

A Developing Economy Perspective of the ‘Traditional Roles’ of the Professional Accountant within South African SMEs

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Abstract: This paper explores the perceptions of professional accountants and SME owners with regards to the traditional compliance roles of professional accountants within South African SMEs. Semi-structured interviews with 20 experienced professional accountants and 20 SME owners highlight practical issues within the role of the accountant in statutory financial reporting and taxation advisory functions. The traditional roles are not consistently seen as an organic part of an SMEs business process, despite multiple arguments that professional accountants can add value within SMEs. Interviewees are also unconvinced that a professional accountant’s traditional role is taken seriously within the current SME context, further limiting the interconnection between value adding services and compliance services. This adds to the limited body of interpretive research on the role of professional accountants within SMEs and offers practical insights for professional accountancy organizations, policy makers, professional accountants, SME and academics.

Keywords: Compliance; financial reporting role; professional accountant; SME; taxation role

JEL Classification: M41

1. Introduction

Professional accountants within the SME landscape differ from professional accountants servicing larger enterprises. This differentiation arises from the services rendered as well as the environments that the different enterprises operate in (Blackburn & Jarvis, 2010; Devi & Samujh, 2010; Oosthuizen, 2018).

Research shows that professional accountants have an important role to play in contributing to an SME’s success (Berry, Sweeting & Goto, 2006; Berry, Sweeting & Goto, 2007; Gooderham, Tobiassen, Døving & Nordhaug, 2004; Husin & Ibrahim, 2014; Massey, Ashby, Coetzer, Lewis & Harris, 2005; Mohamed, Yasseen & Nkhi, 2020; Yasseen, Stegmann & Crous, 2020). Although global

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trends indicate that the SME sector experiences sustained growth and is consistently the largest employer across developed and developing nations, these trends are contradictory in the South African context, where SMEs are experiencing stagnation in terms of the turnover generated and employment growth (Leboea, 2017; Olawale & Garwe, 2010). This is of grave concern, since the large SME sector in South Africa consistently continues to shrink and decrease its employment absorption rate (Kesper, 2001). SMEs in actual fact have a critical role to play in promoting economic growth, increasing employment and reducing poverty in developing economies such as South Africa (Abor & Quartey, 2010; Okpara, 2011).

Professional accountants are established as fulfilling multiple roles within the SME environment ranging from traditional compliance to more sophisticated advisory roles. Previous studies indicate that the services offered by the professional accountant can be categorised into three broad categories: traditional roles, non-traditional roles and emergent roles. Within each of these categories there are a variety of services mentioned in the literature (Blackburn, Carey & Tanewski, 2010; Blackburn, Eadson, Lefebvre & Gans, 2006; Brunninge, Nordqvist & Wiklund, 2007; Carey & Tanewski, 2016; Carter, Mason & Tagg, 2006; De Villiers, 2017; Devi & Samujh, 2010; Døving & Gooderham, 2005, 2008; Greenwood, Suddaby & Hinings, 2002; IFAC, 2016; Leung, Raar & Tangey, 2008; Maphiri, 2015; Naidoo, Patel & Padia, 2018; Thompson, 2017a, 2017b; Yonkova, 2013).

Traditional roles encompass the services rendered by the professional accountant due to legislation or regulatory requirements (Everaert, Sarens & Rommel, 2007). The traditional role category is closely linked to the term compliance. Professional accountants traditionally established themselves within the SME environment to render compliance services to meet regulative burdens (Carey & Tanewski, 2016; Døving, Gooderham, Morrison & Nordhaug, 2004; Parker, 2001). The literature indicates that professional accountants are still predominately employed in the traditional compliance role within the SME environment (Devi & Samujh, 2010; Døving & Gooderham, 2008). This can be attributed to the obligatory regulatory requirements that establish the demand for professional accountants in SMEs (Marriott & Marriott, 2000).

The objective of this study is to investigate how professional accountants and SME owners experience the ‘traditional role’ of the professional accountant with regard to SMEs in South Africa?

