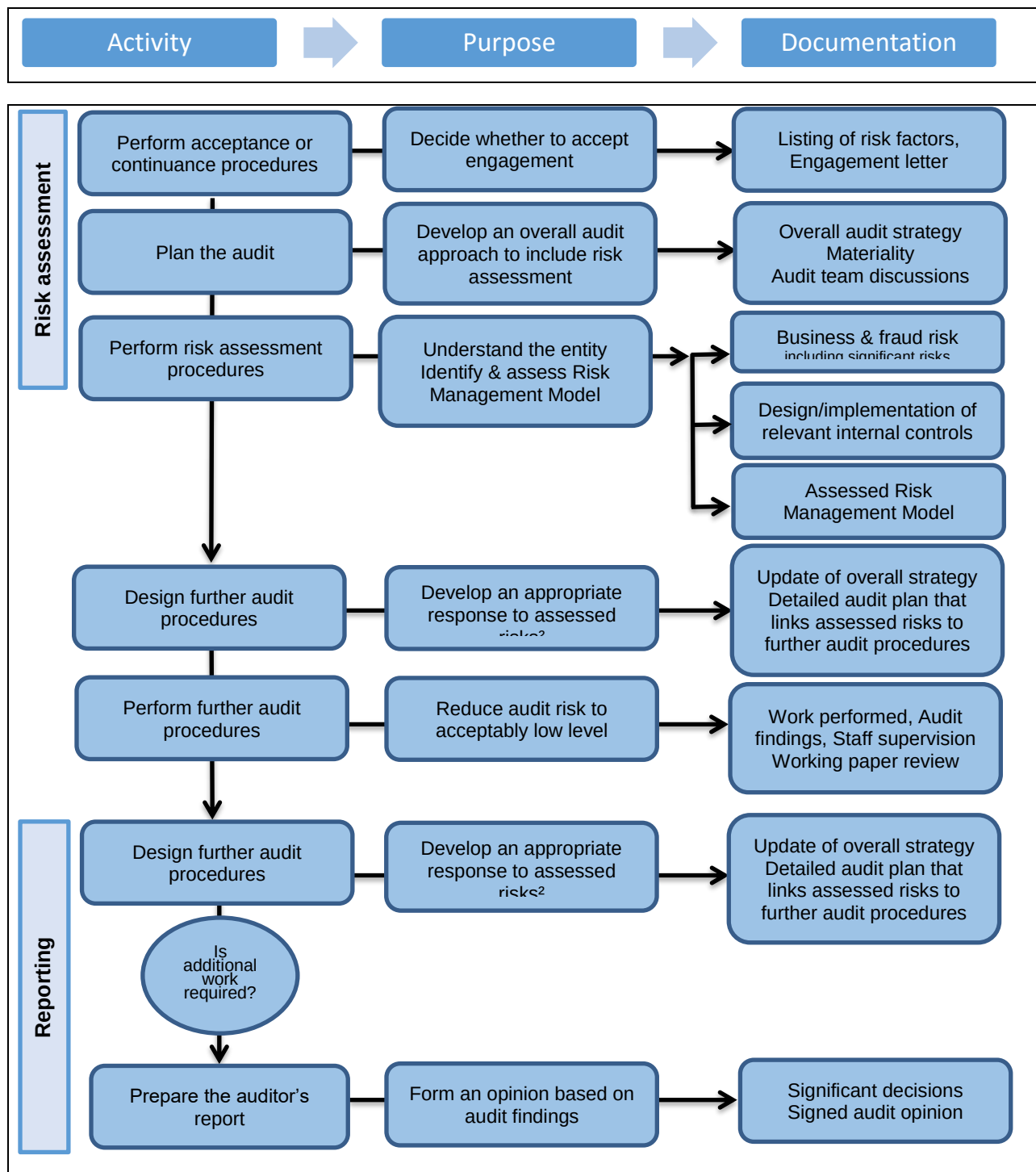
The elements of combined risk and fraud risk which are now incorporated in the classes audit risk assessment model most probably had its origins from studies that were conducted in the late 1980s and early to middle 1990s. One such a study was titled *Inherent Risk and Control Risk Assessments: Evidence on the Effect of Pervasive and Specific Risk Factors* (Messier & Austen, 2000). In their research, Messier and Austen (2000:120) found that pervasive and specific inherent risk and control risk factors were significant in an experiment, and that there were indeed dependencies in the inherent risk and control risk components of the auditors' risk model. This research added PF (Pervasive Factors) and SF (Specific Factors) to the equation in order to further minimize auditor risk. Both these factors are found in identified inherent- as well as control risks (Messier & Austen, 2000:124).

Risk assessment

The various tasks involved in executing a risk assessment are illustrated in Diagram 2.5, in the upper third section of the figure. The risk assessment phase involves the following:

- (a) Performing a client acceptance or continuance procedure;
- (b) Planning the overall engagement;
- (c) Performing risk assessment procedures in order to understand the business in terms of inherent and control risks;
- (d) Identifying the relevant internal control procedures; (See Diagram 2.5)
- (e) Assessing the risk of material misstatement;
- (f) Identifying the risks that require special audit considerations;
- (g) Communicating any material weaknesses in the design and implementation of internal controls to those charged with governance; and
- (h) Making an informed assessment of the risks of material misstatement at the financial statement level as well as at the assertion level.

Diagram 2.5 Comprehensive Risk Assessment



(IFAC, 2007:13)

Risk response

Once the risk assessment phase has been completed and the auditor has decided to proceed with the audit, additional audit procedures must be designed and performed. (See the middle section of both Diagram 2.6 and 2.7).

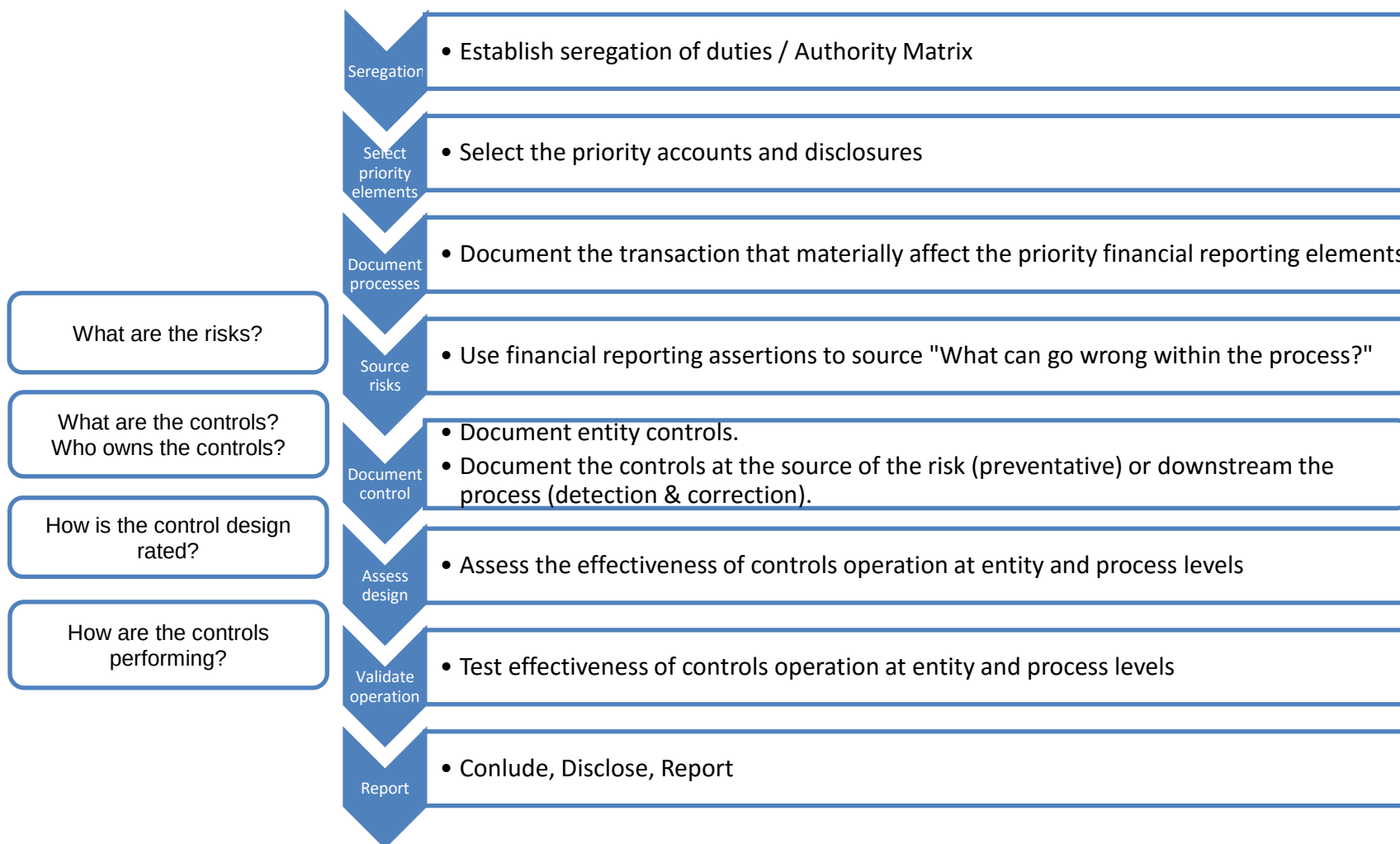
Some of the matters which the auditor should consider are:

- (a) Assertions that cannot be addressed by substantive procedures alone.
- (b) The existence of an internal control that, if properly tested, could reduce the need/scope for other substantive procedures.
- (c) The potential for substantive analytical procedures that would reduce the need for other types of procedures.
- (d) The need to incorporate an element of unpredictability in procedures performed.
- (e) The possible need to perform further audit procedures to address the potential for management override of controls or other fraud scenarios.
- (f) The need to perform very specific procedures to address risks of a significant nature. (IFAC, 2007:35,)

Diagram 2.7 shows the interrelationships of audit risk components. It is important to note that the various risk components are interrelated and that the gap between the acceptable level of audit risk and the expected risk can only be eliminated by audit procedures, be it a test of controls or substantive procedures. The end-state of this second phase will, therefore, be a detailed audit plan where the assessed risks have been linked to further audit procedures.

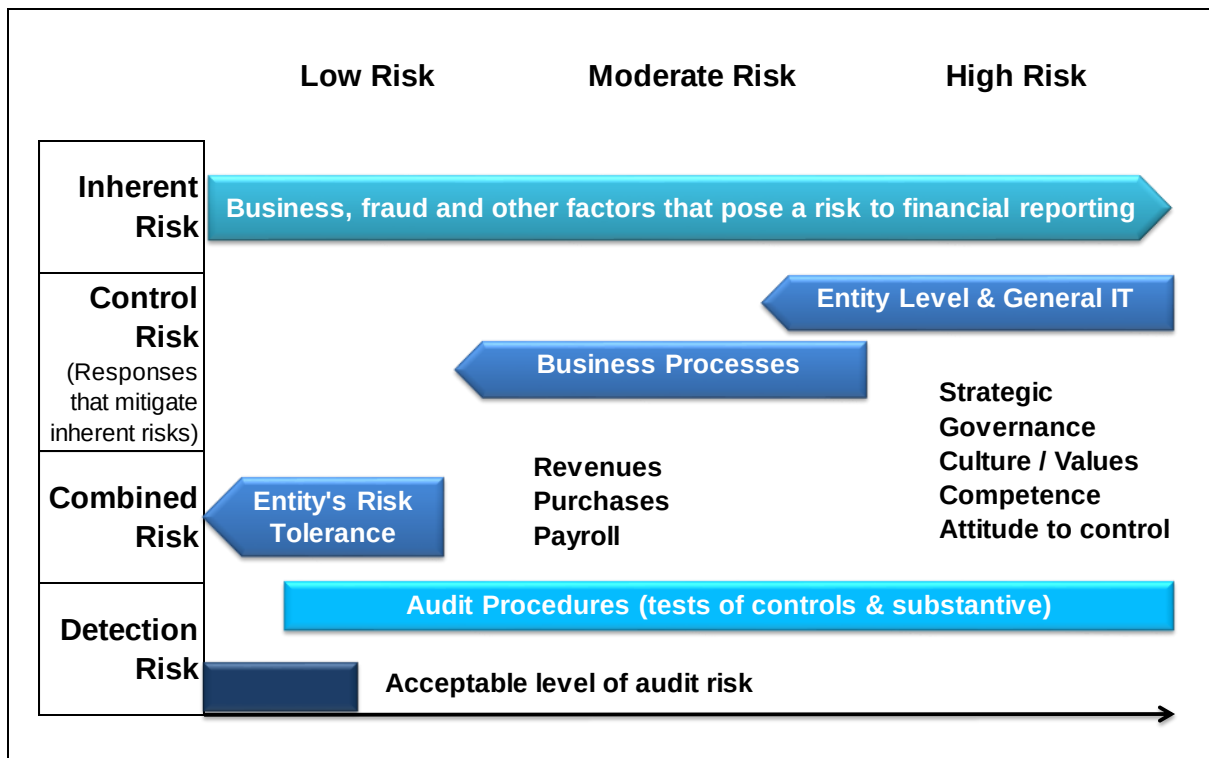
Diagram 2.6 Steps to Identify Internal Controls

DESCRIPTION OF THE SEQUENCE OF STEPS PROFESSIONAL ACCOUNTANTS WILL FOLLOW WHEN IDENTIFYING AND ASSESSING INTERNAL CONTROLS WHERE THE ENTERPRISE OPERATES ITS OWN INTERNAL ACCOUNTING SYSTEMS



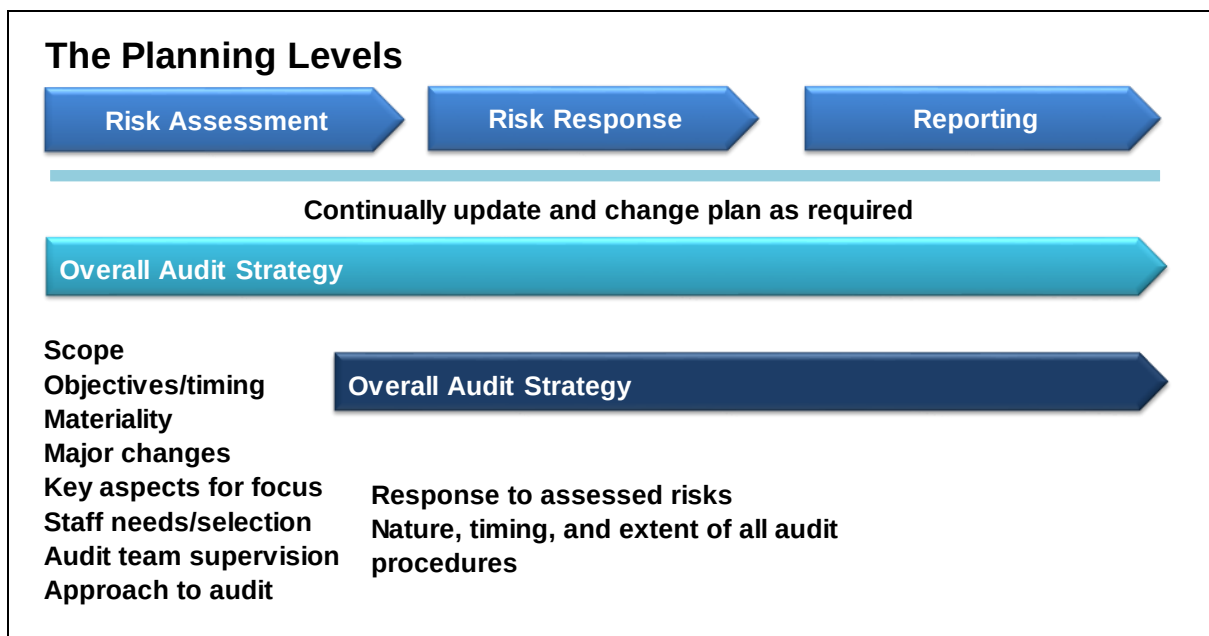
(IFAC, 2007:37, with slight adjustments)

Diagram 2.7 Audit Risk Components



(IFAC, 2007:32)

Diagram 2.8 Audit Strategy



(IFAC, 2007:99)

Reporting

The final phase of the audit is to assess the audit evidence and finally determine whether such evidence is sufficient and appropriate to reduce the risks of material misstatement in the financial statements to an acceptably low level. This phase is illustrated in Diagram 2.8 and 2.9 at the very bottom sections.

Diagram 2.8 shows how these three phases are used in order to initially identify the overall audit strategy, and then culminates into the eventually detailed audit plan. It is important to note that communication with management and those charged with governance throughout the process is of paramount importance. It is, furthermore, also important to note that the audit plan must be regarded as flexible enough to be continuously updated and altered as circumstances may dictate.

Diagram 2.9 illustrates the phases in the audit process for a traditional SME, taking into account the requirements of the Tax Administration Act. The latter act requires more assurance than merely a systems review.

Diagram 2.10 illustrates the extent of misstatements. Note that the misstatements are continuously tested against the possible influence such statements may have on the decision-making process of a reasonable user. Where misstatements are immaterial, the decision of a reasonable user would not be changed or even influenced. Material misstatements will have the adverse effect.

Diagram 2.9 SME Audit Process

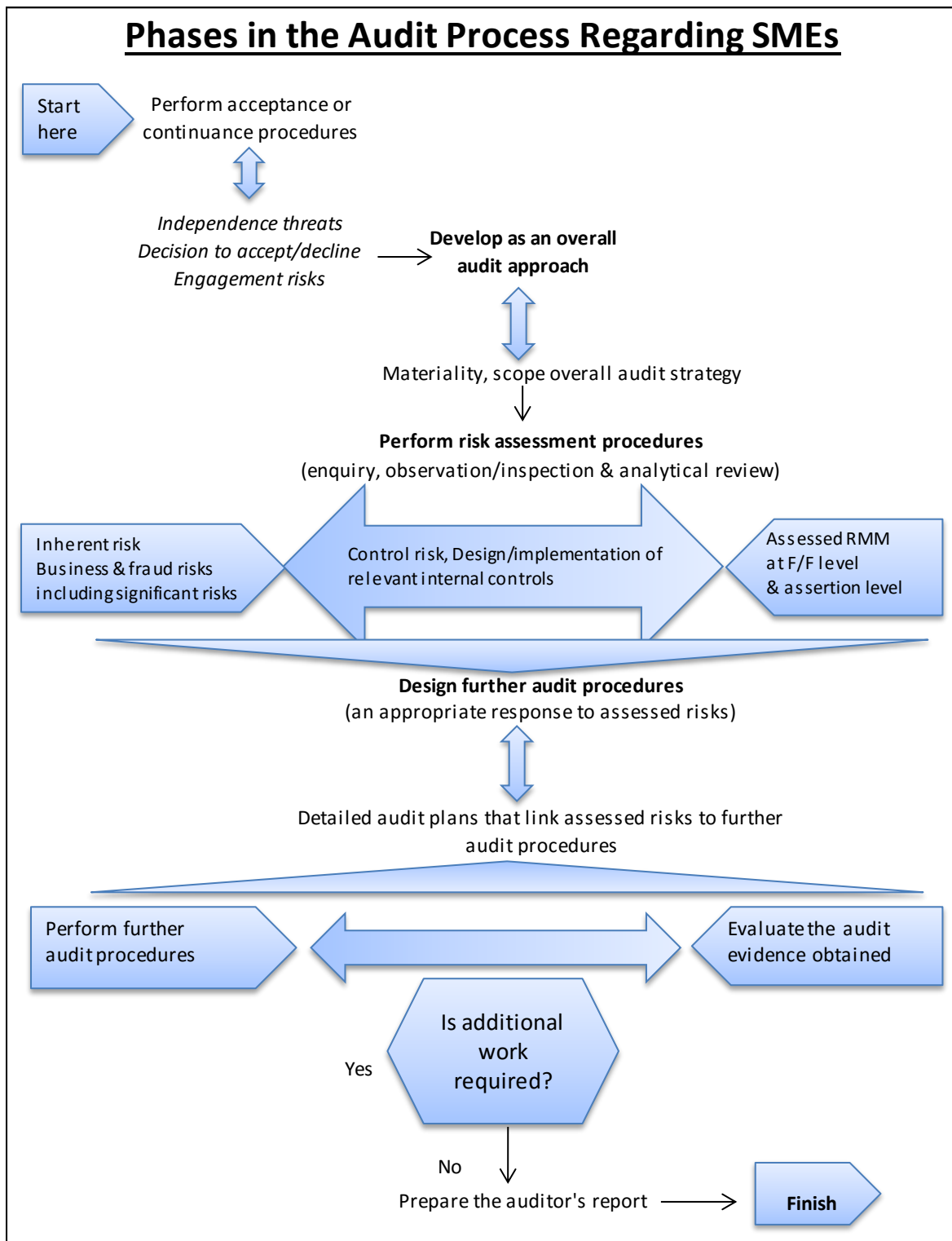
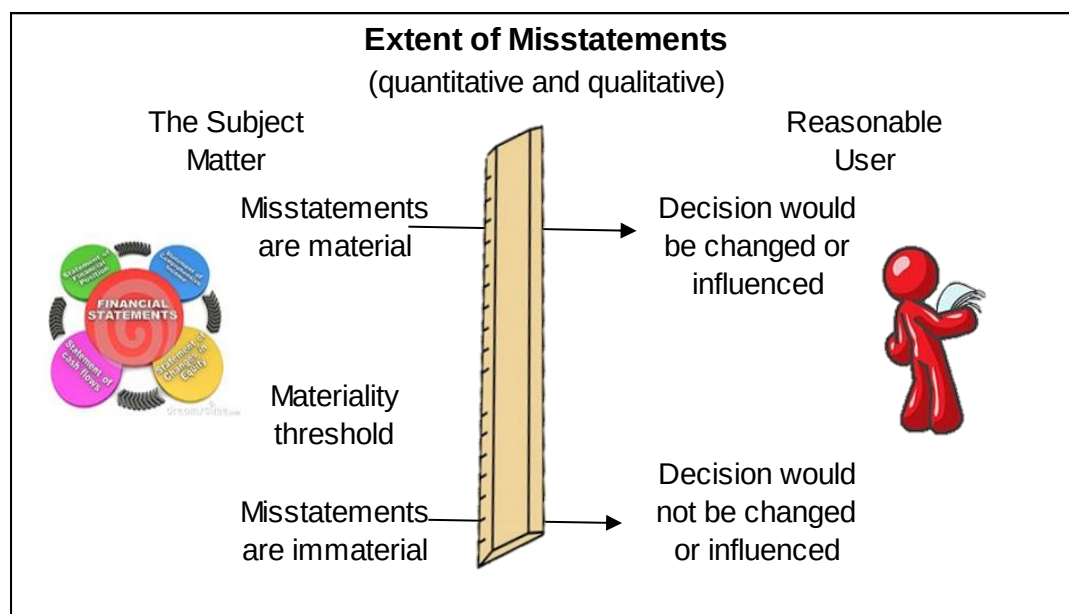


Diagram 2.10 Measurement of Misstatements



(IFAC, 2007:113)

Table 2.3 provides an example of the contents of a business risk register, and how the risk assessment of various elements should be identified and classified. It is important to also note the last column where the auditor has to decide whether the identified risk is significant or not.

It is, furthermore, important to note that this ISA requires that the combined risk is expressed as a multiplication of the likelihood to appear and the impact thereof.

Table 2.4 provides an example of a fraud risk register. The mechanics of this register work in the same manner as that of the business risk register.

Both registers are purely for illustration purposes, as each and every audit assignment will have registers that identify different elements. The more the auditor is going to be exposed to the abovementioned processes, the more such an auditor will be able to identify the various risks involved and also assess those risks correctly.

Table 2.3 Business Risk Register

Risk Register - Business/Operating

Materiality

15 000 €

Assess each risk in terms of likelihood and impact on a scale of 1 - 5 (1 = low, 5 = high)

Discuss this worksheet (risk register) with management to ensure completeness and the appropriateness of the risk assessment.

Risk Identified	What could go wrong as a result	FSA Impact - CAEV		Inc. ¹	Risk Assessment			Significant Risk?
		Assets	Liabilities		Likelihood to Occur	€ Impact	Combined Risk	
Inventory returns not estimated at time of sale. Deposits treated as revenue	Inaccurate revenue recognition				3	3	9	N
Contingent payment of fines to large retailers for late shipments	Fines for late deliveries not accrued		CA	C	2	2	4	N
Inventory returns may not be saleable at normal margins	Inventory write-downs may be required	V			3	3	9	N
Large custom sales made to customers on extended credit	Possible bad debt	V			3	4	12	N
Bank covenants could be breached due to rapid expansion and poor inventory control	If the bank called their loan company would be unable to continue resulting in major asset write downs.	V			4	5	20	Y
IT general controls are weak in a number of areas	Data integrity may be compromised or date may even be lost	all	all	all	3	4	12	N

¹ Inc = Income Statement

C = Completeness, E = Existence, A = Accuracy, and V = Valuation

N = No, Y= Yes

(IFAC, 2007:140)

Table 2.4 Fraud Risk Register

Risk Register - Fraud

Materiality

15 000 €

Assess each risk in terms of likelihood and impact on a scale of 1 - 5 (1 = low, 5 = high)

Discuss this worksheet (risk register) with management to ensure completeness and the appropriateness of the risk assessment.

Risk Identified	What could go wrong as a result	FSA Impact - CAEV		Inc. ¹	Risk Assessment			Significant Risk?
		Assets	Liabilities		Likelihood to Occur	€ Impact	Combined Risk	
Pressure								
Minimize tax burden	Management bias in estimates	CA	C		4	4	16	N
	Unauthorized journal entries	all	all		4	5	20	Y
Rapid growth putting pressure on financing	F/S manipulation to avoid bank covenant being violated	all	all		4	5	20	Y
Salesperson's bonus based on sales above certain thresholds	Inflated sales to meet threshold	CV		E	3	3	9	N
Paying bribes to obtain contacts	Illegal acts	C	CE	A	2	3	6	N
Opportunities								
Poor control over inventory	Goods stolen	E			4	3	12	N
Poor control over cash sales	Goods stolen/ Cash stolen	E			4	3	12	N
Transactions with related parties	Sales/ purchases could be undervalued/ overvalued	V		V	3	3	9	N
Significant expansion in the		V	V	V	4	5	20	Y
Rationalization								
Low morale among temporary workers	Goods stolen	E			3	2	6	N

¹ Inc = Income Statement

C = Completeness, E = Existence, A = Accuracy, and V = Valuation

N = No, Y= Yes

(IFAC, 2007:153)

2.10.3 The applicability of ISA 800 to the SME sector

This ISA was introduced during 2006 and became effective on 31 December 2006. The purpose of this ISA is to “establish standards and provide guidance in connection with special purpose audit engagements.” (IFAC, 2004:60.)

Examples of these engagements are:

- (a) A complete set of financial statements prepared in accordance with another comprehensive basis of accounting, such as the tax basis of accounting, and a set of financial statements prepared for regulatory purposes such as government grant claims;
- (b) A component of a complete set of general purpose or special purpose financial statements, such as a single financial statement. Examples include a balance sheet or a component in the balance sheet such as the calculation of the provision for income taxes;
- (c) Compliance with contractual agreements, such as payment of interest in terms of the agreement or the maintenance of predetermined financial ratios; and
- (d) Summarized financial statements. In this case, the auditor may only express an opinion if the same auditor expressed an opinion on the financial statements from which the summarized version emanates. (IFAC, 2004:60-65.)

The ISA makes it very clear that it does not apply to review, agreed-upon procedures, or compilation engagements (IFAC, 2004:60). It is clear that the auditor is expected to follow the same audit procedures as would have normally been followed, but due to the nature of these types of audits, the auditor should pay special attention to the agreement between the auditor and the client as to the exact nature of the engagement. Other ISAs that would have to be adhered to in the application of ISA 800 will be:

- (a) ISA 200: objective and general principles governing the audit of financial statements;
- (b) ISA 210: terms of audit engagements;
- (c) ISA 560: subsequent events; and
- (d) ISA 701: modifications to the independent auditor's report

Other ISAs may also be included in the application of ISA 800, but it can be expected that the abovementioned ISAs would be the primary group.

2.10.3.1 The initial influence of client preference on auditor judgments

A study was conducted whereby the effect of client preferences (CP) and client relative trustworthiness (CRT) was tested against auditors' judgment processes (Jenkins, 1998:ii). The problem identified in this study was that the Securities Exchange Commission (SEC) in the United States of America, in particular, noted that in many cases, "auditors assumed the role of 'cheerleader', often supporting the client's position even in the absence of authoritative support" (Jenkins, 1998:1). Added to this perception, the chief accountants of the SEC also voiced their concern about the "growing perception that there may be a real conflict between public interest and the broader business interests of the public accounting profession" (Jenkins, 1998:1).

The possible influence of CP and CRT was then tested against two audit tasks, namely:

- (a) An allowance for doubtful accounts task; and
- (b) A contingent liability task.

These two tasks were identified to represent two distinct issues in past CP research (Jenkins, 1998:29). A total of four hypotheses were introduced for each task. The findings of the research were that contrary to popular belief, auditors do not react to CP, but they do have different perceptions about early client preferences and late client preferences. In respect of the trustworthiness effect, the research found that audit judgments were more conservative in the presence of a less trustworthy client

than in the presence of a highly trustworthy client (Jenkins, 1998:49). On the disclosure issue, the results of the study proved that auditors ignored the trustworthiness of the client when the decision to disclose a contingency had to be made.

2.10.4 The introduction of a problem solving method as future basis on which the Professional Accountants should base their services

2.10.4.1 General considerations

From the above, it is clear that ISA and IFRS as discussed in this chapter do have a place in the SME sector. However, it is also very clear that the application of these standards as illustrated above, on their own, will not have any measurable benefit for the SME sector entrepreneur, once forensic investigations and investigations that will eventually culminate in court action are executed. The reasons for this are:

- (a) In respect of ISA, the whole process and standards are built around minimising the audit risk of the auditor.
- (b) In respect of IFRS, the basis its existence is purely to standardise such financial reporting disclosures.
- (c) Both of the above two elements are also mostly concerned with a complete set of general purpose financial statements, while most forensic investigations in the SME sector emanate from the tax authorities.
- (d) As most SMEs use their Professional Accountants as in-house financial managers, additional rules and regulations must exist to govern the relationship between the Professional Accountant and client.

It is, therefore, obvious that the SME sector requires much more than only auditing and accounting standards. This research will therefore endeavor to prove that the proposed Risk Analysis Tool (as stated in Chapter 1), which relies heavily on ISA and IFRS, provides the ultimate filler for the service gap that entrepreneurs have

experienced so much in the past. The analysis of forensic accounting as comparatively new science will also prove that with the addition of a proper Risk Analysis Tool, SME sector clients might be better off, but that issues such as the legal enforcement of arguments raised by Professional Accountants on behalf of their clients might still be lacking in substance.

2.10.4.2 Definitions of pre-emptive risk analysis

As explained in Chapter 1, forensic accounting involves the application of a certain level of financial and legal knowledge in order to provide court admissible evidence. To broaden the above even further, Brennan and Hennessy (2001:119) state that:

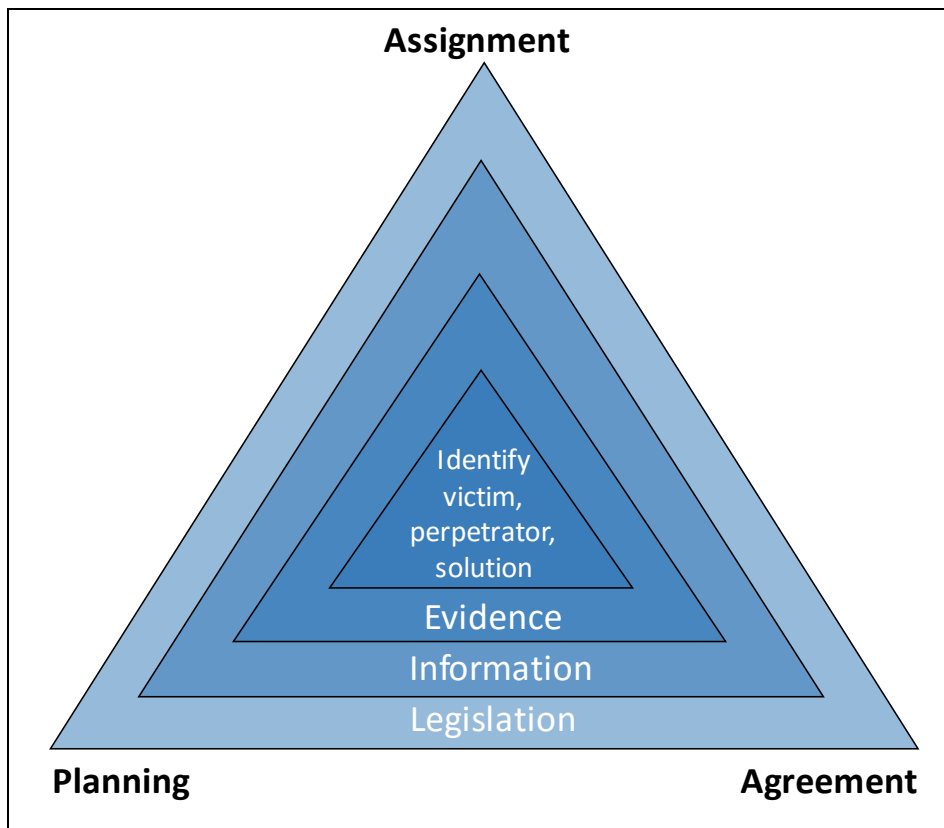
“A Forensic Accountant is someone who can look behind the façade – not accept the records at their face value – someone who has a suspicious mind that the documents he or she is looking at may not be what they purport to be and someone who has the expertise to go out and conduct very detailed interviews of individuals to develop the truth, especially if some are presumed to be lying.”

Investigative accounting is used in connection with allegations or suspicion of fraud which could potentially lead to civil, criminal, or disciplinary proceedings. As can be seen from the description above, it would seem as if forensic accounting is focussed on reactive measures rather than pro-active measures which make the development of a Risk Analysis Tool even more crucial.

2.10.4.3 The range and scope of forensic accounting investigations

The classic investigation process is graphically depicted in Diagram 2.11 below.

Diagram 2.11 Classic Investigative Process



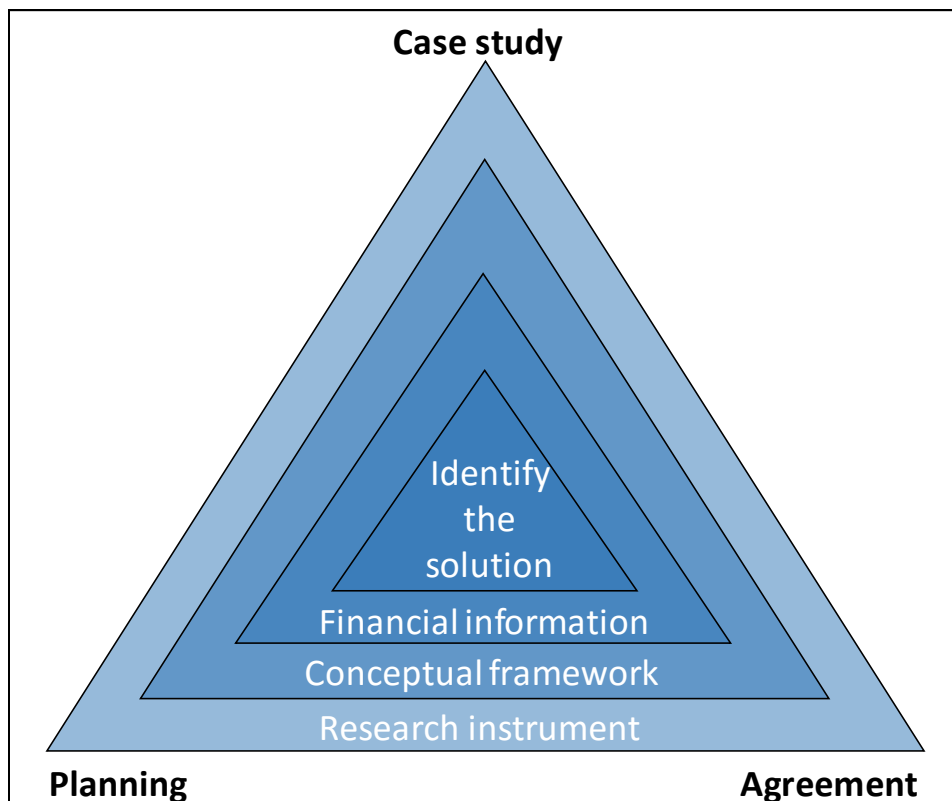
(Van Rooyen, 2004:14)

The pyramid constitutes the three elements that are required to start the investigative process, namely the agreement, the assignment, and the planning which comes out of the former two elements. The pyramid is also illustrated from the top view, meaning that the basis of the pyramid is formed by the three elements mentioned. The second layer represents the legislation, while the third layer provides the consideration for the admissibility of the information gathered at that point. The fourth layer represents the evidence and the apex represents the identification of the perpetrator, the victim, and the solution.

The development of a research instrument needs to include these layers. However, a good measure of pro-active execution needs to be added to the mix in order to be of any benefit. Diagram 2.12 illustrates the proposed research instrument process, and it should be noted that the underlying process is in many ways similar to the classic investigative process. The outer layer, once again includes the agreement or understanding between the Professional Accountant and his client, the initial planning

that is based on the agreement, and then the establishment of the case study. The case study will include the second layer of input from the research instrument, the third layer that will identify and analyse the legislative and regulatory arena in which the case study evolved, the fifth layer which provides all the financial information, and then lastly the identification of the solution.

Diagram 2.12 The Research Instrument Pyramid



Traditional forensic accounting procedures and also investigative accounting procedures rely- and focus on the quantitative aspects of an investigation. The outcomes of these investigations are limited to the provision of evidence that already exists in a format that will be acceptable to a court. This thesis will provide the solution to the performance gap between the quantitative, qualitative, and preventative measures faced by Professional Accountants.

2.11 The general workload and variety of functions to be performed by the Professional Accountant as generally expected by the SME entrepreneur

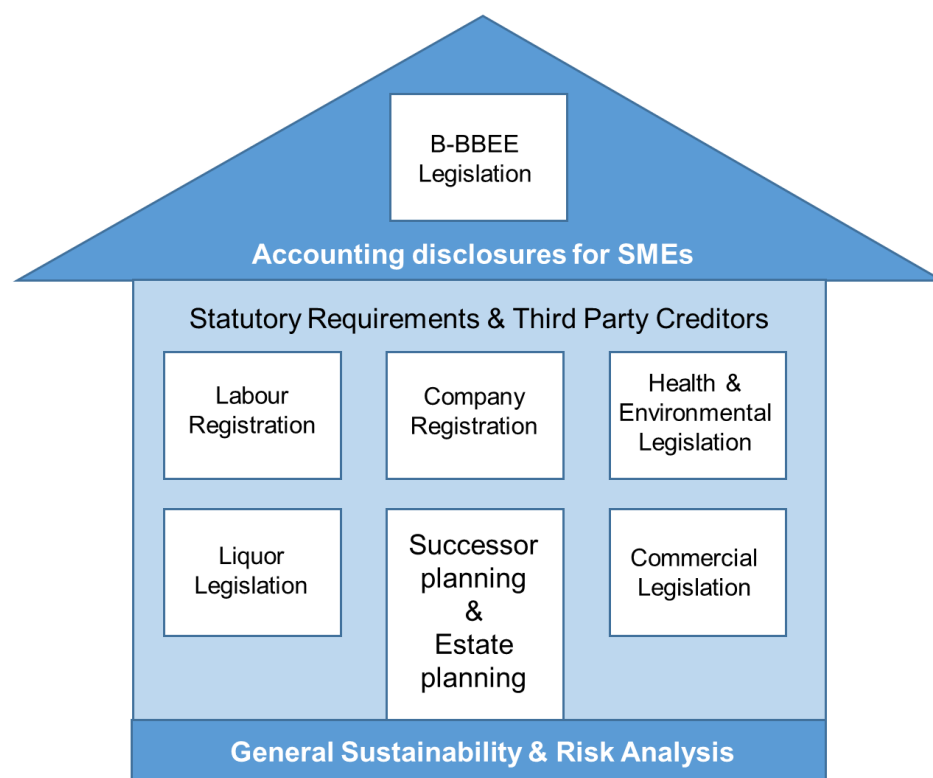
Historically, it was required from Professional Accountants to perform the general functions pertaining to accounting, a certain level of assurance, tax practice, and some financial management functions normally associated with general costing models, budgets, and valuations. These four distinct disciplines have been identified and serve as the main focus of Professional Accountants.

However, Diagram 2.13 paint a complete picture of the increase in demand for the services of a Professional Accountant and in some cases the Professional Accountant is required to provide a service in areas that were never required before. If the example of a restaurant with a liquor licence is to be used, the Professional Accountant is also now required to ensure that the SME conforms to the various forms of legislation that pertain to the obtaining and maintenance of a valid and correctly classified liquor licence, as well as the correct health and emergency services certification. The reason for this changing environment is twofold. The first reason is based purely on affordability. The SME entrepreneur cannot afford the services of various professionals anymore and the Professional Accountant has unwittingly become the financial director designated for the SME. The second reason which is probably just as important relates to the issue of sustainability. The SME entrepreneur must at all times be assured that all legislative requirements, which include local council rules and regulations that govern his actions, be adhered to at all times. Fines and penalties have become very real and quite costly and the risk of sudden closure is now a greater reality than ever before.

Diagram 2.13 purely illustrates the general framework of the various functions. However, if one wishes to add further to the detail of the illustration one will have to add issues relating to data integrity, personnel records, and emergency evacuation plans to name a few. As a further example, the right-hand corner depicts a small section of the commercial legislation. This section will include such legislation as the National Credit Act, the Prescription Act, and other similar legislation that could be effectively used to either destroy or sustain an SME. As competition amongst

Professional Accountants to retain clients and expand their respective client bases is also now at a very fierce level, it is becoming vital for Professional Accountants to rather have in-depth knowledge of the client and his business environment than to purely focus on the traditional four legs of professional accounting.

Diagram 2.13 The Duties of a 21st Century Professional Accountant



The above phenomena might also be one of the reasons why some of the Big Four professional services firms also started providing legal services to their clients (Agnew, 2014:1). The general approach is to provide clients with a one-stop service in much the same manner as Professional Accountants serving the SME sector have now evolved into. The Big Four firms, which include Deloitte, EY, KPMG and PwC, posted combined annual revenues of \$120bn (US), a considerably larger amount than the combined revenue of the largest legal firms, who posted only \$89bn (US) (The Economist, 2015). The introduction of the 2002 Sarbanes-Oxley Act prohibits these firms to practice law in the United States of America, but the British Legal Services Act 2007 allows the issuing of Alternative Business Licences to these types of multi-functional firms. The biggest contributor to this shape-shifting phenomenon must be

the fact that the auditing function is perceived to have reached a level of saturation or, at least, slower growth than the other services such as consulting and financial advisory services (The Economist, 2012).

A study conducted by Berry in 2002 (Doreen, 2006:13) found that due to the limited skills of SME owners, they tend to seek advice from external sources. It was found that 85 percent of SME owners seek advice from external accountants. Another study by Hudson and Standford (2002:5) found that accountants were viewed most favourably as sources of professional advice. It would seem from these two independent studies that there is quite a lot of pressure on Professional Accountants to provide a type of one-stop service.

2.12 Integrated financial reporting: an emerging opportunity

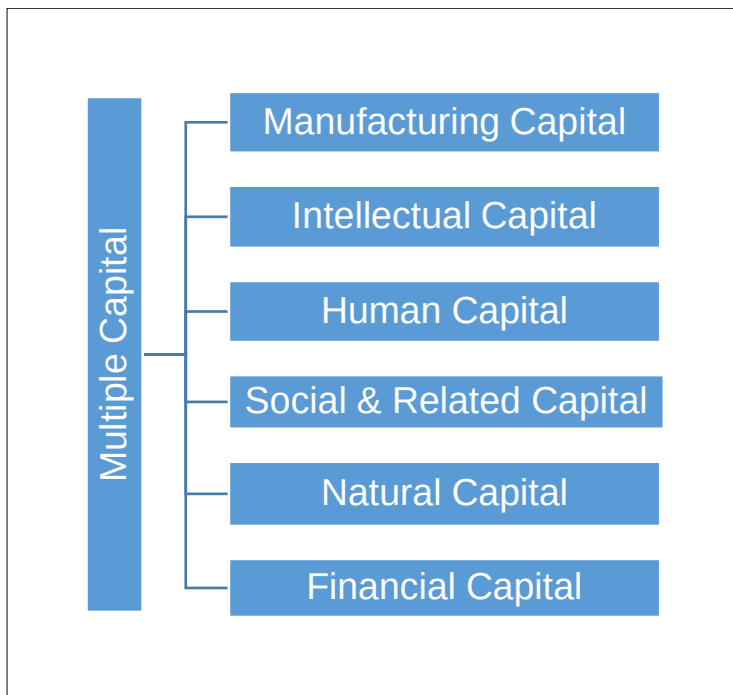
Although accounting is not traditionally aligned with elements such as innovation, creative thinking, and the development of new opportunities, there seems to be a drive amongst the more innovative practitioners to devise systems and procedures somewhat removed from the traditional service delivery suite as described in the sections of this chapter (Smith, 2016). The Multiple Capital Model as illustrated in Diagram 2.14 has been devised particularly to provide useful information to end-users. Moreover, the introduction of the model is focused on providing information that can form the foundation for “strategic, longer term thinking,” that will also highlight “the ramifications of this information on business engagement with the broader stakeholder community” (Smith, 2016).

If compared to Section 2.10 of this chapter, integrated reporting using the Multiple Capital Model will in all probability provide the model reporting system, whereby the varied services provided by the Professional Accountant can also form the basis of the eventual financial report of the enterprise. This model not only provides an objective framework to produce reliable information, but it also provides a platform for the disclosure of qualitative information linked to sustainability and governance.

As illustrated in Diagram 2.14, the Multiple Capital Model (MCM) consists of Manufactured Capital (MC), which includes all the assets, distribution networks, and how the enterprise delivers goods and services to its customers and clients. Secondly, the MCM includes Intellectual Capital (IC), which includes all intellectual capital. Due to the exponential growth in knowledge and service segments of the economy, this second capital will only grow in importance. The third element of the MCM is Human Capital (HM). This element includes the concept of knowledge management and the leveraging of the intellectual capital of employees. Social and Relational Capital (SRC) includes the active engagement of the enterprise with its clients and customers, the quality of this relationship, and what can be done to improve this engagement. Added to this engagement, the quality of the engagement of the enterprise with its stakeholders and the commercial market is also important as it will primarily dictate the ability of the enterprise to enter into new joint ventures and to raise capital for new ventures, to name two possibilities.

A fifth capital element is identified as Natural Capital (NC) which includes, first of all, the access to natural resources of enterprises in the extraction industries such as mining, oil, and gas. However, all enterprises are taking note of varied environmental issues as it is becoming quite important to their consumers and end users as well. The five elements mentioned above then form part of the traditional Financial Capital (FC) element which includes the results of operations and general performance measurements of the enterprise. As will be noted in Chapter 4 of this thesis, integrated reporting will in the very near future also become the fifth basis or point of departure that Professional Accountants will require in order to provide this proposed one-stop service to SME entrepreneurs.

Diagram 2.14 The Multiple Capital Model



2.13 Conclusion

This chapter provided the general background of the development of the accounting profession by providing insight into the development over the past one hundred years. A broad overview of the various types of enterprises has been provided, as well as what the legislative requirements are in terms of accounting disclosures of each enterprise type. The current skill set requirements for a person to be able to function as a Professional Accountant in the SME sector have also been explained. This chapter furthermore provided the physical and legal environment in which the Professional Accountant should function, and in order to prove the non-uniqueness of this environment the South African environment was compared to a few other jurisdictions as well.

The current assurance procedures and investigative or problem solving tools were then briefly analysed in order to seek confirmation of whether whatever the Professional Accountant has at his disposal at this stage is sufficient. However, all these processes and tools merely focus on historical occurrences and quantitative

issues where information is gathered in order to provide evidence in a standardised form. The SME client requires much more, as has been illustrated in the last diagram.

Nobody is safe anymore from unfair treatment or from the abuse of certain forms of legislation, particularly certain commercial legislation and statutory laws. In his judgement delivered on the matter *Minister of Social Development vs. Phoenix Cash & Carry*, the Honourable Judge Jonathan Hefer made the following remark: “Unfortunately, as experienced in this Court proves, the high standards that the Constitution sets seem to be more honoured in the breach than in the observance” (Sergeant, 2013:214). If it has become the norm to even neglect the highest law of the country, it is becoming very evident that Professional Accountants need to be equipped way beyond the current skills set to ensure that their SME clients are well supported and well protected taking into account their limited financial resources.

If this view is accepted as the truth as well as the norm, the Professional Accountant has a near impossible duty in safeguarding his SME client. It must at all times be acknowledged that although the SME sector is regarded as most important to the growth and stability of any country, one will not find any government prepared to bail out any SME with the same commitment and resolve found during the bail-outs of larger corporations that are deemed “too big to fail”.

Finally, SME enterprises will always have limited resources and it is becoming more crucial that the SME client is steered clear from any form of costly litigation. Dawie Roodt (2014:186) summarises the hostile environment of the SME entrepreneur as follows:

“Entrepreneurs in this country are overworked, overtaxed, underpaid, overregulated – and exploited by their own employees... I’m talking about small-business owners who are trying to make a living in a very hostile environment, having to cope with a greedy taxman, an aggressive workforce, and regressive legislation.”

CHAPTER 3

3. THE METHODOLOGICAL APPROACH AND PHILOSOPHICAL ISSUES

So, accountants had the upside of being professionals without the downside. They insisted on the right to exercise independent judgement, but they also refused to take responsibility for the effects of their decisions (Berenson, 2004:27).

You can't go into a laboratory and prove a philosophical claim. (Turek, F. 2017.)

This chapter describes the search for an accounting philosophy as well as the development of accounting philosophy over a number of years. Understanding of the ontological and epistemological nature of accounting research in order to establish the philosophical stance will be described in detail with particular reference to the research conceptual framework. The establishment of the research paradigm will form the basis in the selection of the case study method as Research Instrument. The use of case studies will invariably support the peculiar agency relationship between the Professional Accountant and his SME client as well as be the primary method to solve the research question posed in Chapter 1.

3.1 Introduction

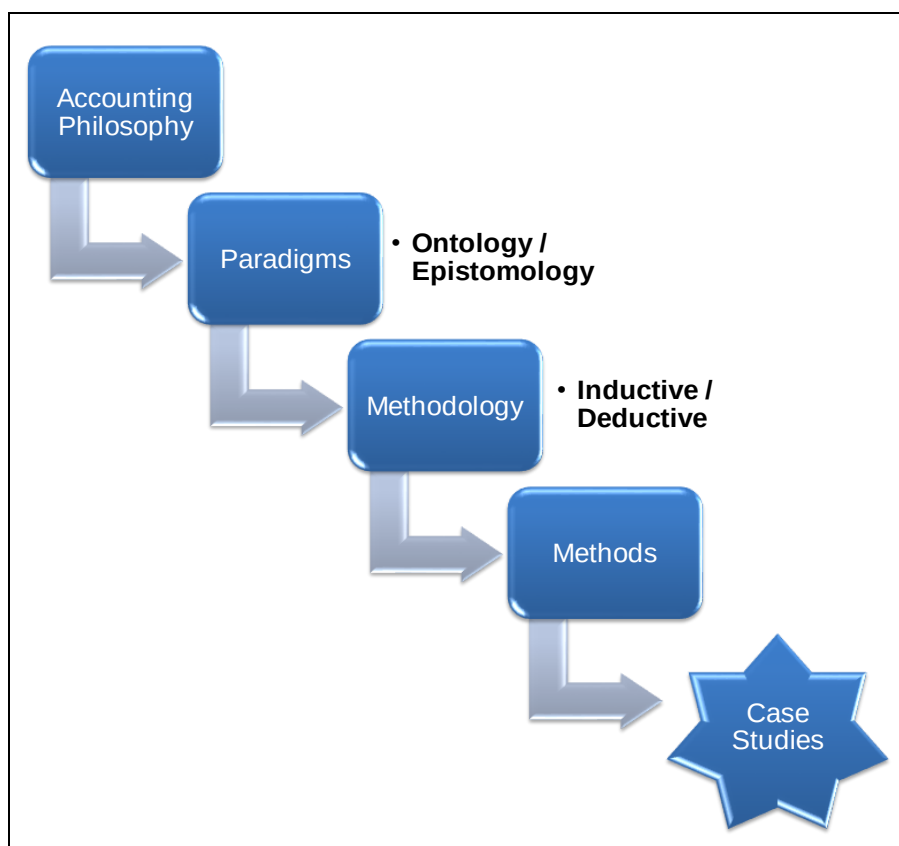
The Concise Oxford Dictionary (2001:1973) defines “philosophy” as “the study of the fundamental nature of knowledge, reality, and existence.” Another definition is that philosophy is a “quest for truth through logical reasoning rather than factual observation” (Webster’s Third New International Dictionary, 1976:1698).

