

**FINANCIAL LITERACY COMPETENCIES REQUIRED FROM SOUTH AFRICAN  
PROFESSIONAL ACCOUNTANTS PROVIDING SERVICES TO SMALL- AND  
MEDIUM-SIZED ENTERPRISES**

by

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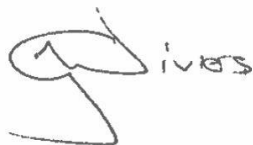
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### FINANCIAL LITERACY COMPETENCIES REQUIRED FROM SOUTH AFRICAN PROFESSIONAL ACCOUNTANTS PROVIDING SERVICES TO SMALL- AND MEDIUM-SIZED ENTERPRISES

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I further declare that I submitted the dissertation to originality checking software and that it falls within the accepted requirements for originality.

I further declare that I have not previously submitted this work, or part of it, for examination at Unisa for another qualification or at any other higher education institution.



15 November 2021

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## **ABSTRACT**

Small- and medium-sized enterprises (SMEs) play an important role in providing employment, reducing poverty and contributing to the economic growth of South Africa. However, these enterprises face several challenges, including a shortage of financial literacy competencies. To overcome inadequate financial literacy competencies, an SME owner/manager can make use of their professional accountant's financial literacy competencies, provided that the professional accountant does possess the required competencies. The professional accounting bodies outline the competencies required from their professional accountants in their respective competency frameworks, and it is expected that financial literacy competencies should be included in these competency frameworks. The purpose of this study was to identify the financial literacy competencies required from professional accountants when they provide services to SMEs and to explore potential gaps between the expected financial literacy competencies and the financial literacy competencies included in competency frameworks of the International Federation of Accountants (IFAC), South African Institute of Chartered Accountants (SAICA) and South African Institute of Professional Accountants (SAIPA). A qualitative exploratory research approach was used to gain insight into the financial literacy competency areas and the initial gaps identified from SME owners/managers and the professional accountants' perspectives. The study found that financial literacy competency gaps exist in the competency frameworks under review even though professional accountants are well educated. One such gap was that SAICA does not compel the development of taxations skills during the learnership period. Furthermore, it was revealed that SME owners/managers and professional accountants have different opinions about the intentional transfer of financial literacy competencies. Professional accountants believe they intentionally transfer financial literacy competencies, and the SME owners/managers do not share this sentiment.

**Key terms:** Competency framework; Financial literacy; International Federation of Accountants; Knowledge-based Theory; Professional accountant; Professional accounting body; Resource-based theory; Small and Medium Accounting Practice; Small- and medium-sized enterprise; South African Institute of Chartered Accountants; South African Institute of Professional Accountants.

## OPSOMMING

Klein en medium ondernemings (KMO's) is belangrik omdat hulle werk skep, armoede verlig en die Suid-Afrikaanse ekonomie help groei. Hierdie ondernemings het egter met verskeie uitdagings te kampe, waaronder 'n gebrek aan finansiële geletterdheidsvaardighede. As gevolg hiervan steun die eienaars/bestuurders van KMO's op hulle professionele rekenmeesters se finansiële geletterdheidsvaardighede in die veronderstelling dat hulle wel oor die verlangde finansiële geletterdheidsvaardighede beskik. Die vaardighede waarvoor professionele rekenmeesters moet beskik, moet in die vaardigheidsraamwerke van rekeningkundige gesagsliggame uitgestippel word. Hierdie studie het gepoog om vas te stel watter finansiële geletterdheidsvaardighede verlang word van professionele rekenmeesters wat 'n diens aan KMO's lewer. Afgesien hiervan wou die studie bepaal of daar gapings is tussen die verlangde finansiële geletterdheidsvaardighede en die vaardighede wat uitgestippel word in die vaardigheidsraamwerke van die Internasionale Federasie vir Rekenmeesters (IFRM of "IFAC" in Engels); die Suid-Afrikaanse Instituut vir Geoktrooieerde Rekenmeesters (SAIGR of "SAICA" in Engels); en die Suid-Afrikaanse Instituut vir Professionele Rekenmeesters (SAIPR of "SAIPA" in Engels). 'n Kwalitatiewe, verkennende navorsingsbenadering is gevolg om insig te verkry in die areas van finansiële geletterdheidsvaardighede en in die gapings wat aanvanklik deur die eienaars/bestuurders van KMO'S en professionele rekenmeesters aangetoon is. In hierdie studie is bevind dat daar in die vaardigheidsraamwerke onder beskouing leemtes voorkom, ofskoon professionele rekenmeesters goed opgelei is. Een van die gapings is dat die SAIGR nie vereis dat rekenmeesters tydens hul leerlingskap belastingvaardighede opdoen nie. Voorts het geblyk dat die eienaars/bestuurders van KMO's en professionele rekenmeesters oor die opsetlike oordrag van finansiële geletterdheidsvaardighede verskil. Terwyl professionele rekenmeesters van mening is dat hulle finansiële geletterdheidsvaardighede opsetlik oordra, is die eienaars/bestuurders van KMO'S dit nie met hulle eens nie.

**Slutelbegrippe:** Vaardigheidsraamwerk; Finansiële geletterdheid; Internasionale Federasie vir Rekenmeesters; Kennisgebaseerde teorie; Professionele rekenmeester; Professionele rekeningkundige liggaam; Hulpbrongebaseerde teorie; Klein en medium rekeningkundige praktyk; Klein en medium onderneming; Suid-Afrikaanse

Instituut vir Geoktrooieerde Rekenmeesters; Suid-Afrikaanse Instituut vir  
Professionele Rekenmeesters.

## ISIFINQO

Amabhizinisi amancane naphakathi nendawo (*ama-SME*) adlala indima ebalulekile ekuhlizeni abantu ngemisebenzi, ekwehliseni ububha kanye nokubamba iqhaza ekukhuleni komnotho waseNingizimu Afrika. Kodwa-ke, lezi zinkampani zibhekene nezinsalelo ezimbalwa, okuhlenganisa ukushoda kwamakhono okufunda ngezezimali. Ukuze unqobe amakhono okufunda ngezezimali anganele, umnikazi/umphathi we-SME angasebenzisa amakhono akhe ochwepheshe bomgcini mabhuku wezezimali, inqobo nje uma uchwepheshe ongumcwaningi mabhuku enawo amakhono adingekayo. Imikhakha engamele abagcini mabhuku bezezimali abangochwepheshe iveza amakhono adingekayo kubagcini bamabhuku abangochwepheshe ezinhlakeni zabo zamakhono ezihlukene, futhi amakhono okufunda ngezezimali kulindeleke ukuthi afakwe kulezi zinhlaka zamakhono. Inhloso yalolu cwaningo bekuwukuhlonza amakhono okufunda ngezezimali adingekayo kubagcini mabhuku bezimali abangochwepheshe lapho behlinzeka ngamasevisi kuma-SME kanye nokuhlola amagebe angaba khona phakathi kwamakhono okufunda ngezezimali alindelekile kanye nekhono lokufunda ngezezimali elifakwe ezinhlelweni zekhono ze-International Federation of Accountants (IFAC), iSouth African Institute of Chartered Accountants (SAICA) kanye neSouth African Institute of Professional Accountants (SAIPA). Kusetshenziswe indlela yocwaningo lokuhlola olusezingeni eliphezulu ukuze kutholakale ukuqonda ezindaweni ezinekhono lokufunda ngezezimali kanye namagebe okuqala ahlonzwe kubanikazi/abaphathi bama-SME kanye nemibono yabagcini mabhuku abangochwepheshe. Ucwaningo luthole ukuthi akhona amagebe ekhono lokufunda ngezezimali ezinhlelweni zamakhono ezibuyekezwayo zochwepheshe babagcini bamabhuku abafundise kahle. Indlela yocwaningo lokuhlola olusezingeni eliphezulu luthole ukuthi akhona amagebe okufunda ngezezimali ezinhlelweni zamakhono ezibuyekezwayo yize ochwepheshe abagcina amabhuku ezezimali abafundise kahle. Elinye lalawo magebe anjalo ukuthi iSAICA ayikuphoqi ukuthuthukiswa kwamakhono entela ngesikhathi sokufundela umsebenzi. Ngaphezu kwalokho, kwavezwa ukuthi abanikazi/abaphathi bama-SME nabagcini bamabhuku ezimali abangochwepheshe banemibono ehlukene mayelana nokudluliselwa ngamabomu kwamakhono olwazi lwezezimali. Ababhali bamabhuku ezimali abangochwepheshe bakholelwa ukuthi badlulisela ngamabomu amakhono okufunda

ngezezimali, futhi abanikazi/abaphathi bama-SME abahambisane nalokhu.

**Amagama abalulekile:** Izinhlaka zamakhono; Ukufunda ngezezimali; International Federation of Accountants; Ithiyori esekwe olwazini; Uchwepheshe onguMgcini Mabhuku; Umkhakha woChwepheshe abangamele abagcini mabhuku; Ithiyori esekwe kwinsiza; Indlela yokubalwa kwezimali ephakathi nendawo; Ibhizinisi elincane neliphakathi nendawo; South African Institute of Chartered Accountants; South African Institute of Professional Accountants.



## LIST OF ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants
APC	Assessment of Professional Competence
CAQDAS	Computer Assisted Qualitative Data Analysis Software
CA(SA)	Chartered Accountant (South Africa)
CPD	Continuing Professional Development
CIPC	Companies and Intellectual Properties Commission
FAIS act	Financial Advisory and Intermediary Act 37 of 2002
IAESB	International Accounting Education Standards Board
IES	International Education Standard
IFAC	International Federation of Accountants
KBT	Knowledge-Based Theory
PAYE	Pay As You Earn
OECD	Organisation for Economic Co-operation and Development
OECD/INFE	OECD International Network on Financial Education
PA(SA)	Professional Accountant (South Africa)
RBT	Resource-Based Theory
SAICA	South African Institute of Chartered Accountants
SAIPA	South African Institute of Professional Accountants
SARS	South African Revenue Service
SBC	Small Business Corporation
SME	Small- and Medium-sized Enterprise
SMP	Small and Medium Accounting Practice
VRIN	Valuable (V), Rare (R), Inimitable (I) and Non-substitutable (N)

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## CHAPTER 1: RESEARCH INTRODUCTION

### 1.1 BACKGROUND INFORMATION ON THE STUDY

The eradication of poverty in South Africa by 2030 is one of the main objectives of the National Development Plan 2030 (National Planning Commission 2012:14). Increased employment and sustainable growth of small- and medium-sized enterprises (SMEs) will contribute to the eradication of poverty and growth in the economy (SAICA 2020a:5; Ayandibu & Houghton 2017:134-135; National Planning Commission 2012:29). However, SMEs face several challenges that can hamper their growth and, therefore, their contribution to eradicating poverty (Ayandibu & Houghton 2017:136; Oyelana & Smith 2015:178). Two of the challenges frequently reported in research are the shortage of SMEs' financial management and financial literacy (Lusimbo & Muturi 2016:832-833; Musie 2016 2; Chimucheka & Mandipaka 2015:310; Fatoki 2014:153). The Organisation for Economic Co-operation and Development International Network on Financial Education (OECD/INFE) (2018a:7) defines SME financial literacy as:

*"The combination of awareness, knowledge, skills, attitudes and behaviour that a potential entrepreneur or an owner or manager of a micro, small or medium sized enterprise should have in order to make effective financial decisions to start a business, run a business, and ultimately ensure its sustainability and growth".*

Professional accountants can aid SMEs in bridging these financial management and financial literacy shortages by providing pertinent advice and services, thereby assisting SMEs' in obtaining sustainable growth (Blackburn, Carey & Tanewski 2010a:9).

The International Federation of Accountants (IFAC) (2018a:6), therefore, foresees that there will be an increase in demand for professional accountants that can assist with basic financial literacy in emerging and developing economies, such as South Africa. However, professional accountants can only provide advice, which requires financial literacy competencies (SAICA 2018a:10), if they are themselves financially literate. Therefore, financial literacy is a core competency required from professional accountants (Madikizela 2016:69; Steyn, Cairney & Van der Merwe 2016:288-289; Shuttleworth 2012:248-249) in order for them to bridge this gap successfully.

Furthermore, the professional accountants' ability to provide pertinent advice and services is subject to their and the accounting profession's capacity to adjust to the changing business, accounting and technology landscape (Chartered Accountants Worldwide 2016:7-9). The rapidly evolving technology considerably influences the business and accounting environment (van Heerden 2017:16; Jordan 1999:341), as was seen with the introduction of spreadsheet applications, document imaging, the internet, advanced accounting systems, and expert systems (Jordan 1999:341; Coy & Grady 1991:172). This brought about a change in the transfer of data between businesses and their professional accountant (Jordan 1999:342) and the time spent by professional accountants on calculations (Coy & Grady 1991:180). Subsequently, the fourth industrial revolution (4IR), which includes technologies such as artificial intelligence, blockchain, the internet of things and robotics, will once again require the accounting profession to redefine its role since these new technologies could take over basic tasks previously performed or overseen by professional accountants (van Heerden 2017:16; Chartered Accountants Worldwide 2016:5-6; Black & Thompson 2014a:20). Therefore, professional accountants will spend less time processing transactions, preparing reconciliations, completing tax returns, and producing financial reports (IFAC 2017a:13; van Heerden 2017:18). As a result, they will need to refocus their business to the provision of other services such as business advice, sustainable value creation, interpreting regulatory requirements, optimising processes, managing risk and harnessing technology (IFAC 2017a:13; van Heerden 2017:18; Nandan 2010:74).

Advancing technology will not only affect the accounting environment, but it will also affect the business environment of the SMEs that the professional accountants serve. These SMEs' have to adopt the technology and have the ability to innovate (Maduku, Mpinganjira & Duh 2016:711; Martin & Namusonge 2014:32) in this digital age, whilst contending with the changing regulations and market conditions (Hoepli 2013:5; Blackburn & Jarvis 2010:7). Professional accountants will need to stay abreast of the changes in the accounting, business and regulatory environments to provide pertinent services to their SME clients. In this changing environment, applicable financial literacy can assist the professional accountant in managing the risks and benefits of digital financial services (OECD 2017a:3,8,33). It will be essential for professional accountants to be more business aware, technology savvy, risk aware, perceptive and

forward-thinking, to name a few (IFAC 2017a:13; Chartered Accountants Worldwide 2016:8; Blackburn & Jarvis 2010:26). Therefore, financial literacy as an element of business skills and risk management will become increasingly important for professional accountants (Wise 2013:31; Remund 2010:288; Kunene 2008:62).

Financial literacy competencies will also contribute to the success of the small and medium accounting practice (SMP) to which the professional accountant belongs. From a resource-based theory (RBT) perspective, a valuable (V), rare (R), inimitable (I) and non-substitutable (N) human capital resource (Chew & Gottschalk 2013:2-3; Kraaijenbrink et al. 2010:350; Curado & Bontis 2006:370; Barney 1991:105-106) such as financial literacy applied to an SME's specific business environment, may contribute to the competitive advantage of the SMPs in which they are employed and for their SME clients. In addition, the experience the professional accountant obtain by applying their financial literacy competencies to specific industries, business environments, or processes is difficult to transfer and assist in the value creation (Grant 1996:110-111) of an SMP.

Furthermore, professional accountants deem themselves financial experts, business leaders and trusted business advisors (AccountancySA 2017:42-43; Choka 2016:2; SAICA 2008). This view is supported by the institutional trust placed in the professional accounting bodies to which they belong (Black & Thompson 2014a:20). This institutional trust in professional accounting bodies is supported and based on government legislation, codes of conduct, competency frameworks and self-regulation (Blackburn, Carey & Tanewski 2014:6). However, to uphold the trust, the professional accounting body must ensure that their competency frameworks include the competencies needed by the professional accountant to remain relevant to the businesses they serve (IFAC 2017a:3). Nadan (2010:75) supports this view by noting that *“professional accounting bodies will need to ensure that their members are well-equipped with appropriate education and training to keep pace with the changing needs of SMEs operating in complex, competitive and uncertain environments”*. Without the specific inclusion of financial literacy competencies in professional accounting bodies' competency frameworks, it is unclear if professional accountants possess financial literacy competencies at the required proficiency levels to remain relevant to their SME clients' needs. Therefore, the professional accounting bodies'

competency frameworks should be examined for the inclusion (or lack thereof) of financial literacy competencies required for professional accountants to provide services to SMEs.

## **1.2 PROBLEM STATEMENT**

As discussed earlier, professional accountants can contribute to the growth of South African SMEs in a changing business environment, but to do so, they need the relevant financial literacy competencies. However, without specific guidance from the professional accounting bodies' competency frameworks, these financial literacy competencies might not be sufficiently developed at the correct level to enable the professional accountant to serve the changing needs of their SME clients. Consequently, this creates a gap between the financial literacy competencies required from professional accountants when providing services to SMEs and the financial literacy competencies they possess.

Searching a number of databases, including Sabinet African Journals, Google Scholar, JStor, Academic Search Ultimate, Africa-wide information, Business Source ultimate and the National ETD Portal: South African theses and dissertations databases, it was noted that financial literacy competencies required from professional accountants when providing services to SMEs and the inclusion of these competencies in the professional accounting bodies' competency frameworks have not yet been fully explored. In addition, both SME owners/managers' and professional accountants' views of these financial literacy competencies required from professional accountants have not been fully researched.

Research studies by Lovecchio (2016:5-6,42-43) and Schutte (2013:18) only focused on IFAC's competency framework and the relevance of its content and proficiency levels to the members of the South African Institute of Professional Accountants (SAIPA) providing services to SMEs. These studies were conducted from the premise that all the required competencies are reflected in the IFAC competency framework but might not be on the applicable level or relevant to the South African context. The studies by Lovecchio (2016:5-6) and Schutte (2013:18) also did not specifically focus on financial literacy competencies but all competencies listed in International

Education Standard (IES) 2. Furthermore, only the views of professional accountants were obtained and not the views of SME owners/managers.

The study contemplates the following questions:

- What are the financial literacy competencies required from professional accountants when providing services to SMEs?
- Are these financial literacy competencies included at the required level in the professional accounting bodies' competency frameworks?
- What are the perceptions of both the SME owners/managers and the professional accountants on these financial literacy competencies?

### **1.3 PURPOSE STATEMENT**

The purpose of this study was to identify the financial literacy competencies required from professional accountants when they provide services to SMEs and to explore if there is an expectation gap between the financial literacy competencies expected from professional accountants when providing services to SMEs and the financial literacy competencies included in professional accounting bodies' competency frameworks.

### **1.4 RESEARCH AIM AND OBJECTIVES**

The main research aim of this study was to investigate if there is an expectation gap between the financial literacy competencies required from professional accountants providing services to SMEs and the financial literacy competencies included in professional accounting bodies' competency frameworks. The research objectives in support of the main aim were as follows:

- Identify financial literacy competencies required of a professional accountant providing services to SMEs, as evident from the literature.

- Map the inclusion of the financial literacy competencies identified to the competency frameworks of the following professional accounting bodies:
  - International Federation of Accountants (IFAC);
  - South African Institute of Chartered Accountants (SAICA); and
  - South African Institute of Professional Accountants (SAIPA).
- Gain insight into professional accountants' perspectives on the financial literacy competencies required when providing services to SME clients.
- Gain insight into SME owners'/managers' perspectives on the financial literacy competencies required from their professional accountants when receiving services.
- Identify possible expectation gaps between the SME owners'/managers' and the professional accountants' views on the financial literacy competency areas as well as possible gaps between these views and the financial literacy competencies included in IFAC, SAICA and SAIPA's competency frameworks.

## **1.5 SIGNIFICANCE OF THE STUDY**

This study contributes to the financial literacy research field in several ways. The literature review firstly endeavours to define financial literacy for professional accountants providing services to SMEs, where no such definition could be identified when searching databases such as Sabinet African Journals, Google Scholar, JStor, etc. The literature review further endeavours to identify the financial literacy competencies required of a professional accountant when providing services to their SME clients, increasing the awareness of what is required from professional accountants.

The perceptions of the professional accountants and SME owners/managers about financial literacy competencies regarding the provision of services to SMEs and the differences between these perceptions will contribute to the body of knowledge concerning financial literacy. These perceptions with the mapping of the financial literacy competencies to the professional accounting body competency frameworks may also assist professional accounting bodies with the future drafting and evaluation

of their competency frameworks. It may also assist them in evaluating the appropriateness and completeness of any additional workshops/seminars/training material they make available to their professional accountants.

On a theoretical level, this study contributes to the body of knowledge about resource-based theory (RBT) and knowledge-based theory (KBT). This study highlights the significance of financial literacy as a valuable (V), rare (R), inimitable (I) and non-substitutable (N) resource that the professional accountant can use to create value and a competitive advantage for both the SMP in which they are employed as well their SME clients. The study furthermore draws attention to the use of an SMP's own internal tacit and explicit knowledge as well as the tacit and explicit knowledge of external members such as other SMPs, financial planners, and human resources specialists to create new knowledge (Grant 1996: 112) and increased value for the SMP and their SME clients.

## **1.6 DELINEATION**

In this study, data were only collected from SME owners/managers and professional accountants selected to participate through purposive, snowball and convenience sampling. At the time of the study, these participants were also situated in the City of Tshwane Metropolitan Municipality. Additionally, the professional accountants participating in this study were all members of small and medium accounting practices (SMPs). The study only reflects the perspectives of these professional accountants and SME owners/managers, and their perspectives are not representative of all professional accountants working within SMPs and all SME owners/managers.

Furthermore, this study focus on the competency frameworks of two South African professional accounting bodies, namely SAICA and SAIPA, and one international professional accounting body, namely IFAC. The new SAICA CA2025 competency framework approved in February 2021 was not considered in this study because the study was conducted prior to the finalisation of this new competency framework. The competency frameworks of other professional accounting bodies with South African members and the curriculums of South African Universities responsible for implementing these competency frameworks and the education of professional



accountants were not considered.

## 1.7 DEFINITIONS OF KEY TERMS AND CONCEPTS

**Financial literacy (competencies) for SMEs:** *“The combination of awareness, knowledge, skills, attitudes and behaviour that a potential entrepreneur or an owner or manager of a micro, small or medium sized enterprise should have in order to make effective financial decisions to start a business, run a business, and ultimately ensure its sustainability and growth”* (OECD 2018a:7).

**Financial literacy (competencies) for professional accountants:** A combination of awareness, knowledge, skills, behaviour and attitudes that a professional accountant should have to assist their SME clients in making effective financial decisions to start a business, run a business, and ensure a business’s sustainability and growth (own compilation).

**Professional accountant:** A professional accountant is a fully registered member of a professional accounting body such as SAICA or SAIPA and has complied with that professional accounting body’s education and practical experience requirements (own compilation).

**Professional accounting body competency framework:** Describes the knowledge, skills, and attributes a professional accountant should be able to demonstrate at the expected level of proficiency to qualify to register with the professional accounting body (SAICA 2018a:6).

**Small- and medium-sized enterprises (SME):** An SME is an enterprise with an annual turnover of up to R432 million and between 1 and 250 full-time employees (SARS 2018a:4,8, b; SEDA 2018; South Africa 2018:31; South Africa 2019:110,111).

**Small and medium accounting practices (SMP):** An SMP is an accounting practice whose clients are primarily SMEs and public sector organisations; has limited technical expertise which are compensated for by using external technical service providers, and who employs a limited number of professional staff (IFAC 2011:1).

## **1.8 RESEARCH METHODOLOGY**

This study was underpinned by a constructivist worldview. As a constructivist, the researcher depends on the participants' views of their experiences and seeks out the complexity of their views (Creswell & Creswell 2018:28-29; Leavy 2017:13). As part of her constructivist worldview, the researcher embraced a relativist ontology and a subjectivist epistemology. The researcher is thus of the view that the experiences of the SME owners/managers and the professional accountants regarding professional accountants' financial literacy competencies could only be understood from their perspectives and in their context and that the data created by the research participants and the knowledge produced by the researcher are shaped by their lived experiences (Creswell & Creswell 2018:29; Denzin & Lincoln 2018:57).

As indicated in section 1.2, limited research was available regarding the financial literacy competencies required from professional accountants when providing services to SMEs and the inclusion of these competencies in IFAC, SAIPA and SAICA's competency frameworks. Furthermore, the studies by Lovecchio (2016:5-6,42-43) and Schutte (2013:18) did not include the perceptions of SME owners/managers but only those of the professional accountant. An exploratory qualitative research approach was hence used because this approach is useful in generating insights into an under-researched subject area and the understanding thereof (Leavy 2017:5).

### **1.8.1 Research methods**

A qualitative exploratory study generally comprises of one or more of the following research methods: (i) review and analysis of secondary data sources, (ii) interviews with persons knowledgeable and involved with the area of research, and (iii) group discussions with persons involved with the area of research (Saunders, Lewis & Thornhill 2016:175; Cooper & Schindler 2014:94). This study used both a review and analysis of secondary data sources and interviews with persons knowledgeable and involved with the area of research.

### *Review and analysis of secondary data sources*

The review and analysis of secondary data sources included a traditional literature review and a competency framework mapping. The literature review was conducted to obtain an understanding of the challenges faced by SMEs, the SMEs' need for financially literate professional accountants, the necessity for SMP professional accountants to have financial literacy competencies when providing services to SMEs and why these financial literacy competencies should be included in the professional accounting bodies' competency frameworks. Furthermore, financial literacy in the context of a professional accountant was defined, and an initial list of financial literacy competencies required from SMP professional accountants when providing services to SMEs was identified.

A competency framework mapping, which is based on curriculum mapping, was used to identify if gaps exist between the financial literacy competencies identified during the literature review and the inclusion of these competencies in the competency frameworks of IFAC, SAICA and SAIPA (Lam & Tsui 2016:1372; Wang 2015:1552). IFAC was included in study due to its global presence and significant impact on the development and implementation of international standards (refer to section 2.5), while SAICA and SAIPA were included because they are the two most well-known South African professional accounting bodies and are members of IFAC (refer to section 2.5).

Research interviews were conducted with both SME owners/managers and professional accountants to obtain more insight into the required financial literacy competencies and possible gaps. The following section describes the data collection process used in this study.

### *Research interviews*

The purpose of research interviews is to obtain an understanding of the participant's perspective and experience of the research area, as conveyed through the participant's own words (Taylor, Bogdan & DeVault 2016:102). As a constructivist, the researcher was of the view that SME owners/managers and professional accountants may have different perspectives on the financial literacy competencies required from professional accountants when providing services to an SME. Hence, participants for

this study were obtained from both SMP professional accountants and SME owners/managers and were categorised into two participant groups, namely an SMP group and an SME group.

Each participant group in this study was deemed a homogeneous population because they were selected based on a common participant selection criteria and had practical experience within the research area. The participants for both groups were determined using a combination of purposive, snowball and convenience sampling methods (Leavy 2017:79-80,110; Saunders et al. 2016:301,303-304). The participants were recruited from the City of Tshwane Metropolitan Municipality area, which in terms of land area is the third-largest city in the world after New York and Tokyo/Yokohama (City of Tshwane 2021:7). The City of Tshwane Metropolitan Municipality furthermore plays an important role in the South African economy by contributing just over 10% of the national Gross Geographic Domestic Product (GGDP) and just over 28% of Gauteng' GGDP (City of Tshwane 2021:9). As one of its local economic development priorities, the City of Tshwane Metropolitan Municipality is committed to the revitalisation and support of SMEs within the city (City of Tshwane 2021:10). This support provided by the city to SMEs is viewed as a mode to reduce unemployment and generate income for the city (City of Tshwane 2021:112). The importance of SMEs for the City of Tshwane Metropolitan Municipality and the importance of the City of Tshwane Metropolitan Municipality for the South African economy motivated the researcher to focus on this municipal area. Additionally, recruiting participants from within the same municipal area partly reduced the difference in context between participants. Data saturation for this study occurred within 10 interviews from each participant group, which was consistent with the sample size suggested in the literature (Saunders et al. 2016:297).

Data was collected from the participants using face-to-face interviews lasting approximately an hour. For the interviews, an interview schedule, which contained semi-structured questions, was used. A senior researcher, knowledgeable about the research area, reviewed the interview schedule, and the interview schedule was updated accordingly. In conducting the interviews, the researcher took cognisance of the recommendations made by Saunders et al (2016:404-413) regarding the practical execution of a semi-structured interview. The researcher reflected after each interview

conducted and made appropriate changes to her interview approach to enhance the extent and quality of the information received from the interviewees.

All the interviews were digitally audio-recorded after formal consent to do so was obtained from the interviewee. The interviews were transcribed verbatim by either the researcher or a professional transcriber to capture all information accurately. Some of the interviews were transcribed by the researcher, allowing the researcher to familiarise herself with the data preparation process and the data itself.

### **1.8.2 Data analysis**

The data was analysed using thematic analysis, with the main aim to find and explore the themes within the interview data sets (Saunders et al. 2016:579; Braun & Clarke 2006:79). The thematic analysis allows for attention to be drawn to the similarities and dissimilarities in data sets (Braun & Clarke 2006:97). This characteristic is particularly appropriate to this study, where the perception similarities and contrasts between the SME owner/manager and the professional accountant groups were established.

As part of the data analysis process, the researcher first familiarised herself with the data and identified possible codes while reading each of the transcripts and noting these codes on the individual transcripts. To acquaint and immerse herself even further in the data, the researcher compiled a summary of each participant's key responses to each question. Once all the transcripts had been coded, the researcher sorted and categorised the codes into main and sub-themes (Braun & Clarke 2006:89). The researcher manually identified codes and themes and also used Atlas.ti version 7.5.16, a Computer Assisted Qualitative Data Analysis Software (CAQDAS), to increase the methodological rigour of the qualitative data analysis (Saunders et al. 2016:615).

### **1.8.3 Qualitative rigour**

The quality of qualitative research is generally evaluated based on the trustworthiness of the research process (Leavy 2017:154,155). The four constructs of trustworthiness,

namely credibility, transferability, dependability and confirmability (Guba 1981:80), were applied in this study.

### *Credibility*

The researcher used several strategies to safeguard the credibility of the study. The participants' trust was gained before the commencement of the interview, and their anonymity was ensured. The above was done to encourage honest and open responses from participants. Furthermore, participants were informed that their participation was voluntary and that they could withdraw from the study at any time (Shenton 2004:66-67). The same interview schedule, which a senior researcher reviewed, was used for each participant group, and the researcher conducted all interviews. Although the probing questions were used to explore and understand the participants' perspectives regarding professional accountants' financial literacy competencies, the researcher did not lead the participants and allowed them to provide their views.

### *Transferability*

To increase transferability, a report of the data analysis results, which includes rich and detailed descriptions as well as direct quotations from the interview transcripts, were provided in chapter 5 (Shenton 2004:70). Furthermore, to enable the readers to make their inferences regarding the transferability of this study's findings to other contexts, the selection criteria for each participant group and the profile of this study's participants were provided (Shenton 2004:69-70). Readers should note when determining transferability that this study focused on the perceptions of SME owners/managers and professional accountants residing in the City of Tshwane Metropolitan Municipality area in South Africa only.

### *Dependability*

Dependability in a research context refers to whether the research process was logical and well documented to produce a dependable account of the research (Saunders et al. 2016:306,399) and if similar results would be obtained if the data were independently analysed (Shenton 2004:71). The researcher hence provided a detailed description of the research design and implementation. In addition, the researcher

assured the accuracy of the interview transcripts by comparing them to the audio recordings and used Atlas.ti version 7.5.16 to improve the dependability of the coding.

### *Confirmability*

To prevent her bias and ensure the participants' views were objectively depicted (Shenton 2004:72), the researcher acted in good faith and endeavoured that her personal opinions did not influence the research conclusions. Additionally, the raw data such as the digital interview recordings as well as the processed data, including the transcribed interviews and Atlas.ti version 7.5.16 output files, were securely kept in case of an audit of the findings.

## **1.9 ETHICAL CONSIDERATIONS**

Ethics in research refers to the researcher's norms of behaviour related to the rights of the participants of the research study (Saunders et al. 2016:239). Signed informed consent was obtained from all participants, and the participants were informed that they could withdraw from the research at any stage and without penalty (Annexure D). As previously mentioned, participation was also voluntary, and all responses were anonymised. Ethics approval for this study was obtained from the University of South Africa (Unisa) College of Accounting Sciences Ethics Review committee before the commencement of the interviews (Annexure F).

## **1.10 CHAPTER OVERVIEW**

This study's chapter layout is as follows:

### **Chapter 1: Introduction**

Chapter 1 provided background information and an introduction to this research study. The chapter continued with the problem- and purpose statements, and the research aim and objectives were provided. The study's significance and delineations were expanded upon, and the key terms and concepts were defined. Lastly, the research methodology and ethical considerations were discussed.

## **Chapter 2: Understanding financial literacy in the context of small- and medium-sized enterprises; small and medium accounting practices, and professional accounting bodies**

This first chapter of the literature review presents the challenges faced by SMEs and their need for financial literacy competencies. An overview of SMPs and professional accounting bodies and their competency frameworks is provided regarding financial literacy. The theoretical frameworks, namely, RBT and KBT, that are used in this study are discussed.

## **Chapter 3: Financial literacy definition and competencies**

In the second chapter of the literature review, the concept of financial literacy is discussed, and a definition for professional accountant financial literacy is provided. Additionally, financial literacy competencies required from professional accountants when providing services to their SME clients are identified from the literature. These identified financial literacy competencies are mapped to the professional accounting bodies' competency frameworks, and the inclusion, or lack of inclusion, is noted.

## **Chapter 4: Research design and methodology**

Chapter 4 sets out the research approach and philosophical assumptions applicable to this study. It explains the research design, data collection methods and data analysis methods chosen and utilised. Furthermore, the qualitative rigour applied to this study and the ethical considerations taken into account is described.

## **Chapter 5: Research findings**

The research data analysis obtained from the semi-structured individual interviews and field notes is presented in chapter 5. The possible expectation gaps between the SME owners'/managers' and the professional accountants' views on the financial literacy competency areas are identified. Furthermore, the SME owners'/managers' and professional accountants' views are utilised to reassess the competency framework gaps identified during the literature view of chapter 3.



## **Chapter 6: Research summary, conclusions and recommendations**

This final chapter of the study provides a high-level summary, which aligns the empirical results with the research questions and objectives. The chapter furthermore indicates the contributions made by the research and the limitations thereof. Additionally, the recommendations for further research are set out.

### **1.11 SUMMARY**

This chapter introduced the study by providing background information and the problem and purpose statements. The study's research aim and objectives were provided, and the delimitations were highlighted. Furthermore, the research methodology and ethical considerations applicable to this study were described. The chapter concluded with an overview of the chapters in this study. The next chapter presents a literature review of financial literacy against the background of SMEs, SMPs and professional accounting bodies.

## **CHAPTER 2: UNDERSTANDING FINANCIAL LITERACY IN THE CONTEXT OF SMALL- AND MEDIUM-SIZED ENTERPRISES; SMALL AND MEDIUM ACCOUNTING PRACTICES AND PROFESSIONAL ACCOUNTING BODIES**

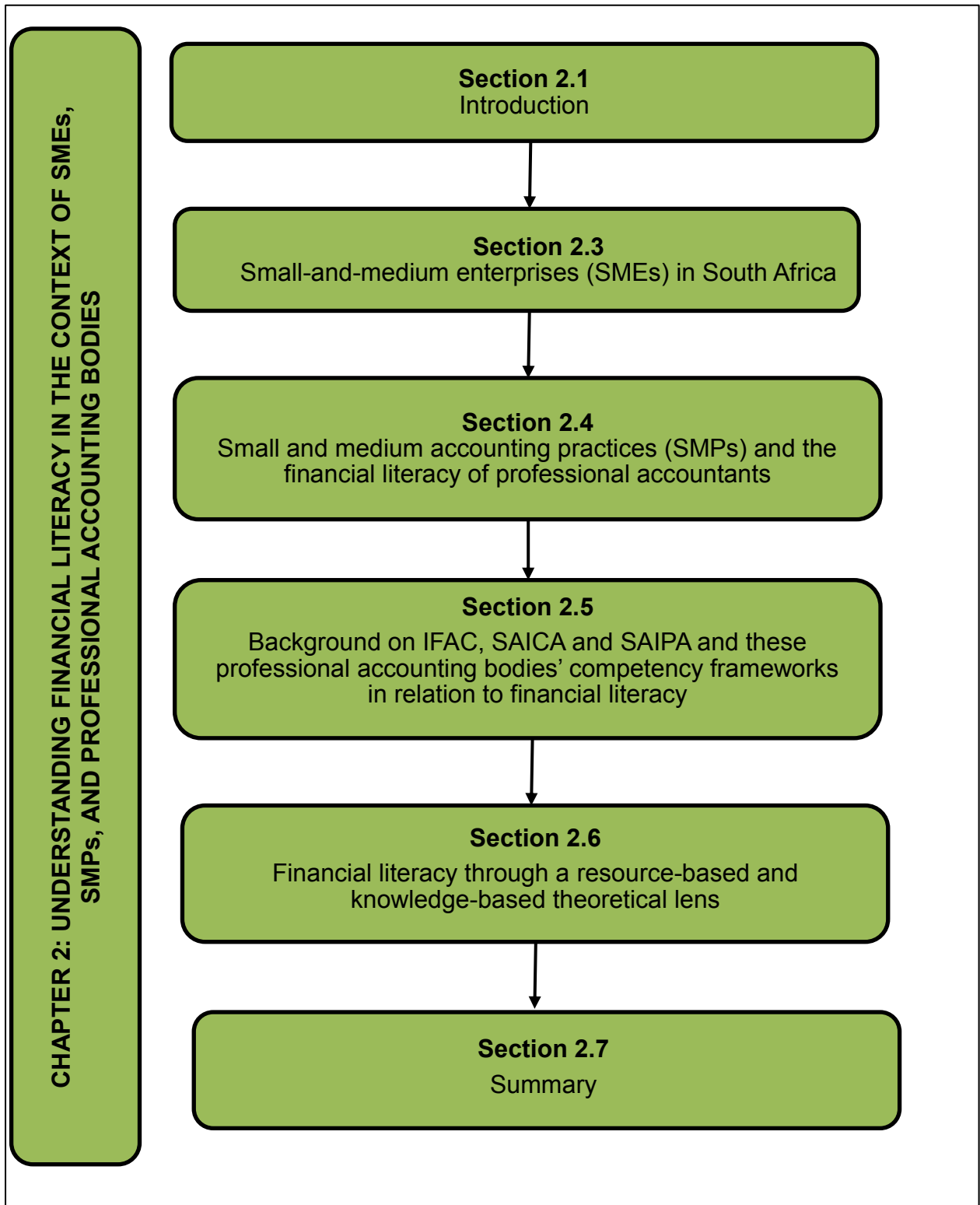
### **2.1 INTRODUCTION**

The primary purpose of this study, namely to explore the possibility of an expectation gap between the financial literacy competencies expected of professional accountants providing services to SMEs, and the financial literacy competencies included in professional accounting bodies' competency frameworks, was introduced in the previous chapter. Chapter 1 also outlined the importance of financial literacy for professional accountants and their SME clients in a changing business-, technology-, and accounting environment. Furthermore, the necessity to include financial literacy competencies in professional accounting bodies' competency frameworks was briefly discussed. In this chapter, a review of the literature is presented to place financial literacy within the context of SMEs, SMPs, and professional accounting bodies.

The first part of this chapter provides an overview of the importance of SMEs, both internationally and in a South African context, and then looks at SME classification for this study. Furthermore, the challenges faced by SME owners/managers and the need for financial literacy competencies are discussed. The focus then shifts in section 2.4 to the importance of financial literacy for professional accountants working in SMPs and providing services to SMEs. Section 2.5 provides a brief background on IFAC, SAICA, and SAIPA and these professional accounting bodies' competency frameworks concerning financial literacy competencies. Lastly, the theoretical lens, which guided the study, is discussed.

## 2.2 CHAPTER LAYOUT

The layout of chapter 2 is illustrated in figure 2.1 below:



**Figure 2.1: Layout of chapter 2**

Source: Own compilation

## **2.3 SMALL-AND MEDIUM-SIZED ENTERPRISES (SMEs) IN SOUTH AFRICA**

SMEs play an important role in economic growth and the reduction of poverty both on a global level and in South Africa (Agyei 2018:2; Atkinson 2017:10,12; Ayandibu & Houghton 2017:134-135; OECD 2017c:15; Chimucheka & Mandipaka 2015:309; Oyelana & Smith 2015:178-179). However, SME owners/managers face several challenges. Sections 2.3.1 to 2.3.3 elaborate on the importance of SMEs, the classification of SMEs in this study, the challenges SME owners/managers face, and their need for financial literacy competencies.

### **2.3.1 The importance of SMEs globally and particularly in South Africa**

The Organisation for Economic Cooperation and Development (OECD) collated entrepreneurship performance indicator data from 36 OECD countries globally (OECD 2017b:11). These aforementioned countries cover most continents, although countries from Africa were not included (OECD 2017b:11). The data collected from the 36 countries indicate that SMEs constitute the largest part of all enterprises in these countries (OECD 2017b:38). Additionally, the significant contribution that SMEs make to economic growth, providing employment and reducing poverty, is acknowledged worldwide (Agyei 2018:2; Atkinson 2017:10,12; Ayandibu & Houghton 2017:135; OECD 2017c:15; Chimucheka & Mandipaka 2015:309; Oyelana & Smith 2015:179).

SMEs also play a vital role in South Africa and contribute to the eradication of poverty (Ayandibu & Houghton 2017:134-135; Oyelana & Smith 2015:178; Chiloane-Tsoka & Mmako 2014:379; National planning commission 2012:29), which is one of the main objectives of the National Development Plan 2030 (National Planning Commission 2012:14). South African SMEs provide between 55% and 65% of employment in South Africa (SEDA 2018:1). Additionally, 41,7% of all enterprise turnover (excluding agriculture, financial intermediation, insurance enterprises, government institutions, and micro-enterprises) is generated by SMEs (SEDA 2018:22). In 2015, SMEs contributed 36% to the South African gross domestic product (GDP) (GERA 2018:90). Despite the importance of SMEs worldwide, there is virtually no consensus on clear classification criteria for an enterprise to be deemed an SME (Atkinson 2017:11; Eniola

& Entebang 2016:33). The classification criteria for SMEs will be discussed further in the next section.

