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## 08-09 INTERVIEW: JOHANNES GUIGARD

The Italian accounting profession is beset by a series of challenges according to Johannes Guigard. The industry veteran speaks about a critical pensions dilemma and shares his thoughts on a lack of leadership at the national level

## 12-15 COUNTRY SURVEY: SOUTH AFRICA

The past year has seen some notable changes within the South African accounting profession. There are new leaders at both the largest accounting institute and the national audit regulator, and a new Companies Act has everyone on their toes

## REGULATION

# New legislation shakes up South African audit profession

A new Companies Act in South Africa is set to reshape the face of the audit profession.

At present, all South African companies must produce audited financial statements. The new law, which will come into effect towards the middle of next year, exempts all privately-owned companies from audit.

It creates a three-tiered system, with public interest entities requiring an audit, some private companies requiring an independent review and the smallest companies exempt altogether.

The threshold to define what constitutes a small company has not yet been set.

The question of which professionals will be authorised to conduct the reviews has also not been resolved and this has set different sections of the accounting profession on opposing benches.

The Independent Regulatory Board for Auditors (IRBA) is responsible for registering and overseeing auditors in South Africa. IRBA chief executive Bernard Agulhas said if the Department of Trade and Industry (DTI), which sets the legislation, uses the IRBA definition of a review then only auditors will be allowed to provide the service. It will follow the terms of International Standard on Review Engagements (ISRE) as set by the International Audit and Assurance Standards Board.

“But there might be a different definition for what the review is and the DTI is consulting very widely at the moment,” Agulhas said.

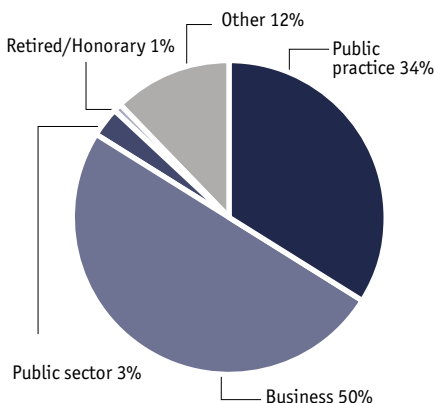
“We believe it should be a review in terms of ISRE 2400. We believe there should be some level of assurance for private companies because although there is no public interest there are still tax authorities, bankers and employees who need some kind of assurance on the financial statements.”

### New business stream

The South African Institute of Professional Accountants (SAIPA) disagrees the independent review should be restricted to auditors. SAIPA members cannot become registered auditors and the new law could provide them with a new business stream. SAIPA chief executive Shahied Daniels said the architects of the Companies Act had no intention of restricting the review to auditors.

### SAICA

Category breakdown of qualified members 2009



Source: *The Accountant*

“We, as an institute, are trying say ‘let’s come together and see what an independent review is so all members of bodies such as us and [the South African Institute of Chartered Accountants – SAICA] will be able to perform that review and it is not limited only to the registered auditors,’” Daniels said.

SAICA members can become auditors, 34 percent are in public practice (see chart).

Despite insisting the review should be restricted to auditors, given their experience and knowledge in this area, Agulhas believes the government intends to open up it up to other professionals.

“We have been trying to position ourselves in this changing landscape because if auditors lose the audit of private companies, those firms and those practices that only audit private companies will have to revisit their business strategy to see whether they want to continue as audit practices or whether they want to focus on other services.... The IRBA as the regulator certainly needs to see how it impacts on the audit profession.”

Agulhas said he thinks audit firms are “a bit worried”, especially SMPs.

“If the DTI decides that it is just an alternative assurance engagement, then they might decide that anyone else can do it. I think for auditors, there will be some impact on their practices.” ■

Carolyn Canham

## RULE CHANGES

# Regulation throws Japan a lifeline

So often the enemy of enterprise, regulation has thrown the Japanese accounting profession a much needed lifeline amid the woes of the global financial crisis.

Three substantial regulatory changes look certain to keep firms in high demand over the next few years.

The first is J-SOX – the unofficial name used to describe Japanese audit oversight legislation similar to US requirements in Section 302 and Section 404 of the Sarbanes-Oxley Act.

Then there is quarterly reporting and the likely introduction of IFRS.

The implementation of J-SOX and quarterly reporting has boosted audit and overall revenues, particularly at the larger end of the market. Japanese newspaper *Nikkei* recently estimated audit fees had increased about 32 percent on average because of the new regulations.

KPMG ASZA executive board member Tatsuhiko Yano said the firm’s audit practice grew about 20 percent thanks to J-SOX and quarterly reports.

These requirements, introduced in April 2008, include the evaluation and audit of internal control over financial reporting.

Japanese regulators introduced a quarterly review for listed companies at about the same time as J-SOX.

This has doubled accountants’ financial review work, which is now a year-round activity. Previously, all companies prepared statements half yearly.

### Looking to IFRS

While the material benefits of J-SOX and quarterly reporting may fade, IFRS conversion and reporting will provide Japanese firms with an increasing stream of work.

An initial IFRS road map was released by the Japanese Business Accounting Council in June with mandatory adoption of IFRS from 2016, subject to a final decision being made by 2012.

Yano said although many Japanese companies have taken a wait-and-see approach to the standards, the trend is obvious.

“Just recently, many companies have begun thinking it is high time for them to prepare for IFRS,” he said. ■

Nicholas Moody

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Accountant

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Financial News Publishing Ltd, 2009  
Registered in the UK No 6931627  
ISSN 0001-4710

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## EVENTS

## Increasing global awareness evident at US accounting event

The increasingly international nature of the American Accounting Association's (AAA) annual meeting, held in New York this month, was one of the three most interesting points to arise from the event, according to one attendee.

The AAA is a national organisation that focuses on accounting education and research.

Institute of Chartered Accountants in England and Wales (ICAEW) executive director Robert Hodgkinson represented the institute at the event. He said the increasingly international focus of the US is good for everyone.

"Four years ago, when I first went [to an AAA annual meeting] we had a panel session organised, but it was quite difficult as a non-US body. It was on a topic that compared US and UK corporate governance and there was a little bit of puzzlement as to who would be particularly interested in things happening outside the US," Hodgkinson said.

That attitude has transformed completely. AAA membership now includes many people from outside the US and attendance at the conference was quite international. The interest of US academics in international matter is also far greater, Hodgkinson said.

The second interesting change Hodgkinson witnessed was the "unsettling effects of IFRS on the US".

"You need to bear in mind that in the US, the universities do substantially all the training for the accounting profession. So the big decisions about 'when do we switch to teaching people IFRS' and 'are the better students going to want more internationally-orientated courses' are big issues," he said.

"For a generation of accounting professors this is quite unsettling."

One of the speakers at the event was International Accounting Standards Board chairman David Tweedie, who said other countries are running out of patience waiting for the US Securities and Exchange Commission to decide on whether to approve a road map for transitioning to IFRS. He said the US needs to commit by 2011.

Hodgkinson said the academic community probably agrees with Tweedie's sentiment that the US business community needs to decide what it was doing regarding IFRS because of the current uncertainty.

The third particularly interesting point was that there was a plenary session on sustainability issues, Hodgkinson said. He explained

that it is new for the AAA to have an interest in environmental reporting and sustainability.

"That is quite encouraging for us as a body that not only has publications on sustainability issues but also a business for sustainability training programme," he said.

"I think that's interesting, encouraging and also perhaps a sign of the changing political environment. Although there is plenty of frustration as to whether the right sort of legislation will get through Congress on cap and trade schemes and so on, it does signal a bit of a change that you would have a plenary session with two people talking about sustainability issues."

### ICAEW role

The ICAEW organised several panel sessions at the AAA event. One featured US Financial Accounting Standards Board chairman Bob Herz and discussed how financial reporting may or may not contribute to financial stability.

The other three panel members were Sarah Smith of Goldman Sachs, Haresh Sapra of the University of Chicago Booth School of Business and Stephen Ryan of the New York University Stern School of Business.

Hodgkinson said that although the four speakers' perspectives were quite different, they were quite cognisant in that nobody was saying there was an easy solution whereby financial reporting could be changed to make the markets safe from business cycles.

Another theme that Hodgkinson said arose from the event and from the financial crisis in general is that when new accounting regimes are introduced there needs to be a better understanding of how they will interact with business developments.

"We probably need to be a little bit smarter in anticipating the potential adverse consequences," he explained.

One question that arose from the floor was whether there needs to be a rethink of the use of the incurred loss model of provisioning rather than a more economically based expected loss model.