2. Literature Review

Professional accountants have started to diversify their roles within SMEs that are distinct from the traditional compliance roles (Bennett, 2007; Dyer & Ross, 2008). The literature however indicates that professional accountants are still predominately utilised within the traditional compliance role (Devi & Samujh, 2010; Døving & Gooderham, 2008). This can be attributed to the obligatory regulatory requirements that establish the demand for professional accountants within the SME environment (Marriott & Marriott, 2000). The types of roles that are categorised under traditional compliance roles are primarily the rendering of taxation services and the compilation of financial reports for SMEs (Døving & Gooderham, 2008). The financial reporting and taxation roles of the professional accountant within the SME environment will subsequently be discussed.

2.1. The Financial Reporting Role

Research on financial reporting has mainly focused on the application and implementation of appropriate financial reporting standards for SMEs (Albu, Albu & Fekete, 2011; Jermakowicz & Epstein, 2010; Mohamed, 2017; Quagli & Paoloni, 2012; Schutte & Buys, 2011a, 2011b; Uyar & Güngörmüs, 2013; Van Wyk & Rossouw, 2009). South African studies have further indicated that even simplified reporting standards like the IFRS for SMEs are seen as burdensome for the SME (Mohamed, 2017; Schutte & Buys, 2011a; Van Wyk & Rossouw, 2009). Some of the research should, however, be read with caution, as Mohamed (2017), Schutte and Buys (2011a) and Van Wyk and Rossouw (2009) focused only on the technical nature of the financial reporting standards from the perspective of the professional accountant and did not consider the SME's views.

The financial reporting role exists in the context of the requirement that SMEs should comply with the International Financial Reporting Standards (IFRSs) or the IFRS for SMEs. The IFRSs are issued by the International Accounting Standards Board (IASB), an independent organisation based in London, United Kingdom. IFRS represents a set of financial reporting principles that entities can apply globally. The objective is to have comparable financial reporting principles to reduce information risk and costs to stakeholders (Ball, 2006; Carmona & Trombetta, 2008; Daske, Hail, Leuz & Verdi, 2008; Soderstrom & Sun, 2007).

The financial reporting role involves the process adopted by the professional accountant in producing financial statements that disclose an SME's financial compliance with the principles of IFRS or IFRS for SMEs to stakeholders of the SME, as prescribed by the South African Companies Act 71 of 2008. Despite the Companies Act providing the options for selecting IFRS or IFRS for SMEs, financial reporting is perceived as more of a compliance cost (Mohamed, 2017).

This is because the financial reporting role is experienced by the professional accountant as a distress purchase for the SME, as it arises from compliance needs as opposed to the value-adding abilities of the professional accountant (Keasey & Short, 1990).

Professional accountants experience a lack of appreciation by SME owners for financial reporting (Marriott & Marriott, 2000). When SMEs source minimal financial reporting information, it often results in the owners being misinformed due to insufficient information to support decision making (Kirby & King, 1997). However, it should also be understood that the objective of financial reporting is to provide information for external decision-making purposes and is not intended only for the owners' usage (Halabi, Barrett, & Dyt, 2010; IASB, 2015; Sian & Roberts, 2009). This is supported by the literature where it is argued that SME owners value taxation benefits derived from the services rendered by professional accountants more than the financial reporting benefits (Collis & Jarvis, 2002; Everaert et al., 2007; Halabi et al., 2010). The taxation role of the professional accountant is of prime importance to SME owners.

2.2. The Taxation Role

Governments levy taxes in order to provide essential services and infrastructure to their citizens. However, this does not mean that the citizens are willing to pay the taxes levied and many taxpayers intentionally attempt to reduce their tax liability (Abrie & Doussy, 2006). Taxpayer compliance to act in accordance with the legislative requirements necessitates the filing of the required tax returns within the specified period by the taxpayer, and the accurate reflection of the tax liability in the returns in accordance with the income tax requirements (Devos, 2013). Taxation compliance costs proportionately constitute a more significant portion of total costs for SMEs than for large ones (Evans, 2003; Smulders & Stiglingh, 2008). This factor could potentially lead to taxation playing a more pronounced role in SMEs than in large enterprises.

