The perception of local enterprises about accounting regulation in Botswana: a case for the Botswana Institution of Chartered Accountants (BICA)

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Abstract

This research is about the perception of local enterprises regarding the regulation of accounting in Botswana. The research was focused on the regulation process advanced by the Botswana Institute of Chartered Accountants (BICA). It was carried out after a realization that developing countries lack the necessary infrastructure to ensure a well regulated professional accounting environment. These assertions were made by the United Nations Trade and Development division in 2008 after conducting a study about the adoption of international financial reporting standards (IFRSs) worldwide. This research’s aim was therefore to testify for the Botswana economy which is also a developing country with one active regulatory body (BICA). The researcher hypothesized that these assertions are true for the Botswana economy since the BICA emphasizes adoption and implementation of standards over adapting these standards to suit the national economic requirements. This study was focused on local enterprises in Gaborone, Botswana. A random sampling scheme was used to choose these local enterprises that were given self-completed questionnaires. Among other questions, the questionnaire asked about the adequacy of the regulatory framework in Botswana and whether these enterprises are satisfied with the same. The researcher concluded that indeed the BICA regulation is lacking because it is still in its infancy stages and not well developed as a regulatory body. The framework it follows does not adequately cater for the socio-economic environment of Botswana.

Key words: Accounting regulations, Enterprises, BICA, BAOA, Accounting standards adoption, Botswana
1. Introduction

The accounting profession has largely adopted a self-regulation system which is advanced through accounting professional bodies. The two main regulatory bodies in Botswana are the Botswana Institute of Chartered Accountants (BICA) and the Botswana Accountancy Oversight Authority (BAOA). The former acts as a supervisor but delegates most of the regulatory work to BICA (Botswana Institute of Chartered Accountants, 2011). The aim of this research is to find out if the regulation procedure in Botswana is adequate, in the view of local enterprises, to provide reasonable assurance of quality service to the general public. The content of this research therefore establishes the concept of regulation advanced by BICA in the Botswana economy context. It addresses in the general sense, how international financial standards are recognized and implemented in the Botswana economy. It seeks to establish whether these standards are adapted to adequately suit the needs of local enterprises.

The economy of Botswana started growing consistently in the 1980’s. Increased economic activity called for the improvement in the economy driving structures. Accounting is a fundamental concept in any economy. The growth of the economy thus necessitated the establishment of a formal local structure to regulate the affairs of accountants in Botswana. The Accountants Act was passed on 24 October 1988, the objective of which was to provide for the regulation of accountants and auditors in Botswana. The Botswana Institute of Accountants effected from 2 July 1990 following the proclamation of the Act. The Accountants Act of 1988 was repealed on 2 August 2010. The objective of which was, among other things, to change the name of the Institute from the Botswana Institute of Accountants to the Botswana Institute of Chartered Accountants (BICA) and to establish the Botswana Professional Accountancy Qualification. The Accountants Act of 2010 came into effect on 1 April 2011.

Key to the Act is the introduction of the principle of public interest protection. To progress on this principle BICA emphasizes the provision of high quality accounting, auditing and financial reporting standards and practices in line with internationally accepted standards. It is therefore mandatory for all practicing accountants to be registered with BICA. According to the accountants’ act of 2010, BICA further has to promote the development of the accounting profession and supervise the accountancy profession. It should develop and maintain effective working relationships with the Government and other national, regional and international accountancy bodies.

Another major implementation of the accountants’ act of 2010 is the BICA professional qualification. BIA denominated continued professional development on mainly ACCA and CIMA thus a large number of individuals who practiced accounting in Botswana were expatriates (Kitindi, 2004). The Botswana professional accountancy qualification evolved out
of a realization that a strong economy like that of Botswana needs a strong accountancy profession and strong profession needs a strong professional body (BICA, 2011). A local qualification will allow it to come up with its own curriculum based on its own circumstances and the needs of its own economy. The BICA operates under the direct supervision of the Botswana Accounting Oversight Authority (BAOA), another development brought about by the new accountants act and the financial reporting act. Apart from the protection of public interest, these acts are also invested in improving the profession and those that are practicing in it. Finally another important set up of the new act is the implementation of a robust disciplinary committee that helps in ensuring compliance with the set objectives in the best interest of the public.

