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The perceptions of South African accounting practitioners on the post-implementation of IFRS for SMEs in an institutionalised environment

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Orientation: Small and medium-sized entities (SMEs) play a crucial role in the South African economy. The financial reporting framework applicable to SMEs may contribute to the success of the SME. This study was exploratory in nature and followed an interpretive approach to seek an in-depth understanding of the application of the International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs) in South Africa.

Research purpose: This article explores the perceptions of South African accounting practitioners regarding the post-implementation of the IFRS for SMEs in the South African SME sector.

Motivation for the study: South African research on IFRS for SMEs is scarce. This study was designed to contribute to the scarce body of literature on IFRS for SMEs and will benefit both the South African and international accounting profession.

Research approach/design and method: In-depth semi-structured interviews with 21 accounting practitioners were carried out during 2017 and 2018. An interpretive approach was adopted to analyse the data into themes providing the insight into the perceptions of South African practitioners.

Main findings: Overall, there appears to be an approval of IFRS for SMEs. The uniformity associated with IFRS for SMEs is one of the significant advantages, while factors such as the age of the practitioners, the use of automated software systems and South African legislative requirements affect the relative merit of using the standard.

Practical/managerial implications: The use of the interpretive style will assist professional accounting organisations, standard setters and regulators in understanding the various benefits and drawbacks of the IFRS for SME framework.

Contribution/value-add: This article is the first to explore the in-depth views of accounting practitioners after IFRS for SMEs was adopted in South Africa. The article also highlights the challenges faced by accounting practitioners in developing economies that service SMEs.

Introduction

Small and medium-sized entities (SMEs) may play an important role in the development of a country's economy, particularly in relation to the creation of employment opportunities (Albu et al. 2013; Bartůňková 2013; Bohušová & Blašková 2013; Dang-Duc 2011; Department of Trade and Industry [DTI] 2008a; Mandilas et al. 2010). The success of SMEs is important in a country such as South Africa as the global economic crisis in recent years has triggered a knock-on effect, which in turn has increased the rate of unemployment in the country (DTI 2013). The accountability and reporting of an SME are among the important factors that may contribute to the success of the SME. In this regard, the DTI has recognised the need to create an environment that balances good governance and effective regulation with the flexibility required to promote the economy (DTI 2013). The Companies Regulation 2011 issued in terms of the *South African Companies Act* 71 of 2008 prescribes the reporting frameworks to be applied by different entities (DTI 2008b, 2011).

Financial reporting may be seen as more than a neutral technical practice. It may be argued that accounting systems function more to support the legitimacy of individual and organisational behaviour than to support the function of rational decision-making (Power 2003). Accounting rules and accepted practice affect what is considered organisationally and socially rational and valuable and what is thought to be irrelevant to an organisational account. Accounting research may benefit from an examination of not only the development of accounting rules but also of, among other things, how they are interpreted and implemented (Cooper & Robson 2006).

In 2007, the International Accounting Standards Board (IASB) published an exposure draft of a proposed International Financial Reporting Standards (IFRS) for SMEs. In 2007 South Africa became involved in the IASB's field testing programme of this exposure draft of IFRS for SMEs (South African Institute of Chartered Accountants [SAICA] 2012). In doing so South Africa pioneered and was among the first to adopt IFRS for SMEs in 2007. The researchers believe that the time lapse of 10 years after the initial introduction of IFRS for SMEs in South Africa has allowed practitioners time to enhance their professional judgement through the length of time needed to master the intricacies of the framework, including acquiring an understanding of both its benefits and challenges.

In addition, the SME landscape in South Africa has changed in a number of ways since the initial adoption of IFRS for SMEs. The global financial crisis of 2008 and 2009, the new administration changes in government (SEDA 2016) and the inclusion of IFRS for SMEs in legislation in terms of the *Companies Act* 71 of 2008 as of May 2011 are among the important factors that have impacted on the SME sector. These regulatory changes are important, as the agencies through which regulation takes place affect the legitimacy of the rules enacted, and changes in regulatory organisations affect opportunities for legitimacy (Cooper & Robson 2006).

The economic relevance of IFRS within emerging markets has been contested by scholars (Ballas, Skoutela & Tzovas 2010; Ionas cu et al. 2007). The adoption of IFRS or IFRS for SMEs within these markets has been attributed to societal pressures for institutions within emerging economics to conform to developed economies (Judge, Li & Pinsker 2010; Stainbank 2008). South Africa being an emerging economy is therefore framed within this institutionalised environment and it is for this reason that this current investigation is framed within an institutional theory perspective.

Within this context, the aim of this study was to provide an exploratory analysis of the perceptions of professional accountants in the contemporary South African SME market. More specifically, the research objective was encapsulated in the following research question:

R_1: What are the perceptions of South African practitioners on the adoption and application of IFRS for SMEs in an institutionalised financial reporting environment?

This article contributes to the literature on the perceptions of IFRS for SMEs, as limited studies have been performed on IFRS for SMEs within a South African context. This research considers how IFRS for SMEs may be interconnected with the socially constructed ideal of accounting. The results of this study may provide regulators and professional accounting bodies and policymakers with valuable insight into the usefulness of IFRS for SMEs from the perspective of the accounting practitioner. This study is the first interpretative study using the lens of institutional theory to examine the in-depth perceptions of IFRS for SMEs in South Africa. This study will also be of significant benefit to an international profession who are currently in the process of adopting IFRS for SMEs.