Hodgkinson said the consensus from the panel was 'absolutely, we do'. He added that although no one wants to revert to cookie jar accounting "maybe we did have a model that was just too late in recognising losses or anticipated losses". ■

**Carolyn Canham**

BRANDING

## CIMA challenges institute's decision to adopt post-nominals

The Chartered Institute of Management Accountants (CIMA) is appealing a decision by a Sri Lankan accounting body to use the designatory letters granted to CIMA members.

The Institute of Certified Management Accountants of Sri Lanka (ICMA) was recently incorporated under an Act of Parliament, which granted it more power and responsibility. It previously operated as the Society of Certified Management Accountants of Sri Lanka.

At the same time the new law passed, the ICMA said it would begin granting its members the post-nominals used by CIMA – the ACMA for associated chartered management accountants and FCMA for fellows.

The ICMA previously granted its members the post-nominals ASCMA and FSCMA.

CIMA has more members in Sri Lanka than anywhere other than the UK. The institute was established in the South Asian nation in 1965 and now has about 2,000 members and 12,000 students.

CIMA director of professional standards

Robin Vaughan said that while the ICMA syllabus is “perfectly reputable”, it is more equivalent to a technician qualification. The local qualification is, however, much more affordable than CIMA, which means it is accessible to many more students.

Vaughan said that while CIMA supports the role of the ICMA in Sri Lanka, the change in post-nominals is “entirely unnecessary”.

“One is hugely supportive of an education agenda and giving access to people but throwing the market into confusion by having designatory letters that are identical to different qualifications does seem mildly unhelpful and arguably somewhat improper,” he said.

The avenue of appeal for these matters in Sri Lanka is the Consumer Affairs Authority.

“We have made the most strong objections to the Consumer Affairs Authority, who are no doubt considering them, but not as quickly as I think everyone would like,” Vaughan said.

*The Accountant* contacted ICMA for comment but received no reply. ■

Carolyn Canham

AUDIT

## Rentokil raises conflict questions

Internal and external audit services should not be provided to a company by the same accounting firm because it impairs the independence of the external auditor, according to the Institute of Internal Auditors (IIA).

The global institute spoke out following the news that UK public company Rentokil cut its combined internal and external audit fees by 30 percent by contracting KPMG UK to provide both external audit and “some work undertaken by internal audit”.

Rentokil reported the arrangement in its interim report for the six months ended 30 June 2009.

IIA president and chief executive Richard Chambers said the Securities and Exchange Commission prohibits this practice by companies listed in the US.

“The IIA believes that even if allowed by law or statute, this practice, at a minimum, creates a perceived impairment of independence and erodes public trust,” Chambers said.

However, Institute of Chartered Accountants in England and Wales head of integrity and markets Tony Bromell said that wheth-

er or not independence has been impaired depends on exactly what internal audit services a firm is providing.

UK auditor independence rules are set by the Auditing Practices Board, which operates under the Financial Reporting Council (FRC).

“The basic rule is an auditor cannot provide internal audit services if that work would then be relied upon again by the auditor in terms of doing his own audit – it is a self review issue,” Bromell said.

Rentokil has not disclosed what type of internal audit work KPMG has been engaged in.

Bromell said that if a formal complaint was made to the FRC's Audit Inspection Unit, the regulator would investigate. If not, it would be presumed no rules had been breached.

Bromell added that his impression of the rules in the US was that they follow the same principle as the rules in the UK – an audit firm should not perform internal audit work if they will end up relying on that information for external audit. ■

Carolyn Canham

NEWS BRIEFS

PEOPLE

### SEC appoints chief accountant

James Kroeker has been confirmed as the new chief accountant at the US Securities and Exchange Commission (SEC). He has been acting in the position since his predecessor, Conrad Hewitt, retired in January this year.

Kroeker has been instrumental in the regulator's response to the financial crisis.

He directed an SEC study that recommended improving rather than suspending fair value measurement and has led efforts to address the current turmoil, including steps to improve off-balance sheet accounting standards.

Kroeker joined the SEC as deputy chief accountant in February 2007 from Deloitte US, where he had been a partner in the firm's accounting services group.

He has also previously served as a practice fellow at the US Financial Accounting Standards Board.

AUDIT

### IAASB issues SME audit guide

The International Audit and Assurance Standards Board has released a guide to help with the audit of SMEs. The publication is in question-and-answer format and is entitled, *Applying ISAs Proportionately with the Size and Complexity of an Entity*.

The guide explains how the design of International Standards on Auditing (ISAs) enables them to be applied in a manner that is proportionate to the specific characteristics of an entity. Answers relate to audit procedures, work effort, documentation and professional judgment.

EVENTS

### International round tables to tackle financial instruments standard

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) will hold round table discussions on their proposals for financial instruments in Asia, Europe and North America.

The IASB and the FASB have been separately considering the appropriate model for classification and measurement of financial instruments with an ultimate goal of achieving a common outcome to improve the accounting for financial instruments.

The round tables will discuss the alternative approaches proposed by the IASB and the FASB.

The discussions will be held in Tokyo, Japan on 3 September; in London, UK on 10 September; and in Norwalk, US on 14 September. ■

## STANDARDS

## EC changes tune on SME standard

The European Commission will consider the new IFRS for SMEs as part of its review of the European accounting directives.

The commission began a review of the Fourth and Seventh Company Law directives in February. The initial comment period closed at the end of April and a legislative proposal was due for release by the end of the year.

But following the release of the International Accounting Standards Board's (IASB) IFRS for SMEs last month, the EC decided to take more time reviewing the directives to include a consultation on the new standard.

Several EU member states, including the UK, are proposing to adopt IFRS for SMEs as national GAAP. However, if the standard does not comply with European accounting directives they could be prevented from doing so.

The EC consultation represents a significant change in attitude from Europe regarding the IFRS for SMEs.

The exposure draft of the standard was

not well received when it was released last year.

Speaking at a Federation of European Accountants event in September last year, EC Internal Markets director Pierre Delsaux said the commission did not like what was being prepared by the IASB.

He suggested the Fourth and Seventh Company Law Directives could be used instead as a base to develop an EU standard for SMEs.

The final IFRS for SMEs has received widespread praise for being much simpler than the exposure draft.

European Commission staff are now conducting a series of consultations with stakeholders to hear their views on IFRS for SMEs, the reporting needs of SMEs and other issues relating to the EU SME accounting framework.

Written comments have also been requested but no deadline for comments has been supplied. ■

**Carolyn Canham**

## CRISIS RESPONSE

## FCAG issues final recommendations

Ensuring accounting standard setters are independent from undue commercial and political pressures is one of the 23 recommendations to standard setters in a report from the Financial Crisis Advisory Group (FCAG).

The group of 18 high-level experts was formed last year at the request of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board to consider financial reporting issues arising from the crisis.

The group's 37-page report addressed four key principles:

- ensuring effective financial reporting;
- understanding the limits of financial reporting;
- converging accounting standards; and
- ensuring standard setter independence and accountability.

Recommendations for ensuring effective financial reporting included that the boards should explore alternatives to the incurred loss model for loan loss provisioning that use more forward-looking information. These alternatives should include an expected loss model and a fair value model.

The FCAG said the boards should clearly acknowledge in their joint conceptual frame-

work project the limitations of financial reporting. They noted that users should also be aware of such limits and never suspend their own judgement or due diligence.

The group urged national governments, financial market participants and the global business community to actively support the development of a single set of high-quality accounting standards.

The FCAG said to protect its independence from undue influence, the IASB needs a permanent funding structure.

Also, to bolster the authority of the International Accounting Standards Committee Foundation monitoring board, its composition should be broadened geographically to include securities regulators from a wider range of nations.

On the release of the report, FCAG co-chair Hans Hoogervorst stressed that accounting was not a root cause of the financial crisis, but that it had an important role to play in its resolution.

Co-chair Harvey Goldschmid said, as the report emphasised, improved financial reporting will help restore the confidence of financial market participants and thereby serve as a catalyst for increased financial stability and sound economic growth. ■

## STANDARDS

## Three-tier proposal for UK GAAP

The Accounting Standards Board (ASB) has released its long-anticipated proposal for the future of reporting requirements in the UK and Ireland.

The paper was deferred until the International Accounting Standards Board's (IASB) IFRS for SMEs was published so it could be considered as part of the proposals.

The ASB has proposed a differential reporting regime based on public accountability.

The proposal takes a three-tier approach:

- Tier 1 – publicly accountable entities would apply IFRS as adopted by the EU.
- Tier 2 – all other UK entities other than those who can apply the Financial Reporting Standard for Smaller Entities (FRSSE) could apply the IFRS for SMEs.
- Tier 3 – small entities could choose to continue to apply the FRSSE.

Entities within Tier 2 and Tier 3 would have the option of using EU-adopted IFRS if they wished; those in Tier 3 would have the option of using IFRS for SMEs.

The consultation paper asks whether constituents would prefer to retain the current legal definition of public accountability, which implies that all large entities are publicly accountable.