As a result, professional accountants play a prominent role in rendering this service to SMEs. A survey conducted by Coolidge, Ilic, and Kisunko (2009) on SMEs in South Africa showed that 57% of respondents indicated at least some outsourcing of tax compliance work. This finding was confirmed by Letsoalo (2014), who found that SMEs, more often than not, outsource the taxation compliance obligations to a professional accountant (Letsoalo, 2014). Professional accountants, according to the Tax Administration Act 28 of 2011, need to be registered with a recognised professional accountancy organisation as per the Act before they are allowed to render taxation services to an SME. Research on the taxation compliance role within the SME environment has mainly focused on factors and types of taxation that SMEs are affected by and not on the experience of the

perceived value of the role (Abrie & Doussy, 2006; Atawodi & Ojeka, 2012; Chen, Lee & Mintz, 2002; Killian, Karlinsky, Payne & Arendse, 2007; Manzo, 2011; Smulders & Stiglingh, 2008).

A significant number of SME owners are not skilled in the administrative and technical requirements with regard to tax compliance (Killian et al., 2007). Professional accountants within the SME environment act as intermediaries between the South African Revenue Service (SARS) and the SME by providing taxation services to the SME to ensure compliance with the South African taxation laws as prescribed by the Income Tax Act 58 of 1962 (RSA, 1962, 2011). The professional accountant should have a robust understanding of the taxation laws of a country and as such assists SMEs to file tax returns as well as with its tax planning. The Tax Administration Act 28 of 2011 does however not specifically require the SME to utilise the services of a professional accountant. SMEs who submit incorrect tax returns are subject to tax audits which could lead to high interest being charged, as well as being subjected to penalties for misinterpreting the Income Tax Act 58 of 1962.

The literature on professional accountants and their role within the SME environment is limited, fragmented and outdated from both a South African and international perspective. There is no established history available of the role of the SME accountant within SA. What is known is that the traditional role manifests itself due to compliance to regulations and is influenced by several experiential factors as identified.

3. Methodology

Most literature on the professional accountant in the SME environment reflects survey and questionnaire type research approaches. For this study, this dominance of quantitative approaches is regarded as limiting to work with, as surveys neither provide rich in-depth exploration of relationships nor are they representative of the variety of stakeholder views. The available research is fragmented, and this reduces the ability to contrast, compare and benchmark the traditional role. This research study recognises the importance of building research to address a knowledge gap in a rapidly changing business environment. The research question necessitates the researchers' engagement and interaction with participants to uncover these meanings by collecting textual, qualitative data and analyzing it through the application of a qualitative research approach. To this end, the researcher becomes witness to the participants' meaning-making processes and then, through further analysis, constructs meaning from their experience. The decision therefore was to employ a thematic analysis on a purposive sample of twenty professional accountants and SME owners respectively. Regarding the sample size there are no

pre-fixed rules regarding sample size selection in qualitative inquiry (Patton, 2002). In qualitative research, samples are smaller than in quantitative studies as generalisation is not the aim (Marshall, Cardon, Poddar & Fontenot, 2013). Furthermore, qualitative research often involves small numbers of participants to ensure that the data is analysed in sufficient depth. Whilst the sample size may be small, the amount of data gathered could be large in terms of significance (Fossey, Harvey, McDermott & Davidson, 2002).

4. Findings

4.1. Financial Reporting Role

Professional accountants and SME owners who participated in the study unequivocally confirmed that the professional accountant had an “important” role in SMEs with regard to the preparation and lodging of financial statements. Both groups of participants experienced the importance of the role in the context of compliance demands, since the SMEs were obliged to meet certain statutory legislative requirements. Based on the data, the financial reporting role is influenced by five factors, as indicated in Figure 5.1. The financial reporting role will be discussed in terms of each of these factors.

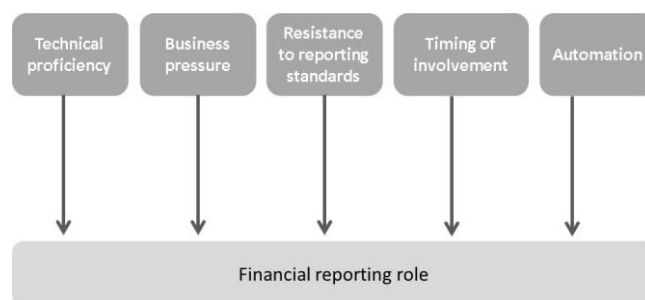


Figure 5.1. Factors Influencing the Financial Reporting Role

4.1.1. Technical Proficiency

Professional accountants and SME owners acknowledged that the professional accountant had the necessary technical accounting skills to prepare the financial statements while SME owners in South Africa in most cases did not possess such technical acumen. The findings indicate that the majority of SME owners and professional accountants are of the opinion that SME owners are averse to develop the technical acumen to prepare financial statements. The data did however suggest that the SME owners are not completely financially illiterate and have the potential to understand and achieve technical proficiency within current financial reporting standards. This has been confirmed in prior studies which established that SME