The rest of this article is structured in the following manner: the following section provides a review of the relevant literature. Subsequently, the research methodology employed for this study is presented, followed by an analysis of the results. Finally, the conclusion, recommendations, limitations of the study and areas for future research are presented.

Literature review

Theoretical framework

Institutional theory explores the processes and mechanisms by which the structures, rules or routines of a society become established as authoritative guidelines within that society (Scott 2004). In institutional theory, the main assumption is that all social actors within the institutional environment are seeking legitimacy (Stainbank 2017), the key insight being imitation: that as opposed to creating their own structures, institutions look to their peers to replicate what is thought to be appropriate behaviour (Marquis & Tilcsik 2016). In terms of accounting, it may be argued that financial information must be viewed as legitimate and must be trusted by users making institutional theory a useful framework in which to predict the adoption of new standards (Judge et al. 2010).

Judge et al. (2010) provided evidence that various institutional factors such as foreign aid and the level of education within the economy affect the adoption of full IFRS. Stainbank (2017) explains the adoption of IFRS for SMEs in African countries by using institutional theory as a theoretical framework. These studies suggest that the adoption process of global standards such as IFRS or IFRS for SMEs is driven more by social legitimisation pressures than by economic logic (Judge et al. 2010). It is against this backdrop that it is important to explore the perceptions of the application of IFRS for SMEs.

Definition of small and medium-sized entities

There is no one all-encompassing definition that captures an SME's parameters in terms of size, locality, industry and stage of development (Maseko & Manyani 2011; Tudor & Mutiu 2008). It appears that the term is used generally and may incorporate a wide range of ownership structures ranging in size both within a global context and in a local South African setting (IASB 2015a; Uyar & Güngörmüş 2013; Van Wyk & Rossouw 2009, 2011). It is this variety in terms of the definition of what an SME is that is one of the factors making the adoption of a global reporting framework such as IFRS for SMEs difficult (Schutte & Buys 2011c).

In South Africa, the Companies Regulations 2011, issued in terms of Section 223 of the *Companies Act* 71 of 2008, prescribes the reporting framework to be used by different entities with reference to a public interest (PI) score (DTI 2011). The Companies Regulation defines a 'medium' sized firm as a public company for which the most recent PI score is less than 500 or any other company for which the most recent PI score is less than 500 or more than 100. Small companies are defined as those companies with a PI score of less than 100. According to Regulation 26(2) of the Companies Regulations 2011, the calculation of the PI score of a company is calculated for each year by attributing a number of points to various aspects apparent in that company for a given financial year. These include the number of employees, the level of third party liability, the level of turnover and the number of individuals who have a beneficial interest in the securities of a company.

According to the IASB, an SME is an entity that does not have public accountability and publishes general purpose financial statements for external users. An entity has public accountability if its debt or equity instruments are traded in a public market or if it is in the process of issuing such instruments for trading on a public market or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (IASB 2015a).

For the purposes of this article, the definition of an SME incorporates those entities as envisaged by the IASB. In addition, the study also includes those formally registered entities that are either required to or have the option to adopt IFRS for SMEs in terms of the *Companies Act* 71 of 2008. This includes entities with a PI score of less than 100. Despite the fact that no specific accounting framework is prescribed in the *Companies Act* 71 of 2008 for entities with a PI score of less than 100, IFRS for SMEs remains a reporting framework option.

The adoption of the International Financial Reporting Standards for Small and Medium-Sized Entities in South Africa

The choice of accounting frameworks before the adoption of IFRS for SMEs in South Africa was the South African Generally Accepted Accounting Statement (SA GAAP), which has been aligned with the full IFRS since 2005, irrespective of a company's type, size and the users of its financial statements (Stainbank 2008). The full IFRS is recognised as one of the most important systems of financial reporting (Bartůňková 2013) and was developed to meet the reporting requirements of large and listed entities (Di Pietra et al. 2008). The needs of SMEs may be different from those of larger, publicly accountable entities in terms of the users of the entity's financial statements; the manner in which the financial statements are utilised by the users; the extent to which accounting expertise is available to the entity and the ability of the SME in question to bear the costs involved in adopting the standards of larger entities (Hussain, Chand & Randi 2012; IASB 2015a). Thus, the full IFRS may not serve the purpose of SMEs, making a simpler framework such as IFRS for SMEs a more attractive reporting option for smaller entities.

The IASB's objectives in developing IFRS for SMEs included the provision of high-quality, understandable, globally accepted and enforceable standards that enabled the participants in various capital markets of the world and other users of information to make economic decisions (IASB 2015a). In developing IFRS for SMEs, the IASB had in mind a certain category of users who may benefit from financial statements prepared according to IFRS for SMEs. These users included banks that make loans to SMEs, vendors that sell to SMEs and use SME financial statements to make credit and pricing decisions, credit rating agencies, customers of SMEs that use SME financial statements to decide whether or not to do business with the SME and shareholders of SMEs who are not also managers of their SMEs. Taxation authorities and owner-managers were not included as users (IASB 2015b).

An exposure draft of a proposed IFRS for SMEs was published in February 2007 (IASB 2015a). In 2007, a field test programme involving 20 countries, including South Africa, was conducted (IASB 2015a; SAICA 2012). Despite the resistance from several countries to accepting the exposure draft on an IFRS for SMEs as their own financial reporting framework, South Africa was the first country in the world to adopt this exposure draft as a Statement of GAAP for SMEs in 2007 (Stainbank, 2008).

