



A review of the impact of accounting scandals on the profession regulatory framework in Namibia

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Abstract

Overview: The purpose of this paper was to review the regulation and development of the accounting profession in Namibia and the impact of the accounting scandals are having on the process.

Methodology: A review of the policies, laws, regulations and guidance guiding accounting practises in Namibia were reviewed over the last few decades with the aim to determine how the profession has been regulated and how that process is changing in the light of emerging accounting scandals in the region. The proposed bill was also reviewed to determine the motivation that led to its development and find out the driving force behind the move.

Findings: The Namibia accounting profession enjoys a high degree of self-regulation for several decades. The accounting scandals taking place in the region particularly in the neighbouring South Africa has attracted government attention and a new bill to regulate the profession is in an advance stage of propagation. The effect of the bill will to reduce self-regulation and increases government control.

Conclusion: Internal and external regulation of the accounting profession are both desired and complimentary and based on trust. However, accounting scandals tend to attract attention from the government who respond by increasing the regulatory laws hence shifting the balance more to external regulation.

Keywords: accounting profession, regulation, accounting services, accounting framework, IFRS, Namibia

Introduction

The accounting profession continue to face challenges following numerous corporate scandals in the region. The Steinhoff, VBS Mutual bank and Bosasa collapse in South Africa are the latest scandals to demonstrate that unethical behaviour perpetrated in collaboration with accountants continue to prevail in the corporate world. In the recent past in South Africa, auditing firm KPMG and consulting firm Mckinsey were accused of aiding corruption and failing in their duty to protect the public and whistle blow and were heavily implicated in the state capture by the Guptas. According to the Villager newspaper, the Steinhoff's share price tumbled following the scandal and wiped off more than R100 billion in equities. Some of the money lost belongs to several Namibian pension fund managers among them GIPF, Old Mutual, Sanlam and Allan Gray. It is therefore necessary for the Namibian regulators to be concerned and to act deceive fully on the matter to prevent similar occurrence within the country. However, criticisms of accounting bodies not acting strongly and proactively whenever major scandals come to the public attention continue to gain momentum among regulators and public alike.

All the above incidences have occurred despite the involvements of accountants and eroded public confidence. The incidences have put accountants under more focus and scrutiny. In response, the Public Accountant and Auditors Board of Namibia (PAAB) is currently drafting a new bill that aims to increase regulations within the accounting profession with the ultimate aim of preventing such occurrences. However, such laws may not restore confidence in the economy. Confidence will be restored only by ethical leadership from the accounting profession, business community, and government. This paper aims to

explore the role accounting bodies can play promoting credibility through minimization of corporate scandals through supporting the regulators and the impact the accounting scandals have impacted on the regulation of the profession.

Overview of current Statutory Framework for Accounting and Auditing

Financial reporting, auditing and accounting practices are governed by the Companies Act 2004 in Namibia. The Act prescribes that the preparation of financial statements for all companies should be done in accordance with the Statements of General Accepted Accounting Practice (GAAP). The Act does not in itself determine the accounting policies and procedures but power PAAB to determines what constitutes General Accepted Accounting Practice in Namibia from time to time (GRN, 2010). However, in 2014, the responsibility of issuing guidance and standards related to audit and assurance services was officially delegated to ICAN by PAAB. This demonstrates that it is possible for governments to let the professions regulate themselves where trust exists and leads to a situation of self-regulation. (IFAC, 2020) note that ICAN has adopted all ISA and pronouncements as issued by the IAASB. It further notes that ICAN has a standing adoption and all new pronouncements are adopted as and when they are effective, with no time lag in effective date or modifications. Consequently, the GAAP applicable are those pronounced and determined as applicable by the Institute of Chartered Accountants of Namibia (ICAN) (IFAC, 2020).

According to IFAC (2020), ICAN has adopted all IFRS and all pronouncements as issued by the IASB, including the effective date. Consequently, companies incorporated under

the company act which includes all listed companies on the Namibian Stock Exchange (NSX), subsidiaries of multinational companies, and state enterprises are required to must apply full IFRS as pronounced by ICAN. However, as per (ICAN, 2020), ICAN adopted IFRS for SMEs in February 2010. This mean that small and medium companies may opt to apply either the full IFRS, IFRS for SMEs or the Namibian Standard (NAC001) for SMEs. Under the Public Accountants' and Auditors' Act 1951, the PAAB is responsible for the adoption of auditing standards and therefore automatically adopts IFRS due to the agreement with ICAN.

In addition, the Companies Act 2004 stipulates that companies incorporated under the Act must prepare annual financial statements which must be audited by auditors who are Chartered Accountants of ICAN and registered with the Public Accountants' and Auditors' Board (PAAB). A case where the player is also the referee with the exclusion of other professional accounting bodies (Johnson, 2016).