The problem is that Botswana is a developing country with only one active regulatory institution. The researcher is therefore going to establish if indeed there is a weakness in the regulation system through BICA in Botswana. The researcher will enquire from practicing accountants in the local enterprises whether they perceive regulation through BICA as adequate or otherwise.

1.1 Objectives

This research is about accounting regulation in Botswana. Regulation in any profession is the guidelines and the minimum requirements that the members of that profession are expected to meet, in line with quality service deliverance.

The main objective of this study is to find out whether accountants in local enterprises view accounting regulation in Botswana, advanced by BICA, as adequate or inadequate.

To judge that we need to find out:

- If accountants are satisfied with BICA regulatory procedures in the accounting sector.
- If BICA fairs or compares well with other international accounting bodies.
- The main limitations of such regulation in the Botswana economy context.
- If accountants have specific recommendations to improve regulation in Botswana.

HYPOTHESIS

- Local enterprises are essentially dissatisfied with this regulatory system since it does not address issues specific to the Botswana economy.
- Having a single active regulatory body is a major contributor to inadequacy in regulation.

Thus another reason why the BICA regulation is perceived as insufficient.

This study attempts to slightly shift the focus from users of accounting information to preparers of the information. It will seek the opinion of local enterprises in Gaborone, Botswana, represented by their practicing accountants about accounting regulation locally. The study also recognizes the growth of the global business network and international markets and thus indirectly addresses the harmonization of accounting practices.
2. Literature Review

Historically, accounting was just about recording, classifying and summarizing transactions which are of a monetary character and interpreting the results thereof for the benefit of the owner of an entity, (Menassa, 2004). The contemporary corporate world however has since expanded beyond this scope. There is a separation in ownership and management of corporations. Users of accounting information include shareholders (current and potential), third parties (creditors) and governments.

In response to these dynamics, the accounting profession has since changed from the traditional number crunching to provide a wide variety of services to corporations both in the public and private sector. Services provided by accountants include the preparation and lodging of taxation returns, financial and management accounting, business planning, investment advice, insolvency proceedings, auditing, human resource management and general consulting services (John, Denise, & Jennifer, 2003). Provision of all of these services requires an extensive knowledge and understanding of complex issues and needs of the different users of accounting information in the market.

Regulation seeks to ensure the right quality and, where appropriate, consistency in the quality of accountancy services provided to different interested users. To explain the need for accounting regulation (Menassa, 2004) has identified the economic, social and political factors associated with the development of accounting rules and examined the events that shaped the different international regulatory frameworks. Economic factors generally refer to the size of the markets and the economy in which the accounting business operates.

According to (Tarca, 2012), another important reason why regulation is needed is that despite economic theories purporting that markets are self efficient and market forces will work to optimize the allocation of resources in the economy, the economic collapses over the years testifies against such. Information asymmetry is a factor underlined for having a significant contribution to such failures in the system and thus an important issue that needs to be addressed through regulation.

2.1 Self-regulation and supporting arguments

For any profession, being self-regulated means that the profession itself has been entrusted with the power of the state, and with the responsibility that goes with that power, to regulate itself and its members (Lahey, 2012). At the level of the individual accountant, being self-regulated means being regulated largely if not exclusively by professional peers through a regulatory body that is governed by the profession to which the accountant belongs. There are three main ways in which accounting can be regulated being a) government regulation through where the authority to regulate is charged to a government department, b) no
regulation at all which is consistent with the market efficacy theory as aforementioned and c) self regulation (Lahey, 2012).