It also investigates the impact of the proposals on not-for-profit entities.

Deadline for comment is 1 February 2010. ■

## FAIR VALUE

## Bankers fear divergence

The American Bankers Association (ABA) is unhappy with the approach US and international standard setters are taking on financial instruments projects.

ABA director of tax, accounting and government relations Donna Fisher said in a letter to the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board that the new, divergent, time frames are a concern.

"The FASB will have only one of two choices," Fisher said. "One, to follow the IASB model, which will not provide US companies with appropriate due process for providing input, or two, a lack of international convergence, which should be avoided."

Fisher was also unhappy with the IASB's piecemeal approach to the standard. ■

ASSURANCE

## Calls increase in Europe for audit alternatives

International standards on review and compilation engagements need to be urgently revised to respond to changing market needs, according to a survey by the Federation of European Accountants (Fédération des Experts Comptables Européens – FEE).

The survey found a variety of approaches to the use of assurance and its alternatives in the EU.

The federation called for a “swift” response from the International Auditing and Assurance Standards Board (IAASB) to help limit national initiatives from going in different directions.

The majority of the alternative assurance or related services were developed for audit exempt entities.

The survey also found there has been an increase in audit exemption thresholds in a number of EU countries over the past few years.

This has intensified the need for alternative services for SMEs.

A report released by the Institute of Chartered Accountants in England and Wales

backed FEE’s findings. The report, *Alternatives to Audit*, was released after a two year consultation on a new assurance service based on the IAASB’s idea of limited assurance.

It found there is a need for alternatives to audit to enhance the credibility of financial information and recommended there should be choice when it comes to how companies demonstrate the reliability of the information they present.

IAASB technical director James Gunn told *The Accountant* the board recognises there is a growing demand for alternatives to audit.

However, he noted the nature and extent of this demand varies across different national markets.

The board is currently in the process of revising its compilation and review standards. Exposure drafts are expected to be released in mid-2010.

Gunn says there are widely differing views on how to best create a set of services that provide an acceptable alternative to audit, so the project is quite challenging.

“At my last meeting with the National Standard Setters I looked at where some of the different jurisdictions were going with their assurance,” Gunn said.

“Some were calling for a higher level of work effort, some were calling for a lower level of work effort, some were calling for a closer proximity to an audit and some were calling for the changes to go further.

“It is difficult to prejudge where the board will come down in terms of its changes to the standards.”

Gunn said the changes will certainly provide practitioners with a better understanding of what level of assurance they should attempt to provide under a review.

“Helping practitioners understand what work effort is needed is going to have a big effect on cost,” he explained.

The board could possibly take a more radical approach and fundamentally change some of its positions within the revised standards.

“I can’t anticipate at this stage,” Gunn said. ■

Carolyn Canham

LEGAL

## Satyam class action dismissed by Indian Court

India’s Supreme Court has dismissed a prospective class action seeking compensation of almost INR50 billion (\$1.04 billion) on behalf of Indian investors in Satyam Computer Services.

Satyam share prices plummeted in January following the revelation of India’s largest ever corporate fraud.

There were more than 300,000 individual Indian shareholders in Satyam, holding about 16 percent of the company’s total shares, according to Midas Touch Investors Association.

Midas is recognised by the Securities and Exchange Board of India as a non-profit organisation engaged in investor protection activities. It was responsible for attempting to launch the class action.

The intended respondents were Satyam Computer Services, the company’s former chairman, former managing director, former auditor Price Waterhouse (a PricewaterhouseCoopers member firm) and six former independent directors.

The INR50 billion compensation claim was based on damages per share. This was

calculated using the average highest price of Satyam shares recorded on the Bombay Stock Exchange from 2004 to 2008, INR628 per share, and then subtracting INR58 per share, the price Satyam buyer Tech Mahindra offered for each Satyam share.

Midas initially applied to India’s National Consumer Disputes Redressal Commission for compensation for the Indian investors in Satyam. When this request was rejected in May, they appealed to the Supreme Court.

Midas founder Virendra Jain said this month’s dismissal by the Supreme Court was “the end of the road as far as Satyam compensation issues are concerned” for Indian investors in Satyam.

According to Midas, more than 12 class actions have been filed in US courts on behalf of investors who purchased the American Depository Receipts of Satyam shares. However, under Indian law there is no provision for either class actions or for individuals seeking compensations in the case of crimes such as fraud and insider trading.

Midas had hoped to set a precedent with the Satyam case.

Jain said the Supreme Court dismissed Midas’ appeal on the grounds that the 300,000 investors it claimed to represent had not joined the class action.

Midas’ counsel asked to be granted a week to compile the list of investors, but the court refused.

“They said the affected investors can file their cases in the appropriate courts under the relevant acts, but the problem here, which our counsel also pointed out, is there is no provision under [Indian law for individual investors to try and seek compensation],” Jain said.

Jain hopes publicity from the case will “move things forward and persuade the legislators to make the necessary changes in the Indian laws”.

A PricewaterhouseCoopers International spokesperson said the network is aware of the class actions being brought against the network and its Indian member firm.

“We don’t believe that they have any foundation and we will be vigorously defending them,” he said. ■

Carolyn Canham

## ASIA-PACIFIC

• The **Indonesian Institute of Accountants (IIA)** has issued a standard for Sharia transactions and a standard for non-publicly accountable entities.

IIA president Ahmadi Hadibroto said that as the largest Muslim country in the world, Indonesia should set an example of how to develop high quality Sharia accounting standards.

The standard for private entities is based on the draft version of the International Accounting Standards Board's IFRS for SMEs. It is effective from 1 January 2011 but early adoption in 2010 is allowed.

• The **Association of Southeast Asian Nations (ASEAN) Federation of Accountants (AFA)** has encouraged its member bodies to implement IFRS for SMEs. The federation said small and medium and non-public interest entities form the backbone of the ASEAN economies.

"The introduction of IFRS for SMEs is a positive step towards enhancing quality of financial reporting without placing costly and unnecessary compliance burdens on the SMEs

in the ASEAN region," AFA president Pengiran Haji Moxsin said.

The AFA includes member bodies from all 10 ASEAN countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

• **CPA Australia** has launched a new CPA programme in Vietnam to celebrate the first anniversary of its presence in the country. Since launching the Vietnam office last year, the organisation has gained more than 130 associate and full members, plus more than 2,000 students.

"As the world emerges from recession, professionally qualified accountants will be in greater demand than ever before, as will the demand for accounting firms in Vietnam," CPA Australia chief executive Geoff Rankin said.

• The **Malaysian Institute of Accountants (MIA)** has elected Abdul Rahim Abdul Hamid as its sixth president. He succeeds Nik Hasyudeen, who has retired following the completion of his term. Hamid previously



served as the institute's president from 2005 to 2007. His professional career includes more than three decades in public practice, including a stint as deputy executive chairman at PricewaterhouseCoopers Malaysia.

Christina Constance Foo has been appointed MIA vice-president. She is currently a member of the board of directors of CPA Australia and immediate past president of its Malaysia division.

• The **Institute of Certified Public Accountants of Singapore (ICPAS)** and CPA Australia have renewed their mutual recognition agreement. Through the arrangement, ICPAS and CPA Australia agree to reciprocal admission of appropriately qualified members. ■

## NORTH AMERICA, LATIN AMERICA

• Daniel Goelzer has been appointed acting chairman of the **US Public Company Accounting Oversight Board (PCAOB)**. He succeeded Mark Olsen on 1 August. Goelzer is a founding and current member of PCAOB. He previously served as general counsel of the Securities and Exchange Commission (SEC) and has held the offices of executive assistant to the SEC chairman and associate general counsel in the office of the general counsel. Earlier in his career, he worked as an auditor at Deloitte US.

• The CPA mobility law has been passed by 45 jurisdictions across the US as of this month, according to the **American Institute of Certified Public Accountants (AICPA)**. The legislation allows CPAs and CPA firms to serve their clients across state lines with minimal licensing barriers. The regions that have yet to allow out-of-state CPAs to practice are California, New York, Massachusetts, Alaska, Hawaii, Virgin Islands, Washington DC, Guam and Puerto Rico.

• The **US Financial Accounting Standard Board (FASB)** has tentatively decided that financial instruments whose fair value changes are recognised in net income should be separately presented on the balance sheet from financial instruments whose fair value changes are recognised in other comprehensive income. Entities would be required to present the fair value amount on the balance

sheet. Entities could present on the balance sheet or disclose in the notes the amortised cost amount and the fair value adjustment amount related to the instruments in addition to the fair value.