Further, PAAB is mandated to oversee the quality assurance of RAA services. As a result, in the Public Accountants' and Auditors' Board (PAAB) is legally responsible for establishing and implementing a quality assurance (QA) review system. As per information obtained on its website, it has developed a quality assurance methodology that meets the best practices as outlined in SMO 1. This the methodology was updated with effect from January 2020 to require more detailed information about the audit client base of the firm to allow for better assessment of inherent risk in the portfolio of audit clients.

It is worth noting that Banks and other financial institutions who are major players in the Namibian economy are subject to the supervision of the Bank of Namibia (BoN). These institutions are governed under the Banking Institutions Act 1998. This Banking Act stipulates the banks must prepare their annual accounts as prescribed in the Companies Act 2004 and that the institutions must have their accounts audited annually by an auditor registered with the PAAB and approved by the BoN. Therefore, only chartered accountants who are members of ICAN can offer this services.

It can therefore be concluded that the professional body is charged with the responsibility of regulating the accounting practices of its member. This is a case of largely self-regulation despite the fact that Public Accountants' and Auditors' Board (PAAB) is responsible for regulating all RAAs in Namibia in accordance with the Public Accountants' and Auditors' Act 1951 (PAAB, 2020).

Regulation of Accountancy Profession in Namibia

As discussed above, the accountancy profession in Namibia is largely regulated at the professional level, with the exception of Registered Accountants and Auditors (RAAs). Previously, CA could register with PAAB and immediately start to practice publicly and offer audit services as a RAA. This situation has recently changed and CAs must now pass PAAB's additional requirements. As a result of the change, the PAAB implemented the Audit Development Program (ADP) before being able to register with the PAAB. This is because qualification of CA does not necessarily equip an individual with the appropriate expertise and experience to undertake a statutory audit and assume all the professional responsibilities envisaged for a

RAA. individuals wishing to be registered as RAA are required to complete 1,500 productive hours (a minimum of 18 months) of practical experience in an audit and assurance environment. In addition, they are required to submit a portfolio of evidence upon completing the ADP. This portfolio should clearly demonstrate the competencies in the subject matter (audit and assurance) (PAAB).

The education process to receive ICAN's qualification of Chartered Accountants (CA(Nam)) is as follows: a formal competency-based academic education (accredited university program followed by a postgraduate one-year academic qualification referred to as the Certificate in the Theory of Accountancy (CTA)); a standard-setting examination – Initial Test of Competence (ITC); a formal competency-based professional education (professional program); a professional examination – Assessment of Professional Competence (APC); and practical experience (training program accredited by the PAAB (IRBA, 2020). As from 2019, the APC examination is run by ICAN and is a local Namibian exam which applies and based on Namibian legislation. ICAN has a memorandum of agreement with SAICA to use the SAICA professional examinations and is bound by the agreement to apply the SAICA training and regulations which PAAB has adopted. These regulations include the South African Institute of Chartered Accountants (SAICA) training model and regulations (ICAN, 2020). The regulation further stipulates that trainee accountants must obtain and present evidence of their competency in four core subjects which are Financial Accounting, Management accounting, auditing and Taxation in addition to Namibian Income Tax and VAT (ICAN, 2020) (IRBA, 2020).

As per current regulation, only members of ICAN can use the designation of Chartered Accountants (CA (Nam)) and pursue registration with PAAB to offer public attest functions (PAAB, 2020). Additionally, chartered accountants of south Africa can register with PAAB following SAICA and ICAN's partnership and Mutual Recognition Agreement with SAICA that allows SAICA members in good standing to apply for ICAN membership. Chartered Accountants that do not offer public audit and assurance service remain subject to the regulations of ICAN (ICAN, 2020).

This has been a bone of contention with other professional bodies. In response to this, members of ACCA have recently being allowed to register with PAAB as registered auditors and accountants provided they meet the training requirement as stipulated by PAAB which were developed by ICAN (PAAB, 2020).

Registered Accountants and Auditors

In order to practice publicly and offer audit services as a RAA, CAs must pass PAAB's additional requirements as qualification of CA does not imply that a candidate has the appropriate expertise and experience to undertake a statutory audit and assume all the professional responsibilities of an RAA. Therefore, the PAAB implemented the Audit Development Program (ADP) before being able to register with the PAAB (PAAB, 2020). Only persons you have completed the ADP programme can apply to become RAA and the application procedure require submission of evidence of portfolio demonstrating competencies in the area of audit and assurance as stipulated earlier (PAAB, 2020).