### **2.3.2 The classification criteria of SMEs globally and in South Africa**

SME criteria differ from country to country, and in some instances, the criteria will vary even within a country, based on the industry sector the SME is operating in (Atkinson 2017:11; OECD 2017c:13; Eniola & Entebang 2016:33). Criteria such as annual turnover, asset value, and the number of employees are generally used globally to determine whether a company or a business is classified as an SME (Atkinson 2017:11; Eniola & Entebang 2016:33). The OECD, for example, base their statistical classification of SMEs on the number of people employed because value-based criteria, such as turnover, is generally relative to the size of the specific country's economy (OECD 2017c:13). According to the OECD's classification, micro-enterprises employ one to nine persons, small enterprises 10 to 49 persons and medium enterprises 50 to 249 persons (OECD 2017c:13). The OECD (OECD 2017b:17) further defines an enterprise as the:

*“smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations.”*

In other African countries, such as Nigeria, the criteria for a micro, small and medium enterprise (MSME) are an enterprise that employs up to 199 persons and has assets of up to 500 million Nigerian Naira (Eniola & Entebang 2016:33). The employee criteria used for MSMEs in Botswana differs materially from the maximum of 199 employees used in the Nigerian definition. Majama and Magang (2017:75) define Botswana SMEs as enterprises with less than 100 employees and an annual turnover of no more than 5 million Botswana Pula. Although not explicitly mentioned in the term SME, micro-enterprises are deemed to form part of the definition of SMEs, and the term MSME and SME are used interchangeably (SEDA 2018:27; Ayandibu & Houghton 2017:134; Berisha & Pula 2015:19; Underhill Corporate Solutions 2011:24).

In South Africa, the classification criteria for SMEs differ based on regulations and different regulatory bodies' requirements. The National Small Business Amendment Act No. 26 of 2003, as revised in the 2019 (South Africa 2019:110,111) uses the number of full-time employees and total annual turnover to classify businesses. The criteria for micro, small and medium enterprises vary between the 11 industry sectors and subsectors included in the amendment act. Statistics South Africa (StatsSA) adjusts the turnover amount included in the National Small Business Amendment Act for inflation (Bureau for Economic Research 2016:11) on a quarterly basis and publishes these turnover cut-off points in the Quarterly Financial Survey (QFS). However, the South African Revenue Service (SARS) uses other criteria to define a small business corporation (SBC) and a micro business. The differences between the criteria of SARS and the National Small Business Amendment Act are summarised in table 2.1 below.

**Table 2.1: SME classification criteria in South Africa**

<b>Criteria</b>	<b>National small business act (in broad terms)</b>	<b>SARS small business corporation (SBC) (SARS 2018a:4,8)</b>	<b>SARS micro-business (SARS 2018b).</b>
Number of full-time employees	1 to 250 persons (South Africa 2019:111)	No criteria	No criteria
Total turnover	Up to R432 million as adjusted in the March 2018 QFS (South Africa 2018:31)	No criteria	R1 million
Gross income	No criteria	R20 million	No criteria
Legal form	A distinct business entity which is managed by at least one of the owners (South Africa 2019:110)	Close corporation, co-operative, private company or a personal liability company	Individual, partnership, close corporation, company or co-operatives taxpayer

Sources: SARS 2018a:4,8, b; SEDA 2018; South Africa ; South Africa 2018:31; 2019:111

This study focuses on SMEs in South Africa from a business perspective; hence the classification criteria set out by the National Small Business Amendment Act No 26 of 2003, including the QFS adjusted turnover, seems most appropriate. The

aforementioned is supported by the Banking Association of South Africa (BASA 2018a), which uses the same criteria, but without using the QFS adjusted turnover, to define a small business. With that said, the legal form requirement of the National Small Business Amendment Act No 26 of 2003, however, does not make provision for a micro-business, which is not always a distinct business entity. Hence, a combination of the legal form criteria of both the SARS small business corporation and SARS micro-business is deemed appropriate because it allows for distinct business entities as well as business entities where the business is difficult to distinguish from the SME owner. Given this context, an SME in this study will, therefore, refer to an enterprise with an annual turnover of up to R432 million; between 1 and 250 full-time employees and legal forms ranging from sole proprietors to companies. Apart from the lack of consensus on SME classification criteria internationally and in South Africa, these entities also face numerous challenges. In section 2.3.3, the challenges faced by SMEs and the need for financially literate professional accountants are discussed.

### **2.3.3 The challenges faced by SMEs and the need for financially literate professional accountants**

Despite the importance of SMEs in the South African economy, South Africa ranked 131<sup>st</sup> out of 190 countries on the Global Entrepreneurship Research Association's (GERA) *2017 World Bank Starting a Business Rating* and 74<sup>th</sup> out of 190 countries on the *Ease of Doing Business Rating* (GERA 2018:90). These low ratings suggest that SME owners/managers in South Africa face a number of barriers to start up a business. In their research of 384 SMEs in Pietermaritzburg, South Africa, Khoase, Derera, McArthur and Ndayizigamiye (2020:149-150) identified access to funding, high interest rates, income taxation, high rental charges, licensing procedures and wages for skilled staff as barriers to start up a business. Radebe (2019:67) agreed that access to funding and staff costs hinders South African youth to become entrepreneurs and SME owners in South Africa. Radebe (2019:67) further expanded on Khoase et al's (2020:149-150) notion that licensing procedures are a barrier to a start-up business and indicated that it is not only licensing procedures that is a barrier but that bureaucracy and onerous regulations, in general, hinder youth entrepreneurs. With the significant barriers to starting a business, start-up businesses must be profitable and grow. South African SMEs, however, have a 63% probability of not

continuing after four years and a 91% probability of not continuing after 10 years (OECD 2018b:178).

SMEs face many challenges that can hamper their growth and contribution to eradicating poverty (Ayandibu & Houghton 2017:136; Oyelana & Smith 2015:178). Changes in technology affect the business environment of SMEs, and the SMEs' inability to adopt technology and innovate may hamper their sustainable growth and profitability (Maduku, Mpinganjira & Duh 2016:711; Martin & Namusonge 2014:31-32). Similar to a start-up SME, access to funding, high interest rates, income taxation, high rental charges, licensing procedures and wages for skilled staff were identified by Khoase et al's (2020:151-152) as barriers to sustainable growth in growing SMEs. The burden of adhering to regulations and bureaucracy (Khoase et al 2020:151-152; Nieuwenhuizen 2019:675; Atkinson 2017:23; Hoeppli 2013:5) and access to funding (Khoase et al 2020:151-152; Nieuwenhuizen 2019:673; Rankhumise & Letsoalo 2019:9-10; Atkinson 2017:23; Hoeppli 2013:5) is two of the barriers often mentioned as a barrier to SME growth.

Two other challenges frequently reported in research are the shortage of financial management and financial literacy competencies of SMEs (Lusimbo & Muturi 2016:832-833; Musie 2016:2; Chimucheka & Mandipaka 2015:310; Fatoki 2014:153). Financial literacy competencies assist SMEs when starting up and in each stage of their growth to optimally use the resources available to them (Atkinson 2017:23). For example, a shortage of financial literacy competencies creates a barrier to accessing business funding because it impedes the SME owner/manager ability to sufficiently assess and understand the different funding options available to the SME and the ability to navigate the application process (Atkinson 2017:25-26; Eniola & Entebang 2017:560,564,566-567; Eniola & Entebang 2016:32,38; Fatoki 2014:153). In addition, an inadequate financial literacy competency to keep proper financial records and financial statements further negatively influence an SME's ability to obtain funding (Atkinson 2017:26; Fatoki 2014:155).

Proper financial records and financial statements will also assist SMEs to make timely decisions and keep track of the SME's cashflow (Sibanda & Manda 2016:197). Furthermore, proper financial records and financial statements will assist SME



owners/managers to address the barrier created by taxation (Khoase et al 2020:154; Lusimbo & Muturi 2016:833; Sibanda & Manda 2016:197). Taxation compliance cost is a major concern for SME owners/managers (Nieuwenhuizen 2019:672,675) and an SME owner/manager being competent in the Taxation financial literacy competency area may alleviate this burden (Atkinson 2017:23).

An SME owner/manager can bridge the gap between their required and actual financial literacy competencies through, among others, drawing on the professional accountant's financial literacy expertise for advice and mentoring or attending a financial literacy education programme (Atkinson 2017:48). Research, however, shows that financial literacy education programmes might not be one of the most effective methods to improve SMEs' business performance (ACCA 2014:11). The Association of Chartered Certified Accountants (ACCA), in their 2014 report, indicated "just-in-time" financial education, meaning education relating to a financial concept at the specific time the SME needs the information, as a more effective intervention (ACCA 2014:13). As an SME's financial service provider, professional accountants are suitably situated to provide the necessary "just-in-time" financial education and financial literacy support throughout the SME's lifecycle (ACCA 2014:13). Section 2.4 will elaborate on the link between a professional accountant, as part of an SMP, and financial literacy assistance to SMEs.

## **2.4 SMALL AND MEDIUM ACCOUNTING PRACTICES (SMPs) AND THE FINANCIAL LITERACY OF PROFESSIONAL ACCOUNTANTS**

Professional accountants work in various sectors, including commerce and industry, education, government and public practice (SAICA 2020b). The public practice sector can be divided into two categories: large accounting practices and small and medium accounting practices (SMPs) (Tritschler 2014:167). Internationally, the largest number of accounting practices are SMPs (IFAC 2016a:7), and these SMPs employ the most professional accountants (Khoza, Groenewald & Schachtebeck 2017:102). Although there is no specific definition of an SMP, IFAC (2011:1) categorises accounting practices with the following traits as SMPs: their clients are mostly SMEs and public sector organisations; limited technical expertise are compensated for by using external technical service providers, and a limited number of professional staff are employed.

Tritschler (2014:167) adds that SMPs primarily provide services locally compared to large practices that also serve international clients.

SMPs provide business and consulting services to SMEs, including business structures, estate and succession planning, human resource functions, management accounting and valuations (IFAC 2016a:36). Other advisory services provided by SMPs, with the necessary expertise, include marketing and sales as well as information technology services (Centre for Financial Reporting Reform 2017:6; Blackburn & Jarvis 2010:23). IFAC (2016a:5,36), in their 2016 study on SMPs from 164 countries, concluded that corporate advice is the most frequent business advisory and consulting service provided by SMPs, with management accounting coming in second. In Africa, management accounting (59%) was the most frequently provided business advisory and consulting services, followed by corporate advisory (41%) and business development (40%) (IFAC 2016a:37). According to IFAC (2016a:16), corporate advice includes due diligence, valuations, mergers, financing and legal issue advice, and management accounting, which include processes such as planning, performance and risk management.

Given this context, SMPs are ideally situated to provide services to SMEs since, from the literature, it is evident that SMPs are already the preferred external service provider for SMEs (IFAC 2016b:13; Blackburn & Jarvis 2010:25). Furthermore, in the Institute of Chartered Accountants in England and Wales' (ICAEW) 2014 survey of 500 United Kingdom SMEs, the SMEs have chosen, with a significant majority, their accountant as their "*most trusted business adviser*" (ICAEW 2014:23). Trust, and the level of competence are important factors that an SME owner/manager considers when choosing a business advisory provider (IFAC 2016b:13; Black & Thompson 2014a:20). Ayandibu and Houghton (2017:138) arrived at a similar conclusion, noting that external service providers should be "*well-trained and/or experienced in the specific area of expertise that they offer*" if they want to contribute to the success of an SME. This is, furthermore, consistent with Carey and Tanewski's (2016:306) findings that competency is an important factor for SMEs to consider when using their external professional accountant for business advice. As a result, the professional accountant, as representative of the SMP, should be well trained and financially literate in order to provide the SME with advice and services in this area (Ayandibu & Houghton

2017:138). Therefore, it is not surprising that the literature indicates financial literacy as one of the basic competencies required from a professional accountant (Steyn et al. 2016:288-289; Shuttleworth 2012:248-249).

The SME will trust the SMPs for advice relating to the SME's business finances and the SME owners/manager's finances (Blackburn et al. 2014:10,14). This level of trust is mainly because the SME owners' personal and business finances are often intertwined. After all, the personal income of the SME owner is, in some instances, equal to the business's revenue (Blackburn et al. 2014:10). In providing personal financial advice, the SMP may unintentionally provide financial advice governed by the Financial Advisory and Intermediary Act 37 of 2002 (the FAIS act). The FAIS act requires the provider of the advice, in this instance, the SMP and consequently the professional accountant, to be sufficiently financially literate (De Clercq & Venter 2009:47). To be compliant with the FAIS act and to maintain their status as a trusted advisor, the professional accountant representing the SMP will need to, once again, demonstrate applicable financial literacy competencies.

Contrary to the opinion of the professional accountants regarding their sufficient level of competency, Blackburn, Carey, and Tanewski (2018:373) observed that some SME owners/managers believe that not all accountants have the required competencies to provide business advice. The literature furthermore reveals that possessing technical accounting knowledge (Wilson, Abraham & Mason 2014:75) or working in a financial milieu (De Clercq & Venter 2009:48) does not signify that a professional accountant is financially literate or possesses the financial literacy competencies required by their SME clients. Obtaining a financial degree also does not indicate that a professional accountant is financially literate because De Clercq and Venter (2009:59) observed that undergraduate students studying towards becoming a CA(SA) had varying levels of financial literacy based on the student's income, cultural background, gender, and age. Furthermore, Madikizela (2016:71,73) concluded that undergraduate Bachelor of Accounting students' financial literacy levels was not sufficient and that the SAICA competency framework, which is incorporated in the degree's curriculum, seems not to have a significant impact on the development of these students' financial literacy competencies. The next section will provide a brief background of the IFAC, SAICA, and SAIPA and discuss the aforementioned professional accounting bodies'

competency frameworks in the context of financial literacy.

## **2.5 BACKGROUND ON IFAC, SAICA, AND SAIPA AND THESE PROFESSIONAL ACCOUNTING BODIES' COMPETENCY FRAMEWORKS IN RELATION TO FINANCIAL LITERACY**

This study focuses, inter alia, on IFAC, a global professional accounting body established on 7 October 1977 in Germany to enhance the accountancy profession globally (IFAC 2020a). IFAC (2020b) comprises over 175 professional accounting bodies in approximately 130 countries. These professional accounting bodies represent more than three million professional accountants in all spheres (IFAC 2020b). In their strategic plan for 2019 – 2020, IFAC committed themselves to prepare professional accountants, through comprehensive accounting education, with the necessary competencies for a changing environment (IFAC 2018a:1). IFAC (2020c) is included in this study because of its global footprint and its significant impact on developing and implementing international standards, including international education standards, which are adhered to by two South African professional accounting bodies.

South Africa has 12 professional accounting bodies, of which only two, SAICA and SAIPA, are members of IFAC (2017b). The first South African national coordinating professional accounting body was approved in 1945, although the roots of this organisation can be traced back to 1894 when the first organised body of accountants was established in the then Transvaal (SAICA 2018b). In January 1980, the now known *South African Institute of Chartered Accountants* (SAICA) was established (SAICA 2018b; IFAC 2017b). SAICA is the largest professional accounting body in South Africa, with 46 966 members as of June 2020, of which 37 708 members resided in South Africa (SAICA 2020b).

The second largest professional accounting body in South Africa is SAIPA (2019), with over 10 000 members (SAIPA 2020a). Fully registered SAIPA (2020a) accounting members may use the designation Professional Accountant PA(SA). SAIPA (2018a:4) was established in 1982 as the *Association of Commercial and Financial Technicians of South Africa*. The organisation underwent several name changes, and in 2006 the

name changed to the now known, *South African Institute of Professional Accountants* (SAIPA 2018:5). This study focuses on SAICA and SAIPA because they are the two largest professional accounting bodies in South Africa and are also members of IFAC.

IFAC, through the International Education Standards (IESs), and SAICA and SAIPA, through their competency frameworks, set out what competencies they expect from their respective professional accountants. A brief overview of a professional accountant's financial literacy competencies related to the IESs and SAICA's and SAIPA's competency frameworks are provided in sections 2.5.1 and 2.5.2 below.

### **2.5.1 International Education Standards (IESs) of IFAC**

IFAC established the International Accounting Education Standards Board (IAESB) as an independent standard-setting body (IAESB 2018:1, 2019a:4, 2020) to assist in the strengthening of the global accounting profession through the “development and enhancement of professional accounting education” (IAESB 2018:1). The IAESB's main focus is to ensure that the international accountancy profession's technical knowledge, professional skills, values, ethics, and attitudes serve the public interest (IAESB 2018:1, 2020). The IAESB (2018:1) believes that a person should only be allowed into the accountancy profession if they have reached the required level of competence and should retain this competence throughout their career. This entry-level competence is developed through pre-qualification education and practical training (IAESB 2018:1). Furthermore, professional accountants are required to maintain their competence through continuing professional development (CPD) (IAESB 2018:1). The IAESB, therefore, created the IESs, which prescribe the general education, training, and development standards that IFAC member organisations can use to measure their competency frameworks against (IAESB 2018:1). The development and implementation of quality IESs contribute to the competency of professional accountants globally (IAESB 2018:1) and these IESs should be built into the IFAC member organisations' competency frameworks (IAESB 2020).

The IAESB has introduced eight IESs (IAESB 2019a:1). IESs' 1 to 6 relate to the pre-qualification education and initial development requirements of aspirant professional accountants, while IESs 7 and 8 relate to the continued development requirements of

qualified professional accountants (IAESB 2019a:1). As described in chapter 1, several changes in the business environment, especially the changes in Information and Communications Technology (ICT), can significantly affect the professional accountants' working environment. These changes in technology and the business environment compels the accountancy profession to reassess the competencies required from professional accountants (Thompson 2017). The IAESB, therefore, embarked on a project to revise IESs 2, 3, 4 and 8 and how these IESs address ICT and professional scepticism (IAESB 2019b:5), which is the ability to evaluate evidence critically and to possess a questioning attitude (IAESB 2019a:22).

IFAC's (2018a:4-6) strategic plan for 2019 – 2020 highlights further implications for the professional accountant due to changes in the professional accountant's business environment. Two of these future implications relate to professional accountants' relationship with SMEs (IFAC 2018a:6). Firstly it is expected that professional accountants will need to increasingly assist SMEs in the informal sector with financial literacy competencies, and secondly, professional accountants will need to assist SMEs with improving SMEs' performance and growth (IFAC 2018a:6). To assist SMEs with their financial literacy competencies and improve their performance and growth, professional accountants should themselves have the necessary financial literacy competencies. Based on the aforementioned, it is reasonably expected to see financial literacy specifically reflected in IFAC's accounting education standards. However, the IAESB's (2019a) 2019 edition of the International Education Pronouncements makes no specific mention of the term "financial literacy". As per the research objectives described in chapter 1, this study will explore if the financial literacy competencies required of professional accountants are included in the IESs even though the term "financial literacy" is not specifically mentioned. This will be discussed further in chapter 3.

As members of IFAC, both SAICA and SAIPA must comply with the requirements of the IESs and the guidance provided therein (IFAC 2012:23-24). The IAESB (2016:51), in their *Report on the International Education Standards' (IESs) Usage Study*, indicated that both SAICA and SAIPA competency frameworks are aligned with the requirements of the IESs. SAICA and SAIPA's competency frameworks are discussed in the next section.

### 2.5.2 SAICA and SAIPA competency frameworks

A professional bodies' competency framework outlines the knowledge, skills, and attitudes a professional accountant should demonstrate at the expected level of proficiency to become a member of the said professional body (SAICA 2018a:6; Viviers 2016:2). It furthermore provides a thorough understanding of these competencies to stakeholders (SAICA 2018a:7; Viviers 2016:2). These stakeholders also include the public (SAICA 2018a:7) and, therefore, the professional accountants' SME clients.

SAICA's (2018a, 2019) competency framework is available on their website. It consists of two documents, namely the *Competency framework detailed guidance for the academic programme: The initial test of competence* (SAICA 2018a) and the *Guidance for Professional Programmes: Competencies of a CA(SA) at the point of the Assessment of Professional Competence* (SAICA 2019). The first document relates to the core academic competencies or explicit knowledge (refer to section 2.6.2) a CA(SA) should have to obtain entry to the profession (SAICA 2018a:7). The second document relates to the tacit knowledge (refer to section 2.6.2), which must be developed through the training programme, and provides training officers with guidance on how this tacit knowledge should be evaluated (SAICA 2018a:7). SAICA embarked on a project to revise its competency framework and the new SAICA CA2025 competency framework was approved in February 2021. The new SAICA CA2025 competency framework was not included in this study because it was not available at the time the study was conducted.

The term "financial literacy" is only mentioned once in the SAICA (2018a:10) competency framework in connection with being used to understand transactions. Furthermore, no specific definition or explanation of what financial literacy encompasses is provided. A senior SAICA executive, in an e-mail response, commented that financial literacy in the context of the SAICA competency framework entails "*being financially literate in the broadest sense it is not just accounting but understands broader matters impacting the finance world/business world*". This definition is in line with the understanding that financial literacy forms part of the wider business and entrepreneurial skills a CA(SA) should demonstrate. Madikizela

(2016:69) concerningly points out that financial literacy competencies are not distinctly included as a separate category in the SAICA competency framework, even though the importance of CAs(SA) being financially literate is known. Chapter 3 will explore which financial literacy competencies are included in the SAICA competency framework.

The SAIPA competency framework is not publicly available on their website but can be requested directly from the professional body. Similar to the SAICA competency framework, the SAIPA competency framework sets out the explicit and the tacit knowledge a person should be able to demonstrate at the expected level of proficiency to qualify as a PA(SA) (SAIPA 2020b:4-5). Similar to the IESs, the SAIPA's competency framework makes no specific mention of the term "financial literacy". The importance of financial literacy for the professional accountant (see section 2.4) compels the evaluation of the inclusion of financial literacy competencies in the SAIPA competency framework. However, the available research that focuses on the SAIPA competency framework is limited. Furthermore, as far as could be established from the databases consulted, no scholarly research regarding financial literacy and the SAIPA competency framework could be identified. The aforementioned necessitates the evaluation of the inclusion of financial literacy competencies in the SAIPA framework, which is performed in chapter 3 to fill a gap that exists in the literature.

When SMEs lacks certain competencies, they look towards their professional accountant for assistance, but only if they have the necessary competencies (Black & Thompson 2014a:20). Competency frameworks make the professional accountant's foundational competencies visible to their SME clients (SAICA 2018a:7), who can then decide if they want to use their professional accountant as a resource. The next section will discuss financial literacy as a resource through the theoretical lens of resource-based and knowledge-based theory.

## **2.6 FINANCIAL LITERACY THROUGH A RESOURCE-BASED AND KNOWLEDGE-BASED THEORETICAL LENS**

Resource-based theory (RBT), also known as resource-based view (RBV), is an approach commonly used when investigating the relationship between SMEs and their



external business advisors, including the external professional accountant (Oosthuizen 2018:61; Mole, North & Baldock 2017:478; Carey & Tanewski 2016:296; Kamyabi & Devi 2011:44-45; Blackburn, Carey & Tanewski 2010a:12-13). In the SME-external accountant relationship, the external accountant's advice is used as a resource to assist the SME to obtain a competitive advantage by overcoming information and knowledge inadequacies (Mole et al. 2017:478; Kamyabi & Devi 2011:45; Blackburn et al. 2010a:9,12). This advice is based on the professional accountant's financial knowledge (IFAC 2016b:10), which emphasise the importance of knowledge for the professional accountant as a resource to grow their business (Black & Thompson 2014a:20). In knowledge-based theory (KBT), knowledge is the foremost resource in creating profit for a business (Ganesan, Haron, Amran & Pitchay 2018:38; Grant 2013:542). Both these theories view financial literacy as a resource, and this study will use a combination of these theories to explore the need for financially literate professional accountants.

### **2.6.1 Resource-based theory (RBT)**

RBT emphasises using an enterprise's internal resources to obtain a competitive advantage (Davis & Simpson 2017:20; Kraaijenbrink, Spender & Groen 2010:350). According to Barney's (1991:101) seminal article, enterprise resources can be classified into three categories, namely:

- Physical capital resources, which include resources such as property, plant, equipment, raw materials and physical technology;
- Human capital resources which include, amongst others, the enterprise's employees' knowledge, intellect, perceptiveness and relationships; and,
- Organisational capital resources which include, for instance, informal relationships with its stakeholders and its official reporting hierarchy

Human capital resources are the primary resource in a knowledge-intensive business such as an SMP (IFAC 2016b:10; Nandan 2010:72). Financial literacy, which is deemed to be a human capital resource (Galstian 2017:4; Huston 2010:5), can be used by both the SMP and the SME to contribute to the business obtaining a competitive advantage (Nohong, Ali, Sohilauw, Sobarsyah & Munir 2019:4; Eniola & Entebang 2016:38, 2017:560,564). For human capital resources, such as financial

literacy, to contribute to the competitive advantage of an SMP, RBT postulates that the resource should be valuable (V), rare (R), inimitable (I) and non-substitutable (N), also known as the VRIN characteristics (Chew & Gottschalk 2013:2-3; Kraaijenbrink et al. 2010:350; Curado & Bontis 2006:370; Barney 1991:105-106).

Research has shown that financial literacy will assist an SME in improving its financial effectiveness, neutralising financial threats, and improving financial performance (Atkinson 2017:25-26; Derbyshire 2016:171). However, the financial literacy of SME owners/managers is often lacking (Atkinson 2017:25; Nandan 2010:71). This lack can be alleviated by using external resources, such as their professional accountant, to supplement the SME's lacking in-house financial literacy knowledge resources (De Bruyckere, Verplancke, Everaert, Sarens & Coppens 2018:3; Black & Thompson 2014a:20; Kamyabi & Devi 2011:45-46). By applying financial literacy competencies to their SME clients' specific industry, business environment, and processes, the professional accountant can establish a niche service (Black & Thompson 2014a:21) and create a resource that is valuable, rare, inimitable and non-substitutable.

Furthermore, financial literacy can be seen as a rare resource from two different perspectives. Firstly, many adults in South Africa have generally low levels of financial literacy (Matemane 2018:2; Roberts, Struwig & Gordon 2016:138). These low levels of financial literacy are also true for SME owners/managers (Fatoki 2014:157). Hence, financial literacy is generally scarce in South Africa and specifically for SME owners/managers. Secondly, the advice provided by the professional accountant is seen as a scarce resource (Oosthuizen 2018:62). The advice provided by professional accountants regarding financial literacy areas may, as a result, also be a scarce resource, which could assist the SME in obtaining a competitive advantage.

The trustworthiness of the professional accountant is one of the factors influencing SMEs' decision to obtain non-audit services, such as business advice, from their accountant (Blackburn et al. 2018:359; Ganesan et al. 2018:39; Black & Thompson 2014a:20). Competency is one of the prerequisites for trust (Blackburn et al. 2018:362,373; Black & Thompson 2014a:20), and financial literacy is the foundation required to be deemed competent in a financial environment (Shuttleworth 2009:72). Trust is an intangible resource and is usually seeded in a business's history and

distinct characteristics that cannot be easily imitated in a competing company (Curado & Bontis 2006:370; Barney 1991:107). It can, therefore, be deduced that financial literacy plays a key role in creating competency and trust. Competency and trust are inimitable resources that can assist the SMP in creating a competitive advantage for the SME.

In line with the views of RBT, this study argues that financial literacy is a human capital resource that a professional accountant can use to contribute to the SMP and their SME clients' competitive advantage. RBT furthermore, provides a lens for understanding what role the external accountant can play in overcoming SME owners/managers lacking financial literacy competencies and, as a result, assist the SME in achieving a competitive advantage (De Bruyckere et al. 2018:3; Oosthuizen 2018:62; Blackburn et al. 2010a:12).

Knowledge is a key resource for an SMP as a knowledge-intensive business (Nandan 2010:72). Financial literacy from a knowledge-based theory perspective will be discussed in section 2.6.2.

### **2.6.2 Knowledge-based theory (KBT)**

KBT branched out of RBT and highlights the importance of knowledge resources over tangible resources in creating a competitive advantage (Ganesan et al. 2018:38; Chew & Gottschalk 2013:5; Curado & Bontis 2006:371,373). Knowledge resources are essential for both the SME and SMP because they influence the quality of decisions made (Grant 1996:119), they provide the ability to resolve problems (Nieves & Haller 2014:226), and they allow for quicker adaptation to a changing business environment (Nieves & Haller 2014:226; Curado & Bontis 2006:373). Knowledge resources also assist in the creation of appropriate strategies (Takeuchi 2013:72).

Knowledge can be differentiated between explicit knowledge (*know what* something means) and tacit knowledge (*know how* to do something) (Pickering 2017:952; Chew & Gottschalk 2013:6; Grant 1996:111; Nonaka 1994:15). Explicit knowledge is recorded in physical or digital records such as textbooks, training manuals, and the like (Pickering 2017:952). Tacit knowledge relates to a person's application of

cognitive and technical knowledge to a specific context (Nonaka 1994:16). A significant distinction between explicit and tacit knowledge is the transferability and the methods of transferring knowledge (Chew & Gottschalk 2013:6; Grant 1996:111). Explicit knowledge can be readily formalised, communicated, and transferred to other persons (Chew & Gottschalk 2013:6; Grant 1996:111; Nonaka 1994:16-17), for example, financial literacy knowledge in textbooks. On the other hand, tacit knowledge is rooted in a person and can only be observed, which makes it harder to imitate and transfer between people (Pickering 2017:952; Chew & Gottschalk 2013:6; Kamyabi & Devi 2011:45; Grant 1996:111; Nonaka 1994:16). A person acquires tacit knowledge by accumulating practical skills and experience over time (Pickering 2017:952; Kogut & Zander 1992:386).

Professional accountants' accumulation of practical experience begins when they start their required learnership as trainee accountants registered at the professional body's accredited training offices. During their learnership period, trainee accountants' application of financial literacy explicit knowledge to SME clients' business environment provides them with the opportunity to develop some financial literacy tacit knowledge (Kamyabi & Devi 2011:45). After completing their qualifications, professional accountants can further develop their financial literacy tacit knowledge, if still lacking.

As argued in section 2.6.1, financial literacy tacit knowledge is valuable, rare, and difficult to imitate. From a KBT perspective, the professional accountant's financial literacy tacit knowledge is difficult to transfer because it is based on their experience and the application of their explicit financial knowledge to specific industries, business environments, and processes. The KBT postulates that knowledge that is difficult to transfer assists in creating value for the business (Grant 1996:110-111). The professional accountants' financial literacy tacit knowledge can create value for the SMPs in which they are employed and for their SME clients, where this tacit knowledge is applied and shared. This view is supported by Blackburn et al. (2010a:7,10), who observed that the value of the SMP (as a knowledge-intensive business) resides in the competencies and tacit knowledge, including financial literacy knowledge, of the professional accountants (resource) they employ.

The aforesaid is positive for SMPs because KBT theorises that knowledge is situated in a person and that the role of the business is to integrate knowledge (Chew & Gottschalk 2013:5; Grant 1996:120) to create a competitive advantage. Integrating new knowledge with existing knowledge may create additional new knowledge (Grandinetti 2016:161; Chew & Gottschalk 2013:6), which is increasingly valuable and unique (Chew & Gottschalk 2013:6). This new additional knowledge may further improve the value creation in the SMP. The knowledge to be integrated can either be obtained from the SMP's members or new external members (Grant 1996:112), such as other SMPs, financial planners, and human resources specialists.

The efficiency of knowledge integration and the effective transfer of knowledge depends partly on the use of a language understood by both the recipient (SME) and transferor (professional accountant) of the knowledge (Chew & Gottschalk 2013:7; Grant 1996:111). Furthermore, using mutually understandable language significantly influences the aforementioned relationship (IFAC 2016b:17). Therefore, it follows that for the SME to integrate and aggregate the financial literacy knowledge transferred from the professional accountant, the professional accountant should use a language that is understandable to the SME owner/manager.

The KBT further theorises that the effective transfer of knowledge between the recipient and transferor is not only influenced by the language used but also by the knowledge aggregation capacity of the knowledge receiver (Grant 1996:111). The receiver's knowledge aggregation capacity depends on the receiver's ability to absorb knowledge and add new knowledge to the already absorbed knowledge (Grant 1996:111). The receiver should have the required cognitive structures for the transferred financial knowledge to be understood (Grandinetti 2016:161). It is, therefore, the SME owner/manager's responsibility to develop their own cognitive financial literacy structures and knowledge to understand and aggregate the financial literacy knowledge transferred from the professional accountants to them if they want to develop their financial literacy competencies in the long term.

Based on the principles of KBT, it could be argued that tacit financial literacy knowledge is developed through experience obtained during and after the learnership period and said tacit financial literacy knowledge creates value for both the SMP and

their SME clients. Furthermore, KBT provides insights into why it is important to transfer financial literacy knowledge in an understandable language and the SME clients' responsibility regarding the development of their own financial literacy tacit knowledge.

In essence, tacit financial literacy knowledge acquired through experience can create value for both the SMP and their SME clients. Furthermore, in line with RBT, financial literacy as a VRIN resource can be used by a professional accountant to contribute to the SMP in which they are employed and their SME clients' competitive advantage. An SMP can use their own internal tacit and explicit knowledge but can also use the tacit and explicit knowledge of external members such as other SMPs, financial planners, and human resources specialists to overcome the SMP's financial literacy knowledge inadequacies and to create new knowledge and increased value for the SMP. Similar to the aforementioned, an SME can use its professional accountant's financial literacy knowledge to create new knowledge and a VRIN resource for the SME, increasing the SME's value and competitive advantage.

## **2.7 SUMMARY**

It is evident from chapter 2 that the professional accountant, as part of an SMP, is ideally situated to provide services and advice to an SME. However, the SME will only acquire these services if they deem the professional accountant competent in the provided services and/or advice. Financial literacy is important for both the SME owner/manager as well as the professional accountant and can be seen as a resource to obtain a competitive advantage. Hence, financial literacy was discussed from a resource-based and a knowledge-based theory viewpoint. In their endeavour to ensure their members are competent, professional accounting bodies set out the competencies required from their professional accountants in their competency frameworks.

The next chapter will provide insight into the definition of financial literacy, the financial literacy competencies required from professional accountants when providing services to their SME clients and the inclusion of these financial literacy competencies in the professional accounting bodies' competency frameworks.

## **CHAPTER 3: FINANCIAL LITERACY DEFINITION AND COMPETENCIES**

### **3.1 INTRODUCTION**

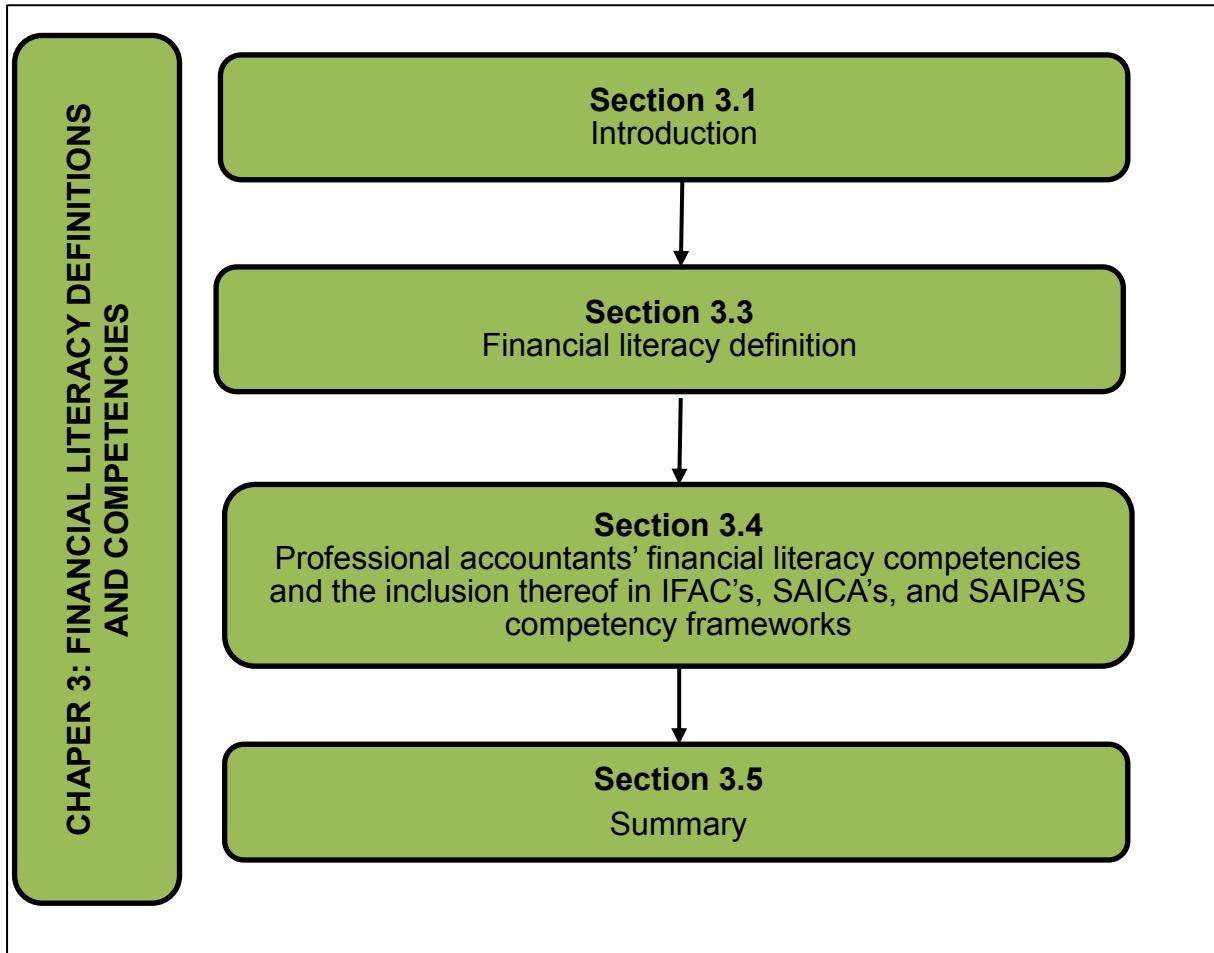
The previous chapter shed some light on the importance of SMEs for the economy, the challenges they face and their need for a financially literate professional accountant. It also described the importance of financial literacy for the professional accountant working in an SMP. Background information was also given on IFAC, SAICA, and SAIPA and their responsibility to ensure that their professional accountant members have the appropriate competencies, including financial literacy, when entering the profession.

The literature review continues in this chapter, and financial literacy for professional accountants that provide services to SMEs are defined and the competencies required from the professional accountant identified. The identified financial competencies are then mapped to the competency frameworks of IFAC, SAICA and SAIPA and gaps are identified.

This chapter begins with an overview of the financial literacy definitions applicable to individuals and SME owners/managers and then attempts to define financial literacy for professional accountants. In section 3.4, the financial literacy competencies required from professional accountants when providing services to their SME clients are identified from the literature. Section 3.4 also reveals the inclusion of these identified financial literacy competencies in the professional accounting bodies' competency frameworks and identifies gaps.

## 3.2 CHAPTER LAYOUT

The layout of chapter 3 is illustrated in figure 3.1 below:



**Figure 3.1: Layout of chapter 3**

Source: Own compilation

## 3.3 FINANCIAL LITERACY DEFINITION

The definition of financial literacy is explored to ensure a common understanding of the term for this study. Section 3.3.1 investigates how financial literacy is defined for individuals while section 3.3.2 explores the financial literacy definition concerning professional accountants providing services to SMEs.

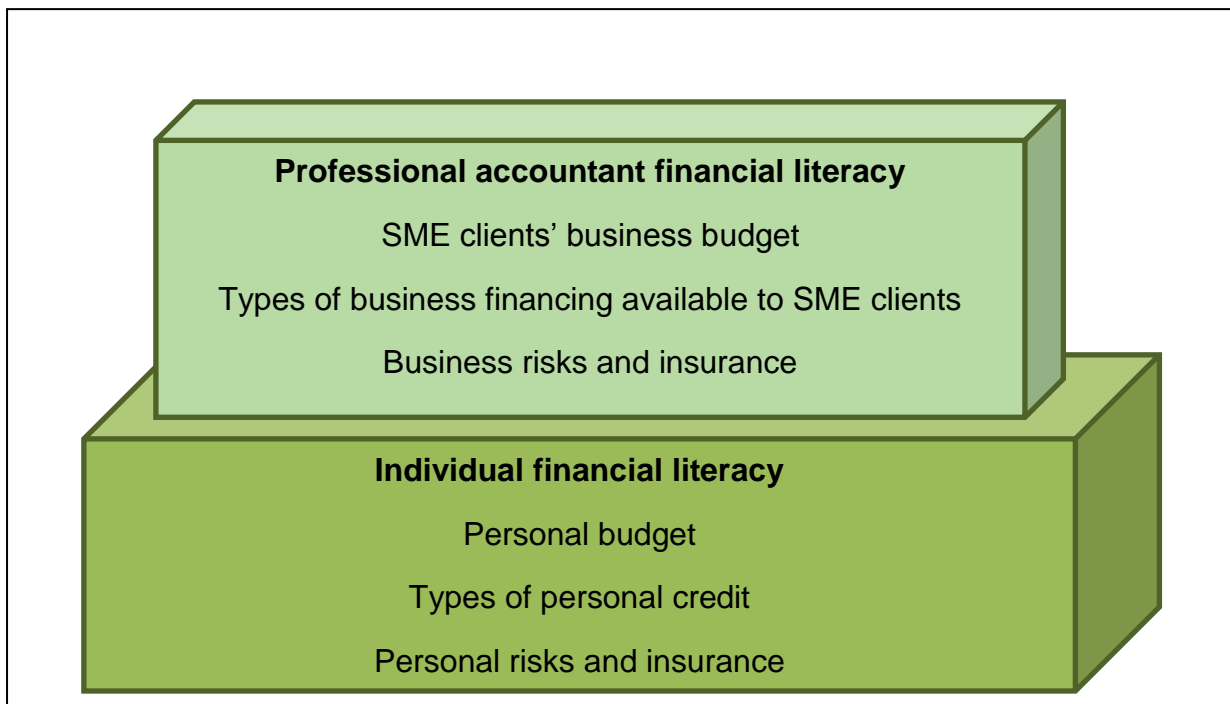


### 3.3.1 Defining financial literacy in the context of an individual

Throughout the literature, different authors attach different meanings to “financial literacy” for individuals (Stolper & Walter 2017:588; Potrich, Vieira & Kirch 2015:364; Botha 2013:14; Louw, Fouché & Oberholzer 2013:440; Taft, Hosein & Mehrizi 2013:64; Remund 2010:279; Gouws & Shuttleworth 2009:144). In her review of 71 research studies and 52 datasets, Huston (2010:298,303) identified eight formal financial literacy definitions. Of these eight financial literacy definitions, three definitions focus mainly on knowledge, two on abilities and the remaining three definitions on both knowledge and abilities (Huston 2010:303). Although only three definitions included knowledge and ability in the financial literacy definition, subsequent research has followed this route of a broader understanding of financial literacy. Recently, financial literacy definitions incorporate both financial knowledge (explicit knowledge) and the ability to apply this knowledge (tacit knowledge) in a changing environment to make effective long- and short-term financial decisions (Stolper & Walter 2017:588; Wilson et al. 2014:63; Botha 2013:19; Louw et al. 2013:440; Remund 2010:284).