• A former Deloitte US audit partner has been fined for helping Navistar Financial Corporation, a unit of the truck manufacturer Navistar International, avoid restating its erroneous 2003 financial statements. Thomas Linden was ordered by the **PCAOB** to pay \$75,000 and has been barred from practice.

• The **PCAOB** has voted to adopt Auditing Standard No 7, Engagement Quality Review (EQR) and is seeking comment on a proposal requiring audit engagement partners to individually sign off the audit report.

The EQR provides a framework for the engagement quality reviewer to objectively evaluate the significant judgments made and related conclusions reached by the engagement team in forming an overall conclusion.

The audit engagement proposal says any requirement for audit engagement partners to sign an audit report would be in addition to the existing requirement for the audit firm to sign its name on the reports.

• The **Canadian Institute of Chartered Accountants** has published a document to help increase awareness among corporate board



members about business impacts and governance issues associated with climate change. The publication provides a series of questions corporate directors can ask relating to the business implications of climate change.

• The **PCAOB** is seeking nominations for a new investor advisory group. PCAOB member Steven Harris will chair the group.

• The **FASB** and **XBRL US** have completed a revision of the eXtensible Business Reporting Language (XBRL) US GAAP Taxonomy so that it reflects the FASB Accounting Standards Codification released last month. In 2008, the FASB created an XBRL project team that worked closely with the XBRL US team to produce the new taxonomy. The project involved a review of the authoritative references in the current taxonomy and the team subsequently added the related codification references. Public companies will now be able to link directly from the taxonomy extension to the specific codification reference as posted on FASB's codification website. ■

## EUROPE

• Claims of Big Four firms approaching rival clients and offering cheaper audit fees are causing a stir in the Netherlands. PricewaterhouseCoopers (PwC) claimed in Dutch newspaper *Financieele Dagblad* that some of its clients were approached by Ernst & Young (E&Y) with significantly reduced quotes for carrying out audit work.

The spat arose partly due to disclosure rules that came into effect this year and require listed companies to reveal how much they paid for audit, tax and other advisory work. E&Y Netherlands country managing partner Pieter Jongstra said undercutting rival's audit fees was not an E&Y strategy but clients had demanded fee reductions of up to 30 percent in some cases. He added the firm maintains "contact with all major organisations in the Netherlands".

• The UK Auditing Practices Board (APB) has issued a revision of Practice Note 15 (I) *The audit of occupational pension schemes in Ireland* for comment. The current guidance, issued in December 2005, has been updated due to changes in the regulatory environment for pensions in Ireland.

• The UK's second-highest fee earning firm, Deloitte, has reported a 2 percent drop in annual gross revenue to £1.97 billion (\$3.3 billion) in 2009, an indicator of how badly

firms are being affected by the financial crisis. The drop is the second by a major firm in consecutive weeks, following major US mid-tier firm BDO Seidman's decline of 6 percent to \$620 million in the year to 30 June 2009.

• There is a good standard of corporate reporting in the UK according to the **Financial Reporting Review Panel's** annual activity report. The report is based on reviews of reports and accounts prepared for the year ended 31 March 2009. Of the 326 sets of accounts reviewed, 112 companies were approached by the panel for further information or explanation. Of these, 68 companies have, to date, undertaken to reflect the panel's comments in their future reporting. Two companies agreed to restate comparative amounts in their next set of annual financial statements.

• Accountancy is one of several professions that is becoming more, not less, socially exclusive over time, according to a recent UK government report into social mobility. *Unleashing Aspiration – The Final Report of the Panel on Fair Access to the Professions* found that a typical professional born in 1958 came from a family that earned 17 percent more than the average family income. But for those born in 1970 the family income gap between those who went on to pursue a professional career and the average family had risen to 27 percent



with accountancy seeing one of the biggest shifts to more social exclusivity.

• The **Institute of Chartered Accountants of England and Wales (ICAEW)** has awarded Stephen Zeff honorary membership in recognition of his contribution to the accounting profession. Zeff is the past president of the American Accounting Association, member of the European Accounting Association and a member of the UK Accounting Standards Board's academic panel. He has also contributed to the ICAEW's international work.

• The ICAEW and the **Chamber of Financial Auditors of Romania (Camera Auditorilor Financiarilor din Romania – CAFR)** have signed a new Memorandum of Understanding. The agreement states the two bodies will work together on activities for students and members, share expertise and experience on international and EU-related technical matters and undertake joint initiatives targeting governments and regulators. ■

## AFRICA, MIDDLE EAST, SOUTH ASIA

• South Africa's **Accounting Practices Board (APB)** has adopted the International Accounting Standards Board's (IASB) new IFRS for SMEs, becoming the first country to do so. All non-publicly accountable entities can use the new standard immediately.

South Africa took the usual step last year of adopting IFRS for SMEs in draft form. Previously all entities in South Africa, regardless of size, were required to use full IFRS. This presented a huge burden on SMEs. The final IFRS for SMEs was issued by the IASB on 9 July. The APB decision was reported on the Deloitte IAS Plus website. The webmaster of IAS Plus is Paul Pacter, who is also the IASB's director of standards for SMEs.

• India's **Ministry of Corporate Affairs** has set up a committee to address implementation challenges related to the convergence of Indian Accounting Standards with IFRS. Convergence is due by 2011.

The Ministry of Corporate Affairs Secretary, Anurag Goel, will chair a core group, which will be assisted by two sub-groups.

The first sub-group will be chaired by

**National Advisory Committee on Accounting Standards** chairman YH Malegam. This group has been charged with identifying changes that must be made to various laws, regulations and accounting standards to facilitate convergence with IFRS and to prepare a clear road map for these changes.

The second sub-group will be chaired by Infosys director Mohandas Pai. It will be comprised of a number of chief financial officers (CFO) who will interact with stakeholders to identify concerns related to IFRS convergence, identify problem areas and establish how prepared stakeholders are for convergence.

The first meeting of all three groups was held recently. At the meeting, the **Institute of Chartered Accountants of India** reported that the convergence project is on track for completion.

The CFO sub-group reported there are some concerns from smaller companies.

They also requested amendments to the Companies Act and other regulations and asked for early exposure of accounting standards that are IFRS compliant, to help



them to prepare for meeting the conversion deadline.

• The **Jordanian Association of Certified Public Accountants** and the **Association of Chartered Certified Accountants** have signed a Memorandum of Understanding to strengthen co-operation between the two bodies. The agreement will benefit the exchange of information between the two organisations, particularly related to the accounting profession.

The institutes will continue to work together in areas including research and technical consultancy, quality control practices, professional development and issues relating to institutions, small and medium-sized enterprises. ■

# Under construction

The Italian accounting profession is beset by a series of challenges according to Johannes Guigard. The industry veteran tells **Carolyn Canham** about a critical pensions dilemma and shares his thoughts on a lack of leadership at the national level

The global financial crisis is affecting the accounting profession in many jurisdictions but Italy is feeling it worse than most. A survey of Italian firms by the *International Accounting Bulletin* in April this year found the economic downturn was affecting the revenue of firms. The survey revealed market growth of just 3 percent, the worst result for Italian firms in at least five years. The growth was also the lowest among any markets the publication had surveyed over the previous 12 months and considerably less than the 14 percent increase in combined revenue reported in the 2007 Italy survey.

The profession has not been helped by the performance of Italy's economy. The GDP contracted by 1 percent in 2008. The International Monetary Fund predicts a 5.1 percent contraction in 2009 and 0.1 percent contraction in 2010.

One factor that could be exacerbating the effects of this downturn on the profession is an oversupply of qualified accountants. Italy has more than 100,000 professional accountants in a population of 60 million.

In comparison, according to *The Accountant* data there are about 30,000 professional accountants in Germany, which has a population of 82 million; France has about 18,000 professional accountants and a population of 65 million.

The UK has a far higher concentration of professional accountants than Italy, let alone the other European countries, with a population of 62 million and more than 200,000 members of the five chartered accountant bodies (not counting those based overseas and those who are retired or honorary).

## Fierce competition

The combination of a glut of professionals and the recession means there is not enough work for accountants and industry veteran Johannes Guigard says competition is fierce.

Guigard is a member of the Milan chapter of Italy's National Institute of Accountants (Consiglio Nazionale dei Dottori Commercialisti ed Esperti Contabili – CNDCEC). He is also a member of the European Financial Reporting Advisory Group SMP working group, chairs the Federation of European

Accountants (Fédération des Experts Comptables Européens – FEE) company law task force and sits on the United Nations Conference on Trade and Development Intergovernmental Working Group on International Standards of Accounting and Reporting.

Guigard says the fierce competition is amplified by the fact that there are too many micro-practices.

"The practice is normally me and my wife, me and my brother, me and my son – that's it," he says. "There are just two of us plus maybe 3 to 5 people working for us. As you are mainly a boutique, when clients start to become fewer or start asking for fewer services, what can you do? Not much."

