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Towards a Competency Framework for SME Accountants - A South African perspective

Danie Schutte

Abstract- Globalization has brought major changes in the world economy, for example a significant increase in trade and investments, rapid technological changes in communications as well as an increasing trend towards deregulation of financial markets. Prospects of increased sales in the world-wide market did not necessarily pose the same benefits to all market participants. In contrast to large multi-national companies, the traditional focus of Small and Medium Enterprises (SMEs) did not include exporting and importing along with alliances, branches and joint ventures abroad. Despite the pivotal roles of small and medium businesses in many economies, the specific challenges resulting from the globalisation phenomenon cannot be denied.

Small and medium businesses are faced with challenges such as limited resources and funding, a lack of formal mechanisms and practices, a shortage of trained and experienced staff as well as different classifications of small and medium businesses worldwide. In particular, smaller businesses do not normally have a well-established and functional accounting department. In view of the apparent differences between the accounting function for larger and smaller businesses, the question is asked whether accountants in the small and medium business sector should demonstrate specific skills and competencies to address the distinctive challenges of this sector. The focus of the study is therefore on the recently announced IES2 Initial Professional Development – Technical Competence and its relevance in the South African environment.

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Jel Codes: M41-Accouing; M48 - Government Policy and Regulaion

I. Introduction

a) Background

The economy and business environment is constantly changing and the world continues to become more global (Retief, 2012:8). Denis, Morrow and Roger (2006:3) defined globalisation as an increasingly integrated world economy and a process underpinned by modifications of policies in various countries towards a more open, market based, system of economic governance. In the wake of the globalisation phenomenon a sustainable, global business environment depends on a strong financial architecture (IFAC, 2013a). From an accounting perspective, it inevitably brought with it moves to establish a single set of financial reporting standardsand other forms of standardisation across borders (Chan & White, 2007:605). As a result, international accounting standards have been in a steady state of change to support a viable financial architecture (Retief, 2012:8). The global profession can be strengthened, economic growth and stability can be achieved and the challenge of contribution can be addressed by focusing on the development of high-quality international accounting standards and encouragingunity amongst international participants (Ward, 2005). In addition, harmonisation of accounting practices would be a giant leap to strengthen the accounting profession and protect the public interest globally (Pendergast, Partner, Urbach &Werlin, 2006:16).

In order to address the importance of high-qualityaccounting standards and for the purpose of setting a benchmark amongst international participants the International Federation of Accountants (IFAC) was established to serve the public interest bycontributing to the development and facilitating the adoption and implementation of high-quality accounting standards(IFAC, 2013b). According to Horstmann (2005:98) IFAC's primary mission is to carry on strengthening the global profession and economies by establishing and promoting union international accounting standards. The challenges and opportunities facing this standard-setting body include meeting the increasingly different needs of global users, addressing concerns about complexity, clarity and relevance (Horstmann, 2005:98) and providing direction to financial architectures worldwide (IFAC, 2013a). Despite the fact that the development and implementation of high-qualityaccounting standards was not without any limitations, the need for a single set of international accounting standards was recognized(IFAC, 2007). In this regard it was argued that a single set of accounting standards gains the trust of the global audience in financial reporting and therefore increases investments (IFAC, 2007).

In addition to its role in ensuring uniform accounting practices the IFAC facilitates the structures and processes that support the operations of the International Accounting Education Standards Board (IAESB). The main objective of the IAESB is to serve the public interest by setting high-quality educational standards for professional accountants and by

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contributing to the promotion of national and international education standards (IAESB, 2012:2). The IAESB develops education standards and provides guidance and information on pre-qualification education, training of professional accountants, and professional education development and endurance (IAESB, 2012:2). In order to ensure the development and maintenance of competence required from professional accountants to perform various roles,the project of the IAESB is to improve the clarity of its standards (IAESB, 2012:5). In 2009 the IAESB completed its revision of the Framework for International Education Standards for Professional Accountants which sets out the fundamental concepts and principles for the International Education Standards (IES) (IAESB, 2012:5). The Framework for International Education Standards for Professional Accountants (2009) identifies general education, professional accounting education, practical experience and assessment as components of the learning and development of a professional accountant. In reaction to the ever-changing global environment the IAESB commenced to revise IES 1 to IES 8, with the goal of ensuring consistency with concepts of the revised framework and improving clarity (IAESB, 2012:5).