The adoption of the exposure draft in 2007 was regarded as an interim measure until the IASB issued the 2009 edition of the standard in July 2009. This provided the platform to shape the way in which SMEs report on financial information (Mackenzie 2009). However, as cited by Schutte and Buys (2011b), two months after the adoption of IFRS for SMEs, the South African Institute of Chartered Accountants (SAICA) reported to the IASB that further simplification of the standard was needed, given the level of knowledge of both those drafting financial statements and the needs of users.

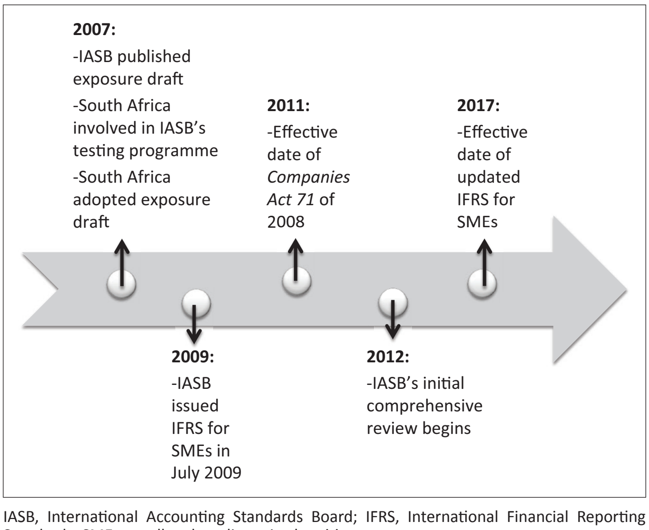
The implementation of the *Companies Act* 71 of 2008, effective 01 May 2011, brought IFRS for SMEs within South Africa's legal ambit. The implementation of the *Companies Act* 71 of 2008 brought with it the vision of promoting entrepreneurship, reducing the regulatory burden of smaller companies and enhancing the transparency and accountability of larger corporations, particularly in view of the fact that company law had become more aligned with contemporary trends and international best practice than was previously the case (DTI 2010).

In 2012 the IASB embarked on a comprehensive, initial review of IFRS for SMEs, with the updated version of IFRS for SMEs being 01 January 2017. The majority of the changes made were intended to clarify existing requirements and reduce the burden of financial reporting by removing doubt. Three changes were significant in relation to policy choices and have decreased the burden of resistance to adoption of

IFRS for SMEs. These three policy changes include the addition of the option to use the revaluation model for property, plant and equipment, the alignment of the main recognition and measurement requirements for deferred income tax with IAS 12 – 'Income Taxes', and the alignment of the main recognition and measurement requirements for the exploration and evaluation of assets with IFRS 6 – 'Exploration for and Evaluation of Mineral Resources' (IASB 2015a). Figure 1 provides a graphic illustration of the timeframe over which IFRS for SMEs was developed by the IASB and adopted in South Africa.

Prior studies on the International Financial Reporting Standards for Small and Medium-Sized Entities

A number of country-specific studies have been conducted on the applicability of IFRS for SMEs. Quagli and Paoloni (2012) evaluated the homogeneity of preparers and users within a European context. Preparers demonstrated a strong opposition to IFRS for SMEs, while users were more in favour of the standard. Abaogye-Otchere and Agbeibor (2012) assessed the suitability of IFRS for SMEs for small businesses in Ghana. It was found that small businesses in Ghana have limited international activities and do not have the need for internationally aligned financial reporting information. The size, legal form and number of owners are factors that influence the suitability of the standard for small businesses in Ghana. This result is in line with the notion that the challenges of not adopting a globally recognised framework such as IFRS for SMEs is the lack of comparability internationally, making cross-border convergence hard to achieve (Neag, Maşca & Păşcan 2009). Albu et al. (2013) investigated the perceptions of stakeholders regarding the possible implementation of IFRS for SMEs within four emerging economies – Czech Republic, Hungary, Romania and Turkey – and found differences in opinions among users, preparers, professional bodies and regulators. The results also indicated that research on the suitability of



IASB, International Accounting Standards Board; IFRS, International Financial Reporting Standards; SMEs, small and medium-sized entities.

FIGURE 1: Timeline illustrating the development of IFRS for SMES by the IASB and the adoption of IFRS for SMEs in South Africa.

IFRS for SMEs is not conclusive and that country-specific research should be undertaken in order to determine the suitability of IFRS for SMEs.

Several studies have identified both the advantages and the disadvantages associated with the implementation of IFRS for SMEs as perceived by those who prepare the accounting information (Arsoy & Sipahi 2007; Bartůňková 2013; Kiliçaa, Atamanc & Uyar 2014; Uyar & Güngörmüş 2013). Arsoy and Sipahi (2007) provide an analysis of the strengths, weaknesses, opportunities and threats involved in the adoption of IFRS for SMEs in Turkey. Uyar and Güngörmüş (2013) explored the perceptions of accounting practitioners within a Turkish context and found that the main perceived obstacles arising from the adoption of IFRS for SMEs are the inadequate training of personnel and the lack of training provided by professional bodies (Uyar & Güngörmüş 2013). Hussain et al. (2012) argue that the major challenge encountered in the successful adoption of the IFRS for SMEs is the adequate provision of the training necessary to equip practitioners to prepare financial statements. In addition a big challenge faces practitioners who have not prepared reports in accordance with IFRS.

The perceived advantages of the adoption of IFRS for SMEs include the ease in soliciting finance sources, the comparability of the financial statements of SMEs, the increased reliability of the SME financial statements, enhanced efficiency in auditing, ease of rating SMEs by credit rating agencies, ease in transition to full IFRS and increase in efficiency of cross-border activities (Uyar & Güngörmüş 2013).