The responsibilities of the PAAB are to: (i) regulate the registration and minimum requirements of both CAs and RAAs through the accreditation of professional bodies; (ii) prescribe an appropriate framework for the education and training of properly qualified CAs and RAAs as well as their ongoing competence through monitoring Continuous Professional Development; (iii) prescribe accounting, auditing, and ethics standards which are internationally comparable; (iv) investigate alleged improper conduct by RAAs and issue disciplinary measures; (v) carry out quality assurance reviews of RAAs; and (vii) take steps it considers necessary to protect the public in their dealings with RAAs (PAAB, 2020).

Other Professional Accountants

Other professional bodies represented in Namibia include NIPA, SAIBA, ACCA and CIMA. Individuals who perform non-attest functions, such as accounting, tax, and business consulting, may voluntarily join these bodies and be subject to the their rules and regulations. These bodies plays several roles e.g.

1. advance the accountancy profession and contribute to the development of the profession to provide high-quality services in the public interest;
2. uphold and enforce a high standard of efficiency and professional conduct by all members;
3. institute and implement investigative and disciplinary processes with penalties that include suspension of, or expulsion from, membership;
4. provide continuous professional development (CPD) for members and ensure compliance with CPD requirements;
5. promote the application of internationally accepted accounting practice and standards;
6. Establish and accredit training programs or centre which were developed by ICAN.es and as well as trainers in accountancy and to regulate such training schemes and centers.

These bodies requires Individuals to meet certain educational and training criteria's at various membership levels: each level permitting the individual offer their services to the public within certain boundaries (Matthews *et al.*, 1997).

Changes taking in the regulatory environment

The need to address the outdated legislation coupled with the ever increasing accounting scandals in the neighboring south Africa has led to the Public Accountants and Auditors Bill 1952 being revised to provide for the comprehensive regulation of all auditing and accounting (e.g. tax, financial consulting) services by the PAAB (PAAB, 2020). The Bill was submitted to the Minister of Finance in July 2019 with the expectation it may be tabled and promulgated during the year 2020. The delay may have been caused by the current global epidemic relating to COVID-19. This is seen significant shift in the regulation of the profession that has failed to regulate itself effectively and hence the need for government intervention. The bill also aims to expand the scope of public interest from assurance providers (RAA) to all individuals who perform non-attest functions, such as accounting, book keeping, filling of tax returns and business consulting all accounting services offered to the public for a

fee including preparation and submission of VAT returns, book keeping, and many more services performed by accountants.

To be effective, the government established an independent PAAB, previously under the control of ICAN that has been given legal power to enforce the Act (PAAB, 2020).

This current bill was subsequently amended in 1994 but remain outdated and has failed to keep pace with changes in the business environments. The Act which is aimed at protecting the public interest through registration and controls of persons who perform external audits that are used by the public. PAAB was therefore established to protect the public through regulatory oversight meant to provide reliable transparent financial information to the public in addition to reliable performance by the registered auditors who perform assurance services to public entities. The Act enables PAAB to check and monitor registered auditors to ensure that they are able to meet the standards set for such services. Those found incompetent can be prevented and prosecuted if they have provided substandard services. However, the business environment has changed and the Act is no longer sufficient to correct faults seen in the reporting systems.

Consequently in 2014, an independent secretariat was established following various reported incidences of corruption and scandals involving the accounting profession (PAAB, 2020). The mandate of the Independent PAAB were as follows

- Registration of Auditors
- Quality assurance
- Investigate conduct of registered auditors
- Audit development plan
- Accreditation of auditors – managing trainees' contracts

To ensure compliance, PAAB needs to have powers to investigate, discipline and convict persons performing accounting work and aiding fraud and corruption through negligence and issuance of misleading auditor's reports. These powers are either limited by the Act coverage or by the capacity of PAAB currently with two fulltime staff members. In addition they should be able to lay charges against persons doing what they are not competent to do and therefore the need to expand the regulatory field beyond assurance services. As good regulation would ensure that credibility is maintained, PAAB must be seen to be taking appropriate action by the public. This is because of the heavy reliance on auditors by the public and the need to ensure that the public continue to receive high quality accounting services that are up to date. These changes, however, have not been sufficient to curb the number of reported malpractices within the country.

The above may be due to the significant shift of practice resulting from the growth of SME and reduction of multinational companies within the economy. The emergence of many SME forming the major part of the economy and outside the scope of PAAB Act. Since SME receives substantial amount of accounting and tax services, some of which are of unacceptable standards. This situation made it necessary for PAAB to embark on drafting of a new legislation in 2016 aimed at increasing the coverage of space in the business environment and reducing the probability of accounting scandals taking place.

The proposed PAAB Bill 2016, a comprehensive regulation

that brings all accounting services offered for a fee being brought under the arm-pits of one body. To be effectively managed, a three-tier system proposed

- Tier 1 – RAA (Auditors/Assurance providers)
- Tier 2 - Public accountant/tax practitioners- Accounting officers
- Tier 3 - Accounting technicians e.g. book keepers, vat return completions etc.