The extant version of IES 2, Content of Professional Accounting Education Programs,published in May 2004 and effective from January 2005, prescribes an IFAC member body's professional accounting education program content of knowledge required from a candidate to qualify as a professional accountant (IAESB, 2012:5).The title has been amended in the proposed IES 2 (Revised) to Initial Professional Development- Technical Competence, to reflect the IAESB's review that IES 2 is one of the six IESs covering Initial Professional Development (IPD) (IAESB, 2012:6). According to the proposed IES 2 (Revised), IPD is defined as the learning and development process of competence required to perform the various roles of a professional accountant (IAESB, 2012:6). In addition, technical competence is used to describe the ability to apply professional knowledge to perform a role to a defined standard (IAESB, 2012:6). The IAESB decided to adopt a learning outcomes approach in the proposed IES 2 (Revised) by specifying eleven competence areas: (i) financial accounting and reporting, (ii) management accounting, (iii) finance and financial management, (iv) taxation, (v) audit and assurance, (vi) governance, risk management and internal control, (vii) business laws and regulations, (viii) information technology, (ix) business and organizational environment, (x) economics and (xi) business management (IAESB, 2012:7). Furthermore, instead of prescribing knowledge, the IAESB identified fourproficiency levels, namely foundational, intermediate, advance and mastery levelsto demonstrate professional competence (IAESB, 2012:20-22). In addition the IAESB included two new requirements in the proposed IES 2 (Revised) for IFAC member bodies to regularly review and update professional accounting education programs that are designed to achieve the learning outcomes and to prescribe appropriate assessment activities to assess the development of technical competence in a rapidly changing and complex environment(IAESB, 2012:6). Thus, the IAESBrequires that aspiring professional accountants should be able to demonstratenot only technical competencebut also professional values, ethics, and attitudes(IAESB, 2012:6).

From the aforementioned an aspiring professional accountant is firstly described as an individual who has commenced a professional accounting education program as part of IPD. Secondly professional skills are describedas theintellectual, personal, interpersonal, communication and organizational skills that a professional integrates with technical competence and professional values, ethics and attitudes to demonstrate professional competence; and lastly professional accounting education programs are programs designed to support aspiring professional accountants to develop the appropriate professional competence by the end of IPD. They may consist of formal education delivered through degrees and courses offered by universities, other higher education providers, IFAC member bodies and employers, as well as workplace training (IAESB, 2012:9).

In order to fulfill the IAESB's desire for the proposed IES 2 (Revised) to be consistently drafted the IAESB is currently considering comments and feedback and the proposed IES 2 (Revised) is expected to be finalized in the third quarter of 2013 and effective for implementation for periods beginning on or after 1 July 2015 (IAESB, 2012:5-7). Comments on matters in the proposed IES 2 (Revised) was addressed in a structure of eight questions and released from October 2012.The results of the eight questions (1-8)from the submitted comment letterscould be briefly summarized as follows:

Question 1- The majority of the comments agreed that the eleven competence areas listed in Paragraph 7 of the proposed IES 2 (Revised) captures the breadth of technical competence areas required from aspiring professional accountants. It was however suggested that the sequence of the competence areas should be reviewed and restructured according to necessary educational steps.

Questions 2 and 3-A number of comments were made on the adequacy of learning outcomes capturing the minimum level of proficiency and the assistance of the Appendix in the interpretation of the learning outcomes.