owners may be conscious of the market conditions in which they operate, but could lack training in the accounting and regulatory aspects of the SME (Collis & Jarvis, 2002; Marriott & Marriott, 2000). However, a strong unwillingness amongst SME owners to attempt to understand or be trained on the technical aspects of the financial reporting function within their businesses could be inferred from the data. The implication of this is that the traditional role of the professional accountant may become increasingly redundant should SME owners become more willing to understand the accounting and regulatory aspects of their businesses as identified in paragraph 2.36 of the Conceptual Framework for financial reporting (IASB, 2018).

The unwillingness of SME owners to become more proficient in the accounting and regulatory aspects of their businesses do, on the one hand, ensure that the services of the professional accountant are needed in the SME environment. However, this could lead to a situation where the professional accountant could be reluctant to share knowledge with the SME owner in order to safeguard his/her role. Furthermore, if the professional accountant did play a broader and deeper role beyond financial reporting, it would be important to explain the financial reports to the SME client and assist the owner to interpret the statements. This would mean that the SME owner needs to have at least a certain level of understanding of financial reporting, and this would require the professional accountant to share his/her knowledge with the SME client.

4.1.2. Business Pressure

Both professional accountants and SME owners stated that SME owners have time constraints and are under mental pressure to meet the demands of running a business and are not in a position to provide due attention to financial reporting requirements. The findings indicate that the financial reporting requirements are considered to be too demanding and onerous for the SME owner to invest time and energy in, and consequently the services of a professional accountant become necessary.

Prior studies have confirmed the tendency of SME owners to exhibit increased psychological stress if there is a threat that the SME might not meet its compliance obligations (Amoako, 2013). The professional accountants who were interviewed experienced their role to be one of the preparer and lodger of the financial reports to relieve the SME owner from this stressful responsibility. The SME owners supported the professional accountant's experience in terms of the financial reporting role.

These findings further suggest a "segregation of duties" in terms of which the professional accountant prepares the financial statements and the SME owner

focuses on the business activities. Such “segregation of duties” will have an impact on the SME business as a whole. For example, a situation was described during an interview where the management of an SME was required in terms of the current set of financial reporting standards as per the South African Companies Act No 71 of 2008 to select the appropriate accounting policies that the accountant should apply when preparing the financial reports. The data reveals that in reality, with this “segregation of duties” there was an abdication of this responsibility by the SME owner to the professional accountant. The professional accountant therefore provides a dual role by selecting the accounting policies and subsequently preparing and lodging the financial reports without the involvement of the SME’s management.

4.1.3. Resistance to Reporting Standards

The data revealed significant resistance to IFRS or the adapted IFRS for SMEs within the South African SME environment. These findings proved contradictory to Mohamed, Yasseen, and Omarjee (2019), who found that South African accounting practitioners had embraced IFRS for SMEs as opposed to the IFRS. The difference in findings could be explained by the fact that Mohamed et al. (2019) asked practitioners to reflect on the reporting burden relief of IFRS vs IFRS for SMEs, as was corroborated by Schutte and Buys (2011a). In contrast, participants in the current study were asked to reflect on the overall acceptability of the current financial reporting regime within SMEs. The current investigation did take into consideration the views of both SME owners and professional accountants.

The data suggested that while the professional accountant had established an “important” dual role within SMEs, the importance of their role did not arise from their choosing a particular financial reporting framework. The majority of professional accountants and SME owners questioned the need to prepare financial statements that have to meet the technical requirements of either IFRS or the IFRS for SMEs, and professed that in their view the reporting standards hold no value for SMEs. Even though the professional accountants stated that they embarked on their role as preparer of the financial statements with technical care and accuracy, SME owners still dismissed the value of the financial statements regardless of the effort required. The majority of SME owners observed that notwithstanding the perceived quality of IFRS/IFRS for SME standards, this did not translate into any monetary gain for the business. Reasons cited were that IFRSs did not reduce any information risk to stakeholders, but rather increased the SME’s cost burden to comply. This is contrary to studies conducted with larger listed companies and contradicts the assertion of the IASB that financial reporting principles within IFRS or IFRS for SMEs reduce information risk and costs for stakeholders (Ball,