Within South Africa, Van Wyk and Rossouw (2009) conducted empirical research regarding whether practitioners felt that IFRS for SMEs would reduce the burden of financial reporting. The majority of the participants were sceptical and of the opinion that IFRS for SMEs would not address the burden of a full IFRS or were of the opinion that IFRS for SMEs would relieve the burden to some degree only (Van Wyk & Rossouw 2009). Van Wyk and Rossouw (2011) investigated in part whether practitioners believed that a third-tier reporting framework was needed. The majority of the participants were in favour of a less complicated framework, with the majority also believing that IFRS for SMEs was best suited to non-owner-managed, private companies and that micro GAAP would be more suitable for owner-managed, private companies (Van Wyk & Rossouw 2011).

Schutte and Buys (2011b) classified the sections of IFRS for SMEs according to various levels of importance within the South African context. Another study conducted by Schutte and Buys (2011a) questions the relevance and adequacy of the accounting framework to the SME sector and compares disclosure practices of SMEs against IFRS for SMEs' illustrative financial statements. The conclusion drawn from both studies is that IFRS for SMEs is likely to be relevant to the reporting requirements of the SME sector. The researchers believed that these results make it important to explore the beliefs of practitioners regarding the application of IFRS for SMEs.

In short, research on IFRS for SMEs is scarce (Aboagye-Otchere & Agbeibor 2012; Eierle & Schönefeldt 2010; Tudor & Mutiu 2008; Uyar & Güngörmüş 2013). Prior research in South Africa into IFRS for SMEs has focused on its early adoption and relevance in the South African context (Kriel 2014; Schutte & Buys 2011a; Stainbank 2008; Van Wyk & Rossouw 2009, 2011). More recently, Stainbank (2017) has suggested the adoption of IFRS for SMEs by South Africa is based on societal pressure. And so, within this context, the researchers believe it valuable to explore the in-depth perception of South African accounting practitioners regarding IFRS for SMEs.

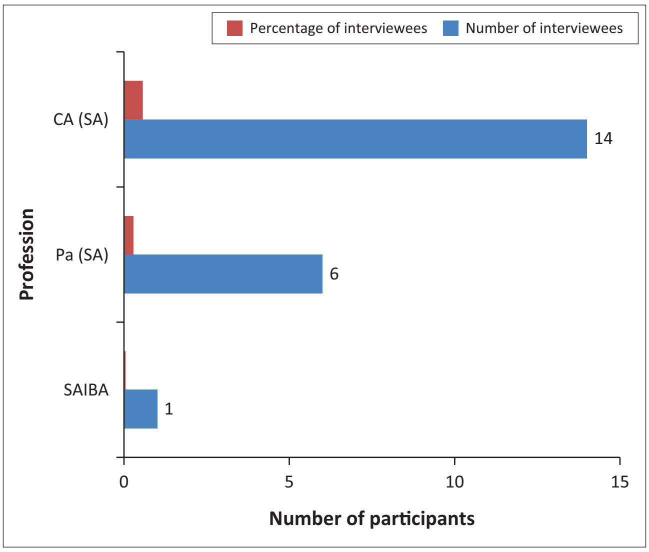
Research method

This study is a qualitative exploratory study. Qualitative research involves an 'exploration of some portion of the human experience. It is not concerned with the interpretation of data but rather with the discovery of common emergent themes' (Donalek & Soldwisch 2004). This research also follows an interpretive approach. According to Maroun (2012), an interpretive approach may be conceptually superior to quantitative styles, as research papers based on positive paradigms may not always suit the investigation of practical issues. Qualitative techniques can generate descriptions, allowing social and cultural issues to be explored to a greater extent than may be the case with quantitative research.

In summary, this research study is exploratory in nature and follows an interpretive approach. This is considered to be the most suitable approach for this type of study, as interpretive research is used to seek a deeper understanding of the accounting practice and so it is appropriate to research the application of accounting standards such as IFRS for SMEs in practice (Coetsee 2011; Maroun 2012).

This study uses semi-structured interviews with accounting practitioners. There are two main reasons for the choice of semi-structured interviews as a means of data collection: firstly, they are well-suited to the exploration of individuals' perceptions and opinions of complex issues. Secondly, it is possible that the professional and educational profiles of the sample group could have varied between the different individuals and this, in turn, would have made the use of a standardised interview schedule difficult (Barriball 1994). The clarity, adequacy and suitability of the intended interview questions were tested by conducting a pilot interview. The results of the pilot study were used to update and refine the interview agenda and this, then, enhanced the research validity (Leedy & Ormrod 2013; Maroun & Van Zijl 2016; Wallington 2014).

In the context of this research, a practitioner was defined as a professional accountant holding a professional designation. A breakdown of the participants by designation is given in Figure 2. The selection of interviewees with professional designations ensured that the professional accountants interviewed had the necessary practical experience of the application of IFRS to SMEs. This is because membership in professional bodies is based on the competence of the member (SAICA 2018; South African Institute for Business Accountants [SAIBA] 2018; SAIPA 2018).



CA (SA), Chartered Accountant (South Africa); PA (SA), Professional accountant, South Africa; SAIBA, South African Institute for Business Accountants.

FIGURE 2: Breakdown of professional designation of participants.