Questions 4 to 8–The comments indicated that the objective to be achieved by a member body is appropriate. Commentators also agreed that the requirements of paragraphs 7, 8, and 9 of the proposed IES 2 (Revised) are suitable for achieving an appropriate level of technical competence.

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b) Rationale for the Study

The competencies of professional accountants have been challenged by the ever-changing business environment. The skills, understanding and personal attributes to ensure a successful career in the global world are becoming increasingly more important (Knight & Yorke, 2004) Success in the working environment depends on the identification of specific skills and competencies required of employees.In this regard a competency framework is defined as a high level description of competencies (knowledge, skills and attributes) individuals should possess atthe entry point to a particular profession (SAICA, 2010:3). In other words,a competency framework provides thefoundation upon which professions are developedand therefore enables a clear understanding of the required competencies a prospective employee should demonstrate embarking a career (SAICA, 2010:3).

Agarwal and Gupta (2008) argue that a gap exists between the students' knowledge after graduation and the practical application thereof in the real-world business.They found that students need to reflect on knowledge before they can apply this knowledge.In an accounting context the theory and practice of a competency framework was primarily built upon the work of the American pragmatist philosopher, John Dewey, who argued that knowledge is gained by combining theory and practice (SAICA, 2010:8).Practicing accountant should have theoretical knowledge and the skill to apply this knowledge in practice (Rudman & Terblanche, 2012:60-61). According to KPMG (2009) and Price Waterhouse Coopers (2009) knowledge (theoretical aspects) can only be achieved through real-world clients and their specific circumstances. Up until now, researchers found that students can reflect on and apply their theoretical knowledge when applying this knowledge in a business environment (Rudman & Terblanche, 2012:57; Rudman & Terblanche, 2011:63). These studies investigated the question if theoretical knowledge in real-life situation helps students to better understand, conceptualise and contextualisetheoretical knowledge in practise.

In order to respond to recent studies on the existence of a gap between theory and knowledge the South African Institute of Professional Accountants (SAIPA) is developing a competency framework based on the IFAC model. The accountancy institute represents Professional Accountants (SA) practising mainly in the small and medium business sector in South Africa (SAIPA, 2013a:2). SAIPA qualifies as one of only two South African accounting bodies that are full members of IFAC(SAIPA, 2012) and have reciprocal agreements with national and international bodies (Pan African Federation of Accountants (PAFA); Practicing Professional Accountants (CPA) in Ireland; Institute of Public Accountants (IPA) in Australia; Institute of Commercial and Financial Accountants (CFA) in Namibia) (SAIPA, 2013a:2). SAIPA is recognised as a professional body as determined by the National Qualifications Framework (NQF) Act 67 of 2008 by the South African Qualifications Authority (SAQA) that acknowledged the critical role SAIPA plays in quality assurance and standards development within the National Qualifications Framework. (SAIPA, 2013b).In addition, two of NQF Act 67 of 2008 most important objectives is to generate a single integrated national framework for learning achievements and to enhance the quality of education and training (SAIPA, 2013b).Therefore, SAIPA must ensure quality experiential training (SAIPA, 2013b) to their learners by being a "truly global voice on issues of standard setting and compliance" (SAIPA, 2012:11).

Globalisation is the essence of IFAC and the IAESB's objective to serve the public interest and contribute to the development, implementation and convergence of high-quality international accounting standards. A competency framework in an accounting context should therefore address the challenges arising from the rapidly changing complex environmentto bridge the gap between theory and skillsand to enablestudents to reflect on and apply their theoretical knowledge when applying this knowledge in the business environment. In addition, a competency framework lends strong support to tertiary accounting programmes used to prepare students for the "real-world" working environment and consequently requires accounting courses to be taught using "real-world" scenarios (SAICA 2010:12). In other words, the on-going development of a competency framework for SAIPA promises lucrative results and service of the public interest by setting one set of uniform high-qualityaccounting standards, accepted and enforced on a consistent basis amongst international participants (Pendergast *et al.*, 2006:19).