This chapter discusses the role of philosophy in the development of this thesis and outlines the philosophical underpinnings of research in the development of accounting theory. A brief description of the conceptual framework development work embarked upon by the various standard setting bodies, such as IFAC, will also be mentioned. By exploring the existence and application of accounting philosophy or the absence

thereof, this chapter will identify the importance of accounting philosophical analysis in the development of Professional Accountants' technical knowledge, professionalism, and ethical behaviour.

Diagram 3.1 illustrates the flow of this chapter. Firstly, accounting philosophy is analysed. Secondly, a discussion of the six components of a research paradigm are presented; namely ontology, epistemology, axiology, research methodology, methods, and research strategy. Thirdly, the most appropriate research methodology is selected and discussed. Fourthly, the most appropriate research method is identified, taking into account the research question posed in Chapter 1. The research question constitutes the objectives of the thesis and dictates the selection of the research method. The appropriateness of the research strategy as a basis to test the research question will lastly be analysed and formulated.

Diagram 3.1 The Illustrated Flow of Chapter 3

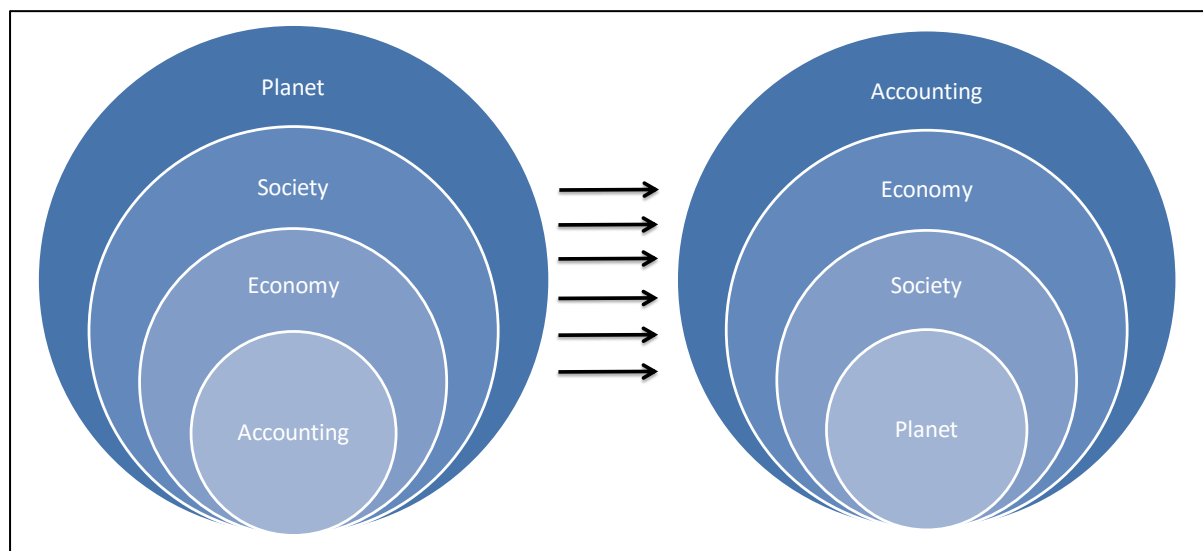


3.2 The value of philosophy in research

In establishing a philosophical base for research, it is important for any researcher to establish the position of his own subject field in the overall environment. The left group of circles in Diagram 3.2 provides a general description of how accounting fits into the planet, which supports a society who controls an economy which is fuelled by finance.

As accountancy, in this case, forms the basis of this research, the research question is identified to be in the accounting sphere, and this sphere now becomes the focus point. The purpose is then for this sphere to instil a positive change in the economy, which will then serve the society in a better way, and will eventually have a positive effect on the planet. If a research result cannot provide this total effect eventually, irrespective of how small, it is fair to state that the research did not provide positive results.

Diagram 3.2 Positioning of the Subject Field in the Environment



(LASN, 2003)

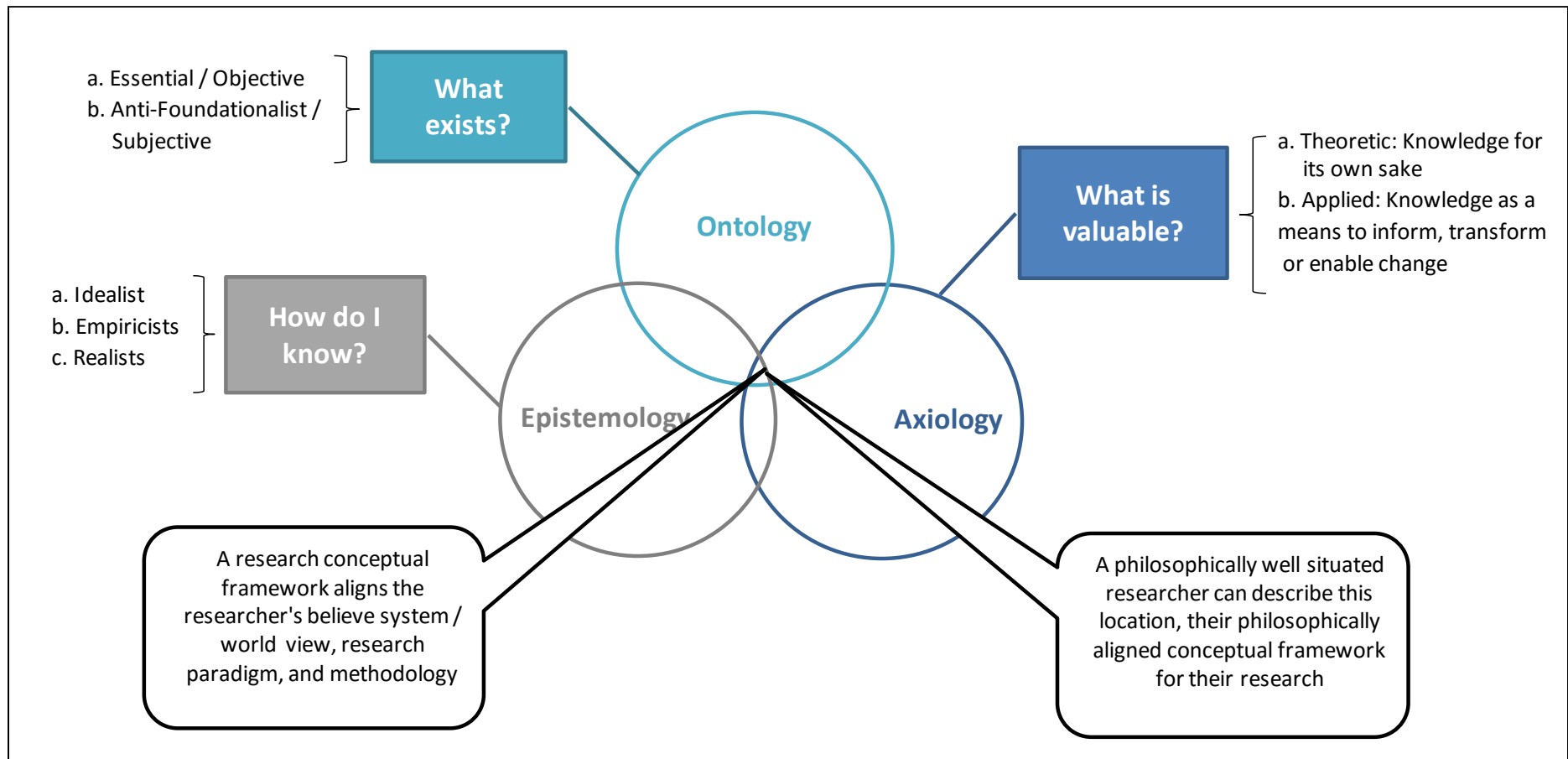
This thesis should be able to provide sufficient grounds to find a philosophical foundation for the chosen research method that will lead to the implementation of a problem-solving method, which will have a knock-on effect on the economy, society, and the planet.

Traditionally, the two distinct elements of the research framework have been identified as ontology and epistemology. Diagram 3.3 below includes a third element, namely the element of axiology. The three elements have also been identified as the elements that this thesis will be focussing on as Chapter 2 identified the basis of all three these elements. In order to execute a successful research conceptual framework, the ontological, epistemological, and axiology elements will provide the eventual belief system of what is being researched as well as the philosophical basis for the research.

The ontology of this thesis identifies the environmental issues relating to Professional Accountants as well as their SME clients. Secondly, in this research ontology includes all the issues pertaining to the question “what exists?”. The subjective part of ontology includes what SME clients require from their Professional Accountants, and it would seem that these requirements cover a wide range of challenges relevant to their enterprises and spread over a variety of issues.

The epistemology element refers to the subjective view of the researcher on how their knowledge was obtained, including the skills associated with the profession. The axiology element combines elements pertaining to ethics and aesthetics. The former investigates the concepts of what is “right” and “good”, while the latter focuses on the concepts of “beauty” and “harmony”. All three of these elements are included in the search for the problem-solving method which this thesis aims to provide. This thesis will focus on proving that Professional Accountants require another way of thinking as a new means to transform knowledge, and to enable change in the manner in which Professional Accountants service their clients. This change is generally referred to as a paradigm shift.

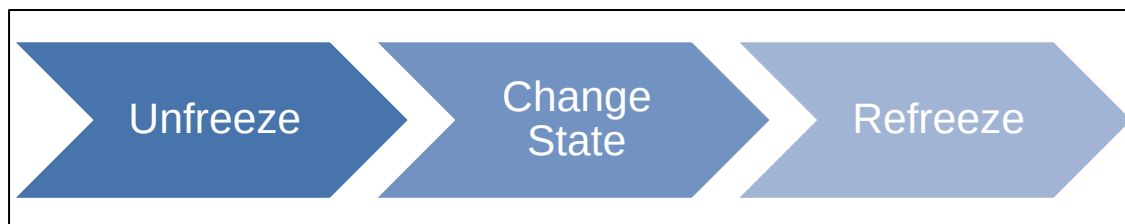
Diagram 3.3 Elements of a Research Concept



Dual Framework (Upward, 2011)

To illustrate the mechanics of a paradigm shift, this research will endeavour to, first of all, unfreeze the current state of affairs regarding the manner in which Professional Accountants solve complicated issues for their clients. This step was executed in Chapter 2, where the traditional skill set of Professional Accountants was described taking into account the legal and enterprise environment. The change state phase will be executed by adding an approach to solving problems to the skill set of these professionals. After the applicability and accuracy of this problem solving technique has been tested against the chosen challenges, an adjusted or modified paradigm will emerge. The emerging problem solving technique will also be the ultimate contribution provided by this thesis. The change state step is illustrated in Chapters 3 and 4, while Chapter 5 discusses the refreeze phase of the paradigm shift. Diagram 3.4 provides an illustration of this process.

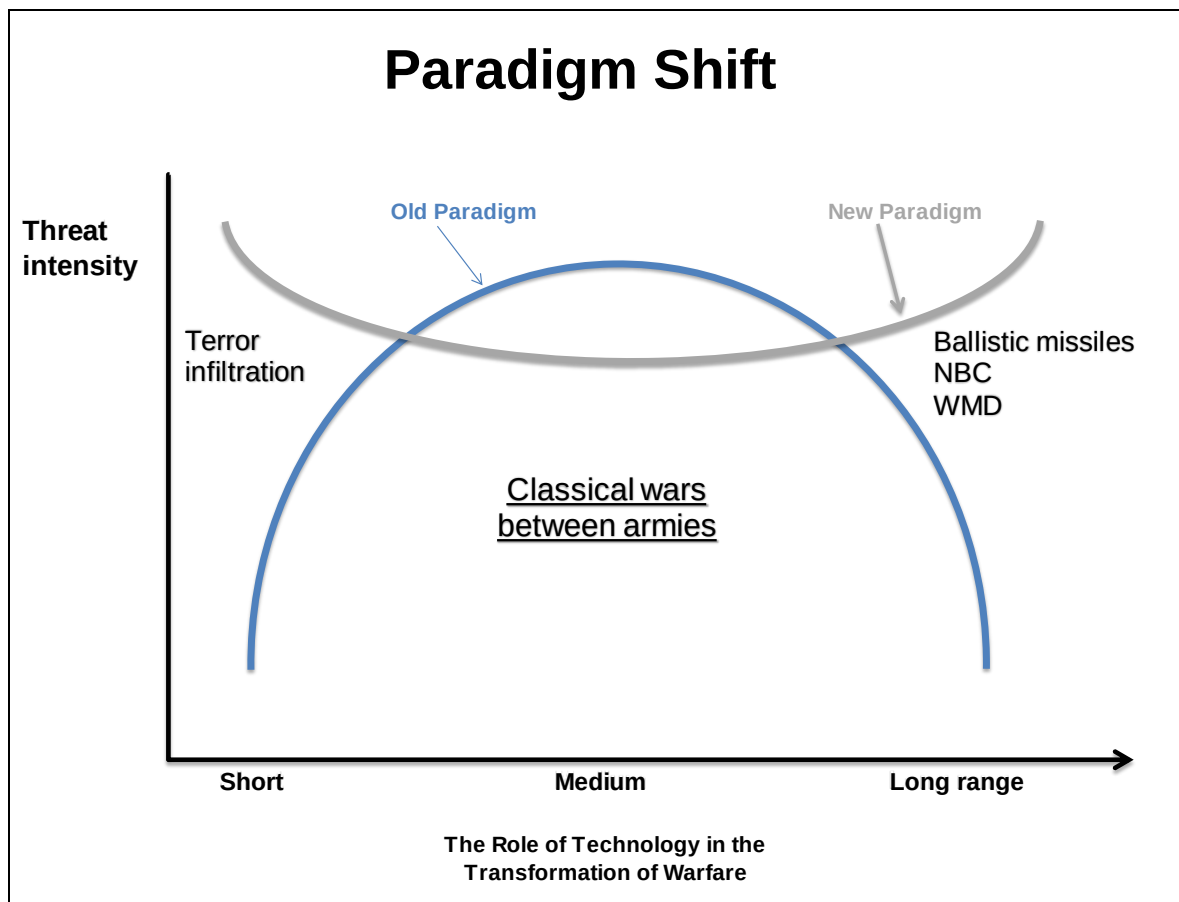
Diagram 3.4 Three Steps to Paradigm Shift



(De Hart, 2013)

To illustrate the process with an unrelated non-accounting research question, Figure 3.1 provides the paradigm shift regarding the influence of the role of technology in the transformation of warfare. This example is used as it illustrates a paradigm shift in its purest form without too many variables. The blue line depicts the degree of threat intensity with the application of various types of missiles, ranging from short to long range. Note that the perception is that the threat of conventional wars between armies increases when medium range missiles are used, and once the phase of long-range missiles is applied then the threat of conventional wars subsides somewhat.

Figure 3.1 The Classical Military Paradigm Shift



(Anon., 2002)

However, the new threat is not conventional armies going to war anymore, but terror infiltration by enemies that do not conform to the description of a soldier. A new paradigm illustrated with the grey line has been identified, as the use of long-range missiles have now been proven to provoke further conflict eventually. This illustration bases the threat of war on the same definition of short, medium and long-range missiles. The role of technology, therefore, remains unchanged. The issue that does change is how the threat intensity is perceived. The difference between the two paradigms is regarded as the paradigm shift. In the SME environment a similar paradigm shift may be possible, if it can be proven that by altering the training of Professional Accountants their service levels can be improved. A new skill set coupled with optimum cost and benefits ratio will result in a paradigm shift in the same way as the role of technology is changing the SME landscape. As stated earlier, the unfreeze step in the case of the Professional Accountant serving the SME sector is the analysis

of the current environment, as currently illustrated in Chapter 2. The step associated with the change state is the search for a way in which these problems can be solved, while the refreeze state will be the stage where a problem-solving approach is developed and evaluated.

This thesis will endeavour to provide a similar paradigm shift by advocating the use of a problem-solving method to not only safeguard the SME entrepreneur against a hostile environment, but to also provide new skill set at an affordable tariff should a challenge manifests itself. As stated in Chapter 1, the SME entrepreneur will always have limited resources and limited time to solve any challenge. It is obvious that the SME entrepreneurs have greater expectations regarding the support and service level provisions to be provided by his Professional Accountant. On the other hand, Professional Accountants are constantly motivated by not only their clients but also by their professional bodies to add more value-added services. It would seem that the only way in which this expectation gap can be filled will be to identify a method that will provide an optimal solution in the solving of an array of problems faced by both SME entrepreneurs and Professional Accountants.

As indicated in Diagram 3.3, the three elements of the research conceptual framework align with the researcher's belief system or world view, and this provides the basis for the research paradigm which in turns forms the basis for the paradigm shift. While the epistemology, ontology, and axiology comprise the research conceptual framework, a research paradigm consists of these three components as well as three additional components, namely methodology, methods, and a research strategy. The natural sequence will therefore be to firstly establish the research conceptual framework, out of which an emerging research paradigm can be developed.

3.3 The history of philosophy in accounting

While the above section illustrated the importance of the existence of the three major components comprising epistemological, ontological and axiological elements, these three components create the philosophically aligned conceptual framework with which a researcher can now align his belief system and world view, and establish the

research paradigm by the addition of the chosen methodology, research strategy, and methods. The difference between methods and methodology is explained in section 3.4 below. As accounting is a social science, it will follow that these three components will also be identifiable in other accounting research.

In 1954 Engelman (1954:383) wrote that:

“If philosophy is understood as the body of principles or general conceptions underlying a given branch of learning (in reference to Webster’s New International Dictionary, 1943), or as a system for guidance in practical affairs (in reference to the American College Dictionary, 1949 Edition), a philosophical approach may as well be possible to Accounting as to any other branch of learning or practical affair.”

Engelman (1954:383) then asked the question: “What is accounting, accounting for?”

According to Webster’s New International Dictionary (1952:1842), philosophy is explained as “Literally, the love of wisdom; in actual usage, the science which investigates the most general facts and principles of reality and of human nature and conduct; and now usually, the science which comprises logic, ethics, aesthetics, metaphysics and the theory of knowledge.”

It would seem, therefore, that the fact that accounting at a fundamental level does consist of a set of rules, better known as the Conceptual Framework (CF), that there are sufficient principles locked in the CF that make it unassailable to form the basis of IFRS and IAS (IASB), which in turn are regarded as the generally accepted accounting principles. Added to this, there are also the subjects of auditing (assurance), tax law, and financial management that form the core skill set of any Professional Accountant.

There is no doubt that the technical developments in accounting over the past fifty years were executed on a high level, and with the introduction of Continuing Professional Development (CPD), Professional Accountants are finding themselves involved in a profession that demands adherence to these developments and subsequent changes (see Chapter 2, section 2.7).

However, it would seem that the apparent ignorance or at least partial ignorance of accounting philosophy might be one of the most important factors that caused the well published corporate failures of the past 20 years. The constant evolution that accounting development, and the other three subjects to a lesser extent, have endured over the years leaves the impression that their efforts would have been more successful in curbing large corporate failures, if they were more prescriptive than descriptive. The general view is that the CF reflects only conventional practices in accounting theory and is therefore subjected to constant alterations. The Carnegie Corporation study of 1967 (see opening paragraph in Chapter 1) highlighted the difference between professional development and technical development. It is becoming abundantly clear that the Professional Accountant providing services to the SME sector in particular, would need to regard professionalism on the same level as their technical abilities. Without the constant analysis of the philosophical underpinnings of accounting, this may not be possible. As stated in the opening paragraph of Chapter 1, it is important to acknowledge the fact that professionalism includes more than mere technical knowledge. The analysis of the magnitude and frequency of economic disasters during the past one hundred years serves as a stark reminder that technical developments alone in the accounting profession were not sufficient to ensure that Professional Accountants acknowledge and accept their responsibilities and position in the social sciences.

A detailed analysis of the agency relationship and ethics to possibly alleviate these shortcomings are two other topics that will require extensive research in the future, in the search for not only excellence but also for the establishment of accounting philosophy. Once the elements of the research conceptual framework have been fully described and analysed, the focus will move to the six components that constitute a research paradigm. The six components include the three elements of the conceptual framework, as well as the methodology, research strategy, and research method. The choice of what selections are eventually made within the latter three elements are exclusively dictated by the alignment of the researcher's conceptual framework through the in-depth study of the former three elements. In the case of this thesis, the researcher's belief system, knowledge, and awareness of what is valuable has been formed by being exposed to the SME sector.

3.4 The six components of a research paradigm

This section briefly defines the six components of the research paradigm. A paradigm cannot exist without all six elements present. According to Scotland (2012:9) each paradigm is based upon its own ontological and epistemological assumptions. He states further that as all assumptions are conjecture, each paradigm's philosophical underpinnings can neither be empirically proven nor disproven, depending on the original intention of the researcher and the research question (Scotland, 2012:9).

3.4.1 General observations

There is sufficient evidence that accounting philosophy exists. It is therefore a requirement to also prove that accounting as a science fits in with the social sciences and not merely the natural sciences. It would then follow that any researcher will be able to execute research in a scientific manner in order to obtain solutions to any problem statement in this field of expertise. Researchers in accounting must, therefore, be equipped with much more than a mere comprehensive framework and some technical knowledge of auditing, tax, accounting, and financial management to use in the solving of problems. To be able to solve problems, it is crucial that proper research paradigms be followed, as the setting of research paradigms is the starting point in any form of scientific research.

Diagram 3.5 illustrates the six components of a research paradigm. This section of the discussion will purely reflect on the diagram in summary form and in sections 3.4.2 to 3.4.6. Immediately after the definitions, each of the six components will be analysed in detail as a prelude to the eventual choice of research strategy.

Diagram 3.5 The Six Major Components of a Paradigm



3.4.2 Ontology

The first of these components is ontology, which can be explained as a branch of metaphysics concerned with the study of being (Webster, 1994:813). In other words, it is the study of “what is” and “what exists”. In this thesis, ontological assumptions are very important as they will comprise the sum of the researcher’s collection of mental events (Griswold, 2001:237). It is also important to note that ontology encompasses ways in which reality can be constructed, i.e. how things really are and how they really work.

3.4.3 Epistemology

The second component is epistemology, which is concerned with “the nature and forms of knowledge” (Cohen *et al.*, 2007:7). Therefore, epistemology is concerned with the theory of knowledge with particular reference to its limits and validity (Webster, 1994:390). It establishes the relationship between the eventual would-be knower and that what can be known. Epistemology is primarily concerned with the knowledge of a concept (Bengson & Moffett, 2011:284).

Epistemology is also concerned with truth, particularly that truth can only be discovered through social interaction. The discovery through social interaction then also forms the basis on which criteria appropriate to the epistemological position dictate the election of the base method to be used in the research process (Cassell & Symon, 2004:498). In accounting research, epistemology will include the unique agency relationship between the Professional Accountant and his client and the legislation that govern and regulate this relationship.

3.4.4 Axiology

The third component is axiology. As stated in the establishment of the research framework, axiology concerns issues relating to ethics and aesthetics. Axiology also deals with what information can be identified as valuable. Without this element, the research conceptual framework will be incomplete and the researcher will not be able to establish his own philosophical stance on any research question. Details regarding this component will be provided in section 3.7 below. Axiology establishes the valuable knowledge and derives it from what exists (ontology) and how this knowledge was acquired (epistemology).

3.4.5 Methodology

The fourth component is methodology. Methodology refers to the tools which we use to know reality and refers to the action plan on which the choice of a particular method

is based. It is, therefore, concerned with why, what, where from, when, and how data are collected and analysed (Crotty, 1998:3). The type of methodology revolves around the problems that need to be investigated. This component is explained in detail in section 3.8 below.

3.4.6 Research methods

The fifth component of the research paradigm is the research method. Following on methodology and research strategy, methods are the “specific techniques and procedures used to collect and analyse data.” (Scotland, 2012: 9). As will be explained in section 3.9 of this chapter, data collection will either be qualitative or quantitative, or a mixture of the two. All paradigms can use both qualitative and quantitative data. Research methods, according to Scotland (2012: 10) can and will always be traced back to an ontological position, i.e. what the researcher considers to be a reality. Any form of research will be impossible if the researcher does not or cannot commit to specific ontological and epistemological positions. It is invariably these positions that result in the adoption of different research approaches towards the same phenomenon.

3.4.7 Research strategy

The final component covers the strategy to be adopted by the researcher in obtaining data in their quest for knowledge or the establishment of new theory. There are various research strategies, such as ethnography (Schatz, 2009) and participant-observation (Spicer, 1961:201-204) to name two popular strategies. In modern research, the case study is becoming an increasingly popular research strategy, particularly when new theories need to be developed. The reason for this increase in popularity can be found in the fact that, firstly, there are evident relationships between the case study approach and a holistic point of view. This implies that the meaning of datum (something used as a basis for inference) only becomes apparent when it is considered as part of a whole. As stated by Hägg and Hedlund (1979:137), “the consequences of using a certain inventory valuation method, can only be evaluated in the context of the whole

firm". A second reason for the increase in popularity of case studies in modern accounting research is that in order to grasp the functions and purposes of accounting, one will not get very far by only using quantitative data (Ijiri, 1975:33). Moreover, there seems to be an absence in recognised theory or even basic epistemology to guide a researcher in the selection and interpretation of strategic data. Thirdly, case studies are deemed to be a process of dialogue and interaction between the researcher and those groups or individuals in the social system that are being researched, with the distinct purpose of understanding rather than explaining a phenomenon (Hägg & Hedlund, 1979:138). This invariably will result in deeper- and new kinds of understanding.

For the purpose of this thesis, the case study as a research strategy is the most appropriate, as it begins with "a logic of design [...] a strategy to be preferred when circumstances and research problems are appropriate rather than an ideological commitment to be followed whatever the circumstances" (Platt, 1992:46). A number of academics' view case studies as a research method (Yin, 2009:17). For the purpose of this thesis, the case study will be deemed the research strategy to be applied in the research method. Section 3.10 provides more detail regarding research strategy. The primary purpose for using case studies as the research instrument in this thesis is because case studies could provide a proper interpretation of what is happening while including a number of variables. The primary limitation of using case studies is that one can only expect to generate hypotheses but not for testing it. Secondary to this aforementioned limitation is also the fact that case study research lacks established methods of generating information, the treatment of data, and proper procedures to judge the validity of data and therefore make sense of the case study (Hägg & Hedlund, 1979:140-142). It will, therefore, be a requirement to relate observations and data collection to some framework, or for want of a better explanation, a predetermined way of thinking to ultimately solve problems.

3.5 The four major research paradigms

Now that the six components of the research paradigm have been identified, the researcher is faced with the daunting task of choosing the most appropriate research paradigm

Scotland (2012:10-14) identifies three research paradigms, namely the Scientific or Positive Paradigm, the Interpretive Paradigm, and the Critical Paradigm. Moreover, Anderson (2012) identifies a fourth research paradigm, namely the Pragmatic Paradigm. Each research paradigm has its own unique ontological and epistemological characteristics and methodology.

3.5.1 The scientific or positivist paradigm

This paradigm rose to prominence during the Enlightenment Period. It gained international acclaim when Comte used it in social studies (Cohen *et al.*, 2007:9). The ontological position of the scientific paradigm is one of realism which in turns follows that objects exist independently from the knower. Most followers of this paradigm assume that reality is not mediated by one's senses and that words merely owe their meaning to the objects which they designate or name (Frowe, 2001:176).

The epistemology of the scientific paradigm is one of objectivism. Followers of this paradigm enter the world impartially and seek to discover absolute knowledge about an objective reality. As meaning solely and exclusively resides in the objects and not in the conscience of the researcher, absolute knowledge about an objective reality is gained. To illustrate, Crotty (1998:8) states that:

“A tree in the forest is a tree, regardless of whether anyone is aware of its existence or not. As an object of that kind, it carries the intrinsic meaning of treeness. When human beings recognize it as a tree, they are simply discovering a meaning that has been lying in wait for them all along.”

During the 20th Century post-positivism evolved from the above. The difference between the two paradigms is that post-positivism holds that the truth produced by the

scientific paradigm is simply one's belief in the truth of a currently tested hypothesis (Popper, 1959:415-419). The second difference between the two is that the principle of falsification argues that scientific theories can never be proven to be true (Ernest, 1994:22), unless attempts to refute such theories fail. Therefore, every scientific statement must remain tentative forever (Popper, 1959:280).

To support accounting research to a certain extent, the aim of the positivistic methodology is to explain relationships. Positivists' endeavours are focused on identifying causes which influence outcomes. The research methods often involve empirical testing, random sampling, control groups, as well as controlled variables which can be independent, dependent, or moderator induced.

The scientific paradigm seeks predictions and generalisations. Therefore, the methods invariably generate quantitative data. The methodology is viewed as value neutral which results in value neutral knowledge.

There are a few shortcomings of the scientific paradigm. One of these relates to the fact that deductions made from empirical generalisations are rarely explanatory and ignore the intentionality of the individual. This results in actions not being fully understood (Scriven, 1970:100). However, certain aspects of positivism belong in educational research as it focuses on the discovery of laws that governs behaviour (Anderson, 2013:6).

Typical scientific research questions aim to determine frequency and correlation. These questions are best answered with numerical precision and emanate from formulated hypotheses. Research in the social sciences requires a certain measure of interpretation as well, and it is for this one reason in particular why this paradigm is limited in accounting research.

During the last century, accounting scholars have been trying to establish accounting as an integral part of social science. As an established social science, it has become imperative that research in this field constantly questions "the status quo and push back on accounting practices that are threatening to extinguish the flame of Accounting scholarship" (Buys, 2010:iv). As the number of business enterprises

increased over the past century and due to the close interrelation of most sectors in the economy at large, particularly in the SME sector, the role of Professional Accountants have increased to include much more than merely the timeous reporting of the financial standing of these enterprises to the owners and management. Their reporting now formulates essential information to various role players such as government, labour organisations, shareholders, pressure groups such as environmentalists, and economic research bodies such as the various central statistics authorities. This social responsibility that is becoming more prevalent as economies grow is much more evident in the SME sector. The Professional Accountant serving these types of clients serve organisations wherein management and owners are essentially the same individuals, and errors due to omission or commission have potentially more disastrous consequences than the errors committed by Professional Accountants serving the larger corporate clients. The sole reason for this is due to the fact that these enterprises have much more limited resources than the larger corporates, and sometimes even negligible errors can be devastating to the owners, employees, and families of these SMEs.

This research paradigm therefore seems to ignore aspects such as ethics, the one aspect that seems to require attention in future research if accounting as a social science is to survive at all (Anderson, 2013:6). Therefore the main shortcoming of this paradigm in accounting research is summarised as follows:

“Those who are seeking the strict way of truth should not trouble themselves about any object concerning which they cannot have a certainty equal to the arithmetic or geometrical demonstration.” (Rene Descartes *in* Anderson, 2013:8).

3.5.2 The interpretive paradigm

In the interpretive paradigm reality is constructed through the interaction between language and aspects of an independent world. It does not question various ideologies for instance; it accepts these various ideologies due to the fact that knowledge is regarded as having a trait of being culturally derived and historically situated (Scotland, 2012:10).

The ontological position of the interpretive paradigm is relativism. According to relativism, a person's view is subjective and therefore differs from person to person (Guba & Lincoln, 1994:110). According to this paradigm, the world is meaningless without human consciousness. Contextual understanding of research topics forms the basis of this paradigm.

Therefore, according to this paradigm's epistemology, the world does not exist independently of our knowledge (Grix, 2004:83). All knowledge is constructed through the interaction between humans and is also developed and transmitted in a social context (Cohen *et al.*, 2007:19). To elucidate, Crotty (1998:43) makes reference to the tree again:

"We need to remind ourselves here that it is human beings who have constructed it as a tree, given it a name, and attributed to it the associations we make with trees."

Interpretive methodology encompasses the understanding of various phenomena from an individual's perspective by investigating such interactions between these individuals, taking into account the historical and cultural contexts which form an integral part of their environment (Cresswell, 2009:8). To illustrate this paradigm in simple terms one needs to analyse the original *Allegory of the Cave* as described by Plato (Epstein, 1969:57-58):

"Next, said I, here is a parable to illustrate the degrees in which our nature may be enlightened or unenlightened. Imagine the condition of men living in a sort of cavernous chamber underground, with an entrance open to the light and a long passage all down to the cave. Here they have been from childhood chained by the leg and also by the neck so that they cannot move and can see only what is in front of them because the chains will not let them turn their heads. At some distance, higher up is the light of a fire burning behind them; and between the prisoners and the fire is a track with a parapet built along it, like the screen at a puppet-show, which hides the performers while they show their puppets over the top. I see, said he. Now behind this parapet imagine persons carrying along various artificial objects, including figures of men and animals in wood or stone or other materials, which project above the parapet. Naturally, some of these persons will be talking, others silent. It is a strange picture, he said, and a strange sort of prisoners. Like ourselves, I replied; for in the first-place prisoners so confined would have seen nothing of

themselves or of one another, except the shadows thrown by the firelight on the wall of the cave facing them, would they?"

Plato then describes the effect on an individual's views and perceptions should such an individual be set free and allowed to leave the cave and then return to explain to his fellow prisoners what he experienced and saw. This example, although extreme, illustrates that one must consider the interaction between individuals in order to understand what they regard as being truthful.

Research methods applied within this paradigm will yield insight into- and understanding of behaviour, and explain actions from the perspective of the participants. Examples of these methods are qualitative methods such as interviews, focus groups, open-ended questionnaires, and even role-playing. This type of research will be deemed acceptable if the research process, as well as the research findings, can be replicated. This will make the research dependable and transferable (Richy & Lewis, 2003:263-286). To summarise, the interpretive paradigm questions knowledge by achieving legitimacy and trustworthiness without claiming certainty.

This paradigm has a few shortcomings. The first shortcoming relates to the reaching of consensus amongst the participants. Consequently, the qualitative contextualised data cannot be replicated easily. A second drawback relates to the fact that this type of research is normally open-ended and much more intimate than research within the scientific paradigm. This may result in the discovery of unintended secrets and even lies. Researchers using this method will have to critically question their ethical obligations regarding the possible interference in the lives of the participants. Thirdly, researchers have more freedom to impose their own subjective interpretations on participants, and participants have limited influence over the final interpretation of the data and the direction of the research as a whole. Lastly, participants may even be guided by an invisible ideology in their actions.

This paradigm can be regarded as the opposite of the scientific or positivist paradigm. Due to the subjectivity of the interpretive paradigm, it will not always be useful in accounting research as accounting research will at times have the conceptual framework of accounting as the basic point of departure.

3.5.3 The critical paradigm

Historical realism is at the centre of the ontological position of the critical paradigm. This type of realism supports the view that reality “has been shaped by social, political, cultural, economic, ethnic and gender values; a reality that was once deemed plastic has become crystallised” (Guba & Lincoln, 1994:110). Therefore, realities are deemed as under constant social construction and also permanently influenced by it.

Critical epistemology explains that what counts as knowledge is determined by the “social and positional power of the advocates of that knowledge” (Cohen *et al.*, 2009:27). The whole notion of the critical paradigm is therefore driven by subjectivism. To use the example of trees once more, “different organisations have differing beliefs. For example, the World Wildlife Fund and logging companies have differing agendas; therefore, they often dispute what constitutes an endangered tree” (Scotland, 2012:13).

As it attacks reality, the critical paradigm is anti-foundational. As reality is under constant attack by human action, the critical paradigm seeks to address issues of marginalism and social justice. Knowledge is deemed as a tool to emancipate through different theories of critical enquiry. It is for this reason that this paradigm will not be useful in accounting research. Although a social science, accounting as a discipline still has a uniform foundation in the form of the conceptual framework.

However, in order to seek knowledge regarding the current challenges faced by the accounting profession, the critical paradigm will be the most appropriate as the critical methodology is directed at interrogating values and assumptions, as well as challenging conventional social structures. The enquiry to these matters is also inclusive of politics in general. In cases such as these, there is no formal point of departure and all aspects of society can be questioned.

The main shortcoming of the critical paradigm is that it aspires to a utopian dream that may never be realized. However, it allows realities to be critically analysed and usually generates qualitative data that should result in catalytic validity.

The critical paradigm, unfortunately, has five very real shortcomings (Burbules & Berk, 1999:55). The first shortcoming relates to the fact that the research is not supported by existing regimes as it has an agenda for change. This paradigm is therefore not supported by existing policy makers. The second shortcoming is that the much-aspired dialogue amongst equals is impossible as there are definite power differentials between researchers and participants. A third constraint is that emancipation that is supposed to result from this research is not guaranteed. To add to this, once participants become aware of their situation, despondency may ensue. A fourth shortcoming of the critical paradigm is that it accepts that populations will blindly follow the bidding of powerful regimes. The last shortcoming relates to the fact that most leading authors of the critical paradigm have been male and this prompts feminist to perceive that this paradigm excludes the voices of marginalised groups (Burbules & Berk, 1999:58).

To summarise the characteristics of the three above-mentioned paradigms: The scientific paradigm will mostly generalise, the interpretive paradigm seeks to understand, while the critical paradigm seeks to emancipate. The definition of knowledge, as well as the ways to discover knowledge is at best subjective and the methodology applied in acquiring this knowledge using each paradigm will dictate the actual application of the research results. Therefore, to understand philosophical assumptions, one needs to understand the intricacies of each paradigm.

It would appear that the general shortcoming of all three of the above-mentioned paradigms is the limitation of each to solve problems. The basic point of departure of this thesis is to solve problems of an accounting nature for SME clients, hence the research question. In order to solve problems of an accounting nature, a paradigm needs to be adopted that can allow not only objectivity, but also a limited level of subjectivism due to the fact that the conscience of the researcher also needs to be taken into account. Secondly, the chosen paradigm also needs to allow for explanations and interpretations of the phenomena that is being researched. A third requirement for this paradigm will be that it must be able to claim certainty over and above legitimacy and trustworthiness. It must be kept in mind that the paradigm is going to have to contribute to the development of a method to solve problems of an accounting nature and certainty is a definite requirement, but with limited scope for

subjectivity. As the intention is not to create an accounting utopia by destroying all current knowledge and replacing everything with something entirely different, dialogue between accounting researchers and participants is of paramount importance. Although each of the three paradigms mentioned has its own strong and weak characteristics, none of these paradigms will be sufficient for accounting research where the development of a problem solving method is the primary objective.

3.5.4 The pragmatic paradigm

In philosophy, pragmatism refers to “an approach that evaluates theories or beliefs in terms of the success of their practical application” (Concise Oxford Dictionary, 2001:1123).

The pragmatic paradigm rejects positivism, on the premise that no theory can satisfy its demands relating to objectivity, falsifiability, and the crucial experiment to name a few, and it rejects anti-positivism because any theory would be able to satisfy it. Therefore, the only criterion left to satisfy is the theory’s capacity to solve human problems. As stated by Powell (2001:884), “To a pragmatist, the mandate of science is not to find truth or reality, the existence of which are perpetually in dispute, but to facilitate human problem-solving”. It is, therefore, to be accepted that the pragmatist epistemology stands in contrast to prevailing positivist and anti-positivist views of scientific discovery.

The ontological position of this paradigm is that reality is the practical effects of ideas. Therefore, the key features of this paradigm will firstly include the fact that it is an intervention. This means that the pragmatic paradigm seeks to start action in order to improve a process or understanding. Secondly, empirical research in a natural context is possible where the natural context is defined as the normal environment from which the research question has been developed. Thirdly, the pragmatic paradigm creates an environment where researchers and practitioners can solve problems in partnership and not independently. Lastly, the development of new theory can be easily translated into design principles.

In summary, the ontology of this paradigm states that reality is the practical effect of ideas, while the epistemology purports that any way of thinking or doing that leads to pragmatic solutions is useful. The methodologies used in the research processes that follows this paradigm are usually mixed method, design-based research, and action research as some research requires quantitative as well as qualitative analysis. The research in this thesis will be based on the qualitative method mixed with a design-based method in order to provide a proper analysis platform. Table 3.1 provides a comparative summary of each of the four research paradigms described in this section.

Table 3.1 Summary of the Elements Containing a Paradigm

Paradigm	Ontology	Epistemology	Question	Method
Positivism	Hidden rules govern teaching and learning process	Focus on reliable and valid tools to uncover rules	What works?	Quantitative
Interpretive or constructivist	Reality is created by individuals in groups	Discover the underlying meaning of events and activities	Why do this act work?	Qualitative
Critical	Society in rife with inequalities and injustice	Helping uncover injustice and empowering citizens	How can I change the situation?	Ideological review, Civil action
Pragmatic	Trust is what is useful	The best method is one that solves problems	Will this intervention improve learning?	Mixed Methods, Design-Based

(Anderson, 2013:54)

As this thesis is focused on problem-solving issues, the pragmatic paradigm and the interpretive paradigms are regarded as the most appropriate. This research is focused on the establishment of a new way of thinking about problems and therefore will require a designed based, qualitative method. The application of both these paradigms motivate the “how” and “why” elements of the research question posed in Chapter 1, which is: how can case studies be harnessed to provide Professional Accountants with the necessary skills to improve their service delivery to their SME clients and why is this additional skill set required?

In order to adequately answer this question, an appropriate research strategy must be selected. While choosing a research strategy, the researcher needs to consider their ontology, epistemology, and axiology, so that they align with the chosen paradigm. Thereafter, the researcher must choose the most appropriate methodology and research methods. These considerations will be discussed in depth in the following sections.

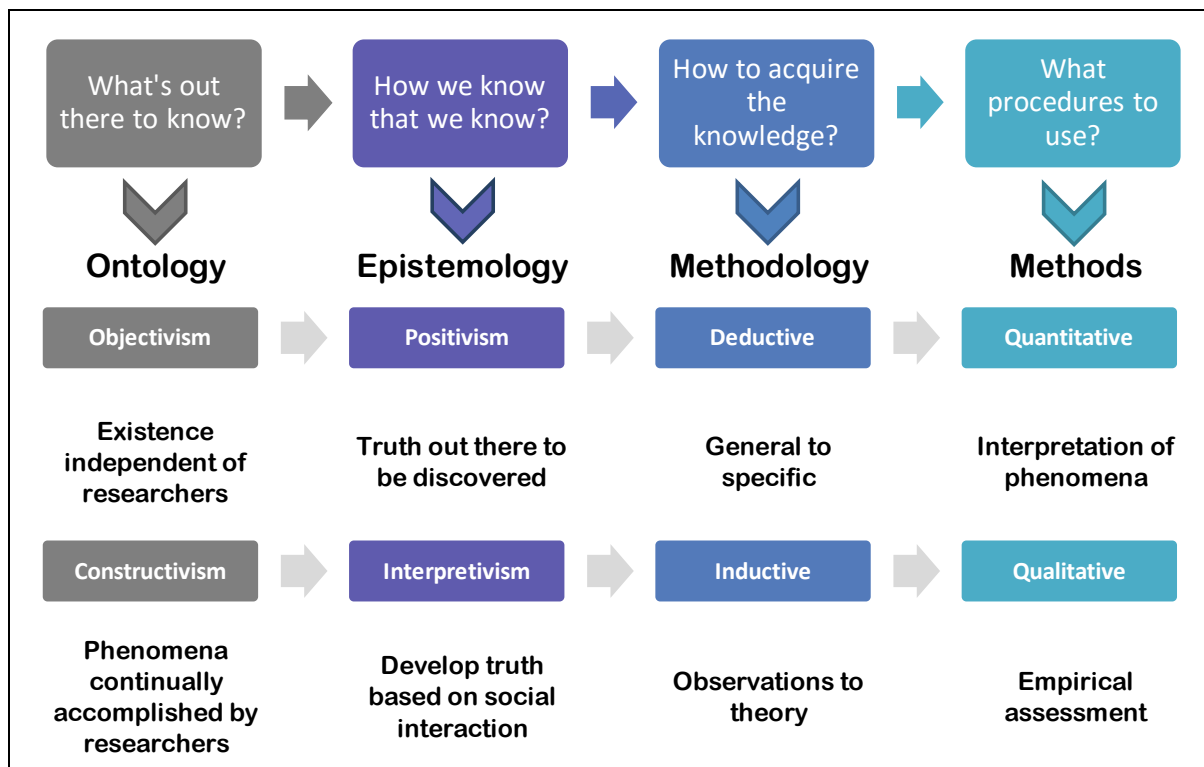
3.6 Ontological and epistemological considerations

As state earlier in this chapter, the researcher cannot establish a philosophically aligned conceptual framework without properly establishing the elements of the research conceptual framework. Two of these elements, namely ontology and epistemology, form an integral part of the choice of research strategy.

During the process of choosing a research strategy, the researcher needs to consider four questions. These questions are illustrated in Diagram 3.6 below. The first question relates to what is out there that requires knowledge (ontology). This first question identifies the existence of knowledge independent of researchers and can be either objective or constructive in nature. The second question relates to the manner in which we know what we know and acknowledge the fact that there is truth to be found in social interaction (epistemology). This question can be approached either through the positivistic or interpretive paradigm. This research will focus on the development of truth based on social interaction.

Referring to Diagram 3.6, if the ontology is based on objectivism, the positivistic paradigm will be the most appropriate approach to defining the epistemology and the deductive methodology could then be matched with quantitative methods. Where the ontology is based on constructivism, the epistemology will be based on interpretivism, and adopt the inductive methodology harnessed by an empirical assessment executed by qualitative methods. This thesis follows the latter strategy. Research through constructivism cannot therefore be regarded as pure science, but as phenomena based on real world situations.

Diagram 3.6 Selecting a Research Strategy



(Yeong, 2011:24)

As already established, accounting is a member of the social sciences and therefore one expects that qualitative methods would be the most appropriate, as most of the knowledge available in this discipline is obtained through social interaction. Therefore the methodology would be inductive as the objective is to convert observation into theory.

3.7 Axiology

As stated in Section 3.4.4, Axiology combines ethics and aesthetics. Axiology is an important component which requires detailed analysis, since it is the cultural, ethical, and moral basis on which the problem-solving method will be developed. In this thesis, it will be identified as those attributes that a Professional Accountant should possess over and above the requisite technical knowledge (as described in Chapter 2) which

will distinguish Professional Accountants that are mere technicians from those that are true professionals.

As ethics and the relationships between researchers and participants have been identified as paramount for quality in qualitative research, a new relationship model needs to be found that will support an agency relationship between Professional Accountant and their SME client, in a way that differs from the current agency relationship. As the outcomes of any activity that develops through this unique agency agreement will rely heavily on the ethical conduct of the Professional Accountant, a more significant set of ethical rules combined with the unique relationship needs to be formulated.

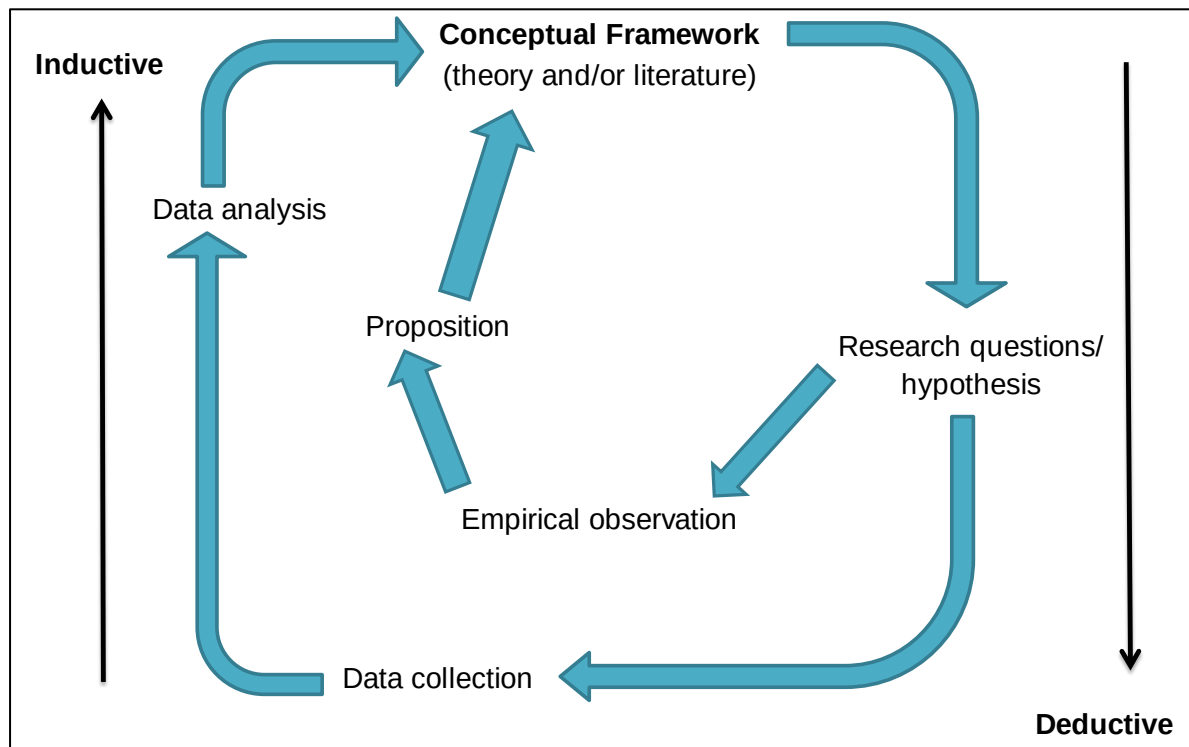
3.8 Methodologies

As there are different research paradigms, there are two types of research methodologies, namely the inductive- and deductive research methodology. Both of these methodologies are illustrated in Diagram 3.7.

The establishment of a research methodology involves the general approach to the entire process of a research study, “starting from the theoretical underpinnings and spanning to data collection and analysis, and extends to developing the solutions for the problems being investigated” (Wedawatta, Ingirige & Amaratunga, 2016:4). Methodology is also regarded as the “overall approach to the entire process of the research study” (Collins & Hussey, 2009:128).

The inductive process is applied where the researcher derives a conceptual framework for data collection and data analysis. The deductive approach is applied where the researcher takes the established conceptual framework as a general point of departure, and creates research questions and hypotheses from it. The researcher then executes data collection activities and data analysis from it and establishes a new theory and/or literature from it.