It is a difficult problem to rectify, Guigard explains, as everyone wants to remain as boutique practices.

"It is very difficult to say 'let's merge, let's pull together, let's buy a building of 10 floors, maybe put the payroll men on the first floor, the budgetary controllers on the second floor, the accountants on the third floor, it is impossible, simply impossible,'" he adds.

## Stiff competition

On top of the challenge created by this inflexibility is the fierce competition from the Big Four, law firms and payroll service providers.

Guigard says the divide between the Big Four and the rest in Italy is more extreme than anywhere else in Europe.

According to *International Accounting Bulletin* data, the average annual revenue of Big Four firms in Italy is 10 times the revenue of the largest mid-tier firm, Mazars. In comparison, the average revenue of Big Four firms in Germany is six times that of the largest mid-tier firm, BDO; the average revenue of Big Four firms in France is less than three times more than the largest mid-tier firm, Mazars; and the average revenue of Big Four firms in the UK is five times that of the largest mid-tier firm, Grant Thornton.

"[The other Italian firms] don't really have much in common with the Big Four," Guigard says. "The Big Four have a big structure, they have a big perfectly working system, they have big profits and of course they have the best clients because when anyone from outside Italy

## ■ ITALY

### Quick facts



**Population:** 60 million

**Labour force:** 25 million

**Labour force by occupation:**

Services 65 percent, industry 31 percent, agriculture 4 percent

**GDP growth 2008:** -1 percent

**GDP projected growth 2009:** -5.1 percent

**Market value of publicly traded shares:**

\$1.07 trillion (2007)

Source: CIA World Fact Book

opens up an office in Italy they employ one of the Big Four."

There is also significant competition from law firms.

"In the past 10 years law firms have grown in importance in Italy because of firms coming from abroad, all the big international names opened in Italy – in Milan and Rome," Guigard says. "There are also some very good Italian law firms and law firms in Italy can have 50, 60, maybe 100 lawyers, while it is very difficult to find any accounting firm that has more than 20 people."

On top of the Big Four and the law firms, there is competition from payroll service providers. Guigard says there is a payroll service association and theoretically service providers need to be qualified, but it is difficult to set boundaries for what non-professionals can and can not do.

“We have non-qualified competition from people coming, for instance, from the public offices, people working in the receiver office for instance,” Guigard says. “So now [professional accountants] are suffering.”

### Combining institutes

It is mandatory for Italian accountants to be members of Italy's national professional body, the CNDCEC.

The CNDCEC formed officially on 1 January last year when the two original professional bodies, the Consiglio Nazionale Dottori Commercialisti (CNDC) and the Consiglio Nazionale dei Ragionieri (CNR) merged. The law permitting the merger was passed in 2005 and the entire process, from start to finish, took about 10 years, Guigard says.

There were some very good reasons for the two institutes to merge, including the fact that activities performed by members were “more or less the same”, Guigard explains. But there was one major stumbling block: the dwindling numbers of *ragionieri* and the repercussions this will likely have on pension funds.

The *ragionieri* were the members of the former CNR. Before entering the profession they were required to obtain a high school diploma. This changed about 10 years ago when the Italian university system came in line with new European norms. This meant the prospective *ragionieri* had to complete a three-year university degree.

Members of the former CNDC are called *dottori commercialisti*. Before entering the profession they need to complete five-year university degrees. Once they enter the profession they must practice for three years before they are fully qualified.

Guigard says the changes made to the *ragionieri* prerequisites led to far fewer people entering that stream of the profession – preferring instead to work towards becoming *dottori commercialisti*.

Falling *ragionieri* enrolments led to the profession fearing for the future of their pension plans. The pensions of professionals in Italy, for example accountants, lawyers, architects and engineers, are paid through profession pension funds. Contributions are made by individuals during their careers and they can begin receiving a pension when they are 65-years-old.

“The problem is... in 30 years time there will not be money enough to pay the pensions to the *ragionieri* who retire as there would be not any more newcomers, but a lot of pensions to be paid out,” Guigard explains.

The pensions factor was key in merger discussions and Guigard says it remains a hot topic today as the funds remain separate. The *ragionieri* would prefer a merged pension fund, but many *dottori commercialisti*

are unhappy with the thought that in 20 to 30 years young *dottori commercialisti* will be paying the pensions of the old *ragionieri*.

In Guigard's opinion, the reasonably new CNDCEC is not doing nearly enough to help its members battle the challenging times.

Sitting below the national institute are about 140 local chapters that are based on Court of Justice jurisdictions. Each chapter is independent and has elections every five years. They must, however, follow the rules set out by the national institute.

“But the national institute is not working much, I must say,” Guigard comments.

A lack of direction at national level leads to problems addressing issues affecting members.

**“[National institute board members] should be promoting the profession. They should be lobbying to put the profession at the centre of the economic decisions and working on the international basis... They should also have national working parties working on matters such as tax and IFRS”**

Johannes Guigard

“Some things you can do at local level,” Guigard says. “For instance if in your region there are some important issues then of course it is the local members who must tackle the problem of finding a solution. But if the things are at a higher level, such as international affairs, there must be something coming from the national institute. It is difficult.”

Italy is not as attuned to the international profession as it should be, Guigard says. For example, there is a lack of international events and thought leadership.

“We need to go international but if we really want to go international we need somebody doing something to push it,” he says.

Guigard says that although the Italian institute is represented on bodies such as the FEE, there is little evidence of this back in Italy.

“If you are working in the FEE and you produce a paper, it would be interesting if this paper was posted on the Italian institute website so that people know we have produced something, but that is not the case,” he says.

The profession also needs to become involved in public policy. For example Guigard says there is currently no input when the state is passing a budget.

“That is something we should be doing but

of course that needs to be organised,” he says. “[National institute board members] should be promoting the profession. They should be lobbying to put the profession at the centre of the economic decisions and working on the international basis... They should also have national working parties working on matters such as tax and IFRS.”

The national institute is run by a board of 21 people. The figure combines the 11 national board members at both the CNDC and the CNR, cut to 21 to allow a majority. Members are elected every three years. However, because of the merger, the board that was elected in 2008 will stay in power until the end of 2012 to foster stability during the transition period. Guigard says historically there was a good system for electing the board.

“In the past there was competition between the individuals, it was possible for anybody to put forward his name for a position on the national board. He just developed a plan and proposals and travelled around Italy trying to obtain support from the local institutes, who vote for the national institute members.”

Now the system is different. Guigard says candidates must now form parties that together build political campaigns. The local institutes then vote for the group as a whole. In the most recent election there were two such groups.

The last election was also split between the *dottori commercialisti* and the *ragionieri*. In the future the two professions will be combined and the same group will represent everyone.

### Seeing the positives

Despite the challenges facing the profession, Guigard remains optimistic. For example, he says accounting is still an attractive option for students.

“It is clear that if you go for a degree in economics it will be easy for you to get a job,” he says. “In any case we have a large number of *dottori commercialisti* so we can't complain that there are not enough.”

He is also hopeful that the profession will be able to solve the issue of the pension funds and work towards consolidating firms.

“Putting people together and trying to come out with bigger accounting firms instead of having these individuals who have their own practice will make us stronger and more competitive,” he explains.

“I see that now the situation is a little bit different for everybody, but there is not a big crisis, people are not saying ‘we don't know how to survive’. So after all the profession is still working well, it is well respected, probably we should be stronger in the control of the national board, but these are political issues.” ■

# Building reputations

The Russian public accounting profession is relatively young but fast catching up with the international scene. Institute of Chartered Accountants in England and Wales graduate Sergei Zaitsev speaks with **Carolyn Canham** about the opportunities available

Accountancy is still a largely misunderstood profession in Russia, according to Sergei Zaitsev, a senior consultant in Ernst & Young (E&Y) Russia's audit department.

Zaitsev explains the profession is not held in as high regard as it is in other countries.

"Public accounting is a relatively recent development here in Russia and most accountants, call them conventional accountants, are considered just bookkeepers who perform double entries and so on, which is quite boring for ambitious young people," he says.

Zaitsev is one of those ambitious young people. His talent for science and mathematics was identified at an early age and E&Y singled him out as a prospective employee while he was still at university.

While conventional accounting may not be held in high regard, public accounting, although relatively new, has a good reputation as a career choice, Zaitsev adds. This is mostly due to the Big Four.

"They have a very strong brand and reputation and they have a proven track of great results so graduates are willing to join Big Four firms," he says.

"I think they will become even more popular as the markets develop here in Russia and as IFRS is implemented more throughout the country. As companies implement IFRS they need top accountants who are not just bookkeepers but have other skills."