II. Problem Statement and Research Objective

The central argument of this study is the existence of a gap between theory and skills and the importance of accounting bodies' requirements to ensure quality education programs in order to comply with the high-quality standards set amongst international participants.In contrast, the majority of SAIPA practices are operating in the small and medium business sector that do not necessarily have an international focus (Dixon, Thompson & McAllister, 2002:27).Therefore, the primary objective of the study is to investigate the foundation upon which SAIPA programs are developed and ask the question whether the on-goingdevelopment and implementation of a competency framework for Professional Accountants (SA) willbe sufficient to bridge the gap between theory and skills. This will also enable professional accounting educators to provide students

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with the ability to apply the theory they have been taught when they enter the real-world business after graduation.

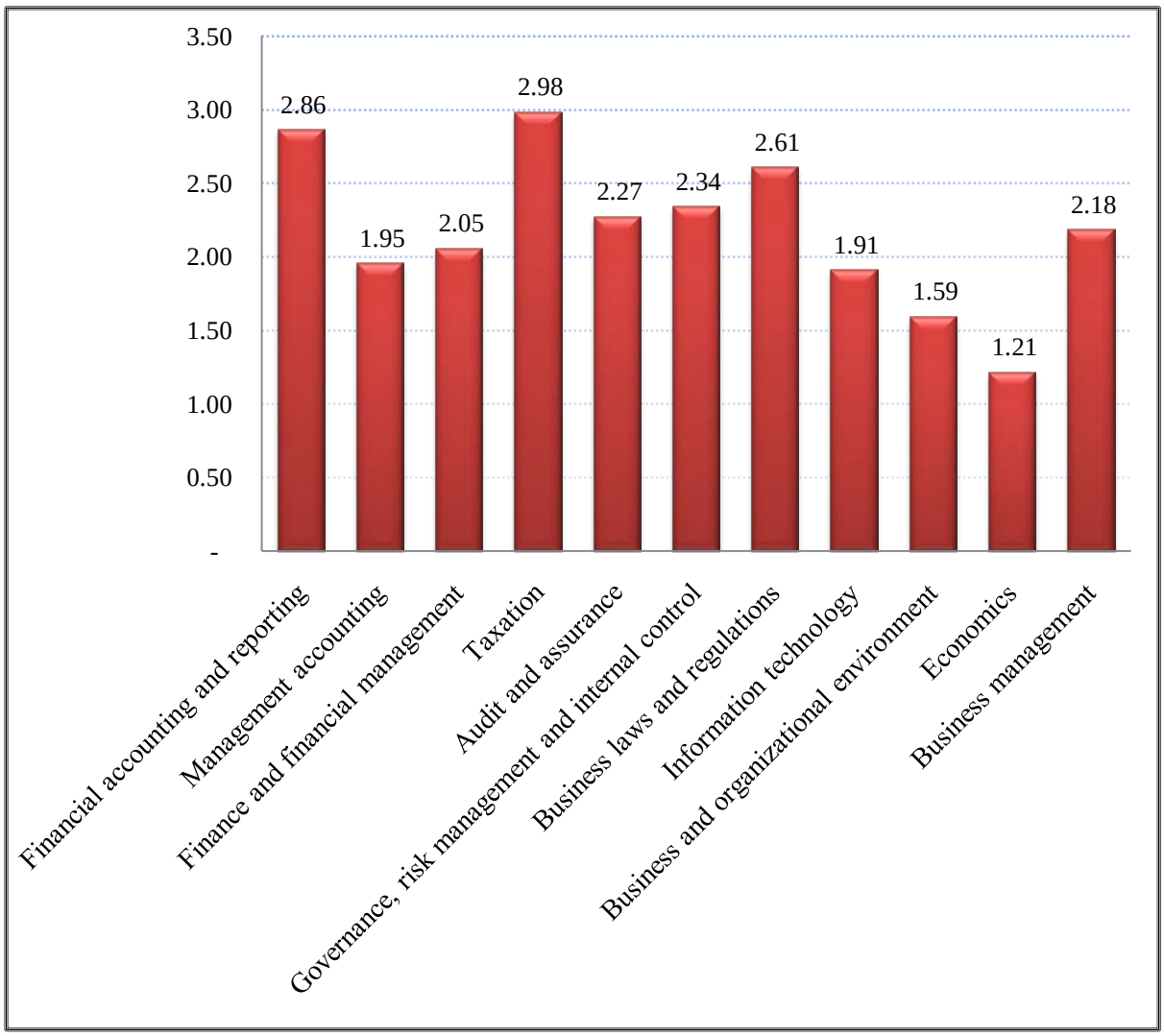
The contribution thereof is that the development and implementation of a competency frameworkaccording to high-qualityinternational accounting standardsfor the professional accountant will enable the professional accountant to respond to the fast-changing environment and be a life-long learner (SAICA, 2010:7). Despite the fact that the competency framework may require re-evaluation from time to time due to the fast-changing social, political and business environment (SAICA, 2010:9), it can enable a clear understanding of the required competencies a professional accountant should demonstrate embarking a career (SAICA, 2010:3).