Diagram 3.7 Illustration of the Deductive and Inductive Process



(Rudestam & Newton, 1992:6-12)

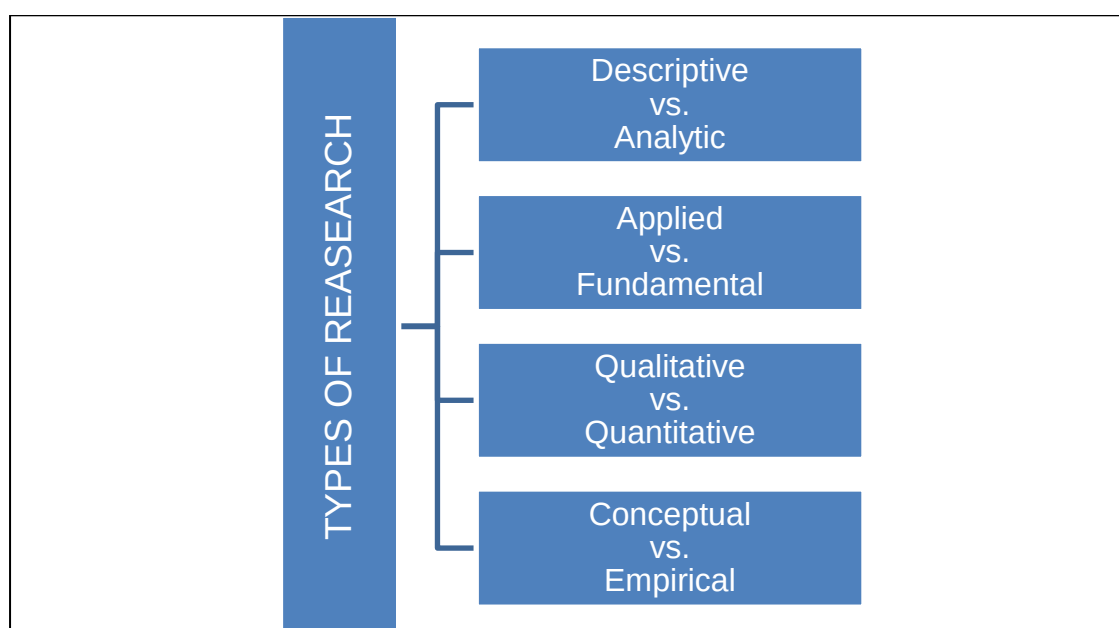
This thesis applies the inductive approach as the research question was initially derived from the collection of data through a literature review in Chapter 2 and then followed by the rigorous analysis of the data gathered from case studies Chapter 5.

3.9 Research methods

3.9.1 Quantitative and qualitative research methods

There are also a variety of research methods. Diagram 3.8 illustrates the eight major research methods. Generally speaking, methods refer to the approach adopted by the researcher in his quest for solutions to a specific research question or problem (Sivaraj, 2013:2).

Diagram 3.8 Types of Research Methods



(Sivaraj, 2013:3)

This section will only focus on the distinction between quantitative and qualitative research methods, as these methods are the more popular methods in social science research. Descriptive and analytical methods relate to what is happening as the researcher has no control over variables and the research is only focused on cause and effect relationships. Conceptual research relates to an abstract idea and these ideas are then used to develop new concepts. Empirical research uses evidence based on experience and observations, rather than a theory. Applied research aims at the finding of solutions to current problems faced by enterprises, and is practically inclined with limited regard for underlying theory. Fundamental research in turn is concerned with generalisations from which theory is formed (Sivaraj, 2013:4-7). Qualitative research is the opposite of quantitative research as the former is concerned with a qualitative phenomenon while the latter is based on the measurement of quantity or amount. Qualitative research is conducted using in depth interviews or case studies, while quantitative research involves the collecting and converting of numerical data using statistical calculations in order to draw conclusions (Sivaraj, 2013:6).

Table 3.2 provides the general criteria for selecting either the quantitative or qualitative method as a research tool. This thesis adopted the qualitative method purely on the grounds there is a strong presence of the qualitative paradigm in the research topic.

However, the presence of rules and regulations in Accounting requires a high level of adoption of the qualitative method as well. The only reason for the adoption of the qualitative method is that these rules and regulations are predominantly descriptive and not prescriptive.

Table 3.2 Criteria for Selection

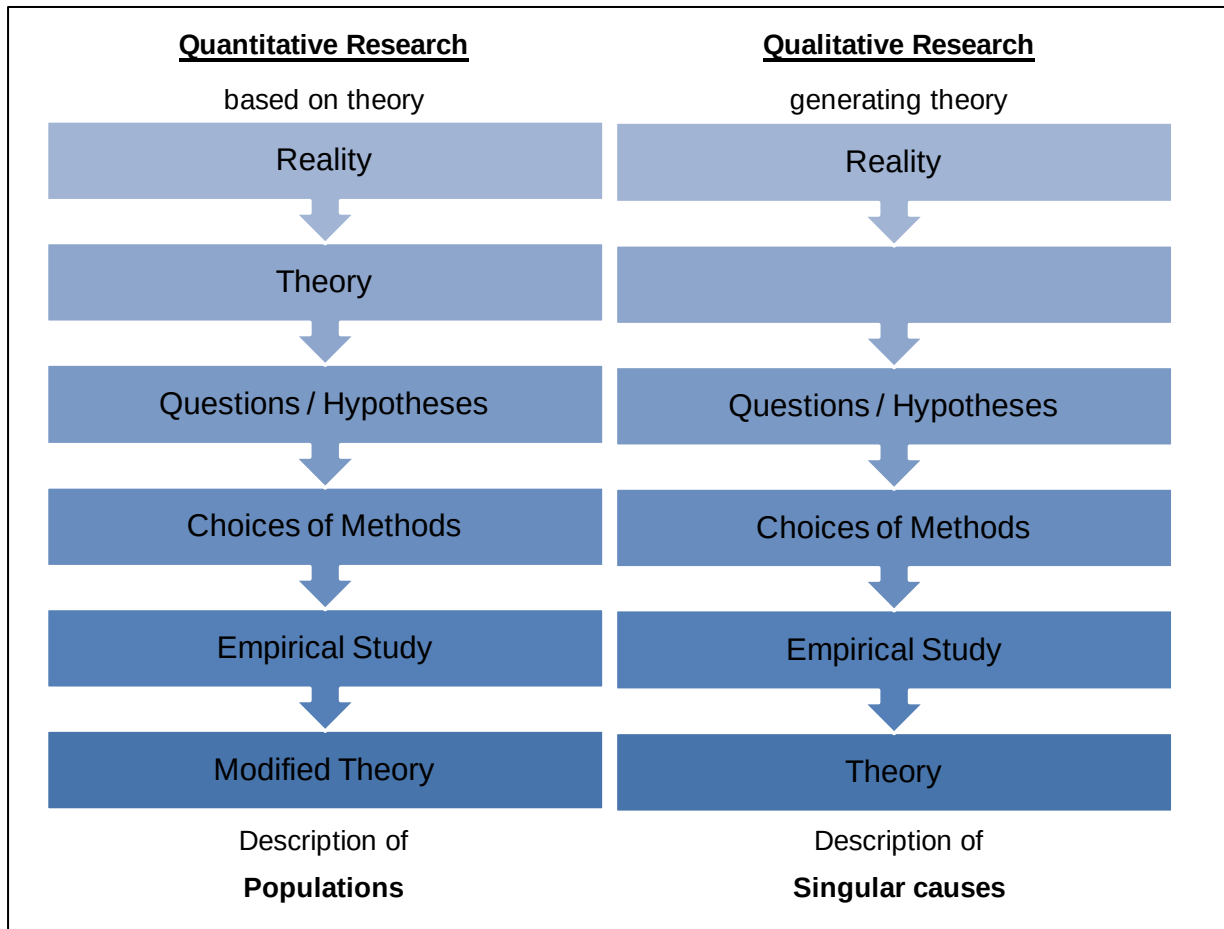
Criteria	Quantitative research	Qualitative research
Researcher's worldview	Researcher's comfort with the ontological, epistemological, axiological, rhetorical, and methodological assumptions of the quantitative paradigm	Researcher's comfort with the ontological, epistemological, axiological, rhetorical, and methodological assumptions of the qualitative paradigm
Thinking and experience of the researcher	Technical writing skills, computer statistical skills, and library skills	Literacy writing skills, computer text analysis skills, and library skills
Researcher's physiological attributes	Comfort with rules and guidelines for conducting research, low tolerance for ambiguity, time for a study of short duration	Comfort with lack of rules and procedures for conducting research, high tolerance for ambiguity, time for lengthy study

(Jones & Bartlett Learning, 2010: 35-51)

The research for this thesis also demands a low tolerance for ambiguity, due to the accuracy with which each potential problem has to be analysed. As the various types of problems already faced by Professional Accountants span over a number of years, the study of these phenomena will be quite lengthy as there are multiple realities that are subjected to continual changes due to personal interpretations.

Essentially, this research needs to provide a new theory, instead of only a modified theory, in order for it to be regarded as successful. However, whether the quantitative research method or the qualitative method is adopted, this particular research has its own reality in terms of a few singular cases. The case studies will prove that there is a performance gap in the service delivery levels of Professional Accountants. Diagram 3.9 below illustrates that the theory discovered through qualitative research will be derived from the description of a number of singular causes that led to the establishment of the research question. The general characteristics of each of the two methods are listed in Diagram 3.9 below.

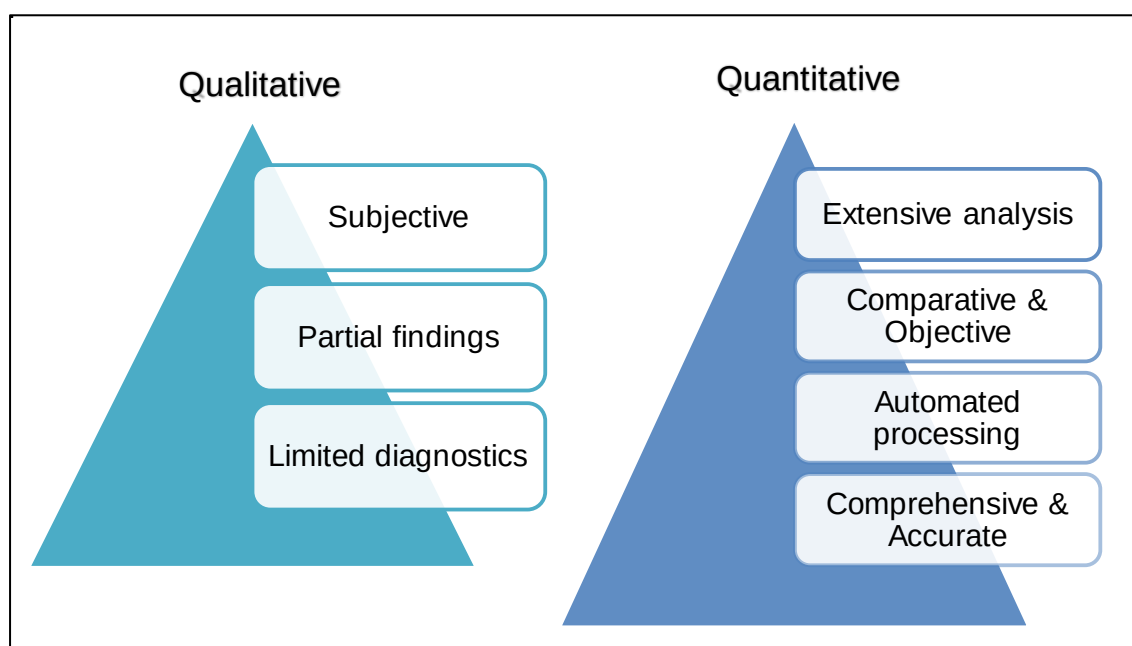
Diagram 3.9 Characteristics of quantitative and qualitative research



(Spatscheck & Wolf-Ostermann, 2016)

The main difference between quantitative and qualitative research is that a theory already is established in the former while the latter is used to develop theory. The ultimate purpose of quantitative research is to modify the theory, while the purpose of qualitative research is to develop theory. The statistical strengths of the quantitative method are compared to the statistical weaknesses of the qualitative method in Diagram 3.10. It is important to note that the qualitative method is subjective, findings tend to be partial, and eventual diagnostics of the research findings are limited. By contrast, quantitative methods are always subjected to extensive analysis, the processing of the data is normally automated and therefore not highly subjective, and due to the accuracy of the processed data comparisons may be drawn. Either of these methods will have particular shortcomings in social science research.

Diagram 3.10 Statistical Strengths and Weaknesses

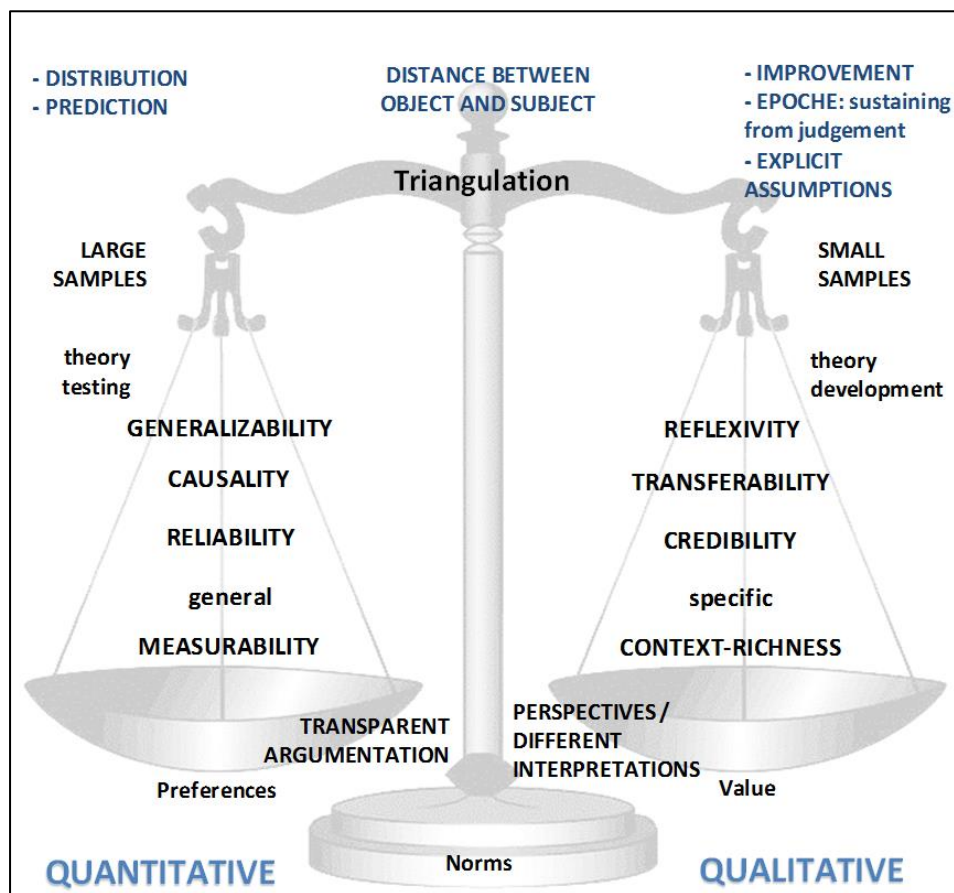


(Tertman, 2015:4)

There are good arguments for using both quantitative and qualitative research methods in the effort to establish the need for a problem-solving tool for Professional Accountants. Figure 3.2 illustrates how the principle of triangulation can harness both methods in order to provide a more accurate result. As can be identified in Figure 3.2, the two methods must be regarded as the one being complimentary to the other and not as mutually exclusive methods, particularly in cases where accounting sciences are concerned.

Triangulation is an action used by the researcher to test the validity of the outcomes of the qualitative data. Triangulation has its origins in navigation, military strategy, and geodetic surveys. However, in research it is used to describe the use of multiple methods and measures of an empirical phenomenon (Kohlbacher, 2005). In social science research, triangulation is used for the purpose “of developing a more effective method for the capturing and fixing of social phenomena in order to realize a more accurate analysis and explanation” (Wolfram, Cox & Hassard, 2005:11). As noted previously, the qualitative method provides a basis for theory development where small samples are utilised, while the quantitative method relates to issues of measurability and transparent argument within an established theory with the intention to alter the theory.

Figure 3.2 Triangulation of Research Methods



Taking all the above into account, the specific characteristics of the two methods are compared in Table 3.3 below. There are five very important comparatives in this table which are applicable for this study. The first relates to the different sample sizes of the two methods. The second is the fact that findings of the quantitative method are usually validated through sophisticated systems, while the analysis of data acquired through the qualitative method requires organising data into logical categories. The third is the fact that there is some form of manipulation of the variables in quantitative methods, while no manipulation of data is allowed in qualitative methods. The fourth comparative is the fact that the behaviour of the subject in quantitative methods is assumed to be regular and predictable as it is studied under controlled conditions, while with qualitative methods the behaviour of the subject is assumed to be fluid and dynamic, and is studied under natural conditions. Lastly, it is important to note that quantitative methods require objective observations as it is based on hard science, while the nature of observation in qualitative methods is subjective due to the utilisation of a variety of strategies and methods.

Table 3.3 Specific Analytical Comparatives in Research Methods

Characteristics		
	Quantitative	Qualitative
Approach	Scientific approach, Logical positivism uses quantitative approach in the verification of theoretical propositions, Deductive (top-down approach), Researcher formulates and uses hypothesis and theory with data	Naturalistic approach, Phenomenological inquiry uses qualitative approach to the verification of proposition, Inductive (bottom-up approach), Researcher generates hypothesis and ground theory from the data collected during field work
Understanding	Based on logical positive paradigm, Tests specific hypothetical generalization with narrow angle lens	Based on phenomenological paradigm, Understands the phenomenon in context specific settings in wide angle and deep angle lens
Aim	Aims at descriptive explanation and prediction of social phenomenon	Aims at descriptive exploration and discovery using in depth knowledge
Method	Uses scientific method with "hard science" tapping	No single method; uses a wide range of discrete strategies and methods
Subject	Behaviour of the subject under study is assumed to be regular and predictable, Studied under controlled condition	Behaviour of the subject is assumed to be fluid, dynamic, situational, social, contextual, and personal, Studied under natural condition
Observation	Nature of observation is objective	Nature of observation is subjective
Test items	Closed-ended structured questionnaires, tests, attitude scales, rating scales are used	Open-ended questionnaires are used as test items to obtain in-depth knowledge
Sampling	Probability sampling; Depends on the selection of random and representative samples	Purposive sampling; Researcher uses small samples
Distance	There is much social distance between researcher and the subject	Researcher is the primary data collection instrument. Has a direct contact with and gets close to people, situation, and phenomenon under study.
Findings	Aims at analysis of representative and validated quantitative data through sophisticated statistical and software package, There is some manipulation of the variable under controlled condition	Analysis of qualitative data requires organizing raw data into logical meaningful categories and examining them in holistic fashion for interpretation, Study of real world situation as they unfold naturally without any manipulation
Time	Takes little time to conduct	Takes a long time to conduct

(Winters, 2002:3-20)

Although the comparisons in this table are self-explanatory, it is however important to note that the researcher will be led to a large extent by the research question. It is evident that both methods have strong and weak characteristics. However, it has to be kept in mind that at a fundamental level the distinction between qualitative and quantitative methods can be very misleading, as “all research is ultimately qualitative (i.e. dependent on judgement). Even the most arcane quantitative research always hinges on qualitative judgements of some sort, even if those judgements are poor ones (which is bad enough) or made unconsciously by default (which from a methodological point of view is worse)” (Dowd, 2004:510).

This research originated with the identification of a performance gap in the service delivery skills of Professional Accountants when they serve SME clients. The ultimate purpose of this research is not to only confirm or deny the existence of this phenomenon but to provide a problem-solving tool that will narrow this gap. The success of this proposed tool will invariably hinge on qualitative judgement. Although the qualitative research method has been identified as the most appropriate method, it will be prudent to briefly analyse the mixed method, which combines elements of the qualitative method with those of the quantitative method.

3.9.2 Concurrent mixed methods research and the five “P’s” framework

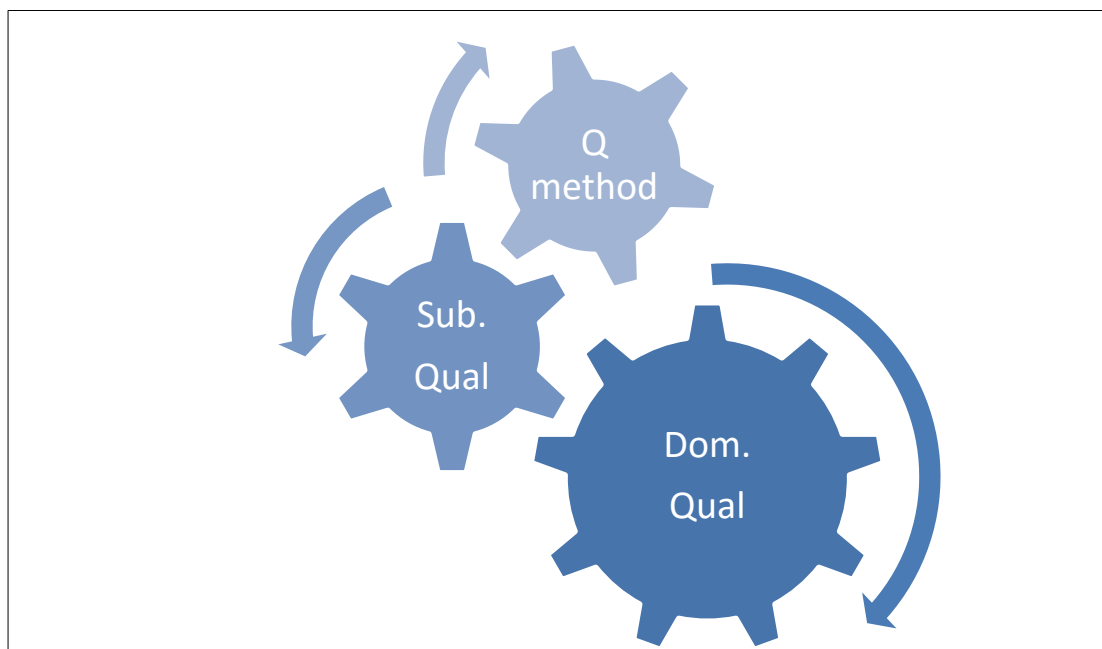
3.9.2.1 Defining concurrent mixed methods research

Mixed methods research (MMR) combines the use of quantitative and qualitative approaches in order to provide a better understanding of research problems that neither approach would be capable of alone. Creswell and Clark (2007:5) note that:

“MMR is a research design with philosophical assumptions as well as methods of enquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative data in a single study or series of studies.”

MMR is usually understood as a combination of quantitative and qualitative approaches coupled with the process of triangulation. However, a variation of the traditional MMR, now termed concurrent MMR, can include the mixing of qualitative methods only or quantitative methods only (Plastow, 2016:89). Diagram 3.11 illustrates how concurrent MMR design incorporates various qualitative and/or quantitative methods to answer a research question. Essentially, all data are collected at one point in time, but one type of data is normally the dominant data type while the other data components are nested with the dominant data type. In the case of this particular research, the qualitative data obtained through the analysis of the various case studies is the dominant data, also identified as the base study. The supplemental study is comprised of the data collected in the environmental study, where particular attention was given to the SME environment and the duties of the Professional Accountant serving the SME sector. The issues analysed in Chapter 2 indicate the need for research of this type. In this research, the case studies which tested the problem-solving tool form the dominant data source. The problem-solving tool that was used to demonstrate how challenges could be resolved also serves as the so-called Q-method as illustrated in Diagram 3.11.

Diagram 3.11 Components of Concurrent Mixed-Methods Research



(Plastow, 2016:89)

Therefore, in this study, the subordinate qualitative research component was an observational exercise to confirm that there is a performance gap in the services rendered by Professional Accountants, and that they need to be better equipped to provide better service to their SME clients. The literature review analysed the current professional knowledge requirements of Professional Accountants as well as the perceived hostile environment in which these professionals and their clients need to operate. This review supports the data provided by the various case studies, which is the qualitative component of this research. The utilisation of the proposed problem-solving tool is the Q-method, which is applied to illustrate the performance gap, and aids in the development of a new theory.

The five P framework, which was developed by Cameron (2011:96-108), provides the basis for researchers wishing to embark on a more comprehensive and innovative research approach. Table 3.4 provides an overview of the key issues and challenges that characteristically arise from the five Ps and then aligns these key issues with the learning objectives.

Although the application of the five P framework has been developed for MMR, this thesis will illustrate that the five Ps are just as applicable in qualitative accounting research as they provide much needed impetus in the search for a solution to a currently subjective point of view of service delivery. By ensuring that all five Ps are adequately addressed, the result of this research will no doubt be deemed as more robust and complete.

The MMR methodology is not the methodology selected for this particular research. However, this qualitative research will prove that all five elements will be fully exhausted by the time the research has been completed. This issue will be further elaborated in Section 3.10, which deals with the actual selection of the research design steps taken for this research. Table 3.4 identifies the five Ps as paradigms (P1), pragmatism (P2), praxis (P3), proficiency (P4), and publishing (P5).

Table 3.4 The Five Ps of Mixed Methods Research (MMR)

Five Ps	Issues & Challenges	Bazeley's (2003) Learning Objectives
Paradigms P1	<i>Criticism:</i> From paradigmatic purist and claims of eclecticism. <i>Challenge:</i> Need to document and argue paradigmatic stance in MMR.	Have sufficient understanding of the philosophical basis of research to determine if and how apparent paradigmatic approach might influence their work and be resolved.
Pragmatism P2	<i>Criticism:</i> Epistemological relativism and short-sighted practicality. <i>Challenge:</i> Become informed about the key debates and sources of MMR literature in the chosen field. Rigorously defend the stance and choices made at the interface between philosophy and methods.	Be familiar with key literature and debates in mixed methods with exemplars of a variety of mixed methods approaches to research. Learn to take risks, but also to justify choices made.
Praxis P3	<i>Criticism:</i> Problems related to methodology and data integration. <i>Challenge:</i> Informed choices, utilisation and application of MMR designs, methods and data analysis.	Be able to determine the appropriateness of a selected method(s), based on the question(s) asked (be question-driven in their choice of methods). Be able to determine whether mixing methods provides a cost-effective advantage over use of a single method. Have knowledge of the variety, rules, and implications of different sampling methods, and of alternative approaches to dealing with 'error' or deviance from the norm. Develop skills in working collaboratively with researchers using different approaches or methods.
Proficiency P4	<i>Criticism:</i> Superficial claims of utilising MM and the need to be proficient in both qualitative and quantitative methods. <i>Challenge:</i> Become skilled and competent in both chosen qualitative and quantitative methods and data analysis, as well as skilled and competent in mixed methods and integrated data analysis.	Have well-developed skills in carrying out research using at least one major methodological approach, but also comprehensive understanding of a range of approaches and methods and their underlying principles. Have an ability to interpret data meaningfully, and to ask questions of the data, rather than to simply follow a formula. Know and understand how software can be used to assist analysis tasks.
Publishing P5	<i>Challenges</i> Political nature of reporting and publishing MMR in academic and discipline based literature such as disciplinary traditions; levels of acceptance of MMR within disciplines and; reporting MMR in its entirety given word length limitations.	Develop new ways of thinking about the presentation of research results, especially where the methods used and information gained does not neatly fit a conventional format.

(Cameron, 2011:98)

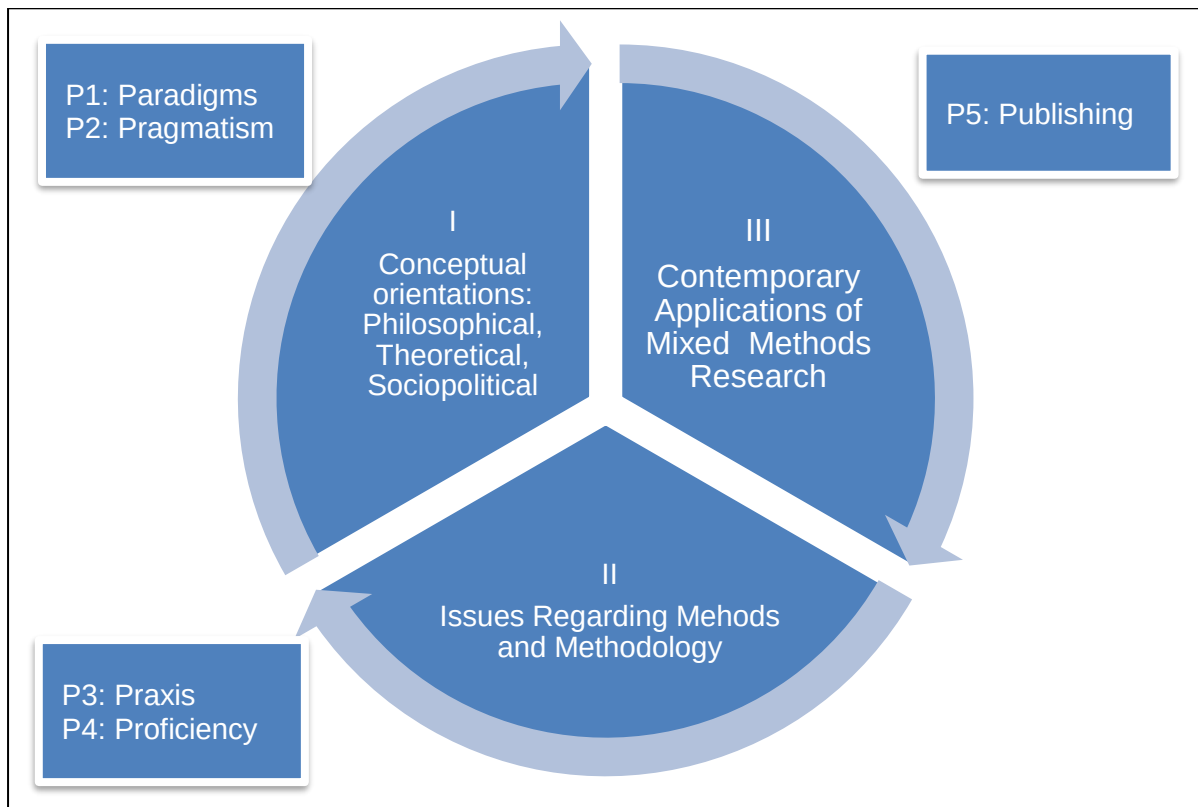
In P1, the first challenge is to document and argue the paradigmatic stance. P2 requires the researcher to defend his stance and choices made at the interface between philosophy and methods. P3 deals with analytical design methods and data integration. P4 traditionally requires skill in both quantitative and qualitative methods, but more importantly skills pertaining to integrated data analysis. Lastly, P5 is the presentation of MMR or qualitative research in such a manner that it is acceptable by academics and academic literature. The five Ps are discussed in more detail below.

The five Ps can be aligned as illustrated in the map in Diagram 3.12. In this map, P1 and P2 are connected to issues of conceptual orientations of a philosophical, theoretical, and socio-political nature. P3 and P4 relate to issues regarding the choice of method as well as the understanding of the use and applicability of each method. Coupled with P3 and P4 is also the ability to interpret data and ask questions, instead of merely following a set formula. P5 relates to publishing and is equally important as the first two groupings, as the correct and effective way of publishing findings will lead to the development of new ways of thinking particularly in cases where the methods utilised and information obtained does not conform to convention.

Paradigms

It is important to note that in selecting a paradigm, the methodological choice does not exist without a philosophical basis which in turn includes both ontological and epistemological assumptions. The first important step that the researcher has to make is to position himself paradigmatically. Various paradigmatic stances exist within MMR consisting of both qualitative and quantitative origins. In this research there are two qualitative bases from which paradigms are derived. The first is the control environment as described in Chapter 2. The second basis is derived from the data analysis of the case studies.

Diagram 3.12 Aligning the Five Ps with the Map of MMR



(Cameron, 2011:101)

Pragmatism

Pragmatism refers to the practical approach to a problem and has very strong associations with MMR. Pragmatism is also generally considered as the bridge between philosophy and methodology (Greene & Caracelli, 2003:38). It is generally accepted that pragmatism enables researchers to increase their methodological flexibility and adaptability. According to Johnson and Onwuegbuzie (2004:17), probably the most valuable asset of pragmatism in respect of a philosophical position in research is that it offers an:

“immediate and useful middle position philosophically and methodologically; it offers a practical and outcome-orientated method of enquiry that is based on actions and leads, iteratively, to further action and the elimination of doubt; and it offers a method for selecting methodological mixes that can help researchers better answer many of their research questions.”

Praxis

Praxis refers to the practical application of theory, where the researcher must select appropriate methodologies, and data integration takes place in MMR. This involves the consideration on how to apply MMR design, formulating the integration of methodologies, designing the integration of data, and data analysis and attention to inferences and inference quality (Cameron, 2011:103).

Proficiency

Research competency and proficiency can become a challenge for those researchers utilising mixed methods as these researchers need to be competent in qualitative and qualitative methods, as well as informed and practiced in the application of mixed methodologies (Cameron, 2011:104). To rephrase this statement: researchers need to be methodologically bilingual, and also need to be highly versatile and innovative. It is also important that both quantitative and qualitative data be integrated fully and not used in parallel to each other.

Publishing

The last of the Ps refers to the challenges associated with the actual publishing of research findings that resulted from MMR. It would seem that certain journals do not support this type of research, particularly those journals that apply to a specific discipline or field.

3.9.2.2 The eight criteria in successful qualitative research

Over and above the consideration of the five Ps in this research, it is important to also consider the overall criteria required to ensure that the qualitative research has been executed successfully. Diagram 3.11 in Section 3.9.2.1 illustrated that concurrent MMR does not necessarily imply a mixture of quantitative and qualitative research methods, but that a mixture of any of the two with a so-called Q-method is also regarded as MMR. In this thesis, the concurrent MMR is defined as the qualitative

research method combined with a Q-method, which is the problem-solving tool being sought. This has been specifically developed to group, analyse, and report on data obtained through the qualitative research method.

There are eight key markers in qualitative research that will ensure the high-quality execution of this type of research (Tracy, 2010:837). The first key marker is that the research should cover a worthy topic. It would therefore follow that the research topic should have educational authenticity and a raised level of critical intelligence, with strong moral overtones (Guba & Lincoln, 2005:191-216; Schwandt, 1996:58-72). In this research, the performance gap relating to the service delivery of Professional Accountants has been identified as a general concern. The manner in which this perceived performance gap can be eliminated is the primary objective of this research and is of value to both practitioners and academics.

A second key marker relates to the question of “requisite variety”. This refers to the need for a tool or instrument that is at least as complex and flexible as the phenomena being studied (Weick, 2007:16). This implies that it takes “a complicated sensing device to register a complicated set of events” (Weick, 2007:16). This key marker also includes the involvement of the researcher in collecting data to the extent that the researcher actually becomes an integral part of the research. The technical expertise and skills level of the researcher provides the base for qualitative fitness that may even enrich future projects. In collecting the data for this research, it became clear that a proper tool or method needs to be developed in order to categorise the data in such a manner that rapid action can be assured.

A third key marker identifies sincerity as important. This can only be achieved through “self-reflexivity, vulnerability, honesty, transparency, and data auditing” (Tracy, 2010). The notion here is that the researcher should be honest regarding their biases, goals, and foibles, as well as transparent about how these influenced the methods of the research without squeezing or forcing out the object of the study (Denzin, 1997:218). By the same token, the issue of self-as-instrument must be highlighted through any qualitative research. The self-as-instrument refers to the involvement of the researcher in the collecting of data and how this data is eventually analysed and processed. To

adhere to this requirement, this thesis will embark on a secondary project, wherein interviews will be held with a number of SME entrepreneurs in order to gauge their views on what a Professional Accountant should be able to provide and why they require these types of services.

A fourth key marker is credibility and refers to the trustworthiness and plausibility of the research findings. In order to achieve an acceptable level of credibility, it is important that the researcher provides a thick description by providing data that are complex in specificity and circumstantiality (Geertz, 1973:6). Apart from the thick description, triangulation will further supplement this key marker. In qualitative research, triangulation is reached when two or more sources of data collected result in the same conclusion, thereby making the conclusion more credible. Replication in the same setting, therefore, provides credibility (Bloor, 2001:384). In this thesis, the problem solving tool is applied to several case studies in order to provide a certain level of credibility to the research.

A fifth key marker is resonance and refers to the ability of the researcher to provide direct insight into the lived experiences of others through empathic validity (Dadds, 2008:282). In this thesis, the researcher tried to paint a picture with which readers can identify, particularly if those readers are SME entrepreneurs themselves

The sixth key marker is the fact that the research must provide a significant contribution. Significance prompts asking whether the study extends knowledge, improves practice, generates ongoing research, and liberates or empowers. The answers to these questions will point to the manner in which the research will contribute to our understanding of social life (Richardson, 2000:254). Significance can either be theoretical, heuristic, practical, or methodological. The purpose of this research is to provide methodological significance to a risk challenge.

The seventh key marker relates to ethics. This key marker divides ethics into procedural ethics (accuracy and avoiding fabrication), situational ethics (whether the moral goals outperform the harm of the research practices), relational ethics (the constant recognition and value of mutual respect, dignity and connectedness between the researcher and the researched), and exiting ethics (the sharing of results) (Tracy,

2010:846-848). In accounting research, ethics should be regarded as one of the cornerstones as the impact of any accounting research will always have a lasting effect on the lives of those being researched.

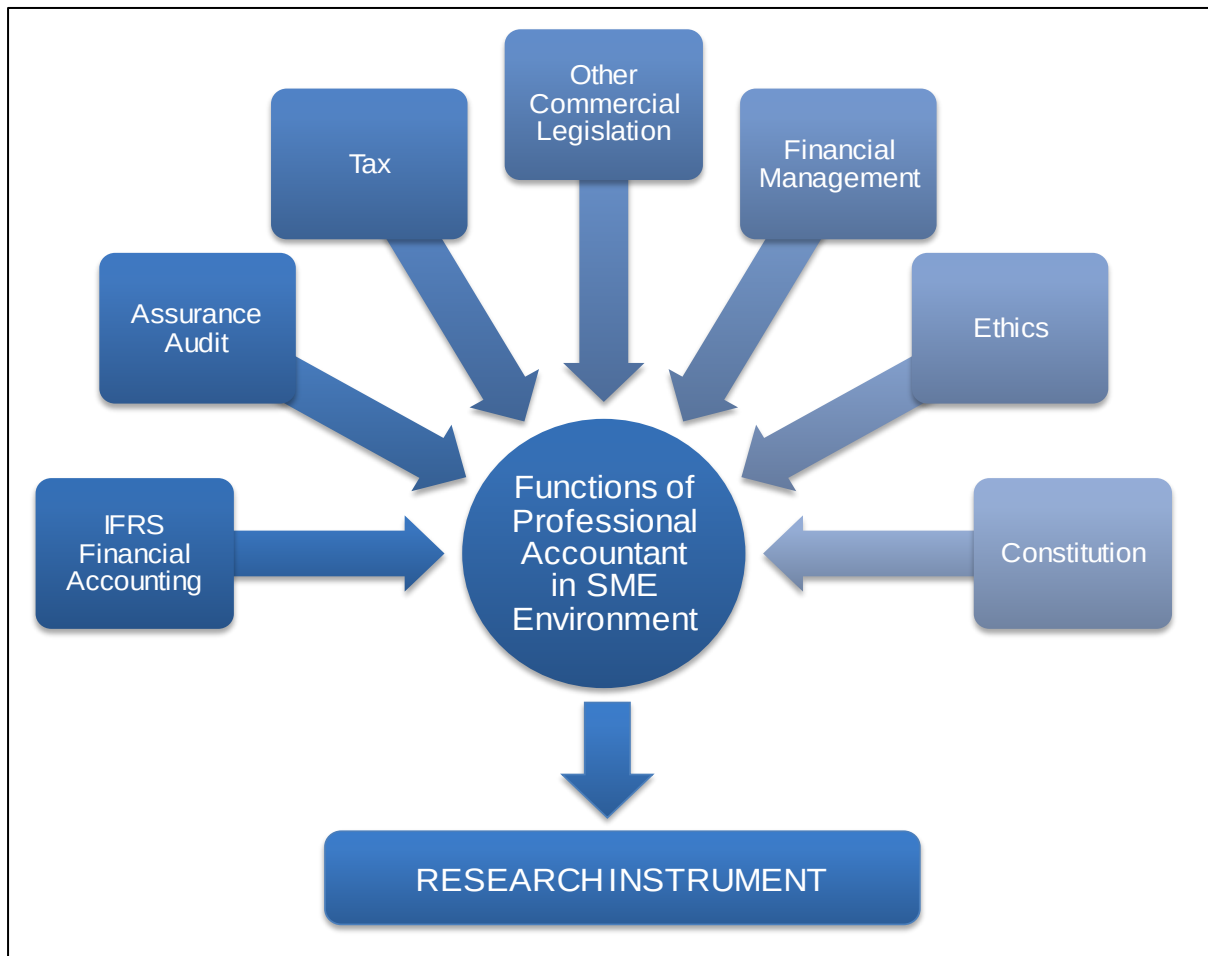
The last key marker is that qualitative research must have meaningful coherence. This means that there are interconnections between the research design, data collection, and analysis of data within a theoretical framework. Moreover, meaningful coherence prevails where reviewed literature situates the findings (Tracy, 2010:848).

In summary, the incorporation of the five Ps and the eight markers for quality need to be incorporated into the qualitative research in this thesis in order to establish an answer to the research question. Relationships and ethics seem to be the most important elements in qualitative research and will, therefore, require intense attention in order to assure quality qualitative research.

3.9.3 General considerations in the development of the research instrument

The agency relationship and ethical environment of the Professional Accountant are possible environmental elements that will in future require further research. This section discusses the underlying unique relationship between the Professional Accountant and his SME client within the framework of the major functions that a Professional Accountant should be able to reasonably perform. The overall position of the Professional Accountant is dominated by seven major functions as illustrated in Diagram 3.13. Depending on the type of engagement, these functions can include quite a number of other functions as well. As indicated, the execution of these functions is dictated by the cultural environment in which the Professional Accountant not only operates, but also that cultural environment that forms the basis of such an accountant's early development. This thesis proposes the use of the research instrument to organise all these functions into a cohesive unit with a primary purpose of solving problems.

Diagram 3.13 Position of the Professional Accountant in the SME Environment



A basis of a problem-solving approach must be established in order to answer the research question. In order to establish an approach for solving problems, the most appropriate starting point of a qualitative data collection method will be through conducting interviews with a number of SME owners. Most of the questions will focus on the requirements that SME owners have in terms of the duties that need to be performed by their Professional Accountants. If a service delivery gap exists, these interviews will invariably identify unique cases that will require further investigation. The results of the interviews would also provide sufficient grounds to conduct in depth case studies.

The problem-solving tool will be based on the selected research instrument. This instrument will act as the primary data collecting source, and will have to adhere to not only the ethical framework of the researcher as a Professional Accountant, but also

the eight criteria of successful qualitative research as well as the five Ps explained in Section 3.9.2 above.

3.10 The case studies method as the research strategy

The applicability of the five Ps of MMR in the utilisation of qualitative research is evident in a number of ways. P1 and P2 require the researcher to have sufficient knowledge of paradigms to be in a position to have selected the pragmatic paradigm for this particular research. P3 and P4 ensured that the research method was decided upon while taking many factors into account. These factors include costs, the approach taken to test the research instrument, the implication of the research on current sampling choices, how to handle any deviations from the norm, and how different methods may influence the outcome of the research. P5 provides the platform for the researcher to consider the manner in which the ultimate findings will be published, apart from the submission of a thesis. The researcher ascertains that the ultimate success of the research will be dependent upon whether the research instrument is accepted as an additional algorithm developed to solve particular problems in the SME sector.

This researcher decided to use the case study as research instrument as it supports all the requirements pertaining to the five Ps as well as the eight criteria for successful qualitative research. A case study is not purely defined by reference to a subject, but should include a purpose for undertaking the study. Therefore, a case study can be defined as “an instance or a class of events... [which is] a phenomenon of scientific interest...that the investigator chooses to study with the aim of developing a theory (or “generic knowledge”) regarding the causes of similarities or differences among instances (cases) of that class of events” (Christians, 2010:334). This definition relates directly to P5, as case studies are undertaken in order to develop new ways of thinking.

Four distinct types of case studies have been identified; namely disciplined configurative, theory testing, plausibility probes, and heuristic (George & Bennett, 2004:75-76). This research only focuses on theory testing cases as the aim is to test the validity of existing theories and the problem-solving tool. As these type of case

studies are deductive in nature, it implies that the study begins with an existing theory and then tries to assess its validity by presenting test cases. The selection of case studies for this research was intended to prove that established theory does not hold when applied to the given case, and that the introduction of the research instrument will provide the benefits ascribed to it.

The selection of case studies was also a choice of object to be studied and not a methodological choice but made to advance the researcher's understanding of a research phenomenon (Ghauri, 2010:1).

As the intention of this research is to establish an approach to solving problems that will harness the professional competence of Professional Accountants, it will be important to analyse both qualitative and to a much lesser extent quantitative evidence. As stated by Yin and Davis (2006:3):

“A modest starting point is to observe that evaluations of comprehensive reforms are likely to require both quantitative and qualitative evidence. For instance, the frequency and magnitude of outcomes from comprehensive reform may be best captured by quantitative results. However, these outcomes may occur in multiple domains (e.g., client outcomes and organisational outcomes), requiring separate quantitative models but then needing some qualitative technique to aggregate findings across domains”.

The case study method is employed in instances where behaviours cannot be manipulated, while the researcher observes events, and during the interview process of individuals involved in these events. Case studies are, therefore, not executed in the same manner as experiments or surveys. It is stated further that qualitative methods will be able to manage and control the potential explanation for the reasons for particular outcomes.

Case studies have become the preferred method, since the composition of research questions in modern accounting have changed from “explaining diversity in the population” to “explaining the emergence of practices in individual companies”. Therefore, research methods have also changed from “quantitative research/statistical methods” to “qualitative research/case study methods” (Scapens, 2007:10).

3.10.1 Arguments for and against the use of case studies

There is a general acceptance that a case study is a distinctive form of empirical enquiry. However, there are four distinctive complaints or concerns regarding the use of case studies in research. The first complaint is that case study research lacks rigor and that the actions of the investigators were quite sloppy in the past. A second concern relates to the confusion that case studies are primarily used for teaching, and that the underlying facts pertaining to various cases are normally altered and manipulated in order to demonstrate a particular issue more clearly. Another concern is that case studies lack the basis required for scientific generalisation, particularly where a single case study is used. This latter concern adds to the complaint that where more than one case study is used, the research tends to take too long and has a tendency to amass quite a lot of data and subsequent paper usage. Lastly, case studies as a research method are criticised for not being based on true experiments and therefore essentially only establish casual relationships. In Table 3.5 these concerns are illustrated with counter arguments to mitigate these concerns.

Table 3.5 Case Studies: Research Strategy Prejudices

Argument Against Case Study		Arguments Against/For Case Study	
It's not Rigorous enough		Single Case:	How can a generalisation be made on a singular case?
General Reasons:	Investigator sloppy, Ignored systematic procedures, Allowed equivocal or biased views to influence findings & conclusions.		Case studies can be generalised to theoretical propositions but not population or universe.
Confusions:	Detractors confused case study research with case study teaching, Latter can be manipulated in order to teach, Case study research demands accurate reporting.	Goal:	To generalise and expand theories (Analytical Generalisation)
		Excludes:	Statistical Generalisation
Mitigation:	Experiments can also be biased, particularly where questionnaires are used.	Single Experiment	How can you generalise from a single experiment?
Case studies take too long		Case studies tend to establish casual relationships	
It seems as if case studies are deemed difficult to execute			

It is important to note that although the use of case studies as research method do have certain perceived shortcomings, all other forms of research methods invariably also have shortcomings and strengths. However, the primary concern seems to be that the skills required to execute a proper case study have not been formally defined. The end result is that “most people feel that they can prepare a case study, and nearly all of us believe we can understand one. Since neither view is well-founded, the case study receives a good deal of approbation it does not deserve” (Hoaglin *et al.*, 1982:134).

3.11 Building of theory

In order to build the theoretical base from any case study research, it is important to follow a number of steps. Table 3.6 provides these steps and starts with the issue of getting started. In this thesis, the research question has been posed, which was derived from the initial statement of the problem and research objectives. The next step was to select a number of cases. For this thesis, six independent and totally exclusive cases were selected, that will not only prove the need for a problem-solving tool, but will also provide sufficient evidence of the hostile environment that Professional Accountants and their SME clients find themselves in on a regular basis.

The third step is the triangulation of the evidence. This is obtained through the development of a problem-solving tool, whose general robustness will be tested under varied circumstances. The problem-solving tool provides the primary tool for data analysis, which will hopefully result in the construction of definitions and the development of a supporting theory.

The identified cases are deemed sufficient to provide proof that the application of the problem-solving tool will improve the service delivery levels of Professional Accountants at least marginally. The last three steps, namely the shaping of hypothesis, enfolding literature and the reaching of closure, are illustrated in Chapter 6. However, the contribution of this thesis is the introduction of- and the development of the tool to be utilised in the analysis of data.

Table 3.6 Process of Building Theory from Case Study

Step	Activity	Reason
1. Getting started	Definition of research question	Focuses efforts
	Possible priori constructs	Provides better grounding of construct measures
2. Selecting cases	Neither theory nor hypothesis	Retains theoretical flexibility
	Specified population	Constrains extraneous variation and sharpens external validity
	Theoretical, not random, sampling	Focuses efforts on theoretically useful cases, i.e. those that replicate or extend theory by filling conceptual categories
3. Crafting instruments and protocols	Multiple data collection methods	Strengthens grounding of theory by triangulation of evidence
	Qualitative and quantitative data combined	Synergistic view of evidence
	Multiple investigators	Fosters divergent perspectives and strengthens grounding
4. Entering the field	Overlap data collection and analysis, including field notes	Speeds analyses and reveals helpful adjustments to data collection
	Flexible and opportunistic data collections methods	Allows investigators to take advantage of emergent themes and unique case features
5. Analysing data	Within-case analysis	Gains familiarity with data and preliminary theory generation
	Cross-case pattern searches using divergent techniques	Forces investigators to look beyond initial impressions and see evidence through multiple lenses
6. Shaping hypothesis	Iterative tabulation of evidence for each construct	Sharpens construct definition, validity, and measurability
	Replication, no sampling, logic across cases	Confirms extends and sharpens theory
	Search evidence for “why” behind relationships	Builds internal validity
7. Enfolding literature	Comparison with conflicting literature	Build internal validity, raises theoretical level and sharpens construct definitions
	Comparison with similar literature	Sharpens generalisability improves construct definition and raises theoretical level
8. Reaching closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

(Eisenhardt, 1989:553)

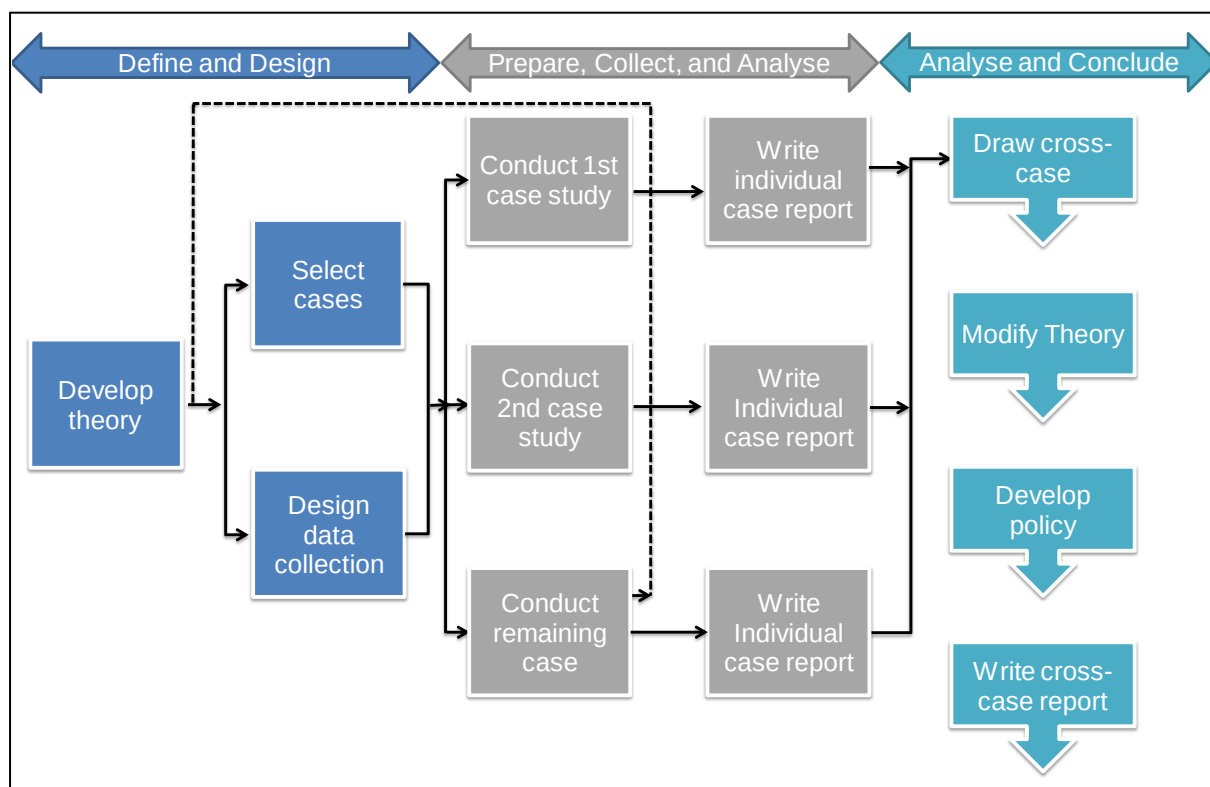
Diagram 3.14 provides an illustrative description of how the case study method uses a particular process to eventually write a report that will cross reference all the case studies. In this thesis, a theory has been developed by formulating a research question and certain objectives that the study wishes to attain. This step is illustrated on the left side of the illustration under the heading develop theory. The next step in this initial

phase is to select cases and to design data protocols, which includes the development of the Risk Analysis Tool as explained in Chapter 5.