The sampling was purposeful as the practitioners were selected to be part of the interview process (Creswell & Clark 2007; Rowley 2012). The purposeful selection of a relatively small group of experts may lead to bias, but the practitioners selected to participate in this study included individuals with experience in the application of IFRS for SMEs for smaller and non-listed entities. This, in turn, ensured that the participants chosen were able to provide the insights required to answer the research question based on their knowledge and experience (Bryman 2007; Rowley 2012).

A total of 21 interviews were conducted. This sample size is appropriate as other similar studies have utilised this sample size (Solomon & Darby 2005; Solomon & Solomon 2006; Solomon et al. 2013). The sample size was considered large as the target group was specific in criteria (Engelbrecht, Yasseen & Omarjee 2018). Cresswell suggests that saturation usually occurs at around 8–12 interviews, but the researcher continued to interview, even though saturation occurred at 10 interviews.

The interview process was guided by the open-ended question of the interview agenda. Once the central questions had been posed, prompts were used in order to better understand the stance of the interviewee. The open-ended interview questions resulted in issues being discussed in different sequences in the various interviews, although each theme was addressed in each interview (O'Dwyer, Owen & Unerman 2011).

The data obtained during the interview process were analysed using a formal process of data reduction, data display and data verification (Maroun & van Zijl 2016; O'Dwyer et al. 2011; Wallington 2014). Shortly after each interview, the researcher listened to the recording. The intention of listening to the recordings was to enable the researcher to become familiar with the key points made. This process of familiarisation continued with the transcription of the data into text form (Rowley 2012). The interviewees were also informed that the interviews were to be transcribed. The confidentiality of both the interviews and the transcripts was guaranteed, the researcher informing the interviewees that only the researcher would have access to the data (O'Dwyer et al. 2011). The interview transcripts were sent to interviewees on request, affording them the opportunity either to correct or approve data (Rowley 2012).

The transcripts were entered into Microsoft Word. The researcher read the entire data set several times. General themes and subcategories were then identified from the data set to obtain a general sense of the emerging patterns. This helped to provide some indication of what the data meant (Leedy & Ormrod 2013; Rowley 2012). The themes were then codified and the text of the transcript arranged according to the various codes developed. In order to avoid research bias, the classification and coding of the data was reviewed by two other researchers (Rowley 2012).

Ethical considerations

Ethics approval was obtained from the University of the Witwatersrand (clearance number: CACCN/1114).

Results and analysis

This section presents the key themes that emerged from the data used to encapsulate the perceptions of accounting practitioners on the application of IFRS for SMEs.

Undervaluing of the International Financial Reporting Standards for Small and Medium-Sized Entities by South African practitioners

Diverse nature of small and medium-sized entities

The participants of this study had different ideas regarding the meaning of an SME. Their understanding appeared to be based on their individual dealings with SMEs. This is in line with existing literature, which indicates that a variety of definitions may be ascribed to the term 'SME' (DTI 2008b; IASB 2015a; Schutte & Buys 2011b; South Africa 1996; Tudor & Mutiu 2008).

The researchers believe that an understanding of the term 'SME' becomes important when an element of standardisation is introduced. This is particularly true when one is trying to establish whether or not the use of a common framework has benefited South Africa. Small and medium-sized entities are not bound by a common factor and, as a result, there exists a broad range of entities distinguished by no specific criterion. The IASB's definition of an SME has done little to assist with the narrowing down of the term, leaving it to the discretion of jurisdictions to set and define the thresholds of SMEs. Accordingly, in South Africa, professional accountancy bodies are left with the task of deciding which entities are eligible for its application.

The researchers deduce from the interview process that, while the *Companies Act* 71 of 2008 may be the only legislation that governs the reporting framework of SMEs in terms of complying with IFRS for SMEs in South Africa, the lack of a universal definition of an SME both locally and globally may in itself create disunity among practitioners. This may add to the resistance to adopt IFRS for SMEs by a practitioner, who may be inclined to resist the adoption of IFRS for SMEs on the basis of a different interpretation of the meaning of an SME. The potential threat to adoption becomes especially true for the smaller companies that have a PI score of less than 100, as these companies are not obligated to adhere to any specific reporting framework (DTI 2008b). For the practitioner with a client base of entities with a PI score of below 100, the argument of not applying IFRS for SMEs may become one of not legally being obligated to apply the framework, based on an arbitrary PI score of less than 100, and not that of applying the framework based on the actual merit of using the standard.

The data collected from the interviews does not suggest any perceived difficulty regarding the calculation and application of the PI score. However, despite this finding, no descriptions of an SME that emerged during the interview process were relayed with reference to the PI scores. This confirms the range of entities on the SME spectrum and, perhaps, suggests a disconnect between the requirements of the *Companies Act* 71 of 2008 and the essence of an SME.

It is the very vagueness of the term 'SME' that makes the adoption of a uniform set of accounting standards difficult, which in turn raises the issue of the need for a third tier in South Africa's reporting framework.

A third-tier reporting system in South Africa

Based on an analysis of the data received from the interview process, there appears to be widespread support among practitioners in South Africa for a third-tier system of reporting, with Tier 1 being full IFRS, Tier 2 being IFRS for SMEs and Tier 3 being a simpler framework than IFRS for SMEs. Several participants have indicated that a simpler framework for smaller entities on the continuum of SMEs would be beneficial but have noted that there would be a challenge regarding how to do this. Such opinions seem to confirm that the prior challenge of dealing with a one-size-fits-all framework may still have been prevalent in South Africa at the time of the study and that further differentiation in the existing reporting framework may be necessary. A majority of participants in the Van Wyk and Rossouw (2009) study indicated that there was a need to simplify the reporting for micro or smaller entities. In South Africa, the development of a third accounting framework, a micro GAAP, to be used by very small entities or micro-entities, was promulgated by the SAICA and at that time a study conducted by Van Wyk and Rossouw (2011) on this proposed micro GAAP highlighted the need for a third tier in the reporting framework in South Africa.