III. Data and Methodology

The research encompassed both a literature and empirical study. The literature review provided the theoretical background of the competency objectives and requirements of IFAC and the IAESB. The literature review also identified a gap between theory and practice.

The literature study formed the foundation for the empirical study, which considered the relevance of the IAESB's competency framework in a South African context. Since IES 2 - Initial Professional Development-Technical Competence (Revised) was developed to identify the skills and competencies required to enter the accounting environment the population comprised accounting firms who attended the North West University career expo in 2013. The sample was narrowed down to accounting firms in the small and medium business sector. In this regard the technical competence learning outcomes according to Table A of the proposed IES 2 were sent to 23 accounting firms who were asked to rate the competency areas according to the IAESB's four proficiency levels. Fifteen accounting firms provided feedback (presented in Annexure A). The average rating of the 11 competency areas is presented in Figure 1.

Figure 1 : Average Rating of Learning Competence Areas



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The accounting firms rated Taxation (2.98) and FinancialAccounting (2.86) as the most important competence areas.Business Laws and Regulations (2.61) were considered the third most important competence area.Governance, Risk Management and Internal Control (2.34) as well as Audit and Assurance (2.27) were also considered important. In contrast, Economics (1.21) and the Business and Organizational Environment (1.59) were not highly rated by the accounting firms.In addition the results revealed that Information Technology (1.91), Management Accounting (1.95) as well as Finance and Financial Management (2.05) are not considered that important by the accounting firms included in the survey. In summary the 11 competency areas could be ranked in the following sequence:

Table 1 : Proficiency levels per competence area

Competence area	Rating	Proficiency level
Taxation	2.98	Advanced
Financial accounting and reporting	2.89	Advanced
Business laws and regulations	2.61	Intermediate to Advance
Governance, risk management and internal control	2.34	Intermediate to Advance
Audit and assurance	2.27	Intermediate to Advance
Business management	2.18	Intermediate
Finance and financial management	2.08	Intermediate
Management accounting	1.95	Intermediate
Information technology	1.91	Intermediate
Business and organizational environment	1.59	Foundation to Intermediate
Economics	1.21	Foundation

IV. Discussion and Conclusion

The evidence suggests that accounting students can expect to provide a combination of accounting and tax consulting services to small and medium businesses in the South African environment. The interpretation of specialized reports included under Financial Accounting was however not considered that important by the accounting firms included in the study. With regards to Taxation, international taxation and the involvement of a tax specialist obtained the lowest ratings. The relevant importance of the regulatory environment in which small and medium businesses operate was also confirmed. Business laws and regulation, Governance, risk management and internal control as well as Audit and assurance were considered to be intermediate to advanced areas.