The World Bank distinguishes between financial literacy and financial capability. According to the World Bank, financial literacy entails knowledge and awareness, whereas financial capability also includes certain attitudes, skills, and behaviour (The World Bank 2013:7). The OECD/INFE, on the other hand, does not distinguish between financial literacy and financial capability (Atkinson & Messy 2012:4). In the view of the OECD/INFE, both financial literacy and financial capability form part of individual financial literacy. The OECD/INFE, on the other hand, defines individual or adult financial literacy, which includes both financial literacy and financial capability, as *“a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”* (Atkinson & Messy 2012:14). This understanding of individual financial literacy was supported by the Financial Sector Conduct Authority (FSCA) (previously called the Financial Services Board), which uses the OECD’s financial literacy definition as a foundation for their financial literacy measurement framework for individuals (Roberts et al. 2016:102).

Even though the OECD’s definition of individual financial literacy relates explicitly to an individual’s financial circumstances, individual financial literacy is deemed to be an important building block for financial literacy in a business environment (Piprek 2009:6). For example, individual financial literacy requires a person to know about different forms of credit, such as credit cards and mortgage loans, and the ability to assess the implications of each of these forms of credit (OECD 2016a:19). The professional accountant in a business environment will build on this financial literacy competency and grasp how the various credit forms will appear in a business environment. Additionally, they should know about other forms of business financing available, such as government grants and private investors, and the implications of these financing forms for a business (OECD 2018a:14-15). Refer to Figure 3.2 for an illustration of the relationship between individual and professional accountant financial literacy.



**Figure 3.2: Relationship between individual and professional accountant financial literacy**

Source: Own compilation

Figure 3.2 above reflects some of the financial literacy competencies that are specific to a business environment. These financial literacy competencies specific to a business environment (Piprek 2009:6) necessitate a separate definition for

professional accountant financial literacy. Section 3.3.2 explores how financial literacy can be defined for professional accountants when providing services to SMEs.

### **3.3.2 Defining financial literacy in the context of a professional accountant providing services to an small- and medium-sized enterprise**

As indicated in chapter 2, IFAC's IESs and the competency frameworks of both SAICA and SAIPA do not define professional accountant financial literacy. During the review of the literature, limited definitions for professional accountant financial literacy was discovered. Malet (2013:1,8) is of the view that the definition of financial literacy will vary between different businesses and different tasks performed, and hence no general definition should be provided. This sentiment that financial literacy will change based on the tasks performed by the professional accountant is reflected in Weil's definition of audit committee financial literacy (Morse 2004:22). Weil's financial literacy definition, namely "*the ability to understand the important accounting judgments management makes, why management makes them, and how management can use those judgments to manipulate financial statements*", places the focus required from professional accountants as members of audit committees on discerning the accounting judgment behind each amount on financial statements (Morse 2004:22).

From a management accounting perspective, Smith (2017:42) defines financial literacy as "*having an understanding of both finance and the implications that finance has for business decisions*". When professional accountants provide services to SME clients, the focus of their tasks changes the SMEs' business environment. In line with Malet's (2013:1,8) view, it may be postulated that the change in focus will result in a new financial literacy definition aimed at the professional accountant's role within the SME business environment. The definition of SME financial literacy provides background to a possible definition of financial literacy for professional accountants providing services to SMEs.

As with the definition of individual financial literacy, there are several different SME financial literacy definitions (BASA 2018b; OECD 2018a:7; Eniola & Entebang 2016:34; OECD Eurasia 2015:11; Dahmen & Rodriguez 2014:2; Terblanche 2009:4). The OECD Eurasia Working Group on Access to Finance for Agribusiness (2015:11)

defines SME financial literacy as:

*“a combination of knowledge, skills and practice of financial products, concepts, risks and regulatory and legal matters to take the most appropriate finance-related decisions at every stage of SME life-cycle to ensure further business development, growth and profit generation of the firm”* (OECD Eurasia 2015:11).

Eniola and Entebang’s (2016:34) definition of financial literacy relating to SMEs, on the other hand, is *“conceptually of how firms manage and strategize financial knowledge, which significantly affect decision makers’ behaviors, awareness and attitudes, concerning sound decision making and eventually achieving organizational performance”*. Dahmen and Rodriquez’s (2014:2) definition of *“the ability to understand and use business financial statements to generate key financial ratios to evaluate and manage a business”*, focuses only on some aspects of financial literacy competencies.

Terblanche (2009:4), on behalf of the United States Agency for International Development (USAID) defines SME financial literacy as:

*“A financially literate SME owner-manager understands basic financial concepts and knows what the most suitable financing and financial management options are for his or her business at the various growth stages of the business; s/he knows where to obtain the most suitable products and services; and s/he interacts with confidence with the suppliers of these products and services. S/he is familiar with the legal and regulatory framework and his/her rights and recourse”* (Terblanche 2009:4).

The USAID definition firstly recognise that financial literacy is situated in a person, the SME owner/manager, and not in the SME as an entity. Secondly, the USAID definition states that financial literacy should be applied throughout the SME’s lifecycle. However, this definition does not refer to the purpose of financial literacy in an SME context, namely that it should ensure the SME’s profit and growth. The previously noted OECD Eurasia Working Group’s (2015:11) financial literacy definition supports the USAID’s view that financial literacy should be applicable throughout the lifecycle. However, the OECD Eurasia Working Group (2015:11) makes no specific reference

that SME financial literacy is situated in the SME owner/manager and not the SME as an entity. On the other hand, the OECD Eurasia Working Group (2015:11) and Eniola and Entebang's (2016:34) definitions elaborate on the purpose that financial literacy should be used to ensure SME growth and profitability or performance, which in turn is not included in the USAID definition (Terblanche 2009:4).

The gaps in SME financial literacy definitions discussed above are addressed in the OECD International Network on Financial Education (OECD/INFE) definition of SME financial literacy. This definition includes reference to both explicit and tacit knowledge and that this knowledge is situated in a person, namely the SME owner or manager. Furthermore, it indicates that financial literacy applies to all stages of an SME's lifecycle and that the purpose of SME owners'/managers' financial literacy is to achieve growth and sustainability. The OECD/INFE defines SME financial literacy as:

*"The combination of awareness, knowledge, skills, attitudes and behaviour that a potential entrepreneur or an owner or manager of a micro, small or medium sized enterprise should have in order to make effective financial decisions to start a business, run a business, and ultimately ensure its sustainability and growth"* (OECD 2018a:7).

Due to its comprehensive nature, the abovementioned OECD/INFE's SME financial literacy definition was used as a basis to define financial literacy for professional accountants when providing services to SMEs for this study. The following constructs were identified from the OECD/INFE SME financial literacy definition and adapted, where necessary:

- Both the SME and adult financial literacy competency frameworks and definitions categorise financial literacy into three groups, namely: awareness and knowledge (explicit knowledge); skills and behaviour (tacit knowledge); and lastly, attitude (OECD 2018a:11). "Awareness" is the understanding that something exists (Merriam-Webster 2020a), but one does not have an in-depth knowledge of it. "Knowledge" refers to facts and information acquired through education or experience (Cambridge Dictionary 2020a). The effective application of a person's knowledge to a specific context is known as "skills" (Merriam-Webster 2020b), whereas "behaviour" (Cambridge Dictionary 2020b) is the way

a person acts. Lastly, “attitude” relates to an individual’s mindset and way of thinking and how this mindset (including their emotions) influences the financial decisions they make (OECD 2016a:7). In this study, the financial literacy definition for professional accountants will also include these three categories of financial literacy competencies.

- Similar to SME financial literacy, financial literacy for professional accountants is situated in a person, namely the professional accountant. Hence, the definition of professional accountant financial literacy refers to the professional accountant and not the SMP.
- Furthermore, the professional accountant should be able to use their financial literacy competencies to assist SMEs in different stages of the business life cycle. The definition, therefore, refers to starting and running a business.
- The purpose of financial literacy for the professional accountant, when assisting SME owners/managers, is to contribute to the SME’s growth and sustainability (Black & Thompson 2014a:20). This purpose is reflected in the professional accountant financial literacy definition.

Based on the OECD/INFE SME financial literacy definition and the discussion of the constructs as discussed above, financial literacy for professional accountants providing services to SMEs, for purposes of this study, is defined as:

*“A combination of awareness, knowledge, skills, behaviour and attitudes that a professional accountant should have to assist their SME clients in making effective financial decisions to start a business, run a business, and ensure a business’s sustainability and growth” (own compilation).*

In section 3.4, financial literacy competencies required from professional accountants providing services to SMEs and the inclusion of these competency areas in the professional accounting bodies’ competency frameworks are explored.

### **3.4 PROFESSIONAL ACCOUNTANTS' FINANCIAL LITERACY COMPETENCIES AND THE INCLUSION THEREOF IN IFAC'S, SAICA'S, AND SAIPA'S COMPETENCY FRAMEWORKS**

Limited research that explores financial literacy competencies required from professional accountants was identified. To overcome finding limited research that explores the professional accountant's financial literacy, the professional accountant's role as advisor and financial expert to the SME was considered (AccountancySA 2017:42-43; Choka 2016:12; SAICA 2008) through an RBT and KBT lens. This approach coincides with Malet's (2013:1–2,8) view that financial literacy is grounded in the task being performed. As an advisor to the SME, the professional accountant can assist the SME owner/manager where the SME owner/manager lacks the necessary financial literacy competencies. SME financial literacy competencies expected of SME owners/managers are described in the *OECD/INFE Core Competencies Framework on Financial Literacy for MSMEs* (OECD 2018a). The aforementioned document, in conjunction with the *G20/OECD INFE Core Competencies Framework on Financial Literacy for Adults* (OECD 2016a), which is a building block for professional accounting financial literacy (refer to section 3.3.1), and other literature (refer to table 3.1 in section 3.4.2), was utilised to identify the financial literacy competency areas required of professional accountants when providing services to SMEs.

It is important to note that the financial literacy competency areas are interconnected, and that awareness, knowledge, skills, behaviour, and attitudes indicated in one area can also apply to another financial literacy area (OECD 2018a:12). For example, short-term debt forms part of both short-term financial management and debt management and financial ratios that can be used during both short-term and medium- to long-term financial management. This interconnectedness is especially true for the professional accountant's financial literacy *behaviour* and *attitudes*, integrated into all the financial literacy competency areas.

#### **3.4.1 Behaviour and attitudes**

The literature reviewed provided little insight into which financial literacy behaviour and

attitudes are expected of a professional accountant. Hence, the financial literacy competency framework for SMEs and individuals were reviewed, and the following main behaviour and attitudes were identified:

- Being confident to research financial literacy information, such as the business finance products, insurance available, and be able to evaluate and analyse the information obtained through research (OECD 2016a:14-15,19,26, 2018a:14-21).
- Ensure adherence to deadlines (OECD 2016a:19, 2018a:16-18).
- Be forward-looking, anticipate events and be proactive (OECD 2018a:16-20,22).
- Staying informed about news and recent developments (OECD 2018a:16-20,22).

The professional accounting bodies' expectations concerning their professional accountants' behaviour and attitudes are reflected in their professional skills, values and attitude (also known as pervasive skills) requirements (Viviers 2016:1-3). IFAC describes the aforementioned in IES 3 ("*Professional skills*") and IES 4 ("*Professional values, ethics, and attitudes*"). IES 3 and 4 indicate that professional accountants should research data and information from different sources, evaluate and analyse information obtained through research, and communicate it clearly in different circumstances (IAESB 2019a:45,55,132). They must also be able to manage their time to ensure deadline dates are met and should be forward-looking and anticipate challenges and proactively plan solutions for these challenges (IAESB 2019a:46,133).

SAIPA (2020b:19) indicates that their trainee PA(SA)s should demonstrate professional skills during the first and second year of their learnership period. The competency framework, however, does not describe what these professional skills entail. In an e-mail response from SAIPA, it was indicated that the professional skills referred to in their competency framework are the skills as provided in IES 3 and 4.

Similar to IFAC, SAICA's (SAICA 2018a:40-41, 2019:11) competency framework requires that CAs(SA) should be able to manage their time in such a manner that deadlines are met. They should also be able to research data and information,



integrate information from different sources, and critically interpret and analyse the gathered information (SAICA 2018a:42-46, 2019:11). In addition, the ability for a chartered accountant (South Africa) [(CA(SA))] to make recommendations, provide advice, and communicate proficiently is included in the SAICA (2018a:47, 2019:11) competency framework. However, the SAICA competency framework does not mention being forward-looking or proactive, except for proactively planning change. One shortcoming in both IFAC's and SAICA's competency frameworks is that it does not require the professional accountant to have a mindset to stay informed about news and recent events.

In addition to professional skills, which span all the financial literacy competency areas, professional accountant financial literacy also includes *awareness, knowledge, and skills* (OECD 2018a:11). The financial literacy *awareness, knowledge, and skills* required from professional accountants are discussed in section 3.4.2.

### **3.4.2 Awareness, knowledge, and skills**

The awareness, knowledge (technical competencies) and skills (practical competencies) pertaining to the identified financial literacy competency areas are discussed in sub-sections 3.4.2.1 to 3.4.2.19. In addition, the inclusion of the financial literacy competency areas in the IESs, SAICAs and SAIPAs competency frameworks are also explored. It is important to note that IFAC in IES 2 indicates the high-level of explicit knowledge required from professional accountants. In IES 5, IFAC provides guidance on the development of professional accountant skills through practical experience during the required learnership period. IES 5 does not give a detailed description or a list of the competencies that should be achieved during the learnership period. This omission of a detailed description is to allow IFAC member bodies to customise the practical experience to be obtained during the learnership period by taking into account their own needs and that of their stakeholders, including their relevant regulatory authorities (IAESB 2019a:68,157). Hence, in the discussion of IFAC's competency framework, only the inclusion of explicit knowledge (technical knowledge) will be considered. For both the SAICA and the SAIPA competency frameworks, the inclusion of both explicit knowledge (technical knowledge) and tactic

knowledge (practical experience) will be considered.

Table 3.1 below summarises the financial literacy competency areas as included in IESs, SAICA's and SAIPA's competency frameworks and indicates which section the specific competency area is discussed. The colours used in Table 3.1 provides a high-level overview of the financial literacy competencies' inclusion in IESs, and the SAICA and SAIPA competency frameworks. The colours indicate the following:

- Green: Both financial literacy explicit and tacit knowledge is adequately included in the SAICA and SAIPA competency framework. IES 2 adequately includes explicit knowledge.
- Blue: Financial literacy explicit or tacit knowledge is not adequately included in the SAICA and SAIPA competency frameworks. It will also indicate instances where practical experience (tacit knowledge) is included in the SAICA and SAIPA competency frameworks but are not compulsory to complete. IES 2 only partly includes financial literacy technical competencies.
- Orange: Both explicit and tacit knowledge is not included in the SAICA and SAIPA competency framework. IES 2 does not include the required explicit knowledge.

**Table 3.1: Professional accountant financial literacy competency areas as included in IESs and SAICA and SAIPA competency frameworks**

Section	Competency area	Literature reference	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework
3.4.2.1	Receipt and payment of money	(OECD 2016a:8,14)	Not specifically mentioned	Not specifically mentioned	Not specifically mentioned
3.4.2.2	Foreign currency	(ACCA 2013a:13, 2016a:43) (Black & Thompson 2014b:25) (Edinburgh Group 2013:27) (OECD 2016a:8, 2018a:14,21)	(IAESB 2019a:34-35, 120-121)	(SAICA 2018a:73,78-79, 111,119-121,125-127, 129,158,164-165, 2019:13)	(SAIPA 2020b:24-25)
3.4.2.3	Digital currency	(Street, Albu, Albu & Webber 2019:6,9,34)	Not specifically mentioned	Not specifically mentioned	Not specifically mentioned
3.4.2.4	Business finance and alternative financing instruments	(Malet 2013:15) (OECD 2018a:14-16)	(IAESB 2019a:35,121)	(SAICA 2018a:111, 118-121)	(SAIPA 2020b:18,27)
3.4.2.5	Taxation	(ACCA 2016a:52) (OECD 2016a:29, 2018a:12,16-19)	(IAESB 2019a:35,121)	(SAICA 2018a:152-167 2019:17)	(SAIPA 2020b:16-17,23, 28,33)
3.4.2.6	Business registration and other legal requirements	(Hoepli 2013:18-19) (Oosthuizen 2018:76) (Schutte & Lovecchio 2017:67,69-70) (Small 2017:10)	(IAESB 2019a:36,123)	(SAICA 2018a:49-50, 111,116-118,127 2019:9)	(SAIPA 2020b:16,18,37)
3.4.2.7	Human resources and employment laws and regulations	(Hoepli 2013:19) (IFAC 2016b:14) (OECD 2018a:9,17,19)	(IAESB 2019a:35,121)	(SAICA 2018a:58,101, 158,164)	(SAIPA 2020b:17,33)

Section	Competency area	Literature reference	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework
3.4.2.8	Financial accounting and financial statements	(Hoepli 2013:18) (ICAEW 2014:19,21) (OECD 2018a:17)	(IAESB 2019a:34,120)	(SAICA 2018a:73-87, 2019:13)	(SAIPA 2020b:17, 22-26,32,34-36)
3.4.2.9	Short-term financial management	(De Bruyckere et al. 2018:18) (IFAC 2016a:18) (OECD 2018a:18) (Schutte & Lovecchio 2017:66-67) (Xero 2019)	(IAESB 2019a:34-35, 120-121)	(SAICA 2018a:111, 118,126, 2019:15)	(SAIPA 2020b:17,25,34)
3.4.2.10	Medium- to long-term financial management and planning	(IFAC 2016a:37, 2018a:6) (OECD 2016a:17, 2018a:19) (Small 2015:8-9,15)	(IAESB 2019a:37,124)	(SAICA 2018a:58,111,120, 2019:12)	(SAIPA 2020b:29-30)
3.4.2.11	Debt management	(Atkinson 2017:26) (IFAC 2016b:14) (OECD 2016a:19-22, 2018a:19) (Small, Smidt & Joseph 2016:20) (Xero 2019)	(IAESB 2019a:35,121)	(SAICA 2018a:80, 118-121, 2019:13,15)	(SAIPA 2020b:18,27)
3.4.2.12	Financial ratios	(Kirsten, Vermaak & Wolmarans 2015:22-23,32) (OECD 2018a:18-19)	(IAESB 2019a:35,121)	(SAICA 2018a:117,124, 136-137, 2019:16).	(SAIPA 2020b:35-36)
3.4.2.13	Savings and Investments	(Blackburn et al. 2014:2) (Black & Thompson 2014a:20) (IFAC 2016b:38,41) (OECD 2016a:14-16, 2018a:19)	(IAESB 2019a:35,121)	(SAICA 2018a:118-119,125,148,165)	(SAIPA 2020b:27)

Section	Competency area	Literature reference	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework
3.4.2.14	Budgeting	(Banham & Yunke 2014:210) (Blackburn & Jarvis 2010:23) (Williams & O'Donovan 2015:642) (Xero 2019)	(IAESB 2019a:34,120)	(SAICA 2018a:61,131,138, 145-146, 2019:16)	(SAIPA 2020b:20,27)
3.4.2.15	Insurance	(OECD 2016a:24, 2018a:21)	Not specifically mentioned	(SAICA 2018a:69,119, 168-169)	Not specifically mentioned
3.4.2.16	Business risk management	(ACCA 2016a:56,58) (IFAC 2018a:6),	(IAESB 2019a:36, 122-123)	(SAICA 2018a:52-54,57,59-60,65-66, 100-101,107-108,119-120, 124-127,140,159, 2019:12,14-17)	(SAIPA 2020b:18,27)
3.4.2.17	External influences	(ACCA 2016b:14,41,47) (Kirsten & Fourie 2012:476) (OECD 2016a:29, 2018a:22) (Schutte & Lovecchio 2017:68-70)	(IAESB 2019a:36-37, 123-124)	(SAICA 2018a:10,43,50,58-59, 64-65,117,119,136, 139-140, 2019:11)	CPD only
3.4.2.18	Consumer protection	(SAICA 2017:10-11)	N/A	Not specifically mentioned	Not specifically mentioned
3.4.2.19	Protection against fraud	(FEE 2005:13) (OECD 2016a:28, 2018a:23) (Street et al. 2019:68)	(IAESB 2019a:36,122)	(SAICA 2018a:98, 100-101,105,107-108)	(SAIPA 2020b:18,22, 28-29)

Source: Own compilation

Sections 3.4.2.1 to 3.4.2.19 below discusses the awareness, knowledge (technical competencies) and skills (practical competencies) related to each identified financial literacy competency area.

### **3.4.2.1 Receipt and payment of money**

Individuals and businesses use money worldwide to sell or buy products and services and pay and receive employee remuneration (Mcleay, Radia & Thomas 2014:5). Money can take on different forms, and with the fast-growing change in technology, the forms of money have evolved from using traditional banknotes and coins to using electronic money (e-money) (Mcleay et al. 2014:9). Payment methods have also evolved from bank deposits to online payments, debit and credit card payments, and vouchers (OECD 2016a:8). The advancement in and increased use of mobile technology has led to the development of various mobile payment methods such as Zapper, Snapscan and Pocket Pos (Rootman & Kruger 2018:17,18). These new mobile payment methods can also reduce the crime risk relating to the theft of cash and the cloning of bank cards for SMEs (Rootman & Kruger 2018:27).

A review of literature has not provided insight into the requirement that professional accountants should have an awareness of different payment methods and these methods' benefits, limitations, ramifications, and fees, or that they should have the skill to select the most appropriate method for specific circumstances (OECD 2016a:8, 2018a:14). Additionally, no particular mention is made of different payment methods in the discussed competency frameworks. Even though no specific mention is made of this competency area, it is noteworthy that the OECD includes competencies relating to this area in both their adult and SME financial literacy competency frameworks (OECD 2016a:8, 2018a:14). It can reasonably be expected that a professional accountant should have financial literacy competencies in this area because individual financial literacy is the foundation for professional accountant financial literacy (refer to section 3.3.1). As mentors and coaches to SME owners/managers (Small 2017:11), they should be able to assist their SME clients in this area.

### 3.4.2.2 Foreign currency

The enhancement in information and communication technologies has improved SMEs' ability to access international markets (OECD 2017c:16; Chimucheka & Mandipaka 2015:313). Access to global markets and international stakeholders can assist SMEs to foster growth and competitiveness (Agwa-Ejon & Mbohwa 2015:1; Love & Roper 2015:28). As a trusted business advisor to their SME clients, SMPs and, therefore, professional accountants are ideally situated to provide support services relating to various international business activities (Black & Thompson 2014b:24-25; ACCA 2013a:13; Edinburgh Group 2013:27).

SMPs can assist their SME clients with the buying and selling of foreign currencies as well as managing foreign currencies exposure (ACCA 2013a:13, 2016a:43; Black & Thompson 2014b:25; Edinburgh Group 2013:27). Research has found that SMPs mostly rely on their business networks to assist them (ACCA 2013a:10). Furthermore, very few SMPs provide services relating to foreign exchange transactions and exposure management (ACCA 2013a:8). Possessing their own tacit and explicit knowledge resources can assist SMPs to exploit new opportunities and expand their service offering to SMEs (Black & Thompson 2014b:25; Edinburgh Group 2013:32,36). Hence, the professional accountant should, among other things, possess knowledge on foreign currency conversion and different foreign currency transaction costs (OECD 2016a:8, 2018a:14). They should also have the knowledge of and skills to execute foreign currency transactions and manage the impact of foreign currency fluctuations on an SME's business (OECD 2016a:8, 2018a:14,21).

Several foreign exchange technical knowledge items are included in the professional accounting bodies' competency frameworks. IES 2 (IAESB 2019a:34,120) indicates that professional accountants should apply International Financial Reporting Standards (IFRSs). *IFRS for SMEs* and *IAS 21: The Effects of Changes in Foreign Exchange Rates* describe the accounting rules that a professional accountant should apply to recognise, record and disclose foreign currency transactions in an SME's financial statements (IFRS Foundation 2015:192-197, 2020:1133-1152). The aforementioned is also applicable to SAIPA (2020b:24-25) and SAICA (2018a:73,78-79, 2019:13) competency frameworks. The calculations required to convert, recognise

and record foreign currency financial transactions in South African Rand will provide the professional accountant with the knowledge and skills to convert foreign currency amounts into South African Rands.

Furthermore, IES 2 and SAICA's competency framework includes the requirement for explicit knowledge about taxation for certain international transactions (IAESB 2019a:121; SAICA 2018a:158,164-165). Of the three professional accounting bodies considered in this study, SAICA is the only one that expands on the knowledge required (SAICA 2018a:119-121,125-127,129). It makes specific mention that their professional accountants should be knowledgeable about how foreign exchange works, evaluate foreign financing as a possible source of funding, consider foreign exchange as part of financial risk management and understand the variables that impact foreign capital investments. CAs(SA) should also know how to use derivatives to manage the risk of foreign currency fluctuations (SAICA 2018a:111,120,127). The above, however, is only a knowledge requirement, and explicit skills will hence not be developed during the learnership period (SAICA 2019:13). If these explicit skills are needed, the onus will be on the professional accountant to develop these at a later stage.

Other aspects of foreign currency financial literacy competencies not specifically encompassed in IES 2 and SAIPA or SAICA's competency frameworks include the knowledge of different costs pertaining to foreign currency transactions, the knowledge and skills to execute transactions in foreign currency and knowledge of exchange controls. Additionally, both IES 2 and SAIPA's competency frameworks do not specifically mention knowledge of derivatives or any tools to manage foreign currency risk.

### **3.4.2.3 Digital currency**

The enhancement in technology has not only led to improved international market access and new payment methods, but it has also led to the development of digital currencies, also called cryptocurrencies, such as bitcoin (Neyer & Geva 2017:215; Mcleay et al. 2014:9). Whereas the foreign currency, as discussed above, is regulated by the specific currency's government, cryptocurrencies such as bitcoin are



independent of a government (Neyer & Geva 2017:216; Raymaekers 2015:35). Although still small, the use of digital or cryptocurrencies is increasing (Raymaekers 2015:32,39).

The take-up by SMPs to provide services in this competency area is low (Street et al. 2019:6,9,34). Worldwide, only 6% of the 1 906 professional accountants who completed the “SMP of the Future” survey indicated that they frequently use or provide services relating to cryptocurrencies (Street et al. 2019:9,34). Additionally, a mere 6% of the total participants of the survey and 6% of the 86 South African participants indicated that they plan to use or provide services in this area in future (Street et al. 2019:6,34). It may be argued that at this moment in time, professional accountants may not need in-depth explicit or tacit knowledge concerning digital currencies and that basic awareness is sufficient as far as it enables them to consider the impact of it on their SME clients.

Similar to receipt and payment of money in section 3.4.2.1, no specific mention is made of digital currencies in the IESs or SAICA and SAIPA’s competency frameworks creating an awareness gap of this concept. Using different avenues such as seminars, webpage articles, and professional accounting bodies’ magazine articles, information regarding digital currencies is disseminated by all three professional accounting bodies to their members (Verduyn 2019:28-33; Retief 2018:10-12; SAICA 2018c:43; White 2016). However, it is to the discretion of the professional accountant if they use the information to gain awareness.

#### **3.4.2.4 Business finance and alternative financing instruments**

Funding is needed to start a business and become operational as well as to grow a business. The growth of an SME can be hindered by a lack of awareness and knowledge about traditional and alternative financing options, in addition to insufficient competencies and confidence in utilising financing instruments (Atkinson 2017:24-26; Sitharam & Hoque 2016:278; Piprek 2009:10).

An SME manager/owner may approach its professional accountant for advice regarding different financing sources (Carey & Tanewski 2016:296). To provide such

advice, the professional accountant should be aware of the various and most applicable financing options available to an SME (OECD 2018a:14-16; Malet 2013:15). They should also understand the advantages, limitations, risks, implications, and costs of these financing options and provide advice regarding the best financing option available for the SME's specific circumstances (OECD 2018a:14-16). Additionally, they could also assist SME owners/managers calculate how much financing is needed (OECD 2018a:14-16).

In research on Australian SMEs and professional accountants, Dwyer and Kotey (2015:114,118) confirm this view by reporting that SME owners/managers depend on their professional accountants for capital financing advice. When using debt finance such as loans from banks, South African SMEs use external advisors, including their professional accountant, to draft business plans and prepare all the documents needed for their debt financing application (Schmidt, Bruwer, Aspeling & Mason 2016:27-28). However, the professional accountant might not always have the necessary competencies in all areas of obtaining financing. Dwyer and Kotey's (2015:114,119) research concluded that the accountants interviewed did not have the required competencies regarding initial public offering as a method of capital financing and the National Stock Exchange of Australia. The existence of similar research regarding South African accountants' knowledge could not be established. A conjecture may be that South African professional accountants possibly have the same competency gap. Even if professional accountants have explicit knowledge regarding initial public offerings, they might not always have the tacit knowledge to implement initial public offerings practically.

Reference is made in the professional accounting bodies' competency frameworks to business financing. IES 2 stipulates that the professional accountant should be able to contrast the various financing sources available to a business against each other (IAESB 2019a:35,121). IES 8 requires an audit engagement partner to understand how these financing sources impact the audit (IAESB 2019a:100,191). In line with IES 2, SAIPA (2020b:18) indicates that a professional accountant must report on the financing options available to a business and calculate the risks and returns of financing structures. During the SAIPA learnership, the aspirant professional accountant should furthermore develop the competency to evaluate alternative

financial strategies' impact on business risk and return (SAIPA 2020b:27). SAICA (2018a:111,118-121) also requires their professional accountants to understand how to identify financing sources, contrast these financing sources, and evaluate and recommend which source is best suitable for a set of circumstances. It is, however, not compulsory for SAICA trainee accountants to obtain practical experience in the above. All three professional accounting bodies do not specifically include a requirement that a professional accountant should be able to calculate the amount of finance needed to set-up a new business nor a requirement that a professional accountant must implement a chosen financing option in real life.

### **3.4.2.5 Taxation**

Taxation policies, regulations, and administration directly influence an SME's profitability and the returns the SME owner/manager and other financiers can expect from the business (OECD 2017c:52; Sitharam & Hoque 2016:284). Professional accountants play an important role in assisting SMEs to comply with tax laws and regulations (OECD 2016b:54,110) and with any tax challenges, the SME might face (De Bruyckere et al. 2018:3; Black & Thompson 2014a:20). This is reiterated by SAIPA's 2013 survey of SMPs, which found that after financial reporting, taxation services are one of the two foremost services provided by SMPs to SMEs (Hoepli 2013:18). The 2018 IFAC (2018b:9) Global SMP survey echoed the importance of tax advisory services for an SMP, indicating that SMPs expect that revenue from taxation advisory will increase. Additionally, ACCA (2016a:50,52) foresees that taxation will become more complex over the coming years requiring professional accountants to increasingly specialise and maintain their technical expertise.

Professional accountants will, in the future, need to move beyond focusing on tax compliance and reporting (ACCA2016a:50; Small, Yasseen & Salie 2019:8). They will be expected to have a holistic view of their clients' business operations and should be able to align the taxation planning to their clients' business strategy and commercial realities (ACCA 2016a:52). To accomplish this, the professional accountant should be aware of and know about different taxes and tax regulations that apply to SMEs (OECD 2016a:29, 2018a:16) and how taxation will influence an SME client in the short-, medium-, and long-term (OECD 2016a:29, 2018a:12,18-19). Furthermore, the

professional accountant should have the attitude and behaviour to ensure the timely filing of tax returns (OECD 2018a:16-17) and adherence to tax laws and regulations. .

The aforementioned attitude and behaviour is important for an SME because under the Tax Administration Act 28 of 2011 (South Africa 2012:122) an SME is not absolved from its responsibility under the Tax Act even if the SME's taxation function was delegated to their professional accountant. The SME will be liable for any penalties levied by SARS even if the SME's professional accountant provided the incorrect information or submitted returns late due to no fault of the SME (SAIT 2014).

In the *SAICA Competency Framework Detailed Guidance for the Academic Programme* (SAICA 2018a:152-167), a complete section focuses on taxation, iterating the importance thereof for a professional accountant. Taxation is also one of SAIPA's (2020b:16-17,23,28,33) main competency areas and is developed through obtaining both explicit knowledge (technical competencies) and tacit knowledge (practical experience). SAIPA (2020b:28) requires that trainee accountants should develop tacit knowledge during their learnership contract about applying tax regulations, filing tax returns, and resolving tax disputes with SARS, for both individuals and companies. In contrast, gaining practical taxation experience is not compulsory during the SAICA trainee accountant learnership period (SAICA 2019:17).

Both SAIPA and SAICA's taxation competencies relate to various taxpayers' forms, which allow professional accountants to assist SMEs no matter the legal form (refer to chapter 2) of the SME. The IES 2 learning outcomes also include taxation as a specific competency area, but it is described so that each country's professional accounting bodies can make it applicable to their specific taxation legislation and regulatory environment (IAESB 2019a:35,121).

#### **3.4.2.6 Business registration and other legal regulations and requirements**

Several legal business forms are available to SMEs, from informal enterprises, such as sole proprietors and partnerships, to businesses that need to be registered with the Companies and Intellectual Properties Commission (CIPC) or the Master of the High Court (Nedbank Limited 2019:4-5). Each legal business form has its own legal,

taxation and financial implications of which SME owners/managers and professional accountants should take cognisance (Nedbank Limited 2019:5-6; OECD 2018a:16). Besides the legal requirements relating to an SME's business structure, other legal requirements based on the SME's industry and business operations might also apply to an SME. These additional legal requirements may, for instance, relate to licenses, permits, trademarks, patents, municipal by-laws (Western Cape Government 2019:20,22; OECD 2018a:16), Black Economic Empowerment (BEE) laws (Sitharam & Hoque 2016:284) and, environment regulations (IFAC 2016b:15).

Professional accountants are ideally situated to assist SMEs with the aforementioned. This is echoed by Small (2017:10), who noted that advice regarding suitable business structures and other regulations are some of the services provided by professional accountants to their SME clients. Furthermore, PAs(SA) view knowledge about business laws and regulations as an important competency to have when providing services to SMEs (Schutte & Lovecchio 2017:67,69-70). In contrast, advice on other regulations such as environmental and safety regulations was regarded by the SMPs as one of the least important services to provide to SMEs (Hoepli 2013:18). In addition to business structure advice, professional accountants can also assist their SME clients with CIPC compliance and secretarial services (Oosthuizen 2018:76; Hoepli 2013:19).

A professional accountant should also, under the ambit of NOCLAR (“*non-compliance with laws and regulations*”), assess the impact and determine the measures that should be taken if they become aware or suspect non-compliance of laws and regulations (IESBA 2018:75). NOCLAR forms part of the *International Code of Ethics for Professional accountants* (sections 260 and 360), adopted by SAICA and SAIPA and applies to all professional accountants working in an accounting practice or business (Moruck 2018:54). To adhere to NOCLAR, the professional accountant should have an understanding of the laws and regulations applicable to the SME as far as it is needed to competently carry out their work (SAICA 2017:5-6).

Both IFAC and SAICA mentions in their competency frameworks the understanding of different legal forms of entities and the associated legislation and regulations (IAESB 2019a:36,123; SAICA 2018a:111,116). For SAICA members, the aforementioned

technical competency is set as awareness on a basic level, while IES 2 indicates this competency on an intermediate level. This awareness is increased by SAICA, to in-depth knowledge, only for the different categories of companies included in the Companies Act of 2008 (SAICA 2018a:67). The competency levels mentioned before may be insufficient because the PAs(SA) surveyed by Schutte and Lovecchio (2017:67,69-70) thought that the competency level required should be higher than the intermediate level indicated in IES 2. SAIPA (2020b:16,18,37) does not specifically indicate the understanding of different legal forms as a required competency but do note that their members must evaluate their clients' compliance with statutory regulations.

Black Economic Empowerment (BEE) or Broad-Based Black Economic Empowerment (BBBEE) is an example of other laws and regulations that applies to SMEs. Since BBBEE is specific to South Africa, it is understandable that it is not specifically mentioned in the IESs. However, IES 2 only refers to understanding laws and regulations governing business forms, data protection and privacy and the professional accountants' environment (IAESB 2019a:123), which creates a gap of at least being aware of other laws and regulations that impacts the business environment. In addition, the SAIPA framework makes no specific mention of BEE or BBBEE. The SAICA (2018a:117-118,127) academic framework mentions BEE in relation to mergers, acquisitions, and divestiture, which is mostly not applicable to SMEs. Furthermore, SAICA's competency framework for *Assessment of Professional Competence (APC)*, only requires awareness of BBBEE principles as part of other matters topical to the accounting profession (SAICA 2019:9).

Having explicit knowledge of other legal requirements based on the SME's specific industry and business, such as trademarks, patents, municipal by-laws, and environmental regulations, is not explicitly mentioned in the SAICA and SAIPA competency frameworks. Nonetheless, as part of their professional skills, prospective CAs(SA) must develop the ability to interpret applicable legislation and should be able to assess these legislations' impact on their clients' decisions (SAICA 2018a:49-50). They should furthermore have basic knowledge of the principles of contract law (SAICA 2018a:104). SAIPA's competency framework (2020b:16,18,37) only requires its members to assess an SME's compliance as part of risk management.

### 3.4.2.7 Human resources and employment laws and regulations

SMEs in South Africa play a critical role in creating employment and reducing poverty (Western Cape Government 2019:6; Ayandibu & Houghton 2017:135,137; Hoeppli 2013:1). SME owners/managers, however, are of the view that South African labour laws and regulations add to their SME's business expenses and influence their SME's growth (Sitharam & Hoque 2016:284). The SME's professional accountant can provide advice where the SME owners/managers lack the necessary financial literacy to understand the medium- to long-term financial implications of employing staff and complying with labour laws and regulations (OECD 2018a:19). SME owners/managers might also outsource the management of the SME's payroll and employee benefits to their professional accountant (OECD 2018a:17; IFAC 2016b:14; Williams & O'Donovan 2015:642; Hoeppli 2013:19;). Furthermore, professional accountants could also provide employee taxation advice as taxation experts (Williams & O'Donovan 2015:642).

Internationally, providing advisory services regarding human resources and employment regulations is one of the top four advisory services provided by SMPs (IFAC 2018b:8). The 2016 IFAC (2016a:37) *Global SMP survey* showed a similar trend for African respondents. In contrast, SAIPA's *SMP survey* indicated that their members view the provision of strategic human resource advice as one of the least important services (Hoeppli 2013:18). SAIPA's SMPs members do, however, view the provision of payroll services to SMEs as important (Hoeppli 2013:19).

SAICA's (2018a:58) competency framework expects of CAs(SA) to be able to, on a basic level, explain how human resource policies impact an organisation's strategy. They should also have advanced knowledge on identifying employees' needs as a stakeholder of the SME (SAICA 2018a:65). The SAICA competency framework requires CAs(SA) to apply their competencies to benefit their clients and their SMP businesses. Hence, as part of their quality control skills, their members should have awareness about the design, implementation, and management of a human resource quality control system in their own SMP (SAICA 2018a:101). Additionally, as part of a management team, they should be able to take the needs of employees into account (SAICA 2018a:54).

IES and SAIPA's competency framework makes no specific mention of any human resource management competencies. SAIPA (2020b:17,33) does, however, include knowledge about employee taxation in their competency framework and requires their members to have not only explicit knowledge but also tacit knowledge, as can be seen from their specific inclusion of the competency to complete and submit Pay As You Earn (PAYE) returns to SARS. SAICA (2018a:158,164) also includes employee taxation in their competency frameworks but does not mention any practical skills required. Because IES 2 is a global standard, it is assumed that employee taxation will form part of professional accountants' ability to perform individual and corporate taxation calculations (IAESB 2019a:35,121). All three professional accounting bodies make no specific reference to a professional accountants' knowledge and skills concerning payroll management.

#### **3.4.2.8 Financial accounting and financial statements**

It is frequently reported in the literature that proper financial records and reports will assist an SME in measuring their performance and improve the likelihood of the SME obtaining funding (Atkinson 2017:26-27; Lusimbo 2016:24,58; OECD Eurasia 2015:12; ACCA 2014:10; Fatoki 2014:154-155). Abdul-Rahamon and Adejare's (2014:11) research of 113 SMEs found that these SMEs' decision-makers deemed proper financial records vital when making business decisions and assisting the SME to improve efficiency and productivity and reduce costs. Furthermore, accurate financial records and statements are important for an SME's taxation, CIPC reporting and compliance (Nedbank Limited 2019:16). Hence, keeping proper records of financial transactions, financial accounting, and knowledge of financial statements is an important SME financial literacy competency area (OECD 2018a:17).

As an expert in International Financial Reporting Standards (IFRS) and accounting, the professional accountant is ideally positioned to assist their SME clients with the abovementioned financial literacy competencies (De Bruyckere et al. 2018:3). Research has established that bookkeeping and the preparation of financial statements are some of the most frequent services provided by SMPs to SMEs (ICAEW 2014:19,21; Hoeppli 2013:18). Interestingly, ACCA (2016a:10,20,49) foresees that demand for bookkeeping services will decline in the future as these



increasingly become more automated. This trend is also reflected in the IFAC (2018b:9) *Global SMP survey: 2018 summary*, which found that SMPs' portion of revenues earned from accounting, compilation, and other non-assurance services decreased.

Similar to taxation, financial accounting and reporting is indicated as one of the main technical areas in which a professional accountant should be competent (SAIPA 2020b:16; IAESB 2019a:38,134; SAICA 2018a:31). Financial accounting is therefore, as expected, extensively included in IES 2 (IAESB 2019a:34,120) as well as in the SAIPA (2020b:17,22-26,32,34-36) and SAICA (2018a:73-87, 2019:13) competency frameworks. According to the aforementioned competency frameworks, all three professional accounting bodies require professional accountants to record transactions, prepare financial statements according to IFRS, including *IFRS for SMEs*, and interpret financial statements. For both SAICA (2019:13) and SAIPA (2020b:24-26) trainee accountants, it is compulsory to obtain practical experience during the learnership period in this financial literacy area.