The second phase of the case study method is to prepare, collect and analyse the various case studies individually, and then write a report on each case study. The case studies are discussed in Chapter 5 of this thesis, and are presented in a chronological sequence regarding what has happened in each separate case. The development of the problem-solving tool is only focused on the analysis of data section.

The last phase includes drawing cross-case conclusions and compiling the final case report, modifying the theory established through the research question, and the discussing possible policy implications. It is during this phase that the problem-solving tool will be tested and evaluated. These final steps will be found in Chapter 6 of this thesis.

Diagram 3.14 Case Study Method



(Young, 2011)

3.12 Attributes of a successful case study

Yin (2009:185-190) identifies five general characteristics of an exemplary case study. The first characteristic states that the case study must be significant. To be significant, the case study must be unusual and of general interest to the public or the underlying issues. The case study's intent to highlight is of national importance in respect of pure theoretical knowledge, or in terms of policy formulation, or practical terms. Under perfect conditions, the case study will embody both the conditions of national importance and general public interest.

The second characteristic that an exemplary case study will need to have is one of completeness. To be regarded as complete, a case study must have clearly identifiable boundaries. The phenomenon that is being studied must, therefore, be very clearly separated from the context of the study. Secondly, the researcher must demonstrate that exhaustive effort was expended in order to collect relevant evidence. In the case of this thesis, a total of five independent case studies were selected in order to ensure that a wide spread of evidence was collected in order to properly test the problem-solving tool.

A third requirement is that rival propositions must have been considered, irrespective whether the type of case study is an explanatory case study, a descriptive-, or exploratory case study (Kelly & Yin, 2007:133-138). In this research, the possibility of bias can only be eliminated if rival propositions are included. Once the method to analyse the data of each case has been tested, other propositions will also be utilised in order to provide some form of comparison.

A fourth requirement is that the case study must supply sufficient evidence. An exemplary case study will provide the most relevant evidence in a judicial and effective manner. This requirement is to ensure that the reader is put in a position where the merits of the analysis can be judged independently (Yin, 2009:188). In this thesis, the choice of case studies will ensure a variety of evidence, tested against a standardised method in order to qualify and gauge the effectiveness and appropriateness of the chosen method. A singular case study or a more limited number of case studies might have resulted in an unacceptable level of perceived bias.

A fifth attribute relates to the fact that the case study must be composed in an engaging manner. The composition of the case study report must be presented in such a manner that it literally seduces the eye. As all case studies that are chosen relate to the everyday concerns of the SME owner and consist of real life situations, it will be more simplistic to engage with any reader; academics and business owners alike. The abovementioned five attributes can be aligned with the eight criteria for quality in qualitative research discussed earlier in this chapter.

3.13 Grounded theory

The analysis of a case study, while conforming to all the requirements stated above, is meaningless if it does not eventually result in some usable theory. The theory referred to in this research will form the contribution of this thesis, namely the problem-solving tool.

According to Samik-Ibrahim (2000), the grounded theory methodology is internationally deemed as a “general method of comparative analysis” to discover theory using four centrally positioned criteria, such as work (generality), relevance (understanding), fit (validity), and modifiability (control). Stern (1995:29) states that the “strongest case for the use of grounded theory is in investigations of relatively uncharted water, or to gain a fresh perspective in a familiar situation”.

The subsequent analysis of the individual cases will provide a fresh perspective to the duties performed by Professional Accountants and prove that the application of the problem-solving tool will improve the service levels of Professional Accountants. This thesis will confirm that case study research does not require the sampling of cases from the chosen population; i.e. cases chosen for theoretical and not statistical reasons (Glaser & Strauss, 1967:62). It also holds that generating a theory does not require lots of cases, as only one case can also generate conceptual categories, and additional cases are normally used to confirm the indication. “The researcher’s job is not to provide a perfect description of an area, but to develop a theory that accounts for much of the relevant behaviour.” (Glaser & Strauss, 1967:30.)

Eisenhardt (1989:337) states that it is unusual to sample cases from a chosen population when the researcher's purpose is to build a theory from case studies. Random selection is preferable in case study research mainly due to the fact that case studies are normally limited in quantity. However, this thesis found it preferable to choose cases such as extreme situations which in turn are likely to replicate or extend the emergent theory. Contrary to this type of research, the goal of sampling is to obtain accurate statistical evidence on the distributions of variables within populations. As identified earlier, in some South African research, the theory was built on single case studies.

The aim of this research is to employ more than one case study in order to gain confidence in the applicability of the problem-solving tool by replication. A strength associated with case study research is its ability to generate novel theories; the application unfreezes thinking, which in turn is required to invoke a paradigm shift. Secondly, due to the repeated verification of hypotheses during the theory-building process, constructs become measurable. Lastly, the resulting theory is empirically valid (Eisenhardt, 1989:547). All three the strengths mentioned above, must prevail in this research in order for the research to be valid. The research must ultimately confirm novel theory, because most publications pertaining to case study research provides no solution to *how* analysis must be conducted. Secondly, this research can be verified in the area of five identified economic sectors, as illustrated in Chapter 4. The method applied in the analysis of the case studies must be empirically valid as it must be of such a standard that it will contribute a new approach in accounting theory.

Theory building from case studies also has a few weaknesses, such as the fact that this type of research may lead to over complexity. This complexity is normally found when researchers try to build a theory that captures everything which results in detail rich theory. A second weakness is that this type of research may result in modest theory due to the fact that it sometimes describes a very idiosyncratic phenomenon. The approach may, therefore, fall somewhat short of what is known as "grand theory".

3.14 Summary

This chapter illustrated the importance of philosophy in the planning and execution of research and how the six elements of the research paradigm assist in selecting an overall research strategy.

Concurrent MMR with a qualitative bias is the preferred research method identified for this research, due to the fact that it not only adopts case studies as the qualitative research method but also the use of a Q-method, which is the tool used to analyse the data obtained through the chosen case studies.

After proper analysis of the various research methods, it was established that this research would at best be executed by utilising case studies as the research instrument, with the application of the MMR model as an underlying control measure.

In closing, according to Smith (2004:4):

“researchers are concerned with problem-solving within a single framework of widely accepted beliefs, values, assumptions, and techniques. This shared framework or view of the world, (he) termed a paradigm so that a ‘paradigm shift’ corresponds with some revolution where the existing framework and theories can no longer cope with the volume of discomfoting evidence”.

The intention of this thesis is to provide sufficient evidence that will prove that the existing framework within which the Professional Accountant has to operate is insufficient and that the existing theories and framework require critical change.

CHAPTER 4

4. THE UTILISATION OF THE RESEARCH INSTRUMENT AS THE PROBLEM-SOLVING TOOL

The ability to think and act independently, but within the framework of given guidelines, is an indispensable requirement for military leaders of all ranks. Only those who have intellectual independence and who accept the duties and responsibilities of the service with joy will succeed in command and control in battle even under unpredictable circumstances. (Grobbelaar, 2002).

Chapter 3 concluded that qualitative case studies can contribute to accounting research if used as the research instrument. This chapter investigates whether the research instrument has a practical application in accounting research where Professional Accountants are concerned. Furthermore, the research instrument is tested to determine whether it can provide a solid research platform, and establish whether SME clients' expectations are indeed of such a nature that additional skills are required. This chapter starts off by studying the client files of an accounting practice. From these files, a number of individual cases are selected in accordance with the requirements of successful case study research, as prescribed in Chapter 3. Thereafter, the potential need for additional skills for Professional Accountants is investigated by interviewing a number of individual SME entrepreneurs. Once the interviews have been completed, a representative group of cases is selected taking into account the research requirements as stated in Chapter 3. The saturation point of the sample is identified by providing a control mechanism that emerges from studying the client files, as well as through consultations with a statistical specialist.

4.1 Introduction

Chapter 3 established the philosophical stance of this thesis, and chose case studies as the research instrument. Diagram 3.14 illustrated the three overall steps in case study analysis; firstly define and design selection protocols, secondly prepare, collect and analyse cases individually, and lastly cross analyse and conclude. Chapter 4

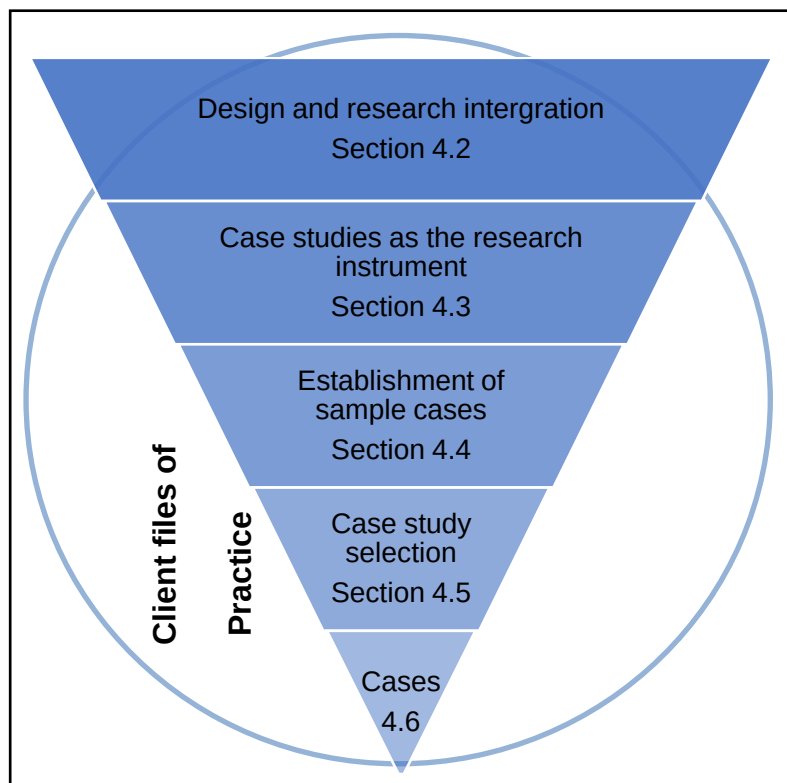
represents the first step, define and design, while Chapter 5 represents the analysis phase of the second step.

Through purposeful sampling, the SME clients of an accounting practice are studied. These clients cover a period of twenty six years in public practice and can therefore be deemed as a reliable starting point. The use of case studies is the method of choice in research in the accounting environment pertaining to SMEs (refer to Chapter 3). However, there seems to be no standard format of analysis of case studies. If no proper analysis procedures exist, there is a risk that important data that is collected may not be considered or may even be overlooked. The “define and design” step is therefore of paramount importance. These case studies originate from real occurrences and real interactions between people. In order to glean usable information from these studies, it is important to establish procedures with which the analysis of this data can be executed. In fact, it may even be possible to structure the narrative of the case study in such a manner that one can map the details in a research friendly manner. If this is possible it will counter one of the drawbacks of case study research, as it would require less time and effort to execute. To be able to establish some form of standardised selection procedure, a thorough understanding of the SME environment represented by the client files will be required.

Diagram 4.1 below illustrates the steps identified in this chapter that will ultimately lead to the selection of the representative sample of case studies for this research.

This thesis will not further delve into the issue of possible rival propositions (Herold, 2017). This chapter starts by explaining the research design. Thereafter, the collection of the data and sampling methods are explained.

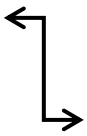
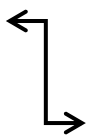
Diagram 4.1 Case Study Sampling Development Cycle



4.2 The design/research integration method applied in this thesis

Table 4.1 illustrates the scope of the interaction of this chapter in comparison to the whole thesis. The purpose of this chapter is therefore not only to select cases that are a true reflection of the SME sector, but also to create an understanding of the importance of the unique relationship between the Professional Accountant and his SME client (refer to Chapter 2). To illustrate this unique relationship, interviews will also be conducted as they will demonstrate not only the Professional Accountant's perception of what their duties entail, but also what the SME owner demands. Therefore, the case studies selected must represent various economic sectors in order to ensure adequate coverage, as this would allow for scientific replication. The interviews will illustrate the need for the problem solving tool which would enhance the service delivery capabilities of a Professional Accountant so that they fulfil the expectations of the SME client.

Table 4.1 Design/Research Integration Method

<i>Design</i>		<i>Research</i>
Chapter 4 & 5 Immerse oneself in situation in terms of case studies Establish sample size Understand problem by adding interviews Note various methods of thinking Conceive and develop ideas Import case studies Test proposed tool against case studies Develop the design Finalise design		Chapter 2 & 3 Explore area of interest Develop research problem/question Develop hypothesis Consider alternative constructs & approaches Philosophical analysis Frame question(s) Establish ontological & epistemological paradigms Select methods
Chapter 6 Argue for implementation Test against research problem Implement design Test against hypothesis Limitations of this study		Chapter 5 Gather data Choose case studies Analyse data and interpret results Test cases against the proposed tool Draw conclusions for each case study Write report Disseminate report

As indicated in Table 4.1, Chapter 5 is devoted to the application of the research instrument on the selected sample of case studies. Considering the applicable IFRS, IAS and ISA as well as other applicable legislation, rules and regulations pertaining to Professional Accountants in the SME sector will be highlighted, as disclosed in the selection criteria discussed in section 4.4.2. These considerations also include the correct structuring and application of these elements in order to make data analysis less complicated. Chapter 6 provides a summary of the findings in respect of these links and how it is supposed to affect the thinking of Professional Accountants in a more holistic manner, taking into account the environment in which decisions are made.

4.3 Case studies as research instruments

As early as 1986, researchers identified the use of case studies as a technique to develop the analytical skills of accounting students (AAA, 1986). Added to this and as stated in Chapter 3, case study research seems to be the most appropriate method in dealing with and improving accounting research. Case studies can help researchers provide solutions to both pragmatic (practical aspects of professional accounting) as well as knowledge-orientated (due to innovation and new developments in accounting knowledge) challenges (Zamanianfar & Sojdehee, 2014:290).

There are three types of case studies in accounting, namely Field cases, Library cases and Armchair cases (O'Rourke, 2000:1). This thesis analyses a number of field cases.

Due to rapid and significant changes in terms of the role of accountants, the development of the generic skills of accountants have become important. These skills include communicative, analytical, and other skills far beyond the technical and theoretical knowledge that differentiate mere technicians from professionals, as indicated in the opening section of Chapter 1 of this thesis. As stated by Ballantine and Larres (2009), "By placing the same issue, i.e. cash flow reporting, into a case scenario, students will have to consider wider business issues and thereby acquire additional generic skills pertaining to, for example, judgement, problem-solving and critical analysis". Moreover, the demands of the modern society, combined with the advent of big data, put further demands on the capabilities of employees. These employees are now also required to make quick decisions based on large amounts of data and sometimes these decisions require unorthodox thinking. The case study method has been identified as the method to be used by lecturers to achieve these educational goals (Knyvienė, 2014:158-166). Accounting academics now also regard the analysis of case studies, linked to written and oral assessments, as the preferred pedagogical approach to promote the evaluation of content of the subject matter and to develop professional skills (Ainsworth & Plumlee, 1993; Hassal *et al.*, 1998: 37-47).

Apart from being a helpful support instrument in accounting education, it has also emerged that case studies are helpful in accounting research. Cooper and Morgan

(2008:158-178) state that case study research can be quite useful where the researcher is investigating complex and dynamic phenomena where many variables (both quantifiable and qualifiable) are involved. Secondly, they believe that case studies can also be helpful in the investigation of actual practices, such as changes in accounting regulation, and phenomena where contexts that affect the phenomena are being studied (Cooper & Morgan, 2008:158-178). Therefore, case study research in accounting can be used in the development of knowledge and theory, as stated in Chapter 3.

Finally, case studies are also well suited for many kinds of software development as “the objects of study are contemporary phenomena, which are hard to study in isolation” (Runeson & Hôst, 2009:132). The advent of the fourth Industrial Revolution and the development of quantum computers will invariably result in Professional Accountants seeking productive ways in which they can solve the day-to-day problems experienced by themselves and their SME clients.

However, case studies also have certain disadvantages; for example, it is very difficult to undertake and the analysis normally requires significant resources in terms of time and finances (Zamanianfar & Sojdehee, 2014:295). The other disadvantages relating to bias have already been discussed in Chapter 3.

In order to alleviate or at least limit the disadvantages relating to case studies as research instrument, this thesis identified two very distinct elements in the design process of the case study and these elements relate to the unique agency relationship between Professional Accountants and their SME clients, and the higher demands placed on ethical standards for Professional Accountants.

4.4 Sampling

This primary purpose of this thesis is to add another skill to the knowledge of Professional Accountants by using case studies. In order to conform to the various requirements pertaining to the successful utilisation of case studies, a scientifically

acceptable case study selection method needs to be established. The correct selection will ensure the acceptability of the outcomes of the research and establish case studies as not only a method that will be deemed as usable for Professional Accountants, but also as a tool that can be subjected to further development and refinement.

4.4.1 Sample size

The case study method has been determined to be the most appropriate to answer the research question posed in Chapter 1. The next step is to establish the sample size; the number of cases and controls to be executed in order for the research to be scientifically true in all respects. Due to the qualitative bias of this research, sample sizes are relatively small as the sampling is based on mixture of purposive and convenience sampling. The primary purpose is to test the real-life applicability of the problem-solving tool. All the case studies which are selected must also be literal replications of each other, and the purpose of analysing these case studies is purely to prove the tool's accuracy and applicability. The intention is, therefore, also to replicate the outcomes of the application of the method to each individual case study. The general belief is that two to three cases should be sufficient to prove a straightforward theory (Yin, 2009:58). However, in cases where the theory seems subtler in nature, five to six case studies would be more appropriate. This can also be viewed as another form of triangulation as discussed earlier.

Although recent research in other social science disciplines proved that at times even one case study is acceptable in order to provide clear scientific and accurate results. One such an example of singular case study research is research conducted on the success rate of land reform in South Africa (Baily, 2007). Other examples are newsroom convergence at two media companies (Senthebane, 2008; Van Noord, 2007). All three of these research undertakings were qualitative case studies and related to disciplines in the social sciences. However, it must be kept in mind that the purpose of this thesis is to establish how the problem-solving tool can assist the Professional Accountant in their daily endeavours with their SME clients. For this purpose, the research will have to be subjected to a much more rigorous replication

process, and therefore only one case study would be insufficient. The challenge with this research is that there are extensive numbers of disciplines involved, comprising an array of rules and regulations that need to be taken into account in order to properly analyse the case studies and provide workable solutions. It is the belief of this researcher that once research is executed on case studies that cover multi-disciplinary issues, then a singular case study would not provide scientific results.

4.4.2 Sample selection

Taking into account the criticism against qualitative case study research, and the amount of samples that traditional experimental research selects, two challenges emerge. The first challenge is the calculation of an acceptable sample size that would satisfy criticisms against using case studies as the primary research method. The second challenge is to ensure that whatever the outcome of the research may be, that the research will be regarded as valid, accurate, and appropriate by general and specialised peer review.

It is also important to understand that a case study is an empirical inquiry wholly focused on investigating a contemporary phenomenon in its real-life context when boundaries between context and phenomenon are not clearly defined and evident (Yin, 2009:18). Due to the fact that phenomenon and context are not clearly definable or even distinguishable in real-life situations, case study research is able to cope with situations where there are many more variables of interest than mere data points, and where triangulation of this multitude of sources of evidence successfully converge this data, which in turn will invariably benefit the prior identified theoretical propositions, and the data collection of these propositions (Yin, 2009:18). Case studies as the research instrument therefore comprise of an inclusive method where the logic of design, data collection methodology, and the eventual data analysis are clearly defined. In order to apply the principle of inclusivity, a limitation regarding the various industries in which the SME sector operates needs to be established.

The researcher has been operating a professional accountancy practice for twenty six years and its client base was used as the point of departure. From the client files

individual SME sectors were identified. To ensure maximum inclusivity and representation, the current equity divisions of the Johannesburg Stock Exchange (JSE) are used for comparison in order to ensure that most of the economic sectors are covered. These main divisions of the JSE are oil and gas, basic materials, industrials, consumer goods, health care, consumer services, telecommunications, financials, and technology (Motale, 2017:29-30). The reason for doing the comparison was only to identify any possible SME sectors that might have been omitted. The five sectors which were identified in the client files are agriculture, mining, engineering and manufacturing, development and finance, and lastly leisure and hospitality.

The mentioned five categories will be found under some of the main sections on the JSE main equity divisions as well. The SME mining sector can be found in the JSE basic materials section. The SME agriculture sector is unique in that there is no JSE section for farming activities. However, due to the fact that agriculture forms an integral part of the economy in general, this was identified as a dominant SME sector as well. The SME engineering and manufacturing sector is within the JSE industrials sector, while the SME development and finance sector is within from the JSE financials sector. Lastly, the SME leisure and hospitality sector is derived from the JSE consumer services sector.

These five main sectors also comprise 97 percent of the total clients of the accounting practice under review. Although there are also clients that operate predominantly in the retail sector, such as corner cafés, butcheries and other types of small retail outlets, the accounting practice only services these enterprises on an annual basis and these enterprises are operated as sole proprietors. Moreover, enterprises that are very capital intensive to the point that they require listings on a stock exchange to finance additional growth have been excluded as these enterprises also have their own in-house accounting departments and are only subjected to an annual review in terms of the Companies Act.

For the purposes of this thesis, the enterprises at the lower end of the retail sector are excluded, mainly because most of these enterprises are Micro Enterprises. It is also the experience of the researcher that the risks profile of these enterprises are not as complicated as the risk profile of the other identified SME enterprises. As the five

sectors identified by this thesis include a number of enterprises that can be defined as Micro enterprises due to the low PIS, this research will limit the retail exclusion only as clothing outlets and small grocery establishments. In many of these cases, the services of Professional Accountants are not used anyhow. The exclusion of these enterprises are also part of the scope of limitations of this research.

Furthermore, in order to provide a case study design that is more robust and compelling, the multiple case study approach has been selected. To establish the sample size for a multiple case study, one gratefully does not have to focus on the traditional sampling logic as explained in section 4.3.1 above, instead one need only focus on the issue of replication with the distinct purpose of delivering similar results. In this research, the accuracy, viability, and reliability of case studies is going to be tested.

In Table 4.2, the issues pertaining to phenomenon and context are converged in the identification of the various applicable environmental and legislative issues that Professional Accountants are faced with when rendering services to their SME sector clients. These individual pieces of context have been identified as the economic sector within which the enterprise operates, and the degree of documentation completeness. On the legislative front, the companies and taxation legislation have been included with the international accounting standards directly applicable to Professional Accountants. The applicable criminal legislation, and Constitutional Law issues follow thereafter. The last contextual issues have been identified as the Opposing Party details as well as the identification of the Third party in all cases. A number of case studies must therefore be identified and the saturation point will be reached when all contextual and phenomena issues have been covered, and the testing was replicated purely to confirm a similar outcome.

Table 4.2 Decision Matrix

Selection Criteria	Economic sector				
	Agricultural	Mining	Engineering & Manufacturing	Development & Financial services	Leisure & Hospitality
Completeness of documentation	YES	YES	NO	NO	NO
Companies Act, Tax Legislation	YES	YES	YES	YES	YES
Other commercial legislation	NO	YES	YES	YES	YES
Criminal procedure act	YES	NO	NO	YES	YES
Constitutional issues	YES	YES	YES	NO	NO
Opposing party identification	YES	YES	YES	YES	YES
Third party identification	YES	YES	YES	YES	YES

The sectors and selection criteria emerged during the analysis of the various files. The saturation point is reached once individual cases have been selected that cover the economic sectors as well as all the selection criteria. It is important to point out that the cases pertaining to the engineering and manufacturing as well as the cases pertaining to the two sectors on the far right of Table 4.2 did not conform to the selection criteria of completeness of documentation. However, the agricultural and mining sector cases did conform. The intention is to identify as many cases as required in order to have all selection criteria covered. Once the issue pertaining to the case identification has been concluded the next step will be to establish what the SME client wants from their Professional Accountant. Merely studying the files will not provide this information. To satisfy this element will require conducting a number of interviews, until the various interviews also cover the selection criteria as well as the economic sectors identified in Table 4.2. Out of the interviews particularly serious cases were selected. Although the initial selection of the cases from the various economic sectors can be regarded as the first step, the eventual selection of the cases cannot be conducted

without the completion of the interviews. The application of the criteria disclosed in Table 4.2 and the interviews must, therefore be deemed as a simultaneous process.

4.5 Case study selection and the two methods of data collection

Case studies typically will involve and include data collection methods such as archives, interviews, observations, and questionnaires (Yin, 1989:23). In this thesis the collection methods include archives and interviews.

The qualitative nature of this research requires theoretical sampling, wherein data collection is based on theoretical goals (Gopaldas, 2015:118). Secondly, this thesis will also apply the principles of stratified sampling as this type of sampling will best represent the population (Investopedia, 2017). This approach is executed by dividing the SME sector into identifiable economic sectors primarily, and secondly by establishing a suite of selection criteria that covers various legislative and enterprise focused issues such as completeness of documentation. In this thesis, the first goal is to establish how case studies can be used to harness the skills of Professional Accountants and why this additional skill set is required. The analysis of the client files provides the data collection basis for the first part of the research question, notably to provide the necessary skills that will cover SMEs. The second part of the research question can only be achieved by conducting interviews with the SME entrepreneurs identified in the client files. After these interviews were summarised, a number of unique cases that require further analysis are identified and used in order to form the basis for the comprehensive analysis in Chapter 5. The interviews should in all probability provide some insight into problem areas from the perspective of the SME client, while the analysis of the files will provide problem areas from the perspective of the Professional Accountant. Ultimately, these problem areas will then be addressed through the application of the case studies.

In order to decide how many cases will be sufficient for research of this scope, the Statistical Consultation Services of the North-West University were consulted. Through this consultation, it emerged that it is important to establish some form of basis as the point of departure, and that a single case study will not be sufficient for

this research. As explained above, there are five dominant economic sectors in which SME normally operate, and these serve as the points of departure. In order to establish some environmental and factual basis of current service delivery, twenty five individual enterprises were identified and subjected to two forms of data collection. These two forms are comprised of the in-depth investigation of the actual client files followed by interviews with each SME owner. The analysis of the results of these file analyses and interviews identified a number of cases that were utilised in order to execute scientific research. The intention of this research is to confirm that case studies as research instrument can add value in the skills set of Professional Accountants.

The questions covered in the interviews are summarized in Appendix A. Out of these twenty five interviews, six cases were chosen for in depth study since they were unique in terms of the challenges SME owners experienced. The expectation is that if these case studies can become a workable research instrument, it will be possible to develop a problem-solving tool, which Professional Accountants can use optimally.

The selection of the sectors and selection criteria have been discussed in depth. The analysis of the data collected from the interviews will be divided into 2 sections; one to describe the demographics, and the second to discuss the answers to the open-ended questions.

4.5.1 Demographic questions

The answers from the interviews applicable to demographics only, questions 1 to 5, yielded the following findings:

Only four respondents (16%) were over the age of 60 years and only one respondent was younger than 30 years of age. Most of the respondents were in the 51-60 category (14 individuals or 56%). Most of the entrepreneurs, therefore, seem to be well-experienced individuals and have established business relationships with both their own clients and service providers. The majority of the respondents were male, with only three females (88% male and 12% female). All respondents have their own enterprises. Twenty two enterprises are registered private companies, while one

enterprise operates as a family trust, another as a close corporation, and the final one is registered as a sole proprietor.

4.5.2 Open-ended questions

The results of the open-ended questions were as follows:

Question 6: *What type of services does your Accountant offer?*

All respondents indicated that their accountant offers all accounting related services indicated except in one case where the respondent operates his own in-house accounting system. A total of nine (36%) respondents indicated they required B-BBEE services, while two (8%) required investment advice. Legal advice is required by seventeen (68%) respondents. The significance of these results is that the SME client demands more from a Professional Accountant than only the normal accounting related service. Only one respondent did not require specialised services applicable to a particular industry as these services are normally of a non-accounting nature.

Question 6 Open ended reply

The respondents elaborated on which “specialised services” were applicable to their industry, and recorded services such as environmental certificates, mineral rights conversions, dam applications, liquor licence applications, and municipal ordinance investigations. The spread of specialised services also included the execution of a full-scale forensic investigation, which can entail a complete investigation in terms of compliance issues by any government organisation.

Question 7: *What do you consider to be the most important functions to be performed by your accountant?*

Replies to this question ranged from the provision of a one-stop service to the provision of accurate financial information and advice. Even here the requirements cover a

number of issues that would normally have been assigned to the management committee of a larger enterprise.

Question 8: *Does being compliant pose any challenges to your enterprise?*

All respondents replied that they do not experience any compliance challenges as these challenges are perceived to be the responsibility of the accountant.

Question 9: *How do you normally address compliance challenges?*

All replies to this question re-affirm the view that the accountant is the first referral for all compliance challenges.

Question 10: *What type of compliance issues have you experienced in the past 5 years?*

Most compliance issues experienced by respondents relate to industry related compliance issues (68%) and it is also because of this response that it seems important that accountants need to be equipped with better problem-solving capabilities than those currently available. The second biggest challenge (56%) experienced relates to issues of tax compliance. The explanations of their experiences are comprehensive and, once again, cover an array of issues such as mineral rights, environmental assessments, and South African Reserve Bank (SARB) reports.

Question 11: *Was the matter resolved to your satisfaction?*

One hundred percent of respondents indicated that they are satisfied with the eventual outcome of the compliance challenges identified in question 10.

Question 12: *Were you ever involved in a Tax Court litigation?*

Only two respondents indicated that they were involved in Tax Court litigation and both indicated their satisfaction with the outcomes.

Question 13: *What services would you never acquire from your accountant?*

All respondents indicated that they will not require the provision of non-financial services from their accountant. It seems, therefore, that respondents in general do not regard any industry related challenges as non-financial. Secondly, they seem to prefer to only approach one professional with any challenges experienced and not any other professionals such as legal experts. It is also clear that they would not expect any insurance or investment related advice from their Professional Accountant.

Question 14: *Anything else you wish to share?*

All the replies in this question confirm that the accountant is deemed the trusted advisor and this trust needs to be maintained at all times with the provision of professional services. There seems to be a great reliance on the expert advice of the accountant, and it is therefore important that the accountant be in a position where they can act fast in providing solutions to any type of challenge experienced by the SME client. The general consensus is also that SME clients appreciate a one-stop service provision by Professional Accountants. The interview did not make any mention of litigation services as these services can only be provided by a registered legal expert.

Question 15: *What is the preferred method of communication with your accountant?*

This question noted that the older generation clients prefer telephone calls to SMS and e-mail communication, while all respondents also marked personal contact as a preference.

Question 16: *Mark the applicable industry that pertains to your enterprise.*

Of the 25 respondents a total of eight respondents (32%) indicated that their enterprise falls within the property development and financial service sector. A further seven respondents (28%) marked the manufacturing sector. The agricultural sector and tourism sector were each marked by four respondents respectively (16% each). The

remaining two enterprises (8%) are categorised under the mining sector. Therefore, all five economic sectors were covered by the sample of 25 respondents.

The overall results of the individual file analysis and the interviews illustrate that Professional Accountants serving the SME sector need to take cognisance of the fact that the demands on their services are varied. Professional Accountants must always exercise due care and rather refuse to provide any form of professional support if they lack the knowledge or experience to assist clients effectively. Apart from this due care to be exercised by Professional Accountants, the professional bodies representing these Professional Accountants need to be very aware of the demands the SME sector places on their members. These professional bodies need to ensure that practicing Professional Accountants are trained properly to be able to deliver these services, alternatively they should ensure that there is some form of problem-solving mechanism that accountants can use to present their SME clients with some form of direction in the decision making process.

Moreover, due to the limited resources the SME entrepreneurs always have, it might not be an option for a Professional Accountant to withhold any advice. A possible solution is for the Professional Accountant to be provided with a problem-solving tool which uses well-defined analysis skills as its basis and point of departure. As confirmed by the literature pertaining to case studies, it is now acceptable for accounting research to utilise case studies as the method to collect data. The analysis of this collected data will be the next step in the development of the problem-solving tool.

4.6 Identifying the six cases

After analysing the files and conducting the interviews, six individual and mutually exclusive case studies were identified, covering all five SME sectors. These case studies were identified as the most intricate cases, requiring robust investigation. The analysis of the various issues pertaining to the individual cases will be done to provide a platform for reporting and decision-making by both the SME client and the Professional Accountant. Extreme cases were chosen to ensure that the selected case

studies also remain within the framework of the scope of limitations. One case is selected to ascertain the possibility of also using case studies as a basis for the compilation of engagement letters. Although five of the cases refer to court cases, one case refers to a non-compliance notice issued by a statutory body. In order to ensure that the correct procedures are followed in rectifying this non-compliance, the use of a case study will be helpful in collecting the initial data.

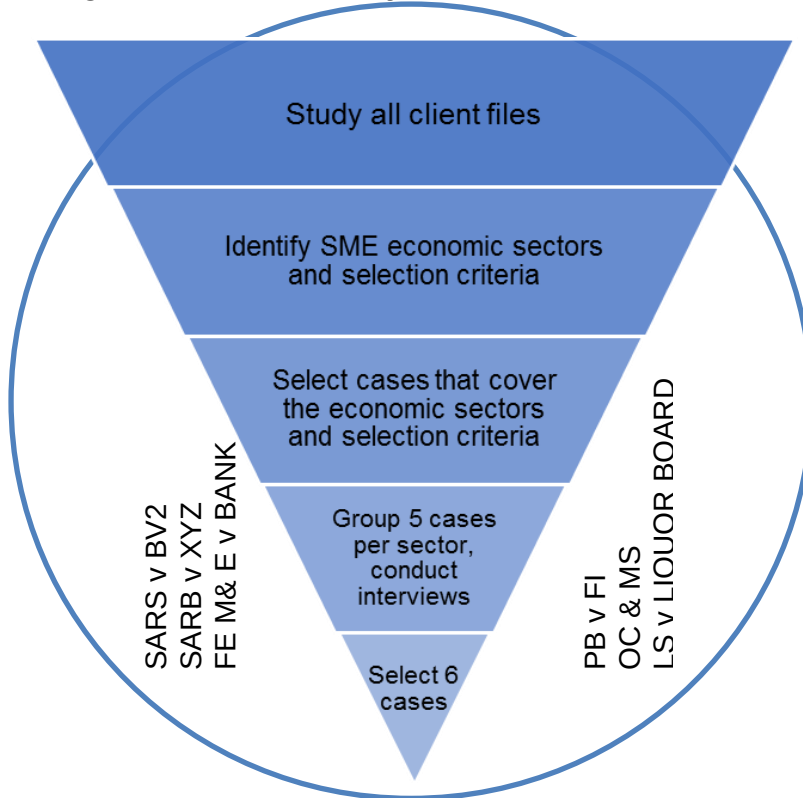
Of these six case studies, two involved statutory institutions, three related to fraud and theft, and the last case study selected was purely an administrative matter that required substantial knowledge of the economic sector within which the enterprise operated. The selection of the six cases covers not only the five main sectors of the SME sector, but also the seven selection criteria as indicated in Table 4.2.

Notwithstanding all the relevant factors identified in the SME sector so far, particularly the expectations of clients and the abilities of Professional Accountants in general, the applicability and need of a standardised form of case studies is inevitable. It will only be possible to develop a problem-solving tool from a standardised format case study.

By way of summary, the steps that were followed in the case study selection sample process of this thesis are illustrated in Diagram 4.2. It is important to note that the identification of the five economic sectors through the analysis of the files was followed by the selection of the twenty five SME enterprises from the client files. The owners of the twenty five enterprises were subsequently interviewed. Thereafter, six individual SME clients were selected on the grounds of their respective serious problems and prominent demands pertaining to their Professional Accountant. These six case studies were given unique identifying abbreviations, which can be found in the area surrounding the steps in Diagram 4.2. The same abbreviations are used in Chapter 5.

The next step in the process is to analyse the individual case studies in a manner that would serve the data analysis and decision-making steps optimally. This is executed in Chapter 5.

Diagram 4. 2 Case Study Selection Process



4.7 Conclusion

In Chapter 5, the description of the data obtained from the six case studies is used in order to illustrate the challenges experienced by Professional Accountants and their SME clients, most of these challenges are multi-dimensional, and one very complicated. The flexibility of the case study as research instrument must also be tested, as there will be some cases where there is a limited or total lack of evidence or structure, and others where the Professional Accountants find themselves overburdened with data.

CHAPTER 5

5. A DETAILED DESCRIPTION OF SIX CASE STUDIES

Ultimate excellence lies not in winning every battle, but in defeating the enemy without ever fighting. The highest form of warfare is to attack strategy itself.” (Sun-Tzu, cited in Minford, 2002:14).

This chapter provides the detailed information regarding every case study that was selected. In order to provide a platform for detailed analysis, each case study needs to be described in as much detail as possible. The six cases have been selected from the selection process described in Chapter 4. It proves that these six cases provide sufficient information to reach a point of saturation, and ultimately provide the foundation for the development of the eventual contribution of this thesis, namely the problem-solving tool.

5.1 Introduction

Case study research has definitive advantages in accounting research. Case studies need to be subjected to a scientific selection process followed by vigorous data analysis in order to ensure that data are obtained and packaged in such a format that optimum findings and/or solutions can be reported. This proper packaging becomes even more important where more complicated, multi-dimensional, and multi-disciplinary case studies are analysed. This chapter is devoted to describing the details of the 6 cases that were selected in Chapter 4². Reference to the enterprises, public officers, and other parties will be made by using initials and abbreviated surnames, combined with a control code. The latter will ensure complete confidentiality. In order to disclose the information given in this chapter, complete approval from the relevant individuals was obtained. The case studies are discussed individually in sections 5.2 to 5.7.

² After the interviews were held with the 25 respondents, and taking into account the scope of limitations, 6 individual case studies were selected in Chapter 4. These 6 case studies cover the SME sectors as identified as well as the selection criteria. Of these case studies, 5 cases refer to court cases while the last case study refers to a non-compliance issue that would have developed in court action.

The research instrument, combined with the repositioning of the agency relationship between the Professional Accountant and the SME client, will prove that the performance gap can be closed or at least contracted to a more acceptable level.

5.2 Case study number one: SARS vs XV2 (Pty) Ltd

5.2.1 Background information pertaining to the company

XV2 (Pty) Ltd was registered in 1995 and had one shareholder and director, Mr. PJdC. The company complied with all requirements of the Companies Act and the registered auditors were practicing in the Welkom area. The company had registered its offices to a street address in a small town in the Free State province.

The main business of XV2 was to procure agricultural produce, mainly maize and sugar, and to repackage these products to sell them in the open market, particularly the wholesale market in South Africa. During the last financial year of operation, the company had a turnover of R96,4m compared to a turnover figure of R49,6m for the previous year.

The company had a full-time bookkeeper as the financial manager and the finance department had two additional personnel members responsible for the full financial function. The finance department compiled all statutory returns, updated the primary records of the company, and assisted with any queries from external stakeholders such as statutory bodies, creditors, and financiers.

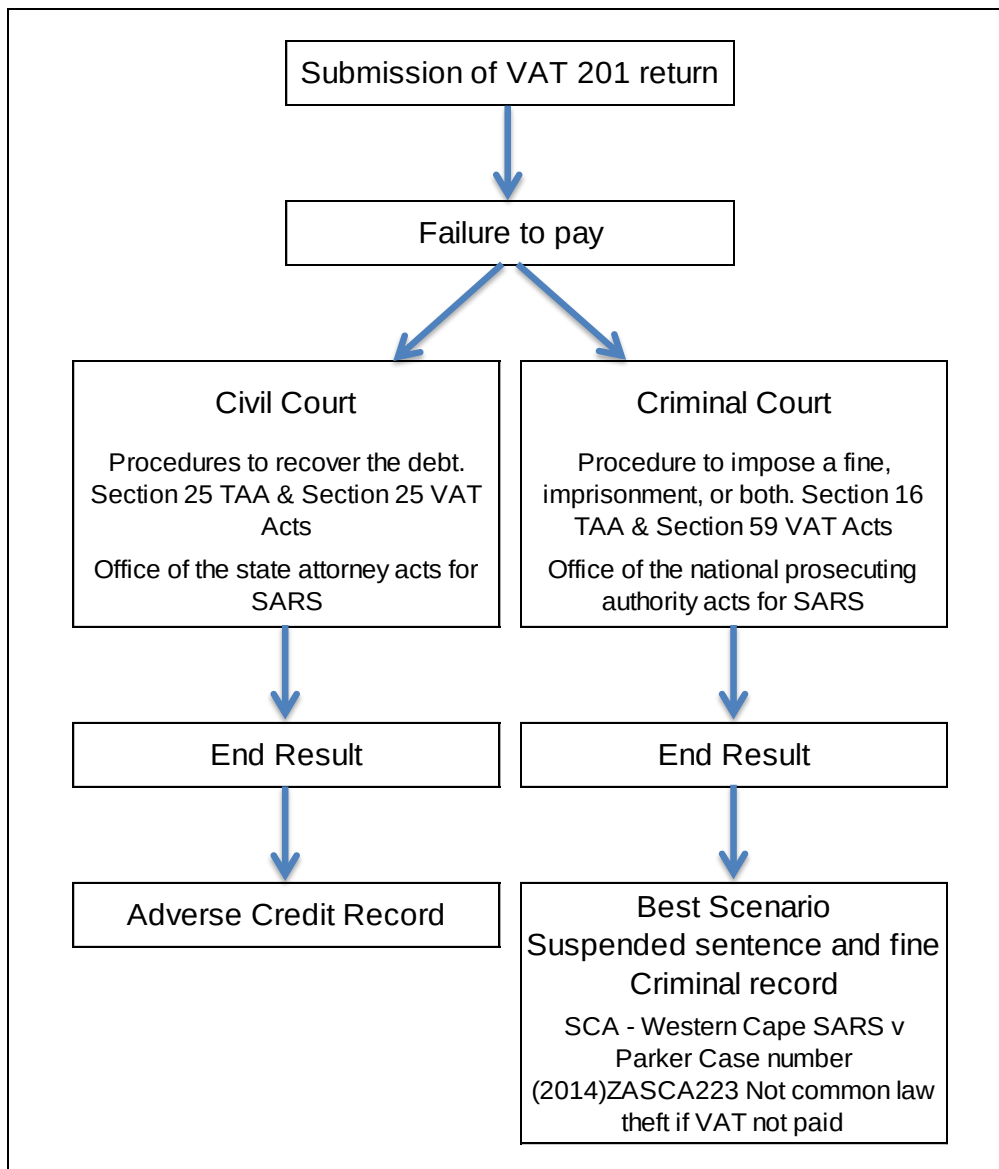
A personnel officer was in charge of over two hundred factory personnel, and another clerk executed the salary administration in-house. On the operational side, a number of forklift drivers, six truck drivers, as well as an array of store personnel and cashiers were employed. Without forewarning, the company and its sole director were charged for not declaring and paying VAT. This resulted in a simultaneous civil claim and criminal charge.

In order to understand the severity of the charges this company faced, it is important to explain the legal process regarding non-compliance to the VAT Act, irrespective of whether the non-compliance relates to payments, submission of returns, or the correct declarations on these returns. Figure 5.1 below illustrates that failure to pay or file a VAT return has two main consequences; a civil claim where payment has not been made, and a criminal charge for withholding payment, neglecting to file a return, or the fraudulent under-declaration of any financial disclosures. To add to the challenge, where the registered address of the entity under investigation is not in the same magisterial jurisdiction as the branch office of the revenue authority where the enterprise is registered, then the civil and criminal cases are conducted in different areas. Civil matters are heard in the local Magistrate's court where the enterprise has its registered address, while criminal matters are heard in the Magistrate's court where the revenue authority is situated. Criminal matters involving large amounts can even be moved to a regional court in a larger town if the Magistrate's court is too limited. However, most revenue authorities are registered in bigger towns and this should not pose a problem. After December 2014, there was a slight change in the legislation, as the Supreme Court of Appeal found that not paying VAT is no longer common-law theft. Since this case study relates to a period before 2014, the two avenues followed by the revenue authorities are shown.

5.2.2 Background information pertaining to the director and shareholder of XV2

Before Mr. PJdC registered XV2, he was operating his farming activities under his own name, while he and his father operated the farm, itself under a registered trust, also in their private names and not as partners. The trust also holds ownership of all other properties and moveable assets.

Figure 5.1 The Legal Process Where VAT Remains Outstanding



Although farming is his livelihood, he always wanted to do more than only farming and with his father's support started operations to add value to agricultural products, such as maize- and sorghum milling, and sugar refinery and packaging. His reputation with his bankers and the local agricultural co-operative was so good that his bankers provided him with a letter of comfort in December 2XXX to hand to overseas corporate clients where he intended buying 2 500 tons of sugar at R2 240.00 per ton. The South African Land and Agricultural Bank provided him with a letter of guarantee totalling R14m during August 2XXX.

5.2.3 The case of the missing guarantee and the Bank's special purpose vehicle

During the middle of 2XXX, Mr. PJdC was approached by another South African, Mr. BR with a view to increasing the volumes in Mr. PJdC business, and it was at this stage that Mr. PJdC decided to register a company that will add value to all agricultural products produced and/or procured and also to market said products. In the beginning of 19XX Mr. BR proposed to introduce Mr. PJdC to his brother, Mr. JR, an overseas financier that will be able to provide bridging finance that would permit XV2 to purchase more products to sell to the wholesale market.

Mr. PJdC met Mr. JR during 2XXX and agreed to the terms in general. The background to the agreement between Mr. PJdC and Mr. JR is that Mr. JR could obtain a guarantee worth R50m from a French national, Mr. MG1. Mr. JR introduced Mr. PJdC to his bankers in Johannesburg during this period, and after confirming the validity of the proposed guarantee, a merchant bank registered as ZCMB Limited agreed to provide a credit line to XV2 under the following conditions:

- (a) The total value of all outstanding funds owed to the bank will never exceed R45m.
- (b) Instead of paying the bank interest, the bank registered a company, BIC (Pty) Ltd through which all advances will be channelled and the fee for this service will be based on a fixed amount per ton of sugar or maize purchased.
- (c) An external consultant that will verify stock levels will be appointed to ensure that declared stock levels are audited constantly and not only at the end of financial periods. All parties agreed to appoint a firm registered as BUV1.
- (d) The special purpose company will have three bank officials nominated by ZCMB as representative directors and Mr. JR will be the fourth director.

With this type of financial back-up, Mr. PJdC concluded a contract with probably the largest wholesaler of consumables in the Southern Hemisphere and started providing

sugar packaged under the trademark of the wholesaler. XV2 purchased a warehouse in his hometown and sugar bought in one ton bags was refined here. After repackaging the product into various volumes at this facility, it was distributed countrywide. The directors of BIC insisted during 2XXX to split XV2 even further in order to improve control over all the inputs. The following additional companies were registered:

- (a) TT11 (Pty) Ltd. – providing packaging machinery
- (b) B15 (Pty) Ltd. – providing the buildings
- (c) VE1 (Pty) Ltd. – providing transport
- (d) HA1 (Pty) Ltd. – providing packaging materials
- (e) TA1 (Pty) Ltd. – (Providing silo facilities for maize and sorghum).

A sixth additional company, KB (Pty) Ltd was registered in order to act as the conduit of funds flowing between BIC and XV2.

Up to and including December 2XXX, Mr. PJdC executed his responsibilities in terms of the agreement between himself and his financiers and this contract hatched another two sub-contracts in order to smooth the operational responsibilities between the parties.

During the month of November 2XXX, XV2 submitted a VAT-return which turned out to be a claim for a VAT refund of approximately R450 000-00 (Four Hundred and Fifty Thousand Rand). The South African Revenue Services (SARS) refused the payment of the refund and initiated an audit.

During this same period, it occurred to Mr. PJdC that the rebates offered by the Swazi Sugar Association to quota holders were of such magnitude that it made economic sense to rather refine and package sugar in Swaziland. With the approval of his other partners, a full facility was established in Swaziland. The supply of sugar from the various sugar intermediate merchants also became very erratic and it proved to be a good business decision. The facility in the Free State still operated as intended originally, but the Swaziland facility was earmarked to provide the supply chain of sugar and maize products throughout the continent. The Swaziland Company was registered as DBS Ltd (Swaziland).

After consultations with the registered auditors of the company, Mr. PJdC was referred to a firm of Professional Accountants in order that these professionals may assist him with the SARS audit. (The Registered auditors at this stage made it clear that their brief is only to audit the annual financial statements and that it will be to the benefit of the company if the company would rather seek assistance from a firm of Professional Accountants than from registered auditors). Two days before Christmas 2XXX, Mr PJdC visited the offices of this researcher, a Professional Accountant, and requested assistance with the audit conducted by SARS as well as to register the other four companies mentioned above as vendors in terms of the VAT-act and to process VAT-refunds as quite lot of money was spent on the acquisition of large trucks, buildings and additional machinery.

The registration process and eventual VAT claims progressed without any problems, but the Professional Accountant was informed that SARS was investigating the sugar transactions of XV2. The matter was reported to Mr. PJDC and armed with instructions from him, the Professional Accountant made the first contact with the Head of Department of the SARS Special Investigations unit in Bloemfontein during January 2XXX.

As there were proper agreements in place between XV2 and the supply companies listed above, SARS allowed the VAT-claims of the companies, but refused to pay it out on the following grounds:

- (a) A number of invoices were only copies, and
- (b) It was the belief of SARS at this stage that there were indeed problems with the affairs of XV2 and that the monies owed to these companies will be used to offset the alleged VAT debt of XV2.

During February 2XXX and throughout the year, the Professional Accountant scheduled various meetings with SARS and travelled more than one hundred and twenty thousand kilometres in order to obtain the required evidence that was required to solve the VAT matter of XV2.

During March the following year, officials from SARS visited the offices of the Professional Accountants in order to obtain copies of files of in-house working papers of XV2 as well as copies of invoices issued by XV2 as well as used by XV2 to claim input VAT on. During this meeting, it was stated that SARS was investigating a scheme known as Round-Tripping against XV2 and its directors and certain suppliers. This matter was reported to Mr. PJdC and he instructed the Professional Accountant to co-operate with SARS as the whole matter is quite unclear to him.