2006; Carmona & Trombetta, 2008; Daske et al., 2008; Soderstrom & Sun, 2007). These findings further contradict quantitative studies claiming that the value of an SME can be ascertained through the compilation of reliable financial information and that reliable financial information resulted in fewer barriers to access credit as well as a lower rate of borrowing (Allee & Yohn, 2009; Collis, 2003; Collis & Jarvis, 2002; Maas, Nieman & Nieuwenhuizen, 2014; Oosthuizen, 2018).

A possible interpretation of these findings is that SME owners and professional accountants generally view only banks and SARS as important? stakeholders and, as such, regard the preparation of financial statements as a compliance cost, since the investors usually constitute the management of the entity and don't see any benefit in financial reports. This is supported by Mohamed (2017), who found that financial reporting is perceived as a compliance cost within SMEs in South Africa.

The majority of professional accountants and SME owners who participated in this study confirmed that SME owners do not appreciate financial statements and, as such, they do not value the professional accountant's financial reporting role. According to them the value of this role lies in the compliance aspect only and not in the value that financial reporting has for the SME owners' businesses. Both groups of participants also regularly referred to the SME soliciting this service as a "grudge purchase". This metaphor of a grudge purchase again implies that the SME owner is unwillingly and resentfully electing the service. The data reveals that the term "grudge purchase" arises from the SME owner having no alternative concerning the outcome as the service is required due to regulations irrespective of how the business operates and whether or not these services increase economic gains for the SME. These negative perceptions have also been supported by Keasey and Short (1990), who found that the purchase of financial reporting services from a professional accountant is regarded as a distress purchase as it arises from compliance needs as opposed to accessing the value-adding abilities of the professional accountant. This results in a paradox as to how the professional accountant experiences his/her financial reporting role. The professional accountant as preparer of the financial statements is deemed to be an important service provider to ensure compliance on the one hand, but the actual service is not perceived to be of real benefit to the SME. The financial reporting role of the professional accountant therefore is vested in legislation and is thus protected in the SME environment.

Prior studies have confirmed that the objective of financial reporting is to provide information for external decision-making purposes and is not intended for the SME owner's use (Halabi, Barrett & Dyt, 2010; IASB, 2015; Sian & Roberts, 2009). The SME owners were made aware of the potential of financial reporting to gain access to funding which can lead to monetary gain and growth of the SME (IASB, 2015)

during the interviews, but they did not seem to be convinced of these possible benefits.

The taxation role of the professional accountant will be discussed in depth but in terms of the financial reporting role it is important to note that, according to the research, the perceived benefit that SME owners gain from the professional accountant is the execution of the taxation role rather than the financial reporting role (Collis & Jarvis, 2002; Everaert et al., 2007; Halabi et al., 2010).

4.1.4. Timing of the Professional Accountant's Involvement

Participants were of the opinion that financial statements are compliance reports which add very little value to SMEs' success, and therefore very few SME owners even read these financial statements. Furthermore, these reports contained historic information which the SME owners don't regard as relevant to the here and now of their business operations or in terms of future planning. Various reasons emerged from the data as to why financial statements were perceived to add little or no value to SME owners.

Firstly, financial statements gave little direction on how owners should run their businesses currently or in the future. Secondly, the information presented was perceived to be outdated due to the difference between the compiled historic date and when the transactions actually took place. As SME owners are aware of the transactions when they happen, from their point of view there is no original information in the financial statements. The third reason was that the timing of the professional accountant's involvement was problematic. A perception exists amongst the majority of SME owners that the professional accountant's role in the business is seasonal, depending on the timing of compliance needs. These reasons could further explain why many of the SME owners perceive the services of a professional accountant as a grudge purchase. Furthermore, the financial reports prepared by the professional accountant are unregulated, as there is no monitoring board to ensure compliance to the reporting standards for SMEs. Financial statements are prepared on the accrual basis, whereas SME owners measure and attribute their success and sustainability based on cash flow. SME owners are very much focused on the here and now and their current cash flow position, and less on what the trends of the past were and what can be learned from them to apply in the present with the aim to improve future results. As such, the professional accountant is not considered to play a role in planning for the future by assisting them to interpret current and historical data and look at forecasts by taking various factors into account.