#### **3.4.2.9 Short-term financial management**

Financial management is a vital financial literacy area in which the SME owner/manager should be competent to ensure their SME is profitable and grows (Wolmarans & Meintjes 2015:94,97-98). Short-term financial management includes the management of working capital which is the short term management of an SME's cash, payables, receivables, and inventory (Lampthey, Frimpong & Morrison 2017:2). Wolmarans and Meintjes (2015:90,107-108), in their survey of 30 successful Western Cape SMEs, have found that working capital (including cash flow) management practices are the financial management practices primarily performed by these successful SME owners/managers. The importance of working capital management is supported by research that indicates the relationship between proper working capital management and an SME's profitability (Chepkemoi, Patrick & Njoroge 2017:688; Dedunu 2017:60; Lampthey et al. 2017:2,9).

Research of Belgian SME owners/managers indicated that the key SME performance areas they discuss with their accountants include cash management, inventory

management, customer accounts receivable, and supplier debt (De Bruyckere et al. 2018:18). The importance of financial literacy competencies regarding short-term financial management is corroborated by SAIPA members who indicated that analysing an SME's cash flow and working capital requirements are important competencies a professional accountant should have (Schutte & Lovecchio 2017:67). Interestingly, the SAIPA members, on the other hand, were of the view that applying management accounting techniques to support management decisions (including inventory management) was not important (Schutte & Lovecchio 2017:66). Limited literature is available to indicate what specific financial literacy competencies regarding inventory management and accounts receivable management are required from professional accountants apart from evaluating their influence on working capital and cash flow. Professional accountants can, however if needed, assist an SME with inventory management, including understanding inventory holding costs, and how to reduce these costs as well as the amount of inventory to keep on hand and the associated reorder points of inventory items (Xero 2019).

Due to an SMP's smaller number of clients and other resources, Street et al. (2019:5) recommend that an SMP should focus on their client's financial management and their own practice's financial management. This is supported by the 2016 *IFAC Global SMP Survey*, which has found that managing cash flows and late payments from customers are one of the challenges faced by SMPs (IFAC 2016a:18). Financial literacy competencies with regards to customer receivables will hence be critical for the professional accountant to manage their SMP and when providing advice to their SME clients. Using as a basis what is required of an SME owner/manager, these competencies might include understanding the impact of non- and late-paying customers and customer payment terms on cash flow and strategies to minimise the risk of non- and late-payment (OECD 2018a:18). Consumer protection, which influences an SME and its customers' relationship, is discussed in section 3.4.2.18).

Although accounts payables (short-term debt) are an element of working capital, they are discussed as part of debt management in section 3.4.2.11. Financial ratios that can be used to analyse working capital is discussed in section 3.4.2.12.

Except for the ability to compile a cash flow statement as part of financial statements (SAIPA 2020b:17,25,34), the SAIPA competency framework makes no specific mention of cash flow management and working capital management including inventory management and accounts receivable. In contrast, the management of working capital is included in both the SAICA competency framework and in IESs. IES 2 provides a general requirement that professional accountants must be able to analyse a business's cash flow and working capital requirements without indicating what such an analysis will entail (IAESB 2019a:35,121). According to IES 2, a professional accountant should furthermore be able to apply management accounting techniques to inventory management decisions (IAESB 2019a:34,120). IES 2, however, makes no specific mention of any competencies relating to the understanding of the impact of non- and late-paying customers and customer payment terms on cash flows or identifying applicable strategies to minimise the risk of non- and late payment.

CAs(SA) should have extensive knowledge about the development and monitoring of working capital strategies for accounts receivable, accounts payable and inventory as well as the management and monitoring of cash flows (SAICA 2018a:111,118,126). The aforementioned includes a thorough knowledge of inventories, accounts receivable, and accounts payable (SAICA 2018a:126). The knowledge of inventory includes basic knowledge on calculating economic order quantities (EOQ), but no specific mention is made of other management accounting techniques to manage inventory (SAICA 2018a:126). Although explicit knowledge is required, a SAICA trainee accountant does not need to get practical experience in monitoring cash flows or the analysis of an SME's working capital during their learning contract (SAICA 2019:15). Even though not compulsory, not obtaining the experience during the learnership period creates a skills gap.

#### **3.4.2.10 Medium- to long-term financial management and planning**

Similar to the fact that the SME owner/manager should be able to create a long-term financial plan for their finances (OECD 2016a:17), they should also be able to create a long-term plan (otherwise known as a strategic plan or business plan) for their SME clients (Drury 2015:369). A strategic plan will help the SME manager/owner make

decisions that are in line with their SME's vision, mission, and objectives (Majama & Magang 2017:75; Drury 2015:369). Furthermore, formal strategic planning will assist in the improvement of SME performance (Majama & Magang 2017:74). Proper strategic planning is one of the factors that can counteract SME failure in South Africa (Sibanda & Manda 2016:196). To be competent in this financial literacy area, the SME owner/manager should be confident enough to create a business plan, identify strategies to achieve this plan, and timeously monitor and adjust the SME's business plan (OECD 2016a:17, 2018a:19).

Business development services, which include strategy and budgeting, are provided by 24% of professional accountants to their SME clients according to the *IFAC global SMP survey* for 2018 (IFAC 2018b:8). This decreased from the 29% reported in the 2016 *IFAC global SMP survey* (IFAC 2016a:36). However, the picture for professional accountants in Africa is different, as the survey has found that 40% of SMPs in Africa provide business development advisory services (IFAC 2016a:37) to their SME clients. Therefore, it can be expected that South African professional accountants should have the ability to demonstrate knowledge and skills in this financial literacy competency area similar to at least those of the SME owner/manager. Furthermore, Small (2015:15) believes that one of the core competencies needed by professional accounts for the 21<sup>st</sup> century is developing and implementing strategies. IFAC (2018a:6) echoes this view in their 2019 - 2020 strategic plan, indicating that professional accountants' competencies are needed in all decision-making aspects of a business, including strategy formulation.

IES 2 makes specific reference to business strategy and requires the professional accountant to be able to analyse the internal and external factors influencing an SME's business strategy and to be able to explain the steps involved in the development and implementation of the SME's business strategy (IAESB 2019a:37,124). (External influences are discussed in section 3.4.17). SAICA (2018a:111,120) requires awareness about the development and analysis of a business plan. In addition, the SAICA (2018a:58, 2019:12) competency framework requires a CA(SA) to have a theoretical understanding of the evaluation of a business' strategy and recommendations to improve the strategy. They should also have a theoretical understanding of external and internal factors influencing a business's strategy and understand how to analyse and evaluate these factors (SAICA 2018a:58, 2019:12).

An awareness of a business' Information and Communications Technologies (ICT) strategy is also included in the SAICA competency framework, which is in line with the view that ICT will increasingly have an impact on what is expected from a professional accountant (SAICA 2018a:58, 2019:12). In comparison with the aforementioned items where only awareness or a theoretical understanding is required, the SAICA competency framework indicates that a CA(SA) at the point of the assessment of professional competence (APC)<sup>1</sup> should have in-depth knowledge concerning the identification and evaluation of risks and opportunities which flow from a business strategy (SAICA 2019:12). The aforementioned discussion indicates that a CA(SA) should have explicit knowledge on this financial literacy competency area; however the practical application of this knowledge is not a compulsory skill a CA(SA) must achieve during the learnership period (SAICA 2019:12). This might indicate that not all CAs(SA) have the necessary tacit knowledge in this financial literacy area to be able to assist an SME on these aspects if required.

SAIPA's competency framework does not specifically include business strategies in their technical or practical competencies required from their professional accountants. The framework indicates that professional accountants can acquire financial literacy competencies through training workshops or short courses (SAIPA 2020b:29-30). Hence, it is the professional accountant's responsibility to acquire the financial literacy competencies mentioned in this section after entry into the profession.

#### **3.4.2.11 Debt management**

Managing the SME's total (short-term and long-term) debt levels is important for SME owners/managers as Dahmen and Rodriguez (2014:7) have found that over-indebtedness is one of the reasons SMEs experience financial problems. Derbyshire (2016:67) came to a similar conclusion, noting that ineffective debt management curtails an SME's growth and can lead to an SME's failure. On the other hand, using debt can assist the SME in increasing its performance through lengthening the SME's

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<sup>1</sup> The APC exam is the second qualifying examination and assesses professional competence. To be eligible for the exam candidates must have passed the first qualifying exam (initial test of competence), have completed 20 months of a SAICA learnership period and successfully completed a professional programme.

accounts payable period and using credit provided by their SME suppliers as a source of inexpensive short-term debt (Lampthey et al. 2017:4,8). Even though supplier debt is inexpensive, it should be carefully managed because delays in settling outstanding accounts can result in the SME losing their credit standing or early payment discounts being forfeited (Lampthey et al. 2017:8). Research has also indicated that some of the reasons South African SMEs' applications for financing are denied include lacking credit ratings and lacking financial management and business skills (Cameron & Hoque 2016:544-545). Having sufficient financial literacy skills will assist SME owners/managers in managing their SME's debt and related cash flows (Dahmen & Rodriguez 2014:7), avoiding over-indebtedness (Fatoki 2014:153) and accessing financing (Atkinson 2017:24-25; Cameron & Hoque 2016:544-545).

The debt level of an SME often necessitates the SME's owner/manager to seek business advice from their professional accountant (Centre for Financial Reporting Reform 2017:4; IFAC 2016b:4; Blackburn et al. 2014:3) and the higher the debt, the more likely the SME needs assistance with debt management. Furthermore, SME owners/managers need to discuss supplier debt, also referred to as accounts payable, with their professional accountant during a review of their SME's performance (De Bruyckere et al. 2018:18). Understanding an SME's debt level and ability to repay its debts is important for the SME owner/manager and the professional accountant. The professional accountant is obligated to take an SME's debt level and ability to repay its debts into account when considering the SME's going concern status during the compilation of the financial statements (Small et al. 2016:20). Additionally, due to the changing role brought about by the 4<sup>th</sup> industrial revolution, the professional accountant should be able to provide advice on how the SME can mitigate its going concern risks (Small et al. 2019:8). The aforementioned going concern risk will also include debt's risk to the SME's going concern status. To mitigate debt risks, the professional accountant can assist the SME with debt management and creating a debt strategy for the SME (Xero 2019; IFAC 2016b:14).

To provide the abovementioned advice to an SME owner/manager, the professional accountant should have, as a minimum, the same financial literacy competencies as those required from an SME owner/manager and that of an individual. Hence the professional accountant should be able to analyse and project the SME's cash flow in

the short-, medium-, and long-term to ensure debt covenants are adhered to (OECD 2018a:19; Atkinson 2017:26) and should grasp the consequences and costs of late and non-repayments of debt (Atkinson 2017:26; OECD 2016a:22). They should also understand the impact of credit ratings on obtaining debt and the cost of debt (OECD 2016a:21) and which actions and behaviour will influence the credit rating of the SME (OECD 2016a:19-21). The professional accountant should be able to consider the interest rate, total cost, impact on current and future income, and the risks, benefits, and shortcomings associated with each type of debt (OECD 2016a:19-20) when selecting a debt product. Professional accountants can also make use of financial ratios (section 3.4.12) to assist with an SME's debt management.

IES 2 makes no specific mention concerning knowledge or awareness about the consequences and costs of late or non-repayments of debt; understanding the impact of credit ratings on obtaining debt and the cost of debt, and which actions and behaviour will influence a credit rating of an SME. IES 2 does require the professional accountant to compare various sources of financing (which include debt products) and to be able to analyse a business' cash flows, working capital requirements, and current and future financial position (IAESB 2019a:35,121).

SAICA's (2018a:80) competency framework includes the ability to identify, analyse, and provide advice on debt covenant obligations when preparing financial statements. Obtaining practical experience in the aforementioned during the learnership period is a compulsory requirement for trainee accountants (SAICA 2019:13). Although mandatory practical experience is not required during the learnership period (SAICA 2019:15), the professional accountant should have explicit knowledge about the cost, impact on current and future financing decisions as well as the risks, benefits, and shortcomings associated with debt (SAICA 2018a:119-121).

Furthermore, in-depth knowledge about monitoring an SME's cash flow and how this will ensure debt commitments are met and strategies for accounts payable management as part of the working capital analysis is also required (SAICA 2018a:118). Similar to IES 2, no specific mention is made in the SAICA and SAIPA competency frameworks about having knowledge or awareness regarding the impact of credit ratings on obtaining debt and the cost of debt and which actions and

behaviours will influence a credit rating of an SME. SAIPA's competency framework additionally makes no specific mention of analysing and projecting an SME's cash to ensure debt covenants are adhered to or the consequences and costs of late or non-repayments of debt. According to the SAIPA (2020b:18,27) competency framework, their professional accountants should be able to evaluate financing methods, the risk and return of these methods for the SME, and which method is most appropriate for the SME for financing capital expenditure and investment projects. The SAIPA competency framework is not explicit about having knowledge, awareness, or skills to consider the total cost, impact on current and future income, and the risks, benefits, and shortcomings associated with debt products.

#### **3.4.2.12 Financial ratios**

Financial ratios aid SME owners/managers in understanding a business's financial statements and performance (Nedbank Limited 2019:39; Kirsten et al. 2015:23; Dahmen & Rodriguez 2014:4,9). Calculating financial ratios and comparing them to industry norms and previous periods can assist the SME owner/manager with their short- and long-term financial management and planning (Nedbank Limited 2019:39; OECD 2018a:18). The knowledge and utilisation of financial ratios will further assist SME owners/managers in monitoring loan covenant adherence, providing better information during credit applications (Atkinson 2017:26), and timeously identifying problems (Kirsten et al. 2015:16).

Although the literature has found that calculating financial ratios is beneficial to an SME, Wolmarans and Meintjies (2015:108) noted that, of the SMEs surveyed in the Western Cape, only 53% calculate financial ratios and perform financial ratio analysis, and only 10% voluntarily perform the aforementioned more than once per quarter. The limited use of financial ratios is due to a lack of understanding of the benefit of an SME calculating financial ratios (Brijlal, Enow & Isaacs 2014:347). This opinion is corroborated by Kirsten et al. (2015:22), who noted that SME accountants are of the view that SME owners/managers do not have the necessary knowledge about financial ratios and the use thereof. SME clients need to be educated, by professional accountants, about financial ratio calculations, the meaning of these ratios, and the necessary recommendations for improving these ratios (Kirsten et al. 2015:22-23) to



elevate the level of knowledge that the SME clients possess and dispel the notion that they do not have the necessary knowledge. Although professional accountants do assist SMEs with financial ratio advice, Kirsten et al (2015:32) believe that professional accountants can contribute to enhanced SME performance if they provide this assistance to a greater degree. Hence, the professional accountant should be able to identify which financial ratios are relevant to both the short-term and long-term financial management of their SME clients and what the available comparative industry ratios are (OECD 2018a:18-19). They should then use these calculated SME ratios and compare them with industry ratios to monitor their SME client's performance and advise how performance can be improved (OECD 2018a:18).

The IAESB (2019a:35,121) and SAICA (2018a:117,124,137) require their members to be knowledgeable about the analyses of a business's performance and financial position using applicable financial ratios and trend analysis. Even though IES 2 makes no specific mention of identifying the comparative industry ratios and using these comparisons to monitor a business' financial performance.

SAICA (2018a:117,124,137) requires in-depth knowledge about the calculation of financial ratios, using it to analyse performance and providing recommendations for improvement. Furthermore, CAs(SA) should know how to identify key industry-specific indicators (SAICA 2018a:136). Although the aforementioned knowledge areas are also indicated as part of the practical experience competencies obtained during the learnership period, it is not a compulsory item, and hence not all trainee accountants will gain this practical experience (SAICA 2019:16).

Notably, SAIPA (2020b:26-27, 35-36) does not specifically indicate financial ratios as part of their technical competencies but indicates as part of the practical experience and standard of competence, PAs(SA) must be able to calculate ratios to analyse financial statements and assess performance. Hence it can be assumed that although not explicitly mentioned under the technical competencies, the professional accountant should have the explicit knowledge to calculate the required ratios. Similar to IFAC and SAICA's competency frameworks, the SAIPA framework also does not specifically mention being able to identify the comparative industry ratios and the use of these comparisons to monitor the SME's financial performance.

### **3.4.2.13 Savings and Investments**

The SME owner's/manager's savings and investments are often one of the leading sources of funding for an SME (Agwa-Ejon & Mbohwa 2015:5; Oyelana & Smith 2015:182; ACCA 2014:9), and these savings and investments reduce the amount of external funding required. The SME's savings may furthermore be used to re-invest and grow the business (Chepkemoi et al. 2017:699). Investing surplus cash for even a short period positively impacts an SME's performance (Fatoki 2014:155).

To aid their SME clients with creating and preserving the SME's wealth, the professional accountant can provide savings and investment advice (IFAC 2016b:38,41; Blackburn et al. 2014:2; Black & Thompson 2014a:20). However, South African professional accountants should ensure that when providing savings and investment advice, they do not explicitly or by implication recommend a specific financial product or service as appropriate for an SME's needs, circumstances, and goals (South Africa 2002:12). The reason being that such advice will be subject to the provisions of the FAIS Act, which purpose is to protect consumers of financial products and ensure they receive proper advice and adequate information from financial advisors and intermediaries (Nedbank Limited 2019:53; FSB 2019:2). However, South African professional accountants are allowed to give factual information about procedures to enter into an investment and factual descriptions of and information about financial products (South Africa 2002:10). If the given advice falls within the scope of the FAIS Act, the professional accountant should ensure they are registered as a financial service provider (FSB 2019:2,5). Not adhering to the FAIS act can result in the professional accountant being liable to the SME (De Clercq & Venter 2009:47).

To provide savings and investment advice to an SME owner/manager, the professional accountant should have, at least, the same financial literacy competencies as those required from an individual and an SME owner/manager. The professional accountant who provides advice should have knowledge about various types of saving and investment products available to SMEs and the returns, risks, fees, and tax implications relating to these types of products (OECD 2016a:14). They should also understand several investment concepts: risk tolerance, time horizon, investment goals, diversification, asset allocation, risk and reward, and changes in values

(OECD 2016a:15-16). Furthermore, they should be able to compile an investment analysis that assists the SME in making the best financially beneficial and ethical decision (OECD 2016a:15-16, 2018a:19).

As indicated in SAICA's competency framework, and required of a CA(SA) as part of their competencies to manage surplus cash, the CA(SA) must have in-depth knowledge about appropriate savings and investment options (SAICA 2018a:118). They also need to understand how an SME's investment policy will influence the SME's financial risk and if this policy is in line with the business' overarching risk management policies (SAICA 2018a:119). Furthermore, a CA(SA) should have knowledge concerning the use of investments as part of taxation planning (SAICA 2018a:165). The SAICA competency framework additionally indicates that CAs(SA) should obtain knowledge and awareness about the concept of return on investment during their studies on financial analysis techniques (SAICA 2018a:148) and the concepts of bonds, shares, convertible securities, dividend growth, and earnings as part of valuing a company (SAICA 2018a:125). It is, however, unclear from the SAICA framework if any awareness or knowledge is required with regards to investment concepts such as risk tolerance, time horizons, and asset allocations.

The SAIPA (2020b:18,27) competency framework is mainly directed at investment decisions regarding capital budget items such as new machinery, new plants, or new products and making these decisions. Their prospective PA(SA) will, however, as part of the learning, be exposed to the average rate of return and internal rate of return (SAIPA 2020b:27). The SAIPA competency framework makes no specific mention of the professional accountant having awareness or knowledge of various types of saving and investment products available to SMEs and the risks and fees related to these products. There is also no specific mention of awareness or knowledge of investment concepts such as risk tolerance, time horizons investment goals, diversification, asset allocation, risk and reward, and changes in values. Although their professional accountants should be able to prepare and submit company taxation returns, the SAIPA competency framework does not indicate that they should have awareness, knowledge, or skills to use investments in taxation planning.

Similar to SAICA and SAIPA's competency framework, IES 2 includes investment decisions regarding capital budget items (IAESB 2019a:35,121) and exposes the professional accountant to concepts such as bonds and equities (IAESB 2019a:35,121). Other investment concepts such as risk tolerance, time horizons, investment goals, diversification, asset allocation, risk and reward, and changes in values are not explicitly included in IES 2. IES 2, furthermore, does not refer to using investments in taxation planning.

None of the three professional accounting bodies mentioned in this study has compulsory practical experience in savings and investments included in their competency frameworks. This exclusion, or omission, is a cause of concern because Madikizela (2016:53-54) has found that the financial accounting students included in her study did not sufficiently comprehend savings and investment decisions in real-life scenarios even though they were able to calculate items such as returns and liquidity. This raises the reservation that prospective professional accountants might also not be able to advise their SME clients on savings and investments in real life even though they can calculate certain returns.

#### **3.4.2.14 Budgeting**

Literature indicates that budgeting is a vital element of financial literacy for both SME owners/managers (Lusimbo 2016:17; ACCA 2013b:6) and individuals (Lusardi 2015:654-655; Remund 2010:288) alike. It is one of the specific business services professional accountants provide to SMEs (IFAC 2016b:14; Oosthuizen 2018:76).

Professional accountants use their expertise in budgeting (Williams & O'Donovan 2015:642; Blackburn & Jarvis 2010:23) to assist an SME in creating a well thought through and accurate budget (Xero 2019). Budgets are a management tool that helps SME owners/managers improve their SMEs' management and planning, increase profits, and reduce costs (Lusimbo 2016:21). The incidence of providing this service is, however, low as can be seen from the IFAC (2018b:8) *Global SMP survey: 2018*, which indicated that business development services (of which budgeting forms part of) (IFAC 2016a:36) only consist of 24% of the total advisory services provided by SMPs. This view is echoed by Banham and Yunke (2014:210), who remarked that

even though professional accountants have the expertise to assist with budgets, creating a budget for their own SMP is often a challenge, and they often do not provide budgeting services to their SME clients.

As noted above, professional accountants are perceived as experts in budgeting, and it is to be expected that budgeting competencies are included in all three professional accounting bodies' competency frameworks. IES 2 necessitates professional accountants to prepare a budget and use budgets as a technique to support management decisions (IAESB 2019a:34,120). An audit engagement partner should furthermore, according to IES 8, be able to determine how the business' budget influences the audit strategy (IAESB 2019a:100,191). SAICA (2018a:131,138,145-146) and SAIPA (2020b:20) require professional accountants to have the technical knowledge to manage a business' budget process, from drafting the budget through to the monitoring of the budget and the analysis and interpretation of budget variances. CAs(SA) should also be aware of the importance of budgets being part of a business' governance plan (SAICA 2018a:61) and have in-depth knowledge about reviewing the SMEs' budget in relation to the SMEs' strategies (SAICA 2018a:138).

SAIPA (2020b:27) indicates that their trainee accountants should, in the last two years of their learnership period, gain practical experience in the preparation of budgets, the calculation of budget variances, drafting variance analysis reports, and the use of budget controls to improve a business's performance. Although SAICA (2019:16) requires in-depth explicit knowledge of budgets, the requirement for practical experience is not compulsory, and all CAs(SA) will, hence, not acquire tacit budgeting knowledge during their learnership period.

#### **3.4.2.15 Insurance**

The SME owner/manager is one of the SME's critical assets; hence, life, disability, and income protection insurance are crucial for the SME owner/manager (Lledo 2017:32). The SME owner/manager should ensure that their personal insurance is in place and that their SME has the necessary insurance to mitigate business risks (OECD 2018a:21). Additionally, if the SME industry requires compulsory insurance, the SME owner/manager should ensure such insurance is obtained timeously (OECD

2018a:16). Agwa-Ejon and Mbohwa (2015:11-12) reported that most Gauteng SME owners/managers have considered using insurance to mitigate risks and view insurance as essential for their SME's survival. Even though insurance is an important tool for an SME owner/manager to manage the SME's risk, Fatoki (2014:156) has found that only two of the 34 South African SMEs surveyed in his study had business insurance in place.

Purchasing personal and business insurance is not a one-time event and should be reviewed periodically to determine if the selected types of insurance and insurance cover are still sufficient (OECD 2016a:24, 2018a:21; Lledo 2017:32). SMEs usually require a professional to assist them with their insurance (Nedbank Limited 2019:13), and the professional accountant is in an ideal position to provide the said assistance (Carey & Tanewski 2016:296; Blackburn, Carey & Tanewski 2010b:4-5). Similar to savings and investments (refer to section 3.4.2.13), product-specific insurance advice in South Africa falls within the scope of the FAIS Act (South Africa 2002:8), and South African professional accountants should hence take care when providing advice relating to insurance in order not to contravene the Act.

Even though insurance is an important tool that SMEs can use to mitigate their business risks, the literature reviewed for this study revealed very little regarding the South African professional accountant's role in this regard. It can, however, be expected that the professional accountant should at least have the same basic insurance-related financial literacy competencies as that required from an individual (refer to section 3.3.1.) and the SME owner/manager. These competencies include an understanding that insurance can be used to mitigate business and personal risks (OECD 2016a:24, 2018a:21); knowing which type of insurance products can be used in what circumstances and for which risks (OECD 2016a:24). The professional accountant should also understand the repercussions if the SME is over, under or not insured at all (OECD 2016a:24).

Both the IES 2 and the SAIPA competency frameworks make no specific mention of insurance and the competencies required from professional accountants in this regard. Even though risk management is included in both the aforementioned frameworks, it is unclear to which extent professional accountants need to consider insurance as part

of an SME's risk management. The SAICA (2018a:69,119) competency framework requires prospective CAs(SA) to understand insurance coverage as part of a business's financial risk management policies and knowledge of indemnity and directors' insurance. Furthermore, they should know what an insurance company is (SAICA 2018a:168-169). This awareness, however, does not extend to the SME's relationship with an insurance provider. None of the three professional accounting bodies requires any practical experience in this competency area.

#### **3.4.2.16 Business risk management**

Taking risks to obtain profits and growth is part of managing a business (Boubala 2010:7-8) and is associated with entrepreneurship (Eniola & Entebang 2017:566). Managing risk is an integral part of each area within the SME (Boubala 2010:29-32). This concept of risk management is supported by SMEs in the Cape Metropolitan area, who rated risk management of great importance and indicated that proper risk management could improve an SME's profitability (Boubala 2010:74). The SMEs above also indicated that 12,5% use their audit reports to identify risks and that 11,4% use their accountants to supervise and review their risk management processes (Boubala 2010:147-148).

The changing environment that SMEs and SMPs operate in will require enhanced risk management competencies (IFAC 2018a:6) and knowledge of best practices (ACCA 2016a:56) from professional accountants. Even though risk management is an important competency for professional accountants to have during the next few years, the ACCA noted that knowledge about risk management's best practices is one of the competencies professional accountants lack (ACCA 2016a:56). Some of the risk management competencies the professional accountant should have are the ability to identify, evaluate and timeously report on financial and non-financial risks and apply methods to mitigate and control risks (ACCA 2016a:56,58).

IES 2 requires a professional accountant to use a risk management framework to analyse a business' risks (IAESB 2019a:36,122). They should also explain how ICT can facilitate the identification, management, and reporting of risks (IAESB 2019a:123). Analysing internal controls, which can be used to mitigate risk, is only

required as far as it relates to financial reporting, creating a knowledge gap regarding methods that can be used to mitigate other business risks (IAESB 2019a:36,122).

According to the SAIPA competency framework, a competent PA(SA) is deemed to be a person who can evaluate the efficacy of risk management plans, scrutinise financial and non-financial information to evaluate the business' risk exposure and provide advice to curtail and control the business' risks (SAIPA 2020b:36). They should also be able to evaluate the risk management ethos of a company and provide advice on how the philosophy can be enhanced (SAIPA 2020b:37). The aforementioned is achieved through technical and practical competencies obtained and assessed before entry into the profession and CPD after qualifying as a PA(SA).

PAs(SA), in terms of the technical competencies, should be able to assess the risk management strategies and policies of their clients and the risks associated with their clients' accounting information systems (SAIPA 2020b:18). They should gain practical experience in recommending and implementing internal controls to eliminate and curtail risks during their learnership period (SAIPA 2020b:29). However, the practical experience does not explicitly include the management and mitigation of business risks that fall outside the scope of internal controls. The SAIPA (2020b:29-30) competency framework proposes that additional risk management competencies, which the PA(SA) can use to enhance the value of a business, can be obtained through training workshops or short courses after entry into the profession. Although all three professional accounting bodies require CPD, they do not specify the exact content that should be covered in CPD. Hence, gaining risk management competencies not indicated in the technical and practical requirements will be at the discretion of the professional accountant.

The importance of technical awareness and knowledge about risk management for SAICA is highlighted by incorporating risk in multiple technical competency categories ranging from strategy, risk management, and governance to financial management and taxation. A CA(SA) should be able to provide expertise to the SME owner/manager regarding the management of risks in the SME (SAICA 2018a:54). They should, therefore, have a technical understanding of risk management processes and frameworks, the evaluation thereof and strategies to manage risks



(SAICA 2018a:52,60,65-66,100-101,107-108,119-120,124-127). In addition, they should have a technical understanding of how to identify and analyse risks resulting from a business' strategic plans (SAICA 2018a:53,59,140).

However, trainee accountants are not required to know risks that arise from the specialised nature of some industries (SAICA 2018a:57). When making business decisions, CAs(SA) should have detailed knowledge of identifying and evaluating risks that stem from qualitative factors, such as legal and environmental concerns (SAICA 2018a:140). They should also know how to make allowance for risk when using quantitative financial management techniques to evaluate business decisions (SAICA 2018a:120,126). Furthermore, where a CA(SA) assists with a client's tax planning, they should have a technical understanding of the different risks stemming from the various alternatives incorporated in the proposed plan (SAICA 2018a:159). (Refer to section 3.4.2.5, where taxation is discussed in more detail). Although it is required from a CA(SA) to have technical knowledge of business risks, as indicated in the aforementioned paragraph, the practical development of this explicit knowledge into tacit knowledge is not a compulsory requirement in any of the areas affected by business risk (SAICA 2019:12,14-17).

### **3.4.2.17 External influences**

Internal and external factors can influence an SME's performance (Ayandibu & Houghton 2017:136; Oyelana & Smith 2015:184). Inflation rates, interest rates, and the rand's strength are some of the macroeconomic factors that influence SME performance and growth (Ayandibu & Houghton 2017:136; Leboea 2017:42,68,113-114; Meyer & Meyer 2017:131,134-135; Sitharam & Hoque 2016:279,284). Similar to the SME owner/manager, the professional accountant needs to have an understanding of the business environment their client operates in (ACCA 2016b:14; Kirsten & Fourie 2012:476). Consequently, it can be expected that the professional accountant should know about key macroeconomic factors and grasp how changes in these macroeconomic factors and other external factors, such as technology, will influence an SME's business environment and strategies (OECD 2018a:22). To identify the changes in external factors influencing the SME, the professional accountant will need to monitor the news and other relevant information sources

(OECD 2018a:22; 2016a:29).

However, ACCA (2016b:14,39) is of the opinion that professional accountants lack knowledge about emerging issues that influence the business environment. This is alarming as it is expected to become more important for professional accountants to be aware of new developments and trends in the business environment (ACCA 2016b:41,47). PAs(SA), on the other hand, are of the view that understanding economics and the business environment the SME operates in are of lesser importance than competencies such as taxation, business law and financial accounting (Schutte & Lovecchio 2017:68-70).

IES 2 requires a professional accountant to describe the environment in which an SME operates (IAESB 2019a:36,123). They should also be able to explain basic micro-and macroeconomic principles and how changes in macroeconomic factors will influence the SME's business environment (IAESB 2019a:37,124). Additionally, changes in external factors will influence an organisation's business strategy, and the professional accountant should be able to analyse these factors (IAESB 2019a:37,124). ISE 2 includes knowledge of the business environment at an intermediate level and economics at a foundational level (IAESB 2019a:36-37,123-124). Schutte and Lovecchio (2017:66) asked PAs(SA) to indicate, for each of the competencies listed in IES 2, what level of competence they expect of professional accountants providing services to SMEs. They concluded that only having foundational knowledge of economics as required by IES 2, is in the view of the PAs(SA), not sufficient, but that requiring an intermediate understanding of the SME's business environment is higher than needed (Schutte & Lovecchio 2017:68-70). From the aforementioned, it can be concluded that although financial literacy concerning economics is included in IES 2, the low required knowledge level creates a competency gap.

At the point of entry into the profession, a CA(SA) is required to have a thorough understanding of the environment a business operates in (SAICA 2018a:10). As part of a CAs(SA) professional skills, they should develop an understanding of their client's business environment and identify external factors that can influence the SMEs profitability (SAICA 2018a:43). Another professional skill they should have is an understanding of how national and international social, political, and economic factors

influence a client's business environment (SAICA 2018a:50). It is also compulsory for trainee accountants to gain practical experience in the aforementioned professional skills (SAICA 2019:11). A CA(SA) should furthermore understand how changes in the economy and other external factors, such as social factors and environmental factors, impact a business' financial performance, financial risks, and strategy (SAICA 2018a:58-59,64-65,117,119,136). Additionally, the CA(SA) should have knowledge of the impact of external factors on the setting of long- and short-term prices (SAICA 2018a:139-140). Including both a knowledge and skills requirement in the competency framework indicates that external factors are sufficiently included and that no gap exists.

SAIPA's (2020b:36) standard of competence required of a PA(SA) indicates that their accountants should be able to use techniques such as a SWOT analysis (strengths, weaknesses, opportunities and threats) and PEST analysis (political, economic, social and technologic), which will both provide the PA(SA) with an understanding of the SME's business environment. However, a reference to these techniques and economic factors as well as the business environment is not included in either the technical competencies or the practical competencies requirements of PAs(SA). SAIPA (2020b:29) proposes that professional accountants learn about SWOT analysis from workshops and short-course programmes. The aforementioned, however, will form part of a professional accountant's CPD and be pursued at their discretion.

#### **3.4.2.18 Consumer protection**

The Consumer Protection Act, No 68 of 2008 (CPA), was introduced to, among others, protect consumers' interest, improve the quality of consumer information and access to it and provide mechanisms to resolve disputes (Department of Trade and Industry 2016:2; Moore Stephens 2019:2-3). The SME's transactions and agreements with its customers fall within the scope of the CPA, and SME owners/managers must ensure the SME adheres to the provisions of the CPA (Moore Stephens 2019:3-4,46).

The National Credit Act, No 34 of 2005 (NCA), is another legislation that applies to an SME if the SME has credit agreements with its customers (Deloitte 2013:1). For a very small SME, where the SME's assets and annual turnover are less than R1 million and

the SME does not enter into a purchase transaction of more than R250 000, the SME will be deemed a consumer under the NCA (Deloitte 2013:1-2). The SME and the professional accountant's consumer-supplier relationship falls within the scope of the CPA. If the SMP provides services on credit to the SME, this arrangement may also fall under the National Credit Act of 2005 (NCA). When managing their SMP practice, the professional accountant should be aware of the CPA and NCA's requirements applicable to it.

Not adhering to the CPA and NCA can pose a non-compliance legislation risk for an SME. As soon as the professional accountant becomes aware or suspects non-compliance, they must consider their responsibilities under NOCLAR (refer to section 3.4.2.6) (IESBA 2018:75). Although not all legislation will fall under the ambit of NOCLAR, SAICA, in their communication to members, make specific reference to the CPA and NCA as legislation that should be considered for NOCLAR (SAICA 2017:10-11). Furthermore, in the professional accountant's role of mentoring and coaching, the SME owner/manager (Small 2017:11) should understand the possible effect of non-adherence to legislation on the SME's financial performance and communicate these to the SME owner/manager.

None of the three professional accounting bodies reviewed in this study makes specific mention of CPA or NCA. Understandably, this area is not included in the IESs because the CPA and NCA are South African specific legislation. SAICA (2018a:49), as part of their professional skills, specifies that a CA(SA) should be able to evaluate the impact of relevant laws and regulations on a business's decisions. It is, however, left to the discretion of the universities to determine which laws and regulations will be included in their academic programme (SAICA 2018a:49); consequently, not all trainee accountants will be exposed to explicit knowledge of CPA and NCA. However, trainee accountants working within an SME environment might gain practical experience regarding CPA and NCA as part of their compulsory professional skills competencies (SAICA 2019:11). Similar to SAICA, SAIPA (2020b:18) requires knowledge of compliance to statutory regulations but makes no mention of CPA or NCA. Because the direct inclusion of explicit and tacit CPA and NPA knowledge cannot be established, this study will indicate it as a gap in both the SAICA and SAIPA competency frameworks.

### **3.4.2.19 Protection against fraud**

Economic crime is rife in South Africa, with South Africa having the highest percentage of reported economic crimes globally (PricewaterhouseCoopers 2018:9). SMEs are at higher risk to fall prey to fraud than larger organisations (Business Matters 2016; Laufer 2011:401). This statement is corroborated by Sitharam and Hoque (2016:280), who have found in their survey of 74 SMEs registered with the Durban Chamber of Commerce that most of these SME owners/managers agree that crime and corruption negatively influence their SME's business performance.

Professional accountants can play a key role in detecting and preventing fraud in an SME (Aishah, Salleh & Raihan 2019:859; Bressler & Bressler 2017:21; FEE 2005:13). IFAC (2018a:6), in its strategic plan for 2019 - 2020, foresees the accounting profession playing an even bigger role in tackling fraud and other illegal practices. ACCA confirms this view indicating that detecting and preventing fraud as part of a professional accountant's audit role is one deemed to be one of the top ten most important competencies in the future (ACCA 2016a:32). The increased role of the accounting profession in combatting fraud and other illegal activities is underlined in NOCLAR. NOCLAR compels the professional accountant to consider laws and regulations that deal with items such as fraud, corruption, bribery and data protection and, using the guidance provided in NOCLAR, consider and report non-compliance to these laws and regulations (IESBA 2018:75-87).

Professional accountants are ideally situated to assist SMEs in combating fraud because of their knowledge of their client's business (Newmark 2016:28), their skills to detect circumstances under which fraud could be obscured (FEE 2005:13), and their ability to offer advice relating to anti-fraud procedures (Street et al. 2019:68). A lack of or weak internal controls is one of the main factors that increase an SME's risk of falling prey to fraud (Laufer 2011:102; FEE 2005:13-14). Hence as part of advice relating to anti-fraud procedures, the professional accountant should have the necessary explicit and tacit knowledge concerning internal controls that can be implemented to prevent and detect fraud (OECD 2016a:28, 2018a:23). Additionally, the professional accountant should stay informed about the latest fraud schemes, including technological fraud and scams, and know which measures can protect the

SME against fraud (OECD 2016a:28, 2018a:23).

Although the SAIPA competency framework makes no specific reference to fraud prevention and detection, PAs(SA) are required to have both explicit and tacit knowledge about internal controls. These internal controls will include measures to prevent and detect fraud (Laufer 2011:402-403). SAIPA (2020b:18,22,28-29) requires their professional accountants to evaluate internal controls and identify weaknesses and be able to implement internal controls that minimise and eliminate risks and ensure adherence to laws and regulations.

Similar to PAs(SA), it is also required of CAs(SA) to have in-depth knowledge of the assessment of a business's internal control design, effectiveness and weaknesses, and be able to recommend improvements to the business's internal controls (SAICA 2018a:98,100-101,105,107-108). In addition, the SAICA (2018a:101) competency framework specifically requires their members to contemplate a business' ICT security requirements, the use of ICT to improve the internal control environment and collaborate with specialists to assist with the implementation of improvements. Unlike SAIPA (2020b:28-29), where obtaining practical experience concerning internal controls is compulsory, SAICA (2019:14) has not made it mandatory for their trainee accountants to obtain practical experience on internal controls.

IES 2 also requires professional accountants to analyse internal controls as far as they relate to financial reporting (IAESB 2019a:36,122). Additionally, IES 2 requires professional accountants to be able to apply *International Standard on Auditing (ISA)* (IAESB 2019a:35,122). ISA such as ISA 240 "*The auditor's responsibilities relating to fraud in an audit of financial statements*" and ISA 315 "*Identifying and assessing the risks of material misstatement through understanding the entity and its environment*" will provide the professional accountant with knowledge and guidance to assess the SME's internal controls (IAASB 2018:162-205, 278-333).

All three professional accounting bodies' competency frameworks make no specific mention of the professional accountant having knowledge or awareness of different types of fraud (including scams) and data security breaches that cannot be detected or prevented through internal controls and are perpetrated by external parties. It also

does not indicate any knowledge or awareness about steps that can be taken to protect the SME against the aforementioned.

### **3.5 SUMMARY**

This chapter started by exploring the literature regarding individual and SME financial literacy. The professional accountant financial literacy definition was compiled from the insights gained. The chapter then continued with reviewing the literature to identify the financial literacy competencies required from professional accountants when providing services to SMEs. The competency frameworks of IFAC, SAICA and SAIPA were reviewed to assess the inclusion of these financial literacy competencies in the frameworks.

Table 3.1 provides an overview of the financial literacy competency areas where the professional accountant might have an explicit or tacit knowledge gap. Financial accounting and financial statements are the only competency areas where all three professional bodies adequately included financial literacy competencies in their competency framework. For many competencies, trainee accountants do not gain compulsory practical experience during their learnership period and need to develop their explicit knowledge after entering the profession. There are also a few competency areas, such as digital currency (section 3.4.2.3), where no specific mention is made in the competency frameworks. Additionally, a few competency areas, such as savings and investments (section 3.4.2.13), had explicit knowledge gaps that the professional accountant will need to fill at their discretion. Although all three professional accounting bodies require CPD from their professional accountants, their CPD policies do not specify or recommend which specific areas a person working in an SME environment should obtain further training. It will be the responsibility of the professional accountant to identify these knowledge gap areas and determine which appropriate training to attend.

The next chapter will set out the research methodology followed in this study to obtain more insights into the perceptions of SME owners/managers and professional accountants regarding professional accountants' financial literacy competencies. They will provide their perspectives on which financial literacy competency areas are

required from professional accountants when providing services to SMEs and for which areas they would rather rely on their financial literacy competencies or obtain advice from other external providers.