## The path to accountancy

Zaitsev studied economics at the Novosibirsk State University, specialising in mathematics modelling. Novosibirsk is Russia's third-largest city, after Moscow and St Petersburg, and is located in the heart of Siberia.

Zaitsev was approached by E&Y while he was still an undergraduate. He says Big Four firms look for prospective employees among students at the nation's top economics and finance universities. Firms often invite final year students for internships and when they complete their degree offer them full-time employment.

When Zaitsev graduated, Ernst & Young offered him the opportunity to work in either Novosibirsk or Moscow; he chose the later.

Russian GAAP, which is issued by the Ministry of Finance, is used by all companies preparing accounts for tax authorities and other national regulatory purposes. Banks must use IFRS, while other entities can use IFRS in addition to Russian GAAP.

## Going global

Zaitsev says there is a trend of converging Russian GAAP with IFRS, but he is unsure of any scheduled completion date.

"All the standards issued by the Ministry of Finance are carefully reviewed and new ones are issued in line with the IFRS. So the differences between the two standards are getting less and less," Zaitsev explains.

The Institute of Professional Accountants is the national professional body for accountants who specialise in Russian GAAP. There is no local professional body that educates accountants according to IFRS, but the Association of Chartered Certified Accountants (ACCA) has a strong presence and training organisations teach the US CPA designation. The Institute of Chartered Accountants in England and Wales (ICAEW) also recently began training students in Russia for the ACA qualification. Zaitsev was part of one the institute's first class of graduates.

Ernst & Young gave Zaitsev the choice of studying one of the three international qualifications available in Russia – the ACCA, CPA or ACA. It is not necessary for trainees at Big Four firms to pass through the Russian qualification, but auditors need a Russian audit licence before they sign off on audits of companies that produce financial reports using Russian GAAP. Zaitsev hopes to gain that licence within the next year.

Zaitsev decided to study the ACA because he was convinced it focused more on understanding business and resolving business issues.

"At the same time, ACA presents very sound knowledge of accounting, finance, valuation and management. Therefore, I am quite happy with my choice and believe it has helped me to develop the right skills," he says.

Zaitsev says he enjoys working for E&Y. He particularly appreciates the access to clients from many different industries.



*Sergei Zaitsev, Ernst & Young*

"They all have different approaches to the same accounting processes and when you see many different approaches you can understand what are the best practices and understand how the businesses work from the inside," he explains. "This helps you understand the risks that arise from business processes and understand how to identify weak points and improve the financial health of a company."

One of Zaitsev's short-term career goals is to gain international experience. He hopes to undertake a two-year secondment to an E&Y firm in either the US or the UK.

Zaitsev says he has many long-term career options, for example he can remain with E&Y and work towards becoming partner, move into industry, or set up his own business.

"Right now I am quite satisfied with my career progression within the company. I like the internal growth," he says.

"Accounting is a very firm ground for a career because it allows you to understand how business works. There is an accounting process in every company and by knowing how it operates from inside you can understand the risk associated with the company's performance and make better analysis of the financial situation of the company." ■

# Taking the reigns

Matsobane Matlwa has big shoes to fill. The new executive president of South Africa's largest accounting body replaced Ignatius Schoole, who led the organisation for a decade. Matlwa speaks candidly with **Carolyn Canham** about the challenges he's faced in his first six months leading the membership body

The new executive president of the South African Institute of Chartered Accountants (SAICA) has professional and leadership experience in a number of fields. Matsobane Matlwa joined SAICA at the beginning of February from the South Africa Revenue Service (SARS), where he had been the group executive responsible for the large business centre. Other career highlights include working as general manager responsible for group finance at South African bank ABSA and as an audit partner at Ernst & Young.

Despite that experience, leading SAICA has been a steep learning curve.

"The first six months has been very challenging for various reasons. One is that I came from an organisation of 15,000 people to an organisation with 140 people," Matlwa says.

In addition to the different staffing levels, the SARS had a much larger and more flexible budget.

"SAICA by its nature relies a lot on members' subscriptions and that is very limiting," Matlwa explains. "That was a constraint for me because I felt that SAICA is highly under-resourced. There is a lot of dependency on few people. A lot of people are being stretched. A concern that I have is that if anybody leaves, it is a huge risk for this organisation."

Dealing with members was also a first for Matlwa.

"The tricky thing about members is they are your shareholders and clients at the same time," he explains. "I came from an environment where I had the law supporting me. The issue there was if you don't pay tax, we can take it even if it means taking you to court or jail. But here it is slightly different.

"You have to at all times make sure that you are cognisant of how you spend the subscription money because some members believe they are paying our salary."

Another challenge for Matlwa has been the legacy of his predecessor, Ignatius Schoole, who spent 10 years in the job.

"Taking over from someone who was there 10 years isn't easy because they will have left a legacy in the organisation – the way it talks and the way it walks. The way they do things is different to the way I do things," he says.

Matlwa's mandate is also very different

from his predecessor's. While Schoole was charged with establishing SAICA and predominantly acting as an overseer, Matlwa is more operational. He provides leadership from the ground and gives direction.

"Because of that difference of mandate, it creates problems for the staff because they are not used to anybody saying 'where is the report'? Can we meet and discuss this, this and this, because it has never happened before.

"People tend to not like change. So I think the difficulty now is people trying to get used to how I do things. I also need to learn how to rely on them, to understand their strengths.

"Unfortunately, this process can be very painful for both of us. But I must say I am now six months into the job and it is beginning to get much better."

**"People tend to not like change. So I think the difficulty now is people trying to get used to how I do things. I also need to learn how to rely on them, to understand their strengths"**

Six months into the role, Matlwa has some ideas about the direction he wants to take the institute.

"One of the bigger challenges for SAICA, which is probably part of my responsibilities, is how do you change the face of the profession?" Matlwa says.

"If you look at the profession in South Africa, it does not yet reflect the demographics of the country. One of the bigger challenges is how do you make sure that black people in general are fairly represented among accountants. The numbers are still very small so that will have to proceed. Secondly, members want value for the subscription fees they are paying."

Therefore, Matlwa is faced with the challenge of how to identify the products and services members require. A taskforce has been formed to help with this.

Matlwa has also been investigating how other professional accounting bodies around



Matsobane Matlwa, SAICA

the world deal with their members. He says two practices he has observed that he would like to implement in South Africa are ensuring the institute does not become too dependent on members' fees and introducing products that are specialised for different professional areas. In the past, SAICA's products have been very generic.

Another challenge is ensuring SAICA operates like a normal business.

"As senior management we need to sing the same song, to be on the same page and to make sure that we concur with one another," Matlwa says. "Like in other companies, we need to make sure staff morale is always high, make sure that people are willing to wake up and come to work."

While this is both challenging and interesting, Matlwa concedes there have been days where he's wondered why he took the job.

"It is a huge responsibility and my biggest fear is we are under resourced from the human point of view," he says.

"One main challenge is how do we find a way of making sure that our dependence on membership subscription fees as a means of income is very low. SAICA needs to change to become sustainable." ■

# New laws, old problems

The past year has seen some notable changes within the South African accounting profession. There are new leaders at both the largest accounting institute and the national audit regulator, and a new Companies Act has everyone on their toes. **Carolyn Canham** investigates

A new Companies Act tops the agenda for the South African profession this year. The precise details of changes to assurance requirements are still being hammered out, but no matter which direction they fall, the accounting profession will be affected.

Meanwhile, the traditional challenges of skills shortages and a demographical imbalance remain.

The nation's two largest professional services bodies, the South African Institute of Chartered Accountants (SAICA) and the South African Institute of Professional Accountants (SAIPA), are busy working at remaining relevant to members. They are also updating their syllabuses, influencing government policy and continuing their balancing act of being sister organisations and competitors.

## Gradual growth

Member numbers at SAICA have remained relatively steady, growing 6 percent to 29,377 since *The Accountant's* 2008 survey. Executive president Matsobane Matlwa notes that while the growth is due to students graduating, some students completed their studies but did not register for various reasons.

"Some graduates are saying that due to the economy they cannot afford the entrance fee, others are saying 'what is the point of registering with SAICA because we don't see the value'," he says. "There are a number out there who have finished their studies but haven't taken the designation and I think we as SAICA have to make an effort to bring them on board."

Member numbers at SAIPA are growing slowly but steadily at about 3-4 percent per annum, according to chief executive Shahied Daniels.

This does not show in the actual figures because the institute undertook some "clearing of the decks" by delisting a number of members with old debt and unpaid fees, he says. The number of SAIPA members reported in this year's survey is 5,340, down 11 percent since 2008.

The growth in student members, that is article clerks and trainees, at SAIPA was less satisfying. Daniels says this is because a number of

people in the market cannot find placements at firms.