While the participants in this study did not suggest a concrete way in which to go about creating a third tier, it was, however, suggested that the starting point of such a simplification would have to be IFRS for SMEs, which in itself gives an indication of the value of the framework. The researchers surmise that perhaps the reason that no concrete suggestion was made by the interviewees, and perhaps the reason that no third tier in the reporting system has been successfully developed and implemented, lies in the way in which the current framework, IFRS for SMEs, was being used at the time of the study. The manner in which IFRS for SMEs was being used at the time of the study did not do justice to its potential as a set of differential reporting standards in South Africa. The relevance of IFRS for SMEs has been lost, possibly owing to the practitioners' need to comply with regulation.

> 'And unfortunately, the standards are written in terms of principle based but the practitioners apply it as a rule. And that is where the value of the standards is being undervalued.' (R7, male, Professional Accountant [SA])

Van Wyk and Rossouw (2011) showed a strong orientation on the part of practitioners towards obtaining legal backing for the proposed micro GAAP. It was deduced that accountants required support when adopting a certain framework (Van Wyk & Rossouw 2011). There may be a trade-off between establishing thresholds that force compliance with IFRS for SMEs, but in doing so diminishing value, and using professional judgement in the absence of such thresholds. This gives rise to a thought process enhancing and promoting the value of IFRS for SMEs.

Two other factors were noted during this study that may be related to the undervaluing of IFRS for SMEs. These include the use of drafting software systems and the adequacy of the training that is received by practitioners.

Automated drafting software

Based on the data collected from all the interviews, the use of automated IT packages that assist with conducting audit procedures and the drafting of financial statements appears to be significantly more commonplace now than it was when IFRS for SMEs was first implemented 10 years ago.

Small and medium-sized entities are playing a critical role in the economic growth of South Africa. Despite this, however, South Africa has one of the lowest survival rates of SMEs, while SMEs are faced with a variety of challenges threatening both their existence and their ability to attain sustainable growth. In this light, it becomes particularly important for SMEs in South Africa to embrace technology and understand the manner in which it may have a positive and meaningful impact on business development (Panday 2017).

Based on the data, the use of automated software systems has brought relief in the preparation of financial statements in terms of time and cost.

> '[*T*]hey want to improve their quality of work in terms of compliance and consistency, while increasing productivity too.' (R21, male, Chartered Accountant [SA])

It was also argued that its existence has enabled practitioners to apply IFRS for SMEs and, in this way, to act as a catalyst for providing relief. However, one of the implications of using software when preparing financial statements based on IFRS for SMEs is that its use may lead to an over-reliance on the software, which in turn may impair the level of professional judgement exercised and the level of due care given when drafting financial statements. During the interview process, a few repercussions of such reliance were noted.

Firstly, an impairment of professional judgement limits the ability of the practitioners to apply their minds. This may reduce the preparation of financial statements to a tick-box exercise. The result of this may be a display of generic information in financial statements of little relevance to the users. Consequently, the quality of financial statements becomes compromised, undermining the ability of financial reporting to be useful to users. Secondly, if the judgement of the practitioner is impaired, it is possible that the practitioner may develop a distorted idea of the simplifications and complexity surrounding the use of IFRS for SMEs, with such simplifications actually lying in the use of the software system itself, thus masking the complexities.

Training

A common concern that emerged from the data was that the potential of IFRS for SMEs to have a meaningful impact on the burden of financial reporting is correlated with the age of the practitioner. Those practitioners beyond a particular age were more resistant to accepting IFRS for SMEs than their younger counterparts, who may have studied IFRS at a tertiary level. This being said, it was also noted during the interview process that leading universities in South Africa tend to focus on the full IFRS and, although the principles in the IFRS for SMEs are aligned to those in the full IFRS, a knowledge of IFRS does not equate to that of IFRS for SMEs.

> '[*W*]e place a lot of reliance on teaching IFRS … we don't place importance on IFRS for SMEs. And you see it in practice CAs especially they assume that if I know IFRS I know IFRS for SMEs – and that is often not the case.' (R1, female, Chartered Accountant [SA])

Uyar and Güngörmüş (2013) suggest that the experience of a practitioner does not impact his or her knowledge of IFRS for SMEs but rather that aspects such as training and level of education have a greater impact on the understanding of IFRS for SMEs.

Contents of the International Financial Reporting Standards for Small and Medium-Sized Entities

The general impression of the researcher, based on the results of the interviews, is that IFRS for SMEs appears to be relevant to the SME sector in terms of content. None of the interviewees suggested that a specific topic in IFRS for SMEs was either misplaced or irrelevant in respect of serving the needs of the SME sector, further emphasising the appropriateness of the standard for SMEs. Prior studies have also shown that the content of IFRS for SMEs is suitable for the South African environment (Schutte & Buys 2011a, 2011b).