The accounting profession has had a self-regulatory system for many years. The Institute of Chartered Accountants in England and Wales (ICAEW) and Chartered Public Accountants (CPA) Australia, as examples of regulatory bodies, emphasize quality service provision to the society through the professional development of members. They set out the fundamental principles of professional conduct applicable to all members. These cover the commitment to public interest, integrity, objectivity, independence, confidentiality, compliance to technical and professional standards, competence, due care and ethical behavior (John, et al 2003). Generally these professional bodies are charged with standard setting powers at national level, but these standards have to be submitted to the IASB for assessment. If the board deems these standards as profession appropriate or addressing issues of concern, they can be drafted into universal GAAPs, (Upton, 2010). Self regulation is said to be first hand in nature since it is advanced in practice, by people with an extensive understanding of the socio-economic factors affecting the profession. Professional bodies are in a position to act as custodians for both users and preparers of accounting information.

3. Methodology

This study was exploratory and descriptive in nature. An exploratory study is a valuable means of finding out what is happening; to seek new insights; to ask questions and assess phenomena in a new light (Saunders, Lewis, & Thornhill, 2009). It was an assessment of the BICA and its role in accounting regulation, in the Botswana economic context. It seemed to establish the extent to which it ensures quality deliverance in the profession. The study was also descriptive in that as mentioned in the problem statement, this study is done to furnish a proactive tool to prevent a major economical crises that results from deregulation. The study was an evaluated of BICA by local enterprises, thus accountants.

This study was fundamentally an investigation to establish the opinions, evaluations and assessments about a phenomenon. The researcher tried to gain a rich understanding pertaining to the regulation of accounting as advanced by BICA in Botswana. The method of data collection was through self-completed questionnaires. The questionnaire can ensure that the questions asked are standardized and as such will solicit the same response which will allow for easy comparison among the respondents, the data will also be easy to quantify (Saunders et al, 2007). The research target is local businesses where the researcher was tried to establish how they esteem BICA as a regulatory body and if they feel its role as such is adequate. These businesses were chosen on a random sampling basis. The limitations of using a questionnaire however include low response rates.
The researcher used simple frequency tables for the analysis, interpretation and presentation of the data collected. Tables are a simple and comprehensive tool which summarises and presents vital information about a topic of interest (Saunders, et al 2009). They give a clear and easily understandable picture of the data collected. The main method of analysing qualitative data, which for the context of this research refers to open ended question responses, is the ability to draw conclusions that explain a phenomenon and satisfies the main research objectives. It entails observing response patterns to derive sound generalisation.

Both primary sources and secondary sources were used in the study. Primary sources effectively comprise of questionnaires sent to the sampled businesses. Secondary sources were covered written text such as books, journals, internet documents, conference proceedings and so forth. The information obtained from secondary sources was used as a benchmark of the data to be collected using the primary sources and accordingly compared to establish any discrepancies between the actual phenomenon and theoretical establishments of that phenomenon, in this case, accounting regulation in the Botswana economic context.

4. Analysis and Discussions

This section deals with the analysis and discussions of the data that was collected in the field. The analysis of this study was divided into two parts. The first was the analysis and discussion of responses which can be statistically presented. The second part was the analysis of open ended questions and reconciling the primary with the secondary data (literature review), the hypothesis and the objectives.

As outlined in the methodology, questionnaires were the primary data collection method used for this study. The information below has been collected from 29 businesses operating in Gaborone, Botswana. 40 questionnaires were distributed randomly, of which the 29 responded thus a response rate of 72.5%.

A random sample of 40 businesses operating in the local market was chosen and out of the 29 that responded, other corporate services which include insurance services, security services and manufacturing companies made 31% of the total respondents, accounting firms had the next higher representation at 27.6%, followed by retailing and banking at 17.2 % each and wholesaling at 6.9%.

This section categorizes the respondents by their duration in business. This is so to help analyze if there is any notable similarities and differences in the way corporations view accounting regulation if their duration in business is taken into consideration. The larger representation in this part was taken by business who have been operating between 21 and 40 years, standing at 48.2%, followed by business which have been operating between 11 and 20 years at 20.7 %, then young businesses (10 years and below) at 17.2%. The older businesses only made 13.8% of the responses.
This section tries to establish if there is any difference in the way accounting standards are adapted by different jurisdictions. The base point was to determine if a company is incorporated locally or elsewhere. The majority of responding companies indicate at 76% that they are incorporated in Botswana with only 24% incorporated elsewhere.