## **CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY**

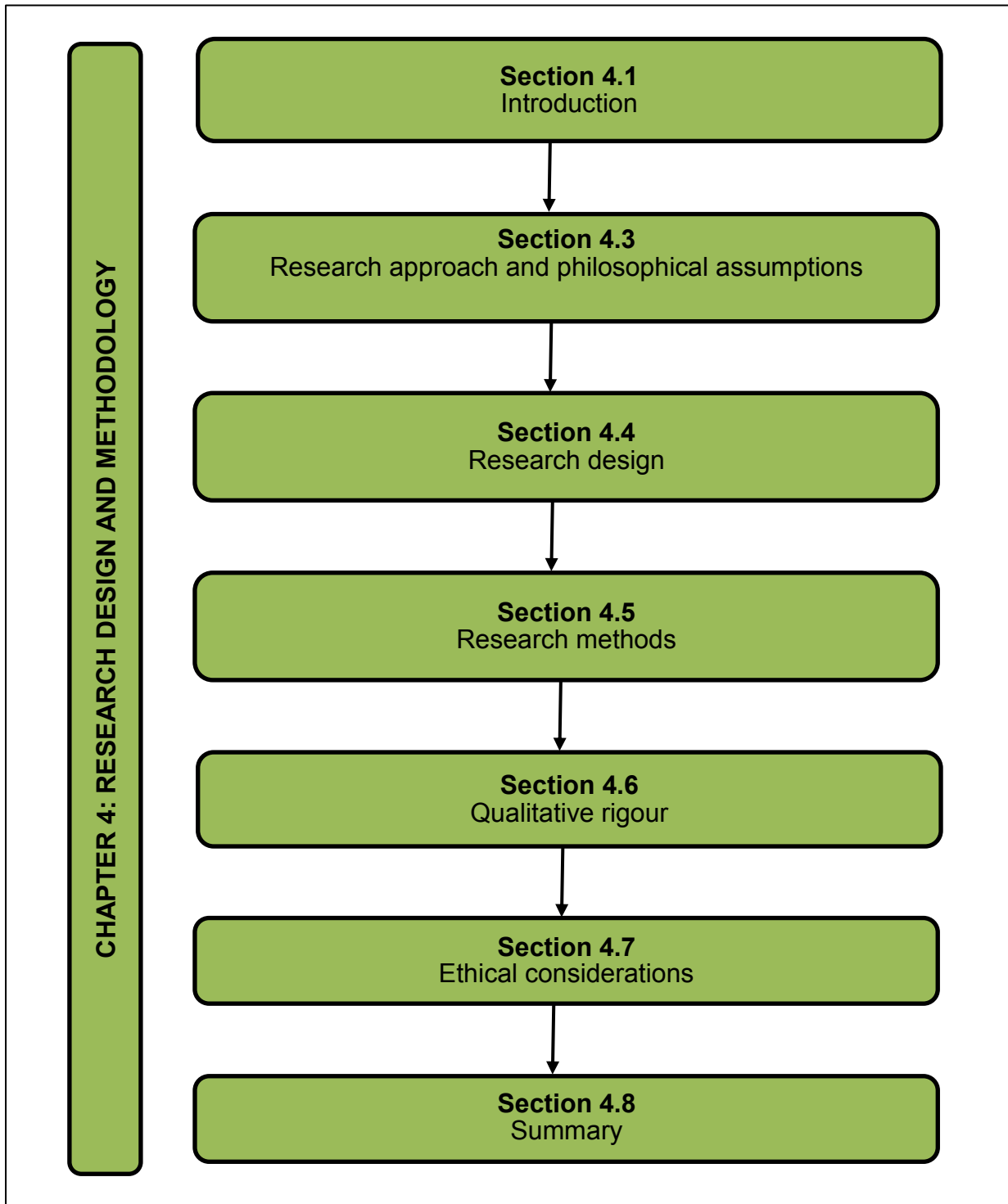
### **4.1 INTRODUCTION**

The previous chapter addressed two of this study's secondary research objectives: identifying the financial literacy competencies required of professional accountants providing services to SMEs and mapping these competencies to IFAC, SAICA and SAIPA's competency frameworks. In addition, the definition of financial literacy was explored, and professional accountants' financial literacy was defined in the context of this study.

This chapter describes the strategies used to conduct the research (Leavy 2017:vii) and answer the research questions. A research methodology includes, among other things, the philosophical assumptions on which the research is based as well as the research methods used (Saunders et al. 2016:720). The chapter begins with a description of the philosophical assumptions and the research design used. It continues with a discussion of the research methods utilised in the study, including the literature review, competency framework mapping, research interviews, selection of the participants and the collection and analyses of the data. Furthermore, this chapter addresses qualitative rigour and how it was applied in the study as well as various ethical considerations that were considered.

## 4.2 CHAPTER LAYOUT

The layout of chapter 4 is illustrated in figure 4.1 below:



**Figure 4.1: Layout of chapter 4**

Source: Own compilation

### 4.3 RESEARCH APPROACH AND PHILOSOPHICAL ASSUMPTIONS

Research can be performed using either a quantitative, qualitative, or mixed-method research approach that incorporates quantitative and qualitative methods (Creswell & Creswell 2018:31; Saunders et al. 2016:165; Taylor et al. 2016:136). The researcher's main aim in quantitative research, characterised by a deductive approach to theory development and rooted in a positivistic worldview, is generally to explain or evaluate (Leavy 2017:9; Saunders et al. 2016:166; Cooper & Schindler 2014:144). On the other hand, a qualitative approach is generally used to explore and obtain a deeper understanding of a person's experience of an occurrence (Leavy 2017:9; Saunders et al. 2016:168).

The researcher followed a constructivist-interpretive worldview to gain insights into the participants' perspectives on the financial literacy competencies required of professional accountants when providing services to SMEs. As a constructivist, the researcher depended as much as possible on the participants' perceptions of their experiences (Creswell & Creswell 2018:28-29; Leavy 2017:13). Rather than reducing the participants' meaning of their experiences into a few categories or notions, the researcher sought out the complexity of their views (Creswell & Creswell 2018:28). These complex views are constructed through their daily interactions and the varied subjective meanings they assign to their activities and context (Creswell & Creswell 2018:28; Leavy 2017:13). Additionally, these meanings will vary from one person's context to another (Creswell & Creswell 2018:29; Denzin & Lincoln 2018:93). The researcher's view that meaning is constructed through personal experiences influenced how she interpreted the information provided by the participants.

Denzin and Lincoln (2018:57) state that a constructivist worldview assumes a relativist ontology, a subjectivist epistemology, and a naturalistic set of methodological procedures. The researcher embraces the relativist ontology notion that multiple realities are constructed through interaction with other persons (Creswell & Creswell 2018:29; Denzin & Lincoln 2018:57). For this reason, the researcher believes that the experiences of the SME owners/managers and the professional accountants about professional accountants' financial literacy competencies could be understood only from their perspectives and in their context. The researcher further believes in

subjectivist epistemology, where the data created by the research participants and the knowledge created by the researcher are shaped by their lived experiences (Creswell & Creswell 2018:29; Denzin & Lincoln 2018:57). Sections 4.4 and 4.5 describe the real world (naturalistic) series of procedures used in this study.

#### **4.4 RESEARCH DESIGN**

A research design sets out the plan and methods used to answer the research questions and meet the set research objectives within a selected research approach (Creswell & Creswell 2018:33; Leavy 2017:vii; Saunders et al. 2016:163-164; Easterby-Smith, Thorpe & Jackson 2015:8). Furthermore, the research design links a study's research paradigm to the research methods (Denzin & Lincoln 2018:58). Hence, a research design will include the plans and methods to collect and analyse the data (Saunders et al. 2016:163). This study followed a qualitative research design to understand the SME owners/managers and professional accountants' perspectives on professional accountants' required financial literacy competencies when providing services to SMEs.

An exploratory study is useful in understanding and generating insights into an under-researched subject area (Leavy 2017:5). From the literature review conducted in chapters two and three, it became evident that there was limited literature regarding professional accountants' financial literacy competencies. Madikizela (2016:ii), as well as De Clercq and Venter (2009:59), focused on the individual financial literacy of undergraduate students studying to become CAs(SA). Lovecchio (2016:5-6,42-43) and Schutte (2013:18), respectively, focused on IES 2 and the relevance of its content and proficiency levels to SAIPA professional accountants providing services to SMEs. After searching the Sabinet African Journals, Google Scholar, JStor, Academic Search Ultimate, Africa-wide information, Business Source ultimate and the National ETD Portal: South African theses and dissertations databases, no other studies focusing on the identification of financial literacy competencies required from South African professional accountants when providing services to SMEs and the inclusion thereof in IFAC, SAICA and SAIPA's competency frameworks could be found. Hence, this study was classified as an exploratory research study since insights were gained into a research area deemed under-explored. According to Cooper and Schindler

(2014:129), qualitative research is fitting for an exploratory research study.

## **4.5 RESEARCH METHODS**

A qualitative exploratory study generally comprises of one or more of the following research methods: (i) review and analysis of secondary data sources, (ii) interviews with persons knowledgeable or involved with the area of research, and (iii) group discussions with persons involved with the area of research (Saunders et al. 2016:175; Cooper & Schindler 2014:94). The review and analysis of secondary data sources included a traditional literature review (section 4.5.1) performed in chapter 2 and a competency framework mapping (section 4.5.2) done in chapter 3.

To gather primary data, the researcher opted to use individual semi-structured interviews rather than group discussions to ensure in-depth information is obtained from all participants and that one participant's views do not dominate the opinions of the other participants (Saunders et al. 2016:419-420; Taylor et al. 2016:132). In comparison to group discussions, individual interviews furthermore reduced the inconvenience caused to the participants because less time was required from participants, and the interview was conducted at a place and time convenient to each participant. The semi-structured individual interviews used for data collection, the selection of the participants and the processes used to analyse the primary data are described in sections 4.5.3 to 4.5.5 below.

### **4.5.1 Literature review**

The first step in exploratory research is generally a review of the literature (Cooper & Schindler 2014:94). A literature review ascertains what has already been revealed regarding the research subject area and what subject areas of the research study are still unknown (Saunders et al. 2016:72; Easterby-Smith et al. 2015:8; Godwill 2015:37). It provides a basis for constructing a research study (Saunders et al. 2016:74).

The researcher conducted a literature review to understand the challenges faced by SMEs and their need for financially literate professional accountants. Additionally, an

understanding of the necessity for SMP professional accountants to have financial literacy competencies when providing services to SMEs and why these financial literacy competencies should be included in the professional accounting bodies' competency frameworks was obtained. Based on the literature reviewed in chapter 2, financial literacy for professional accountants in the context of this study was defined. The literature review established an initial list of financial literacy competencies required from SMP professional accountants when providing services to SMEs. The aforementioned addressed the first research objective (refer to section 1.4), namely to identify financial literacy competencies required of a professional accountant providing services to SMEs, as evident from the literature.

The literature review in chapter 2 covered seminal works and key studies on the research topic. Some of the primary databases used were Google Scholar, Sabinet African Journals, and JStor and the databases were searched with terms such as "financial literacy and accountant", "financial literacy definition" and, "financial literacy and SME". For each financial literacy competency area, the databases were further searched for literature related to that specific competency area. The financial literacy competency areas identified during the literature review were furthermore mapped to the professional accounting bodies' competency frameworks in chapter 3. Section 4.5.2 provides details on this competency framework mapping.

#### **4.5.2 Competency framework mapping**

Curriculum mapping is used to uncover whether a curriculum can achieve the expected learning outcomes (Lam & Tsui 2016:1372; Wang 2015:1552). Oliver, Ferns, Whelan and Lilly (2010:81) point out that although curriculum mapping is valuable in uncovering skills development gaps, it might not identify all the gaps as the mapped curriculum may be slightly different from the curriculum taught.

Despite this limitation of curriculum mapping and its general use for educational syllabi, it is still deemed a valuable tool in a competency framework environment. Curriculum mapping, in this study, referred to as competency framework mapping, was used in chapter 3 to address the second research objective (refer to section 1.4), namely to map the inclusion of the financial literacy competencies identified to the

competency frameworks of IFAC, SAICA and SAIPA. Furthermore, the competency framework mapping was used to identify gaps between the required financial literacy competencies and the abovementioned professional accounting bodies' competency frameworks. In addition, the competency framework mapping in conjunction with the results of the research interviews (refer to section 4.5.3) were used to address the last research objective (refer to section 1.4): to identify possible expectation gaps between the SME owners'/managers' and the professional accountants' views on the financial literacy competency areas. Possible gaps between these views and the financial literacy competencies included in IFAC, SAICA and SAIPA's competency frameworks were also investigated.

The competency frameworks for SAICA and SAIPA were used in this study because they are the two most prominent South African professional accounting bodies and are members of IFAC (refer to section 2.5). IFAC was included in this study due to its global footprint and the significant impact on the development and implementation of international standards (refer to section 2.5). IFAC and SAICA's competency frameworks are publicly available and were hence obtained from the applicable websites. SAIPA's competency framework is not publicly available on their website but was requested directly from the professional body and received via email. Research interviews were conducted as described in section 4.5.3. to obtain further insight into the financial literacy competencies required and the possible gaps that might exist.

### **4.5.3 Research interviews**

As one of the research strategies, exploratory research may include interviews with persons who have practical experience with the research area being studied (Cooper & Schindler 2014:94). The purpose of an interview is to understand the interviewee's perspective on and experience of the research area, as conveyed through the interviewee's own words (Taylor et al. 2016:102). The researcher, as a constructivist, was of the view that the SME owners'/managers' and professional accountants' perspectives on the professional accountant's financial literacy competencies when providing services to an SME will vary, hence both SME owners/managers and professional accountants were interviewed to obtain two different perspectives on the same research area. The participant selection process is described in section 4.5.4.

The SME owners/managers provided their views on the financial literacy competencies they expect to be demonstrated by their professional accountants, whilst the professional accountants reflected on their experience and perceptions of the financial literacy competencies required from them. The research interviews allowed the researcher to address the following research objectives (refer to section 1.4).

- Gain insight into professional accountants' perspectives on the financial literacy competencies required when providing services to SME clients.
- Gain insight into SME owners'/managers' perspectives on the financial literacy competencies required from their professional accountants when receiving services.
- Identify possible expectation gaps between the SME owners '/managers' and the professional accountants' views on the financial literacy competency areas as well as possible gaps between these views and the financial literacy competencies included in IFAC, SAICA and SAIPA's competency frameworks.

An interview is a conversation between the researcher and the interviewee (Leavy 2017:139; Taylor et al. 2016:102), taking on different forms. Various authors (Denzin & Lincoln 2018:1000-1002; Leavy 2017:139; Saunders et al. 2016:390; Cooper & Schindler 2014:153) have categorised interview forms into three categories, namely:

- Structured interviews: The interview is conducted using a detailed interview schedule. The wording, order and manner in which the questions are asked will be the same for all participants.
- Semi-structured interviews: The interview will begin with a few pre-set key questions, after which the researcher will probe the interviewee based on their initial answers and context.
- Unstructured interviews: In unstructured interviews, also called in-depth interviews, each interview is tailored to the interviewee; hence, no specific questions are asked, and the interviewee can talk without particular direction from the researcher about the research area.



Semi-structured are frequently used in exploratory research (Saunders et al. 2016:393). A benefit of using semi-structured interviews is that it allows for flexibility to explore a research area (Denzin & Lincoln 2018:1002; Saunders et al. 2016:398; Taylor et al. 2016:102). The researcher may probe the meaning or understanding of the participants' perceptions of certain concepts, and the participant can reflect on notions not previously considered (Denzin & Lincoln 2018:1002; Saunders et al. 2016:394). This probing by the researcher and the reflection by the participant can add depth and meaning to the data collected (Saunders et al. 2016:394). However, when conducting semi-structured interviews, the researcher should be aware that possible interviewer and participant bias could lead to concerns regarding the credibility and dependability of the data (Saunders et al. 2016:397). For this study, semi-structured interviews were used. This allowed for both the professional accountants as well as SME owners/managers to freely express their views and opinions concerning the financial literacy competencies required of professional accountants when providing services to their SME clients. Hence, providing depth and increased meaning of the data collected.

Considering the research aim, research objective and sub-objectives of this study, as well as the information obtained in the literature review, an interview schedule, which contained semi-structured questions, was developed for each participant group. A senior researcher, knowledgeable about the research area, reviewed the interview schedule, and the interview schedule was updated accordingly. The interview schedules for both participant groups are included in Annexure C. In conducting the interviews, the researcher took cognisance of the recommendations made by Saunders et al (2016:404-413) regarding the practical execution of a semi-structured interview. The researcher reflected after each interview conducted and made appropriate changes to the interview approach in order to enhance the extent and quality of the information received from the interviewees.

All interviews were conducted at a time and venue chosen by the participant, respecting the interviewees' time limitations. This also made the interview process less stressful for the participant. The interview started with setting the participant at ease, obtaining signed formal consent to conduct the interview (refer to Annexure D) and explaining the interview process. Additionally, the concepts of financial literacy and

awareness, knowledge, skills, behaviours, and attitudes in the interview schedule were explained before commencing the interview. If needed during the interview, the before-mentioned concepts were re-explained. In addition to the questions in the interview schedule, probing questions (Saunders et al. 2016:408) were used to obtain participants' views on the financial literacy competency areas (as identified in chapter 3, sections 3.4.2.1 to 3.4.2.19) not mentioned by the participants during their preceding responses. The researcher used good listening skills to ensure she understood the context in which a response was given and adapted any probing questions accordingly. The interview concluded with the researcher asking if the participants had any additional comments, allowing for additional information and reflection to be shared.

All the interviews were digitally audio-recorded after obtaining formal consent to do so from the interviewee. Both Saunders et al (2016:413) and Easterby-Smith et al (2015:147) pointed out that an audio recording provides an accurate and unbiased interview record. Audio recordings also allow the researcher to quote verbatim from the interviews (Saunders et al. 2016:413). However, Saunders et al (2016:413) warn that audio recordings may reduce the reliability of some interviews because the participant might focus on the audio recording and may inhibit the participant's response to the questions. To mitigate the aforementioned, field notes were recorded of informal comments made by participants concerning the research topic after the formal part of the interview.

#### **4.5.4 Selection of participants**

The researcher needs to consider what information they want to uncover through the research study, what information will be useful, and what will provide credible results when deciding on sample size (Saunders et al. 2016:297). Various authors (Saunders et al. 2016:297; Taylor et al. 2016:91; Francis, Johnston, Robertson, Glidewell, Entwistle, Eccles & Grimshaw 2010:1230) have commented that qualitative interviews should be conducted until data saturation, also called theoretical saturation, is achieved. Data saturation occurs at the point that no new insights into the research question are collected from additional interviews (Saunders et al. 2016:297; Taylor et al. 2016:91; Godwill 2015:70). In an attempt to quantify a saturation point, Francis et

al (2010:1242) recommended a minimum sample size of 13. Saunders et al (2016:297) suggested that the minimum sample size for semi-structured interviews were between five and 25. Saunders et al (2016:297) continue to remark that where there are distinct groups whose information will be compared, each group should be considered a separate homogeneous population and recommends a sample size of between four and 12 interviews in each group.

Each of the participant groups in this study was deemed a homogeneous population because they were selected based on common participant selection criteria and had practical experience within the research area. In this study, data saturation occurred within a total of 20 interviews, 10 interviews from each participant group. The number of interviews conducted in this study exceeded the minimum suggested in the literature for homogeneous groups. The participants for each participant group were selected using a combination of sampling methods.

Sampling can be categorised into two main categories: probability sampling and non-probability sampling (Saunders et al. 2016:275; Cooper & Schindler 2014:348). Non-probability sampling methods are primarily used in qualitative research (Saunders et al. 2016:168; Godwill 2015:70) and include:

- Purposive sampling, where participants are selected who, according to the researcher's judgement, will be best suited to assist in answering the research questions (Leavy 2017:79; Saunders et al. 2016:301) and who fall within set criteria (Godwill 2015:70);
- Snowball sampling, where a selected participant refers the researcher to another participant who falls within the set criteria and who will be able to assist in answering the research question (Leavy 2017:80; Godwill 2015:71; Cooper & Schindler 2014:152);
- Convenience sampling, where the chosen participants are conveniently accessible to the researcher (Leavy 2017:110; Saunders et al. 2016:304; Godwill 2015:70). It is important to note that Saunders et al (2016:304) remark that participants selected through convenience sampling, but who fall within the study's set criteria and are suited to assist in answering the research questions will hence meet the purposive sampling criteria;

- Self-selection sampling, where participants volunteer to be interviewed because they have a strong view about the research area (Saunders et al. 2016:303-304); and
- Quota sampling, where the sample is selected to reflect corresponding proportions for the populations from which the sample was selected (Godwill 2015:70), thereby increasing the representativeness of the sample (Cooper & Schindler 2014:359).

In this study, a combination of purposive, snowball and convenience sampling was used to select the participants for both the participant groups, namely the SME group and the SMP group. The researcher decided to recruit participants from the City of Tshwane Metropolitan Municipality area because of the importance of the City of Tshwane Metropolitan Municipality as South Africa's administrative capital and the contribution it makes to the South African economy. The City of Tshwane Metropolitan Municipality contributes just over 10% of the national Gross Geographic Domestic Product (GGDP) and just over 28% of Gauteng's GGDP (City of Tshwane 2021:9). Furthermore, the City of Tshwane Metropolitan Municipality views support provided to Tshwane's SMEs as a vehicle to reduce unemployment and generate income for the city (City of Tshwane 2021:112). The importance of SMEs to the City of Tshwane Metropolitan Municipality is underlined by the inclusion of a commitment to the revitalisation and support of SMEs within the city's local economic development priorities (City of Tshwane 2021:10). In addition, the difference in context between participants was reduced by recruiting within the same municipal area partly.

The interviews were conducted face-to-face and had a duration of approximately an hour. Additionally, recruiting participants from within the same municipal area partly reduced the difference in context between participants. Convenience sampling was only used as far as the selection of the participants adhered to the purposive sampling criteria. Hence, all participants in this study were selected because of their lived experience of the phenomenon being studied and because they fell within the specific purposive sampling criteria used for the two participant groups, which are:

- SMP group: Professional accountants (not older than 65 years) registered as full members of SAICA or SAIPA and employed at an SMP providing services to

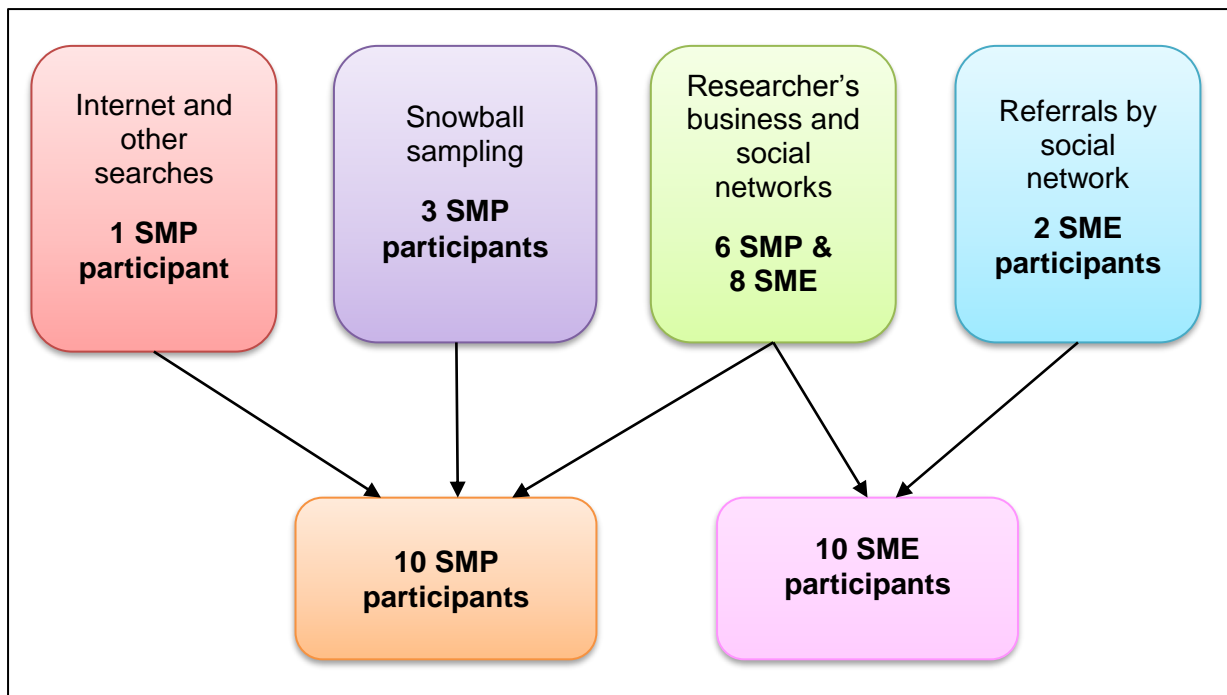
SMEs.

- SME group: SME owners/managers (not older than 65 years of age) who use the services of a professional accountant registered as a full member of SAICA or SAIPA. Additionally, the SME owner/manager should be involved with the SME's financial decisions and work with the professional accountant in this regard.
- For both the participant groups indicated above, an SME was defined as an enterprise with an annual turnover not exceeding R432 million, and between one and 250 full-time employees.

More detailed information regarding the nature of each participant is provided in chapter 5, section 5.3.

The researcher used the internet search engine Google, the internet webpage [www.findanaccountant.co.za](http://www.findanaccountant.co.za), searches in local newspapers, and Facebook to identify potential participants who adhered to the abovementioned criteria. Emails were sent to the potential participants from both groups, and one SMP participant was recruited. Eight SME participants and six SMP participants formed part of the researcher's wider business and social networks. The researcher was aware that they had expertise and experience in the phenomenon being explored and adhered to the purposive criteria and invited them to participate in the research study through email, in-person requests or telephone calls.

In the realm of snowball sampling, three SMP participants were each referred by other participants. A further two SME participants were referred to the researcher through her social network by persons who knew about her study and the purposive criteria of the study. The participant selection process followed in this study is depicted in figure 4.2. The participants were informed through email, by receiving a printed copy of the participant information sheet about the purpose of the research, the nature of the participant's participation, the confidentiality of the interview, and that they were under no obligation to participate. An example of the participant information sheets for SME owners/managers and professional accountants, respectively, are included in Annexure A and Annexure B. The interview date, time, and venue were confirmed using telephone conversations, e-mail or WhatsApp messages.



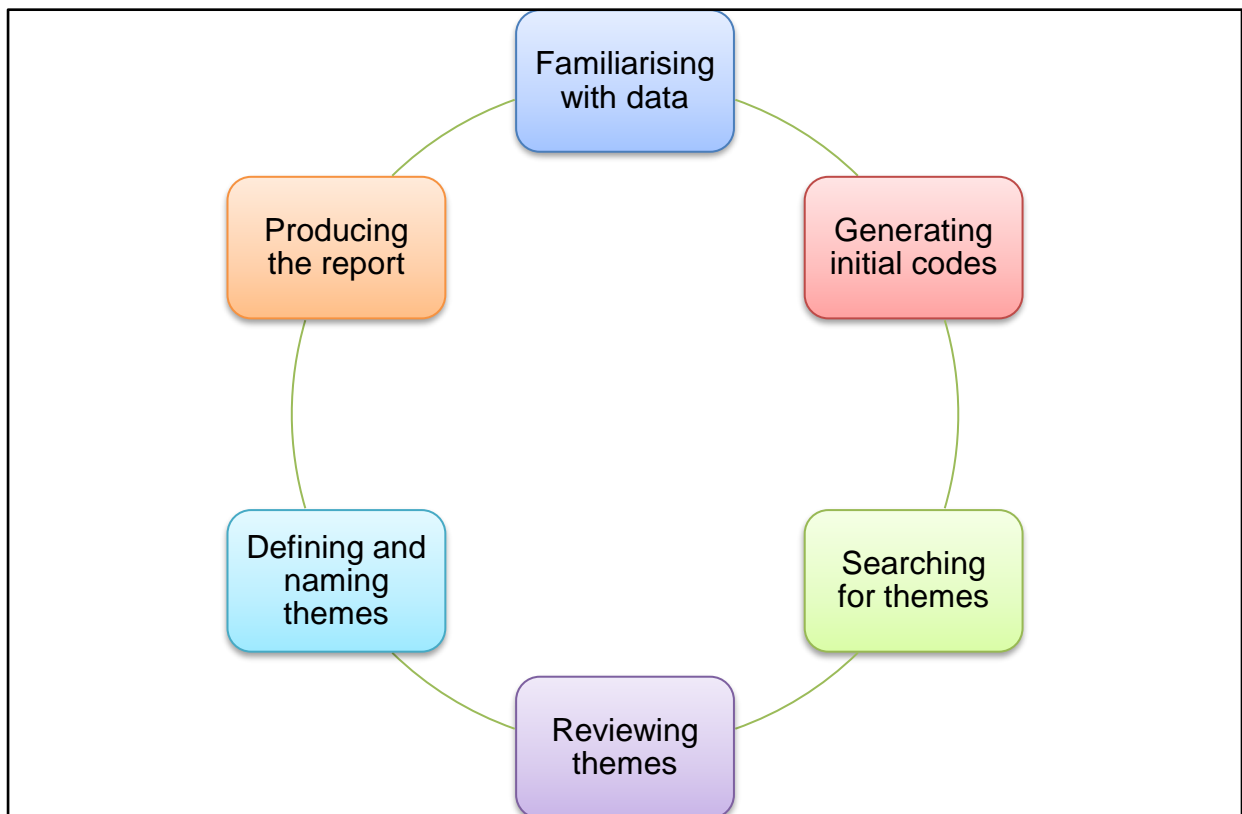
**Figure 4.2: Participant selection process**  
Source: Own compilation

#### 4.5.5 Data preparation and analysis

All interviews were transcribed verbatim by either the researcher or a professional transcriber during the data preparation process to ensure all information was accurately captured. The researcher transcribed some of the interviews because it allowed her to familiarise herself with the data preparation process and the data itself. The professional transcriber signed a confidential agreement (refer to Annexure E) to ensure all data is kept secure and confidential. Additionally, to protect the anonymity of the interviewees, none of their details was made available to the transcriber. All interviews were transcribed in the language it was conducted. In instances, where portions of an interview were conducted in a language other than English, the researcher translated those portions into English.

The researcher used thematic analysis, widely used in qualitative research across different research questions and epistemologies, to analyse the data (Nowell, Norris, White & Moules 2017:2; Saunders et al. 2016:579). Thematic analysis' main aim is to find and analyse themes or patterns within data sets and then report on these themes or patterns (Saunders et al. 2016:579; Braun & Clarke 2006:79). Braun and

Clarke (2006:78) deem this method to be the “*foundational method for qualitative analysis*”. One of the advantages of thematic analysis is that it can draw attention to the similarities and dissimilarities in data sets (Braun & Clarke 2006:97). This advantage is particularly appropriate to this study, where the perception similarities and dissimilarities between the SME owner/manager and the professional accountant groups were established. Braun and Clarke (2006:87-93) developed a six-phase guideline for thematic analysis. Braun and Clarke (2006:88) pointed out that the phases in a thematic analysis are not a linear process but that researchers will often move forward and backwards between the phases. Saunders et al (2016:580) added that researchers can also work concurrently in phases. Based on Braun and Clarke’s phases, the data analysis process followed in this study is illustrated in figure 4.3:



**Figure 4.3: Data analysis process**

Source: Own compilation from the phases provided in Braun and Clarke (2006:87)

To familiarise herself with the rest of the data transcribed by the external transcriber, the researcher read the transcripts of each interview verbatim while listening to the interview recording (see Figure 4.3). This allowed the researcher to verify the accuracy

of the aforementioned transcripts (Braun & Clarke 2006:88), which formed part of the reliability procedures performed. The researcher further familiarised herself with the data through the transcribing of some of the interviews. To acquaint and immerse herself even further in the data, the researcher compiled a summary of each participant's key responses to each question. Additionally, during this phase, the researcher made notes about insights gained into the research topic, the possible coding themes (Nowell et al. 2017:5), and recurring themes and patterns (Saunders et al. 2016:580).

After the researcher familiarised herself with the data, an initial set of codes was created (Nowell et al. 2017:5; Braun & Clarke 2006:88). During coding, the researcher identified important segments of data and ascribed a label to it in line with the meaning or theme of that data (Nowell et al. 2017:6; Saunders et al. 2016:580). A code can indicate the existence or non-existence of a phenomenon (Saunders et al. 2016:583). The researcher first identified possible codes while reading each of the transcripts and noting these codes on the individual transcripts. Once all the transcripts had been coded, the researcher sorted and categorised the codes into main and sub-themes (Braun & Clarke 2006:89). A theme can be a broad grouping that includes several related codes or a single code of general importance to the research (Saunders et al. 2016:584). The researcher manually identified codes and themes and also used Atlas.ti version 7.5.16, a Computer Assisted Qualitative Data Analysis Software (CAQDAS). Using CAQDAS increases the methodological rigour of the qualitative data analysis (Saunders et al. 2016:615).

After identifying the initial themes, the researcher refined the themes by reviewing the data extracts at the code level to ensure the included codes form a coherent theme (Braun & Clarke 2006:91). If a code did not fit, it was either moved to another theme or created a new theme (Braun & Clarke 2006:91). The themes identified were also reviewed to identify (i) themes that should be combined, (ii) themes that should be divided into separate themes, and (iii) themes that should be deleted because they did not have adequate data support (Braun & Clarke 2006:91). Each theme was scrutinised to identify the essence and core of the theme, and based on the aforementioned, a detailed analysis, which included the scope and content of the theme, was constructed (Nowell et al. 2017:10; Braun & Clarke 2006:92). The



researcher also reflected on how each theme relates to the complete data set and the research question, and if needed, the themes were updated (Nowell et al. 2017:10; Braun & Clarke 2006:92). The names of each theme were reconsidered to ensure that the final name summarised what the theme was all about (Braun & Clarke 2006:93).

In the last phase of the thematic analysis, the full set of themes (as identified through the processes explained above) was used to compile the final analysis and report (Braun & Clarke 2006:93). Braun and Clarke (2006:93) comment that the final report should provide “*a concise, coherent, logical, non-repetitive and interesting account of the story the data tell – within and across themes*”. Furthermore, the final report (see sections 5.5 to 5.9) should provide adequate evidence of the themes identified in the data and indicate how it relates to the research question (Braun & Clarke 2006:93). Chapter 5 is a presentation of the thematic analysis of this research study.

#### **4.6 QUALITATIVE RIGOUR**

The quality of qualitative research is generally evaluated based on the trustworthiness of the research process (Leavy 2017:154-155). Guba (1981:83-88) recommended four constructs to establish trustworthiness: credibility, transferability, dependability, and confirmability.

##### *Credibility*

Credibility is deemed to be one of the most important constructs of trustworthiness and refers to whether the researcher’s findings reflect the reality and views of the participants (Shenton 2004:64). The researcher used several strategies to increase the credibility of the study. She ensured participants’ anonymity and gained their trust before the interview commenced, contributing to honest and open responses. Participation in the interviews was voluntary, and the participants were informed that they could withdraw from the study at any time. The same interview schedule, which a senior researcher reviewed, was used for each participant group, and the researcher conducted all interviews. Although the researcher used probing questions to explore and understand the participants’ perspectives regarding professional accountants’ financial literacy competencies, the researcher did not lead the participants and

allowed them to provide their views.

### *Transferability*

Transferability relates to the extent to which the findings of this study can be applied in other circumstances (Leavy 2017:155; Shenton 2004:69). To increase transferability, a report of the data analysis results is provided in chapter 5, with rich and detailed descriptions, including direct quotations from the interview transcripts. Additionally, the selection criteria for each participant group were provided in section 4.5.4. This may enable the readers to make their inferences regarding the transferability of this study's findings to other contexts. In making the aforementioned determination, it was noted that this study only focused on the perceptions of SME owners/managers and professional accountants residing in the City of Tshwane Metropolitan Municipality area, South Africa.

### *Dependability*

Dependability in a research context refers to whether similar results would be obtained if the data were independently analysed (Shenton 2004:71) and whether the research process was logical and well documented to produce a dependable account of the research (Saunders et al. 2016:306,399). Hence, a detailed description of the research design and implementation was provided in sections 4.4 and 4.5. Additionally, the researcher ensured the accuracy of the interview transcripts by comparing them to the audio recordings and used Atlas.ti to improve the dependability of the coding.

### *Confirmability*

Confirmability relates to the steps a researcher should take to prevent their own bias and ensure the participants' experiences are objectively depicted (Shenton 2004:72). The researcher acted in good faith and endeavoured that her personal opinions did not influence the research conclusions. Additionally, the raw data, such as the digital interview recordings as well as the processed data, including the transcribed interviews and Atlas.ti output files, were securely kept in case of an audit of the findings.

## 4.7 ETHICAL CONSIDERATIONS

Ethics in research alludes to the norms of behaviour of the researcher with regards to the rights of the persons who are subject to or affected by the research study (Saunders et al. 2016:239). Principles that can be used to ensure that the rights of participants are protected include, among others, obtaining institutional approval for the research study, obtaining informed consent from participants, protecting the privacy and anonymity of the participants, and ensuring the confidentiality of the data (Easterby-Smith et al. 2015:122; Creswell 2013:58-59). The practical implementation to ensure this research study adheres to these principles are discussed below.

Formal ethics approval was obtained from the Unisa College of Accounting Sciences Ethics Review Committee (see Annexure F). A participant information sheet (see Annexure A and B) was provided to participants before the commencement of the interviews. This information sheet outlined the purpose of the study, the nature of the participant's participation, the benefits of the study, the possible inconvenience the study may cause a participant, that the interview will be voice recorded, and the voluntary nature of their participation. The sheet also informed the participants that the interviews would be kept confidential and that pseudonyms would protect their privacy and anonymity. The informed consent form (see Annexure D), which was signed by participants before the commencement of the interview, reiterated the voluntary nature of the interview and drew the participants' attention to the fact that they can withdraw from the study at any time. The consent form also indicated the participant's consent to having the interview voice recorded. To minimise the discomfort for a participant, the researcher conducted the interviews at a venue and time, which was convenient for the participant.

The external transcriber was required to sign a confidentiality agreement (see Annexure E) before the researcher provided her with the digital recordings containing the interviews. The audio recordings, transcriptions, and other digital research data are stored on a password-protected computer and cloud storage drive. All paper records will be safely kept at Unisa or the home of the researcher. Paper-based documents and electronic data collected will be destroyed five years after the conclusion of the research, in line with the research ethics practices and requirements

of Unisa.

#### **4.8 SUMMARY**

This chapter described the research approach, design, and methods used to investigate the financial literacy competencies required by professional accountants to provide services to SMEs. It was explained that a qualitative approach located in a constructive research paradigm was chosen for this exploratory study. A description of the literature review, competency framework mapping, research interviews, as well as the sampling method used and data collection methods, were provided. The use of thematic analyses to analyse the data was further discussed. The chapter concluded with a description of the strategies used to ensure the quality of the research study as well as the ethical considerations that were considered.

The next chapter contains an analysis and discussion of the empirical findings obtained from the implementation of the research methodology discussed in this chapter.

## **CHAPTER 5: RESEARCH FINDINGS**

### **5.1 INTRODUCTION**

As described in chapter 1, the primary objective of this study is to explore the gap between the financial literacy competencies expected of professional accountants providing services to SMEs and the financial literacy competencies included in professional accounting bodies' competency frameworks. Chapter 4 described the research methods used in this study to explore this gap. Chapter 4 also discussed the data collection process, the data analysis methods used in this study, qualitative rigour and various ethical considerations that were taken into account. In chapter 4, it was noted that semi-structured interviews with open-ended questions were used for purposes of this study. The purpose of these interviews was to address the last three research objectives, namely to

- Gain insight into professional accountants' perspectives on the financial literacy competencies required when providing services to SME clients.
- Gain insight into SME owners'/managers' perspectives on the financial literacy competencies required from their professional accountants when receiving services.
- Identify possible expectation gaps between the SME owners'/managers' and the professional accountants' views on the financial literacy competency areas as well as possible gaps between these views and the financial literacy competencies included in IFAC, SAICA and SAIPA's competency frameworks.

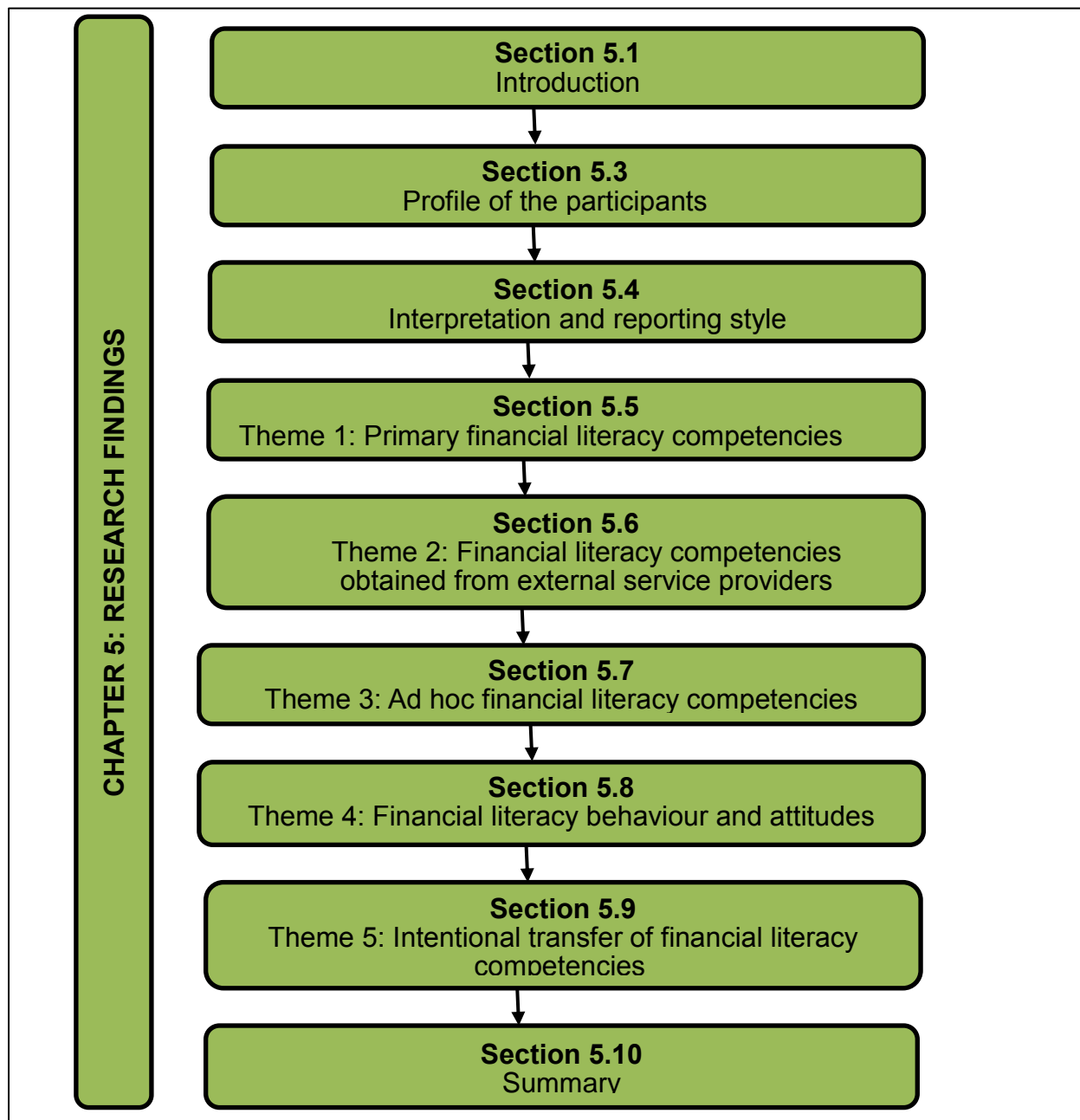
The participants' statements were analysed and interpreted to draw appropriate conclusions. This chapter presents the research findings of this study.