In contrast, the accounting firms indicated that information technology was not considered that important. Moreover, the study revealed that only moderate levels of complexity arerequired for Management accounting as well as for Finance and financial management. The lower than expected rating for the aforementioned disciplines could be indicating that financial statements prepared in the small and medium business sector is conformity in nature and that accountants are not involved in the day-to-day management of clients, especially in view of the relatively low rating for Business management; Business and organizational management as well as Economics.

In summary the study identified the most important competence areas for accountants in the South African small and medium business sector. The results could be of value to academic institutions developing academic programs and preparing accounting students for the small and medium business sector. In view of the exploratory nature of the study further studies are encouraged, especially in an international context to compare the competency requirements across borders.

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Annexure A – Learning Outcomes for Technical Competence Area

	Mean	Min	Max	Variance	Standard deviation
(a) Financial accounting and reporting					
(i) Apply accounting principles to transactions and other events	3.36	3.00	4.00	0.23	0.48
(ii) Apply IFRS or other relevant standards to a range of transactions and other events	3.09	2.00	4.00	0.63	0.79
(iii) Classify financial data appropriately in financial statements	3.18	2.00	4.00	0.51	0.72
(iv) Prepare primary financial statements, including consolidated financial statements, in accordance with laws and regulations	2.91	1.00	4.00	0.81	0.90
(v) Evaluate the appropriateness of accounting policies used to prepare financial statements	3.00	2.00	4.00	0.73	0.85
(vi) Interpret specialized reports including sustainability reports and integrated reports	1.64	1.00	3.00	0.78	0.88
(b) Management accounting					
(i) Apply techniques such as product costing, variance analysis, inventory management, and budgeting and forecasting to improve the performance of an organization	1.91	1.00	3.00	0.45	0.67
(ii) Analyze and integrate financial and nonfinancial data to provide relevant information for managerial decision making	2.09	1.00	3.00	0.45	0.67
(iii) Prepare reports to support managerial decision making, including reports that focus on planning and budgeting, cost management, quality control, performance measurement, and benchmarking	2.09	1.00	3.00	0.45	0.67
(iv) Compare and evaluate the performance of products and business segments	1.73	1.00	3.00	0.38	0.62
(c) Finance and financial management					
(i) Compare the various sources of finance available to an organization, including banking finance, financial instruments, and different capital markets	2.09	1.00	3.00	0.63	0.79
(ii) Analyze an organization's cash flow and working capital requirements	2.27	1.00	3.00	0.38	0.62
(iii) Analyze the current and future financial position of an organization, using techniques such as ratio analysis, trend analysis, and cash flow analysis	2.18	1.00	3.00	0.51	0.72
(iv) Evaluate the appropriateness of the components used to calculate an organization's cost of capital	2.09	1.00	3.00	0.63	0.79
(v) Apply appropriate capital budgeting techniques to the evaluation of capital investment decisions	1.64	1.00	3.00	0.41	0.64
(d) Taxation					
(i) Explain domestic taxation compliance and filing requirements	3.27	2.00	4.00	0.56	0.75
(ii) Prepare tax calculations for direct and indirect taxes for individuals and organizations	3.27	2.00	4.00	0.38	0.62
(iii) Analyze the taxation issues associated with non-complex international transactions	2.45	1.00	4.00	0.61	0.78
(iv) Explain the difference between tax planning, tax avoidance, and tax evasion	3.45	2.00	4.00	0.43	0.66
(v) Identify when it is appropriate to refer matters to taxation specialists	2.45	1.00	3.00	0.43	0.66
(e) Audit and assurance					
(i) Analyze the risk profile of an entity to identify the components of audit risk	2.36	1.00	4.00	1.32	1.15
(ii) Describe the objectives of an audit of financial statements	2.45	1.00	4.00	1.16	1.08
(iii) Describe the activities involved in performing an audit of financial statements	2.27	1.00	4.00	1.47	1.21
(iv) Identify applicable auditing standards (e.g., ISAs), laws and regulations relevant to an audit engagement	2.09	1.00	4.00	1.72	1.31
(v) Understand the key elements of assurance service engagements	2.18	1.00	4.00	1.60	1.27
(f) Governance, risk management and internal control					
(i) Explain the principles of good governance, including the rights and responsibilities of owners, and the role of stakeholders in governance, disclosure, and transparency	2.55	1.00	4.00	0.98	0.99
(ii) Analyze the components of an organization's governance structure	2.27	1.00	4.00	1.11	1.05
(iii) Analyze an organization's risks and opportunities within a risk management framework	2.09	1.00	4.00	1.17	1.08
(iv) Analyze the components of internal control	2.45	1.00	4.00	1.16	1.08
(g) Business laws and regulations					
(i) Explain the laws and regulations that are relevant to the environment in which professional accountants operate	2.91	2.00	4.00	0.26	0.51
(ii) Explain different legal forms of businesses and the legislation and regulations that govern each form	2.55	1.00	4.00	0.79	0.89
(iii) Identify when it is appropriate to refer matters to legal specialists for help	2.36	1.00	3.00	0.60	0.77
(h) Information technology					
(i) Describe the basic hardware and software components of information systems	1.91	1.00	4.00	0.99	1.00
(ii) Identify general computer controls and application controls required for effective accounting information systems	2.18	1.00	3.00	0.51	0.72
(iii) Analyze the adequacy of controls for relevant application systems	1.91	1.00	3.00	0.45	0.67
(iv) Explain the components of an information systems continuity plan	1.64	1.00	3.00	0.41	0.64