SARS, in turn, accepted the initial report temporally exonerating the company of all wrongdoing during the April 2XXX, with the promise that the Professional Accountant would resolve the matter relating to the alleged Round-Tripping of particular sugar invoices.

Against all rules and regulations pertaining to the handling of taxpayers' affairs, individual staff members from SARS discussed the investigation with the XV2 bankers who in turn cancelled their bridging finance agreement with XV2 with disastrous consequences.

Mr. PJdC lost his sugar supply contracts within days and the directors responsible for the operations of the special-purpose vehicle, BIC, started with legal procedures citing that approximately R35m of the company's money had disappeared. According to the agreement between XV2 and BIC, this was impossible since at any stage the value of any facility was supposed to have been covered by the stock on hand. The stock on hand was confirmed daily by BUV1 and always before any additional facilities were made available.

During this same period, BUV1 also caused XV2 to lose sugar stocks in excess of four hundred tons and blamed the company for the loss. Subsequent investigations by the South African Police Services, however, proved that BUV1 was directly implicated in the loss, but due to the fact that Mr. PJdC had to fight for the survival of his companies and possible criminal charges instituted against him by SARS, the matter was not pursued.

During October 2XXX, SARS issued a writ of execution against XV2 for an amount totalling over R24m. This amount was made up from the capital of over R7m and the balance consisted of a 200 percent penalty with interest for delayed payment. As the final report from the Professional Accountants was still outstanding, it was agreed that the writ would not be executed, but that Mr. PJdC would start paying the outstanding balance.

The final report from the Professional Accountant was tabled on 11 April 2XXX and accepted by the revenue authorities. However, SARS never conceded the defeat in writing, and although the matter was never further pursued all damage claims have been ignored up to the date of the completion of this thesis.

The court action started by BIC and the bank resulted in the bank admitting that the guarantee for the R50m was fictitious and Mr. JR disappeared without a trace. The three bank officials were questioned, but they were all forced into early retirement without any real charges being made against them. The bank appointed a firm of attorneys who in turn tried to coerce Mr. PJdC into paying approximately R3m towards the bank's losses by using some very unsavoury methods, but Mr. PJdC prevailed and never paid any amount.

The total cost pertaining to the investigation and professional fees amounted to R457 000, excluding travelling and accommodation charges.

5.3 Case study number two: SARB vs XYZ Diamond Mining Co. Limited

5.3.1 Background information pertaining to the client

This enterprise secured diamond mining concessions off of the West Coast of South Africa for approximately twenty seven individual seafaring vessels. In order to bypass the rules and regulations governing the soliciting of the general public to finance larger ventures, the initial directors decided to register a separate company for each of the boats and issue share certificates to each individual shareholder. However, the small group of directors that started the enterprise held the majority of shares in each of

these companies and the mining concession was registered in a special purpose company that held no assets apart from the right to mine these concessions.

This arrangement drew the attention of the South African Reserve Bank (SARB), the Companies and Intellectual Properties Commissioner (CIPC), the Financial Services Board (FSB) as well as the South African Revenue Services (SARS). It is important to note that this structure was established after consultations with two accounting and auditing firms and at least three independent legal firms.

The SARB fired the first salvo and charged XYZ and its directors with alleged transgressions of the South African banking laws, company laws, as well as financial services laws. As this group of companies was involved in the mining industry, it became evident after numerous consultations that accountants or legal advisors with strong mining, banking, and company legislation backgrounds were urgently required. The company was referred to the researcher purely on the grounds that the researcher is a known forensic accountant with vast experience in the mining industry.

5.3.2 The charges levied against the client and shareholders

After studying the SARB charge sheet, a comprehensive engagement letter was drafted and presented to the client and the services of the researcher were procured seven days after the SARB charges were made. The researcher consulted with the SARB and was given twenty one days to address the serious allegations; particularly the allegations regarding racketeering and taking deposits without a banking license. The arrangement was that if it could be proven that the allegations were unsubstantiated, another two months would be given to restructure XYZ as per the CIPC and SARB requirements. The allegations can be summarised into two primary allegations, firstly that the enterprise conducted the business of a bank without a legal licence, and secondly that the enterprise in total operated as a scheme identified as a pyramid or Ponzi scheme. These allegations were quite serious and required proper analysis from various vantage points.

During the initial period, the abovementioned allegations were unconditionally withdrawn, and the following tasks had to be executed as per the CIPC and SARB instructions:

1. Compile and register a prospectus for an unlisted public company,
2. Combine all registered private companies into the single listed company,
3. Record all shareholders of the various companies in terms of the Companies Act,
4. Arrange roadshows on a country-wide scale to explain the requirements of the SARB and CIPC, with the singular purpose of obtaining written approval of all shareholders (2 300 plus) to restructure the various companies into one unlisted public company, or to refund any shareholder that did not wish to participate any further. (The success of the roadshows was evident by the fact that not one shareholder insisted on a refund of monies invested),
5. Execute the accounting and secretarial functions to transfer the assets and shares from the various companies to the single unlisted company and to also address the possible tax consequences, and
6. Update all tax and other statutory returns

The SARB appointed one of the Big 4 auditing firms as bank inspectors to which the Professional Accountant had to report, and they also appointed a team of experts to sign off on each task that was performed. Seemingly, the assumption was that shareholders would withdraw their money from the enterprise due to the investigations, and that once the enterprise failed to pay out all the shareholders then the statutory authorities would have a much better opportunity to reinstitute the original charges.

The above tasks were executed in record time and the enterprise was allowed to proceed with its activities. Various secondary assignments were executed on behalf of the client during this period as well in order to ensure that all disclosures were based on facts. However, it is important to note that the SARB insisted that the client also employed the services of one of the leading international legal firms to provide the client with legal advice on the future of the company. The SARB also insisted that only the representative of the legal firm may act as the spokesperson for the enterprise

during the whole process. Consequently, the Professional Accountant had to report to three entities; the client, the bank inspectors, and these legal representatives. With the full approval of the SARB and CIPC, the Professional Accountant was declared on the prospectus as the professional accountant and legal advisor, which was in conflict with prevailing legislation, but nevertheless accepted since all shareholders were already registered and no additional shares were issued. The prospectus was approved without much trouble and the company was allowed to proceed with its mining operations.

The researcher was then requested to accept appointment as the Professional Accountant for the company and to ensure that all the accounting and statutory records of the company be maintained in a proper and legal manner. The Professional Accountant agreed on the condition that he was given unhindered access to the company's financial records as well as any other statutory records. Needless to state, this company became one of the bigger clients of this particular practice.

5.3.3 The South African Revenue Authorities

The greater part of the initial engagement was to get the various tax matters in order as soon as possible. SARS did not join the initial attack on the client as it believed that the client was going to be liquidated by the SARB and CIPC.

The Professional Accountants fulfilled their full tax engagement but due to the bad publicity surrounding the company at the time, the company was subjected to three vigorous audits which were also concluded in favour of the client.

However, when the final VAT and Income Tax returns were completed, the Professional Accountant calculated that the client owed the revenue authorities approximately R33m, due to employees who were withholding tax returns. The Professional Accountant also found that the initial concessions were obtained with the payment of bribes and this was reported to the audit committee of the company as well as the registered auditors. The chairperson of the audit committee requested a

second opinion which was allowed. The second opinion, although never discussed in detail with the Professional Accountant, resulted in the client approaching the Professional Accountant with the request that they remain as the accountant on record. This was accepted on condition that the errors and omissions are corrected and reported to the applicable authorities as well as the shareholders.

The Professional Accountant informed the audit committee that the various tax returns needed to be submitted urgently as the resultant administrative penalties would most definitely cripple the company even further. In response to this, the chairperson of the board of directors, as well as the chairperson of the audit committee, visited the offices of the Professional Accountant with a request to reduce the tax bill by approximately 50 percent. This request was obviously refused, and the revenue authorities instituted criminal charges against this company and its directors for not submitting its tax returns. There was never any doubt in the mind of the Professional Accountant that the client would be forced to submit all outstanding returns as it is a requirement by legislation which the courts would undoubtedly enforce.

However, after the fifth or sixth court appearance, the client informed the Professional Accountant that all charges were withdrawn. Shortly after this incident the chairperson of the board visited the offices of the Professional Accountant once again and offered an amount of R200 000 as a cash incentive to reduce the tax bill by 50 percent, and also to pay the total outstanding account owed to the practice which was just under R850 000. Once again, this was refused. The Professional Accountant explained that the revenue authorities will eventually insist that the returns be submitted, and the tax be paid. Thereafter, it was noted by the chairperson of the board that a special arrangement had been reached with the revenue authority, which guaranteed that there would be no review or audit on any of the disclosures. These arrangements were obviously illegal in terms of all revenue legislation as well as the Constitution.

5.3.4 Actions against SARS

To counter the actions of both the client and the implicated individuals from the revenue authority, a notice was issued by the Professional Accountant to the revenue

authority's Head of Legal Services. In terms of the RSA Tax Administration Act, anybody can institute legal action against the revenue authority, but notice must be given in terms of a certain set of rules. The researcher issued a notice in January 2014, and although periodical visits from SARS officials did occur over a period of two years, nothing has happened since the notice was recorded and duly registered.

It is clear that revenue authority is not in a position to do anything about this matter, as it would prove that the revenue authority of the country is involved in corrupt activities. The name of the international criminal was identified, and the contact between this company and the revenue authority was also disclosed to the revenue authority, and not even this could prompt any action. The chairperson of XYZ Diamond Mining Co. Ltd stated unequivocally that the total cost to the company was not even 10 percent of what the total amount of taxes plus all outstanding professional fees were. The threat that the revenue authorities were considering executing an integrated audit on all the clients of the researcher was voiced in retaliation. To add insult to injury, the same unit of the revenue authorities that was charged to investigate this matter, was the same as the unit that was declared a so-called "rogue unit" in the media (Corke, 2015).

5.4 Case study number three: FE M&E (Pty) Ltd vs SA Bank Limited

5.4.1 Background information pertaining to the company

FE M&E (Pty) Ltd consisted of four directors, one of which – the major monetary contributor – was not involved in the day-to-day operations and decision-making of the company. The company's main source of income was to develop and utilise a mechanical drilling machine for the gold mining industry. The company owned the patent for the machine and used its own labour force to operate these machines.

The gold mining clients remunerated the company strictly in terms of productivity levels achieved for a particular month and there was also a bonus scheme to incentivise the company for higher than expected productivity and safety levels applied in the workplace. These additional incentives were shared with the employees of the company and there was no shortage of work.

The payment terms of all mines at the time were that invoices were presented by the company by the seventh day of every month to the mining client. The mining client guaranteed payment by the end of the same month. This arrangement entailed that the company had to utilise its own cash resources for approximately sixty days, as the payroll, which constituted 78 percent of the running costs, became payable on the 25th day of every month in order to coincide with the personnel pay cycle of the client. This was done in order to maintain an acceptable level of calm in the compound where both the client's workers, as well as the contractors working for the company, resided.

Food and accommodation were supplied by the client, as well as healthcare whenever required. In terms of mining legislation, mine management is responsible for the safety and health of whoever works on the mine, irrespective whether such a person is a contractor or employee. In terms of mining legislation, all employees working underground were entitled to certain minimum levels of protein and other vitamins, and the costs pertaining to these expenses were recovered from the mine on a monthly basis at pre-negotiated prices.

Before the operations were started, the company presented the non-executive director with a complete business plan that included a well-defined cash flow model that calculated huge profits without any reliance on additional loans for operating expenses. Contracts with detailed terms and conditions were also presented and the non-executive director had full access to all these records in order to decide whether he wished to provide financial support to the venture. The total initial capital invested in the company was R4,5m. The company was registered for all the applicable taxes and due to the turn-over of the company, the VAT returns had to be submitted monthly.

5.4.2 Background information pertaining to the directors and shareholders of the company

Three of the four directors were qualified mining engineers with the combined experience of more than fifty years in the gold mining industry. The CEO of the company was a mine manager that accepted a retrenchment package from his

employers, an international mining group, and the other two directors were also part of the senior management of their respective former employers. All three individuals have vast experience in mining, and they had been involved in an industry that was forced by legislation to operate on high safety and productivity levels. The sole non-executive director was a seasoned entrepreneur in his mid-sixties and operated a variety of taverns across the gold mining industry. He provided all the cash resources to start the enterprise.

5.4.3 The case of the missing guarantee

Within approximately six months after operations started, the company embarked on an expansion drive to not only get more contracts from the gold mines, but also to obtain a medium scale gold mine in the Piet Retief area. The independent director pledged three of his commercial properties for an additional overdraft facility of R3m and the executive directors procured the services of a labour broker to take full control of the personnel cost to company expense. The benefit of the latter decision was that the main expense of the company, namely labour charges, was now matched to the approximate payment date by the various mining clients since the labour broker only required payment after thirty days of the invoice date. The charges related to the total cost of the labour force included accommodation and travel from the living quarters to the mining operations. As part of the overdraft conditions, the financial institution that provided the overdraft facility also registered a session of the debtors' book of the enterprise.

Although the increased overdraft facility and labour broker ensured a more reliant cash flow, the prospective purchase of the gold mining operation required vast sums of money, as the normal legislative maintenance of the mine had to continue until all the statutory requirements in terms of the rules and regulations governing gold mining operations had been met. It became necessary to obtain some form of investment in order to pay the sellers of the mine, and to have sufficient funds to get the mining company in production within a very short time. This was feasible as the mine was subjected to the daily maintenance as required by legislation. A new owner would have

been able to start the drilling operations, and the small but effective reduction works would have been able to provide its first gold within one month of drilling.

The financial institution at the time did not wish to be involved in the financing of this type of operation, but the directors managed to get a Pretoria firm of financiers involved to provide the required finance in the form of a foreign bank guarantee. This guarantee was accepted by the financial institution and the necessary bridging capital was provided based on guarantee's ability to pay the first instalment on the mine's purchase price. This payment resulted in the overdraft facility growing to R15m overnight.

Within a very short time after this purchase, the enterprise failed to service its overdraft facility and the financial institution applied for the liquidation of the company. On receipt of the liquidation application, the non-executive director procured the services of the Professional Accountant and the matter was, once again, brought to its final conclusion with the return of the properties of the non-executive director.

5.5 Case study number four: PZ CC vs Financial Institution and Law Society

Case study number four refers to a property development enterprise which obtained a piece of vacant land adjacent to a large town in the North-West Province. The aim was to develop a part of this land into an exclusive residential area, with one other area demarcated for townhouses or student accommodation, and the last part earmarked for the construction of a mall. All township planning and development legislation was concluded with the local municipality. The internal infrastructure, such as roads and bulk services, were developed in terms of the applicable legislation. The project was funded initially by the members of the enterprise – a father and his daughter – and a local financial institution provided the necessary bridging finance for a year by registering a bond on all land that was to be developed.

5.5.1 Background information pertaining to the company

The enterprise was registered as a close corporation, and the father and daughter were the only two members of this enterprise. They were both also the developers of the property and procured the services of a group of professionals, including a town planner, civil engineer, transfer attorneys, and a few construction contracting firms. The primary objective of the enterprise was to develop a large stand that was being used for agricultural purposes at the time. Therefore the stand would have to be rezoned in order to include all the town planning requirements and infrastructure upgrades; a task which is normally executed by the local town council.

5.5.2 Background information pertaining to the directors and shareholders of the enterprise

Both father and daughter operated a building supplies enterprise for a number of years and they were also involved in the manufacturing of roof trusses for the North-West Province and Gauteng housing market. It would seem that they employed the services of the most appropriate professionals in their area to successfully develop the land which they procured from a private individual, from which individual stands could be placed on the market for resale, and their dream of creating an upmarket and safe residential area with all the required amenities within walking distance could become a reality.

The Professional Accountant became involved during a period where more than 50 percent of the residential stands were already sold and the infrastructure for the high-density residential stands and commercial stands had been completed. At this stage the transfer attorneys, who had become co-directors of the enterprise, had embezzled approximately R14m through the sale of stands and the financiers had already approached the appropriate court with an interim liquidation application. According to the documentation submitted to the court, the financiers were of the opinion that the enterprise had no reasonable possibility of being able to service its financial obligations and that it would have been in the best interests of all creditors if the enterprise was liquidated as soon as possible.

5.5.3 The case of the refinancing of the developmental loan facility and the missing funds from the transfer attorneys trust account

When the development was nearing completion, the transfer attorneys offered to purchase a 50 percent ownership of the enterprise and the parties agreed on a price. The transfer attorneys then used the assets value of the project to obtain another bond from another financial institution. During the investigation, it was uncovered that the individual in the employ of the financial institution who authorised the new financial package was indeed a personal friend of the transfer attorney. Oblivious about this small detail, the other shareholders were at ease with the new arrangement. The transfer attorney's own administrative personnel handled the individual transactions, and were also responsible for recording the normal accounting entries of the enterprise.

Without the knowledge of the two original directors, the proceeds from the sales of a number of residential stands were never applied to service the bond account during the transition period between financial institutions. The new director used a bridging company to allegedly fund his purchase of shares as per the agreement between the three parties. VAT returns were submitted, but the VAT pertaining to the embezzled funds was neither declared nor paid to the revenue authorities.

The original directors only became aware of the additional loan that was obtained from the bridging finance company when this bridging company was placed under liquidation. It was during these liquidation proceedings that financial institution holding the bond on the whole development decided to cancel its bond and also claim all outstanding monies. As the enterprise could not repay the bond on demand, the financial institution immediately started with legal action in the form of a liquidation application. As stated earlier on, it was at this stage that the Professional Accountant became involved. The intervention of the Professional Accountant resulted in the overturning of the provisional liquidation application and to date all residential stands have been sold. The issue pertaining to the settlement of the outstanding balance of the bond account is still under review.

5.6 Case study number five: OC&MS (Pty) Ltd vs Financial Institution and others

The next case study refers to an electronics enterprise that needed a Broad-Based Black Economic Empowerment (B-BBEE) partner in order to maintain its contracts with probably the largest State-Owned Enterprise (SOE) in the country. The enterprise had the sole supply contract for all 9 South African provinces, and although there were no other enterprises in South Africa that had the required expertise to honour these supply and maintenance contracts, OC&MS (Pty) Ltd was compelled to get its own house in order and find a B-BBEE partner in terms of the codes of good practice of B-BBEE.

5.6.1 Background information pertaining to the company

The company was a private enterprise owned by a husband and wife team. The wife managed the administration of the enterprise while the husband serviced the contracts with the assistance of a group of technical personnel. The husband was also the main marketing professional, and was responsible for the purchases of all stocks and assets required by the enterprise to fully execute its contracts. The company had a small overdraft facility and there were no real challenges relating to cash flow and the sustainability of the enterprise. The statutory returns were maintained by an independent accountant and there were no outstanding statutory matters. The enterprise also maintained its personnel complement in terms of the Employment Equity Act and as required by the main client, all safety, health, and environmental requirements had been adhered to in total.

5.6.2 Background information pertaining to the directors and shareholders of OC&MS (Pty) Ltd

As stated, the two directors of the enterprise were a husband and wife team and they were completely dependent on the enterprise as a source of income. The enterprise had started on a very small scale and was developed into an enterprise that was on the border of moving from a small to a medium enterprise.

Particularly the SOE was very impressed with their service delivery and pricing policy. However, the matter regarding the finding of an acceptable B-BBEE partner became such an issue that the SOE had to assist the enterprise and its directors to choose an acceptable partner. It was also during this stage that the enterprise employed the services of a legal team that consisted of an advocate who specialises in B-BBEE transactions, and an attorney who in turn employed the services of a business consultant that calculated the fair value of the enterprise.

The final decision made by the directors with the full support of the SOE was to create an employees' trust and to allocate the required percentage of the enterprise to the benefit of the employee trust. Once the trust was created and the scheme explained to the beneficiaries, the enterprise needed to obtain funds to not only fund the share transaction, but also to fund a major expansion. This expansion resulted from the transaction, as the SOE was in a better position to allocate more orders to the enterprise during a fiscal year. Under the previous arrangement, the amount of business that could have been allocated to the enterprise was very limited as the SOE was under pressure from its main shareholder to only enter into business transactions with enterprises that supported the B-BBEE drive. For this reason alone, the SOE could not exceed R10m per fiscal year in total orders issued to OC&MS (Pty) Ltd.

A source of finance was identified as CIN (Pty) Ltd, a company purported to be able to access international funds for enterprises with a good growth potential and who had a good reputation as far as stability and service levels were concerned. After executing a proper due diligence, the CEO of CIN (Pty) Ltd expressed his interest to rather buy the enterprise as a going concern, since the enterprise was deemed to be too good to be true.

The legal team of CIN (Pty) Ltd drafted the required documentation, the SOE was informed of the enterprise's eventual B-BBEE compliance once the transaction had been concluded, and a bank guarantee was provided to the legal team of OC&MS (Pty) Ltd to confirm validity and to ensure that the various provisions of the agreement be honoured by both parties. In order to ensure the rapid liquidation of the guarantee, CIN (Pty) Ltd was authorised to manage the enterprise for its own risk and reward by

a particular date. The outgoing directors and shareholders were available for approximately six months after the transfer date to assist with any technical challenges. All statutory documentation was completed, and the company was transferred to the new owners with the full agreement of the South African bank that was the banker for the company (OC&MS).

Due to the rapid increase in business from the SOE, the staff complement of the enterprise was increased twofold within a month and a fleet of light delivery vehicles was acquired in order to service all the new sites. During this period, the new owners employed the services of their own independent accountants and they were put under tremendous pressure to compile a set of annual financial statements for the new enterprise, provide an updated valuation certificate, and provide a cash flow model incorporating the new contracts. Due to the rapid expansion of the enterprise, it was obvious that the new results of enterprise's operations would not compare remotely to the historical results of operations.

5.6.3 The case of the missing guarantee

After numerous requests for extension of payment dates, with excuses varying from the South African Reserve Bank not being completely satisfied with the source of funds to the sudden illness of the CEO of CIN (Pty) Ltd, the former directors approached their own legal team for legal advice. The legal team executed a due diligence on behalf of the former directors to establish the validity of the guarantee and the good intentions of the purchasers. The legal team constantly advised the former directors that the explanations provided by CIN (Pty) Ltd were all valid and that the payment would follow shortly.

However, after approximately six months after the guarantee was supposed to have been liquidated, the various creditors of OC&MS (Pty) Ltd contacted the former directors with the news that their accounts are not being paid, and that they will cease supply of all stocks and materials meant for the SOE client until such time as the matter relating to outstanding payments had been amicably resolved. Furthermore, on closer inspection, the former directors also found that the new owners of the enterprise

started using other bankers. In addition, the overdraft facility held by the original bankers was not being serviced and the bank was in the process of exercising their session registered on an investment of the former directors' held at the bank.

To add insult to injury, the new directors had procured the services of a labour broker whose payment was overdue for more than three months. The labour broker filed a notice to liquidate the company with the Gauteng North High Court and as the court papers were delivered to the registered address of the company, the former directors were not aware of the fact that their whole world was about to fall apart. The former directors only became aware of the liquidation application when the bank that held a bond over their property applied for the sequestration of the husband, due to the fact that the bond on his property had not been serviced for the five months following his departure from the enterprise. The new directors had entered into a contractual agreement with the former directors that they would service his bond, leases on his two vehicles, as well as the university fees for both of their children. These contractual undertakings were also drafted by the legal team of the former directors.

The new directors constantly advised the former directors to be patient and that all the court action was purely of a temporary nature and would have been resolved before any real damage occur. However, by the time the former directors procured the services of the Professional Accountant, the claims against the former directors and enterprise were in excess of R20m, while the consequential damages to the family were in excess of R65m. The Professional Accountant has been appointed as the forensic specialist by the applicable statutory authority and the full results of the investigation will be presented in the court in 2018

5.7 Case study number six: LS (Pty) Ltd vs Gauteng Liquor Board

5.7.1 Background information pertaining to the company

This case pertains to a non-compliance notice that was issued to an enterprise operating in the hospitality sector. Mr. MG is the sole director of a French style restaurant in Gauteng. The restaurant introduced French cuisine to the locals and

boasts a very extensive wine list. Apart from a very loyal clientele, local book clubs in Gauteng also use the restaurant to launch new publications and larger corporates also frequent the enterprise during corporate functions. Mr. MG sold a restaurant he had operated in Johannesburg prior to this enterprise.

After operating the business for six years, Mr. MG was informed by the landlord that the complex was to be refurbished and a decision was made to relocate his enterprise to larger and more convenient premises. A new lease agreement was drafted, and Mr. MG was given a free hand in the development of the internal floor space. These premises could accommodate 120 seats, but it also carried a premium on the monthly rental. A turnover clause was also added to this agreement which meant that the enterprise had an additional contractual obligation of not only the higher rental, but two percent of the monthly turnover of the enterprise was also payable. At the time, Mr. MG and his former accountant were positive that the new position, as well as the added floor space, was more than sufficient to carry this additional cost. Mr. MG also incurred additional expenses totalling R1,8m for the refitting of the larger kitchen, additional seating capacity and general furnishings.

While Mr. MG was preparing to move to the new premises, he requested that his accountant assist him with the necessary compliance issues relating to the local authorities. He was informed that he needed to apply for a transfer of the liquor licence and inform the local municipality of his intention to move the enterprise to other premises. The landlord, however, informed him that he needed to obtain a second opinion on the move of the enterprise, as other tenants were subjected to administrative action. This did not correspond with the advice given to Mr. MG. A regular patron of Mr. MG's referred him to the researcher and the researcher's accounting practice advised Mr. MG on the requirements. While investigating the status of the various compliance issues pertaining to this type of enterprise, the researcher found that the enterprise had been operating with a lapsed liquor licence for the past six years. This posed a major problem as it was quite impossible to operate this type of enterprise without a valid liquor licence. The enterprise agreed to sign an initial engagement letter with the researcher as the Professional Accountant.

The Professional Accountant executed the total application in terms of the relevant legislation and the liquor licence was issued.

5.8 Conclusion

The six case studies described in this chapter illustrate the spread of enterprise risks faced by SMEs on a regular basis. Addressing these risks will invariably require a unique thinking process as all these risks are based on real problems which could have dire consequences if not addressed properly.

The duties of the modern day Professional Accountant will become increasingly difficult due to factors such as the ever-changing international accounting standards, ever-changing international standards of auditing and other assurance levels, and increasingly complex tax regimes. Moreover, the sharing of information and closer co-operation between tax authorities in order to ensure sustainable levels of tax compliance adds to an already complex and hostile business environment. Added to this, the opening up of the world economy for the SME sector proved to have a major impact on the sustainability of these enterprises. Particularly the exporting of goods and services by SMEs have started in all seriousness. Finally, the general lowering of standards of basic education for various reasons (Modisaotsile, 2012:1-5) resulted in higher demands placed on the development of professional services rendered by Professional Accountants. Therefore by merely being the traditional reporters of the historic figures of an enterprise now requires other elements such as involvement in the enterprises of SMEs itself and providing solutions to everyday challenges

As indicated in Chapter 1, the general direction in global economic policy is to expand the SME sector. The Professional Accountant must, therefore, develop more systems and practices that will ensure the healthy financial management and professional support of this sector, even if it will result in the necessity to employ other disciplines. The research question relates to the harnessing of case studies in such a manner that it can provide additional skills to Professional Accountants to improve their service delivery to their SME clients. This chapter provided the first clue in this development process, as it proves that by providing many details about the case study under

investigation that narration in itself is already a trustworthy form of primary data collection. The second part of the research question relates to why it is important to make this additional skill available to Professional Accountants. The case studies described in this chapter mirror the analysis executed in Chapter 2, and it can be accepted that SMEs operate in an unfriendly and hostile environment. The next step in the process will be to develop a problem-solving tool by utilising the information gleaned from the case studies described in this chapter.

CHAPTER 6

6. DEVELOPMENT OF THE PROBLEM-SOLVING TOOL

That it may become as it ought to be, the career of arms requires from those who seek it or are called on to pursue it, certain specific qualities which we call military virtues: valour, fidelity, patriotism. The exercise of these virtues to a very high degree is so essential to the career of arms that they constitute its characteristic feature, define its own peculiar spirit. They are the necessary conditions of the existence of the career, and if they disappeared it would disappear also. (Finer, 1962:34)

This chapter is divided into two parts. The first part is focussed on the development of the problem-solving tool. The second part involves the application of the problem-solving tool in the analysis of the data obtained from all six case studies. After the problem-solving tool is applied to each case study, a short summary will be provided on the findings and the relevant factors that Professional Accountants will need to consider should similar future cases be examined.

6.1 Introduction

This thesis seeks to develop an additional skill for Professional Accountants. As discussed in Chapter 3, case studies are able to provide solutions through the development of a proper set of analysis procedures. During the empirical research phase of this thesis, no standard analysis format for accountancy related case studies could be identified. Although there are several current approaches to solving problems, this chapter will prove that a considerably more robust system is required. This chapter will be divided into two distinct parts. The first part will be devoted to the development of a problem-solving tool that will take into account the unique risk framework within which the SME has to function. The second part will consist of the application of this new tool to analyse the 6 case studies described in Chapter 5.

6.2 The development of a problem-solving tool

In Chapter 1, the environment of the SME sector was described both in terms of the international and local economy. The bleak picture that emerged was one of an uncompromising and hostile environment. Chapter 2 provided specifics relating to the regulatory environment pertaining to Professional Accountants serving SME clients, including the unique agency agreement between the Professional Accountant and their SME client. Chapter 2 also discussed the unique risk environment pertaining to the SME sector. These risks have been identified as limited financial resources, a limitation on time available to react to any type of eventuality, and the fact that these types of enterprises are normally owner driven.³ In the development of a problem-solving tool these three risks in particular will have to be under constant consideration, as each is equally important. Chapter 3 described accounting philosophy and provided some insights into accounting research with specific reference to the use of case studies as research method and research instrument. The key matter that emerged from these initial 3 chapters relates to the sustainability of the SME sector and how Professional Accountants can contribute to support this sustainability. What also emerged in these first three chapters was that case studies need to be utilised in order to address the issue of sustainability. Furthermore, the unique agency relationship between the Professional Accountant and his SME client must be properly defined within a rigorous ethical framework in order to give impetus to the case study scenario.

The important consideration pertaining to the conducting of case study research is to firstly identity a clear purpose. In this thesis, the purpose is quite clear as the research is focused on the SME sector and what Professional Accountants can do to improve their service levels to this sector. Secondly, the role of the various players in this thesis is supposed to be clearly identified and defined. In this thesis, the position of the researcher was clearly identified as the Professional Accountant acting on behalf of his client, and the clients with their respective challenges were identified as the subjects of the case studies. The analysis of each case study highlights the unique agency relationship between the Professional Accountant and his SME client, and

³ The challenge with all owner driven enterprises, apart from the limited availability of resources to combat any risks, is the fact that once faced with a challenge, such challenges immediately become so personal that it also causes the SME owner's motivation to reach its nadir very rapidly.

proves to be the mirror image of the agency agreement described in Chapter 2. The fact that the interests and goals of the SME client is being served in this thesis is also clearly defined. A third consideration pertains to the tension between how practice and learning from one school can become transformational within that particular institution, but also across multiple institutions. In this thesis, the tension between the legal requirements and purely accounting requirements pertaining to the SME sector is clearly defined. The last consideration pertains to the issue of challenge. In the case studies analysed in this thesis, challenges include issues bordering on blatant and serious accusations and have been identified to cover issues of tax compliance, alleged fraud, alleged theft, and general statutory compliance to name a few. Challenges experienced by SME clients also include an array of actions by contenders for a larger slice of the market share of a particular segment. Case study research needs to mirror the insights, experiences and feelings of the researcher to those of others such as scholars and readers.

The question that begs an answer now is whether case studies can also be used to develop a tool that will assist Professional Accountants in providing risk analysis services of a problem-solving nature to their clients. During the interviews, it became evident that the provision of this type of service is quite important for SME clients. Although there are a number of methods that can be applied in the general manner of thinking of risk analysis, the various current methods seem to have their own limitations in terms of applicability in the social science of accounting. It is evident that traditional knowledge is no longer sufficient if taking into account the new demands placed on Professional Accountants' contributions to their SME clients (Bolt-Lee & Foster, 2003:151).

In the world of the Professional Accountant, each engagement becomes a case study in itself, mainly due to the fact that each engagement has its own unique characteristics and underlying features. The Professional Accountant must incorporate of all the relevant elements pertaining to modern thinking; such as design thinking (Owen, 2006:3), systemic thinking (Fullan, 1996:420), system thinking (Stevenson, 2012:86), and the more simplistic approaches to thinking such as the Observe, Orient, Decide, and Act (OODA) Loop (McKay & McKay, 2014). A form of data analysis must also be developed in order to derive sensible solutions from the

data obtained from these case studies. This data analysis process will be insufficient if it only consists of a checklist. The process will also have to provide the necessary tool for strategic planning. Although there are current forms of thinking in terms of problem solving, a unique tool needs to be developed to analyse case studies. It is also now accepted that culture (Shepherd, 2016:1) and strategy (Bateman & Zeithaml, 1990:180; Shu, 2016) have active roles to play in how Professional Accountants approach the issue of problem solving. Armed with this knowledge, this thesis proposes a Risk Analysis Tool (RAT) that will cover the advantages of some of the traditional approaches to solving problems but also include the researcher's cultural background and his own approach to strategic planning.

The method that the Professional Accountant will use in order to provide a workable solution for each case study not only depends on the technical abilities of the Professional Accountant, but also on the tool that they can harness to sort raw data obtained through the case study in such a manner that the SME client is provided with a workable solution. By the same token, it would be an added advantage if this information can be used as factual evidence in a court. It follows that as case studies are the preferred research instrument in accounting research, they will directly dictate the development of the RAT.

The six case studies explained in Chapter 5 cover most of the challenges that an SME may face in the South African context, and can therefore be deemed as an acceptable representation of the sector as a whole. Moreover, using the information from these case studies as the basis of developing a problem-solving tool directly addresses the research question. The presentation of the problem-solving tool is the total contribution of this thesis. Ultimately, the manner of thinking about the content of these case studies will provide the framework for the problem-solving tool. The framework in turn will culminate into the RAT.

6.2.1 Background

Analysis forms the basic foundation of any type of planning, irrespective of whether the planning in question is purely a thought process or a proper formal process. The

process of analysis (also termed appreciation) must never be regarded separately from the planning process, as the analysis itself is a logical thinking process, applicable to all levels of management, and including all management functions in an enterprise. It has been established that case studies can be utilised to conduct analysis in accounting. In order to provide a tool for optimal analysis in accounting, such a tool will have to incorporate a checklist, strategic planning, and execution characteristics.

6.2.2 Description of the RAT

Once a case study has been formulated, the next logical step is to collect and analyse the data identified in the case study. Advantages pertaining to the use of case studies in accounting research varies from the researcher being able to ask questions, emphasise some of the identified issues, develop and test theories, and provide guidelines to solve problems (Zamanianfar & Sojdehee, 2014:292). As stated earlier another term for “analysis” is “appreciation”; the latter is used mostly in the military environment. An appreciation and therefore analysis is a logical process of argument, whereby all relevant factors pertaining to a particular problem are analysed in order to attain the optimal solution. In the military environment, this process is primarily used to solve operational problems. The aim of an appreciation is therefore to formalise a stabilisation plan. The RAT developed in this thesis will be used by Professional Accountants to address, analyse, and ultimately provide optimal solutions to the operational problems experienced by SME entrepreneurs, in much the same way as a military commander uses battle appreciation to solve problems.

As noted in Chapter 1, the SME enterprise operates not only within a specific business format but also within a particular market segment and within a macroeconomic sphere. In order to correctly analyse the details pertaining to a particular case, it was deemed prudent to collect data relating to the SME client in this three-tier format. The same applies to the opposing party related to the particular case study. The research conducted in Chapter 2 clarified the fact that other parties, irrespective of whether they are other economic active enterprises or a statutory body, do not act independently. The collection of data pertaining to this element in the case study must therefore also

be executed on a tier basis. Thus, the description of a case study is not merely just the writing of a story; in accountancy the manner in which the case study is formulated is of utmost importance as it will provide crucial environmental data that will in turn provide the Professional Accountant with critical details pertaining to the problem to be solved and the enterprise to be studied.

In order to identify key elements of the case study, specific key success factors have to be identified. The regulatory framework, irrespective of whether it relates to accountancy or matters of a legal nature, has to be highlighted as well. Interpreting the data in a basic and standard format is imperative to successfully conduct a case study, particularly in the case of SME clients where time and costs are essential factors. As case studies in accountancy ultimately lead to future engagements with clients or form the basis of any legal action, recoding and categorising data is imperative for the optimum risk management of both SME client and Professional Accountant.

Therefore, the manner in which the case gets written up demands much more structure than the mere analysis of data and the writing of a research report on the findings; a much more structured tool is required, and this requirement already emerged during the research executed in the first three chapters of this thesis. It is of particular importance due to the fact that a Professional Accountant has to consider facts and circumstances that are of a multi-disciplinary nature. The Professional Accountant is expected to be aware of these facts and circumstances and need to understand the nature and impact of it on the case under review.

6.2.3 Methods of general risk analysis applicable to the analysis of the research instrument

After a rigorous empirical research exercise, it emerged that although case studies are accepted as a strong research approach, the analysis of data seems to be ill-defined. (See Chapter 3) To fill this gap, the manner in which other disciplines execute various

forms of risk analysis have been researched in order to develop and define a problem-solving tool that fits the purpose of this thesis.

Two types of analysis or appreciation have been identified, each with its own unique characteristics:

6.2.3.1 Formal appreciation

This type of appreciation is a written appreciation and complete in all respects. It is used before the execution of an approach pertaining to- or analysis of a case study where there is enough time for proper planning (Strydom, 2000:98). There are normally a number of people, especially specialist staff involved in this type of appreciation. The phrase "Situational Appreciation" refers to this type of appreciation. The term refers to the various elements required to plan a particular action in a particular circumstance. In this thesis, the process of formal appreciation constitutes conducting the case study by firstly writing the case report in as much detail as possible. Secondly, the data obtained through the case report is then transmitted to a predetermined system consisting of a checklist that is detailed to a point where it provides information of strategic importance in order to derive a conclusion and ultimately course of action.

6.2.3.2 Quick informal appreciation

This appreciation is predominantly done under severe operational pressure, and is neither complete nor written (Strydom, 2000:132). The quick situational appreciation can only be executed by the responsible line manager. Professional Accountants are also sometimes faced with these types of challenges but in most cases, even under severe time constraints, the application of a quick appreciation will merely be considered a first step in formalising a proper plan, and to provide an overview of the challenge faced by the SME entrepreneur. This thesis only focuses on the formal appreciation. In order to fully comprehend the analysis of data obtained from a formal

appreciation or case study, it is important to establish a broad framework through distinct identifiable phases.

6.2.4 The four phases identified in the application of RAT

Combining all the matters researched in Chapters 2, 3 and 4, it is evident that a number of factors need to be incorporated in the processes of the phases of the application of the RAT to specific SME challenges. The RAT consists of four unique phases:

Phase One: Analysis of the situation

This phase concerns the actual writing up of the case. In accountancy, merely writing up the case in story format (narrative) is but the first step. The point of departure is to identify the threat. If it consists of a summons, the summons needs to be scrutinised to identify the claim in the summons as well as the legislation on which these claims are based.

The analysis of the situation must be executed in a sequential format and must include the situational analysis of both the SME client as well as the opposing party. In order to ensure that all elements are covered, it is necessary for the enterprise itself to be analysed first, followed by the industry in which the enterprise operates. The same analysis must apply to the opposing party. As it will be noted, colour plays an important part in keeping the two sets of qualitative data separate. Furthermore, as there are time limits set by opposing parties in terms of action required by the SME entrepreneur, these time limits must be identified and recorded. This first phase forms the backbone of the whole analysis and needs to cover as many details as possible. It should also illustrate the fact that the SME does not operate or function in a vacuum.

Phase Two: The engagement concept

The second phase is divided into two distinct sub-sections, namely the analysis of the primary objective, and the formulation of the concepts for both the SME client as well as the opposing party. The responsibilities of each role player must also be illustrated in a format that can be easily referenced.

During the analysis of the primary objective, it is necessary to establish the crux of the issue at hand, the aim of the SME client, and the critical success factors that will ensure the success or failure of the action. From this initial analysis, the various guidelines and requirements must be identified and recorded. This phase compares favourably to a rigorous Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis.

Phase Three: Establishment of options

Once the concepts have been established with the situational analysis as the basis, it is important to record the various options now available. It is not possible to only have one sure outcome in matters relating to enterprises. The proper phrasing of options available to the SME owner is therefore paramount during the decision-making process. The main questions asked in this phase are: what is happening, what can happen, and what will be the most probable outcome. This phase of the RAT therefore acts as the crash-test dummy, since the various options are tested until the optimum option is identified.

Phase Four: The Engagement Plan

In the case of court action, the total plan can culminate in a court admissible affidavit with supporting documents. Alternatively, should the matter relate to a challenge that must be met in order for the enterprise to develop into the next growth phase – such as obtaining an environmental certificate to build a dam – phase four will ultimately culminate in an engagement letter with a sequential plan such as a Gantt chart.

All four of these phases are executed by the Professional Accountant and reported to the SME client on a regular basis. In order to maintain the SME client's positive attitude, their active participation during the whole process is vital. The four phases also fully integrate with the six steps required in case study research. However, during the execution of the four phases of the RAT and the six steps of case study research, it should be noted that each step must be revisited constantly as more data becomes available. (See Diagram 3.14 in Chapter 3 for the six steps).⁴

Furthermore, each of these phases must comprise of unique and identifiable formats. Each format must also fully interact with the others in order to provide a proper flow of argument and to ensure that all factors have been taken into account and recorded in detail. The reason to record the information is not only for future reference for the SME client and Professional Accountant, but also to provide sufficient evidence for third parties.

The RAT was applied to the six case studies described in Chapter 5, and the results are presented in the sections that follow. A predetermined processing sheet was devised for each of the steps in order to ensure conformity and an easy reference framework for record keeping purposes.

6.3 Application of the RAT to case study number one

6.3.1 SARS vs XY2 (Pty) Ltd

This case in particular is extremely multi-faceted. Using only the ISA in isolation will have a devastating effect on the analysis of the data. The reason is that ISA follows a predetermined pattern and the Professional Accountant only needs to work according to a checklist. Quite a lot of qualitative data would never be analysed during this type of analysis, and the results would have been devastating for a case such as this one. Moreover, this approach would result in the Professional Accountant being process

⁴ The six steps have been identified as define, design, prepare, collect, analyse, and conclude.

driven rather than results driven. Secondary to this are the issues relating to time and resource constraints. The application of ISA would cause possible risks in that the qualitative elements relating to the case study would either be ignored completely or neglected to the detriment of the client. Therefore, it is necessary to employ an alternative method of analysis, such as the RAT.

6.3.2 Phase one: Analysis of the situation

The purpose of this phase is to “become aware of the situation in respect of the current action.” The situation, in this case, was that XV2 and its sole director had been charged for not declaring taxable charges on the importation of sugar from Swaziland, through the border post at Oshoek, in accordance with the Value-Added Tax Act, Number 89 of 1991 (South Africa, 1991:s13-14). Added to the omission of the declaration, the client was also charged in terms of Section 60 of the same act and a 200 percent fine was levied.

The sequence in which Figure 6.1 must be completed, will be as follows:

- (a) The situation is plotted in the central block marked “summary of charge” of Figure 6.1 with the case number.
- (b) As it is common practice for SARS to first communicate with the client during their investigations, it is important to list all correspondence between the client and SARS, if applicable. It is of vital importance to match each correspondence from SARS with the reply from the client.
- (c) By analysing the correspondence, it will be a simple exercise to derive the Act or Sections within an Act under which the client is being charged. In this case, the client was charged in terms of the VAT Act, Number 89 of 1991.
- (d) In order to save time, the blocks depicting the names and addresses of the individuals involved in the case must be completed in full. The left block

coloured blue is reserved for the client's information, while the right block coloured grey has been reserved for the details of the opposing party.

Figure 6.1 Case Study 1: RAT Model Phase 1

Client details			Phase 1: analysis of situation			Opposing party details		
Area of interest:		Area of influence	Case study 1			Area of influence:	Area of interest:	
Level 3	Level 2	Level 1				Level 1	Level 2	Level 3
Enterprise environment analysis	Affected part of enterprise	Underlying circumstances ie agreements	Summary of charge case number			Applicable branch office	Applicable region	Head office
Part of South Africa sugar supply chain	Sugar procurement from Swaziland	SPV and client SPV and bank client and BV				SARS Welkom	SARS Free State	VAT investigation
Intention	Intention	Intention				Intention	Intention	Intention
Intend to provide sugar to own wholesale outlet and one major national distributor	Obtain sugar allocation from Swazi sugar association	Contracts entered into to obtain bridging finance				1. To recover the amounts indicated on letter of findings and charge sheet/summons	1. Instructing branch office	Research national impact of the alleged discovered scheme
How did the client execute his business	How was affected transaction executed	Conflicting arguments				2. Provide NPA with proof	2. Attending court proceedings	
Sugar imported in bulk bags from Swaziland repacked at own warehouse and distributed in various weights	Sugar purchased from Swaziland once loaded BV2 submitted invoice to SVP who in turn paid	Who was actual owner of sugar after purchase				Name of official that instituted the charge	Identify role players backgrounds	Identify role players backgrounds
Office bearers directors	Public officer	3rd party involved individuals				Instructing the clerk of civil court & NPA	Instructing the branch officer	Instructing the regional officer
PJDB - BV2 JR - SPV & bank officials	PJDB	JR arranged guarantees through SA Bank from overseas' guarantee				Mission: to prove ownership of sugar before distribution to establish decision making pattern		
On what grounds was the charge established: alleged that input VAT was fraudulently claimed		Consequences of the charge: cessation of sugar transactions & suspension of bridging finance	Time arrangement: time line					

- (e) The left portion of Figure 6.1 is reserved for the client while the far right has been reserved for SARS. On the client side, the blocks have been divided into three distinct levels that should be analysed, namely the overall business environment of the client, the particular portion of the business to which the charges apply, and lastly the underlying agreements or arrangements that are of primary importance to the business section under investigation. The first two levels are under the direct control of the enterprise, while the third level is the environmental level that impacts directly on the operations of the enterprise.

Level 1: Overall business analysis

- i. Enterprise environment analysis. In this case, the client was identified as a farmer of maize products, but he also operated a sugar packaging factory in a small farming town in the Free State
- ii. Intention. The client wishes to augment his erratic income from dry land operations with value added operations by buying sugar in bulk and packaging it for the wholesale market. The client also operates a small milling section at the back of the sugar packaging plant.
- iii. How did the client execute his business? This section is used to illustrate what assets are involved, from where the primary products are obtained, and what marketing channels are being used. Note that only the overall picture is obtained on this level. No reference to the financial records of the company is made at all.
- iv. Office bearers and directors. The research identified Mr. PJdC as the sole director and shareholder of the company under investigation. The name of the internal bookkeeper and the employees in the accounts section are identified and entered.

Level 2: Analysis of section of the business under investigation.

- i. Affected part of the enterprise. Under this heading, the sugar portion of the enterprise has been identified as the core of the charge laid.
- ii. Intention. The enterprise's intention is to purchase sugar in bulk, repackage it in various sizes and then market it mostly to the wholesale trade.
- iii. How was the affected transaction executed? In order to explain how the transaction was executed it is important to draft flow diagrams illustrating the flow of documents for both purchases and sales, as well as the flow of funds for both purchases and sales. (Diagrams 6.1, 6.2, 6.3 and 6.4 illustrate these flows).
- iv. Public officer. The last entry on this level is the entry pertaining to the identification of the public officer in terms of the Tax Act (Act 58). A short background indicating the experience and qualification levels of the public officer should also be included.

Diagram 6.1 General Document Flow: Purchases

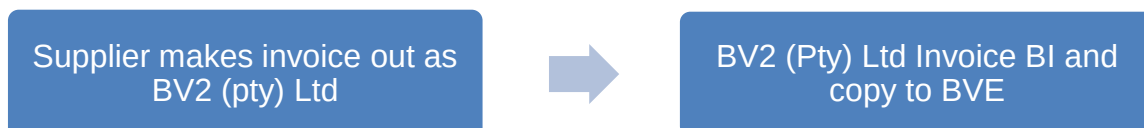
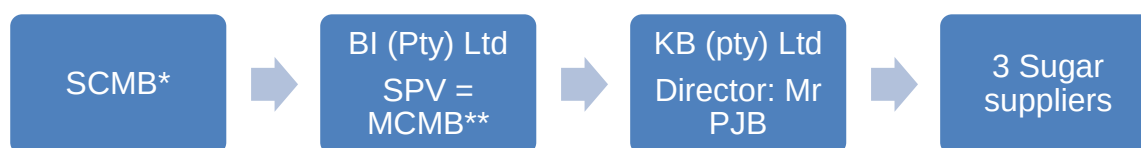


Diagram 6.2 General Document Flow: Sales



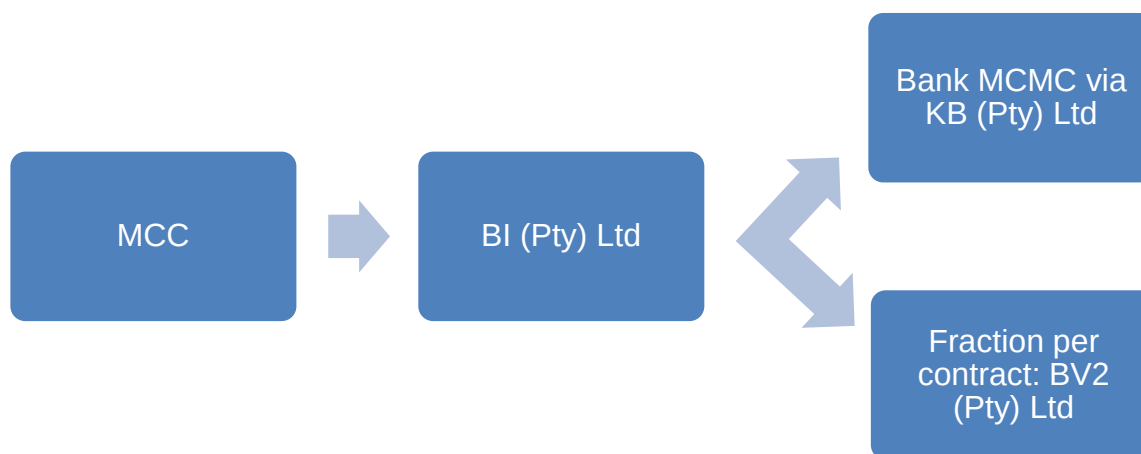
Diagram 6.3 Flow of Funds: Purchases



* Major Chartered Merchant Bank

** Special Purpose Vehicle of the Bank

Diagram 6.4 Flow of Funds: Sales



Level 3: Analysis of underlying external business associates and arrangements

- i. Underlying circumstances i.e. agreements. In analysing the business under Level 1 it became apparent that the client had to make use of external parties to fund this particular operation. The operation was indeed funded and ultimately controlled by four independent but interrelated agreements. At this stage, it is of vital importance to confirm that the agreements are correctly represented in the document and funds flow diagrams.
- ii. Intention. The client structured his associated companies in such a manner that suited the financier, in this case, the bank. Contracts were entered into with the purpose of obtaining bridging finance.
- iii. Conflicting arguments. In this entry, the researcher must identify what the client believes has been misrepresented by the tax authorities in their charge. Irrespective what the Professional Accountant's own views are, it is important at this stage to allow the client to state what he believes the root cause(s) is for

the charge. It is also at this stage where the client and the Professional Accountant can decide if there are proper grounds to proceed or if the investigation should be abandoned, after which the tax authorities are approached for a possible arrangement. In this case, the client was of the opinion that the charges levelled against him and his company were unfounded and based on a so-called “fishing expedition” of the tax authorities.

- iv. Third party/ involved individuals. The aim here is to identify the third parties involved in the section of the enterprise under investigation. In this case, three bank officials and an independent financier acting as an agent of the bank were identified. At a later stage, the three bank officials were also identified as directors of the special purpose vehicle of the bank.