This chapter commences with the profile of both the SME owners/managers and the professional accountant participants and then indicates this research study's interpretation and reporting style. Afterwards, each theme identified from the participants' interviews and its inclusion in the professional accounting bodies' competency frameworks is discussed. In line with the theoretical approach as discussed in chapter 2 and drawing from the competency framework mapping in

chapter 3 and the analysis of the interviews, a summary of the analysis is presented in tables 5.4 and 5.5, highlighting the potential gap between the participants' perceptions and the professional accounting bodies' competency frameworks. The chapter then concludes with a discussion concerning the intentional transfer of financial literacy competencies.

## 5.2 CHAPTER LAYOUT

The layout of chapter 5 is illustrated in figure 5.1 below:



**Figure 5.1: Layout of chapter 5**

Source: Own compilation

### 5.3 PROFILE OF PARTICIPANTS

The data for this study were obtained through face-to-face interviews conducted with ten SME owners/managers and ten professional accountants who render services for SMEs. All the participants were located in the City of Tshwane Metropolitan Municipality area, an urban area in Gauteng, South Africa, and adhered to the participant selection criteria described in chapter 4. The profiles of the SME owner/manager and professional accountant participants are summarised in table 5.1 and table 5.2, respectively.

To protect the participants' privacy and anonymity, as stated in chapter 4, the researcher allocated a code to each participant based on the group the participant belongs to, for example, SME1 (SME owner/manager) or SMP1 (professional accountant). This referencing system was also used to report the verbatim extracts from the interviews. Furthermore, the participant code is in the same sequence as the interviews transcribed and imported into Atlas.ti version 7.5.16.

**Table 5.1: Profile of the SME owner/manager participants**

<b>Participant code</b>	<b>Owner/manager</b>	<b>Type of business</b>	<b>Business form</b>
SME1	Owner	Restaurant	Close corporation
SME2	Owner	Commercial vehicle repairs	Close corporation
SME3	Owner	Manufacturing and maintenance	Close corporation
SME4	Owner	Manufacturing	Private company
SME5	Owner	Property and art trade	Private company
SME6	Owner	Hairdressing industry	Close corporation
SME7	Owner	Afterschool childcare	Sole proprietor
SME8	Manager	Mental health practice	Sole proprietor
SME9	Owner	Valuation and property services	Private company
SME10	Manager	Meat processing	Close corporation

Source: Own compilation

It is clear from table 5.1 that the SME owners/managers are from a wide range of industries and different business forms, which contributed to a broader range of perspectives to the study.

**Table 5.2: Profile of the professional accountant participants**

<b>Participant code</b>	<b>Professional accounting body</b>	<b>Position</b>	<b>Number of years providing services to SMEs</b>
SMP1	SAICA	Partner	5 years
SMP2	SAIPA	Partner	11 years
SMP3	SAIPA	Director	34 years
SMP4	SAICA	Director	8 years
SMP5	SAIPA	Professional accountant	11 years
SMP6	SAIPA	Practice manager: tax	16 years
SMP7	SAIPA	Director	15 years
SMP8	SAIPA	Senior professional accountant	11 years
SMP9	SAIPA	Director	21 years
SMP10	SAICA	Professional accountant	16 years

Source: Own compilation

The study was further enhanced by the professional accountant participants' average practical experience of 14,8 years (see table 5.2), of which two professional accountants had more than 21 years of practical experience in providing services to SMEs. All the professional accountant participants were employed within an SMP.

The next section builds on the detailed description of the data preparation and analysis process provided in Chapter 4. It discusses the interpretation of the data gathered during the interviews and the reporting style used in this study.



## 5.4 INTERPRETATION AND REPORTING STYLE

The semi-structured interviews were used to explore the perspectives of both participant groups. The data gathered through the interviews were analysed by creating codes and assigning these codes to each transcribed interview. All 20 transcribed interviews were also imported into Atlas.ti version 7.5.16 as primary documents. The names given to the Atlas.ti primary documents correspond with each participant's participant code (section 5.3). The themes and sub-themes identified through sorting and categorisation of the codes assigned in each interview (Braun & Clarke 2006:89) are presented in table 5.3. These main themes and sub-themes are then discussed in further detail in sections 5.5 to 5.9.

In these discussions, verbatim quotes are presented in inverted commas and italic font. Ellipsis used in a quotation indicates that a participant was talking but that these words are not included. Furthermore, minor changes were made to improve the readability of the verbatim quotations, such as removing repetitions and filler words. Comments added by the researcher, for instance, to clarify or explain a quotation, are indicated in square brackets.

**Table 5.3: Themes and sub-themes**

Theme	Sub-theme
1. Primary financial literacy competency areas	1.1. Taxation 1.2. Financial accounting and financial statements
2. Financial literacy competencies obtained from advisors other than professional accountants	2.1. Insurance 2.2. Human resource management
3. Ad-hoc financial literacy competency areas	3.1. Receipt and payment of money 3.2. Foreign currency 3.3. Digital currency 3.4. Business finance and alternative financing instruments

Theme	Sub-theme
	3.5. Business registration 3.6. Human resources and employment laws and regulations 3.7. Short-term financial management 3.8. Medium- to long-term financial management and planning 3.9. Debt management 3.10. Financial ratios 3.11. Savings and Investments 3.12. Budgeting 3.13. Business risk management 3.14. External influences 3.15. Consumer protection 3.16. Protection against fraud
4. Financial literacy behaviour and attitudes from professional accountants.	4.1. Ethical behaviour 4.2. Adhere to deadlines 4.3. Forward-looking, anticipate events and proactive
5. The intentional transfer of financial literacy competencies.	

Source: Own compilation

## **5.5 THEME 1: PRIMARY FINANCIAL LITERACY COMPETENCIES REQUIRED FROM PROFESSIONAL ACCOUNTANTS**

SMEs mostly use their access to professional accountants' valuable financial literacy competencies to overcome their knowledge resource constraints and maintain their competitive advantage (Carey & Tanewski 2016:292,307). From the interviews, it was evident that all the participants were of the view that SMEs primarily tapped into the

professional accountants' knowledge and skills of taxation. Without mentioning the specific financial literacy competency area, all the SMP participants and seven of the SME participants indicated that financial accounting, which includes preparing financial statements, is an important financial literacy competency area for a professional accountant to possess. When asked explicitly about financial accounting knowledge and skills, the remaining three SME participants indicated that they require a professional accountant's financial accounting knowledge and skills. This corresponds with the literature, which indicates that SMEs primarily source accounting and taxation related services from professional accountants (Oosthuizen 2018:6; Blackburn & Jarvis 2010:18). The following quotations from the participants confirm the view that SMEs primarily use their professional accountant's taxation and financial accounting knowledge and skills:

*"...specifically, in tax I would say they should be knowledgeable when it comes to SARS. Because that is the main reason why we use them is to draw up statements at the end of the year and to give us information ..., mainly when it comes to taxes."*  
(SME1)

*"... the most important thing a financial person should be informed with is financial and taxations."* (SME3)

*"He needs to be able to do the books for you and be able to sort out your tax for you".* (SME4)

*"Accountants for me is somebody when you go to the barest form, it is called bookkeepers. You give them all your expenses, you give them all your income and they do all the fancy work to categorise and draft your financial statements and say here is how your company has done and then they give your tax returns for you."*  
(SME8)

SMP5 and SMP9 also specifically indicated that taxation and accounting are the primary financial literacy competency areas required. They mentioned that:

*“They [SMEs] want to go to you and they want you to do their accounting, they want you to do their financial statements, they want you to do their SARS admissions for them...” (SMP5)*

*“...let’s focus on our field of accounting and tax...” (SMP9)*

The financial literacy competency areas relating to taxation and financial accounting is discussed in more detail in sub-sections 5.5.1 and 5.5.2, respectively.

### **5.5.1 Sub-theme 1: Taxation**

Chapter 3, section 3.4.2.5, concluded that IFAC, SAICA, and SAIPA’s competency frameworks include the required explicit knowledge regarding different taxes, including employee taxation, applicable to SMEs sufficiently. The aforementioned inclusion is important because both the SME and SMP participant groups indicated the importance of the professional accountant having taxation knowledge and skills. Although both SAICA and SAIPA require explicit knowledge, the same did not apply to developing skills (tacit knowledge) through practical experience during the trainee accountants’ learnership period. SAIPA trainee accountants are obligated to obtain practical experience concerning taxation, but SAICA trainee accountants are not. This indicates a gap between what is expected of SAICA’s professional accountants concerning taxation skills and what is included in SAICA’s competency framework. Skills are developed through the practical application of knowledge; hence, it will be difficult for CPD workshops, which focus on knowledge, to bridge this gap. Therefore, it is recommended that SAICA update their skills requirements to make it compulsory for trainee accountants to obtain practical experience during their learnership period. The updated skills requirements will ascertain that SAICA trainee accountants have the necessary skills.

Below are some quotes from the SME participants indicating the importance of the professional accountant having taxation knowledge and skills. Although both groups refer to the term “knowledge”, it became evident throughout the interviews that the participants equate knowledge with skills in all the financial literacy competency areas, and the quotes should hence be understood from this viewpoint.

*“All VAT-related info or tax-related information...and employee and employer information regarding IRP 5, UIF [Unemployment Insurance Fund] returns. And because if you are a business owner you do not necessarily have knowledge about these products and you pay someone to do it for you so that you do not get into trouble.....” (SME2)*

*“Taxation I think he also needs to have knowledge it is very important field and if you are behind on the tax you are behind.” (SME4)*

*“I think they [professional accountant] need to know the tax rules 100%.” (SME8)*

*“I would probably think that [corporate and employee taxation] is the most important one of all. He should know everything back to front.” (SME9)*

Knowledge and skills concerning taxation were very important to SME5. The participant stated: *“The bookkeeper is the person that advises with regards to tax. ... They need to have knowledge of all aspects of the Income Tax Act.”* During the interview, SME5 furthermore linked other financial literacy areas such as insurance, investments, debt, and external factors, to the implications it has on taxation, stating in one instance, *“So they at least should have that knowledge because it all is an implication on tax.”*

The SMP participant group supports the importance of professional accountants to possess taxation knowledge and skills when providing services to SMEs. Below are some quotes from the SMP interviewees supporting this view:

*“You have to have detailed knowledge of the companies act, the income tax, the auditing profession act, the employee act...And then you have to know all the interpretation notes and things from SARS that they issue which is not in the legislation itself but it is issued from SARS. ...You have to be able to apply all the tax different sections to a specific situation which can be tricky with these loops of different sections that fit a certain situation.” (SMP1)*

*“So you need to know the accounting rules and the tax rules ...” (SMP2)*

*“...so the wider your tax knowledge could be, I think there is going to be more value to the client. ...more tax challenges than IFRS for example. So there is the biggest value and the biggest well literacy requirement. So the stronger they [professional accountants] are in the tax, the stronger they can be to the client.” (SMP7)*

*“...the Income Tax Act, the VAT Act, customs duties. You need to have detailed knowledge about VAT, income tax, pay as you earn, ...I mean everything, compensation, commissioner, UIF claims how that works, foreign investments and tax clearances...”(SMP10)*

In the discussion of resource-based theory (RBT) in chapter 2, it was mentioned that the professional accountant, through the application of financial literacy competencies to an SME client’s specific industry and business environment, can establish a niche service (Black & Thompson 2014a:21) and create a resource that is valuable, rare, inimitable and non-substitutable. SME5, who trades in art and property (refer to table 5.1), offered his professional accountant an opportunity to create such a valuable, rare, inimitable and non-substitutable (VRIN) resource. SME5 commented

*“...the moment they are taking a new client they should go into what my business is all about and they should sharpen their knowledge about the kind of business. Like for instance the VAT 264. You know when I initially approached my bookkeepers about the VAT 264 they did not know anything about it. They were not even able to tell me about it and I was wondering how other businesses were doing it and then when I found out from the other businesses how they were doing it. I approached them, the bookkeepers, and told them listen this is how it is done you know, advise me what do I need to do. So I would have preferred that the bookkeepers actually knew this before they took me on.”*

The same participant also stated that:

*“it would be nice if a bookkeeper has that knowledge also to be in a position, where for instance, be able to advise you how to create a tax break ... to acquire art in the most beneficial way.” (SME5)*

From the quotes above, it is interesting that the professional accountant did not know about VAT 264, which applies to this SMEs' niche business environment. The SME owner had to acquire the taxation knowledge he expected his professional accountant to have or attain, and he then transferred this knowledge to the SMP and not vice versa. SME5 expected the professional accountant to proactively acquire such knowledge before taking him on as a client (refer to section 5.8 where financial literacy attitudes are discussed). From the aforementioned, it is evident that in order for the professional accountant to create a VRIN resource, it will be their responsibility to ensure they acquire the necessary taxation knowledge of the niche business environment before signing on such a client. The benefit for the SMP in obtaining such knowledge, according to KBT, is that it can create further additional new knowledge through the integration of this new knowledge about the niche environment with existing knowledge within the SMP. This new knowledge is increasingly valuable and unique and may further improve the value creation in the SMP.

### **5.5.2 Sub-theme 2: Financial accounting and financial statements**

Section 3.4.2.8 in chapter 3 deduced no gap between the knowledge and skills required from entry-level CAs(SA) and PAs(SA) and those included in the professional bodies' competency frameworks. All three professional accounting bodies require extensive knowledge of this financial literacy area, and both SAICA and SAIPA trainee accountants must acquire practical experience during the trainee accountants' learnership. All the participants agreed that the professional accountant should have knowledge and skills in this financial literacy competency area. The following quotes from SME participants support this view.

*"It [financial accounting and reporting] is like very important, so it needs to be a skill, it needs to be knowledge". (SME2)*

*"They [professional accountant] also need to understand the basic accounting principles so that they can draw up statements for you, the financial statements that you require at the end of the year as well." (SME8)*

*“He should specifically know how to set up an income statement, make sure that income and expenses are applied in the correct areas where necessary... Usually I will do my own financial statements in terms of saying what is the income and expenses and so on but I would expect of him to make sure that it then complies with international accounting statements. So to transfer my layman’s statements in to a professional statement.” (SME9)*

The SMP participants support this view that professional accountants should have knowledge and skills of financial accounting and financial statements and indicated “... IFRS for SME’s you must know the standards surrounding that.” and “You need to have detailed knowledge about ...financial statements, the accountancy standards...” (SMP6 and SMP10).

From the interviews, it becomes apparent that there were certain financial literacy competency areas that an advisor, rather than a professional accountant, would be better suited to assist the SME with. These financial literacy competencies are discussed in section 5.6 below.

## **5.6 THEME 2: FINANCIAL LITERACY COMPETENCIES OBTAINED FROM EXTERNAL SERVICE PROVIDERS OTHER THAN PROFESSIONAL ACCOUNTANTS**

The second theme identified was financial literacy competency areas where SME owners/managers preferred to use external service providers’ knowledge resources instead of their professional accountants’ resources to overcome their knowledge and skills inadequacies. The following questions were asked to the SMP and SME participants respectively: “Which services that encompass financial literacy, if any, would you rather obtain from other external service providers, other than your professional accountant? What is the reason for your answer?” (SME participants) and “Which services that encompass financial literacy, if any, would you recommend your SME clients to rather obtain from other external service providers? What is the reason for your answer?” (SMP participants). These questions corroborated the participants’ previous answers and provided the participants with an opportunity to name any other external service providers not previously mentioned. Sub-sections 5.6.1 to 5.6.2 below



discuss services that encompass financial literacy, which should rather be obtained from external service providers.

### **5.6.1. Sub-theme 1: Insurance**

Both SME owners/managers and professional accountants agree that they would rather obtain advice on insurance matters from an external service provider such as a broker and not from their professional accountant. The following quotes from SME participants support this view:

*“...we also have separate brokers ...I do not expect the auditors to give that service.” (SME2)*

*“So, when I need to know anything about that or need to ask anything I just call my broker. So, I don't think she really need to know or really need to be able to help me with that.” (SME6)*

*“I must say I have never asked the people [SMP] about that for insurance specifically. I have dealt with insurers specifically. So, I have taken business insurance where they actually advise you on all those things.” (SME8)*

*“... but generally I speak to my insurance broker about that I do not expect of my accountant to really advise me on that. ...so, my insurance broker would definitely be a better more applicable person to speak to.” (SME9)*

The SMP participants supported the view that insurance should rather be obtained from a service provider other than the SMP and commented as follows:

*“We are in partnership with a company that does actually the investments....We do the same with that [insurance]... We have partnerships with insurance company. So, I think for ... is a different field like your short-term insurances or your key manager insurances ... insurance definitely needs to go to another service provider. So, I would just keep to my field that I'm qualified for and then give the rest to the external field.” (SMP2)*

*“I think there is people better suited than the accountant for that. Maybe you can, if the client has a query, maybe you... use your own networks to refer him, but I do not really think that is a job for an accountant.” (SMP5)*

*“... if they want like insurance or short-term insurance or long-term insurance or financial planning in the SME rather get a financial broker or planner in that special field to help them.” (SMP6)*

*“... we have somebody that actually do that for us because there are just too many things that you need to focus on. So, I will not put it as a very, let’s put it as awareness.” (SMP7)*

From the interviews, it was interesting to note that SMP2 and SMP7 were the only SMP participants who already have an existing arrangement with external providers to assist their clients with insurance. SMP5 does, however, mention that if needed, they can utilise their network to refer their client. Furthermore, SMP8 mentions, *“we do have people that we can recommend them, but we don’t do that [insurance].”* The utilisation of external service providers is in line with the KBT (as discussed in chapter 2), which suggests that an SMP can use the tacit and explicit knowledge of external members to overcome the SMP’s financial literacy knowledge inadequacies and to create new knowledge and increased value for the SMP and their SME client. Based on KBT, SMP3 and SMP7 can increase their competitive advantage in comparison to other SMPs, through the utilisation of the external providers they have existing relationships with.

Although SMP7 indicated that they use external service providers, he also indicated that they expect professional accountants to be aware of insurance. This view is supported by a few of the other participants, as indicated below:

*“I will say awareness of that, to guide you to the correct person who can help you with that.” (SME4)*

*“...although I would expect my accountant to make me aware thereof have you got this type of insurance, have you ensured the finance stuff etc...” (SME7)*

*“...you need to be aware of it...”(SMP10)*

SMP9 linked awareness of insurance to only being able to share his experience and inquiring from his clients if they have the necessary invoices for a tax deduction: *“...we do not have much knowledge on it except for the fact that if I get insurance for myself. I at least know how it works and I can tell another client regarding that. ... We just put it to book, the insurance. ... asking where is your insurance so I can put it to book ... to claim it for tax purposes.”* SME5 and SME9 also expected their professional accountant to know about insurance related to taxation (taxation is discussed in section 5.5.1). SME5 stated, *“Well as far as tax goes I think they should have a bit of insurance knowledge to know which sort of insurance policies are deductible and which are not deductible”*. SME9 remarked, *“...the only discussion that I typically have with him there is to make sure if business insurance for instance if that is applicable for a deductible tax expense...”*

From the discussion above, it can be deduced that specific knowledge and skills are not required in this financial literacy competency area. Furthermore, only a few participants required awareness; while IES 2 and the SAIPA competency frameworks make no specific mention of the insurance-related competencies required from professional accountants (refer to section 3.4.2.15), this does not create a skills gap. SAICA’s inclusions of an understanding of insurance coverage as part of a business’ financial risk management will thus also be sufficient.

### **5.6.2. Sub-theme 2: Human resource management**

Regarding human resource management and specific labour laws and regulations, such as the Basic Conditions of Employment Act and Labour Relations Act, SME owners/managers and professional accountants prefer that SMEs obtain advice from a specialist within the human resources area. The following are some of the quotes that substantiate this view:

*“No that is more of I will say awareness because that is more falling into the HR position. ... Because that is more of an HR role, she just needs to be aware of the finances.” (SME4)*

*“...if I've got staff problems then I'm using my Union to help me with that...” (SME6)*

*“We use a labour broker so I don't think an auditor should have the knowledge for that. I think a labour broker specialises in that. So it is better to use the labour broker for that kind of advice.” (SME10)*

*“human resource management ... I think that's also more an HR thing. So we also have somebody in that field that we refer that type of queries too.” (SMP2)*

*“I think most of the SME's have their own HR person that they use or there are also better-suited professionals than an accountant in such a situation.” (SMP5)*

*“They normally go to a labour consultant or broker to help them with that” (SMP6)*

*“I would rather get somebody to do that.” (SMP7)*

Based on the SME and SMP participants' views that external service providers are preferred for human resources management, the extent of the inclusion thereof in SAICAs competency framework seems adequate (refer to chapter 3, section 3.4.2.7). Furthermore, the preferred use of external service providers means that the non-inclusion of these competencies in IES 2 and SAIPA's competency framework does not create an expectation gap. However, human resources and employment laws and regulations are discussed, as far as they relate to employee payroll and remuneration, in section 5.7.6 and employee related taxation such as UIF and PAYE in section 5.5.1.

## **5.7 THEME 3: AD HOC FINANCIAL LITERACY COMPETENCIES REQUIRED FROM PROFESSIONAL ACCOUNTANTS**

In this theme, the SMEs perception of the competencies required from their professional accountant varies. This variation results from the diverse business environments in which the SMEs operate, their varied characteristics and the extent of their knowledge resources in the financial literacy competency areas included in this theme. In many instances, the SMPs also had different views based on the additional services they were prepared to provide. According to RBT, SMPs can improve their

competitive advantage if they apply their financial literacy competencies to their SME clients' varied business environments and characteristics to create a resource that is valuable, rare, inimitable and non-substitutable. These ad-hoc financial literacy competency areas are further explored in sections 5.7.1 to 5.7.16 below:

### **5.7.1 Sub-theme 1: Receipt and payment of money**

Six of the SME owners/managers expressed the view that they did not need their professional accountant's advice regarding the receipt and payment of money because they have the necessary knowledge resources in the SME. SME2 commented, "*We know about it ourselves so he does not have to know about it.*" SME6 agreed and remarked, "*I don't really expect something from her in that way. ... So, she doesn't really need to know, to be able to tell me more about that because I do it myself.*" Two of the SMEs indicated that they only expect awareness from their professional accountant. SME9 commented in this regard, "*that they should probably just be aware of it*"

However, two of the SMEs stated that they expected to be able to access their professional accountant's knowledge resource in this area. SME7 commented:

*"At this stage it has not been an issue so far, but again that's advice you will expect from your accountant to provide to you. To guide you, to help you with all the necessary information that is available of new methods that are available to make safe transfer of monies possible".*

Only SMP9 indicated that no knowledge and awareness is required in this area. The other nine SMP participants had a similar view to SME7, namely that they should be able to guide and assist their SME clients if needed. From the nine SMP participants responses, the level of financial literacy competencies required varied from having basic knowledge to having more in-depth knowledge and skills of this area.

SMP5 suggested that a professional accountant requires the knowledge and skills to determine the best option for a client.

*"I think you should have knowledge about all of them. And then every client's situation is unique, so you must interpret which method will be the best for the client*

*and then maybe suggest that will be the best for the client, best method to use.”*

SMP8 was of a similar view stating, *“We have to have the knowledge and also the skills to help them because I know our clients look a lot at us to help them to guide them in the right direction.”* In line with RBT and KBT that a knowledge resource can be used to add value to an SMP, SMP4 commented: *“...for you to be able to add value you should be able to know these things.”*

SMP7 provided insight into why the level of financial literacy competency required might differ between the SMP participants. SMP7 remarked, *“Basic knowledge of it, to at least know how it works then decide well are you going to go into that further and provide it as a service or is it just something that you want to know and understand so that you can talk to the client and maybe recommend it.”*

Based on the SMPs view that they should be able to assist their SME clients with different payment methods and two of the SME participants that require such advice if needed, it could be expected that the professional accountant should at least have basic knowledge of this competency area. However, as indicated in chapter 3, section 3.4.2.1, neither IFAC (as set out in IESs), SAICA, nor SAIPA’s competency frameworks mention this financial literacy area. This omission creates a gap between this financial literacy competency required from professional accountants and the competencies included in the professional accounting bodies’ competency frameworks. To fill this gap, professional accountants can, through CPD, obtain the necessary knowledge. The importance of CPD is echoed by SMP3, who commented: *“...if there is something new on the market you must read about it or find out about it. It’s very important because otherwise, you won’t know if it’s a glitch in the system if you don’t understand how it works.”* Furthermore, the professional accounting bodies can assist with the awareness of different payment methods through relevant articles in their professional accounting bodies’ journals or other platforms such as emails or social media.

### **5.7.2 Sub-theme 2: Foreign currencies**

Only two of the SMEs had exposure to foreign currencies, and both these SMEs

expect their professional accountant to have the necessary financial literacy knowledge and skills concerning foreign currencies. SME4 stated, *“He needs to have knowledge about different payment options because sometimes you import products from different companies and need to pay...”*

SMP5 requires a wider range of financial literacy competencies from his professional accountant. He expects advice regarding foreign exchange rates, documents needed to obtain forex at a bank, documents and information needed to reclaim overseas VAT, and what is required at customs to get an import/export number. He comments, *“...it would be nice if a bookkeeper knew that and was able to advise someone who starts an import-export business.”* After waiting for three months for a reply from his professional accountant regarding which steps to take to register as an importer/exporter and being informed he needs to go for a personal interview at customs, SME5 is adamant that *“...a bookkeeper should know that and that should be worked into the curriculum of a bookkeeper before they are allowed to start practising”*.

The professional accountants who do not have clients with foreign currency transactions were of the opinion that if their SME client requires guidance from them in this particular area, they will acquire the appropriate knowledge and skills. On the other hand, those professional accountants who already have SME clients handling foreign currency transactions indicated that they expected professional accountants to have the necessary knowledge and skills of foreign currencies. Some of the SMP's comments to support this viewpoint are:

*“Yes, definitely you need to know about that. We obviously need to be able to convert their transactions at year-end. Where you know you need to do a certain method how to do that. And lots of clients actually need advice on how to make a foreign payment. So, you need to have knowledge about that to be able to advise them.”* (SMP10)

*“...there are clients that use foreign currencies so I think we have to have the knowledge also to help them and then the skills to apply it.”* (SMP8)

*“...foreign currency ... it is coming much more through that clients are considering how they are maybe going to restructure their affairs and now foreign currency comes in even though they just trade in South Africa. It is not just for the clients that have multinational trading so that is the one thing that I do see is unique and more of that... I will go ... knowledge. ... almost as a subject that is part of the studies, that how can you apply this to your clients in a practical way.” (SMP7)*

From both the SMEs and the SMPs comments, it becomes clear that professional accountants are expected to have knowledge and skills concerning foreign currencies and to assist SMEs in this regard. In the review of IES 2 and SAIPA or SAICA’s competency frameworks, as discussed in section 3.4.2.2, it was noted that the frameworks focused more on the accounting and taxation aspects of foreign currencies. Other aspects such as skills to execute transactions in foreign currency and knowledge of exchange controls are not included in the competency frameworks, which creates a gap in the trainee accountants’ financial literacy competencies. In addition to executing transactions in foreign currency, SME5 expects practical skills in customs and registering as an import/exporter. Knowledge and skills concerning customs are not included in the competency frameworks, contributing further to the gap. Professional accounting bodies might assist their accountants in closing this knowledge and skills gap by providing CPD workshops that focus on the practical aspects of foreign currency, as well as providing technical knowledge about customs and exchange controls. The feedback from the limited number of SMEs and SMPs in this study using foreign currency transactions do not necessitate the update of the competency frameworks, thus CPD workshops are deemed to be sufficient to assist SMPs that require the required knowledge and skills.

### **5.7.3 Sub-theme 3: Digital currencies**

All the SME owners/managers indicated that they do not use digital currencies and do not expect any knowledge or awareness from their professional accountants. SME1 stated, *“In our industry, we are not involved in those things.”* SME5 commented: *“I do not work with crypto-currencies because I do not believe it should be an investment or a good way of holding it.”*



The professional accountants indicated that their awareness of this specific area is sufficient because they do not have SME clients who use digital currencies, but the knowledge will be developed if needed. In this regard, SMP3 commented, *“I don’t have clients at this stage using that, but for instance, I get a client like that, then it’s the same, we have to get the knowledge and the background on that.”* SMP5 agreed by stating, *“I do not have any knowledge about crypto-currencies. I just know it exists, but if it is necessary you should develop that knowledge.”*

The result that the SME and SMP participants do not currently use digital currencies corresponds with the finding in literature (refer to section 3.4.2.3) that the frequency of service provided in this area is low (Street et al. 2019:9,34). This low take-up of digital currency indicates that the current use of seminars, webpage articles, and professional accounting bodies’ journals to provide information to professional accountants is sufficient. Hence, the exclusion of digital currencies from the professional accounting bodies’ competency frameworks do not at this stage create a gap between the required and expected competencies.

#### **5.7.4 Sub-theme 4: Business finance and alternative financing instruments**

Only two of the SME owners/managers indicated that their professional accountant should have knowledge of both traditional and alternative financing instruments:

*“...but it would be nice if they were able to summarize everything and then advise if you start a certain business of where to physically get your finance. Where they can just give you a list and say these are the state departments which you can approach and these are private entities which you can approach.”* (SME5)

In addition, SME9 mentioned, *“... I would want him to have good knowledge about different funding methods, both traditional as well as alternative funding. It is an area where I would expect a financial professional to be more knowledgeable.”* (SME9)

Two SMPs indicated that a professional accountant should have an awareness of alternative financing instruments. SMP10 stated: *“Obviously you need to be aware of those venture capital and all that, but for the small business it is really the normal loans of going through the banks...”* SMP10’s comment that SMEs normally use bank loans

(traditional financing) explained why most SME and SMP participants require some level of awareness or knowledge of traditional business financing. In contrast, only four participants in total expressed the need for awareness or knowledge of alternative financing instruments.

In addition to SME5 and SME9, who required knowledge of both traditional and alternative business financing instruments, as indicated above, four other SME participants also indicated that they require their professional accountant to provide them with advice about conventional business financing, such as bank loans.

*“if we didn't have knowledge I would have expected from them to advise us on what is the risks of taking a loan, and also if the interest rate is too high, and whether to look out for other possibilities getting money.”* (SME10)

Contrary, two SMEs indicated that they do not require their professional accountants to provide advice concerning the different business-financing instruments that the SME can use.

The majority of the SMP participants indicated that the professional accountant should have knowledge and skills about traditional financing methods, with only SMP3 indicating that the professional accountant should only be aware of traditional business financing instruments. SMP9 indicated that having knowledge in this area is depended on the professional accountant's desire to provide advice in this regard. SMP9 mentioned, *“...if the clients ask you and you want to give advice you must know, otherwise you must then refer them to somebody else that specialises in that field...”*

Some of the quotes that support the majority of the SMPs' views that the professional accountant should have knowledge and skills in this financial literacy competency area are:

*“That's very important to be able to do...A lot of clients come to you with advice about setting up a company ... And some of them don't have the finance to start the company. So, to have ideas of how to start a company and where they can get finance, it's quite a skill that is helpful.”* (SMP2)

*“ ...here is more opportunity to create value for companies. ...if they can get finance at the banks..., how to get it and how to go about it, and the meaning of it. I will say ... having the knowledge and being able to apply it.” (SMP7)*

*“...We actually need a bit more knowledge because obviously, we understand how the banks will look at financial statements and how they will approve a loan, so you have a little bit more detail of how it works...” (SMP10)*

It is evident from the SMP respondents' perspective that the professional accountant should have knowledge of different traditional financial instruments and should have the skills to apply the knowledge to the SMEs business environment. The SMEs, on the other hand, only require knowledge of this area and not skills. The professional accounting bodies' competency frameworks do include the explicit knowledge needed by the professional accountant (as discussed in section 3.4.2.4), and hence both the SMEs and SMPs knowledge requirements are met. A gap, however, arises in relation to the SMP participant's view that the professional accountant should have skills to practically apply their knowledge of financing options to an SME's specific environment because this requirement is not included in SAICA and SAIPA's competency framework. Both SAICA and SAIPA should consider making it compulsory for their trainee accountants who are considering working in an SMP environment to obtain practical skills during their learnership period.

In this competency area, SME5 highlighted the opportunity for professional accountants to distinguish themselves from other SMPs by acquiring knowledge of state subsidies in a niche business environment. SME5 commented,

*“I think it is very important that they at least also know all the state possibilities meaning that for instance ... [based on certain criteria] one can approach one of the business chambers to get a subsidy... And yes obviously that would be a very specialized field to be in and one cannot expect from a normal bookkeeper to know that.”*

In keeping with KBT, if the professional accountant acquires this specialised knowledge and integrates it with their existing knowledge, it will create additional new knowledge for the SMP. This new knowledge, which is valuable and unique, can create additional value for the SMP.

### 5.7.5 Sub-theme 5: Business registration and other legal requirements

This competency consists of two sub-sections, namely business registrations and other legal requirements. The knowledge and skills needed by SMEs concerning business registration will differ between SMEs because of their different business forms and the level of their own knowledge resources or lack thereof. Four SMEs indicated that they expect their SMP to have knowledge about different business forms and which form will be the best suited for their SME. A further three SMEs required, over and above the aforementioned knowledge, the professional accountant to be knowledgeable about the practical aspects such as registering a company and other secretarial work at Companies and the Intellectual Properties Commission (CIPC). The following are some of the quotes to support the knowledge required from professional accountants by the SME respondents:

*“He needs to be able to give me information regarding the Pty Limited or a Close Corporation. So that we know the difference, and the pros and cons of the different companies...”* (SME4)

*“I require them to have literacy regarding the setting of companies, being able to advise on which kind of company one should set up. The process of registering the company, preserving names.”* (SME5)

*“...he should particularly know if my business form is applicable to my business. So if I am a small business, if it is necessarily the best to do a Pty Limited, what would be the advantages of the different forms...”* (SME9)

The SMP respondents' perceptions of the professional accountants' required competencies in this area are very similar to those of the SMEs. The one main difference is that six SMPs require the professional accountant to have knowledge and skills concerning business registrations and CIPC-related tasks, while only three SMEs required knowledge of the practical aspects of CIPC. The following quotes from the SMPs highlight the requirement for both knowledge and skills:

*“I mean if you go into business registrations, trusts those kind of things you are losing business if you do not do it... It is nice to be able to tell the client that, no we can do it all for you. ...You so definitely registrations in the full application [knowledge and skills].” (SMP7)*

*“So, business registration: they have to have the knowledge and skills, also for CIPC to know how to do that.” (SMP8)*

*“You need to have detailed knowledge about ... how to open and register a company, company changes at CIPC.” (SMP10)*

When the SME and SMP participants' requirements for both knowledge and skills, as discussed above, are compared with the competencies included in the professional accounting bodies' competency frameworks (refer to section 3.4.2.6), a gap becomes apparent in the SAICA and SAIPA competency framework. IFAC's (as indicated in IES 2) inclusion of the understanding of different legal forms of entities and understanding the associated legislation and regulations at an intermediate level seems adequate, and hence no gap was identified.

SAICA only requires basic awareness of different legal forms and in-depth knowledge of the categories of companies in the Companies Act of 2008. Furthermore, SAIPA only indirectly refers to some aspects of this competency area by including the ability to evaluate the compliance with statutory regulations, which is assumed also include the companies act. Both SAICA and SAIPA make no specific reference to any practical knowledge of CIPC processes or any skills in evaluating which business form will be best suited to an SME. This limited inclusion of knowledge and the exclusion of skills in SAICA and SAIPA's competency framework creates a gap between what is expected and what is included in the competency framework. This knowledge gap is in line with Schutte and Lovecchio's (2017: 67,69-70) finding that awareness in this competency area is insufficient for professional accountants providing services to SMEs. Although the professional accountant may use CPD to close the knowledge gap, the skills gap will only be overcome through practical experience, which will only be acquired when the professional accountant is required to provide these services to an SME client.

In addition to the gap between the business registration competencies required and the competencies included in the competency framework, another gap related to the inclusion of other legal requirements is identified. As discussed in section 3.4.2.6, awareness and knowledge of other legal requirements related to an SME's specific industry and business environment is not specifically mentioned in the SAICA or SAIPA competency frameworks. ISE 2 limits the knowledge of other legal requirements to understanding laws and regulations governing business forms and data protection and privacy. SAICA's competency framework only requires awareness of BBBEE principles as part of other matters that are topical to the accounting profession.

However, the SME participants are mostly of the view that their professional accountant should have basic knowledge of the legal regulations and requirements influencing their business. The majority of the SMPs echo the view that they need to, at least, be aware of other regulations and requirements affecting their SME clients' business. The following quotes highlight both the SME and SMP participants' views in this regard:

*"I would say that is important that they know something about the legal implications."*  
(SME1)

*"..make you aware, are you aware that these laws do apply to you."* (SME7)

*"Like a business regulation or a contract ... just to have the knowledge about it to apply it on your business."* (SME4)

*"Don't need detail knowledge of rules and regulations but you need to know what they need to be part of before they can do a certain type of business."* (SMP2)

*"I think you must definitely be aware of it. But I'm not an expert in that. So I'm aware of it, so you can advise a client on the topic of a specific area, but again refer them to a legal expert."*(SMP3)

*"..I think you should be aware of it."* (SMP10)

Additionally, SMP7 mentioned that he would prefer a professional accountant to have a basic understanding of contract law, although he limited the scope of the knowledge required to shareholder agreements, lease agreements and restraint of trade. SMP7 stated:

*“Contracts, shareholder agreements and those kind of things. I think it would be nice for accountants to have the basic and almost application level of understanding on that. Not all the legal agreements and contracts you must know at what level ... just the basic shareholders agreement. ...maybe lease agreements, some of those restraining contracts...”*

SME5 agreed with SMP7 that the professional accountant should have knowledge of contract law but, different from SMP7, did not limit the scope of the type of contracts and included knowledge of the property acquisitions. SME5 indicated:

*“They will need to know a little bit about the acquisition process of property. ...basics of entering into contracts. At least to know what is the requirement to purchase a property. Company acquisitions, that they at least have the basic knowledge of how shares are transferred and acquired. So I think commercial law wise they should have a fairly broad knowledge, the basics of contract law.”* (SME5)

Based on the views of SME5 and SMP7, there is an additional gap concerning contract law in IFAC and SAIPA’s competency framework. Both IFAC and SAIPA make no specific mention of commercial law, while SAICA’s competency framework requires basic knowledge of the principles of contract law (refer to section 3.4.2.6). To bridge the contract law and other regulations gaps, the professional accountant will need to research the matters at hand or attend CPD workshops/training. It is recommended that the professional accounting bodies assist their members by providing pertinent information about different regulations applicable in different industries through their platforms. The professional accounting bodies, in addition, can expand their members' knowledge of commercial law principles through, for example, their journals, CPD workshops or one of their other platforms.

### 5.7.6 Sub-theme 6: Human resources and employment laws and regulations

During the interviews, it was observed that for this competence area, three sub-areas exist, namely employee taxation, human resource management and employee remuneration. Employee related taxation forms part of taxation and is discussed in section 5.5.1, and human resource management is discussed in section 5.6.2. Employee remuneration and payroll are discussed in this section and encompasses all items that forms part of a payroll such as basic salary, over time payment, UIF contributions, Compensation fund and PAYE.

Most of the SMP participants expected the professional accountant to have knowledge of employee remuneration and payroll and have the necessary skills to generate the required payslips. Some of the SMP quotes that support this view are provided below:

*“We do give that [employee remuneration] advice, we do payslips for our clients, we do tell them what are the risks of not giving payslips... You need skills...and ...detailed knowledge.”* (SMP4)

*“... I think the accountant should be a one-stop-shop and that should include the payroll as well... They should have the knowledge, they should be able to apply the skill themselves... and you should be aware if there are any changes to anything.”* (SMP5)

*“I think you must have skills on that, knowledge on that ... We are using programs, software to calculate payroll and payslips and deducting the right tax...”* (SMP6)

*“You need to have in-depth knowledge and be able to do that [employee remuneration and pay slips].”* (SMP10)

The SMEs' views on the competencies required from professional accountants differed because of their different staff levels, their knowledge about employee remuneration and payroll. For example, SME10 uses their internal resources and



payroll software to manage their payroll. The only employee in SME9 is the owner; hence he did not require any assistance. SME6, however, did require employee remuneration and payslips knowledge and skills from her professional accountant. SME6 commented, "... *that she also need to be fully, not just be aware, she must be able to do it [employee remuneration and payslips] and then show me what she's doing...*" On the other hand, SME4 only requires awareness by commenting, "*I will say awareness because that is more falling into the HR position.*"

SME3 previously used an SMP for its payroll but subsequently moved the function internally. Although SME3 is currently only expecting knowledge on possible loopholes and pitfalls from his professional accountant, the previous use of the professional accountant for payroll indicated that at that stage, he also required skills from the professional accountant. SME3 commented,

*"We had dealings with auditors previously about payslips but we took it away from them.... I do not think they view it as a part of their business. I think they see it, as like it is not really bigger business. Their bigger business is looking after our books, not really the payslips and those things. They can advise you on to where to look for loopholes or look for pitfalls..."*

From the discussion above, it is evident that SMEs' requirements of their professional accountants concerning employee remuneration and payroll varied from awareness to skills, while SMPs require both knowledge and skills. All three professional accounting bodies' competency frameworks make no specific reference to a professional accountants' knowledge or skills concerning payroll management (refer to section 3.4.2.7.), creating a gap on all competency levels. Because not all SMEs require knowledge and skills about employee remuneration and payroll, the gap can be bridged through the professional accountant attending applicable training workshops as part of their CPD when necessary. The professional accounting bodies can assist their members through the provision of relevant practical workshops.