"As an institute we have not grown the way we would like to grow," he says. "Some practices have decided they are not employing trainees anymore, they will take on a senior citizen to do the bookkeeping type of work; they would rather do that than spend time on training.

"It is a mindset of some practitioners and there is nothing that we can do about it, we can't impose on practitioners to employ or place trainees but it is a worrying factor for us that the number has not grown."

The reason new members are coming through regardless is due to the institute's recognition of prior informal learning programmes. Under this initiative, people who have worked in accounting for a number of years can sit the institute's exams.

SAICA's student numbers have remained stable, up just 1 percent to 10,380 since *The Accountant's* 2008 survey.

Matlwa predicts these figures will remain steady for the next year or so until the financial crisis abates and the economy picks up.

"The large audit firms have made cuts in terms of bringing in trainees," Matlwa says. "I spoke to one of the big firms' CEO and he said to me that in the current year they have reduced their intake by 50 percent."

## Taking care of trainees

One positive trend the financial crisis has introduced is trainees are more likely to stay with audit firms.

"In the past, some [trainees] were going through training and then going to what they considered better jobs in commerce and industry. But now because it is tough [in commerce and industry], there is a benefit for us because they have to see their training contracts through," he says.

Matlwa trained as a CA himself "many years ago" and says many of the challenges facing trainees remain the same.

Concerns the institute hears from students include they are not being given challenging enough work, they do not have access to transport to reach clients and salaries are not sufficient for them to have a decent lifestyle.

To address these challenges, a SAICA training officer has travelled from firm to firm, bringing the issues to their attention and encouraging them to work jointly to find solutions.

SAICA has also created a trainee accountants forum that will help the board get better feedback from students regarding the issues affecting them and what the institute can do to help.

A change of leadership was the first of two main developments for SAICA during the past six months. Ignatius Sehoole, who was executive president for the past ten years, stood down in February and was replaced by Matlwa (*see story p11*).

A second significant development was increased involvement with other southern African nations.

"One of our strategies is to have an African footprint," Matlwa explains. "In the past six months we have been really engaging with countries such as Swaziland, Lesotho and Zimbabwe."

Some of the countries already have accounting institutes, although not as developed as SAICA; others are starting from scratch.

"You need different approaches for different countries," Matlwa explains. "Some for instance, like Zimbabwe, are writing SAICA exams, whereas Lesotho wants to develop their own."

"Our aim is to help them with capacity, help them with the syllabus and maybe when the time is appropriate send some of our staff there for a month or two to help them put systems in place."

## The importance of education

On the education front, SAICA is revaluating its competency modelling. Currently students must complete a tertiary accountancy qualification before training to become a CA.

A new model, which has been passed by the SAICA education committee but is yet to go before the board, still mandates a tertiary degree, but does not proscribe what type of degree. If the degree is not related to accountancy, a bridging course is required.

"This would allow a lot of people like engineers and lawyers to be able to join the

profession. In the past that was not possible," Matlwa explains.

Another important development for SAICA is streamlining its training model. There are presently two different models – training inside public practice and training outside public practice. The institute is merging the two.

The main benefit is the move will resolve current confusion about what qualification produces the 'real' chartered accountant.

"Is it the one who has trained inside public practice or the one who has trained outside public practice? The market is not sure when they are looking for a CA," Matlwa explains.

The SAICA board has already approved the concept so the new training model will be effective from January 2010.

There will be different electives within the new SAICA qualification and this is likely to cause some challenges for the national audit regulator. At present, to become a chartered accountant, candidates must also sit an audit examination set by the Independent Regulatory Board for Auditors (IRBA), which is responsible for both overseeing the profession and granting audit qualifications.

But IRBA chief executive Bernard Agulhas says the amended route to the CA qualification will offer the audit route as just one of five electives.

"Quite a big project we are working on at the moment is considering how that will impact on positioning our qualification – the registered auditor – because whereas in the past students were forced to follow the audit route, now they don't necessarily have to," Agulhas explains.

"I think we need to think carefully how we are going to attract students and retain people in the auditing profession. That is going to be a huge challenge."

### Engaging academics

SAIPA is also busy updating its syllabus. The institute has employed a panel of academics from different universities and is working in tandem with them.

The institute is also still working towards its long-time goal of gaining accreditation for its members to become auditors. The IRBA is responsible for accrediting institutes whose members can then be licensed as auditors. At present only SAICA is accredited, but SAIPA continues to work towards this goal and the review of the syllabus is taking this into account.

During the past year SAIPA also began a process of organising its 11 regional associations into regional offices. One of the main benefits of this will be more effective marketing to local universities, Daniels says.

"We are in the planning stage and we are doing it very transparently and involving all the members in the respective regions," he says.

SAIPA is also in the process of looking at options for alternative revenue generation.

"For far too long we have depended on membership fees," Daniels explains. "We did some benchmarking against other professional bodies internationally and we tend to have about 80 percent of our income coming from membership fees. We have to change that by offering products and services not only to the membership but to the broader profession to see if we can change the ratio and reduce the dependency on membership fees."

Reducing reliance on membership fees is also on Matlwa's agenda (see page 11).

"SAICA by its nature relies a lot on members' subscriptions and that is very limiting," he explains.

The IRBA also had a change of leadership during the past year. Agulhas was appointed to a three-year term as chief executive in December last year. He had been acting chief executive since June 2008 and prior to that was the director of auditing standards.

Agulhas said the IRBA has been kept very busy through the year by preparing auditors to implement the clarified redrafted International Standards on Auditing that were released following the completion of the International Audit and Assurance Standards Board's Clarity Project this year. The updated standards will come into effect on 15 December.

The board has also been developing a code of ethics for the South African profession. The code has been in the works for some time, but the IRBA was holding off on finalising it until the International Federation of Accountants' updated ethics code was released.

### Liability concerns

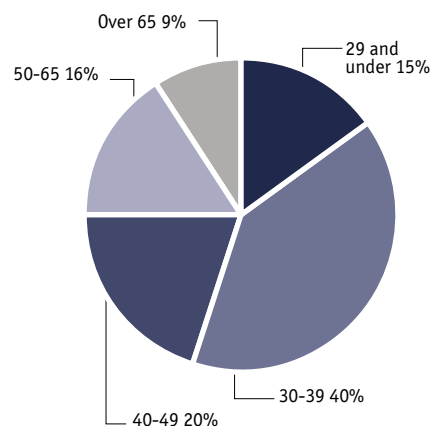
The regulator has also been investigating ways to limit auditor liability and Agulhas hopes a preliminary proposal will go to the board in September this year. The IRBA is looking at a liability cap but is also not ruling out limited liability partnerships.

While unlimited liability is causing concern for auditors, another significant burden is the cost of oversight as firms fund practice reviews. Agulhas has warned in the past that this burden risks pushing people out of the profession.

The IRBA proposed to the National Treasury last year that they should fund the practice reviews to relieve the burden on auditors, but the Treasury requested that additional research be performed. When Agulhas submits the IRBA budget for the year beginning 1 April 2010 to the Treasury, he will again propose that they fund the practice reviews.

### SAICA

#### Age profile: 2009



Source: The Accountant

This time another weighty argument will be added.

The IRBA is keen for the US and EU audit regulators to recognise its inspections process, but they require regulators to have total independence from the profession.

"To [the US and EU], the fact that auditors pay for the practice reviews doesn't make them totally independent of the regulator," Agulhas explains. "It is certainly something I will keep on working at and hopefully I can get it implemented by 2010."

### New Companies Act

One regulatory issue that is likely to affect the entire profession is a new Companies Act that was finalised in April this year and will come into force towards the middle of next year.

At present, all South African companies must produce audited financial statements, but the new law exempts all privately-owned companies from audit. It creates a three-tiered system, with public interest entities requiring an audit, some private companies requiring an independent review, and the smallest companies exempt altogether.

The question of which professionals will be authorised to conduct the reviews has the IRBA and SAIPA at loggerheads (see page 1).

Aside from the changes to audit requirements, the new Companies Act will also change the way accounting standards are set in South Africa. Standards are currently set by the Accounting Practices Board, an independent standard setter for which SAICA performs the secretariat function. Now a new independent body called the Financial Reporting Standards Council will be formed.

Agulhas says that rather than issuing accounting standards, the new body will advise the relevant minister on what existing accounting frameworks, such as IFRS, should be used.

The composition of the new body was set out in the Companies Act and the IRBA is not currently represented. However, the audit regulator will be making recommendations to the Department of Trade and Industry that the composition of the council be reconsidered.

In terms of international standard-setting, South Africa has long been a staunch supporter of the work of the International Accounting Standards Board. IFRS has been mandatory for companies listed on the Johannesburg Stock Exchange since 2005 and in 2007 was adopted as South African GAAP, meaning all companies were required to use it.