The perceived usefulness of financial statements prepared according to the International Financial Reporting Standards for Small and Medium-Sized Entities

It emerged from the interviews that the key users of financial statements prepared according to IFRS for SMEs are considered South African Revenue Services (SARS) and the banks. The opinions regarding the relative usefulness of a set of financial statements based on the IFRS for SMEs and a set of financial statements prepared according to another framework differed. Some felt that financial statements prepared in accordance with IFRS for SMEs are likely to have more weight and elicit less questioning from representatives of the bank and/or SARS. Banks are starting to require financial statements based on the IFRS for SME format and appreciate some form of compliance with a globally recognised accounting framework such as IFRS for SMEs. It is argued that IFRS for SMEs is a superior framework as it is accrual-based as opposed to cash basis, which is often ‘rejected’ by the bank. It is also argued that IFRS for SMEs does cater for the needs of the bank but that it lacks the qualitative disclosure of IFRS 7. The latter is particularly important in view of the emphasis on liquidity as a result of the general low-growth economic environment South Africa is facing.

The findings of this research study that the bank was a key user are consistent with the findings reported in existing literature (Van Wyk & Rossouw 2009). According to the results of a South African study, it does not appear that SMEs have to issue capital in order to raise funds but instead their activities seem to be financed by means of debt (Schutte & Buys 2011a). With this in mind and given the apparent problem of obtaining finance and the low survival rate of SMEs, it becomes important for banks to be given adequate information so as to enable them to make sound lending decisions. It may be true that banks often require information other than the information presented in the financial statements, but this may be because of a lack of understanding on the part of the users. It may, however, also be attributable to the application or lack thereof of professional judgement.

The South African Revenue Services was not one of the users identified by the IASB. There is also no requirement in the *Tax Administration Act*, 2011, that compels an entity to submit its financial statements when completing an income tax return (ITR14 return). The *Tax Administration Act* does, however, reserve the right to estimate taxable income in the event that an entity is not able to provide proof of figures presented in the ITR14 (SARS 2012). The researchers infer that SARS was regarded as a user at the time of the study based on a generally developed practice to safeguard an entity in anticipation of a SARS audit. This may also explain why opinions differ on whether a set of financial statements based on IFRS for SMEs is superior to a set of financial statements prepared on a different basis. It may also be the case that, although SARS is not a user, the practitioner may see the need to prepare financial statements based on IFRS for SMEs as a way of enhancing the credibility of the information presented in the ITR14 forms. It is also interesting that the definition of ‘financial reporting standards’ in the *Tax Administration Act*, 2011, refers to full IFRS, IFRS for SMEs, GAAP or the appropriate financial reporting standards that provide a fair presentation of the financial results and position of the taxpayer (SARS 2012). Thus, the *Tax Administration Act* recognises a variety of frameworks and this may be the reason why SARS does not differentiate between the relative uses of each framework.

So why, if the basis of preparation may be of little value to a key user, would practitioners continue to prepare financial statements on this basis? Apart from the regulatory requirement compelling the practitioner to observe the thresholds in the *Companies Act*, and not considering the fact that the bank or another third party may also be a user, the answer may be the indication of standardisation that IFRS for SMEs establishes. The researcher gained this impression during several of the interviews. For example, it was noted that, even in the absence of regulations requiring an entity to adopt IFRS for SMEs, IFRS for SMEs would still be the choice of accounting framework. One interviewee discussed the advantage of applying a common framework (IFRS for SMEs) in an accounting firm to all the entities it served despite what may be the legal requirements, as opposed to applying various frameworks to entities differentiated by means of a PI score. Several participants also felt that the only advantage of IFRS for SMEs was the standardisation introduced.

In the majority of cases it is not possible to distinguish between SME managers and SME owners (Schutte & Buys 2011a), and SME owners often have access to a variety of information to help manage the business effectively. The feedback received from the interview participants confirmed that, in general, owner-managers are not, in fact, users of financial statements: only in so far as there is a difference between ownership and management are owners deemed to be an important user group.

In short, the users identified by the IASB and those of this study were consistent in so far as the banks are concerned. Owner-managers are not users per the IASB and the results of this study. While SARS may be considered a key user according to the results of this study, ease of applying a common framework may be the driving factor as opposed to the economic value of using the accounting framework.

A change in attitude towards the application of the International Financial Reporting Standards for Small and Medium-Sized Entities in South Africa

In their study, Van Wyk and Rossouw (2009) found that most of the participants were not of the opinion that IFRS for SMEs would relieve the burden of financial reporting. In a very general sense, there appeared to be less scepticism on the part of the practitioners who took part in this study. All the participants identified some positive impact that they believed the adoption of IFRS for SMEs had in South Africa. However, their opinions on these positive effects differed. Several of the participants (52%) perceived the relief of the burden of financial reporting as relating to the reduction and relaxation of reporting requirements when compared to the requirements in the full IFRS. Others identified the standardisation achieved by IFRS for SMEs as the positive impact of the adoption of IFRS for SMEs in South Africa (48%). In this regard it was, however, noted that standardisation does not necessarily lead to an improvement in the integrity and quality of financial reporting. It was also felt that the standardisation had facilitated the creation of software packages that had helped to relieve the burden of financial reporting. Nevertheless there appeared to be an overall acceptance of the standards as an accounting framework for SMEs and this, in itself, shows a general change in the perceptions of accounting practitioners.

Opinions about what the disadvantages of IFRS for SMEs are differed among participants. Some of the disadvantages identified include the onerous nature of IFRS for SMEs (24% of participants) and the affordability from the perspective of the entity, which may have to employ a practitioner (19% of participants). While several participants believed that IFRS for SMEs was easily understandable and easy to read, concern was expressed over its stylistic nature. One respondent noted that it may be valuable to have IFRS for SMEs in other South African languages as South Africa has 11 official languages. It also appears that the narrative style was contributing to the fact that practitioners apply the standard as a rule, rather than from a conceptual point of view.