Situated directly below the columns containing the client’s information, there are three additional blocks that need to be completed.

- i. On what grounds was the charge established? After reading through all the initial correspondence and working through the three levels on the client side of the diagram, it was decided that the grounds for the charge were what is commonly known as “round-tripping”. This normally refers to the issuing of invoices through various front companies in order to evade the payment of taxes such as VAT.
- ii. Consequences of the charge. This block must be completed by identifying the eventual consequences of the charge should the client not be able to avert the charge(s). In this case, the consequences are the payment of the taxes and additional penalties. The possibility of a criminal charge has also been identified.
- iii. Time arrangement. This block must provide the critical dates pertaining to the defence of the charges as allowed by the court.

In completing the diagram to this point, direct participation from the client is paramount. Furthermore, it gives the client an indication of what the investigation and counter

investigation will entail henceforth. It allows the client and/or his legal representatives to decide at this very early stage if they wish to continue and if there are any grounds for continuation. It is important to note that up to this stage there was no need for any legal representation. At this stage, the Professional Accountant can only assist the client to identify possible problem areas, but the decision to proceed or not at all times rest with the client.

- (f) The right portion of the diagram is reserved for the authority from which the charge originated, in this case, SARS. The completion of this section must include the following:

Level 1: Details pertaining to the branch office where the summons originated

- i. Applicable branch office. This is the name of the branch office from which the charge originated. In this instance, the branch office in a larger neighbouring city issued the summons.
- ii. Intention. From the correspondence leading to the summons, it was made very clear that the intention was to charge the company and its director for the full calculated amount of the VAT not paid, in addition to a fine of 200 percent, as well as interest on all the outstanding amounts.
- iii. Name of official that instituted the charge. The name of the official taking responsibility for the issuing of the summons must be entered in the last block of this level.

Level 2: Details pertaining to the Regional Office that participated in the initial investigation

- i. Applicable region. From the correspondence identified at the start of the investigation, it was found that the Office of the Inspectorate was involved in the initial investigation, as well as the specialised members of the South African Police Services (SAPS).

- ii. Intention. The intention of this level should be exactly the same as that of the first level and will, therefore, be entered as such.
- iii. Identify role players' backgrounds. Names and titles of officials involved should be added here. It is of the utmost importance to obtain as much information as possible of each individual party in order to establish how and on what technical level future correspondence must be handled.

Level 3: The Head Office structure that had any dealings with this case

- i. Head office. From the initial correspondence it was found that the National VAT office was also involved in the investigation.
- ii. Intention. The intention of this level of involvement should once again be accepted as being the same as the first level, but it is also important at this juncture to probe for any other intentions, if at all possible. In this case, no secondary intentions could be identified.
- iii. Identify role players' backgrounds. The names, titles, and backgrounds of these officials must be included as completely as possible.

- (g) The primary objective, or mission, that is now derived can be phrased as either one of the following:

To provide irrefutable proof that the SARS assessment and subsequent summons are incorrect in all respects and must be rescinded;

OR

To provide irrefutable proof that the assessment issued by SARS was partially correct, and after providing the correct figures based on underlying facts and proof, then a new assessment must be negotiated;

OR

The assessment and subsequent summons is based on correct facts and circumstances and therefore grounds for possible mitigation must be sought and negotiated.

The Professional Accountant does not decide on the objective, as the client at this stage is the only person that knows what the probable outcome for each of the abovementioned scenarios is. However, it is the duty of the Professional Accountant to be in a position to provide these broad outlines and also explain to the client the consequences of each option. In this case, the client opted for the first option.

As is typically the case during these types of investigations, the public accountant will in all probability not have any prior knowledge of the client or his business and it is for that reason that this initial interview must take place on a face-to-face basis. Due to the fact that in this case the Professional Accountant, took the appointment with a client who already had another accountant, a letter conforming to the code of ethics had to be addressed to the outgoing accountant, informing him of the client's decision and seeking his approval to proceed. In order to execute the selected approach, Figure 6.1 should be recreated in a size even larger than A0 and placed against a wall, in order to allow the team to visualise the investigation at all times.

6.3.3 Phase two: The engagement concept

The sole purpose of this phase is to analyse the primary objective by transferring the three levels of intention to Table 6.1. In the block marked, "Crux of the mission" the central focus must be entered. In this case, the objective is to prove the client not guilty of the offence. In the block marked "Aim" contains information pertaining to what needs to be done during the investigation in order to complete the primary objective, and the approach that will be followed.

Table 6.1 Case Study 1: Phase 2.1

Crux of the mission	Aim	Critical success factors
Prove the client not guilty as charged	To provide sufficient evidence to prove that the client's intention was not to evade taxes Type of operation Integrated investigation including reconstructing sugar transactions and reconcile bank accounts of SPV with BV2	Basis of assessment Obtain sufficient time to investigate Remain going concern Additional information on 3rd parties
Own intention	Factors to be analysed	Add guidelines required
Level 1: augmentation income Level 2: purchase sugar in bulk for repacking Level 3: associated company structure to suit financier	Client capital structure purchase and supply agreements Underlying agreements VAT effect ISO agent relationship	Interpretation of: Accounting IAS 18 revenue IAS 2 inventories IAS 23 borrowing costs IAS 24 related party disclosures IAS 31 investments in joint ventures IAS 31 investments in joint ventures IAS 37 provisions, contingent liabilities Tax VAT act Income tax act Banks act Transaction types

In order to achieve the aim of the mission and to execute the operation, a few critical success factors should have emerged by now. The four critical success factors in this case have been identified as:

- (a) Obtain sufficient time from SARS in order to conduct an in-depth investigation,
- (b) Obtain approval from SARS that will allow the enterprise to carry on as a going concern,
- (c) Examine the basis used by SARS in order to issue the reassessment and subsequent summons, and
- (d) Obtain additional information on the third parties and their respective agreements with a particular emphasis on the reasoning behind the creation of

the special purpose company and the transfer company registered as KB (Pty) Ltd.

The block marked, “Own intention” must have the three levels of identified intentions entered in order to ensure that the investigation gets driven in the correct direction and that all future facts be tested against this. In order to test the client’s intentions, it is important to draw conclusions on the factors that need to be analysed. In the block marked “Additional guidelines required”, the Professional Accountant leading the investigation now refers to his own professional knowledge by listing all the applicable sections of the International Accounting Standards (IAS) that will be used as guidelines.

The responsible investigating officer of the revenue authority agreed to allow three months in order to report on the findings, only due to the fact that in analysing the correspondence (done in the first phase of the model), it became abundantly clear that the revenue authority either ignored the participation of the bank and its Special Purpose Vehicle (SPV) or was not aware of it at all. The basis of calculating the reassessment was also communicated with ease and the sales declared by the client on the VAT 201 return was used as a point of departure. Copies of the returns for the period under investigation had been obtained from the local branch offices of the revenue authority and an agreement was made to also use the same figures as a point of departure.

Furthermore, it was a simple task to establish the overall capital structure of the client before the start of the joint venture and it was found that the client did indeed only intend to use the bank’s financial muscle in order to expand his sugar enterprise.

The supply and purchase agreements were analysed and the following emerged:

- (a) The contract titled “Supply agreement” entered into between BI and XV2, indicated in paragraph 2 that BIC will supply the sugar to XV2 and that BIC will purchase the sugar from the various sugar suppliers.
- (b) Paragraph 5.5.2 of the contract stated that although XV2 will raise the invoice to the purchaser of the product, in this case MCC, a notice will be posted on

each individual invoice stating that the payment for the product will be made directly to the account of BI and not XV2.

(c) Paragraph 5.6 of the same contract stated furthermore that BI will ensure that the balance of each sugar delivery and sale will be paid to XV2.

(d) Paragraph 6 states that BI will retain ownership of the sugar.

(e) The basis of the contract indicates furthermore that XV2 will only be responsible for the re-packaging of the sugar and the eventual delivery thereof.

In summary, the objective from Figure 6.1 is transferred to Table 6.1 in the block with the heading “Crux of the mission”. The second block describes the aim, and identifies the type of operation to be conducted. The type of operation in this instance is provided in the details described in the primary engagement letter to be presented to the SME client. Once these two steps have been concluded, attention is given to the critical success factors that will guarantee a successful engagement. The intentions from the blue part of Figure 6.1 get transposed onto the bottom left of Table 6.1. From these first four blocks, the Professional Accountant can now identify the factors to be analysed and once this section has been given attention, a list of the applicable legislation and rules and regulations pertaining to the total analysis is done.

Table 6.2 summarises the facts derived from analysing the details in Table 6.1. These facts are now placed under the heading “Fact”, after which the Professional Accountant with the support of his SME client formulates deductions, implications, and actions or conclusions from each fact. In this case study only one fact was deemed to be of primary importance.

The bottom section of Table 6.2 provides the timeline available to conclude the total engagement, and includes any additional factors that need to be considered. Table 6.2 shows the factors relating to time and space for both the client as well as the opposing party. One vital fact is that once a court date has been established, the manner in which the investigation is being conducted is dictated by the available time. Nearly as important as this is the fact that the original Professional Accountants resigned the moment the investigation was started.

Table 6.2 Case Study 1: Phase 2.2

Factor: opposing party			
Fact	Deduction	Implication	Action/ conclusion
Sugar transported in bulk from Swaziland	Sugar was purchased in region where no VAT is charged	Source is within Southern Africa customs union No difference between value of 2 currencies Output VAT is payable	Check ACC CCA1 forms and supporting documents Investigate authenticity of VAT 201 returns
Advantage(s) in favour of opposing party: Had unhindered access to client's border documentation Utilised professional staff from multi-national company to analyse transactions It would seem as if somebody in the SPV is feeding both SARS and the bank with misinformation Had ample time to physically follow the trucks of the client to source in Swaziland and to clients			
Step 2.2 subsection 1 Factor: time and space Client Limited time available: court date already set Own independent professional accountants resigned Opposition Burden of proof is now with client Matter already escalated to head office in Pretoria. Will have to remain in contact with three levels			

In order to provide a clear perspective of Table 6.2 these facts, or as in this case the singular fact, are derived from the identification of the type of operation in Table 6.1. The crucial fact identified is that the sugar has been transported in bulk from Swaziland. The deduction made is that the sugar was purchased in a region where VAT was now levied at source. The implication of this is that as the source was within the South African Customs Union, output VAT would have to be charged on the sale of the product to a South African company. The actions that had to be executed are focused on the analysis of the CCA1 customs forms in order to establish the name and title of the importer and the authenticity of the VAT 201 returns of XV2(Pty) Ltd.

The advantages in favour of the opposing party were predominantly the fact that the opposing party had unhindered access to all documentation at the border, they had the support of the professional staff of a multi-national company to assist in the

investigation, and it would seem as if the SPV was feeding both the opposing party (SARS) and SM Chartered Merchant Bank (MCMB) with misinformation. Lastly, the opposing party had ample resources to physically trace the movement of the product from the source to the repackaging facility.

Table 6.1 also identified critical success factors. Each critical success factor needs to be transposed onto a sheet that includes the details indicated in Table 6.3. In this matter one critical success factor was identified, namely the need to obtain additional information on the third parties involved in the total investigation. It became quite obvious at this stage of the investigation that this same third party reported the client to the revenue authority in the first instance. The researcher found it very odd that the initial complainant also became the lead investigator.

Table 6.3 Case Study 1: Phase 2.3

Critical success factors	EI (essential elements of information)	OIR (other intelligence requirements)
Obtain additional information on third parties	Agreements between intermediary and MCMB Pricing structure Role-players not included in agreements	Statutory documents of BI Type of surety provided for finance
Intelligence problem		Security problem
No co-operation from bank employees		Reluctance on part of SARS to investigate - ---- BI
Defendant		Opposing party
Concept Establish the actual point during the supply chain when the client becomes the owner of the product		Concept Already established that the client is the sole owner once the sugar is loaded on Swaziland

Further deductions were made from Table 6.1 and these deductions are indicated as essential elements of information (EEI) as well as other intelligence requirements (OIR). While researching the two types of information it became evident that no co-operation was given by the bank employees and there seemed to be a reluctance from the revenue authority to investigate the business model and financial records of BI (Pty) Ltd, the SPV of the financier. The following was also discovered:

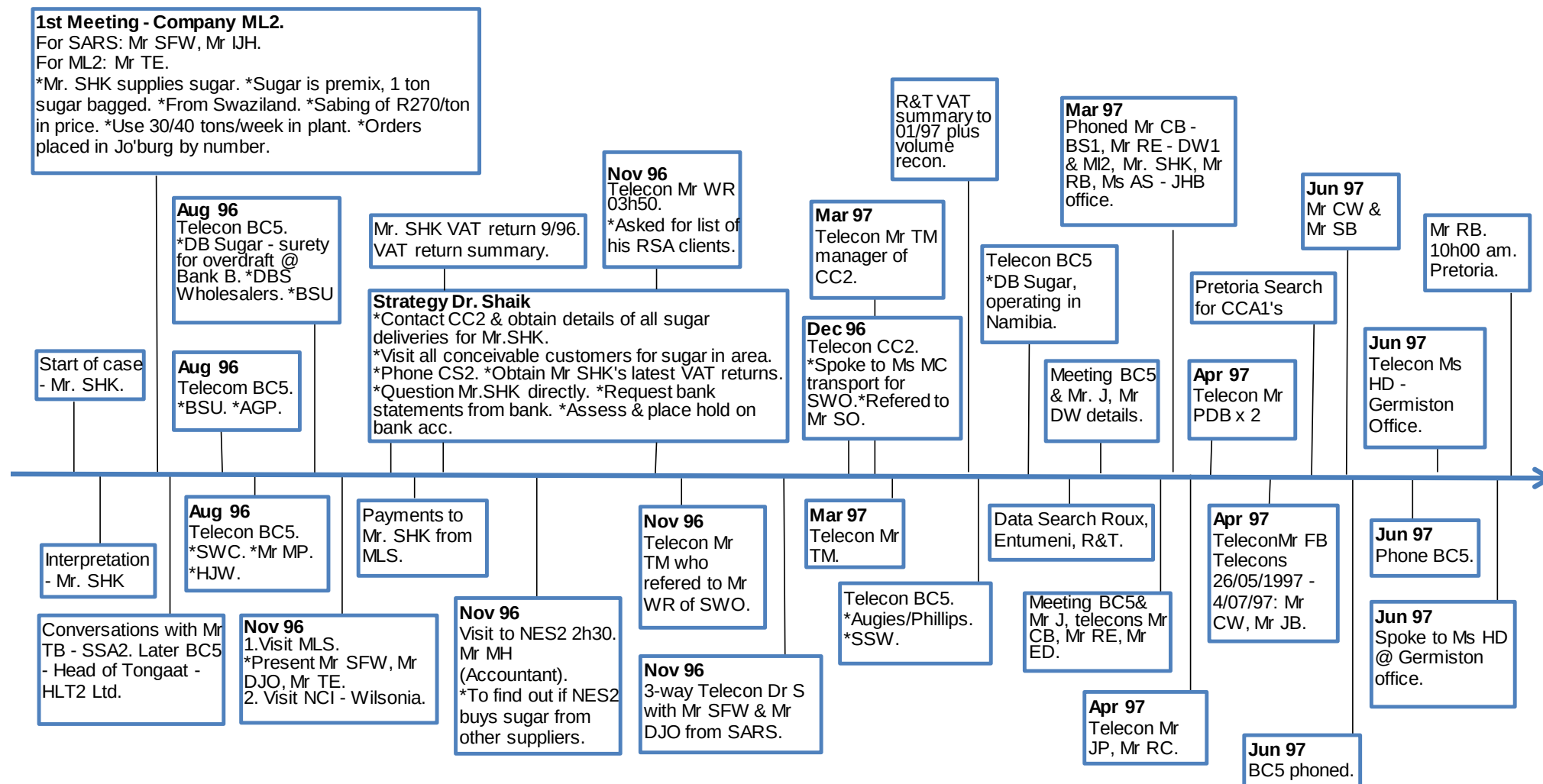
(a) In terms of IAS 18, Revenue is defined as “the gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity partners.” The standard furthermore states that in an agency relationship, the monies collected on behalf of the principal are also not to be classified as revenue.

(b) Paragraph 14 of the same accounting standard states that revenue recognition shall only take place if the entity has transferred to the buyer the significant risks and rewards of ownership of the goods, the entity retains no managerial involvement, the amount of revenue can be measured reliably, the economic benefits associated with the transaction will flow to the entity, and the costs associated with the transaction can be measured reliably.

The mentioned agreement and subsequent test of the revenue definition against the revenue declared on the VAT 201 return proved that the revenue earned with these transactions was not to be recognised by XV2, but by BIC. The basis of the reassessment issued by SARS was therefore rendered void and the client was allowed a further extension of time to execute a full investigation. As the Professional Accountant was in a position to prove the basis of the reassessment incorrect, there was no further need to assess the factors with the other guidelines mentioned in the block marked “Additional guidelines required”.

However, in using its discretionary powers, the revenue authority issued a warning that it was going to concentrate only on the alternative charge of “round tripping”. In order to provide a proper basis of defence for this new charge, the fourth critical success factor had to be analysed in full. The only way in which this could have been done effectively was to draft a sequence of events starting from a logical point identified by the other underlying agreements. A discussion with the director and sole shareholder of XV2 resulted in the timeline shown in Figure 6.2. The timeline was tested against the other underlying agreements, since courts rely on timelines to ensure that subsequent contracts and actions make sense. The timeline tested positive and as the burden of proof lies with the taxpayer, the establishment of options must be defined (as in phase three).

Figure 6.2 Case Study 1: Timeline



The dynamics of the environment within which the enterprise has operated must now be analysed. The following three questions need to be addressed during this phase:

- (a) What is happening,
- (b) What can happen, and
- (c) What will probably happen?

A dynamic thought process will now have to be applied by the Professional Accountant. In this case study, the critical success factors were watered down to only the very last one, notably the information pertaining to the third parties that were involved in the whole scheme of things. Table 6.3 provides space for entering the following information:

- (a) The critical success factor,
- (b) Essential elements of intelligence (EEI),
- (c) Other intelligence requirements (OIR),
- (d) Intelligence problems, and
- (e) Security problems

The above elements were entered onto the diagram and it was found that the primary essential element of intelligence was the pricing structure as stipulated in the various agreements. This needed to be analysed in order to establish if the various enterprises were not deliberately used for “round tripping”. The pricing structure for white sugar in terms of the various underlying agreements is depicted in Table 6.4.

Table 6.4 Case Study 1: Pricing Structure

Item	Value expressed in R/per ton
Cost price of sugar	2 800-00
Commission of intermediary	70-00
Cost to be paid to the financier	57-00
BUV1	17-78
Sugar allocation charges	100-00
TOTAL PURCHASE PRICE	3 044-78

The above pricing structure was somewhat higher than the international per ton price at the time due to the cost of bridging finance and the added charges levied by BUV1, who was incidentally appointed by BIC to ensure proper stock control. The sugar was sold at the going rate of the time, which resulted in the assumption that the structure was purely put in place and agreed to by XV2 to obtain bridging finance.

The secondary essential element of intelligence that had to be analysed was the other role players not mentioned in the various agreements, but also involved with XV2 on either the supply or seller side. Figure 6.2 illustrates all the role players and again it was proved that XV2 at least was not knowingly involved in “round tripping”.

The first “other intelligence requirement” that needed attention was the information on the statutory documentation of BIC. All letterheads indicated four SCMB officials as directors, but investigations at CIPC had these names removed without the names even showing as resigned directors as would normally be found on the former CM-29 document, and the search could not identify the currently appointed auditor or the resignation of the first appointed auditor.

The most sensitive of the other intelligence requirements was the matter pertaining to the surety provided to the bank in order to allow the bridging finance, which at some stage was officially R50m. Apart from an admission from the intermediary that the surety was non-existent, no other information could be obtained.

The result of the final report to both SARS and the bank resulted in the withdrawal of all facilities allowed to XV2, the subsequent application for the liquidation of the legal entity that owned the sugar processing plant and warehouse, and the disappearance of the bank officials involved with the bridging finance.

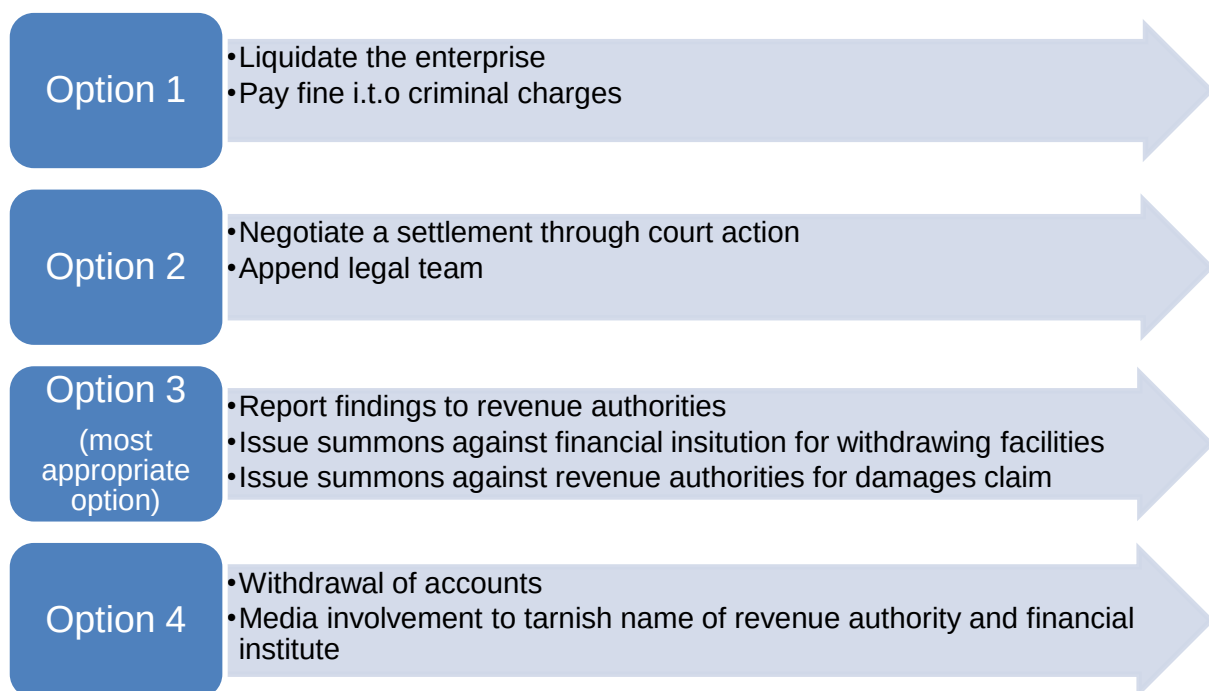
To date, SARS refuses to admit any wrongdoing and also refuses to provide an explanation for why no investigations were lodged against SCMB, BIC, or any of the individuals involved.

After numerous requests, the client's files were returned, and the diary kept by SARS throughout their investigation provided documentary proof that the investigation was started by the client's competitor, who even provided additional infrastructure and human resources to remove the client from the market.

6.3.4 Phase three: Establishment of options

After completing the initial two phases, the client can be provided with various options. It is good practice not to present every conceivable option, but only the most appropriate ones instead. As the client was involved throughout the whole process, the client now has a choice to select the option that will suit his own needs and requirements optimally. However, there is no harm in the Professional Accountant pointing out the most appropriate option. In this case study, option three was identified as the optimal choice.

Diagram 6.5 Case Study 1: Options



6.3.5 Phase four: The engagement plan

In order to summarise all the findings, a tax opinion letter was drafted and submitted to the revenue authorities. This opinion letter provided a full summary of all findings and covered all quantitative (calculations) and qualitative aspects of the case study. The working papers of the various steps were attached as appendices to the tax opinion letter and a full copy was also provided to the client. The main purpose of this was purely to force the revenue authorities to cease any further action against the client. As the revenue authorities withdrew from the investigation in its entirety, the only obvious second phase of the plan was to institute legal action in order to receive compensation for damages suffered by the client.

6.3.6 Case outcome

The revenue authority withdrew from the matter. However, no compensation was ever paid to the SME owner. The revenue authority embarked on a campaign to discredit this client by instituting new charges for unrelated periods. The end result was that the director eventually agreed to a settlement of less than one percent of the initial calculation, and he was afforded an opportunity to settle this amount over a number of years. An initial claim of more than R24m was reduced to an agreed amount of R300 000-00. Agreement was also reached whereby the SME client could repay this amount instalments of R4 000-00 per month without interest. The capital amount did not even apply to the original charge sheet as it was based on completely different facts and circumstances.

6.3.7 Relevant factors requiring consideration in future similar cases

A number of issues are covered in this case study. The most important issues that Professional Accountants need to consider if faced with similar engagements in the future cover factors that range from accounting standards to commercial law factors. Factors that directly relate to accounting include revenue recognition, financial instruments, and related party transactions. On the commercial law front, Professional Accountants engaged in similar cases need to be aware of contractual obligations with

particular reference to the time when risks and rewards of assets pass on to the next party in a transaction. Equally important is the constant vigilance to the tax effects of all commercial arrangements. The issue relating to record keeping and the security pertaining to it is also vital. The Professional Accountant must also be aware that SMEs do not function in a vacuum. Sometimes other SMEs are involved, and at other times SMEs have to deal with international financial institutions. The most critical factor in this case is the fact that multi-national enterprises will go to great lengths to destroy a potential future competitor.

6.4 Application of the RAT on case study number two

6.4.1 SARB vs X Diamonds (Pty) Ltd

This case study started with an official enquiry from the South African Reserve Bank (SARB) containing certain company and taxation challenges. It culminated into criminal activities perpetrated by the Chief Executive Officer (CEO) in concert with the chairperson of the audit committee, as well as high ranking officials in the employ of the revenue authorities. Added to this, further investigations provided some evidence that a criminal syndicate with excellent political clout arranged the illegal assistance given to the company by the revenue authorities. Once again, this case study necessitated the analysis of both quantitative (financial) and qualitative (environmental) data.

6.4.2 Phase one: Analysis of the situation

The first phase is to become aware of the situation. In this matter, the company and its directors had been charged with quite a few contraventions of the Banks Act, the Companies Act and in terms of the Revenue Laws, contraventions relating to the non-submission of various tax type returns and the subsequent payment of the relevant taxes. With these facts in mind, the “Phase One: Analysis of the Situation” sheet is completed, as can be seen in Figure 6.3. As these charges are varied and cover three statutory organisations, it is prudent to also add the Financial Information Act as well

as the Prevention of Organised Crime Act. These laws together with the laws indicated in the correspondence received from the various statutory bodies are disclosed in the section named “Applicable law & sections”. The inclusion of IFRS and the Revenue Laws will always be a given in all matters relating to these type of cases.

Figure 6.3 Case Study 2: RAT Model Phase 1

Client details			Phase 1: analysis of situation			Opposing party details		
Area of interest:		Area of influence	Case study 2			Area of influence:	Area of interest:	
Level 3	Level 2	Level 1				Level 1	Level 2	Level 3
Underlying circumstances ie agreements	Affected part of enterprise	Enterprise environment analysis				Health office	Applicable region SARS	Head office DMR
W4U: DMR, boat building & shareholder agreements	Shareholders	Marine diamond mining company operating in Port Nolloth				SARB	SARS Gauteng	DMR
Intention	Intention	Intention				Intention	Intention	Intention
To effectively execute mining operations	They were supposed to receive extra-ordinary high dividends	Mine diamonds in selected concession areas				Protect public against criminal activities Safeguard the country against - ensure healthy investment environment Inspect any suspect schemes	Ensure tax compliance in general - provide guidance on special transactions i.e B-BBEE	Govern mining operations - issue right to mine permits Ensure that environmental legislation is adhered to
Conflicting arguments	How was affected transaction executed	How did the client execute his business				Name of official that institute the charge	Identify role players backgrounds	Identify role players backgrounds
Operation is legally established, Going concern, Dividends policy questionable	Dividends were paid on a provisional basis every month based on results of operations	Concessions obtained, diamonds mined with boats & pumps. Sold to State				Mr. AB SARB Mr. CDLR bank inspector	Alberton campus Mr. ET (ex-SAPD member)	Springbok: DMR H.O.D
3rd party involved individuals	Public officer	Office bearers directors				Mission: to prove that the company does not operate in conflict of the banks act and is not a pyramid scheme		
Mr. SL (equilibrium) Mr. RK (criminal) CEO of Alexcor	Mr LPL	CEO: Mr. LPL board of directors: Mr. BM (BEE), Mr. BVH, Mr. JC, Mr. HM						
On what grounds was the charge established: dividends extra-ordinary high		Consequences of the charge: company was restricted and proceeded as per business plan	Time arrangement: time line					

Next to the above-mentioned block all correspondence received to the date of the engagement of the Professional Accountant and the client, must be disclosed. This will ensure that constant reference to the correspondence is made when advising the client. The two blocks below the blocks now already entered include the names of the client's contact persons as well as the names of the various statutory bodies. As per the initial engagement and discussions, once the middle blocks have been completed, the Professional Accountant knows who he has to deal with, what the underlying charges are, and what correspondence has been received up to this point. In this particular case, the client was also fully aware of the extent of the charges, which laws they covered or might cover as well as the identities of all parties involved.

The blue block on the left and grey block on the right of the Phase One model provide the details of the client and the opposing parties respectively. On the grey side, the first level is used to provide the details pertaining to the SARB as this is the only statutory body that levied charges at the time. As indicated previously, the revenue authorities were confident that the instituted charges would be successful and that their involvement will only commence at a later stage. The parties acting on behalf of the SARB are indicated at the bottom of this level, and the name of the individual appointed as the bank inspector is also disclosed in this block.

As the matter under investigation will eventually have tax consequences and, to a lesser degree, consequences regarding the concession agreement entered into with the Department of Mineral Rights (DMR), these statutory bodies are shown as the two bodies in the "Area of Interest". The reason for this is that the Professional Accountant needs to test and compare all findings to the tax effect of such findings, as well as test compliance with the concession agreement, which forms the basis of the asset base of the company. In all three areas, the intention of the statutory body has been indicated and was derived from either correspondence and/or contracts. The intention of the first level was based on the charges.

The blue section is structured in the same way where the first level depicts the enterprise's environmental analysis. This first level can also be identified as the classical "Know Your Client" summary section. The second level provides the details of the affected part of the enterprise, and in this case study it pertains to the irregular

payment of large dividends to shareholders of individual small boat companies. These dividends were also the primary reason why the SARB believed that the various boat companies operated as illegal schemes. These extraordinary high dividends were also widely advertised.

The third level sections on both sides pertain to the DMR and how the primary agreement was structured. The details provided in all three sections are clear and no further comments will be made.

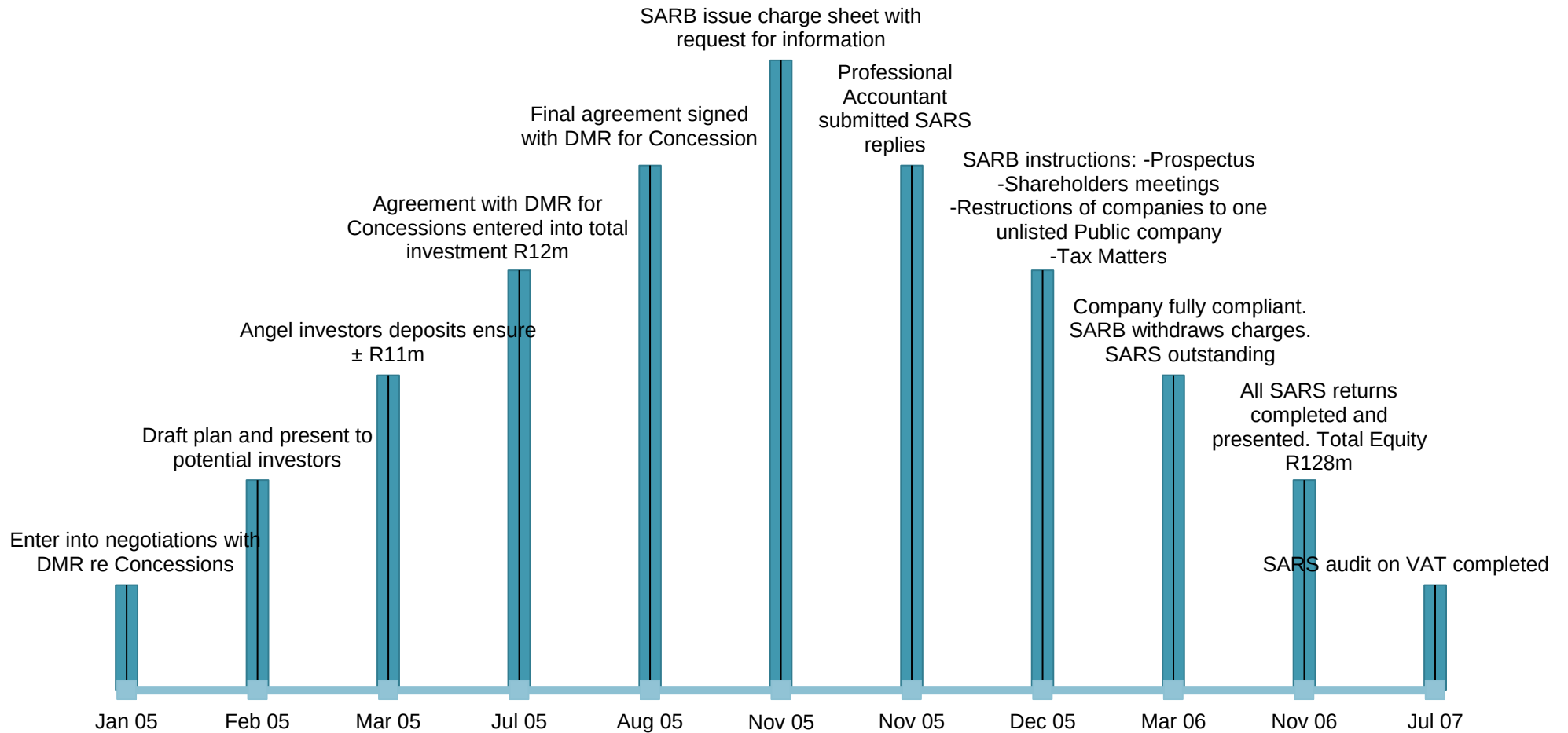
The bottom section of the form provides sections to summarise the grounds of the charge, the consequences, the time arrangement which will always be a well-defined timeline, as well as a mission statement. The primary purpose of the first phase is to get as many details as possible from the various role players and to get as much participation as possible from the client. The client will be in a position to decide at this very early stage if it is feasible to proceed in defending his actions, or if it can be reasonably expected that the actions executed at this stage will result in a successful defence or not.

At this point in time, it was decided that the Professional Accountant will only focus on the primary objective stated within the “Mission”, which is “to prove that the company does not operate in conflict with the Banks Act and is not a pyramid scheme”. The latter portion was included, although the SARB did not indicate this possibility in their initial charges and correspondence.

As with the previous case study, it is of paramount importance that this primary objective is decided upon and confirmed by the client, and not the Professional Accountant. The Professional Accountant can merely state the fact of the charge, but the client must agree to the primary objective to be attained.

A general timeline was drafted to illustrate the sequence of events to the point where the allegations were made. (See Figure 6.4).

Figure 6.4 Case Study 2: Timeline A



6.4.3 Phase two: The engagement concept

From the information provided in the Phase One, the crux of the primary objective is to prove that the company and its subsidiaries did not operate, nor that its shareholders participated in an illegal scheme of any sorts. Added to this crux, the aim of the investigation as well as the type of operation have been identified in the middle top block of Table 6.5 and requires no further explanation

Table 6.5 Case Study 2: Phase 2.1

Crux of mission	Aim	Critical success factors
The company and subsidiaries do not operate on illegal scheme of any type	Maintain the enterprise to the benefit of the shareholders and the community Type of operation Integrated investigation. Re-build shareholders register. Re-build primary books of entry	Prove going concern status Prove agreement by all shareholders Legal compliance
Own intention	Factors to be analysed	Add guidelines required
Level 1: honour concession agreement Level 2: maintain dividend policy Level 3: maintain mining operations by expanding even further	Why did SARB deem enterprise operations as illegal Why did SOE only allocate 2 boats to lucrative concession and rest of the fleet to poor concession Was concessions obtained	Interpretation of: Minerals act Companies act Accounting IAS 18 revenue IAS 2 inventories IAS 23 borrowing costs IAS 24 related party disclosures IAS 31 investments in joint ventures IAS 37 provisions, contingent liabilities IAS dividends IAS 1 presentation IAS 12 taxes IFRS mining operations IAS 31 interests in grant IAS 33 EPS ventures IAS 38 intangible assets Tax VAT act & Income tax act Banks act Transaction types

At this point, quite a lot of information was gathered by the Professional Accountant and three critical success factors were identified, which now include legal compliance and full co-operation by all shareholders. The matters regarding the own intention of the enterprise have been copied directly from the first phase form and from this block and the three upper blocks, the factors to be analysed have been identified. Once the factors have been identified as indicated, the various qualitative and quantitative guidelines have been identified and these guidelines are to be found in the various forms of legislation (qualitative) and accounting framework and standards (quantitative).

The concept of the opposing party is illustrated in Table 6.6. It became evident while analysing the concept of the opposing party that the client was deemed to be operating a pyramid scheme. To add to the client's problems, the SARB also instituted criminal charges against a business associate of the CEO of the client. According to correspondence with the SARB, a competitor alerted the SARB to the questionable business model of the client.

Part of the second phase also includes an analysis of possible facts identified by the opposing party, in this case, the SARB. These facts are normally derived from correspondence, but also from subsequent discussions and consultations with the two parties. (See Table 6.6). From these facts, certain deductions are made and the Professional Accountant must at all times communicate these to the client. The bottom part of Table 6.6 is normally reserved for any comments made by the opposing party that the Professional Accountant was not aware of but that would require attention. The date inserted in Table 6.6 provides a time arrangement for when the matter is supposed to be resolved with the submission of a final report. The analysis of these facts in this manner will prompt the implementation of certain actions or conclusions to be made by the Professional Accountant.

The third step in Phase Two is to transpose each critical success factor to the page as identified in Table 6.7 and then to identify the type of information that will be required in order to address this critical success factor. At this stage, the essential elements of information and other intelligence requirements have been identified and disclosed on this form.

Table 6.6 Case Study 2: Phase 2.2

Factor: opposing party			
Fact	Deduction	Implication	Action/ conclusion
Enterprise holds no assets	Company not going concern	Pyramid scheme	Prove going concern and draft financial statements
Advertises investment opportunity in media	Illegal sourcing of shareholders' funds	Illegal enterprise in terms of Companies Act	Register prospectus for one unlisted public company
Liberal dividend policy	Dividends are not paid from projects	Dividends are paid out of capital	Investigate profit ability and ensure that dividends policy conforms to applicable laws
SARB information: Known identity of individual that is friend of CEO and that was charged with fraud One of the larger mining groups lodge complaints regarding dividend policy			
Step 2.2 subsection 1 Factor: time and space Own investigation November 2006 – February 2007 Opposition June 2006 – February 2007			

Table 6.7 Case Study 2: Phase 2.3

Critical success factors	EI (essential elements of information)	OIR (other intelligence requirements)
Prove going concern status	Agreements between SOE (Alexcor) and client Dividend policy Physical conformation of all assets Bank statements	Statutory documents All enterprises Shareholders Registrations Cash flow
Intelligence problem		Security problem
Appointment of international firm of legal advisors by SARB		Reluctance on part of SARS to investigate tax matters
Defendant		Opposing party
Concept Prove going concern Reply to SARB query list and execute corrective actions Update tax records		Concept Liquidate client Institute criminal charges against client, board of directors and recoup dividends from shareholders

An intelligence problem was also identified at this stage in this particular case study where the SARB insisted that the client also appoints an international firm of legal specialists in order to communicate on behalf of the Professional Accountant as well as the client. This was a questionable decision made by the SARB, but as it was one of the conditions in providing the client an opportunity to prove his innocence, the client had to accept this decision. The results of this decision were an additional professional service a charge of approximately R2m.⁵ The engagement concepts of both client and the opposing party are, once again, illustrated at the bottom of the table.

These first two phases, if done in minute detail will provide sufficient information to the client about the expected outcome. For Phase 2.3, separate tables should be completed for each Critical Success Factor in order to identify as many information requirements as possible. In this matter, only one critical success factor was dealt with and it was to prove that the enterprise is indeed a going concern. If this hurdle could be negotiated, the client would be able to safely conduct their business.

6.4.4 Phase three: Establishment of options

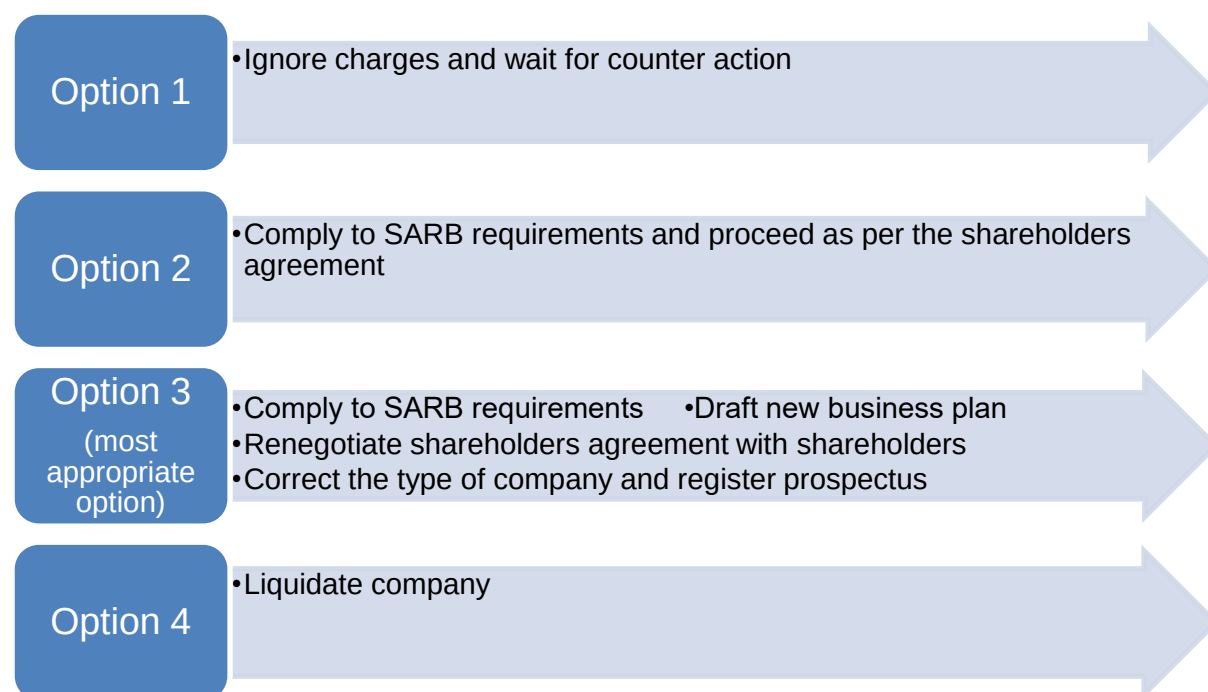
Taking into account the first two phases, the Professional Accountant is now in a position to lead his/her client in making a decision of which option to follow. It is important to note that up to this point, the client has not been subjected to unnecessary fees and the client is also now in a better position to make a decision since the client was very involved in the matter, particularly while gaining information from both his/her own environment and that of the opposing party.

A factor in deciding which option to take was that it had to secure sanction from the SARB as well. As the third option included a restructuring of the companies into one unlisted public company with the full agreement of all shareholders, this option was accepted by both the client and the opposing party. At this early stage, it was proven that the SARB would not have been successful in declaring the scheme illegal. The prospects of the SARB unfairly charging a new enterprise for illegal conduct, resulting

⁵ The Professional Accountant registered the prospectus with the proper authorities without any support by these legal advisors. Contrary to normal practice, the name of the firm of legal advisors was also not disclosed in the prospectus.

in the loss of not only shareholders' funds but also employment opportunities for more than two hundred individuals in an area that is economically distressed, assisted in this decision.

Diagram 6.6 Case Study 2: Options



However, the requirements to successfully complete option three included the participation of the firm of legal experts, as well as the involvement of the SARB appointed inspectors. The final requirement was that each shareholder that did not agree to the new terms and structure was to be paid out the full share purchase price.

The options were presented to the client and the client had the opportunity to consider which option will suit his objectives the best. The most appropriate option was to ensure compliance with the SARB requirements, renegotiate new shareholders' agreements with the shareholders, and rectify the company structure by registering a prospectus for a newly unlisted company.

6.4.5 Phase four: The engagement plan

All parties agreed to the creation of a new company that was to be an unlisted public company and the registration of a prospectus after detailed consultations with all

shareholders under the watchful eye of the bank's appointed inspectors. All shareholders agreed to the new structure and an agreement was made to suspend all provisional dividend payments until all primary books of entry have been updated and the company's financial statements prove a healthy profit from which a future dividend could be paid. After this phase, a new business plan was drafted as the enterprise could also buy Concession Eleven (off of the West Coast of South Africa) outright from the current owners and this would entail selling diamonds to whomever could provide the best prices.

The SARB agreed to withdraw charges and the statutory body responsible for the registration of companies accepted the prospectus and new company registration. The last hurdle the company had to cross was to become tax compliant. With the acceptance of the business plan by the SARB, the enterprise was declared a going concern as well. Initial negotiations with the revenue authorities resulted in sufficient time to submit all Income Tax, VAT and Employees Tax returns. With the acceptance of the business plan by the SARB, the enterprise was declared a going concern as well. Initial negotiations with the revenue authorities resulted in sufficient time to submit all income tax-, value added tax-, and employees tax returns.

6.4.6 Case outcome

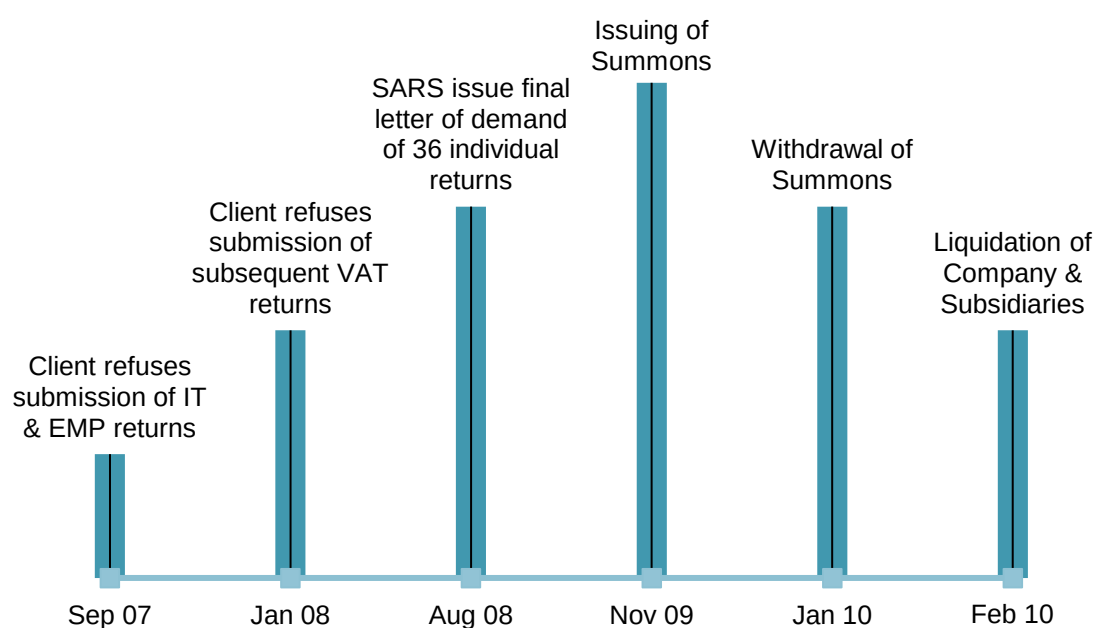
Once the bank inspectors were satisfied that all issues identified by the initial charge sheet received from the SARB had been addressed, and where corrective action was required that such corrective action was executed within the time periods allowed, the enterprise managed to conduct its main business in its allocated concession areas. The various statutory organisations and in particular the applicable state department and State-Owned Enterprise (SOE) responsible for the allocation and governing of the mining concessions were satisfied with the SARB that all statutory requirements have been met. At this time, the revenue authorities were also satisfied with the matters relating to the various taxes of the enterprise, apart from the returns pertaining to all taxes for the twelve months immediately preceding the final report date of the SARB.

After all returns have been completed in terms of the revenue laws, the directors, as stated in Chapter 5, refused to submit these returns and pay the outstanding monies as calculated, even after the amount was subsequently confirmed by a second group of independent Professional Accountants. Although the enterprise and the directors received a summons with thirty-five individual charges, for some unknown reason, the revenue authorities withdrew all charges unconditionally.

In order to adhere to Section 34(1)(b) of the Prevention and Combatting of Criminal Activities (Act 12 of 2004) and the Tax Administration Act as well as the Companies Act, two of the larger accounting and tax institutes regulating the conduct of Professional Accountants and tax practitioners were approached, in order to seek avenues in which this matter could have been resolved amicably but by also identifying the criminal activities within the revenue authority. However, due to the fact that the company had quite a lot of good political contacts and contacts with international criminals, not much assistance resulted from these consultations. Furthermore, the South African government limited the powers of professional institutes in terms of the revenue laws to such an extent that these bodies are merely classed as Recognised Controlling Bodies. It would now seem that these bodies can only ensure CPD compliance and institute disciplinary actions against individual members.

Figure 6.5 is presented only for interest sake as it illustrates what might have transpired after the investigation. It also provides evidence that a Professional Accountant cannot wage war against the revenue authority.

Figure 6.5 Case Study 2: Timeline B



6.4.7 Relevant factors requiring consideration in future similar cases

This case study involved a mining company which started off as a number of SMEs and developed rapidly into an enterprise that might have been classified as a big enterprise within a few years. This factor is a general characteristic pertaining to most small-scale mining enterprises. Professional Accountants becoming involved in these types of engagements need to take cognisance of the general accounting treatment of impairment losses, revenue recognition, as well as the applicable standard relating to the valuation of mineral rights. In particularly the mining industry the lines are blurred between IFRS and IFRS for SMEs and it is advisable that Professional Accountants rather apply the big IFRS to these enterprises. As most small-scale miners are subjected to mineral legislation with equal compliance level requirements pertaining to large scale miners, all commercial agreements need to be scrutinised in detail and the content of these agreements need to be reflected in the eventual tax treatment of the various revenue, expenses and balance sheet disclosures.

This case study also highlights the inadequacy of the liquidation industry. This inadequacy is partly due to the interpretation of Sections 349 and 351 of the former

Companies Act, the lack of proper regulation of the various role players in the liquidation industry, and the lack of capacity of the revenue authority to develop and control adequate monitoring procedures. It is the belief of this researcher that this country is haemorrhaging billions in uncollected tax revenues due to the inconsistent application of the revenue laws to the liquidation process. Last but not least, Professional Accountants need to develop well-defined presentation skills. During the presentation of the proposals for the new company structure, meetings were held in all the major cities of the country. Presentations were made to crowds of shareholders as small as 30 people to as many as 400 attendees. Adhering to the highest ethical and professional standards is tantamount to the success of any restructuring exercise.

6.5 Application of the RAT on case study number three

As indicated in Chapter 5, this case pertains to some individuals in the mining industry that embarked on providing contracting services to the gold mining industry. A substantial capital injection was required from a non-executive director. Companies involved in similar work generate huge profits and taking into account the calibre of individuals managing this company, it was expected that the profits would be gargantuan. The non-executive director not only provided a large cash injection, he also provided his property company as surety as well as properties registered in his own name.