As a build up to section 3 above, this part tries to establish the number of companies who have an interest in a country other than Botswana to determine the comparisons and contrasts in regulation in these different countries. Out of the 24% of non-locally incorporated and an additional 7% of locally incorporated companies revealed that they had an interest in a country other than Botswana. The remaining 69% which forms the companies incorporated locally show that they only have operations that are based locally.

Section 206 of the Botswana companies act asserts that private and non-exempt private companies shall prepare their accounts according to the international financial reporting standards (IFRS). Exempt companies, typically small scale companies shall prepare their books of accounts using the appropriate generally accepted accounting principles. The findings show that 65.6% are large scale companies (revenue over P5m), 31% pertains to medium scaled businesses (revenue between P500 000 and P1m) while 3.4% represented small scale businesses (those with a turnover of between P100 001 and P500 000). This scaling criterion is also stipulated by the companies’ act of Botswana.

Question 4 in the questionnaire refers to companies which have interests (branches, subsidiaries, associates etc) in other countries other than Botswana. The 65.5% therefore is the number of companies which answered no to question 4 thus indicating no interests outside Botswana. 34.5% represents companies with an interest outside Botswana, of which, 3.4% indicated that there is no difference in how accounting is regulated in these different countries. They still follow the same international accounting standards in preparing their books of accounts. 31% however indicated that there is a difference in how accounting is regulated in different jurisdictions. Every country will have a unique way of interpreting and implementing standards even though the baseline will be the same i.e. the original standards.

This discussion seeks to determine the level at which BICA adapted accounting standards. 17.2% of the respondents think BICA has adapted standards very well i.e. BICA has managed to develop its own robust framework suited for the Botswana economy from the international standards. 69% think it’s only average i.e. the framework is largely dominated by international standards as they are but some adaptation has been performed. 13.8% however think BICA has poorly adapted the standards ie BICA just took the international standards as they are, no amendments made to fit the local economic needs. They further elaborated how some of these standards are irrelevant for the Botswana economy.
Renowned international accounting bodies such as the ICAEW and CPA are generally trusted as far as regulation is concerned. This part seeks to establish the extent to which BICA matches up to these bodies. 13.8% of the respondents think that BICA compares favorably with these bodies. A majority however at 75.9% think BICA is just average when put up against international bodies. 10.3% of respondents think BICA is below average as far as regulation is concerned.

Developed countries such as the United States of America follow their own generally accepted accounting principles (US GAAPs). This section therefore is trying to find out if a similar practice is a probability in Botswana. It seeks to check if local corporations will in the future, favor the adoption of standards as adapted by the BICA with the hope that they closely reflect the needs of the economy in which they operate. Only 13.8% respondents think that the BICA adapted regulation will be strong enough to replace the adoption of pure international proclamations by local firms. 86.2% however think BICA is not strong enough to reach such an influential stage on local firms in that they will continue to adopt the standards as they are.

An important part of the accountants’ act of 2010 which birthed the BICA is the introduction of the BICA qualification. This development was hoped to produce a syllabus that will be drafted looking at the prevailing conditions in the economy (Botswana Institute of Chartered Accountants, 2011). In Botswana, international qualifications mainly ACCA and CIMA have taken the leading role as far as professional development is concerned. This part seeks to find out if the newly introduced BICA qualification will fair up adequately to these qualifications. 3.4% of respondents think it is above average, 75.9% think the qualification is only average while the remaining 20.7% think it is below standard.

There is a conclusive assessment of whether all this companies are satisfied with the regulation in Botswana after a review of the above sections. A large proportion of the respondents (72.5%) indicate dissatisfaction with the BICA regulation. Only 27.6% are satisfied with how accounting is regulated by BICA.