### **5.7.7 Sub-theme 7: Short-term financial management**

As with other areas in this theme, the financial literacy competencies concerning short-term financial management varied between the SME owners/managers. SME5 and

SME10 indicated that if an SME did not have the internal knowledge and skills, they would expect the professional accountant to have the knowledge to assist the SME. SME10 stated in this regard.

*“...That's the knowledge we've got. If we didn't have it I would have expected our auditors to advise us on that. So if you're a new business or if you're a business owner but you don't know a lot about finances they should advise you...”* (SME10).

As SMEs grow, the requirement for advice and hence knowledge and skills might change. In this regard, SME7 mentioned

*“That [cash flow management] is at this stage my own baby, but I think that as things grow you must start getting more advise on those things and the correct management of funds”*

SME4 indicated that knowledge and skills are required for short-term financial management but has, however, stated that the management of debtors (which forms part of short-term financial management) only requires awareness. SME4 stated, *“I will also say knowledge and skills. ...I will say awareness because managing your debtors is supposed to fall under your own resources”*. SME2 only required that *“they [professional accountants] should just be aware of the general information of that.”* While SME1 required *“Good knowledge about that [short-term financial management].* SME1 does not have any debtors or creditors, and hence the knowledge required will be different from SMEs where debtors and creditors form part of the SME's working capital and are managed under short-term financial management.

The remaining four SMEs indicated that they do not require any competencies from their professional accountant because they manage this area themselves. SME8 mentioned, *“I would not expect them to assist me with that”*

All the SMP interviewees believe they need the applicable knowledge and skills relating to short-term financial management and that a professional accountant should be able to provide advice to their clients when requested. SME5 remarked,

*“I need to have the hands-on knowledge of how it must be brought into the records, the record-keeping must be kept, how their processes works, the client's specific processes... I will need to know how to apply it and I will advise them if they do not use the correct processes for what they have in mind. And then as well suggest maybe if there is a better way to do the whole process...”*

The SMPs' perception that they need knowledge of the aspects of short-term financial management corresponds with Lovecchio's (2016:65-66) finding that professional accountants should be able to analyse a business' cash flow and working capital requirements.

SMP1 and SMP10 mentioned that although they should have the knowledge in this area, they only provide such services to their clients on an ad hoc basis. SME10 summarised it as follow

*"...most of the clients do that in house. ...but some of them believe that you help can them with their cash flows or they are struggling with inventory so we can provide those services. ...we do not really do that on a day-to-day basis, but you need to have the knowledge to be able to do that. To help them if it is expected."*

SMP9 furthermore indicated that SMPs might focus on one aspect of short-term financial management more than on another aspect because of their client's business environment. SMP9 stated *"...our clients selling professional skills mostly sit with debtors. So, their debtors management is important. So, we work with that on a monthly basis.... So, the debtors are our focus field..."* Although SMP9 focuses on debtors, he also indicated that they provide advice concerning the other aspects of short-term financial management and hence *"need detailed knowledge"*.

As discussed in section 3.4.2.9, both IES 2 and SAICA's competency frameworks include most of the short-term financial literacy knowledge competencies required of a professional accountant. In the limited areas where a professional accountant might have a knowledge gap, they could fill these gaps through their research or attend workshops. Section 3.4.2.9 additionally identified that a SAICA trainee accountant does not need practical experience monitoring cash flows or analysing an SME's working capital. This creates a gap between the skills developed during the learnership period and the SMP participants' view that they are required to apply their explicit knowledge to their client's specific circumstances. SAICA can assist their accountants to bridge these skills gaps through the provisions workshops, which specifically includes opportunities to apply explicit knowledge to real-life environments.

The SAIPA competency framework makes no specific mention of cash flow management and working capital management, including inventory management and accounts receivable (refer to section 3.4.2.9). The above indicates both a knowledge gap and a skills gap. Hence, it is recommended that SAIPA adjust their competency framework to include basic knowledge of the aspects of short-term financial management or make CPD workshops/training in this area compulsory. Similar to SAICA, SAIPA can assist in bridging small knowledge gaps through CPD workshops that focus on the practical application of their knowledge.

### **5.7.8 Sub-theme 8: Medium- to long-term financial management and planning**

The views of the professional accountants differed from one another regarding this specific area. SMP9 stated,

*“The only forward planning in the long-term is tax. That is the forward planning but otherwise, it is day-to-day just to survive for smaller companies. We do not have five or ten-year plans that do not exist in our world.”*

SMP6 also indicated that they do not provide their clients medium- to long-term financial management and planning services.

On the other hand, SMP10 indicated that a professional accountant should have knowledge and skills to assist their SME clients with medium- to long-term financial management and planning. SMP10 remarked, *“You need to have the knowledge and be able to help them if they require it...but you also sometimes need a lot of input from them to be able to assist them.”* SMP2 agreed and commented, *“I think you have to have insight of that as well. ...So, it's important to have a long-term vision as well and do long-term finances as well.”*

This difference in opinion is also evident amongst SME owners/managers. Three SMEs indicated that they do not expect any assistance and hence these competencies from their professional accountant.

*“...as a business owner the moment you start a business you should have that kind of knowledge yourself. You should not be in a situation where you have to rely on your bookkeeper. The bookkeeper is the person that advises with regards to tax.”*

*They are not really there to tell you how to run your business.” (SME5)*

SME9 only required awareness and commented, *“Awareness, I would have a discussion with him and he will give me ideas, but it is not a formal investigation or providing me with services in that regard...”* SME3, on the other hand, required skills and mentioned *“...we have in the past where they helped us with dealings that were going to happen in the future. Especially when you go into bigger businesses, the bigger contracts and those things, their input is very relevant there.”* SME7 agreed that the professional accountant should be able to provide advice, which means they should both have the knowledge and the skills to apply it to the SME’s environment. SME7 remarked,

*“...to me it is a partnership with your accountant. That they will provide you with that advice and see how the business is growing and how you should better plan, better provide, better manage the whole process...”*

From the discussion above, it can be deduced that the competencies required by the SME owner/manager from the professional accountant will depend on the SME’s knowledge and if the SME needs advice from their professional accountant. However, for the professional accountant to be able to provide such advice on request, they need to have at least basic knowledge of some of the concepts, which forms part of medium- to long-term financial management.

As discussed in section 3.4.2.10, both IES 2 and SAICA’s competency framework include an adequate knowledge requirement about this financial literacy area. It was also indicated that SAIPA’s competency framework does not include basic knowledge of this area, creating a knowledge gap in the SAIPA competency framework. Hence, it is recommended that SAIPA adjust their competency framework to include basic knowledge of the medium- to long-term financial management aspects or make the attendance of CPD workshops relating to this area compulsory. To assist professional accountants in honing their skills in this area, SAICA and SAIPA can conduct CPD workshops that focus on the practical application of technical knowledge.

### 5.7.9 Sub-theme 9: Debt management

Most of the SMP respondents viewed debt management as an important area for them to be competent in and provide advice to their SME clients. SMP8 commented that the professional accountant *“Analyse financial statements and figures. If they want to make a loan, help them decide if it is possible”*. SMP7 also stated that it is:

*“Very relevant because I do not think many clients and SME’s actually understand what they are signing. So to be able to help them and just go through their agreements and give that bit of almost ease as part of the transactions is worthwhile.”*

SMP5 sees debt management as an important part of assisting SMEs in remaining a going concern or assisting the SME to become a going concern. SMP5 commented,

*“...If it is not a going concern you will need to have the awareness that you will have to manage the situation, rectify it with the help of the client or the client would like to do it with your help.”*

SMP3 indicated that she would rather refer SMEs to a specialised debt management company when an SME is already over-indebted and requests assistance with debt management.

Although not utilising debt, SME5’s response is a combination of the aforementioned professional accountants’ views. He expects the professional accountant to have basic knowledge about overcoming over-indebtedness and indicated that an external service provider might be better equipped to assist the SME. SME5 commented,

*“If you already got the debt they should be able to advise you how to get out of it in a basic way, by first paying the highest interest rate debt as far as possible. You know but I think only very basically. I do not think that they should necessarily be the debt review counsellors because that is not what it is about.”*

SME10 is the only other SME indicating that the professional accountant should have some knowledge to assist the SMP, by commenting

*“They should be able to tell you what interest rate is a fair interest rate if you are borrowing money. They should be able to tell, the fastest you pay it off, the better it is because then you don’t need to pay interest anymore. They should be able to tell*

*you what it is costing you to pay a supplier immediately or maybe ask your suppliers for a longer payment terms.”*

The remaining SMEs indicated that they either did not have debt or were of the opinion that they would rather manage debt themselves without involving their professional accountant. In this regard, SME8 stated, “... *that we do it ourselves*”.

Although the majority of the SME participants in this study indicated that they did not expect any advice from their professional accountant in this financial literacy competency area, it will be prudent for the professional accountant to at least have the basic knowledge to ensure they can evaluate an SME’s going concern status. As discussed in section 3.4.2.11 all three professional accounting bodies require knowledge of certain aspects of debt management in their competency framework. The aspects included in IES and the SAICA competency framework are adequate for considering an SME’s going concern status. SAIPA does not include a specific knowledge requirement that their professional accountant should be able to analyse and project an SME’s cash to ensure debt covenants are adhered to, creating a knowledge gap. Due to the importance of the professional accountant in assessing an SME’s going concern status, it is recommended that basic knowledge about the aforementioned is included in SAIPA’s competency framework. For SMPs who wish to provide in-depth debt management advice, it is recommended that they hone their knowledge and skills through CPD.

#### **5.7.10 Sub-theme 10: Financial ratios**

Seven of the SME owners/managers feel that their professional accountants should have the knowledge to calculate financial ratios for the SME. Throughout the interviews, the researcher had the impression that SME owners/managers might not be fully aware of all the financial ratios that can be calculated to assist them in managing their business. SME2 limited the frequency of the calculations and the range of ratios required by noting,

*“We usually did yearly our financial statements and then it is important to see growth or decreasing capital or whatever.... It is usually just the ratio in growth in profits, stock, ... I do not expect any other...”*

In addition, SME7 limited the business growth ratios and calculations to being

performed once or twice a year. SME7 mentioned, *“I think it is very important that one actually sits down, if it is not twice yearly, once yearly, ... and see if you have grown...”*

In addition to the knowledge of calculating ratios, SME5 indicated that the professional accountant should also have the skill *“...to know how to interpret it and they would need to explain to me where it all comes from.”* SME10, furthermore, requires the professional accountant to be able to determine if the ratio calculations are outside of the expected norm. SME10 remarked, *“...they should be able to advise you. Say, for instance, your debtor-creditor ratio is too high, it’s not a standard ratio, you should look at it. Or your income and net profit ratio is not according to the standards, you should look at it.”*

SME9, on the other hand, remarked that he does not discuss financial ratios with his professional accountant and mentioned,

*“My business it is too small so we do not talk about it. I do ratios myself, I look at it on my own so I use my own advice, my own judgment on that. Is it always correct? I do not know. I do not have the benefits of asking my accountant to also look into it.”*

As recorded in the researcher’s field notes, SME2 made an informal comment that she was not aware that their professional accountant could assist her with calculating financial ratios and that she had struggled to calculate these ratios using guidelines from the internet.

The experience of the SME owners/managers about the limited and infrequent use of financial ratios are also reflected in the comments of the SMP participants. The professional accountant participants acknowledge that they have the applicable knowledge to calculate various financial ratios but do not calculate these often or only calculate limited ratios. SMP9 commented,

*“Debtors collection turnaround time, ...that is our most important ratio. ...As long as the liability does not exceed the assets that is the most important thing. ...we have got a whole handbook here with all those ratios, study all of them but we do not use them as such.”*

SMP7 had a similar view to SMP9 remarking, *“I remember I still have a little book from studies but it has not been applied much.”* SMP2 merely uses comparisons to the



previous month's amounts to determine if the financials seem reasonable. SMP5 only calculates financial ratios for their large SME clients because the smaller SMEs *"..do not even know it exists"* and SMP6 just calculate ratios when requested by their SME clients, *"We are not using it but you must just have the knowledge and how to work it out if a client or an SME wants that reporting from you."*

All three professional accounting bodies require their members to analyse an SME's performance and financial position using applicable financial ratios and trend analysis (refer to section 3.4.2.12). The SMP participants' replies indicate that they have the necessary technical knowledge to do this analysis. Professional accountants can contribute to enhanced SME performance through the increased use of their financial ratio knowledge as a valuable knowledge resource (Kirsten et al. 2015:32). SMP3 was the only participant who also underlined the importance of financial ratios, remarking

*"That enables you to give your client advice. If you don't know the ratios or what's good or bad then you won't be able to assist your client. If you have the figures in front of you, you won't be able to do anything with that. So it's important."*

However, Brijlal et al (2014:347) have found that a lack of understanding by SMEs about the benefits of using ratios resulted in these ratios not being calculated. From the limited use of financial ratios, it seems that not all professional accountants fully grasp the importance thereof and how these financial ratios can assist their SME clients. This was emphasized during an informal discussion (as noted in the field notes), where SMP7 mentioned that he did not realise the importance of financial ratios in improving an SME's performance and that he will start using this.

The gap identified in this area is not because this more advanced financial literacy area is not adequately included in the professional accounting bodies' competency frameworks, but because the professional accountants might not fully appreciate the importance of this financial literacy competency area. Therefore, it is recommended that the professional accounting bodies increase their members' awareness of the benefits of calculating and interpreting a broader range of financial ratios for all their SME clients through, for example, articles in their journals or communication through their other electronic platforms.

### 5.7.11 Sub-theme 11: Savings and Investments

The majority of the SME owners/managers expressed the view that since they expect only their accountant to provide general advice about savings and investment opportunities, they should have basic knowledge of different savings and investments instruments. In this regard, SME2 stated, *“We usually just ask for general information and advice on the best options and market trends of investors doing well, those that do not well...”* SME7 added that their professional accountant should further guide them to external service providers that might provide more in-depth advice by remarking,

*“I think guidance again, knowledge to say this will be a good idea to go and see x, y, z and look at the following possibilities that are available. Making sure that whatever you do is in the best benefit of your business and yourself...”*

In contrast, SME8 commented that they would rather obtain investment and savings advice from external service providers. SME9’s current preference to use an external service provider is influenced by the size of his business, and he indicated that if his business grows, he might obtain general savings and investment advice from his professional accountant. SME9 commented,

*“...I will use somebody else for the business... because it is such a small business there are not much funds that are actually invested. ...if it was a growing business if the business ...I would probably ask of him from a perspective of what is the best investment where to consider...”*

For both SME1 and SME5, it was important that the professional accountant should know the tax implications of savings and investment products. SME5 commented,

*“...they would need to proactively be able to advise you how to make investments so that they are most tax efficient. ...if they have a broad knowledge of it and research for you, if you ask the question, and get back to you in a day or two that will be fine.”*

From SME5’s comment, it can be deduced that the professional accountant should be aware that a certain instrument might be a tax implication and should then have the skill to research the specific tax implications for the SME.

SMP5 and SMP8 agree that professional accountants need to know the tax implications of savings and investment instruments. However, SMP8 limits what is required from the professional accountant to a knowledge of the taxation implications. Therefore, SMP8 would rather refer their SME client to an external service provider. SME8 commented, *“...I think we can help them with just direct them in the right direction to speak also to the right persons. .... but we have to have the knowledge also for the tax.”* SMP2 agrees with SMP8 and uses an external company with which they partner to provide advice to their clients. SMP7 and SMP10 also use external service providers but indicate that they should at least have awareness and knowledge. As indicated by SMP10, this knowledge is required so that they are also able to give their input.

The remaining SMPs that do not provide any investment or savings related advice, except for SMP4, believed that they should have an awareness or basic knowledge of possible savings and investments instruments an SME can use. SMP3 remarked,

*“...you must know where the possibilities or the sources are... So I would say you can advise the client “listen all these funds put it in an investment. Look at this or that or that...”*

SMP9 agreed and commented,

*“Our clients sit with money in the bank and they do not earn interest on it. So you might think about advising them to move over to a different account, a good investment, unit trust, something, where their money is still accessible. It is not fixed because in short term they might have to access it to use. Let’s say they have a bad cash flow problem this month, you need that investment. So you must think about it... We give advice on that, but not in choosing let’s say your type of unit trust.”*

From the discussion above, it seems that both the SME and SMP participants are of the view that the professional accountant should have awareness and basic knowledge of the savings and investment instruments available to SMEs and the taxation implications of such instruments. Both participant groups agreed that the SME should rather use an external service provider for in-depth knowledge of specific savings and investment instruments and products.

As discussed in section 3.4.2.13, SAICA's competency framework includes knowledge of different savings and investment instruments and knowledge concerning the use of investments as part of taxation planning, indicating that there is no knowledge gap. IES 2 also exposes the professional accountant to concepts such as bonds and equities but does not refer to using investments in taxation planning. However, as indicated in section 5.5.1, the professional accountant has knowledge of all aspects of taxation, including taxation related to investment products. Again, this indicates there is no knowledge gap.

On the other hand, the SAIPA competency framework makes no specific mention of the professional accountant having awareness or knowledge of various types of savings and investment products available or using investment in taxation planning (see section 3.4.2.13). However, a PA(SA) should be able to prepare and submit company taxation, indicating that they will be aware of the taxation implications of savings and investment products. Hence, there is a knowledge gap in the SAIPA competency framework concerning awareness and knowledge of various savings and investment products. It will be sufficient to bridge this gap through applicable CPD training workshops because only professional accountants require basic knowledge and awareness.

### **5.7.12 Sub-theme 12: Budgeting**

In section 3.4.2.14, the importance of budgeting for an SME was highlighted. Furthermore, it was concluded in section 3.4.2.14 that although all three professional accounting bodies' competency frameworks include the necessary knowledge to design and monitor a budget and analyse and interpret variances, SAICA's competency framework does not require their trainee accountants to obtain practical experience in drafting a budget. In contrast, SAIPA's trainee accountants are required to obtain practical experience. Not obtaining practical experience indicates a skills gap because most of the SMP participants assist their SME clients with either compiling or providing advice about the SME's budget. SMP4 remarked in this regard, "*We do budgets for some [SME clients]. Some we do not do budgets, but we give them advice.*" SMP2 compiles budgets for their SME clients once a year and updates the budget when needed. SMP2 commented,

*“We do a lot of budgeting for an SMEs. Because they, SMEs, especially need to budget. ... SME has got just a limited amount of money available. .... So, we will see that for instance the situation will change and we will change the budget accordingly...”.*

Although SMP6 and SMP10 indicated that even though they need knowledge and skills to draft a budget, compiling a budget is usually the responsibility of the SME. SMP6 commented, *“...we ... also know how to draft the budget if the SME wants that service, but normally they do it themselves...”*

Eight of the SME owners/managers agreed with SMP6 and SMP10 that compiling budgets are their responsibility, and their professional accountant should only provide support where needed. Regarding the importance of an SME owner/manager to compile the SME's budget, SME5 remarked,

*“...that is basic knowledge that one gets either from your parents or from your own experiences. I do not think it is something that your bookkeeper should necessarily have to tell you about. But if you are an absolute novice and you want to start something, I can imagine that someone like that would at least ask a bookkeeper to tell them how to do a budget.”*

Even though SME7 prefers compiling her SME's budget herself, she does require her professional accountant to give her guidance on the budget:

*“...they [professional accountants] can provide you with guidance where you are lacking. ...I do it myself, I just want to be on top of it. So, it is nice to know that somebody will check me and make sure that I have done it correctly. ... but it is nice to know that somebody with the correct knowledge actually looks at it. You are not just on your own.” (SME7)*

SME4 and SME6 rely on their professional accountant's budgeting knowledge resource more than the other SME participants. SME6 mentioned, *“budgeting she helps me a lot with. [Requires] ...knowledge and skills... She must help me look at what the income is and what the outcome [expenses] is”*. Granted, the level of assistance will differ between SMEs; however, from the SME participants remarks, most of the SME owners/managers expect the professional accountant to have both

knowledge and skills about budgeting. Due to the importance of budgets for an SME and the SME and SMP participants' requirement that the professional accountants have the knowledge and practical skills to compile a budget, SAICA should ensure that their trainee accountants have not only the knowledge of budgeting but also the skills. Hence, SAICA should consider updating their competency framework to ensure its trainee accountants obtain compulsory practical experience in budgeting.

### **5.7.13 Sub-theme 13: Business risk management**

The SME owners/managers and professional accountants had opposite views on whether the professional accountant required awareness, knowledge, or skills regarding business risk management. Six of the SME participants required the professional accountant to have the basic knowledge. SME1 commented, *"I would say that is quite important that they have the knowledge about that"*. SME10 indicated that although the owner is currently managing the business risks, they do expect *"...you must be able to make a phone call to your auditors and say this is what happening now what are you suggesting..."*

SME5 remarked,

*"It would be nice if a bookkeeper had that kind of knowledge and would be able to advise you on that. I just spread risk and I go with the flow and see how it goes. I do not even thought of asking my bookkeeper about risks spreads. But it would be nice if I could discuss these kind of things with a bookkeeper and they would then have general knowledge of risks spreading. But again, one cannot expect a bookkeeper to know about every possible risk factor in business because at the end of the day they are bookkeepers they are not risk managers."*

SME5's remark indicates an opportunity for the professional accountant to create a VRIN knowledge resource by understanding which business risks an SME in a specific business environment faces and how to mitigate these risks. Creating such a VRIN resource will also enable the professional accountant to be more than just a bookkeeper and create a competitive advantage for the SMP. From the SMPs responses, it seems that the SMPs interviewed might have missed the opportunity to create a knowledge resource.

SMP2 stated, “*We don't really do that [business risk management]. It's also a field separate from our field. I'm trying to keep into my field so that I can give a very professional advice to my clients...*”. Only three SMPs indicated that the professional accountant should have both basic risk knowledge and skills. SMP7 commented, “*I think that is a very important thing. ... I would say good knowledge on that and be able to apply it.*” SMP5 indicated that if the professional accountant has basic knowledge, they will consider business risks while providing other services to their SME clients. SMP5 remarked, “*...I think that will come naturally to take that into account. ...You will have the basic knowledge, and it will just come into account. I think the client would not even have to ask you for that ...take it into account with everything you do for him.*” SMP3 also indicated that the professional accountant “*...must be able to see if there is a problem and advise the client to seek help.*” Based on the responses of the SMPs, it seems it is sufficient for a professional accountant to possess basic knowledge only. As discussed in section 3.4.2.16, all three professional accounting bodies' competency frameworks include knowledge of risks in their competency framework. Based on that, only three SMP participants and six SME participants require the professional accountant to have business risk management knowledge, and since the competency frameworks include such basic knowledge, no gap was identified.

#### **5.7.14 Sub-theme 14: External influences**

Both the SME and SMP participants agree that it is important for the professional accountant to be aware of external factors. The professional accountant should furthermore grasp the possible influence of these external factors on the SME. Some of the quotes from both the SME and SMP participants that support this view are:

*“I think it is important for an accountant to read. I don't think you really have to know everything but you must be aware of these kind of things. ...because sometimes it happens that you see something in a client's business and then you could remember I've read about that. ...So yes, you must be aware of what's going on in the economy.” (SMP3)*

*“I think that is very necessary because...having a good conversation with your client. That is the stuff that they would like to talk about. All of that has an impact on every SME. So yes, you must definitely, ...keep up to date and you must apply it as well.” (SMP5)*

*“...I had economy as a subject in school, they said you must read the newspaper. I mean people ask you, with what are they going to increase our salaries for the year. They ask you and then you must at least know inflation is plus or minus there. ...So external factors and news are very important. What happens within let’s say your city, so your clients is situated in this suburb, what is happening in that suburb, should he move his business to another place.” (SMP9)*

*“...That [external factors] is what I expect from them [professional accountants] to know. ...if I am not picking it up, they should advise us...” (SME3)*

*“He should be aware of what is happening in the news. Which way the politics are going, which way the interest rate are going. He just needs to be aware, to guide you in to the right direction.” (SME4)*

*“I expect them to advise me on stuff like that yes. ... especially if they think it is going to have an impact on this little business... So, if they know of external issues that should impact the business, I expect them to know all of that.” (SME8)*

Although both participant groups only required awareness of external factors, their remarks that the professional accountant should be able to advise on and understand the possible impact of the external factors on the SME indicates that they require basic knowledge of the external factor concepts and the skill to apply it to the SME. In section 3.4.2.17, both IES 2 and SAICA’s competency frameworks require basic knowledge of possible external factors influencing the SME. In addition to that, SAICA requires professional accountants to assess the impact of these factors on the business environment as part of the professional skill set. Hence, no gaps exist for both the IFAC and SAICA competency frameworks.



SAIPA, on the other hand, does not include the knowledge of external factors or the skills to apply these factors to the business environment but proposes that professional accountants should obtain this knowledge through CPD. However, since it is not compulsory to attend specific workshops on external influences, a gap is evident in SAIPA's competency framework. Hence, it is recommended that SAIPA either update their competency framework or make the attendance of CPD workshops and short-course programmes about this subject matter compulsory.

### **5.7.15 Sub-theme 15: Consumer protection**

Six of the SME owners/managers indicated that they do not expect their professional accountants to have knowledge regarding the protection of the SME's customers. SME10 remarked, *"We mainly deal with it [customer rights and responsibilities] ourselves. I don't expect our auditors to get involved..."* SME10 did indicate that this view is based on their SME's specific circumstances by noting, *"...It is mainly COD [cash on delivery]...in our specific situation I don't expect anything from them."*

The remaining SMEs required awareness of the SMEs responsibility to consumer protection. SME3 commented

*"...I am not sure that the accountant will necessarily have that information but it will be nice just to receive information of probably awareness, to say are you aware of there are certain things that might influence or having indirect influence in your business. ...And then just pointing you in that correct direction."*

SME2 also indicated that she only requires "general knowledge" from their professional accountant.

However, half of the professional accountants are of the opinion that the professional accountant should have some awareness or basic knowledge to ensure that their SME clients do not contravene some of the provisions in the relevant legislation. SMP3 commented, *"So if you handle a client's debtors and you see that they charge too much interest, for example, you must be aware of that to warn them about that."* SMP7 indicated that awareness would depend on the type of service provided to the SME. SMP7 remarked,

*"... the typical combination engagement I would say you do not need much of it, that is almost the client's problem.... The knowledge when you go to independent*

*review or audit you need a bit more of that to make sure that they have actually applied some of these laws or are they in contravention of any of those....”*

The other SMPs indicated that they do not need competencies in this area. SMP5 and SMP9 specifically indicated that they are of the view that this financial competency area is the responsibility of the SME. SMP5 remarked, *“I think that falls absolutely under the client’s business. I do not think it is necessary.”* SMP9 commented, *“I mean the customer must know his field so we do not give any advice on that.”*

Even though only half of the SMP participants indicated that awareness or basic knowledge is required, the professional accountant should at least have an awareness of the consumer protection legislation such as NCA and CPA to ensure that they are able to assess their responsibilities under NOCLAR (refer to section 3.4.2.18). Section 3.4.2.18 furthermore established that awareness of NCA and CPA is not explicitly included in SAICA and SAIPA’s competency frameworks, which creates a gap in both frameworks. It is recommended that both SAICA and SAIPA update their competency frameworks to include at least awareness of NCA and CPA. This will enable their professional accountants to identify if non-compliance to NCA and CPA occurred and assist with their NOCLAR adherence. Alternatively, SAICA and SAIPA could require compulsory CPD training in this financial literacy competency area. The inclusion of this area in the IESs is not considered because the CPA and NCA are South African specific legislation.

#### **5.7.16 Sub-theme 16: Protection against scams and fraud**

SME2 and SME3 indicated that they do not expect any financial literacy competencies from their professional accountant about protecting the SME against fraud and scams. However, SME2 indicated that although he does not expect competencies in this area, his professional accountant does have knowledge in this area. SME3, through their comment *“...From them [professional accountant] I am not really expecting anything. I am expecting that more from my bankers...”* indicated that they would rather obtain such knowledge from a third party than their accountant. SME8 distinguished between fraud and scams, expecting knowledge about fraud from their professional accountant and using an external service provider’s knowledge of scams.

SME9 places the competency required of professional accountants “...*somewhere between awareness and knowledge.*” Of the remaining six SME participants’, three required awareness and three required knowledge of the protection against fraud and scams. SME5 commented that “...*they should most certainly be made aware that those things happen in business so that they can advise a client of scams...*”. SME4 required knowledge by indicating “...*knowledge about scams and fraud that is happening at the moment...*”. SME4’s comment that the knowledge should be about what is “...*happening at the moment...*” furthermore implied that the professional accountant needs to keep up to date with current fraud and scams that might have an impact on an SME.

Similar to the SME participants, the individual SMP participants also had different views. Three SMPs indicated that the professional accountant only needs awareness. SMP6 mentioned, “*You must just be aware of it and tell them if there is something out there...*” SMP10 specifically indicated that the professional accountant should be aware of scams relating to SARS. SMP10 commented, “...*you need to be aware of specifically the stuff from SARS.*”

Three of the SMPs indicated that knowledge is important. SMP2 stated,

*“That is important. ...So, I think it's important to know what type of scams is there. To know examples of it and to be able to see it in your clients’ work. So, the moment you see something that could be fraudulent and to just tell the person, I see this or is this correct, and to make them aware of the possibility.”*

In addition, SMP9 indicated that the professional accountant should have skills to investigate fraud but only “*until to a certain point, then there is fraud specialists. So up until where you feel you can take this to court and sit in front of the judge and be a good witness, you will do it yourself.*”

From both the SME and SMP participants views, it seems that the professional accountant should have basic knowledge or, as SME9 put it “...*somewhere between awareness and knowledge*” of the protection of the SME against fraud and schemes. In section 3.4.2.19, it was concluded that all three professional accounting bodies sufficiently include the knowledge of internal controls used to identify and mitigate fraud risk. It was also noted that all three professional accounting bodies’ competency

frameworks did not specifically mention awareness or basic knowledge of scams perpetrated by external parties and cannot be detected or prevented through internal controls. This lack of scam awareness hence created a gap in the competency frameworks. It is recommended that this awareness gap is bridged through applicable workshops and articles in professional body journals or other electronic platforms to ensure that the professional accountant is aware of the latest scams being perpetrated.

Table 5.4 below provides a high-level summary of the findings of themes one to three, as discussed in sections 5.5 to 5.7 above.

**Table 5.4: Summary of the findings from themes one to three**

Participants views (Chapter 5 section)	Competency framework mapping (Chapter 3 section)	Competency area	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework	Level of financial literacy required of a professional accountant as indicated by participants		Possible mitigations
						SME	SMP	
5.5.1	3.4.2.5	Taxation	No gap	Skills gap	No gap	Extensive knowledge and skills	Extensive knowledge and skills	SAICA: Update competency framework
5.5.2	3.4.2.8	Financial accounting and financial statements	No gap	No gap	No gap	Knowledge and skills	Knowledge and skills	
5.6.1	3.4.2.15	Insurance	No gap	No gap	No gap	External service provider	External service provider	
5.5.1 5.6.2 5.7.6	3.4.2.7	Human resources and employment laws and regulations	<u>Human resource management:</u> No gap  <u>Employee payroll and remuneration:</u> Knowledge gap	<u>Human resource management:</u> No gap  <u>Employee payroll and remuneration:</u> Knowledge and skills gap	<u>Human resource management:</u> No gap  <u>Employee payroll and remuneration:</u> Knowledge and skills gap	<u>Human resource management:</u> Not required  <u>Employee payroll and remuneration:</u> Varies from awareness to skills	<u>Human resource management:</u> External service provider  <u>Employee payroll and remuneration:</u> Knowledge and skills	<u>Employee payroll and remuneration:</u> CPD training workshops

Participants views (Chapter 5 section)	Competency framework mapping (Chapter 3 section)	Competency area	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework	Level of financial literacy required of a professional accountant as indicated by participants		Possible mitigations
						SME	SMP	
5.7.1	3.4.2.1	Receipt and payment of money	Awareness/knowledge gap	Awareness/knowledge gap	Awareness/knowledge gap	Awareness/basic knowledge	Basic knowledge to skills	CPD workshops and articles on other professional body platforms such as the professional body accounting journal
5.7.2	3.4.2.2	Foreign currency	Knowledge gap concerning customs and executing transactions	Knowledge gap concerning customs and executing transactions	Knowledge gap concerning customs and executing transactions	Knowledge and practical skills	Knowledge and practical skills	CPD training workshops
5.7.3	3.4.2.3	Digital currency	No gap	No gap	No gap	Limited awareness	Limited awareness	
5.7.4	3.4.2.4	Business finance and alternative financing instruments	No gap	Skills gap	Skills gap	General knowledge	Knowledge and practical skills	Updated competency framework for SME professional accountants

Participants views (Chapter 5 section)	Competency framework mapping (Chapter 3 section)	Competency area	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework	Level of financial literacy required of a professional accountant as indicated by participants		Possible mitigations
						SME	SMP	
5.7.5	3.4.2.6	Business registration and other legal requirements	<u>Business registration:</u> No gap <u>Other legal requirements:</u> Knowledge gap <u>Commercial law:</u> Knowledge gap	<u>Business registration:</u> Knowledge and skills gap <u>Other legal requirements:</u> Knowledge gap <u>Commercial law:</u> No gap	<u>Business registration:</u> Knowledge and skills gap <u>Other legal requirements:</u> Knowledge gap <u>Commercial law:</u> Knowledge gap	<u>Business registration:</u> Knowledge and skills <u>Other legal requirements:</u> Basic knowledge <u>Commercial law:</u> Broad knowledge	<u>Business registration:</u> Knowledge and skills <u>Other legal requirements:</u> Awareness <u>Commercial law:</u> Basic knowledge of limited contracts	CPD workshops and articles on other professional body platforms such as the professional body accounting journal
5.7.7	3.4.2.9	Short-term financial management	Small knowledge gap on certain aspects	Small knowledge gap on certain aspects and skills gap	Knowledge and skills gap	Awareness, knowledge and skills (difference of opinion between the groups)	Knowledge and skills	SAICA: CPD training workshops SAIPA: CPD training workshops & update of the framework to include at least basic knowledge

Participants views (Chapter 5 section)	Competency framework mapping (Chapter 3 section)	Competency area	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework	Level of financial literacy required of a professional accountant as indicated by participants		Possible mitigations
						SME	SMP	
5.7.8	3.4.2.10	Medium- to long-term financial management and planning	No gap	No gap	Knowledge gap	Awareness, knowledge and skills (difference of opinion between the groups and participants in the groups)	Awareness, knowledge and skills (difference of opinion between the groups and participants in the groups)	SAIPA: Compulsory CPD training workshops or updating the framework to include at least basic knowledge
5.7.9	3.4.2.11	Debt management	No gap for going concern assessment	No gap for going concern assessment	Knowledge gap for going concern assessment	Mostly no knowledge/ Awareness required	Basic knowledge required	SAIPA competency framework updated for going concern matter. CPD if SMP want to provide in-depth debt management advice
5.7.10	3.4.2.12	Financial ratios	No gap	No gap	No gap	Knowledge and skills	Knowledge and skills	Although no gap was identified the importance thereof should be reiterated



Participants views (Chapter 5 section)	Competency framework mapping (Chapter 3 section)	Competency area	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework	Level of financial literacy required of a professional accountant as indicated by participants		Possible mitigations
						SME	SMP	
5.7.11	3.4.2.13	Savings and Investments	No gap	No gap	Knowledge gap concerning different savings and investments instruments	Basic knowledge of different savings and investments instruments & awareness of tax implications	Basic knowledge of different savings and investments instruments & awareness of tax implications	SAIPA: CPD training
5.7.12	3.4.2.14	Budgeting	No gap	Skills gap	No gap	Knowledge and skills	Knowledge and skills	SAICA: Update competency framework
5.7.13	3.4.2.16	Business risk management	No gap	No gap	No gap	Knowledge and skills	Basic knowledge and skills	
5.7.14	3.4.2.17	External influences	No gap	No gap	Knowledge and awareness gap	Basic knowledge and skills	Basic knowledge and skills	SAIPA: Update competency framework or compulsory CPD
5.7.15	3.4.2.18	Consumer protection	N/A	Not specifically mentioned	Not specifically mentioned	SMEs responsibility	Awareness	Update competency frameworks or compulsory CPD

Participants views (Chapter 5 section)	Competency framework mapping (Chapter 3 section)	Competency area	IES 2 (explicit knowledge only)	SAICA competency framework	SAIPA competency framework	Level of financial literacy required of a professional accountant as indicated by participants		Possible mitigations
						SME	SMP	
5.7.16	3.4.2.19	Protection against fraud	<u>Fraud:</u> No gap <u>Scams:</u> Awareness gap	<u>Fraud:</u> No gap <u>Scams:</u> Awareness gap	<u>Fraud:</u> No gap <u>Scams:</u> Awareness gap	Awareness/ basic knowledge	Awareness/ basic knowledge	CPD workshops and articles on other professional body platforms such as the professional body accounting journal

Source: Own compilation

## 5.8 THEME 4: FINANCIAL LITERACY BEHAVIOUR AND ATTITUDES

At the beginning of the interview, the participants were asked to describe the financial literacy attitudes and behaviour required from a professional accountant providing services to an SME. In addition to that response, their replies during the rest of the interview were analysed to identify the financial literacy behaviour and attitudes required from professional accountants. The behaviour and attitudes identified are discussed in sections 5.8.1 to 5.8.3.

### 5.8.1 Sub-theme 1: Ethical behaviour

In response to financial literacy behaviour and attitudes that a professional accountant should demonstrate when providing services to an SME, four SMP participants and two SME participants required the professional accountant to act ethically. SMP1 commented, *“You have to be honest. If my clients want to lie, there are possibilities. You can be untrue and lie but you have to stick to the act and the truth.”* SMP2 agreed that a professional accountant should be truthful even when experiencing pressure from their SME clients. SMP2 stated,

*“I think it's very important to have ethical skills. So when a client is asking you to do something, to have very strong ethical skills, to say no I won't do something or ... not to be pushed into a direction that the client wants you to go. You need to be a very strong independent person, making decisions independently in line with what is prescribed.”*

SME8 strongly agreed that ethics are very important and commented,

*“... the strongest attitude I want from them is ethical behaviour. ... For me, it is not about how you beat the taxman but how you work ethically and show everything like you should show it. Ethics is for me very important, that they will always be working above the board. I do not want somebody who is trying to cook the books.”*

Chapter 3 did not specifically identify ethics as one of the financial literacy behaviours required from professional accountants because the OECD's adult and SME financial literacy competency frameworks only make very limited reference to ethics (OECD 2018a:19; OECD 2016a:16,27). The SME financial literacy competency framework only requires ethical issues to be considered when planning for business growth, and

the adult competency framework requires awareness of financial products' ethical criteria (OECD 2018a:19; OECD 2016a:16,27). From the interviews, it seems that ethical behaviour is an important requirement for South African professional accountants.

Both the IFAC and SAICA's competency frameworks make specific references to ethics. IFAC in IES 4 (IAESB 2019a:53-66,140-155) requires professional accountants to identify threats to ethical principles, apply ethical principles to the generation, management and sharing of data, and apply ethics to their professional behaviour. The SAICA (2018a:34-37; 2019:10) competency framework requires knowledge of ethical requirements and practising these behaviours during the learnership period. Although SAIPA's competency refers to ethics, it does not describe the specific ethical competencies required. However, the competency framework does refer to professional skills (SAIPA 2020b:19). In an e-mail response from SAIPA, it was indicated that the professional skills referred to in their competency framework include the attitudes and behaviours described in IES 4 and the SAIPA (2020b:30) competency framework states that all the IESs are accepted by SAIPA. Hence, it can be deduced that ethical behaviours are included in the SAIPA competency framework. Therefore, it is recommended that the SAIPA competency framework be updated to specifically mention the professional skills related to IES 3 and IES 4.

### **5.8.2 Sub-theme 2: Ensure adherence to deadlines**

Five of the SME participants and two of the SMP participants indicated that it is important for the professional accountant to behave in a manner that ensures adherence to different deadlines. SME4 stated in this regard, "*He needs to be able to stick to deadlines and submit documents in time for SARS and so on.*" SME9 commented,

*"I think the most important one is the regulatory deadlines. To make sure that he is aware of exactly what the deadlines are. ...He must make sure that everything is submitted on time."*

SMP3 agreed, noting, "*...it must be very important to an accountant that the deadlines are met...*" SMP8 also mentioned, "*I think attitude is very important for all the deadlines that we have*".

As discussed in chapter 3, section 3.4.1, both IFRS and SAICA's competency frameworks include behaviour concerning the adherence to deadlines, while SAIPA (as also mentioned in section 5.8.1) only refers to professional skills in general, but indicated that these would include the competencies of IES 3. Hence, no gap has been identified. The same recommendation (refer to section 5.8.1) about updating the SAIPA competency framework to specify what professional skills entail will also apply to this section.

### **5.8.3 Sub-theme 3: Be forward-looking, anticipate events and be proactive**

For five of the SME participants, attitudes and behaviour concerning the professional accountant's ability to look forward, anticipate events, understand the impact of these events on an SME's profitability and provide proactively relevant information and advice to the SME owner/manager were important. SME5, in particular, commented numerous times that he expects his professional accountant to provide him with advice proactively. Some of SME5's comments in this regard are:

*"It is those small kind of things which one should be advised the moment you approach a bookkeeper. So that proactive action can be taken. So that one can adequately and tax sufficiently run the business"; "they need to start being a bit more proactive in advising clients before the actual books are done, in other words during the process of doing business for the year for which the tax is going to be conducted."; and "So the attitude should be totally proactive. ...The attitude should not be you know let's see what happen at the end of the year and just do the books and tell you how much tax to pay. It should be a cooperation between the bookkeeper and the SME to be advised from the inception what one should or should not do from the inception."*

SME7 agreed and stated, *"I will appreciate in advance advice..."* SME9 remarked *"He must have a fair knowledge. To advise me as to being proactive. To say what should I be aware of... and make me aware of anything that might be important. To be proactive."*

In comparison with the five SME participants, only three SMP participants mentioned being proactive and anticipating events. SMP2 indicated that a professional accountant should be able to anticipate how changes may affect an SME and

proactively provide the necessary information and advice. SMP2 commented,

*“I think in our field clients don't want to know on number 99 that they are going to pay taxes, so the moment you are aware of taxes that changed or rules that changed you need to get it through to the client. Then other advice, when I see something could be to their benefit I would also advise them to rather take another route which would be more beneficial to their company.”*

SMP9 proactively advises their clients to save for upcoming taxation payments. SMP9 provided the following example,

*“...We tell them this is how much money you make and this is how much money you took. ...you took everything, you saved nothing and that savings is important ...because every six months the company must pay his tax...”*

No gap was identified in the IFAC competency framework because IFAC does require professional accountants to be forward-looking, anticipate challenges and proactively plan solutions for these challenges (IAESB 2019a:46,133). As discussed in chapter 3, section 3.4.1 as well as in sections 5.8.1 and 5.8.2, SAIPA only refers to professional skills in general but indicates that these will include the competencies of IES 3 and 4. Hence, the same recommendation concerning updating the SAIPA competency framework to specify what professional skills entail will also apply to this section. In contrast, the SAICA competency framework does not mention being forward-looking or being proactive, except for planning change proactively. The omission of a specific reference to being proactive and forward-looking is a gap in the SAICA competency framework, and it is suggested that the framework should be updated to reflect these behaviours required by half of the SME participants.