This is expected to bring in a structure that will help in the regulation. It envisages a situation where tier 3 will be left to the professional body to regulate whereas tier 2 may be joint control with tier 1 under the auspices of the regulator. This will imply that individuals offering attest services will have to be members and therefore subject of the professional bodies (Roberts & Jacobs, 1994).

The proposal above adds substantial supervisory roles on a large group of accounting professionals previously unsupervised by the regulators (Walker, 1995). There is, therefore, a need for the independent regulatory to be properly funded and staffed by the government if they are to carry out such a role effectively

Future role of the profession in regulation

The challenges facing the profession in Namibia is the conflict between internal regulation versus external regulations. Internal regulation is where the regulation is by the accounting bodies while external regulation relates to government or legislative oversight. Whereas the two are not at variance but compliments each other, the failure of internal regulations will just add more external involvement in the profession.

However, as most recent scandals in South Africa have demonstrated, external rules and regulations by governments and regulatory bodies cannot prevent a concerted effort to deceive and misdirect information by accountants and preparers of financial reports. There is therefore need for the Accounting profession to self-regulate and supplement the efforts on the legislative process.

Whereas the threat of external regulation is retrospective, for example, deals with matters that have already taken place, internal regulation is pro-active and aims at maintaining standards and quality of service through various techniques of supervising, hierarchising, and rewarding (Foucault, 1977; Johnson, 2016). Through self-regulation the profession controls itself through expounding the various ideals of the profession including the virtues and character necessary to be a good chartered accountant by expounding the ideal and creating mechanisms to observe, hierarchise and reward individuals and firms the profession on the whole can exert behavioural control while simultaneously creating the ideal of the individual prudent professional exerting expertise judgement within particular settings (Foucault, 1995).

This can be done by the institutes on their members and would shift the responsibility of ensuring compliance of members to their respective institutes. Institutes needs to quantify the degree of damage and costs that arise due to poor services. Not only are these costs are not restricted to public and employers where employees are accountants and accountable but the effect of bad services extend to all spheres of life and families (Shah, 1996).

There is therefore need to ensure that accounting professionals are qualified academically and professionally

and are competent to perform accounting services. This extends to ethical values (Walker, 1995). Accounting bodies must have CPD policies and implement disciplinary measures among members not meeting the minimum required standards. These internal mechanisms would assist the regulators and reduce the need for excessive laws (Matthews *et al.*, 1997).

Professional bodies could assist regulators through internal mechanisms of their members. These bodies possess capacity that is able to supervise and regulate their members, Therefore, they could compliment the regulatory body through flexible rules and procedures that enables their members to respond to situation more quickly and efficiently without compromising the quality of service (Romanelli *et al.*, 1992).

Another important aspects of internal regulation should be the split of accounting services into audit, tax, consultation. This would avoid monopoly and introduce checks and balances. The growing concerns that CA have a monopoly of business in Namibia and this is a matter that needs to be addressed. The proposed Act could be used in the licensing of different categories of members ensuring that each category competes amongst itself e.g. Registered auditors could be restricted from offering non attest services (Roberts & Jacobs, 1994).

The accountants themselves need to embrace a culture of lifelong learning and recognise the changing business world and therefore CPD are vital for accountants and self-regulations. Ethics must continually be updated despite the difficulties of maintaining ethics in the dynamic business environment. Accountants must however be able to make ethical decisions and this ability must be trained from early in their careers. Institute members must be held responsible for their value system (Foucault, 1995).

Integrity and self-supervision among the accountant is also essential. This is vital in the changing business environment that demand's the following from accounting professionals

- Competence or expertise for the services
- Adoption and implementation of a code of conduct of ethics and regular benchmarking
- Action from the professional bodies on non-compliance
- A culture of lifelong learning for accounting professionals

Professional bodies could assist in the following areas

- Development of CPD Policy for their members
- Disciplinary action against members not meeting CPD requirements to be removed.
- Internal support external regulation
- Continuous training and development e.g. Auditors need extra training to be competent with the ability to smell fraud and corruption which comes with extra training and experience
- Supervision of members
- Collaboration with other professional bodies including within the region and continent

These measures would enable accountants to be prepared and create opportunities of work for themselves and for future accountants. These would enable more entry into the professional and eliminate the perceived threat of favour and discrimination among the practicing accountants (Johnson, 2016; McMillan, 1997)

Conclusion

The accounting profession is both internally (self) and externally regulated. The current trend driven by the challenges confronting the professional has attracted government intervention through the drafting of new laws and regulations. Though the two forms of regulation are essentially different, enormous potential exists for them to complement each other and probably this has the potential to prevent accounting scandals similar to those in the neighboring countries

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