This has two implications in terms of timing. The first is that the way in which financial data and statements are interpreted and prepared doesn't unlock the

potential value of financial reporting. The second is that the professional accountant needs to be involved in the business planning and analysis on an ongoing basis and not only once a year, to be able to provide continuous analysis and recommendations regarding the business' financial health. Again, a shift in mind-set is required from both groups of participants.

A minority of the professional accountant participants were of the opinion that whilst financial statements contain historical information, they can be used as a tool to determine the SME's growth and progress if interpreted correctly. Furthermore, it was stated that the information presented in the financial statements has a certain level of predictive value and can therefore guide the SME owners to position themselves favourably to enter into its next cycle of growth or prepare for difficult times ahead. Although the majority of SME owners perceive the purchase of the service as a grudge obligation, there was also a minority view that suggests appreciation of the fact that financial statements can unlock potential within the business through proper understanding and interpretation of the set of financial statements. To enhance the financial reporting role, many SME owners and professional accountants were of the opinion that professional accountants should be involved on a more continuous basis to really add value.

4.1.5. Automation

Automation is threatening several jobs with obsolescence, and the accountancy function is purportedly high on the automation list (Nagarajah, 2016). A significant finding that emerged from the data was the perceived influence of automation on the traditional role of the professional accountant within the financial reporting process.

Professional accountants and SME owners agreed that while computerised accounting software was used, SME owners had no intention of replacing their professional accountants with 4IR technologies? Even though automation was increasing rapidly. The professional literature remains divided on this aspect. Kepes (2017) argued that accounting software providers have been supporting the automation claims that professional accounting will become redundant. Small, Yasseen and Sallie (2019) affirmed the findings of the current study and argue that while digitisation will continue to disrupt traditional financial reporting, it would not make professional accountants redundant. This relates to what was stated in the earlier discussion where professional accountants and SME owners confirmed that SME owners did not have the time, nor the willingness, to develop financial acumen in terms of accountancy skills. SME owners affirmed that professional accountants had technical mastery of the financial reporting requirements. This is supported by the existing literature which argues that a professional accountant requires a complex set of skills and technical abilities, needs to invest significant

time, and undergo extensive training to master the knowledge required by the profession (Millerson, 1964; Richardson, 1988).

Issues regarding professional judgement have emerged due to the use of standardised software. Professional accountants and SME owners identified that standardised financial reports were often computer-driven and transactions were automated. It can be inferred from the data that, with a too high reliance on automated reporting, there may potentially be neglect by the professional accountant to factor in qualitative factors such as political, environmental, social and legal aspects when making accounting estimates. The inference could be made that the reason why participants did not believe that reports assist in obtaining better access to financing is due to an over-standardisation through automated processes and the production of cumbersome financial reports which are of little or no use to other stakeholders who may potentially need to use the information to make financial or investment decisions. This line of thought provides further insight into why even apparently simplified reporting standards like the IFRS for SMEs are seen as burdensome for the SME as indicated in various South African studies (Mohamed, 2017; Schutte & Buys, 2011a; Van Wyk & Rossouw, 2009).

As indicated in section 2.1.1 the body of existing research should however be interpreted with caution. Mohamed et al. (2019), Schutte and Buys (2011a), and Van Wyk and Rossouw (2009) all focused on the technical nature of the IFRS for SMEs from the perspective of the professional accountant and did not consider the views of SME owners. Research in financial reporting has focused mainly on the application and implementation of appropriate financial reporting standards for SMEs (Albu, Albu, & Fekete, 2010; Jermakowicz & Epstein, 2010; Mohamed, 2017; Mohamed et al., 2019; Quagli & Paoloni, 2012; Schutte & Buys, 2011a, 2011b; Uyar & Güngörmüş, 2013; Van Wyk & Rossouw, 2009).

The data from the current study revealed that the technical nature of financial reporting will be integrated more into computerised accounting software over time as automation increases. The current study further confirmed that legislation currently “protects” the professional accountant, as the SME owners still show reluctance to be part of the financial reporting and compliance process. The view that the traditional role of the professional accountant is “safe” is clearly not embedded in the depth or breadth of value that the professional accountant adds, and is based rather on the onerous compliance processes and the perceived cumbersomeness of financial reporting, requiring the services of a competent technician.