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Annexure A – Learning Outcomes for Technical Competence Area (continued)

	Mean	Min	Max	Variance	Standard deviation
(i) Business and organizational environment					
(i) Describe the environment in which an organization operates, including the main economic, legal, political, social, technical, international, and cultural forces and their influences and values	2.00	1.00	3.00	0.36	0.60
(ii) Analyze key features in the global environment that affect international trade and finance	1.45	1.00	2.00	0.25	0.50
(iii) Explain the impact of legal, political, cultural, and technological contexts on the processes of internationalization of an organization	1.55	1.00	3.00	0.43	0.66
(iv) Identify the characteristic features of globalization, including the role of multinationals, e-commerce and emerging markets	1.36	1.00	2.00	0.23	0.48
(j) Economics					
(i) Describe the fundamental principles of microeconomics and macroeconomics	1.09	1.00	2.00	0.08	0.29
(ii) Interpret the effect of movements in key indicators of microeconomic and macroeconomic activity	1.09	1.00	2.00	0.08	0.29
(iii) Explain the competitive environment facing organizations under different types of market structures, including competitive markets, monopoly, monopolistic competition, and oligopoly	1.45	1.00	3.00	0.43	0.66
(k) Business management					
(i) Explain the various ways that organizations may be designed and structured	2.27	1.00	3.00	0.56	0.75
(ii) Explain the purpose and importance of functional areas, such as human resource management, project management, procurement, technology management, and marketing	2.27	1.00	3.00	0.56	0.75
(iii) Explain the external and internal factors that may influence the formulation of an organization's strategy	2.27	1.00	4.00	1.29	1.14
(iv) Analyze relevant factors in the internal and external business environment that impact on managerial work and organizational performance	2.09	1.00	3.00	0.81	0.90
(v) Compare how various theories of organizational behavior may be used to enhance the performance of the individual, teams, and the organization	2.00	1.00	3.00	0.73	0.85

Legends:
1 = Foundation (define, explain, low levels of complexity)
2 = Intermediate (apply, analyze, moderate levels of complexity)
3 = Advanced (integrating theories and principles, act, advise, evaluate)
4 = Mastery (integrate technical competence, high levels of complexity)

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