6.5.1 Application of the RAT: SA Bank vs AB M&E (Pty) Ltd and others

The financial institution applied for the liquidation of the company in the High Court of Gauteng, Northern Division and the correct procedures were followed during these early stages by the various parties involved. It became evident however that the focus of the financial institution was the non-executive director, as the non-executive director was the only director with valuable properties, and an application for his sequestration was made at approximately the same time in the High Court of Gauteng, Southern Division. The non-executive director was devastated as the possibility of losing his entire asset and future earnings base was a looming reality.

6.5.2 Phase one: Analysis of the situation

The basis of applying RAT to this case study is to seek any possible avenues available to the client where his assets can be secured from any actions from the financial institution. The method to follow is very similar that of the previous two case studies, however the matter is more concentrated on limited issues. Phase One was completed and is represented in Figure 6.6.

In order to expedite matters, the financial institution was temporarily ignored, therefore the focus was on the alleged fraudulent guarantee for all three levels regarding the opposing party. As the matter relates to a financial transaction, the effect of this transaction on the taxation of the enterprise and the non-executive director has to be identified very early on in the investigation and application of the RAT.

The blue sections were completed using all the relevant information provided by the non-executive director, with the primary purpose of establishing how the enterprise operated and the conditions under which it was provided with its contract work. The main cause of concern was the fact that although the various quotations presented at board meetings showed abnormal profits, the losses incurred by the various contracts were in such a bad state that constant application for increased facilities was becoming par for the course.

The primary objective decided upon was to find ways to recoup the missing funds and to safeguard the assets of the non-executive director. The total claim lodged by the liquidators was in excess of R31m. As with the previous case studies, the details pertaining to the business activities required detailed analysis. The completion of the various information blocks is also done in the same sequence. The most important occurrences are illustrated in the timeline below marked Figure 6.7.

As this matter related to liquidation and seeking information that could assist to prove the innocence of the non-executive director, the drafting of a detailed timeline was imperative as it showed when the enterprise was operating while insolvent. The timeline illustrated in Figure 6.7 clearly shows when the overdraft facility was obtained

and when the services of a labour broker were used for the first time. As explained, the involvement of the B-BBEE group also prompted the alleged purchase of an operating gold mine in Mpumalanga.

Figure 6.6 Case Study 3: RAT Model Phase 1

Client details

Area of interest:		Area of influence
Level 3	Level 2	Level 1
Underlying circumstances	Affected part of enterprise	Enterprise environment analysis
Intention	Intention	Intention
Ensure a constructing flow of profitable work	Contract work	Contract labour services to mining industry to manufacture capital equipment
Conflicting arguments	How was affected transaction executed	How did the client execute his business
Fore casted profits per quotation never realized financial records hidden	Quotations Labour broker used to fund staff costs	Company had vendor no.'s for gold mines. Quotations calculated
3rd party involved individuals	Public officer	Office bearers directors
Company acted as sub-contractor for international & local firms	Mr PFO	Mr PFO - CEO 2 deceased operations & marketing 1 non-executive

Grounds for charge:
Overdraft facility, liquidation charge:
R31m from non-executive director

Consequences of the charge:
non-executive director could be
sequestered

Time arrangement:
time line

Phase 1: analysis of situation

Case study 3

Summary of charge	
Correspondence prior to official summons: various letters from bank, FICA file, overseas guarantee	Applicable law & sections: FICA Banks Act Organised crime Estates Revenue laws
Client parties involved full details: GP non-executive director PFO director 2 directors deceased 2 B-BBEE partners	Non-SARS parties involved: Liquidators Bank officials: Mr JB & Mr P Contractors - BT(Aus) Carl mining

Opposing party details

Area of influence:	Area of interest:	
Level 1	Level 2	Level 3
Individuals suspended	Collaborators	Tax effect
Mr PFO	SA bank Guarantor	SARS
Intention	Intention	Intention
What happened to R15m overdraft facility	Grounds on which overdraft facility was approved	The tax effect of the misappropriation
What happened to business income How was quotation calculated Contribution of shareholders	Grounds on which guarantee was accepted for increased overdraft taking B-BBEE into account	The tax effect of the default on the loan
Name of official that institute the charge	Identify role players backgrounds	Identify role players backgrounds
Client, Mr GP	SA bank TBI Ltd	Various

Mission:
to recoup misappropriated/stolen funds and safeguard the assets of the non-executive director

Figure 6.7 Case Study 3: Timeline



6.5.3 Phase two: The engagement concept

The second phase of the application of RAT (see Table 6.8) once again required the identification of the critical success factors derived from the crux of the mission which was agreed upon by the non-executive director in Phase One. The “Own Intention” section was copied directly from the Phase One sheet which in turn resulted in the identification of the factors that needed to be analysed. The guidelines are also those guidelines that would normally be associated with these types of investigations, which in this case study and if proved successful would culminate in the application of a rescission to the High Court for both the sequestration of the non-executive director and the liquidation of his property investment company. Early findings indicated that somebody in the employ of the financial institution was aware that the guarantee provided to extend the facility was suspect. It must be stated that the non-executive director only became aware of the guarantee after the Professional Accountant inspected the liquidation files that were kept by the attorney acting on behalf of the bank. Table 6.8 provides the above-mentioned details as well as the identification of the additional guidelines.

Table 6.9 provides the various facts from Phase One, as well as the deductions and implications pertaining to each fact. The actions to be taken have also been identified and the time allowed to execute this primary objective is illustrated at the bottom of this table. Once again, an early general observation is made regarding the possibility that the non-executive director was ignored. As the additional facility has a marked impact on the capital structure and risk profile of the company, it is expected that all directors and even shareholders be involved in the decision-making process.

Table 6.8 Case Study 3: Phase 2.1

Crux of mission	Aim	Critical success factors
Safeguard assets of the non-executive director Issue summons for damages incurred	To put the non-executive director in the same position he was prior to involvement Type of operation Investigation of liquidation process and rescission Application to the high court	Prove that TB (Ltd) guarantee was fictitious and that financial institution was aware B-BBEE involvement Prove that CEO was involved in all questionable transactions

(Table 6.8 Case Study 3: Phase 2.1 continued)

Own intention	Factors to be analysed	Add guidelines required
Level 1: contract services and manufacturing of capital equipment to mining industry Level 2: contracts with gold mines contracts with GFSA Level 3: agreement to act as sub-contractor	How was guarantee authenticity confirmed Why did financial institution only focus on non- executive director Why did actual result of operation not correspond with forecast	Interpretation of: Accounting IAS 18 revenue IAS 2 inventories IAS 23 borrowing costs IAS 24 related party disclosures IAS 31 investments in joint ventures IAS 37 provisions, contingent liabilities Patent legislation Tax VAT act Income tax act Banks act Transaction types Liquidation legislation

Table 6.9 Case Study 3: Phase 2.2

Factor: opposing party			
Fact	Deduction	Implication	Action/ conclusion
Overdraft facility was granted suspend guarantee as surety	Bank officials must have knowledge of content and source	The issuer of the guarantee could not liquidate sufficient funds to cover the facility	Obtain copy of FICA file
All contacts did not result in projects	The reason for maintaining these contracts are vendors		Analyse sub-contractor work in particular
			Redraft cash book
Opposing party: The opposing party with the apparent knowledge of the financial institution that granted the facility was fully aware of the circumstances without them informing the non-executive director. Liquidate process started without knowledge of the non-executive director			
Step 2.2 subsection 1 Factor: time and space Own investigation November 2009 – Summons issued against non-executive director December 2010 – Recission application Opposition June 2006 – Liquidation process started October 2009 – Liquidation process finalised			

Although three critical success factors were identified, the Professional Accountant was advised to concentrate on the critical success factor pertaining to the guarantee that was presented as surety for the additional facilities. The details in Table 6.10 were completed while pursuing this objective. The essential elements of information as well as the other intelligence requirements are also displayed clearly for constant reference. Intelligence gathering problems as well as security problems are also expressed clearly as it will become crucial when no information can be gathered due to individuals causing obstruction. As stated in earlier case studies, this step illustrates the method through which each critical success factor is analysed. In this case it also illustrates what courses of action are deemed to be open to the non-executive director (defendant) and the opposing party, namely the financial institution in conjunction with the CEO of the company.

Table 6.10 Case Study 3: Phase 2.3

Critical success factors	EI (essential elements of information)	OIR (other intelligence requirements)
Prove that TB (limited) guarantee was fictitious	Correspondence between financial institute and guarantor Eventual agreement between parties	Statutory documents of TB (limited) Type of surety provided for finance

Intelligence problem	Security problem
No co-operation from bank employees Liquidators destroy all documents i.t.o liquidation Attorney action on behalf of financial institute hostile Director of TB (Ltd) left the courts	Reluctance on part of SARS to investigate TB (Ltd) and to provide information of financial strength of company No annual returns filed with CIPC CEO of FE M&E (Pty) Ltd destroyed all source documents during liquidation
Defendant	Opposing party
Concept Gather sufficient evidence to apply for rescission of court order to attach all the assets of the non-executive director Claim damages against CEO and financial institution	Concept Already completed the liquidation of the enterprise

What remains a mystery in this case study is the sheer speed at which the financial institution executed the liquidation process with only the CEO fully aware of the process. In the papers that were presented, all the primary financial records of the

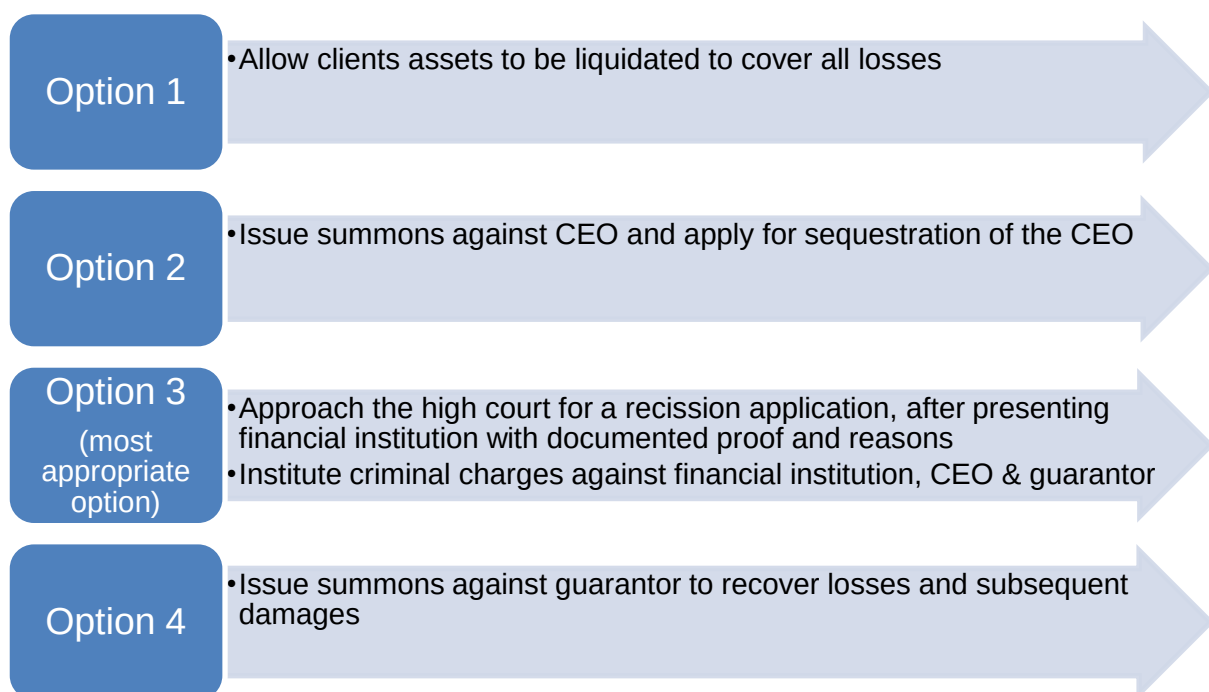
company were lost or destroyed, but neither the liquidators nor the financial institution pursued this transgression.

6.5.4 Phase three: Establishment of options

In this case study, the non-executive director was faced with two choices; he either allows the legal attachment of his assets or he defends the action and salvages as many of his assets as possible. Option one, two and four as illustrated in Diagram 6.7 below were identified as the less costly options, but would have resulted in the non-executive director forfeiting all his assets.

In option three the financial institution would be requested to allow the non-executive director to apply for an uncontested rescission application to the High Courts for both liquidation and sequestration applications, and then allow the non-executive director unhindered access to the files of the company and to the liquidators of FE M&E (Pty) Ltd in order to prepare a plausible defence. The third option was chosen as the best route. The non-executive director also indicated his wish to institute criminal charges against any party that acted in conflict with any laws.

Diagram 6.7 Case Study 3: Options



6.5.5 Phase four: The engagement plan

The engagement plan included consultations with the attorneys acting on behalf of the financial institution. After numerous consultations, the attorneys acting on behalf of the financial institution conceded that their client transgressed a number of banking laws knowingly or unknowingly and allowed the non-executive director to approach the two High Courts with unopposed rescission applications. However, as derived from the documentation presented to the Professional Accountant, the non-executive director was aware of- and also did agree to the initial overdraft facility of R3m. The non-executive director paid this amount as the final settlement between the financial institution and himself. Subsequently, criminal charges were instituted against the CEO of the company as well as the company that provided the alleged guarantee.

6.5.6 Case outcome

The sequestration application instituted by the financial institution against the client was rescinded and the title deeds to all properties were returned to the non-executive director after all sureties were cancelled. There is currently a criminal investigation against the financial institution as well as the former CEO of the company. It is unclear when the matter will be fully resolved. The unavailability of critical source documentation hampers further investigation. The institution of Section 205 of the Criminal Procedures Act, however, did unearth some valuable bank statements with proof of transfer of funds.

6.5.7 Relevant factors requiring consideration in future similar cases

This case study highlights the importance of related party transactions, adequate record keeping, and the analysis of tender prices. The conditions pertaining to vendor numbers also require in depth inspection specifically where prior engagement costs are involved; such as medical fitness tests for employees and other induction charges which include costs relating to site establishment. Professional Accountants also need

to study the effects of the provision of guarantees for additional finance facilities and ensure the validity of these guarantees by any means including proper external confirmations. The shortcomings of the liquidation industry are also quite evident in this case. As there is not much a Professional Accountant can do to the limitations of the liquidation industry, these limitations can always be used to protect a client. One of the most important shortcomings relate to the fact that liquidators in general only know the laws, rules, and regulations pertaining to liquidations. They are generally unaware of the requirements pertaining to financial disclosures in any form of financial reporting. In this case a rescission application was made to the High Court to nullify the liquidation of the close corporation and the sequestration of the non-executive director. It is, therefore, vital that Professional Accountants be fully conversant in company legislation.

6.6 Application of the RAT on case study number four

6.6.1 PZ CC vs RSA Bank and Law Society

After the initial consultation with the clients and the legal team supporting the client, it became clear that the current legal team was the second group of legal professionals involved in the matter. There had also been a forensic accountant involved in the analysis of all transactions pertaining to the alleged fraud and misappropriation of funds. However, as the clients could not pay the two professional groups for its services up to that time, both groups refused to provide copies of their working papers and reports. It was also revealed that there were two other major claimants or creditors that demanded payment. These creditors were identified as the homeowners' association and the local municipality.

6.6.2 Phase one: Analysis of the situation

The situation is analysed in Figure 6.8, and it is quite evident that the only matter that requires investigation is the matter relating to the trust account of the transfer attorney on record at the time. Once again Figure 6.9 depicts the most important occurrences on a timeline.

However, after completing the Phase One sheet and the subsequent timeline of events, a number of factors were identified that required attention in order to successfully convince the Law Society that firstly the funds were embezzled by the transfer attorney, and secondly that they could have only been embezzled in the execution of the transfer attorney's duties.

Secondary to the above was the looming liquidation application of the financial institution who held the bond and, as the initial evidence suggested, the embezzlement could not have been successfully executed without assistance or ignorance on the part of the financial institution.

Figure 6.8 Case Study 4: RAT Model Phase 1

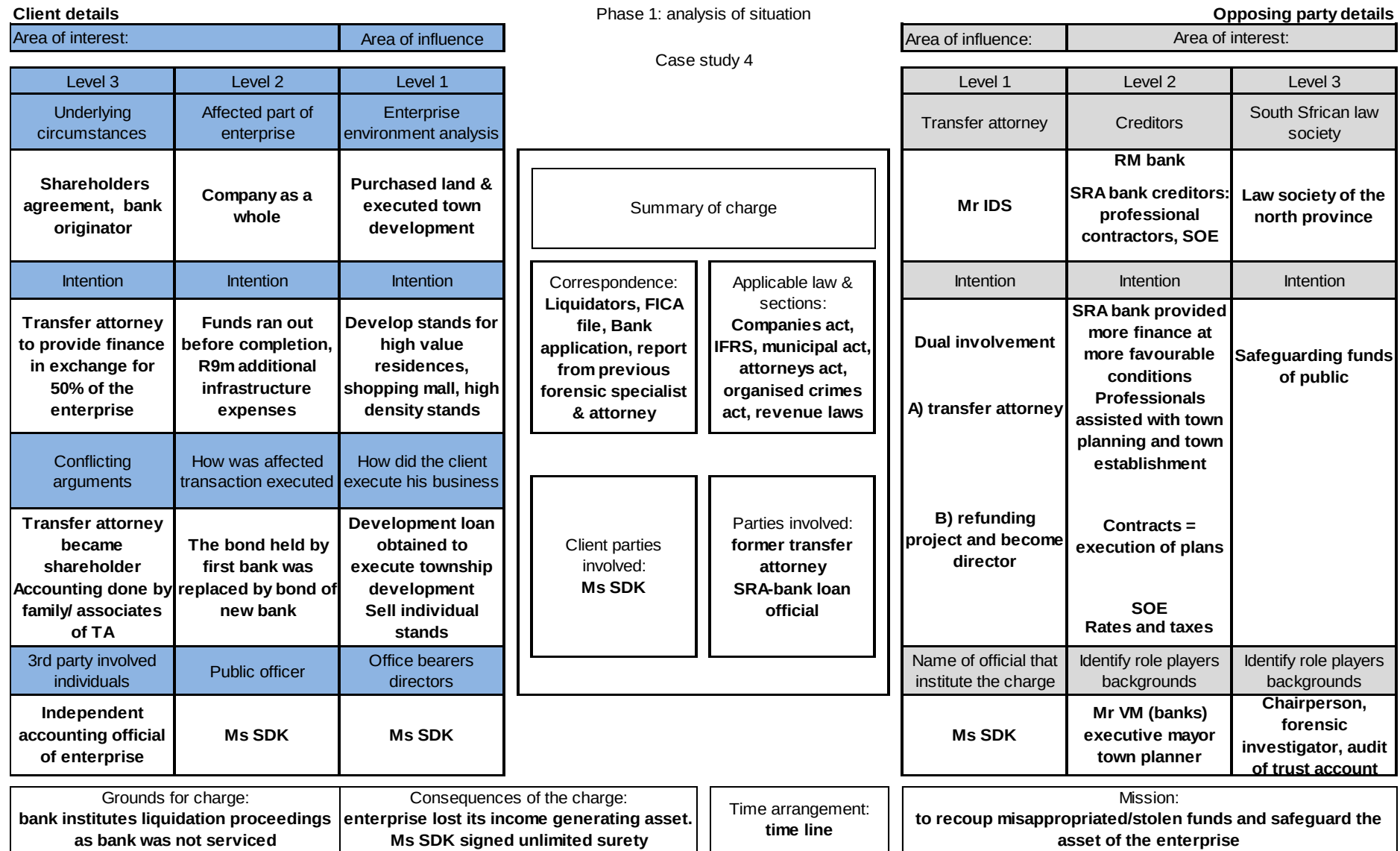
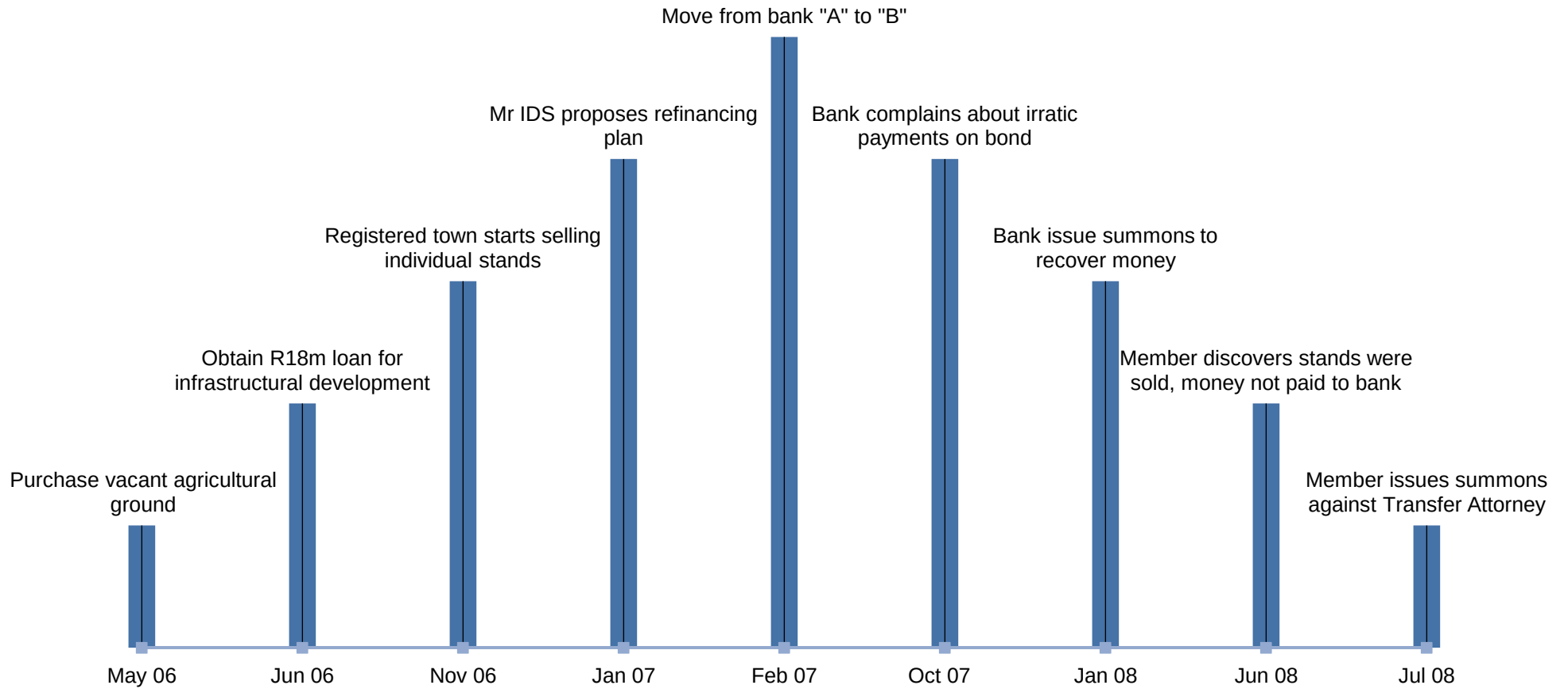


Figure 6.9 Case Study 4: Timeline



6.6.3 Phase two: The engagement concept

The crux of this investigation was to maintain the enterprise in such a manner that the bond can be serviced. The non-servicing of the bond was the only issue raised by the financial institution in its various notices. The aim was to provide irrefutable proof that the transfer attorney did embezzle the funds, and also to address the possibility that the bond became excessively high when moved from the first financial institute to the second.

The critical success factors are the four factors displayed in the appropriate block in Table 6.11. The intentions are copied directly from Figure 6.8 and the two most important factors to be analysed have been identified and recorded. The additional guidelines have also been provisionally identified. This analysis once again covers both qualitative and quantitative matters.

In plotting the facts as perceived by the opposing party(s), it is evident that only two factors remain; that of the funds being embezzled and the manner in which the transfer of stands was affected without the funds being deposited. These facts are plotted in Table 6.12 below, along with the deductions and implications.

Table 6.11 Case Study 4: Phase 2.1

Crux of mission	Aim	Critical success factors
Maintain the enterprise by recouping the Lost funds and safeguard the assets	Proof that the attorney misappropriated funds Proof that bank bond was excessively huge Type of operation Investigate financial statements Investigate FICA file Investigate trust account - audit	Prove going concern Prove that transfer attorney could only embezzle funds as the transfer attorney Tax compliant Prove insider assistance by bank

(Table 6.11 Case Study 4: Phase 2.1 continued)

Own intention	Factors to be analysed	Add guidelines required
Level 1: development of individual shopping mall and high density residential area Level 2: funds ran out before infrastructure was complete Level 3: transfer attorney to provide additional capital to complete the development	How did the bank allow transfer of funds without money paid To what extent did bulk services additional charges cause the shortfall	Interpretation of: Accounting IAS 18 revenue IAS 2 inventories IAS 23 borrowing costs IAS 24 related party disclosures IAS 31 investments in joint ventures IAS 37 provisions, contingent liabilities IAS 14 construction contracts IAS 16 property, plant & equipment IAS 20 accounting for government grants IFRS 27 consolidated and separate financials Tax VAT act & Income tax act Attorneys act Banks act Transaction types Municipal laws

Table 6.12 Case Study 4: Phase 2.2

Factor: opposing party			
Fact	Deduction	Implication	Action/ conclusion
Bond not being serviced	Selling prices of stands not transferred to bond	Not honouring terms of loan agreement	Find embezzled funds by analysing transactions
Funds not deposited with company	Directly deposited with transfer attorney	Never paid over to bond	How was transfer effected without bank approval
Information available to opposing party: Full application by bond coordinator			
Step 2.2 subsection 1 Factor: time and space Own investigation 2012 – ongoing Opposition 2012 – ongoing			

A page as illustrated in Table 6.13 is again used to analyse each critical success factor, and all the information requirements on various levels are identified. From the outset, there was no co-operation between the representatives of the financial institution and those of the client. To add to the woes of the client, the Law Society was also very reluctant to co-operate, and for some unknown reason the attorneys acting on behalf of the client refused to litigate against the financial institution or institute criminal charges against the transfer attorney.

During the analysis of the business practices of the enterprise, it was also found that the enterprise executed bulk services expenditure that would have been at the expense of the local municipality in accordance with the relevant laws and ordinances. However, in cases such as these where the developer embarks on the expenditure of this type, the State provides a grant in terms of the Critical Infrastructural Grants to assist with the funding of these developments. These applications are, however, subject to the provision of proper financial records and a Tax Clearance Certificate. The remainder of Table 6.13 is self-evident and requires no further explanation. The client agreed with the concept.

Table 6.13 Case Study 4: Phase 2.3

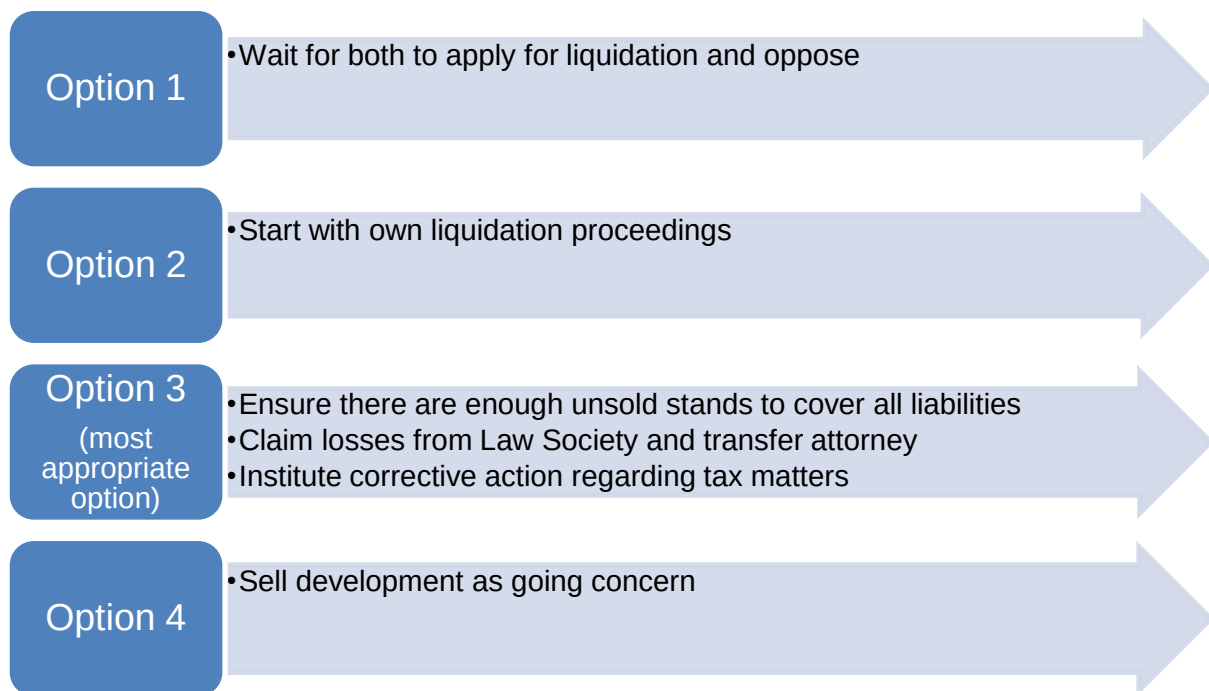
Critical success factors	EEl (essential elements of information)	OIR (other intelligence requirements)
Prove going concern	Applicable town planning Scheme approved home owners association statutory documents Bond approved & contract	Statutory documents of PB CC Type of surety provided for finance List of all stands & list of all stands already sold

Intelligence problem	Security problem
No co-operation from bank employees No co-operation from law society No co-operation from clients own legal team	Reluctance on part of SARS to investigate Mr I.D.S
Defendant	Opposing party
Concept Analyse all stands sale transactions Investigate possibility of government grants for critical infrastructure development Confirm liabilities; all classes	Concept Apply for liquidation

6.6.4 Phase three: Establishment of options

The client had four options to consider. Diagram 6.8 illustrates the options. Option one and two would not safeguard the funds already invested in the development and the client might have found herself in a position where she is subjected to a court summons, which might result in her taking responsibility for any shortfalls. The fourth option was to consider selling the whole development as a going concern. However, initial indications were that there were already potential buyers approaching the financial institution at the time with a view to purchasing the development at a fire sale price.

Diagram 6.8 Case Study 4: Options



The only and most appropriate option was to follow option three. Through the application of the RAT, the client had become aware of the underlying facts and circumstances and could therefore make an educated decision. As quite a long time lapsed from the date when the loss was identified, the rules and regulations pertaining to the prescription of debt had to be considered, but the attorneys acting on behalf of the client seemed unfazed by it and its possible consequences.

6.6.5 Phase four: The engagement plan

The agreed upon plan was to obtain as much financial information as possible from the independent accountants and other sources and to compare it to the various tax type returns in order to establish a point of departure. Secondly, the full report of the auditor who issued the audit certificate for the trust account of the transfer attorney was to be analysed and compared to the actual movement of funds from the buyers of the stands to the trust account and then to the financial institution. While this was being executed, the developer was advised by the Professional Accountant to persist in selling individual stands to the public and to ensure that all funds be paid over to the financial institution. The last matter that required attention was to rebuild the financial records to the satisfaction of the revenue authorities, but also to calculate the actual loss incurred by the client.

6.6.6 Case outcome

Sufficient time was obtained to allow the sale of all residential stands. The commercial and communal stands are still available for development. However, due to the fact that the client now has an adverse credit record, it is impossible to obtain the necessary finance to develop these stands. The matter relating to the attorney trust account is still pending as the criminal investigation is not progressing at all. A number of shortcomings in the rules and regulations governing liquidations have however been identified during the investigative process. It became apparent that this process is putting unnecessary strain on an already overburdened economy.

6.6.7 Relevant factors requiring consideration in future similar cases

Issues pertaining to record keeping and revenue recognition are highlighted in this case. Factors relating to construction costs in accounting are also highlighted in this case with particular reference to the disclosure requirements of expenses versus developmental costs. All four of the above factors have a direct impact on the tax treatment of the various transactions, particularly the timing of these disclosures. Added to this are the issues regarding the refinancing of the project as a whole and

the interrelationship between the transfer attorney and the developer. If there is still any scepticism regarding the inadequacies pertaining the liquidation industry after the first three case studies in this thesis, then this case study will provide the final information to convince even the most ardent supporter of the pitfalls of the current processes followed by this incredibly questionable sector of the economy.

6.7 Application of the RAT on case study number five

6.7.1 OC&MS (Pty) Ltd vs CIN (Pty) Ltd and other parties

The involvement of the researcher in this case study started after OC&MS (Pty) Ltd was liquidated and the original owner was summoned to appear in court on various matters which included the action to auction his farm and the last of his assets.

6.7.2 Phase one: Analysis of the situation

As it will be noted from Figure 6.10, the sole matter that required attention and investigation during this first phase is the fact that a fraudulent guarantee was provided to source the finance to purchase the enterprise as a going concern. The primary objective of the mission was determined as the recoupment of funds that were removed from the enterprise during the time the alleged purchaser managed the enterprise and to calculate the damages as well as consequential damages attributed to this crime.

A comprehensive timeline was drafted, as it was acknowledged that all evidence gathered on this matter will become crucial in the ensuing months, and as there were a number of role players that led the seller to believe that the transaction was legally feasible and that the intentions of the buyer were beyond reproach. The timeline shown in Figure 6.11 is only a broad summary of the detailed timeline provided in Appendix B of this thesis.

Figure 6.10 Case Study 5: RAT Model Phase 1

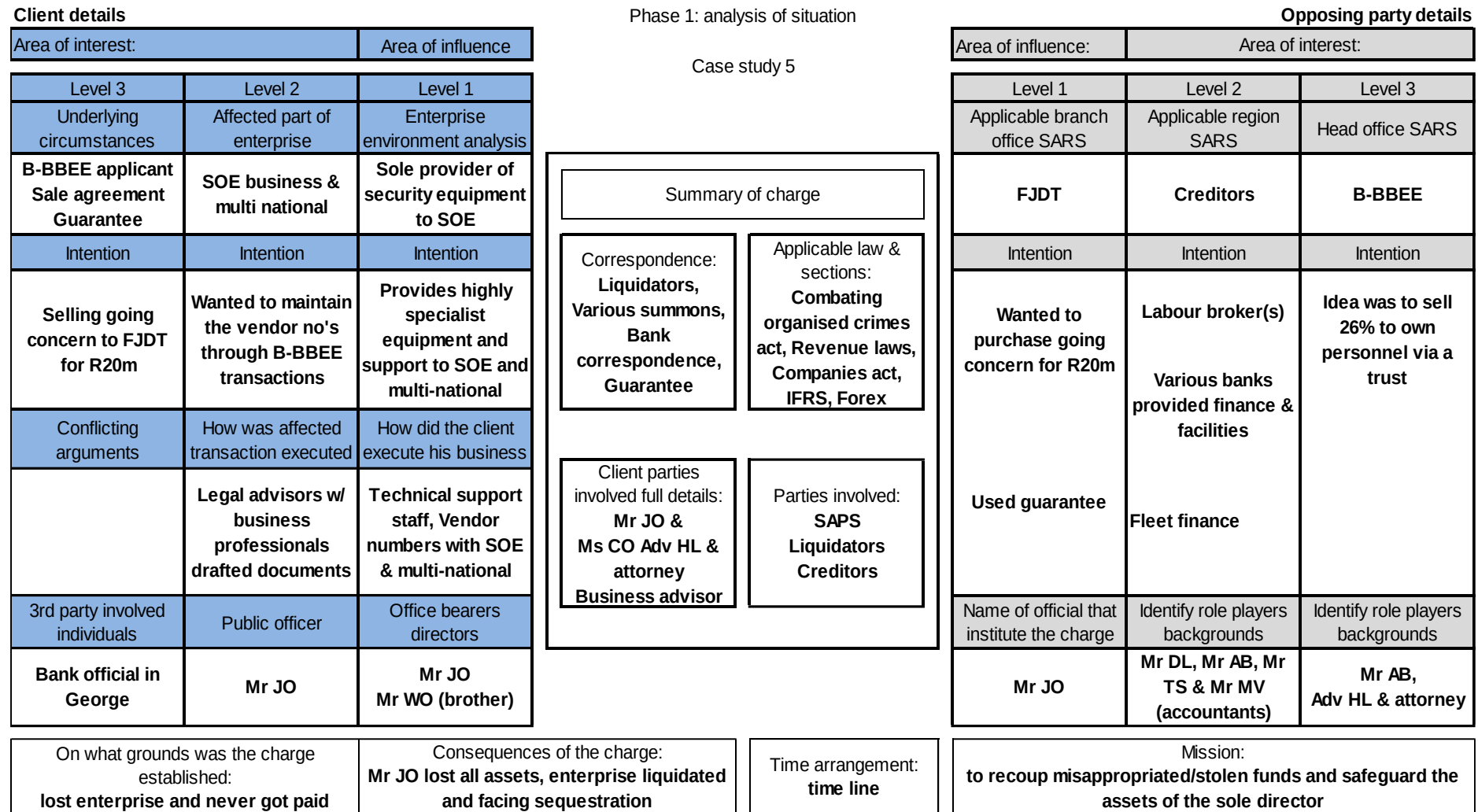


Figure 6.11 Case Study 5: Timeline



6.7.3 Phase two: The Engagement concept

In Table 6.14, the same detailed sequence is followed as in all previous case studies. The one critical success factor that would have ensured success in this matter was the intention of the buyer. However, gauging this intention required an in-depth analysis of all the financial information this buyer prepared and presented to various third parties, including the fleet financier. The copy of the obtained guarantee was issued by a South African financial institution and it was this evidence in particular that provided sufficient comfort to the seller that the intentions of the buyer were honourable.

Table 6.14 Case Study 5: Phase 2.1

Crux of mission	Aim	Critical success factors
Recoup enterprise and losses	Prove that it was never the intention of FJDT to purchase Type of operation Investigate factors that initiated transactions Analyse money flow	Intention to purchase enterprise Source of funds to purchase Application of revenue of enterprise after FJDT took possession
Own intention	Factors to be analysed	Add guidelines required
Level 1: provide highly specialist equipment and support to SOE & multi-national Level 2: maintain vendor number through B-BBEE Level 3: sell going concern for R20m	Bank guarantee offered to Mr J.O How was fleet financed Who became involved in day to day management	Interpretation of: Accounting IAS 18 revenue IAS 2 inventories IAS 23 borrowing costs IAS 24 related party disclosures IAS 31 investments in joint ventures IAS 37 provisions, contingent liabilities Tax VAT act & Income tax act Attorneys act Banks act Transaction types Liquidation laws Prescription Act Organised Crime Legislation

As the buyer also appointed a myriad of specialised staff members within a very short period after taking over, the purpose of these appointments had to be researched taking into account that the seller had to ultimately provide his own surety to the labour brokers. The seller indicated that he was comfortable in his decision as the financial statements presented to him with the guarantee convinced him that his involvement was temporary.

The various additional guidelines required by the Professional Accountant were identified at this stage and, once again, agreement with the client was confirmed. Accounting standards had to be applied in this investigation, as the buyer later alleged that the reason why the purchase did not proceed was that the seller misrepresented himself and his enterprise. This fact has also been disclosed in Table 6.15. Another fact that was identified was that quite a lot of money left the country during the time of the takeover, and it would seem that this removal of funds resulted in the non-payment of creditors and the subsequent liquidation of the enterprise.

Table 6.15 Case Study 5: Phase 2.2

Factor: opposing party			
Fact	Deduction	Implication	Action/ conclusion
Alleged that enterprise was not going concern	Could not finalise transaction	Seller misrepresented himself	Prove enterprise was going concern by analysing recent financial statements
Provide legal guarantee to fund purchase	Intention was to purchase	Purchase could still be concluded	Test legality of guarantee with guarantor
Other information: Why did the money leave the country What were the functions of the individuals identified on payroll who never worked for the enterprise			
Step 2.2 subsection 1 Factor: time and space Client January 2013 - ongoing Opposition January 2013 - ongoing			

Table 6.16 provides a full analysis of the critical success factors identified in Table 6.14 and all the information requirements have been identified and recorded. During this phase, it was found that the financial institution that issued the guarantee became very uncooperative. To add to the difficulty of the matter, the liquidators had disappeared and not even officials at the Office of the Master of the High Court could trace them. In terms of the Tax Administration Act, a complaint was lodged with the revenue authorities, but no action ensued.⁶

Table 6.16 Case Study 5: Phase 2.3

Critical success factors	EEl (essential elements of information)	OIR (other intelligence requirements)
Intention to purchase enterprise	Agreements between buyer and seller Payment structure Details of guarantee Role-players not included in agreements Information provided to procure fleet Information provided to use labour broker	Statutory documents of enterprise Type of surety provided for finance Background check on FJDT

Intelligence problem	Security problem
No co-operation from bank employees Liquidators untraceable	Reluctance on part of SARS to investigate FJDT Reluctance on part of SARS to investigate P.F.O
Defendant	Opposing party
Concept Obtain copies of all SOE and multi-national invoices & payments Follow money flows between 23 individual bank accounts	Concept Liquidate as fast as possible

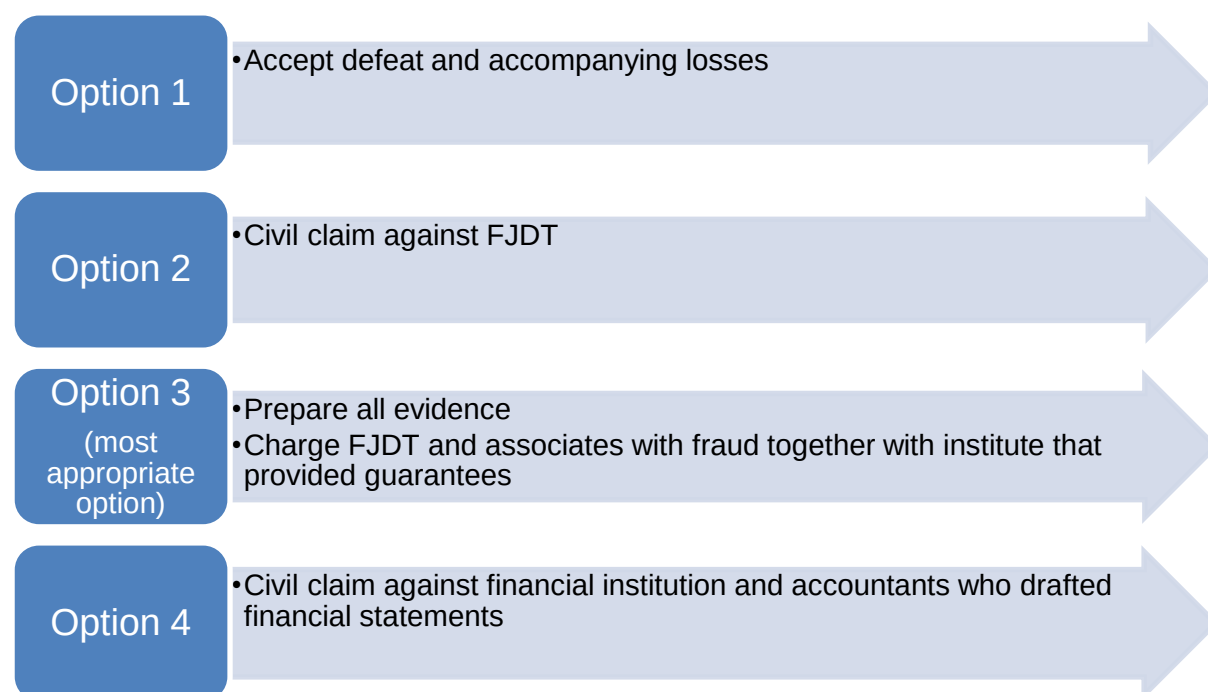
6.7.4 Phase three: Establishment of options

Armed with the information obtained during the first two phases, the client was faced with four options, presented in Diagram 6.9. The most feasible option was to gather sufficient evidence in order to institute criminal charges against the client. The client

⁶ The reason why this action was done was to ensure that the revenue authorities are notified of the magnitude of the financial loss to one party due to the undeclared gain of another party.

had already lost all his assets therefore the only hope for recovery was to obtain this evidence, in the hope that the appropriate authorities would be convinced that the matter is of a criminal nature with a possibility of a successful conviction. Added to this is the possibility that some of the co-conspirators would be able to provide the required evidence to prove complicity by the employees of the financial institution that issued the guarantee. Furthermore, evidence would be obtained from the accountants who drafted the annual financial statements for the buyer and his newly acquired enterprise. This evidence should provide the much-needed details of the flow of funds out of the country, with the possibility of repatriation, or at least the conviction of those that assisted in the movement of the funds.

Diagram 6.9 Case Study 5: Options



6.7.5 Phase four: The engagement plan

The engagement plan constituted solely of the drafting of an initial affidavit by the client using the information gathered by the Professional Accountant, and submitting this affidavit to the appropriate authorities. The researcher was tasked to rectify this matter in the shortest possible time without the client being fined or the enterprise operations being suspended.

6.7.6 Case outcome

The ongoing investigation instituted by the relative investigating authorities unearthed quite a number of incorrectly stated disclosures with the possibility of it being interpreted as fraudulent in various financial reports, and the enterprises of two labour brokers were also completely liquidated. Once again, the purported guarantees were never honoured, and the client lost his livelihood in total.

6.7.7 Relevant factors requiring consideration in future similar cases

This case study confirmed that Professional Accountants need to take cognisance of the disclosures made in financial reports by other accountants. It would seem that there are still accountants that do not deem accuracy and professionalism as important as technical knowledge. In this case the ownership of certain enterprises were disclosed in the consolidated balance sheet of the main financier, while the majority of these enterprises were never owned or controlled by this individual.⁷ Another factor that Professional Accountants will also have to take into consideration is the validity of guarantees provided to financial institutions in order to apply for all types of facilities. Lastly, Professional Accountants need to be wary of the consequences of rapid liquidations and the useful data that is available in the files of these liquidations that are kept at the Office of the Master of the High Court. It is common knowledge that the current procedures applied during a liquidation favours any smoothing over of past misdeeds. The effects are devastating for the victims.

6.8 Application of the RAT on case study number six

This SME received a non-compliance notice as stated in Chapter 5. The non-compliance issue was quite severe as it could have caused the enterprise to be put out of business.

⁷ The test pertaining to substance over legal form also failed in this case.

6.8.1 Non-compliance notice issued in terms of the Liquor laws

After operating an exclusive restaurant for quite a number of years without a valid liquor licence, the SME owner was forced to either rectify this non-compliance or cease operations entirely. The issue caused further exasperation on the part of the authorities as the illegal sale of liquor was done undetected for such a long period.

6.8.2 Phase one: Analysis of the situation

The only challenge refers to the non-compliance in terms of the expired liquor licence. The purpose of this phase is to become aware of the situation in respect of the current action. All facts have been plotted in Figure 6.12 below. It is during this phase that the Professional Accountant had to determine the areas of influence as well as the areas of interest for both his/her client as well as the opposition. Although this matter relates to a non-compliance notice, the basic structure of developing a solution remains the same as if the clients were issued with a summons. The model will only concentrate on the areas of influence, but the analysis of the areas of interest provides a larger picture in order to understand the area of influence more completely.

The primary objective in this matter was quite sensitive as the liquor board had to be convinced to accept the application for a liquor licence in the same manner as it would have accepted the same application from a new enterprise, and not an enterprise that operated without the required licence for six years. Other factors to also consider are the level of management within the Liquor Board in which the analysis needs to be executed, as well as other unique characteristics such as specific legislation applicable to either the enterprise or transactions.

The blue section on the left of Figure 6.12 is a detailed analysis of the case study and depicts all the initial information obtained from the interview with the SME entrepreneur. The section grey section on the right is a detailed summary of the three levels of the external or opposing party(s) and apart from the Gauteng Liquor Board, the local SAPS and SALTA (South African Liquor Traders Association) were also identified as the first parties that would influence the outcome of the remedial action.

After analysing the information, it was decided with the client that the primary objective was going to be to eventually convince the Gauteng Liquor Board to approve a Restaurant Liquor Licence in terms of the applicable legislation. After relocating to the new premises, Mr MG persisted in offering liquor to his clients.

Figure 6.12 Case Study 6: RAT Model Phase 1

Client details

Area of interest:		Area of influence
Level 3	Level 2	Level 1
Underlying circumstances	Affected part of enterprise	Enterprise environment analysis
Lease agreement for both old & new premises	Liquor sales	Restaurant situated in busy mall. Specialising in French cuisine
Intention	Intention	Intention
Rent new premises from same landlord and continues to sell liquor	Wish to sell liquor on-site with cuisine	Selling French cuisine in same complex but larger shop with liquor
Conflicting arguments	How was affected transaction executed	How did the client execute his business
No legal liquor licence	Liquor was part of menu offering. All kinds were sold ie wine, spirits & beer	Qualified chef, operating enterprise for ±six years. Sold on-site consumption liquor
3rd party involved individuals	Public officer	Office bearers directors
Landlord Creditors	Mr MG	Mr MG Ms IG

Phase 1: analysis of situation

Case study 6

Summary of charge	
Correspondence prior to official charge: None	Applicable law & sections used to charge client: Section 23 of Gauteng liquor act
Client parties involved full details: Mr MG CEO	Parties involved: SAPS Gauteng liquor board Local city council

Opposing party details

Area of influence:		Area of interest:
Level 1	Level 2	Level 3
Other departments	Applicable region:	Provincial legislation
1. SAPS 2. SALTA 3. SARS 4. Local council	Gauteng central liquor office	MEC for economic development - Gauteng
Intention	Intention	Intention
1. Execute enforcement duties 2. Regulate members of the association 3. Tax clearance 4. Operating approvals	Enforce liquor legislation	Enforce provincial legislation
Identify role players backgrounds	Identify role players backgrounds	Name of official that institute the charge
1. Capt. JM 2. Mischack 3. Dept of fire safety & hygiene	Mr M & Mr C	MEC

On what grounds was the charge established: No liquor licence	Consequences of the charge: Company is restricted and proceeded as per business plan Public officer faces criminal charges	Time arrangement: November 2013 - March 2014	Mission: To convince the liquor board to accept a new liquor licence application and to issue a restaurant liquor licence

During a routine inspection by the specialist section of the local branch of the SAPS, Mr MG was instructed to remove all liquor from the premises, with the threat that if liquor should be found again on a future inspection, the liquor will be removed, the premises locked, and Mr. MG may even face criminal charges in terms of the applicable legislation.

6.8.3 Phase two: The engagement concept

By analysing the primary objective that was established during Phase One, the Professional Accountant can now determine the aim and intention of the areas as indicated in Figure 6.12. Each of these aims and intentions has been transposed onto Table 6.17. The Professional Accountant can now develop an approach concept which includes both his/her SME client's approach and the expected approach by the opposition. Table 6.17 also provides for the identification of outputs such as critical success factors, the ultimate aim and whether there is a requirement for additional guidelines from the client.

Table 6.17 Case Study 6: Phase 2.1

Crux of mission	Aim	Critical success factors
To maintain the enterprise in the same manner as per the original plan	Obtain an on-site consumption restaurant liquor licence in terms of section 23 of the Gauteng liquor act (no 2 of 2003)	Obtain a tax clearance certificate Registration with SALTA Local authority approval Gauteng Liquor Board approving the licence
Own intention	Factors to be analysed	Add guidelines required
Level 1: maintain the enterprise as a going concern Level 2: obtain a legal liquor licence Level 3: obtain legal approval to sell liquor on new premises	Tax compliance Enterprise compliance with local council Enterprise compliance with SAPS requirements Enterprise compliance with Gauteng liquor board	Interpretation of: Accounting IAS 18 revenue IAS 2 inventories IAS 23 borrowing costs IAS 24 related party disclosures IAS 37 provisions, contingent liabilities IAS 1 presentation IAS 12 taxes Gauteng liquor act Municipal bylaws Tax VAT act & Income tax act

In this particular case there is only one crux, namely to maintain the enterprise in the same manner as it was when it had started six years ago. Therefore, there is also only one aim, namely to obtain an on-site consumption restaurant liquor licence in terms of the relevant legislation. In studying the relevant legislation and its supporting regulations, it became apparent that there are four critical success factors that will drive the success of this aim, as can be seen in Table 6.17. The intentions have been directly derived from the Figure 6.12. During this process, all applicable legislation and regulations have been studied and identified.