This led to South Africa adopting IFRS for SMEs in October 2007 in exposure draft form. This was replaced by the final IFRS for SMEs this month.

Daniels says that despite the benefits of IFRS for SMEs, the standards are still too onerous for the smallest entities. Therefore SAIPA and SAICA are working together to draft what they call Micro GAAP. The standards have been passed to the other members of the Eastern Central and Southern African Federation of Accountants (ECSAFA) for comments. When a consensus on the standard is reached within ECSAFA, the standard will be implemented in South Africa and likely passed to the global standard setters who will be invited to consider it for wider use.

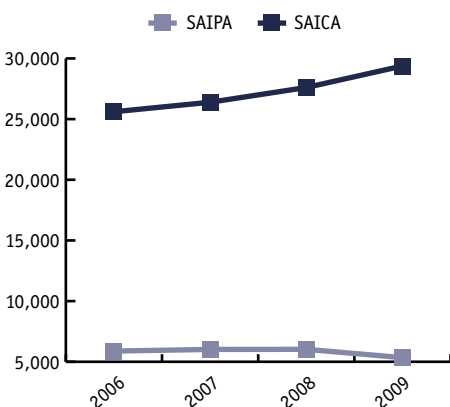
### Effects of the crisis

The global financial crisis hit South Africa later than many other parts of the world.

The effects have not reached SAICA much yet. The institute's annual turnover for 2008 at ZAR206 million (\$26 million) was the same as 2007 but Matlwa says the income has probably not been at the level it should be. This is due mainly to companies that employ SAICA members cutting down on training. Despite cuts in training, SAICA members are faring relatively well.

### MEMBERSHIP GROWTH

#### SAIPA and SAICA: 2006-2009



Source: *The Accountant*

"We haven't received calls from any chartered accountant member saying 'SAICA, I need help from you, I have been retrenched'," Matlwa says. "When I was at the Global Accounting Alliance I was told by the guys from Scotland and Ireland that some of their members were hit hard by this recession and they were looking at solutions and programmes to help them. So we have been very fortunate. I am not sure whether this year we will have the same fortune. If the crisis continues, we will probably begin to see the impact as well."

Agulhas, likewise, is cautious about the year ahead.

"Around April, May, we started going through what the US and the UK went through a couple of months previously," he explains. "It hasn't really had the full impact yet but certainly the auditors are saying that their clients are taking a bit longer to pay, a couple of businesses have closed down and they are losing some clients."

"We are starting to see the impact, but as opposed to overseas it is only really starting to come in now. We are expecting that it is going to get a lot worse."

Daniels adds that some SAIPA members are beginning to "feel the pinch".

### Skills shortage

One thing that may have tempered the effect of the financial crisis on South Africa's CAs is the chronic skills shortage that has been hitting the country for years.

Research commissioned by SAICA last year found more than 22,000 additional people were needed to fill financial positions in South Africa. At present there are almost 30,000 qualified SAICA members in a population of 48 million.

"Those people are always sought after and they play roles in businesses working as CEOs, financial directors, CFOs, so I think the demand for CAs still remains," Matlwa says.

Another of South Africa's chronic challenges is a vast imbalance in the profession's demographics. Black Africans, who make up the majority of the population at large, are a minority in the profession.

South Africa has a Black Economic Empowerment (BEE) programme that is intended to redress the situation in business at large and Matlwa says the accounting profession itself is working on its own black economic charter.

"The accounting profession realise they are part of the solution. They can't just sit back. They need to debate and get involved as well," he says.

SAIPA has not been wholly supportive of the SAICA charter.

"I have to some extent objected to govern-

ment in this regard," Daniels explains. "I felt it shouldn't be a chartered accountancy charter, it should be an accountancy charter – it should encompass the entire profession."

Daniels says his objections originally halted the progress of the charter but in the interest of relationship building he has since given it his blessings on the condition that it is reworked to encompass all accountants.

### Imbalance in audit

The imbalance in the representation of black Africans is even more extreme in the audit profession. Agulhas says that of about 4,500 auditors in South Africa, a little over 200 (4 percent) are black African. In the wider population, about 79 percent are black African, 11 percent mixed race or Asian and 10 percent white (2001 census).

"We need to transform the profession and we need to think up projects and strategies of how we can attract and retain black South Africans. Hopefully other strategies such as limiting auditor liability and making the cost of regulation less might also indirectly bring more black people into the profession. That is one of my biggest challenges," he says.

The regulator has implemented one strategy – if black African students fail the audit examination, they can join a support programme free of charge. But Agulhas is hoping for more inspiration.

Continuing to address the shortage of black Africans in the accounting profession is one of the main challenges for SAICA for the year ahead, as it continues to build the Thuthuka project. The project has helped educate more than 15,000 high school students in South Africa in the past year. It is a multi-level programme that targets students at school and university level. The scheme provides technical assistance in core subjects such as maths, science and English.

"It is doing extremely well, but at the rate we are going the numbers that we need as a country for our economy might not be sufficient," Matlwa says.

"We need to talk to all the stakeholders jointly because you will appreciate that if I say I need additional 300 Thuthuka students I need to make sure I have got funding for those students, I need to make sure that the universities have the capacity to take the students, I need to make sure that the audit firms have the capacity to train."

In addition to helping redress the demographic balance, influencing the shape of the new Companies Act and coming to terms with the changes will top the agenda for SAICA, SAIPA and the IRBA in the year ahead.

"That is going to be the biggest challenge for us as a professional body," Daniels explains. ■

## ■ SOUTH AFRICA

## Survey of accounting institutes: 2009

	The South African Institute of Professional Accountants (SAIPA)	The South African Institute of Chartered Accountants (SAICA)		
<b>CONTACT DETAILS</b>				
Address	PO Box 2407, Halfway House, 1685, South Africa	PO Box 59875, Kengray, 2100, Johannesburg, South Africa		
Telephone	+27 (0)11 207 7840	+27 (0)11 621 6600		
Fax	+27 (0)11 805 0105	+27 (0)11 621 3321		
E-mail	u/a	saica@saica.co.za		
Website	www.saipa.co.za	www.saica.co.za		
<b>KEY FIGURES</b>				
President	Joseph M Tshiwilwilo	Matsobane Matlwa		
Executive director	Shahied Daniels (1)	Matsobane Matlwa		
Annual turnover	u/a	ZAR236 million		
<b>MEMBER DETAILS</b>				
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
Total qualified members	5,340	100	29,377	100
Qualified members who are women	–	–	8,009	27
Qualified members based abroad	102	2	6,750	23
Qualified members 29 and under	–	–	4,346	15
Qualified members aged 30–39	–	–	11,818	40
Qualified members aged 40–49	–	–	6,030	20
Qualified members aged 50–65	–	–	4,675	16
Qualified members over 65	–	–	2,508	9
Number of students	2,168	100	10,380	100
Number of students who are women	–	–	5,472	53
Number of students based abroad	–	–	0	0
Qualified members in public practice	–	–	9,238	34
Qualified members in business	–	–	13,599	50
Qualified members in public sector	–	–	1,004	3
Qualified members who are retired/ honorary members	–	–	241	1
Qualified members in other categories	572 (2)	11	3,326 (7)	12
<b>MEMBERSHIP FEES</b>				
Annual membership fee	ZAR3,489		ZAR3,741	
Annual membership fee for those with practising certificates	ZAR3,000		n/a	
Annual membership fee for non active members/retired, honorary	ZAR357.5		ZAR890	
Annual membership fee for student members	ZAR357.5		n/a	
<b>MUTUAL LINKS</b>				
Regional/international affiliations	IFAC (3); ECSAFA (4); EC (5); CFA Namibia; NIA (6); SIPA (7)		Global Accounting Alliance; IFAC (3)	
Overseas bodies with which reciprocal agreements are in place	IFAC (3); ECSAFA (4); EC (5); CFA Namibia; NIA (6); SIPA (7)		ICAEW (9); ICAS (10); ICAI (11); CICA (12); ICAA (13); NZICA (14); HKICPA (15)	

Notes: u/a = unavailable; (1) Chief executive; (2) Other includes members from industry and commerce; (3) International Federation of Accountants; (4) Eastern Central and Southern African Federation of Accountants; (5) European Commission; (6) National Institute of Accountants; (7) School of International and Public Affairs; (8) Other includes 1,280 retired and 509 members in education; (9) Institute of Chartered Accountants in England and Wales; (10) The Institute of Chartered Accountants in Scotland; (11) The Institute of Chartered Accountants in Ireland; (12) Canadian Institute of Chartered Accountants; (13) The Institute of Chartered Accountants in Australia; (14) New Zealand Institute of Chartered Accountants; (15) Hong Kong Institute of Certified Public Accountants.

Source: *The Accountant*

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