Van Wyk and Rossouw (2009) attributed the relative scepticism of practitioners to the possibility that practitioners may not have believed that IFRS for SMEs was fully applicable to their clients. In addition, it was suggested that IFRS for SMEs was written in a context that was not totally relevant to the SME sector. Based on this study, a number of arguments may be formulated to suggest that IFRS for SMEs is, indeed, applicable to the SME sector, which includes micro-entities. Firstly, the cost burden usually associated with the use of the framework by a practitioner does not appear to be a problem in many practices, and in fact the use of a common framework in an accounting practice may help reduce costs. While there does appear to be an ongoing need for a simpler accounting framework that would service the reporting needs of the more micro-type entities, few suggestions were made as to how to go about simplifying IFRS for SMEs. One suggestion noted was the recognition of the true value underpinning IFRS for SMEs. This would, however, require the training needs of practitioners to be met, coupled with an awareness that factors such as reliance on automated software might have an impact on the due professional care and judgement of practitioners. Overall, the contents of IFRS for SMEs appeared to be relevant to the sector.

Amended version of the International Financial Reporting Standards for Small and Medium-Sized Entities

The commentary received on the amended version of IFRS for SMEs during the interview process was not inspiring, possibly because of the relative newness of the standard.

The changes made to Section 29 of IFRS for SMEs, 'Income Taxes', were profound. The IASB noted that, in many areas, entities, including SMEs, applied IAS 12 – 'Income Taxes', and so the alignment of Section 29 with IAS 12 would have the benefit of enabling SMEs to use their prior experience in accounting for income taxes (IASB 2015a). A few of the participants in this study noted that deferred tax is a complicated issue and often presents a challenge in practice even for practitioners with several years' experience. The alignment of the principles of Section 29 with those of IAS 12 was seen in a positive light as IAS 12 is the basis upon which graduates are taught and could ease the perceived burden of its application in the workplace. To some, however, it did not appear to matter whether the section had been updated as, although deferred tax is common, it is ignored by many as they do not have an electronic tool to use.

The IASB did permit the early adoption of the updated standard. It was noted that such early adoption suited some SMEs because of the inclusion of the IAS 16 – 'Property, Plant and Equipment' revaluation model permitted under Section 17 of IFRS for SMEs for the purpose of attracting better funding and promoting a business in instances where the entity may have been unhealthy but has assets that are undervalued. These sentiments were echoed by several participants who agreed that early adoption would assist the procurement of funding and provide a better perspective of a business as a whole. Linked to this is the low survival rate of SMEs, which makes it all the more important for them to attract adequate funding in order to achieve sustained growth and make a meaningful impact on the South African economy.

The authors surmise that practitioners may need time to make a valid assessment of the impact of the amended version of IFRS for SMEs. It may also be possible that practitioners have become reliant on software for preparing financial statements. If this remains unresolved, it is likely to continue with the amended version and this may compromise professional judgement even further. Furthermore, the fact that the IASB has committed itself to updating IFRS for SMEs periodically (IASB 2015a), as opposed to on an ongoing basis, lends itself to the software systems used, which then also will have to be updated at discretionary periods only.

Conclusions

The analysis of this study is framed within the institutional theory. Regarding the theoretical contributions, there is evidence in support of the notion that the adoption of IFRS for SMEs may have been influenced by institutional factors. Overall, however, IFRS for SMEs appears to have reduced the burden of financial reporting primarily by providing a base accounting framework that is globally recognised. This sense of standardisation has lent itself well to the use of automated drafting software, which has a time-saving benefit but the potential of being misused and thereby impairing professional judgement. It would also appear that the true value of IFRS for SMEs may be enhanced by practitioners becoming aware of the areas within IFRS for SMEs that could provide relief, but this will require a practitioner to uphold the value of continued professional development.

It may be worthwhile for leading tertiary institutions to consider incorporating IFRS for SMEs into their curricula as this may foster an understanding and appreciation of the accounting framework from the outset. It may be that the focus on the full IFRS details at the time of the study is less beneficial than an understanding of the application of the principles underlying the accounting standards which would benefit both large and small businesses. Regulatory bodies such as the SAICA and SAIPA may also need to reconsider the methods of training offered to practitioners. An assessment of learning outcomes may enhance the quality of the knowledge conveyed during training sessions and in turn enhance the quality of financial statements. Effective training may also alleviate the problems associated with an over-reliance on IT and allow practitioners to benefit from the efficiency of using an automated package while remaining mindful of IFRS for SMEs and maintaining due professional care.

The results of these studies may be limited as a qualitative research approach cannot be generalised, but the findings will be applicable to practitioners not included in this study.

This study has brought to the fore other areas of research, which include the following:

- In-depth, mixed-method research using a larger sample can enhance the findings.
- A quantitative analysis of the training undergone by practitioners in maintaining professional competence through continuous profession development.
- An analysis of the role of automated software on the ability of the practitioners to uphold professional judgement.
- The development of a possible third tier in the accounting reporting framework in South Africa.
- The need for tertiary syllabi to be aligned to the needs of practice in South Africa through the content of coursework provided.

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Authors' contributions

W.M. is the primary author; she executed the research and composed the article. Y.Y. provided key insight and made key contributions to the design, analysis and interpretation of data while the article was being written. F.Z.O. provided important insight and support for the construction of the article and interpretation of the data.

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