Ironically, these aspects of the accountancy function are the easiest to replace. Even though SME owners are currently of the opinion that they won't go the route of full automation as they believe they would then need to spend time generating and interpreting reports or take care of compliance issues themselves, this may

change in the not too distant future as software is continuously being developed and through the advances of artificial intelligence, high-quality interpreted financial reports will possibly become the rule rather than the exception. Compliance processes will also continue to become automated and will most probably in future demand very little human input. It can therefore be said that the irreplaceable value of the professional accountant in general, and specifically in the SME environment, does not lie in their technical skills and abilities but rather in...?

4.2. Taxation Role

The collected data indicated that the professional accountant is deemed to have a robust understanding of the taxation laws of South Africa and as such is able to assist SMEs with tax filing as well as tax planning. The service offerings of the professional accountant as a tax advisor within SMEs formed a significant part of the relationship between professional accountants and SME owners. Professional accountants and SME owners resolutely identified that providing taxation services for the SME was at the core of the relationship between the SME owner and professional accountant and was perceived as a valued service. The data analysis uncovered a significant theme that indicates how the professional accountant takes up the role of intermediary between the SME owner and the South African Revenue Service (SARS). In the following subsection, this positioning will be discussed and related to two key aspects, namely, the SME owner's lack of taxation knowledge and skills compared to the professional accountant who is knowledgeable and skilled in terms of taxation, and, secondly, the significant lack of trust in SARS that SME owners have.

4.2.1. The Professional Accountant as Intermediary

The data suggests that the role of the professional accountant in the SME environment is, to a large extent, as a taxation service provider. This is echoed by prior studies that have found that SMEs more often than not outsource the taxation compliance obligations to a professional accountant (Coolidge et al., 2009; Letsoalo, 2014).

The theme of the professional accountant as intermediary is indicative of how the legislative environment shapes the role of the professional accountant within an SME environment and relates specifically to the position that the professional accountant takes between the SME/SME owner and SARS. It can be inferred from the data that the professional accountant is positioned between the SME owner and SARS due to a strong reluctance from SME owners to deal directly with SARS. The data revealed reasons such as lack of trust in SARS, trepidation, lack of understanding of tax legislation and time-consuming processes. It was argued that

the professional accountant alleviates the stress experienced by the SME owner, which, in itself, has value.

The data also suggests there could potentially be a risk that professional accountants use the negative associations people have of SARS to secure their positions in SMEs.

The perception from both professional accountants and SME owners was that if there was no tax compliance obligation placed upon businesses, then the value of professional accountants would diminish significantly. This reason can be further substantiated by the data, which found that professional accountants had a far more comprehensive understanding of taxation legislation than SME owners, and this service was therefore of benefit from a compliance, tax saving and time management perspective. It is argued in the literature that citizens are usually unwilling to pay the taxes levied and therefore many taxpayers intentionally attempt to reduce the tax liability imposed by SARS (Abrie & Doussy, 2006). The majority of SME owners and professional accountants perceived the role of the professional accountant as directly linked to tax legislation within the country. The implications of this finding are important as the data suggests that if the complex taxation legislative framework implemented through SARS did not exist, professional accountants' role within the SME environment would diminish significantly.

Due to the professional accountant's advanced technical mastery of the South African tax legislation, the taxes payable by SMEs can be minimised within the legislative framework whilst still complying with taxation requirements and ensuring that the SME is not penalised through fines and penalties. Prior studies have already confirmed that a significant number of the SME owners are not skilled regarding the administrative and technical requirements in terms of tax compliance (Killian et al., 2007).

4.2.2. Lack of trust in SARS

As stated, the data also revealed that SME owners have a lack of trust in SARS, as there was a perception that SARS had the objective to aggressively penalise their business through the collection of taxation. The perception of SME owners was that more often than not SARS took a portion of their hard-earned profits and cash generated, while taxes are used by government for fruitless and wasteful expenditure with no societal benefit.