Table 5.5 below provides a high-level summary of the findings from theme four, as discussed in section 5.8 above. The table indicates that overall behaviours and attitudes are mostly addressed in the competency frameworks with IFAC requiring no adjustment, SAIPA to include a specific reference to IES 3 and 4 and SAICA updating their competency framework for one area.

**Table 5.5: Summary of theme four**

Participants views (Chapter 5 section)	Competency framework mapping (Chapter 3 section)	Behaviour & attitude area	IES 3 & 4	SAICA competency framework	SAIPA competency framework	Number or participants requiring the behaviour and attitude		Possible mitigations
						SME	SMP	
5.8.1	Not identified	Ethical behaviour	No gap	No gap	Required adherence to IES 3 and 4 but not specifically mentioned	Two	Four	SAIPA: Update competency framework to specifically reference IES 4
5.8.2	3.4.1	Adherence to deadlines	No gap	No gap		Five	Two	
5.8.3	3.4.1	Forward-looking, anticipate events and be proactive	No gap	Only mentions planning for change		Five	Three	SAIPA: Update competency framework to specifically reference IES 3 SAICA: Update competency framework
Not identified as a theme	3.4.1	Research data and analysed research data	No gap	No gap	No gap	None	None	N/A

Source: Own compilation

## 5.9 THEME 5: INTENTIONAL TRANSFER OF FINANCIAL LITERACY COMPETENCIES

There is a significant difference in opinion between the SME owners/managers and the professional accountants on whether the professional accountant should intentionally transfer financial literacy awareness, knowledge, skills, behaviours and attitudes to the SME. Five SME participants indicated that their professional accountants do not intentionally transfer or transfer very little financial literacy competencies, while three participants indicated that the aforementioned is only transferred (i) if they ask a question about a certain topic; (ii) if they made a mistake and the accountant retrospectively correct them and (iii) informally, during meetings with their professional accountant. Regarding the transfer of financial literacy, SME5 remarked accordingly,

*“Very little. I would hope for more but if they do it, it will come from an intentional question from my side and it would either be in the form of an email or it will be in the form of a discussion you know during a session where we discuss the books for the year.”*

SME3 indicated *“They are not really doing that. I think they expect you to do your thing and they will do their profession, not really passing that kind of thing”*. SME9 experience informal transfer of knowledge during meetings and stated,

*“I would say more informally so I would say in meetings. I will have a meeting with him and my financial statements for the past year and he will explain it to me. Explain things that I could have done better or can do better in future. So, the different literacy skills is then transferred informally by way of just a meeting. But not in a very formal structured way.”*

SME2 and SME8 are the only SME participants who indicated that they receive an intentional transfer of knowledge and skills when their accountants provide advice. SME2 commented, *“I think in the advisory aspect they intentionally maybe do it because they need to provide me with information for you to make the best decision in your business.”* SME8 mentioned,

*“Well with meetings and also with emails and discussions with them. I think the advice they advise is what the best practice to use in terms of how you do stuff and*



*if a person asks questions they actually go and investigate and come back with the best answer and that is for me to allow that skills to be transferred and that I do not have to ask the same questions again. So, I definitely expect them to do it and they do it, they offer more than just the bookkeeping part of it is when you ask for some advice you get it from them on how you should do it and how you should rather plan this way and not that way, so yes.”*

It is, however, interesting to note in SME8’s response that although the participant deems the transfer to be intentional, in some instances, the transfer originates from the SME asking a question. This leaves the question of what will happen if the SME does not pose any questions to the accountant. Will the financial literacy knowledge still be transferred?

Nine of the professional accountants, on the other hand, are of the view that they do intentionally transfer financial literacy awareness, knowledge, skills, behaviours and attitudes to the SMEs. Their perception is that by correcting errors, reminding SMEs of deadlines, discussing financial statements and tax calculations, they intentionally transfer financial literacy to the SME. SMP1 commented in this regard, *“I’ll definitely. Each time that I have a situation we explained in detail. ...we explained to them, we give them the legislation and tell them what is applicable...”*. SMP6 sees the transfer as a meeting at the beginning of an engagement and mentioned

*“... when a client contacts and wants to be with us, to use our services we will sit down in a consultation and discuss the financial records and information that we need to compile information with a client and to tell them you need to put this in place and you need to keep these records and yes keep it up to date.”*

Two professional accountants indicated that they would provide advice or information applicable to the SME even if not specifically requested by the SME owner/manager. SMP2 stated in this regard that

*“...when I see something could be to their benefit I would also advise them to rather take another route which would be more beneficial to their company. So I would go out of my way, the moment I have any advice to my client, to give that advice to my client whether they asked for it or not.”*

SMP7 is the only SMP that indicated that they do not intentionally transfer knowledge, skills and competencies and is also of the view that it depends on the SME owner/manager if they want to “receive” and implement the financial literacy skills transferred and hence remarked,

*“I would say no, but the answer is it depends on the client. Because some of them, they want to do business, they get involved and when you talk about something, they will pick it up and they will go with it. Others you repeat it and you will know it is not going through because they just do not care. So it depends on the client, but through typical discussions and meetings and actually starting implementing a lot of the stuff that was discussed its nice when clients actually starts to see what is happening and then start working with you.”*

SME8’s comment is in line with KBT (refer to chapter 2, section 2.6.2) that postulates that the effective transfer of knowledge between the recipient (SME) and transferor (SMP) is influenced by the knowledge aggregation capacity of the knowledge receiver (SME) (Grant 1996:111). Hence, it is the professional accountant’s responsibility to transfer the financial literacy knowledge and the SME’s responsibility to receive the financial literacy knowledge when transferred and develop their financial literacy knowledge and skills. KBT further indicates that knowledge integration and the effective transfer of knowledge partly depends on using a language understood by both the recipient (SME) and transferor (SMP) (Chew & Gottschalk 2013:7; Grant 1996:111).

Although none of the professional bodies specifically refers to the professional accountant’s responsibility to transfer financial literacy knowledge and skills, they do require professional accountants to be able to clearly communicate information and ideas. IFAC, in IES 3, indicates that a professional accountant should be able to communicate clearly, both verbally and in writing, to accounting and non-accounting stakeholders (IAESB 2019a:45,51-52,65-66,128,132,138-139). SAIPA, who subscribe to IES 3, also requires the aforementioned from their professional accountants. SAICA also requires their professional accountants to communicate proficiently and consider their audience’s knowledge of the subject presented (SAICA 2018a:47-48, 2019:11). This study did not consider the participants’ perceptions of professional accountants’ effective communication and its influence on financial

literacy transfer.

## **5.10 SUMMARY**

This chapter presented, analysed and interpreted the empirical data collected. A summary of the core findings and possible mitigations was presented in Tables 5.4 and 5.5 in an attempt to establish if there are potential gaps between the financial literacy required from professional accountants when providing services to SMEs and the financial literacy knowledge and skills included in the professional accounting bodies' competency frameworks.

Chapter 6 will present the conclusions, contributions, recommendations and further research suggestions based on the findings of this study.

## **CHAPTER 6: RESEARCH SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

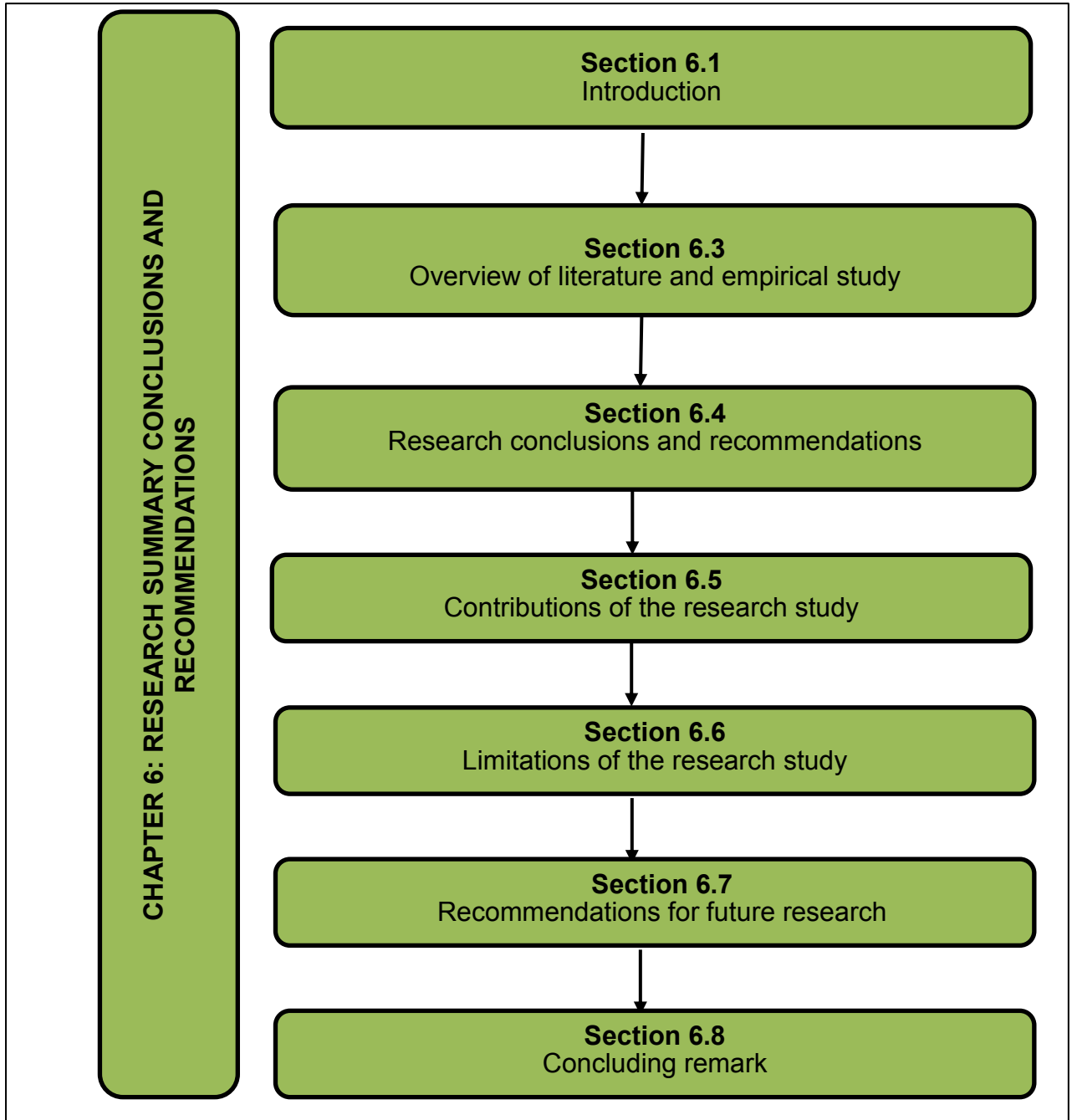
### **6.1 INTRODUCTION**

Although research has been conducted about different aspects of financial literacy of SME owners/managers as well as professional accounting bodies' competency frameworks, research on the financial literacy skills required of professional accountants when providing services to SMEs is limited. Therefore, this study investigated the financial literacy competencies required from professional accountants when providing services to SMEs. It explored whether a gap exists between the identified financial literacy competencies and those in the professional accounting bodies' competency frameworks. Further insight was gained into the potential gap by obtaining objective views from professional accountants and SME owners/managers on these identified financial literacy competencies.

This final chapter presents an overview of the study and aligns the research aim and objectives with the literature review in chapters 2 and 3 and the empirical findings in chapter 5. The contributions that have been made are stated, and the limitations of this research study are indicated. The chapter concludes with recommendations for future research.

## 6.2 CHAPTER LAYOUT

The layout of chapter 6 is illustrated in figure 6.1 below:



**Figure 6.1: Layout of chapter 6**

Source: Own compilation

## **6.3 OVERVIEW OF THE LITERATURE AND EMPIRICAL STUDY**

As explained in chapter 1, the main aim of this study was to explore if there is an expectation gap between the financial literacy competencies required of SMP professional accountants providing services to SMEs and the financial literacy competencies included in professional accounting bodies' competency frameworks. A literature review was conducted to identify the financial literacy competencies required of a professional accountant providing services to SMEs, and the inclusion of the identified financial literacy competencies in IFAC, SAICA and SAIPA's competency frameworks was explored. In addition, an empirical study was conducted to obtain the in-depth perspectives of both SME owners/managers and professional accountants about the financial literacy competencies required from professional accountants when providing services to SMEs. A summary of both the literature review and the empirical study is presented below:

### **6.3.1 Literature review**

It was evident from the literature review (chapter 2) that SMEs play an important role in providing employment, reducing poverty and contributing to the economic growth of South Africa. However, SME owners/managers face several challenges, including a shortage of financial literacy competencies. To overcome the inadequate financial literacy competency, an SME owner/manager can use their professional accountant's financial literacy competencies, given that the professional accountant does possess the required competency.

Seen through the lens of RBT, financial literacy competencies in an SME environment allow professional accountants to develop a VRIN resource that contributes to both the SMP they are employed in and their SME clients' competitive advantage. Furthermore, based on KBT, integrating new knowledge with existing financial literacy knowledge will create additional knowledge, which is increasingly valuable and unique (Chew & Gottschalk 2013:6) and may improve the value creation in the SMP. The professional accountant can obtain the new knowledge to be integrated from the SMP's members or new external members (Grant 1996:112) such as other SMPs, financial planners, and human resources specialists. To ensure professional

accountants have the existing knowledge, skills, and attitudes required, the professional accounting bodies they belong to outline these in their respective competency frameworks.

Chapter 3 provided an overview of the definition of financial literacy for individuals and SMEs, using the reviewed literature. Based on the constructs identified from the individual and SME financial literacy definitions, financial literacy in the context of a professional accountant providing services to SMEs was defined. Furthermore, the chapter addressed two of the research objectives by exploring the financial literacy competencies expected of a professional accountant providing services to SMEs and mapped the inclusion thereof in the competency frameworks of IFAC, SAICA and SAIPA. It was evident from the mapping of the identified financial literacy competency areas to the competency frameworks that gaps exist. Only one competency area, namely financial accounting and financial statements, had no knowledge and skills gap across all three professional accounting bodies' competency frameworks. An empirical study was conducted to gain insight into the competency areas and the gaps identified in the competency frameworks. Furthermore, the empirical study assisted with determining the relevance of the gap and the need for a professional accounting body to address the gaps identified during the competency framework mapping.

### **6.3.2 Empirical study**

Semi-structured interviews were conducted with 10 SME owners/managers and 10 professional accountants situated in the City of Tshwane Metropolitan Municipality, an urban area in Gauteng, South Africa. Chapter 4 provided further details on the strategies used by the researcher to conduct the study. It included an explanation of the researcher's constructivist-interpretive worldview and discussed the research design and methods used in the study. The chapter concluded with an explanation of the strategies utilised to ensure qualitative rigour and the ethical considerations applied during this study.

Chapter 5 presented the findings of this study regarding the perspectives of professional accountants and SME owners/managers on the financial literacy competencies required of professional accountants providing services to SMEs and

included in-depth responses received from the participants. Tables 5.4 and 5.5 provided high-level summaries of the identified financial literacy competency areas and the participants' perceptions. Furthermore, the tables provided an overview of competency gaps identified in the competency frameworks after taking the participants views into account.

The participants expressed the view that taxation and financial accounting competencies were primarily required from professional accountants when providing services to SMEs (theme 1). From the literature review, it was evident that all three professional accounting bodies required extensive awareness and knowledge of both financial accounting and taxation. In addition, SAIPA requires skills to be developed in both these primary financial literacy competency areas. The SAICA competency framework only mandates the development of skills during the learnership period in financial accounting but not in taxation. This lack in the development of taxation skills is a key gap identified during the study.

The participants agreed that advice on insurance matters, human resource management, and specific labour laws and regulations should be obtained from an external service provider other than the professional accountant (theme 2). Hence the gaps identified during the original competency mapping were deemed not to require unnecessary intervention from the professional accounting bodies.

The third theme identified from the interviews related to a professional accountant's ad-hoc financial literacy competencies. The participants' perceptions of these ad-hoc financial literacy competencies varied based on their competencies, the needs within an SME and the services an SMP was prepared to provide. The study has noticed that there is no requirement to develop the following financial literacy practical skills during the learnership period hence creating a skills gap.

- the execution of foreign currency transactions and the customs processes (foreign currency) involved.
- CIPC processes and evaluating which business form will be best suited to a specific SME and its environment (business registrations).
- employee remuneration and payroll (human resources).



- practical cash flow and working capital management (short-term financial management).

Theme four related to the financial literacy attitudes and behaviour required from professional accountants. The first gap identified was related to the SAIPA competency framework. Even though SAIPA does require their professional accountants to comply with IES 3 and 4, which include the identified attitudes and behaviours, this requirement is not explicitly indicated in their competency framework. Furthermore, SAIPA did not mention the required competency areas in their competency framework, resulting in a gap. The omission to include reference to IES 3 and 4 as well as not including the competencies as such in their competency framework may result in their professional accountants not being fully aware of what attitudes and behaviour are required of them.

The second attitudes and behaviour competency gap identified related to the SAICA competency framework, which did not refer to being proactive and forward-looking. Being aware that a professional accountant should be proactive and forward-looking may allow the professional accountants to provide a better level of service to their SME clients.

The last theme identified in this study was concerned with the intentional transfer of financial literacy competencies from the professional accountant to the SME owner/manager. Although not the main aim of this research study, this theme laid bare a noteworthy difference in opinion between the SME owners/managers and the professional accountants, with the professional accountants believing they intentionally transfer financial literacy competencies. However, the SME owners/managers did not hold the same view, with half of them indicating that their professional accountants do not intentionally transfer or transfer minimal financial literacy competencies. In addition, three participants indicated that financial literacy competencies are only transferred if they ask a question about a specific topic or if they made a mistake and the accountant retrospectively corrects them and/or informally during meetings with their professional accountant.

## 6.4 RESEARCH CONCLUSIONS AND RECOMMENDATIONS

Tables 5.4 and 5.5 provided a high-level summary of the conclusions made concerning the existence of a competency gap and provided an overview of the recommendations relating to each financial literacy competency area. In addition to the conclusions reached, the recommendations made in the aforementioned tables and the discussions in chapter 5, the following conclusions can be drawn and further recommendations made by integrating the literature review results, the competency framework mapping, and the empirical study.

- None of the professional accounting bodies included in this study defined financial literacy for their specific context and as it relates to their members. Defining financial literacy will create a shared understanding of the concept, between members, internally and between members and external stakeholders such as SMEs. Therefore, it is recommended that the professional accounting bodies define professional accountant financial literacy for their context and indicate this definition in either their competency frameworks or in any of their other formal publications. Furthermore, it should be indicated if a professional accounting body deems adult financial literacy a prerequisite for their financial literacy definition or competency frameworks. Their members should also be provided with the relevant links to where the applicable adult financial literacy framework can be accessed.
- Knowledge and skills in taxation and financial accounting are the primary financial literacy competencies required from a professional accountant when providing services to SMEs. Therefore, it is essential that the professional accounting bodies not only prescribe that their professional accountants must acquire the relevant knowledge in the taxation and financial accounting competency areas but also that they must develop the necessary skills in these two financial literacy competency areas. SAICA should consider including the compulsory development of taxation skills during the learnership period in their competency framework to ensure the market need for such skills is met.

- Professional accountants do have a wide range of financial literacy competencies but, in some instances, as indicated in table 5.5, may have shortcomings in the knowledge acquired or the development of practical skills during the learnership period. This might be especially true for professional accountants not completing their learnership period in an environment where a wide range of services are provided to SMEs. By indicating the specific financial literacy competencies required from professional accountants when providing services to specifically SMEs, the professional accounting bodies can assist their professional accountants to identify any specific shortcomings in either their financial literacy knowledge or skills. These required financial literacy competencies can be set out in either a guidance document or in their respective competency frameworks.
- The identification of possible gaps in a professional accountant's financial literacy competencies allows the professional accountant the opportunity to proactively take the necessary steps to close these gaps. Furthermore, investing in developing skills in competency areas where gaps currently exist can help the professional accountant develop a VRIN knowledge resource as postulated in RBT. The creation of a VRIN resource may assist both the SMP and their SME clients to obtain a competitive advantage and grow.
- The specific indication of the financial literacy competencies is useful for the professional accountant to identify gaps that need to be filled and assist the professional accounting bodies in identifying gaps in their current CPD courses and workshops provided. These gaps can relate to the content covered or the methods used to present the course/workshop. For example, if only knowledge is imparted during a course/workshop, including real-life examples and simulations can assist the professional accountant to develop the imparted knowledge into skills.
- Financial literacy competencies are such an essential contributor to the success of an SME that the intentional transfer of financial literacy competencies from the professional accountant to the SME owner/manager is crucial. When transferring

these financial literacy competencies, the professional accountant has the responsibility, based on KBT, to use a mutually understandable language. Therefore, it is recommended that professional accountants make a concerted effort to transfer financial literacy competencies to SME owners/managers intentionally and that the respective accounting bodies should spearhead this initiative. The transfer of financial literacy competencies will allow the accounting profession to contribute to the development of financially literate SME owners/managers and hence the growth and welfare of the SME sector in South Africa.

## **6.5 CONTRIBUTION OF THE RESEARCH STUDY**

This study made a theoretical contribution to RBT by establishing financial literacy as a VRIN resource that professional accountants can use to enhance the SMPs in which they are employed and their SME clients' competitive advantage. Furthermore, the study contributed to KBT's body of knowledge by providing insight into the creation of valuable, rare, and difficult to imitate financial literacy tacit knowledge through the application of financial literacy explicit knowledge to an SME specific business environment. It was further highlighted that the professional accountant could, using KBT, create new additional knowledge by incorporating their existing financial literacy knowledge with knowledge obtained from other external members such as other SMPs, financial planners, and human resources specialists.

In addition, the study's contribution included the establishment of a financial literacy definition for professional accountants and identifying financial literacy competency areas required from professional accountants. The study made an applied contribution because the identified financial literacy areas could assist professional accounting bodies in evaluating their competency frameworks by indicating which financial literacy competency areas should be addressed. It can further assist the professional accounting bodies during the review of their CPD events by establishing if all the required financial literacy areas are covered in their current and planned events.

## **6.6 LIMITATIONS OF THE RESEARCH STUDY**

Although this study was conducted cognisant of the research design and methods pertinent to achieving the purpose of this study and adhering to the strategies utilised to ensure qualitative rigour, certain limitations were noted.

A qualitative research design was used to explore the perceptions of SME owners and managers as well as professional accountants. Another research design, such as quantitative research, may result in findings that differ from this study's findings.

Non-probability purposive, snowball and convenience sampling based on predetermined selection criteria were used to select the research participants for this study. In addition, this study's sample was limited to ten SME owners/managers and ten professional accountants from the City of Tshwane Metropolitan Municipality area, who were deemed competent and knowledgeable to answer the questions contained in the interview schedules. Consequently, the research participants' perceptions may not be representative of all South African SME owners/managers and professional accountants' perceptions. In addition, the views from this study's participants, who were from an urban area in Gauteng, may differ from the views of SME owners/managers and professional accountants operating in rural parts of South Africa or from other provinces in South Africa.

The study is also limited to the IFAC competency framework published in the Handbook of International Education pronouncements 2019 edition (IAESB 2019a) and the SAIPA (2020b) competency-based education and assessment framework of 2020. Any published developments and changes to the before-mentioned competency framework after 2020 were not considered because the study's timing did not allow it to be considered. Furthermore, the study was based on the SAICA's (2018a, 2019) 2018 competency framework detailed guidance for the academic programme and their 2019 guidance for the professional programmes. The new SAICA CA2025 competency framework was not used for this study because it was approved in February 2021 and was not available when the study was conducted. Any changes in the competency frameworks used in this study may result in findings that might differ from this study's findings.

Furthermore, the study did not consider the competency frameworks of other international professional accounting bodies because IFAC, SAICA and SAIPA's competency frameworks were considered to be most applicable to South African professional accountants providing services to SMEs. In addition, the curriculums of South African Universities responsible for the technical education of professional accountants were not considered because this did not fall within the scope of the study. The inclusion of other international accounting bodies' competency frameworks and the curriculums of South African Universities may result in findings that are different from this study's findings.

## **6.7 RECOMMENDATIONS FOR FUTURE RESEARCH**

One of the limitations identified in section 6.5 is that the experiences and views of participants from rural areas may differ from those expressed by participants from an urban area. Hence, a possible area for future research could be to explore if and how perceptions of the financial literacy competencies required from SME owners/managers and professional accountants operating in a rural area compare with perceptions of SME owners/managers and professional accountants from urban areas.

All professional accountant participants in this study were part of an SMP. An area of possible further research may be to explore whether the perceptions of professional accountants delivering services to SMEs in large accounting practices are similar or different to those explored in this study.

The study's findings indicated a difference of opinion about the intentional transfer of financial literacy competencies between SME owners/managers and professional accountants. Future research could explore the effect a professional accountant's communication skills and language barriers might have on the transfer of financial literacy competencies from the professional accountant to the SME owner/manager.

Future studies can explore how the identified financial literacy competencies are included in SAICA's new CA2025 competency framework. Special attention can be paid to gaps previously identified, such as the compulsory development of taxation

skills and the development of attitudes and behaviour concerning being proactive and forward-looking.

## **6.8 CONCLUDING REMARK**

South African SMEs can make a significant contribution to economic growth and reduce poverty in South Africa. To provide such a contribution, SMEs must first overcome several challenges, including a shortage of financial literacy competencies. Professional accountants have a golden opportunity to make a difference in the South African economy by assisting SMEs to overcome any shortages of financial literacy competencies within the SME. Professional accountants should not only assist SMEs by providing pertinent advice and services relating to financial literacy competency areas but should also intentionally transfer these competencies to SME owners/managers. The latter will allow the SME owner/manager to apply these competencies even when the professional accountant is not present. To impart these financial literacy competencies, the professional accounting bodies and professional accountants should ensure that, even though professional accountants are well educated in other accounting areas, a professional accountant must also possess the pertinent financial literacy competencies required to succeed in an SME business environment.

In the words of Nelson Mandela:

*“What counts in life is not the mere fact that we have lived. It is what difference we have made to the lives of others that will determine the significance of the life we lead.”*

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## ANNEXURE A

### **PARTICIPANT INFORMATION SHEET: PROFESSIONAL ACCOUNTANT**

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**TITLE:** Financial literacy skills required from professional accountants providing services to small- and medium-sized enterprises in South Africa

Dear Prospective Participant

My name is Ms Gerda Viviers from the Department of Management Accounting at the University of South Africa (Unisa). You are invited to participate in an academic research study titled "Financial literacy skills required from professional accountants providing services to small- and medium-sized enterprises in South Africa". This study is conducted under the supervision of Prof Bienkie Shuttleworth and Mrs Alet Terblanche and has received written ethical approval from the Research Ethics Committee of the College of Accounting Sciences, Unisa. A copy of the approval letter can be obtained from the researcher if you so wish.

#### **AIM/PURPOSE OF THE STUDY**

Research has emphasised the importance of financial literacy skills for a small- and medium-sized enterprise's (SME's) profitability and growth. *(A SME in this study will refer to an enterprise with an annual turnover of up to R432 million; a gross asset value of up to R23 million (excluding property) and between 1 and 200 full-time employees).* Professional accountants are ideally situated to assist SMEs in instances where the financial literacy skills within the SME are insufficient. It is however important to ensure that the financial literacy skills a small and medium accounting practice (SMP) can offer a SME are the financial literacy skills required by the SME, and that the professional accountant received the necessary financial literacy skills training.

This project attempts to determine the perceptions of SMPs and SMEs regarding the financial literacy skills required from professional accountants in the provision of services to SMEs and the differences between the SMEs' and SMPs' perceptions in this regard. Additionally the inclusion of the financial literacy skills identified from the interviews and in a literature review will be mapped to the professional accounting bodies' competency frameworks.

#### **WHO CAN PARTICIPATE IN THE RESEARCH PROJECT?**

Professional accountants (not older than 65 years of age) who are full members of the South African Institute of Chartered Accountants (SAICA) or the *South African Institute of Professional Accountants* (SAIPA) and who are part of a small and medium accounting practice providing services to SMEs.

#### **WHAT IS THE NATURE OF MY PARTICIPATION IN THIS STUDY?**

The study requires participation in an approximately one-hour, one-to-one interview at a time and place of your convenience. The interview will be recorded for accuracy of data analysis. Interviewees will be asked about their perceptions pertaining to financial literacy skills required from South African professional accountants providing services to SMEs. Please keep in mind that you will not receive any financial compensation for participating in this study or receive reimbursement of travelling cost.

### **CAN I WITHDRAW FROM THIS STUDY?**

This study is voluntary and you are under no obligation to consent to participation. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw from this study at any time and without giving a reason.

### **WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?**

This project forms part of a larger study (M Phil study) which will provide a theoretical contribution in terms of determining the perceptions of SMPs and SMEs regarding the financial literacy skills required from professional accountants in the provision of services to SMEs and the differences between the SMEs' and SMPs' perceptions in this regard. The comparison of the SMP and SME perceptions can assist SMPs in identifying new areas in which services can be provided to SMEs. Furthermore, this study will map the financial literacy skills identified by the SMEs and SMPs to the professional accounting bodies' competency frameworks, thereby assisting professional accounting bodies with the evaluation of their competency frameworks and the provision of relevant CPD programmes.

### **WHAT IS THE ANTICIPATED INCONVENIENCE OF TAKING PART IN THIS STUDY?**

Interviewees will be unavailable for approximately one hour, which may cause some inconvenience.

### **WILL WHAT I SAY BE KEPT CONFIDENTIAL?**

The information from individual interviewees will at all times be treated as confidential. Interviewees' names will not be linked to their individual contributions to this study. This will be done by using pseudonyms for any places, names or events that could be linked to the interviewees. The information obtained from the interview will be used for academic research purposes only.

### **HOW WILL INFORMATION BE STORED AND ULTIMATELY DESTROYED?**

The researcher will store paper-based notes made during the interview for a period of 5 years in a locked cupboard on the premises of Ms Gerda Viviers or Unisa. For future research or academic purposes, electronic information will be stored on a password-protected computer. Future use of the stored data will be subject to further Research Ethics Committee review and approval if applicable. Paper-based documents will be shredded after the period of 5 years and electronic data will be permanently deleted from the hard drive of the researcher.

### **HOW WILL I BE INFORMED OF THE FINDINGS/RESULTS?**

Interviewees will be informed via e-mail communication as soon as the research is completed. An electronic copy of the final research study will be made available to all interviewees requesting such information.

Should you require any further information or want to contact the researcher about any aspect of this study, please call or email Ms Gerda Viviers at 082 412 2604 or [viviegm@unisa.ac.za](mailto:viviegm@unisa.ac.za).

Thank you for taking time to read this information sheet and for participating in this study.

Kind regards

## ANNEXURE B

### PARTICIPANT INFORMATION SHEET: SME OWNER/MANAGER

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Dear Prospective Participant

My name is Ms Gerda Viviers from the Department of Management Accounting at the University of South Africa (Unisa). You are invited to participate in an academic research study titled "Financial literacy skills required from professional accountants providing services to small- and medium-sized enterprises in South Africa". This study is conducted under the supervision of Prof Bienkie Shuttleworth and Mrs Alet Terblanche and has received written ethical approval from the Research Ethics Committee of the College of Accounting Sciences, Unisa. A copy of the approval letter can be obtained from the researcher if you so wish.

#### **AIM/PURPOSE OF THE STUDY**

Research has emphasised the importance of financial literacy skills for a small- and medium-sized enterprise's (SME's) profitability and growth. *(A SME in this study will refer to an enterprise with an annual turnover of up to R432 million; a gross asset value of up to R23 million (excluding property) and between 1 and 200 full-time employees).* Professional accountants are ideally situated to assist SMEs in instances where the financial literacy skills within the SME are insufficient. It is however important to ensure that the financial literacy skills a small and medium accounting practice (SMP) can offer an SME are the financial literacy skills required by the SME, and that the professional accountant received the necessary financial literacy skills training.

This project attempts to determine the perceptions of SMPs and SMEs regarding financial literacy skills required from professional accountants in the provision of services to SMEs and the differences between the SMEs and SMPs perceptions in this regard. Additionally, the inclusion of the financial literacy skills identified from the interviews and in a literature review will be mapped to the professional accounting bodies' competency frameworks.

#### **WHO CAN PARTICIPATE IN THE RESEARCH PROJECT?**

SME owners/managers (not older than 65 years of age) who use the services of a professional accountant registered as a full member with the South African Institute of Chartered Accountants (SAICA) or the *South African Institute of Professional Accountants* (SAIPA). The SME owner/manager should be involved with the SME's financial decisions and work with the professional accountant.

#### **WHAT IS THE NATURE OF MY PARTICIPATION IN THIS STUDY?**

The study requires participation in an approximately one-hour, one-to-one interview at a time and place of your convenience. The interview will be recorded for accuracy of data analysis. Interviewees will be asked about their perceptions pertaining to financial literacy skills required from South African professional accountants providing services to SMEs. Please keep in mind that you will not receive any financial compensation for participating in this study or receive reimbursement of travelling cost.

### **CAN I WITHDRAW FROM THIS STUDY?**

This study is voluntary and you are under no obligation to consent to participation. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw from this study at any time and without giving a reason.

### **WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?**

This project forms part of a larger study (MPhil study) which will provide a theoretical contribution in terms of determining the perceptions of SMPs and SMEs regarding financial literacy skills required from professional accountants in the provision of services to SMEs and the differences between the SMEs and SMPs perceptions in this regard. The study may assist SMEs in identifying which financial literacy skills they might be lacking. Furthermore, the comparison between the SME and SMP perceptions might assist SMEs in initiating a discussion with their professional accountant regarding the services they provide.

### **WHAT IS THE ANTICIPATED INCONVENIENCE OF TAKING PART IN THIS STUDY?**

Interviewees will be unavailable for approximately one hour, which may cause some inconvenience.

### **WILL WHAT I SAY BE KEPT CONFIDENTIAL?**

The information from individual interviewees will at all times be treated as confidential. Interviewees' names will not be linked to their individual contributions to this study. This will be done by using pseudonyms for any places, names or events that could be linked to the interviewees. The information obtained from the interview will be used for academic research purposes only.

### **HOW WILL INFORMATION BE STORED AND ULTIMATELY DESTROYED?**

The researcher will store paper-based notes made during the interview for a period of 5 years in a locked cupboard on the premises of Ms Gerda Viviers or Unisa. For future research or academic purposes, electronic information will be stored on a password-protected computer. Future use of the stored data will be subject to further Research Ethics Committee review and approval if applicable. Paper-based documents will be shredded after the period of 5 years and electronic data will be permanently deleted from the hard drive of the researcher.

### **HOW WILL I BE INFORMED OF THE FINDINGS/RESULTS?**

Interviewees will be informed via e-mail communication as soon as the research is completed. An electronic copy of the final research study will be made available to all interviewees requesting such information.

Should you require any further information or want to contact the researcher about any aspect of this study, please call or email Ms Gerda Viviers at 082 412 2604 or [viviegm@unisa.ac.za](mailto:viviegm@unisa.ac.za).

Thank you for taking time to read this information sheet and for participating in this study.

## ANNEXURE C

### INTERVIEW SCHEDULE:

#### Questions regarding demographics (Group 1, Professional accountants):

- Position within the company
- Professional accounting body registered with
- Number of years providing services to SMEs as a professional accountant/  
CA(SA)

#### Questions regarding demographics (Group 2, SME owners/managers):

- Position within the company i.e. owner or manager
- SME's business form
- Life cycle stage of the SME: Basic/Informal; Start-up/Formal; Growing;  
Declining

Group 1: Professional accountants	Group 2: Small- and medium-sized enterprises owners/managers
1. Describe what financial literacy <b>awareness</b> should a professional accountant have when providing services to an SME? Why do you think professional accountants only need to be aware of these areas?	1. Describe what financial literacy <b>awareness</b> should a professional accountant have when providing services to your SME? Why do you think professional accountants only need to be aware of these areas?
2. Describe what financial literacy <b>knowledge</b> should a professional accountant have when providing services to an SME? Why do you think these knowledge areas are important for a professional accountant?	2. Describe what financial literacy <b>knowledge</b> should a professional accountant demonstrate when providing services to your SME? Why do you think these knowledge areas should be important for a professional accountant?

Group 1: Professional accountants	Group 2: Small- and medium-sized enterprises owners/managers
3. Describe what financial literacy <b>skills</b> and <b>behaviours</b> should a professional accountant demonstrate when providing services to an SME? Why do you think these skills and behaviours are important to be demonstrated?	3. Describe what financial literacy <b>skills</b> and <b>behaviours</b> should a professional accountant demonstrate when providing services to your SME? Why do you think these skills and behaviours are important to be demonstrated?
4. Describe what financial literacy <b>attitudes</b> should a professional accountant demonstrate when providing services to an SME? Why do you think these attitudes are important for a professional accountant?	4. Describe what financial literacy <b>attitudes</b> should a professional accountant demonstrate when providing services to your SME? Why do you think these attitudes are important for the professional accountant?
5. Which services that encompass financial literacy, if any, would you recommend your SME clients rather obtain from other external service providers? What is the reason for your answer?	5. Which services that encompass financial literacy, if any, would you rather obtain from other external service providers, other than your professional accountant? What is the reason for your answer?
6. Do you intentionally transfer financial literacy awareness, knowledge, skills, attitudes and behaviour to your SME clients and if so, how do you go about doing this?	6. Does your professional accountant(s) intentionally transfer financial literacy awareness, knowledge, skills, attitudes and behaviour to your SME, and if so, how do they go about doing this?
7. Are there any other comments you want to make regarding a professional accountant's financial literacy?	7. Are there any other comments you want to make regarding a professional accountant's financial literacy?

## ANNEXURE D



DEPARTMENT OF MANAGEMENT ACCOUNTING

### INFORMED CONSENT

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**Title of the study**

*Financial literacy skills required from professional accountants providing services to small- and medium-sized enterprises in South Africa*

Research conducted by:

Ms Gerda Viviers (personnel number 90161564)  
Cell: 082 412 2604

Dear Participant

Thank you for your willingness to participate in an academic research study conducted by Ms Gerda Viviers, a researcher from the Department of Management Accounting at the University of South Africa (Unisa). The purpose of the study is to determine the perceptions of SMPs and SMEs regarding financial literacy skills required from professional accountants in the provision of services to SMEs and the differences between the SMEs and SMPs perceptions in this regard.

Please note the following:

- Your participation in this study is very important to me and will be very much appreciated. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please participate in this interview with open-mindedness and honesty. This should not take more than 1 hour of your time.
- The results of the study will be used for academic purposes and may be published locally or internationally. The results of the study may also be considered for future research purposes. I will provide you with a summary of the findings on request.

Please sign the form to indicate that:

- You have read and understand the information provided in the information sheet and above.
- You give your consent to participate in the study on a voluntary basis and you are aware that you may withdraw from this study at any time.
- You have agreed to the voice recording of the interview.

\_\_\_\_\_  
Participant's signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Researcher's signature

\_\_\_\_\_  
Date

Kind regards

**Ms Gerda Viviers**  
Department of Management Accounting  
College of Accounting Sciences  
UNISA



## ANNEXURE E

### Confidentiality Agreement for use with Transcription Services

Research Study Title: FINANCIAL LITERACY SKILLS REQUIRED FROM SOUTH AFRICAN PROFESSIONAL ACCOUNTANTS PROVIDING SERVICES TO SMALL- AND MEDIUM-SIZED ENTERPRISES

1. I, Madelein Prinsloo transcriptionist, agree to maintain full confidentiality of all research data received from the researcher related to this research study.
2. I will hold in strictest confidence the identity of any individual that may be revealed during the transcription of interviews or in any associated documents.
3. I will not make copies of any audio-recordings or transcriptions unless specifically requested to do so by the researcher.
4. I will not provide the research data to any third parties without the researcher's consent.
5. I will store all study-related data in a safe, secure location as long as they are in my possession.
6. All data provided or created for purposes of this agreement, including any back-up records, will be returned to the researcher or permanently deleted. When I have received confirmation that the transcription work I performed has been satisfactorily completed, any of the research data that remains with me will be returned to the researcher or destroyed, pursuant to the instructions of the researcher.
7. I understand that the University of South Africa has the right to take legal action against any breach of confidentiality that occurs in my handling of the research data.

Transcriber's name (printed): Madelein Prinsloo

Transcriber's signature: Prinsloo

Date: 6/05/2019

## ANNEXURE F



### UNISA COLLEGE OF ACCOUNTING SCIENCES ETHICS REVIEW COMMITTEE

Date 2019-01-15

Dear GM Viviers,

**Decision: Ethics Approval from  
2019-01-15 to 2022-01-14**

ERC Reference:

Original 2018\_CAS\_041

Supplementary 2019\_CAS\_001

Name: GM Viviers

Student/ Staff #: 58535578#

**Researcher: GM Viviers**  
[viviegm@unisa.ac.za](mailto:viviegm@unisa.ac.za)

**Working title of research:**

**Financial literacy skills required from professional accountants providing services to small- and medium-sized enterprises in South Africa.**

**Qualification:** MPhil Accounting Sciences

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee for an extension to the research ethics clearance awarded in 2018 (2018\_CAS\_041). Ethics approval is granted for the period indicated above.

*The application was reviewed by the College of Accounting Sciences Research Ethics Review Committee on 15 January 2019 in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment, and approved.*

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the College of Accounting Sciences Research Ethics Review Committee.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.
4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of



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participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.

5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, if applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data require additional ethics clearance.
7. No field work activities may continue after the expiry date of this certificate.

*Note:*

*The reference number of this certificate should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.*

Yours sincerely,



Prof L J Erasmus  
Chair of CAS RERC  
E-mail: [erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za)  
Tel: 012 429 8844



Prof L Ntsalaze  
Acting Executive Dean CAS