It is important to note that at this early stage of the analysis the critical success factors have not only been summarised, but also summarised in sequence. The benefit of doing this is that the client is not forced to part with a large amount of money while his/her application might have failed during the opening phases of the whole process. The client is also acutely aware of the sequence in which everything needs to be done and is in the best position to advise the Professional Accountant about any risk that he foresee during the process even before unnecessary costs are incurred. Moreover, as the Liquor Board has also informed the client that the SAPS reported its findings, the resolution of the impasse became critical as the Board might have even decided to charge the client in terms of the relevant act, which would have resulted in the client being unable to apply for a similar licence for another ten years. The administrative timeline was developed, and it was communicated with the relevant authorities and they agreed to suspend all possible charges on the condition that the matter is rectified within a prescribed time. The timeline has been inserted in the second section of Table 6.18.

The next step in this analysis is to identify each critical success factor and then also identify issues such as the essential elements of information, other intelligence requirements, and any security or intelligence problems. These issues have been noted in Table 6.19 below. This phase will also result in the establishment of the opposing party's centre of gravity, i.e. the characteristics that the opposing party has that gives him the motivation and freedom to engage in whatever action the opposing party wishes to.

Table 6.18 Case Study 6: Phase 2.2

Factor: opposing party			
Fact	Deduction	Implication	Action/ conclusion
Operates a legal restaurant without a legal liquor licence	Illegal activity	State may close the whole operation at any time	Apply for a liquor licence
Restaurant has been operating for 6 years but moved to new premises	New premises will conform to municipal bylaws	May succeed in applying for a liquor licence	
Other information: The liquor board notified the client that the client is in contravention of the Gauteng liquor act and that all liquor must be removed pending an investigation			
Step 2.2 subsection 1 Factor: time and space Own investigation – November 2013 Best date for submission of application – February 2014 Opposition – June 2013 Best date for approving application – March 2014			

Table 6.19 Case Study 6: Phase 2.3

Critical success factors	EEl (essential elements of information)	OIR (other intelligence requirements)
Obtain tax clearance Registration with SALTA Local authority approval Liquor board approval	Tax compliance testing for returns and debt Application form Building safety clearance and hygiene certificates Proof of documents	Does locality comply with regulations Will CEO be accepted as responsible person

Intelligence problem	Security problem
None	None
Defendant	Opposing party
Concept Obtain approvals from: SARS (tax clearance certificate) Local council (safety and hygiene) SAPS	Concept Analysis application and approved licence

It is important to establish the centre of gravity for such a non-compliance case such as this one, in order to prevent court action. The centre of gravity is also the so-called “Achilles Heel” of the opposing party and any competent Professional Accountant will seek this factor out in order to execute proper analysis. The centre of gravity in this instance is the “Submission Document” issued by the Gauteng Liquor Board (See Appendix C). Once the Board accepts the correctness of all relevant documentation, it is compelled to approve the application as this list covers all the requirements for a qualified enterprise to be issued with a valid Liquor Licence. The reason why the acceptance of the full documentation suite is of such importance is that it covers all the rules and regulations governing the issue of liquor licences and only a false or inaccurate declaration will result in the liquor licence not being issued after this phase. These documents are presented during an interview between the Professional Accountant and the liquor authority and this can last for up to five hours. After this interview the information is handed to the inspector whom in turn only verifies the physical disclosures such as locality and infrastructure.

Unlike the previous five case studies, all critical success factors disclosed in Table 6.19 are critical to the successful execution of this engagement. The full suite of documentation cannot be submitted without a valid tax clearance certificate. Membership of SALTA is also a prerequisite for a successful submission.

It must be kept in mind that the primary duties of the Professional Accountant utilising this tool are to find the opposing party, frustrate their freedom of movement, and to neutralise their efforts to ensure that no further risk remains to the SME entrepreneur. The cycle for winning these types of figurative battles is to dislocate the opposing party, gain the initiative, obtain the freedom of action, and to exploit every mistake the opposing party makes. A critical success factor will lead to the drafting of a decision-making matrix. Table 6.20 provides a matrix in which parties have been identified to execute duties. This matrix will also ultimately lead to the cycle of winning battles, a cycle known as the OODA cycle mentioned earlier in this chapter. This cycle leads to the primary manner in which problem-solving in military science is linked to the concept of “end-states”, which refers to “the desired condition or situation that strategists wish to generate” (USAJFC, 2010:133). Management strategists have

been using this strategy for quite a number of years. It is therefore not surprising that these strategies will eventually find their way into the accounting profession as well.

Table 6.20 Case Study 6: Matrix

Decision making matrix in respect of the responsibilities of role-players		
	Professional Accountant	Client
Find	✓	S
Dislocate	✓	S
Initiative	✓	S
Freedom of action	✓	S
Frustrate	✓	S
Exploit	✓	S
Strike and destroy	✓	S
Sustain	✓	S
		S= support only

As illustrated in Table 6.20, the Professional Accountant has to execute all the elements of the decision matrix while the SME entrepreneur provides support only. In more complicated cases, the SME entrepreneur will be responsible for some elements. Without proper technical and high-level communication abilities coupled with high ethical values, the Professional Accountant will not be able to execute his/her mandate. The decision matrix will not be required in most case studies as the Professional Accountant will execute most of the actions on behalf of the client, and the SME entrepreneur will mostly only provide a supporting function but nevertheless have the final say in whether the analysis should continue or be abandoned. The inclusion of the decision matrix is, therefore, purely for illustration purposes. This decision matrix is most appropriate in cases where non-compliance notices are issued purely for the reason that in some cases the client might be required to execute some tasks independently. One example is to obtain certified copies of architect drawings of the premises if it was required in order to sustain the opposition.

6.8.4 Phase three: Establishment of options

In selecting the best option, the Professional Accountant will again revisit the total picture of the analysis process so far and confirm the validity and applicability of each factor and information piece. During this phase, the Professional Accountant can also use a Gantt diagram in order to establish timeframes, phases, the order of march, critical timings and possible lines of contact, to name a few.

This third phase provides the client with various options. Diagram 6.10 depicts the four most viable options. After an elaborate discussion with the client, the client accepted the advice of the Professional Accountant to apply for a liquor licence in terms of the relevant legislation.

Diagram 6.10 Case Study 6: Options



6.8.5 Phase four: The engagement plan

In this case, the final report consisted of a written proposal that the client agreed with and it was also acceded to by the Gauteng Liquor Board (See Appendix D). The

outcome of this case study was that the client was issued a valid liquor licence. In this case the Professional Accountant had to be constantly aware of the fact that the SME client carried on with trading in liquor while not properly licenced to be legally doing it. Although this fact was confirmed by the Professional Accountant from the start, the Professional Accountant and his/her SME client had to ensure that no further omissions or accidental inaccurate disclosures are made. In this case the liquor authority had the complete authority to deny the issuing of the licence as the SME owner was involved in the illegal trade in liquor. The penalties for this is quite severe and include the barring of the entrepreneur to have a valid liquor licence for a period of up to ten years.

The issuing of the licence had an obvious and marked impact on the value of the enterprise as well. The advanced age the client meant he had to start with investigations pertaining to the possible sale of the enterprise within the short to medium term. The legal liquor licence added substantial value to the enterprise.

6.8.6 Case outcome

After engaging with the appropriate authorities and the provision of all the required documentation, the appropriate licence was approved and issued. No additional penalties or fines were levied against the client. In this case the manner in which the case was approached and eventually executed played a vital part in the successful completion. Once again, adherence to the strict rules and regulations but also the application of the correct strategy, ensured a successful engagement. Under normal conditions a liquor licence application is pure the completion of a list of documentation and the provision of reports sourced from various statutory bodies such as the revenue authority. In this case the looming risk was the fact that the applicant did not comply to the applicable legislation prior to making the application. The process had to be executed with heightened due care.

6.8.7 Relevant factors requiring consideration in future similar cases

Factors that Professional Accountants need to take cognisance of in these types of engagements include issues of procedures and adherence to rules, regulations, and procedures. The only factors that salvaged a critical non-compliance issue was the brutal honesty of the Professional Accountant that dealt with this matter and the speed at which the non-compliance issue was rectified. Professional Accountants dealing with this type of case must in future ensure that engagement letters are based on a full analysis of the challenge, including the remedies available and more importantly the legal compliance checklist. It is also important to make clients aware of the applicable sections of the administrative justice legislation.

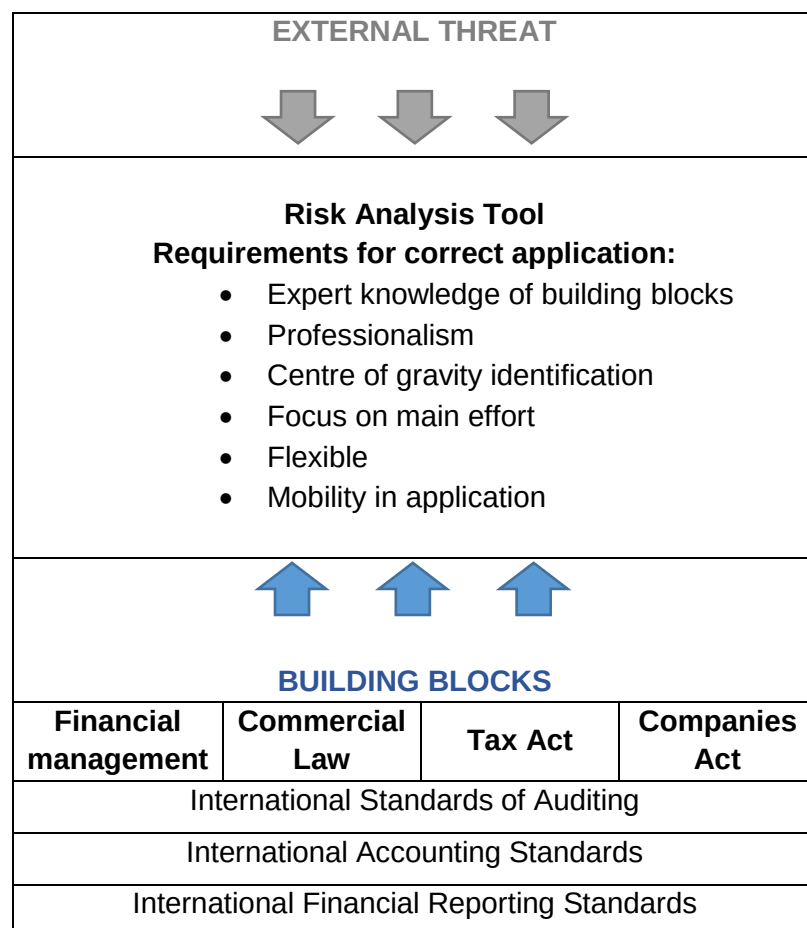
6.9 Conclusion

The development of the RAT illustrated above is based on the premise that the Professional Accountant must be in a position to take cognisance of all relevant factors while rendering a risk analysis service to his/her SME client.

As illustrated in Figure 6.13 below, the basic point of departure will always be the knowledge base of the Professional Accountant. This knowledge base includes all the applicable legislation and rules and regulations that govern the activities of Professional Accountants. To be able to apply this knowledge base to the benefit of the SME client, the attributes inherent to the mental composition of the Professional Accountant are just as important as the requisite knowledge and are depicted in the middle of Figure 6.13, and include their ability to focus and their flexibility. The combination of both these groups will provide the Professional Accountant with sufficient tools to provide an optimum risk analysis service irrespective the circumstances.

Although this chapter covered the various origins of a particular thought process with a broad description of the environment in which the RAT can be utilised by Professional Accountants, it is important to note that the full detailed application of the RAT under operational circumstances will be very complex.

Figure 6.13 Application Sphere of RAT in the South African Business Environment



The three most important elements that are required to enable a Professional Accountant to successfully apply the RAT are the technical abilities of the Professional Accountant, their understanding of their agency relationship with his/her client, and lastly the unquestionable high ethical and moral values applied by the Professional Accountant in the execution of their duties.

The reasons for developing this tool was firstly due to the perceived performance gap between the services and level of services that Professional Accountants can offer and those general expectations of the SME sector, taking into account the very unique agency agreement or relationship between these two parties. Secondly, current

studies are very clear that case study research is a very strong approach to conducting research in accounting. However, case study research in itself is not fully equipped to analyse data collected during the case study data collection phase. Therefore, this tool was developed to provide a structural analysis of the data, and also to provide a platform for ultimate decision making by both Professional Accountant and SME entrepreneur. As Professional Accountants are always exposed to risk in terms of their engagements with clients, this tool provides a secondary support system to the Professional Accountant in terms of the structural proof of all steps followed during the engagement as well as the constant participation from the SME client.

The application of the RAT on these case studies also highlights the fact that serious consideration is needed to repeat the principles of Social and Environmental Accounting and Auditing (SEAA) as briefly described in Chapter 2. Moreover, the adoption of the Multiple Capital Model (MCM) also described in Chapter 2 would have highlighted the importance of incorporating issues relating to legal compliance in the review and/or audit process. One could reasonably accept that the absence of a valid liquor licence for a restaurant for instance, would have been highlighted during the analysis of the Social and Relational Capital (SRC) portion.

All six case studies provided adequate proof that the RAT provided a checklist that Professional Accountants can use when faced with a challenge, as well as a tool that provides a strategy by which these challenges can be addressed. However, it now seems that the same RAT can be utilised by Professional Accountants as a preventative measure as well. Particularly the case studies pertaining to the court cases supply the necessary details to prove that if the RAT was applied when the Professional Accountant was in a position to advise his/her client on the structuring of the group of transactions before they occur, then the RAT could have been successfully used as a strategic planning tool. The RAT provides the checklist to ensure that all rules and regulations are considered in the planning of the actions. Furthermore, the RAT also provides the strategic platform that can be used to ensure proper execution of the selected actions while at the same time providing a suite of alternative options.

As the RAT provides both a checklist and strategic planning tool, it will follow that the RAT will also enhance the compilation of any engagement letter. The engagement letter is the initial procedural agreement between the Professional Accountant and his/her SME client. If the RAT is properly applied before the issuing of an engagement letter (as in case study number six), it will be possible to not only ensure that the engagement letter covers all the elements of the engagement, but that the engagement letter also provides the sequence of activities to ensure the successful completion of the engagement. Ultimately, this will ensure accurate costing and budgeting for the total engagement.

CHAPTER 7

7. CONCLUSION

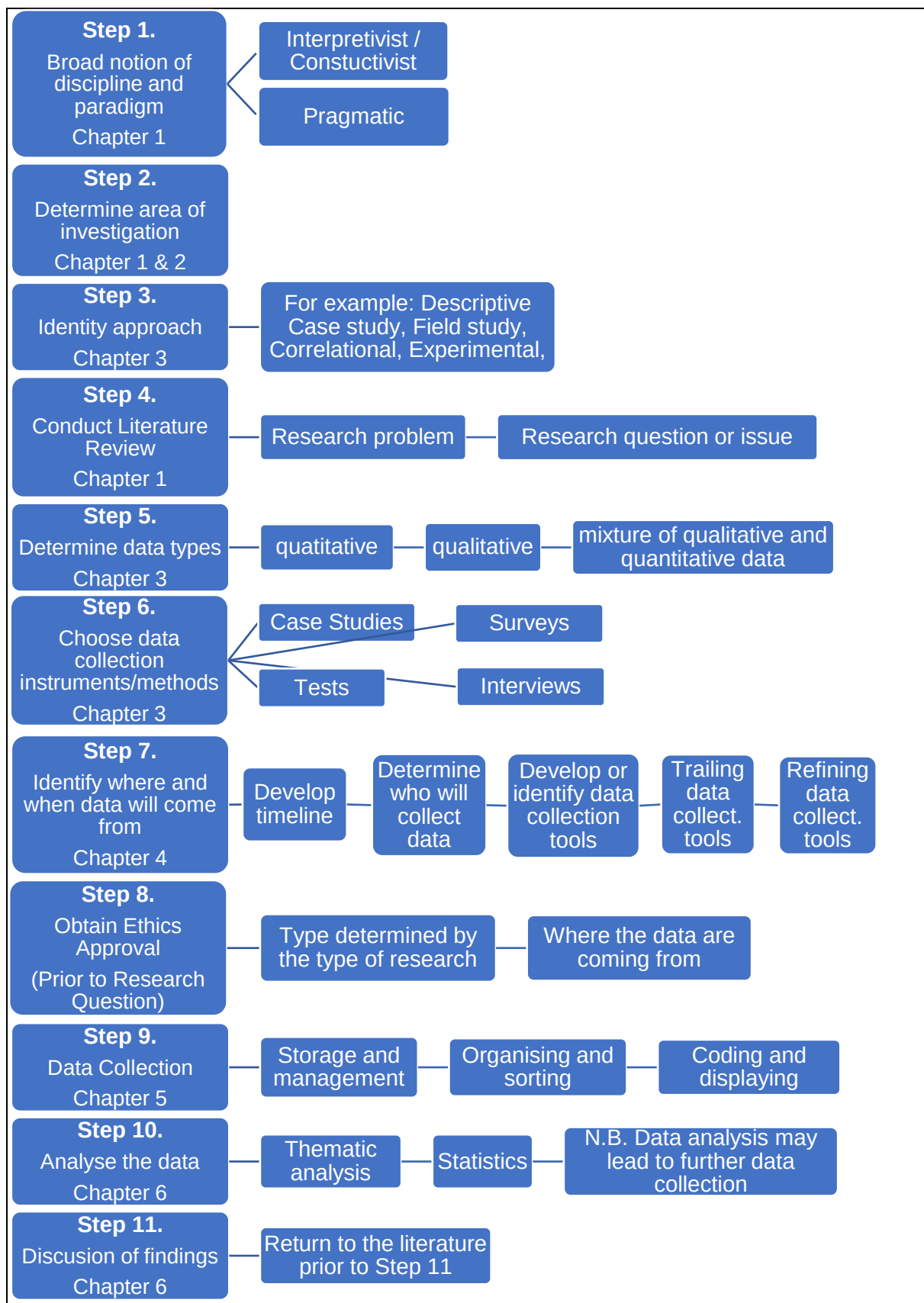
It is not the critic who counts: not the man who points out how the strong man stumbles or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood, who strives valiantly, who errs and comes up short again and again... who spends himself in a worthy cause; who, at the best, knows, in the end, the triumph of high achievement, and who at the worst, if he fails, at least he fails while daring greatly. (Theodore Roosevelt, 1910 speech quoted in Klein, 2006:63)

7.1 Introduction

This thesis focused on the provision of an additional skill for Professional Accountants to fill a gap in the service delivery of Professional Accountants and what their SME clients expect, as indicated in Chapters 2 and 4. The analysis of the environment within which Professional Accountants and their SME clients operate dictates a unique agency relationship. This agency relationship is the primary contributory factor in this service delivery gap. This thesis followed eleven identifiable steps to reach a point where the final conclusions and findings are recorded in this last chapter (see Diagram 7.1). The steps are not unique but provide a very condensed illustration of how and where the research started, what critical decisions were made with particular reference to the source of data, data types, data collection, and how this data is organised in order to answer the research question and prove the hypothesis.

Steps One to Four represent the standard initial steps which include the broad notion of the research, determining the area of investigation, identifying the approach, and then the standard literature review. Steps Five to Eleven comprise all those steps taken during the actual research investigation which include the choices made pertaining to issues such as those mentioned above. The chapters where each step has been executed is also identified up to the final step where the findings and conclusions are made.

Diagram 7.1 The Steps Followed up to the Final Conclusion



A client cannot always be guaranteed fair and reasonable treatment if the Professional Accountant followed the correct conventional procedures in ascertaining the real facts behind the business activities of an enterprise. Most of the conventional services provided by Professional Accountants are of a more structured and historically based nature such as financial accounting, auditing and reviews as well as the provision of a service relating to declarations to the revenue authority. The only service delivery element that Professional Accountants provide that tend to relate to basic problem-solving are services of a financial management nature. As stated in Chapter 6, a situational appreciation needs to be executed as well. This appreciation is regarded as:

“a conceptual framework which we can apply to particular cases, which articulates the reciprocal relations of an agent’s concerns and his perception of how things objectively are in the world”. (Wiggins, 1980:237).

The reasons for this were found in the fact that conventional procedures tend to lose sight of the environmental influences and non-quantifiable measures such as intention. The following of correct procedures, more often than not, also cannot ensure that the underlying facts pertaining to a circumstance are identified and analysed properly (see Chapters 2 and 3).

Invariably the RAT also has its limitations. Firstly, the RAT has limited applicability if utilised by a semi-experienced or semi-trained Professional Accountant. Therefore, application of the RAT can only be executed properly if the Professional Accountant is fully aware and understands the universal conventions applicable to his/her profession. Secondly, the RAT is open for abuse by both Professional Accountants and their SME-clients. This is attributed to the fact that the RAT is deemed to be an aggressive approach and particularly Professional Accountants can use it as a method to mask certain facts and circumstances. Lastly statutory bodies, such as the revenue authority in particular, have additional discretionary powers to negotiate settlements with taxpayers and in such cases the application of RAT will not be as cost effective as pure negotiations.

The ultimate reason why this study was conducted can be best illustrated in the work published by Weatherford (2003), one of the contributing students stated the following:

“Love should not be primarily a feeling of personal satisfaction derived from the presence of another person, which is all too often merely an expression of psychological immaturity and unconscious projection. Instead, love ought to be a concept encompassing the mindfulness of our common destiny, our obligations towards the Planet, and our need to assist each other in our endeavour to develop according to our collective and individual goals, which according to the Old Mongol worldview, we have all chosen before birth. This is the kind of impersonal, but indelible love Chingis (*sic*) Khan gave out. Such impersonal devotion is a mark of the highest degree of honesty. When that is conveyed to people, they instantly sense the genuineness and respond to it in a way that makes them listen to what messages are coming. In the case of the Mongols, we see this most clearly. During the reign of Chingis (*sic*) Khan, the Mongols functioned like one single organism, united and ever willing to support each other.

A Professional Accountant providing professional services to the SME sector of any economy cannot afford to stand aloof and only be a bystander in respect of his/her relationship with his/her client. In order to ensure that the Republic of South Africa reach its required goal of approximately six percent economic growth per annum, the time has come for all participants, especially the Professional Accountant, to contribute to this drive by devoting his/her efforts to the fullest extent, be it through ensuring proper record keeping, providing consultancy services, or even attending CPD seminars; the drive must always be for excellence.

For its part, the government has a duty to ensure that the environment within which the Professional Accountant and SME sector entrepreneur has to operate is fair and equitable allowing all participants to excel. The Mongols did not regard excellence as a measurable quantity but as a principle.

The entrepreneur has a duty to ensure that his/her business is developed and maintained optimally, in order to guarantee that all employees have job security and an operating environment conducive to the personal development of each individual. The entrepreneur must also guard against his/her own greed and be very aware of the consequences of failure in an environment where everybody receives and can expect

to receive equal treatment. Professional Accountants need to upgrade their service delivery in order to play their part in economic stability and to the benefit of humanity.

7.2 Summary of research findings

Chapter 2 illustrated the environmental characteristics of enterprises involved in the SME sector and also proves that these enterprises by far surpass the number of enterprises in the large corporate and public sector. It is also quite obvious that this sector is regarded by most governments as the sector that will ensure that national growth is maintained for at least the foreseeable future. This chapter also provided insight on where the accounting profession started and where the profession is heading. The chapter provided the required conventional educational levels that IFAC requires for individuals to attain before they can enter the public practice arena. Furthermore, this chapter explained the difference between the application of the agency theory to public listed companies and privately owned companies.

Chapter 3 provided an insight into the philosophical issues pertaining to accounting in general and the philosophical underpinnings of this research. The question “what is accounting, accounting for?” has been established as the basic point of departure in accounting research as adherence to the conceptual framework fails to address the philosophical underpinnings of accounting research and development. This chapter also established the value of case studies in accountancy research. Accountancy is an established social science and case studies are the accepted norm for any research in this field.

Chapter 4 was dedicated to the methods applied in the selection of the six cases used as the foundation for the development and testing of the RAT. The chapter also elaborated on the results obtained from a series of interviews held with specific clients.

Chapter 5 was wholly dedicated to writing the narratives for each case study that was chosen through the selection process in Chapter 4. Through the explanation of each case study it became evident that the cases selected covered most of the possible

scenarios that Professional Accountants may experience in their engagements with clients in the SME environment.

Chapter 6 provided a concise discussion on the development of the RAT and noted how this tool was developed from current problem-solving methods. The RAT was then tested on each of the six case studies identified in Chapter 4 and discussed in Chapter 5.

The final result of this thesis confirmed that the Professional Accountant requires another set of rules or a framework within which to operate with a degree of certainty that all facts and figures will be analysed in an orderly manner, but also be disclosed in a presentable format so that a third party, such as a judge, magistrate or arbitrator with limited accounting knowledge, will be able to draw fair conclusions. The question of cost is also an important factor. Most SME sector enterprises cannot afford lengthy legal battles and it is important to draw conclusions as soon as possible. Moreover, in order to maintain the focus of the SME entrepreneur, the Professional Accountant not only needs a “conceptual framework which we can apply to particular cases” (Wiggins, 1980:237), but also a manner in which he can involve his/her client throughout the process. The RAT fulfils those three requirements. The six case studies proved that the RAT is a cost effective conceptual framework that can be applied in future case studies, and that the involvement of the SME client is prevalent and also necessary throughout the process.

7.3 Risk Analysis Tool for Professional Accountants

There are five main benefits of RAT, namely that it is results driven, it can be used to analyse more than just financial transactions, it is cost effective, it allows for direct client participation, and results in improved engagement letter. Each of these issues are discussed in the sections that follow.

7.3.1 The RAT is results driven and outcomes based

The RAT provides a framework where the Professional Accountant, with full knowledge of the client, decides on an outcome even before the engagement is started. In contrast, utilising auditing standards only, or recreating questionable transactions using only the framework provided by generally accepted accounting practice, will only focus on a particular procedure with a limited degree of emphasis on the outcome. The main reason for this is that both auditing standards and the application of generally accepted accounting practices tend to be focused on historical facts.

7.3.2 The RAT analyses more than only financial transactions

It has been proven on a number of occasions that the incorrect accounting treatment of particularly complicated transactions cause a considerable number of queries. The entity lodging the query can very easily draw conclusions in cases where all relevant transactions are in-house transactions, but matters normally become very complicated in cases where transactions were funded by external parties using complicated agreements, special purpose vehicles, and even related party transactions.

The RAT purports to cover the full spectrum while at the same time never losing sight of the objective. Once again, the unique agency relationship between the Professional Accountant and his/her SME client demands higher awareness on the part of the Professional Accountant of not only what the engagement will entail, but also what the needs and requirements of the SME clients are. These two elements in this relationship are heightened by the fact that the SME owner normally has limited time available to react and their financial resources are also limited and therefore they cannot afford an array of the professionals as well.

7.3.3 RAT is cost effective

The first phase of the RAT already identifies an end result or objective that the client decides upon before the engagement has started. During any phase of the investigation, should it become apparent that the objective will not be reached for various reasons, the decision can be made to either change the objective or to cease the engagement entirely due to the new evidence. The RAT saves time and therefore money as evidence is tested against the objective throughout the process.

The completeness and format of the working papers that are presented to a court or third party ensure that said parties are not overwhelmed with lots of unnecessary paperwork, and this in turn will result in a speedy conclusion.

7.3.4 Direct client participation

As the RAT is heavily reliant upon the inputs from the client, the client is always aware of the amount of progress that is made. The client is fully aware of the essential elements that the investigation entails and can therefore assist the Professional Accountant to a greater degree.

7.3.5 Improved engagement letters

The four advantages mentioned above will invariably result in improved engagement letters issued by Professional Accountants, as these engagement letters will be much more comprehensive. This will provide added security to Professional Accountants as it enables an increased accuracy for budgeting, and also defines the engagement fully. Probably the three most crucial items to be included in engagement letters are the scope of the engagement, the timing, and the anticipated total cost of the engagement. SME clients in particular will need this crucial information to be as accurate as possible.

7.4 Scope of limitations

The conclusion of the interviews necessitated the need to establish a well-defined scope of limitations for the application of the RAT and provide the general limitations for this research. The following limitations were identified:

- (a) Cases where specialised knowledge beyond those disciplines, as indicated by IFAC and prevailing commercial law, is required were excluded from this research and the application of the RAT. Examples of this knowledge will include the inputs required by legislation in terms of the construction industry (Civil Engineering) and general infrastructural development such as certified Electrical Engineers;
- (b) All cases where particularly the Criminal Procedures Act and non-commercial legislation such as Family Law are dominant issues (Knowledge pertaining to commercial law is, however, of paramount importance) were also excluded;
- (c) Cases relating to the retail sector were also excluded from this research mainly due to the fact that most retail SME enterprises services by Professional Accountants were deemed to be Micro Enterprises. These types of enterprises will include local grocer shops, non-franchise clothing outlets, and guest houses to name a few. Examples of possible challenges faced by these types of enterprises are less complicated and include small retail operations such as small local grocers, guest houses, beauty parlours and small clothing shops.

7.5 Further research opportunities

- (a) A computer based program can be developed that will train potential Professional Accountants early in their careers of the essence of detailed risk analysis over and above the conventional accounting training syllabus. Alternatively, the full benefit of the application of RAT can also be taught during the CPD-stage of senior Professional Accountants in much the same way as the new elements of accounting and auditing are currently conveyed to these

professionals. At this stage, it is difficult to establish at which level of an accountant's career development this technique will be the best understood and applied.

- (b) The applicability of this tool might be of benefit to even larger corporations and the RAT may also be tested in this environment.
- (c) The demand for Professional Accountants trained in risk analysis outstrips the supply by far. One of the primary reasons for this phenomenon is that most accountants are trained to operate in a more structured environment. However, the current emphasis is to "catch the so-called bad guys" and not to render assistance to entrepreneurs. (Dezube, 2006:1-2). A study of how the RAT can assist a Professional Accountant into changing roles wherever it may be required might also contribute in some way to development in this rewarding career choice.
- (d) Further research is required in the field of ethics. The critical and constant reliance of the SME client on the expertise and involvement of the Professional Accountant will invariably necessitate very high ethical conduct and research in this area is lacking.

This thesis provides sufficient evidence for both reader and scholar to reframe current knowledge in effort to further improve on this research.

APPENDIX A: INTERVIEW QUESTIONS

THE DEVELOPMENT OF AN SME RISK ANALYSIS TOOL FOR PROFESSIONAL ACCOUNTANTS

Open-ended Interview

PhD Research: Client Survey

- 1 **What age group describes you the best?**

21 - 30
31 - 40
41 - 50
51 - 60
60 and above
- 2 **What is your gender?**

Male
Female
- 3 **Do you own your own business?**

Yes
No
- 4 **Is your Business registered as?**

State Owned Enterprise
Partnership
Close Corporation
Private Company
Other
- 5 **Do you use the services of an Accountant?**

Yes
No
- 6 **What type of services does your Accountant offer? Mark all appropriate types.**

Accounting Services
Tax Practitioner Services
Tax Advice
Business Services
Labour Consulting
Legal Advice
Specialised Services applicable to your industry
B-BBEE
Investment Advice
Other
- 6.2 **If you also marked Specialised services applicable to your industry, kindly provide details**
- 7 **What do you consider to be the most important functions to be performed by your Accountant?**
Kindly provide the details

- 8 **Does being compliant pose any challenges to your enterprise?**
 Yes ☐
 No ☐
 Explain your answer.
- 9 **How do you normally address compliance challenges?**
- 10 **What type of compliance issues have you experienced in the past 5 years?**
 Tax Compliance ☐
 Tax Re-assessment ☐
 CIPC ☐
 Labour ☐
 Industry related compliance ☐
- 10 **In your own words explain what happened**
- 11 **Was the matter resolved to your satisfaction?**
 Yes ☐
 No ☐
- 12 **Were you ever involved in a Tax Court litigation?**
 Yes ☐
 No ☐
 If your answer is Yes, kindly provide details:
- 13 **What services would you never acquire from your accountant?**
 Explain your answer:
- 14 Anything else your wish to share?
- 15 **What is the preferred method of communication with your accountant?**
 e-mail ☐
 SMS ☐
 Telephone (both Cell- and Landline) ☐
 Personal Contact ☐
 Skype ☐
- 16 **Mark the applicable industry that pertains to your enterprise:**
 Agriculture ☐
 Mining ☐
 Manufacturing ☐
 Tourism and Leisure ☐
 Property Development and Financial Services ☐

General remarks:

The interviewee understands that his/her identification will remain confidential. However, the interviewee accepts the fact that the details of certain case studies will be described in this research again without provide the identification of either the individuals involved or the enterprises.

Interviewer signature:

Interviewee signature:

APPENDIX B: TIMELINE FOR OC&MS (PTY) LTD

1995: ESTABLISHMENT OF COMPANY

- OC CC
- 3 Partners: Mr J.O, Mr P.W, Mr A.L, thus OC CC
- 2000: Mr P.W Mr A.L
- Purpose: Telecommunication
- Mr J.O: Disciplinary officer. One of top ten administrators.
- 1981 – 1987: TC Services
- Representative Telecommunications for North West
- After TC Services, 1995: OC CC.
- Matric

2000: RESIGNATION OF TWO DIRECTORS

- Mr J.O buys membership of the other two members.
- Operated entity wholly for own benefit.

2008: COMPANY CHANGES

- OC CC converted into (PTY) Ltd
- Name change to OC&MS (PTY) Ltd
- BEE Certificate required by Eskom in particular
- Eskom did not want to deal with a CC
- Adv H.L acts as legal advisors
- SEESA and Adv H.L suggested Mr J.O approach Mr G.D for financial advice
- GD prepared business plan for BEE group to buy 26% @ ±R12 000-00 for R3,1m proposal
- Adv H.L created two trusts, J.O Trust for the 74% shares of OC&MS (PTY) Ltd , J Trust for the 26% BEE.
- Own declined to finance the deal
- Adv H.L paid approximately R8 000-00
- Mr J.K: R8 – 12k for his advice and registrations

2008: INTRODUCTION TO FJDT

- Various BEE proposals received from Eskom in anticipation of additional basis
- Received Eskom contract, very extensive: eventually covered whole country in 2009
- C (CJJ)– chief independent contractor for Telkom SA, introduced Mr J.O to A.B
- C's partner, A.B, introduced Mr J.O to FJDT.
- AB's accountant introduced FJDT and was called in to help A.B purchase the 26% of R3,1m
- AB supplied tools for Eskom contract, AB never dealt directly with Eskom

2009: ESKOM CONTRACT

- FJDT phoned from Cape Town for appointment
- A.B shows Mr J.O a \$200m contract in Botswana
- Meeting held in Rustenburg
- FJDT mentions to Mr J.O that there might be religious problems with A.B and that he would rather be interested in buying
- 25/11/2009 National Eskom contract awarded to OC&MS (PTY) Ltd
- FJDT offered to purchase whole Company for R20m.
- CH, the accountant, drafted the Financial Statements (Management Statements) and presented same to Mr J.O during December 2009

DECEMBER 2009: TAKING OVER OF COMPANY

- FJDT and MR T.S (accountant) attended a meeting in Rustenburg
- Mr J.O was very impressed with them
- Mr J.O resigns as Director and all statutory documentation was signed, which should also have cleared Mr J.O of all Sureties.
- Due to the Eskom contract, Mr J.O had to stay on for six months
- Mr J.O would then be taken on as a non-executive director
- Mr J.O informed Adv H.L, who was on leave at the time, that FJDT would take over the Company and presented a very general contract
- Between Christmas and New Year, FJDT takes Isuzu and makes deliveries from Uppington to Cape Town on behalf of the Company

JANUARY 2010: FINANCIAL STATEMENTS – Mr T.S

- FJDT, his wife and his own daughter, CV, started working at OC&MS(PTY) Ltd
- Change all systems to suit their own requirements even filing
- Mr T.S also started working on Financial Statements
- During mid January 2010 Adv H.L and Attorney drafted Sales Contract – currently at J.E Attorneys
- OC&MS receives new Financial Statements from Mr T.S which also included all of FJDTs' business interests in other companies.
- On National level contract started 25/12/2009
- Fax was received on 25 November 2009
- Adv H.L and Mr P.S drafted final Contract
- Adv H.L asked FJDT if he wanted due diligence, FJDT replies "no"
- FJDT orders that O.H Trust be established.
- FJDT and Miss C.V has an argument about R600m and the allocation of the value to the children of the two parties
- MR J.O and his wife, Ms C.O were requested to leave meeting while they were arguing

PAYMENT TERMS

- Adv H.L determined that the R20m will be paid as follows: R10m on 1/3/2010 and the rest in two even instalments.
- Guarantee supplied with session on property in Witsand
- Mr P.S will have the letters and correspondence
- Mr J.O signed CIN (PTY) Ltd contract on date of resignation as Director
- Mr J.O also signed contract prepared by his own legal team – Determine if new contract replaces old contract
- Mr P.S warned Mr J.O about the guarantees
- After Adv H.L left she phoned Mr J.O to inform him that FJDT has no adverse reports against him and is the Director of various companies

GENERAL STATEMENTS MADE BY FJDT

- FJDT said that the foundation of his new enterprise, Owl Communication and Mining Supplies (PTY) Ltd is very strong
- FJDT would do the BEE later, he would thus take 100% and sell 26% later
- FJDT had to invest R800 000-00 of his own funds into Company.
- FJDT would have received R800 000-00 from transport in the sale of an apartment.
- The apartment belonged to Mr T.S

CREDITORS

- P.T.O and Riana visited MR J.O January 2010.
- P.T.O to be employed as General Manager as FJDT does not have the time
- Accepts appointment package.
- January and February appointed extra personnel, i.e.. Miss R.F – HR
- Miss C.V, FJDTs' daughter takes over all administration.
- Mr J.O and Ms C.O last working day in February 2010.
- Accountant compile final of Financial records for period ending 28 February 2010
- New owner should pay the creditors, etc. as per agreement
- ATC, Lazer and TSI should be paid as they were big suppliers
- Huge amount from Lonmin contract was received, should have been used to pay creditors and it never happened

MARCH 2010: R10M PAYMENT NOT RECEIVED

- Mr T.S drafted new version of 2010 Financial Statements
- Mr J.O and Ms C.O have left the Company
- Mr J.O and Ms C.O left for Kruger Game Reserve for two weeks
- Mr J.O stops in Palaborwa to check if the first R10m was paid into his account – No payment
- Mr J.O phones FJDT to enquire about the money, FJDT requests that Mr J.O send list of expenses
- FJDT will soon have funds from Africa and will make monthly instalments until R10m is paid.
- March - Vehicles and Computers from Carletonville company, P.D (PTY) Ltd, were supposed to be delivered
- January to February 2010
- FJDT, with support from P.T.O, applies for loan of R30m at agencies and banks

APRIL 2010: AB LABOUR SERVICES (PTY) LTD

- FJDT queries Mr J.O about why a payment of R600 000-00 was paid for Tax. Accountants say it is a wrong assertion and that they are not aware of the tax
- FJDT wanted to claim the R600 000-00 back from SARS.
- The purpose of the R30m loan was to pay Mr J.O and to fund other Companies in the process of being purchased
- 28/4/2010- Personnel not paid their salaries, the reason supplied was that a contract with a liable labour broker was made to do the payroll for six months to get the different divisions started – AB Labour Services (PTY) Ltd
- Mr H.R is suggested as the new attorney for the Company to sign documents as surety for Labour Services (PTY) Ltd
- Mr J.O signed sureties over with the first contract, Mr H.R informs that because Mr J.O has not been paid yet, Mr J.O should sign, Value R1,6m

APRIL & MAY 2010

- Mr J.O was satisfied to sign because he saw the Financial Statements, and there was a lot of people employed as required by the new structure
- Labour Broker paid Mr J.O R190 000-00 (cost to cover Mr J.O's expenses of R95k per month)
- 28/5/2010: Mr J.O received R120 000-00 (being R95k + Rent + Claims)
- 28/6/2010: R132 809-19 (being R95k + Rent + Claims)
- Money gets paid by Labour Services (PTY) Ltd
- Mr J.O sceptical about why he had to sign surety while he was not involved in the decision-making process

- Mr H.R said Mr J.O should not be worried.
- Mr H.R was friends with AB, which Mr J.O only found out later because they were busy with restructuring, the funds could not be released
- Where is P Money?

MAY 2010

- Mr W.O informed Mr J.O that FJDT and P.T.O provided Sessions on Eskom and P contracts to Labour Services (PTY) Ltd
- P was beginning and entailed the contract between Harrismith & Durban
- What happened to P money is still unanswered
- Mr J.O had a call from Mr W.O:
- AB requests private meeting to discuss taking over OC&MS(PTY) Ltd contracts
- Mr L.E : IT Manager of OC&MS(PTY) Ltd, sent all info to Labour Services (PTY) Ltd

JUNE 2010: KATHU BRANCH

- Mr J.O questions Paysheet, there is no PAYE
- FJDT says that they will deal with SARS later
- Mr J.O helps with purchases in the first week
- FJDT asks Mr J.O if he would go to Paternoster to help with interior decoration of houses, took funds and provident funds from D(P.T.O's Friend)
- Manganese Project in Derby
- Everybody can invest in project. Mr J.O invests R20 000-00 and the Kathu branch was opened
- Most creditor accounts were not stopped
- C is attorney that is keeping the money
- Building is at Mr M.V (accountant).
- Labour Services (PTY) Ltd did the June 2010 payroll on grounds that the Manganese project be given as guarantee
- FJDT requests Rm's upfront against Eskom contract
- Mr H.R says it is permissible in terms of the contract
- Mr J.O felt ashamed of this
- During May/June, Mr H.R phoned Mr J.O and said that all details relating to FJDT is above board, Mr H.R did this without FJDT's approval

JULY – DECEMBER 2010: NEDBANK

- Nedbank Credit card belongs to Company
- FJDT asked Mr J.O to draw R40 000-00 twice. The third time FJDT was worried, Mr J.O drew R120 000-00 this way.
- Refer to Nedbank summons
- Mr J.O never used these funds.
- Mr J.O was not paid by Labour Services (PTY) Ltd – shift to July 2010

AUGUST 2010

- Mr H.R request ABC Bank Statements to be analysed by Mr J.O to identify large amounts transferred to CIN (PTY) Ltd
- Mr M.V now appointed full time at OC&MS(PTY) Ltd

JULY – AUGUST 2010

- VAT return, SARS, Alberton to refund R220 000-00, refund was not effected
- Mr J.O asked FJDT and P.T.O about this and was told African Projects is being funded and that millions are coming

OCTOBER 2010

- Mr H.R left OC&MS(PTY) Ltd and told Mr J.O to check accounts again as brand new Volkswagen Golf was bought with OC&MS(PTY) Ltd's money
- Car was bought for Miss C.V
- Mr H.R has proof apparently
- Ms D.L U Labour Holdings CC ran the payroll for October, November and December 2010
- Get Plessey data regarding payments for work done
- Mr J.O learnt for the first time that OC&MS(PTY) Ltd also opened an account at XYZ Bank.

NOVEMBER 2010: DISCUSSION OF SUMMONS AND COURT CASES

- Lapa meeting held regarding strategy
- Adv W.S to look at court cases etc. and discuss options open to Mr J.O.
- Mr J.O hand him R1 000-00 for diesel – travelling costs

JANUARY 2010 – JANUARY 2011: Miss R.F

- Miss R.F stated that she has very important info on P.T.O and Mr C.O on a fixed disc
- Miss R.F was assaulted by P.T.O's son

FEBRUARY 2011

- Other Bank George - Meeting
- Mr J.B indicated a R23m contract for investment
- Blouberg- and Melkbosstrand is mentioned
- FJDT has Post Box in Bloubergstrand
- FJDT acknowledged now for the first time that he was sequestered.
- In attendance: FJDT
 - Mr J.O
 - Ms C.O
 - Miss C.V
 - Mr J.B
 - Other Bank Branch Manager
- FJDT showed a property development project in Witsand with Mr B.P to the value of R85m. FJDT's share was supposed to be R25m. The one guarantee FJDT provided was R10m on this property

MARCH 2011: LIQUIDATION OF COMPANY

- OC&MS(PTY) Ltd liquidated in CC
- M.S Communication
- FJDT asked if Mr J.O could sell stock at R50k. The value of the stock was R800k
- Mr J.O moved stock from OC&MS(PTY) Ltd stores to farm for safe keeping

APPENDIX C: RECEIPT OF DOCUMENTS FROM LIQUOR LICENCE OFFICE



GAUTENG PROVINCE
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

GLB7000004647

LIQUOR
LICENSING OFFICE
GAUTENG

PROOF OF RECEIPT OF DOCUMENTS SUBMITTED WITH LODGEMENT

NAME OF PREMISES:

APPLICANT:

CONSULTANT:

IN TERMS OF SECTION: 23

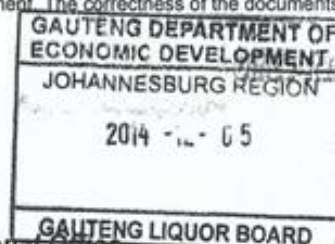
DOCUMENTS SUBMITTED:

TYPE OF SECTION	23	39	40	43	104	89
(1 Original set & 1 Copy set)	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N
APPLICATION FORM and COMMISSIONED –	S23(1)(a)	S39	S40(3)(e)	S43	S104(2)	
LODGEMENT FEES receipt	S23(1)(b)	S39	Regulations	Regulations	S104(2)	
REPRESENTATION / MOTIVATION in writing	S23(1)(c)	S39		S43	S104(3)	S89
DESCRIPTION of premises in writing	S23(1)(c)			S43		
SMOKE Affidavit & marked on plan	S23(4), 41(5)			S41(5)	S41(5)	
500 meter Affidavit	S30(3)					
SAPS clearance certificate – original	S23(1)(d)	S39(4)(b)	S40(3)(e)		S104(3)	
SARS clearance certificate – original	S23(1)(d)	S39(4)(b)			S104(3)	
SOCIATION membership certificate or other proof	S23(1)(h)				S104(3)	
PLO – Proof of lawful occupation – Can't grant IN VACUO	To verify				To verify	
ID – Certified copy of applicant's ID – To verify no. & names	To verify	Board	To verify		To verify	
WORKING & RESIDENTIAL PERMIT if non SA citizen	S37(1)(k) N/A	S39(4)(b)	S40(2)		S104(3)	
COI – Cert. Of Incorporation – if Applicable	S23(1)(g)	S37			S37	
RESOLUTION – If more than one member – if applicable	S37	S37			S37	
LAA – Local Auth. Approval - Tavern, pub, pool club, liquor store, night club Sec 23 (1) (d) & Sec 23 (4)	S23(1)(d) N/A					
PLAN – with demarcations & showing smoke area if applicable Sec 23 (1) (b)	S23(1)(b)			S43		S89
PHOTO'S – In colour, showing internal & external features Sec 23 (1) (c)	S23(1)(c)			S43		S89
MENU – if on-consumption - food	Verify type of business					
2 X NEWSPAPER adverts – Original pages of current dates	S23(1)(e) & 24					
GOVERNMENT GAZETTE notice – Original page	S23(1)(e) & 24					
ZONING DOCUMENTS – where applicable	S41(5)					
2014 RENEWAL NOTICE COPY & receipt or payment proof – If not renewed, license has lapsed & transaction can't be done		To verify	To verify	To verify	To verify	
AMENDED FOUNDING STATEMENT WITH NEW PARTICULARS		Board				

RML/MyDoc/Forms/App/Sec23 to 104 Checklist of rec/070803

This document is to acknowledge receipt of the marked documents submitted with lodgement. The correctness of the documents have not yet been analyzed.

Signed: _____



Liquor Licensing – Johannesburg Regional Office

APPENDIX D: LETTER TO CLIENT

Liquor licence application

As agreed, we applied our risk analysis tool in order to establish the best course of action for you to take and confirm our agreement that we will engage with all relevant parties and government departments in order to obtain all the relevant documentation and approvals necessary to submit an application for a restaurant liquor license in terms of the Gauteng liquor act

We also agreed to provide you with a Gantt chart to indicate the various actions we need to take in order to prepare a full submission. Each item will also indicate a quoted price. You may elect to execute some of the actions yourself. Kindly be advised that we will not take responsibility for these actions executed by yourself and we will not accept responsibility for any additional expenses should these actions result in our not being able to timeously submit the application. Be advised that all prices exclude application fees, advertising charges and additional travelling charges should it be required.

Once you are in agreement with our engagement proposal kindly provide your signature in the space provided below and also provide the details of a witness. A copy of this letter as well as a copy of the chart will be hand delivered to you without delay but only after receipt of the payment as calculated.

Signed

.....

For: CATS Inc.

Date:

Terms and payment accepted by

.....

For: LS (Pty) Ltd

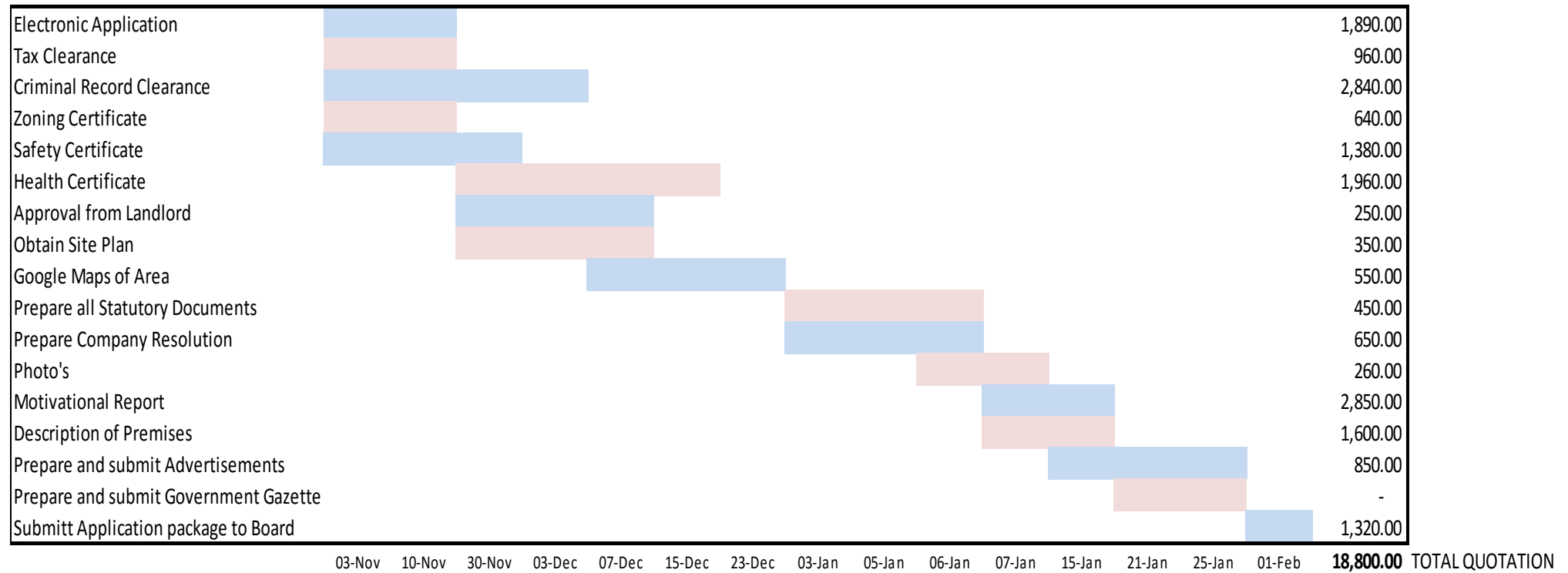
.....

Witness

Name:

Address

Task List for LS (Pty) Ltd.



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