An important aspect that emerged from the data was that professional accountants validated the fear and distrust of SME owners of SARS and acknowledged that this posed an opportunity to establish their role and generate work by acting as an intermediary between the SME and SARS. Professional accountants within the

SME environment were cognisant of this advantage that they had, and confirmed that these taxation services came at a high premium to the SME. This finding has been confirmed by (Evans, 2003), who also found that taxation compliance costs proportionately constitute a significant percentage of total costs for micro SMEs compared to larger SMEs in South Africa. SME owners acknowledged these high premiums but still found the provision of taxation services by the professional accountant to the SME of significant value. The data further implied that the underlying valuable role that the professional accountant fulfils was contingent upon the ability of the professional accountant to ensure that the SME owner's lifestyle needs are met and less taxation is paid over to SARS. Such perceptions may be in conflict with the expected role of the professional accountant to serve the public interest

In summary, it can be stated that the professional accountant, SME owner and SARS are involved in a complex triangular relationship. The dynamics of this relationship is depicted in Figure 5.2, which shows the distrust that SME owners have of SARS, as well as their trepidation in dealing with SARS.

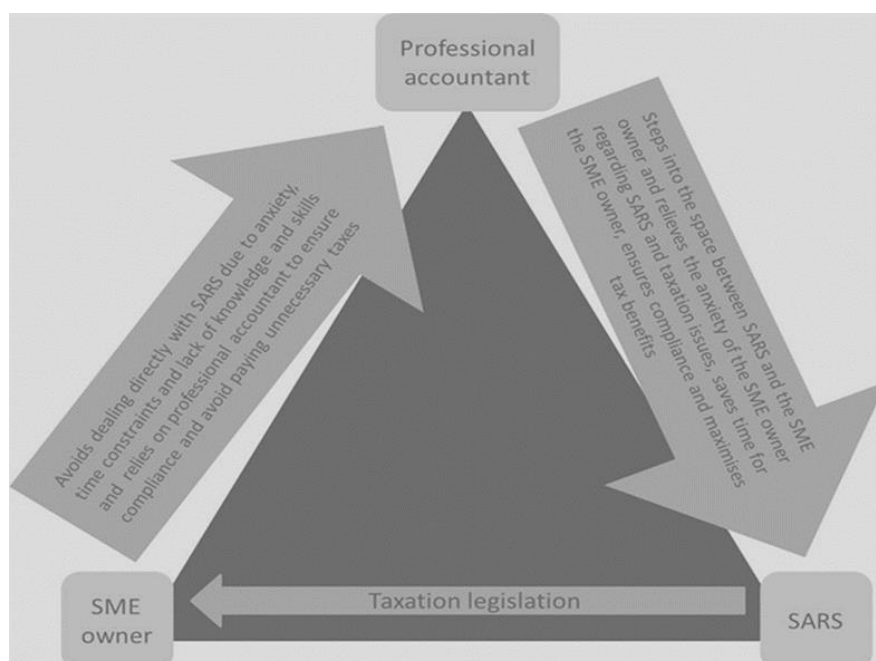


Figure 5.2. Triangular Relationship Dynamics of the Professional Accountant, the SME Owner and SARS

One can reflect on how healthy and sustainable this dynamic is, as the professional accountant possibly secures his/her role as taxation advisor based on the SME owner's negative feelings towards SARS. Should SARS build a strong partnership

with SMEs, which would undoubtedly be in the best interest of SARS as well as to the benefit of public interest, the value of the accountant's role would probably diminish. This is however a complex topic in itself and beyond the scope of this study, but further research into this matter would add to a deeper understanding of these dynamics

5. Conclusion

The most significant finding of this research is that the role of the professional accountant was established through legislation and valued only within this context. The traditional roles form the core of the current role of the professional accountant within the SME environment in South Africa. While payment for these services was deemed negatively as a grudge purchase, it was considered the essence as to why professional accountants exist in the SME environment. This study offers strategies for SME owners, professional accountants and stakeholders within the accountancy profession to position the role of the professional accountant within the SME environment. Professional accountancy organisations need to understand that the traditional role of the professional accountant within the SME environment is still predominately driven from the need of traditional statutory compliance roles. Caution needs to be exercised by professional accountancy organisations when pressuring professional accountants to render non-traditional and emergent roles to SMEs. Future research can broaden the role of the professional accountant within SMEs by examining the non-traditional and emergent roles as experienced within the SME environment.

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