Even though the oversight board was formed to be a support to the BICA, it has not been fully activated thus BICA assumes the role of being the only regulatory body in Botswana, (Botswana Institute of Chartered Accountants, 2011). This part is trying to establish how accountants feel about BICA being the sole regulator in Botswana. The responses in this section are consistent with the preceding section. Only 27.6 % of respondents feel it is adequate since it ensures uniformity throughout the economy. 72.4% however, feel that one regulatory body is not adequate as it may jeopardize the quality of regulation in the country.
5. Findings

This section seeks to link the above individual discussions and how they all converge to the main objectives of the research. This section has either nullified or confirms the researcher’s hypothesis that accounting regulation in Botswana is weak and inadequate to address the local economic needs.

From the analysis above the important thing to first highlight is the preference of accountants to operate under a self-regulation system. This highlights the importance of every country to have a body to advance accounting mandates. In Botswana the BICA is an institution responsible for exactly that. As far as the above results are concerned, local corporations are not satisfied with how BICA is operating the profession.

Key findings are as listed below:

- In Botswana, businesses generally follow the IFRSs as issued by IASB in their operations. This is generally true for all business types with different years in operation. Consistent with the provisions of the Companies Act of Botswana, all large scale and medium scale businesses prepare their financial Accounts using the IFRSs. Small scale businesses use the universal generally accepted accounting principles. This stems from the fact that these are the only standards available in the country. BICA does not have any framework of modified standards that local firms could use. It simply works by ensuring compliance with IFRSs.

- Enterprises with an interest in a country apart from Botswana prefer using IFRSs in their original form. This is because they see the need to harmonize their operations, to consolidate and report as operations of one entity. Local businesses which have not penetrated foreign markets tend to favor local standards. Accountants feel that BICA emphasizes adopting over adapting international accounting standards. The standard setting oversight board is inactive and little is done to modify standards to a territory specific level.

- Local enterprises feel that BICA fairs only about average when compared to other bodies elsewhere. This they have attributed to the fact that BICA is still in its infancy stages and is yet to develop to a stage where it can actively match these international bodies. They still however, show reluctance in whether BICA will attain a level where local firms will prefer the local framework over international pronouncements. They attribute this to the fact that the world at large is working towards adopting or at least converging international accounting standards to create a harmonized platform. The emphasis is not on creating a special and robust framework for a country but working to ensure compliance with the international standards.
• An important establishment of the act was the BICA qualification as already mentioned in the introductory part of the research. The study revealed that local enterprises gauge the qualification at a lower level when put besides its international counterparts. This is yet another area which shows a separation between locally incorporated businesses and those with interests elsewhere. The former is more forgiving to the qualification since it has a syllabus drafted to suit the Botswana economic setting. The latter however, given the experience of performing in international markets, prefers well established qualifications which are consistent with IFRSs.

• As part of the questionnaire, respondents were asked to identify the limitations of accounting regulation in Botswana. They attribute the inadequacy of the system to the fact that BICA is not well established and well developed as a professional institution and may lack the necessary resources to provide for all the profession’s needs. They also indicated that the accounting profession is largely centralized i.e. it follows standards at international level and there is no free liberty to conduct operations in a way they deem best. They indicated that this limits the ability of BICA to modify standards for the Botswana economy. Another pertinent issue is the lack of professional accountants in the field to represent the country professionally. Other respondents feel that there is a gap between prepares and users of accounting information. They feel BICA is not doing enough to educate the public as far as accounting regulation is concerned. Finally the inactive BAOA has been implicated in limiting the regulation framework in Botswana. Constant reviewing and monitoring of the profession is largely important. This is the responsibility of the BAOA except it hasn’t fully assumed its responsibility.

6. Conclusions and Recommendations

Self regulation in any profession is the key to unlocking the pertinent issues in the interest of both the principal and the agent. It sets out the minimum requirements that professionals have to follow to be consistent with the provision of quality services to their clients. It takes years for a professional body to develop and become fully capacitiated to control the activities of the profession.

The BICA is an establishment of the Accountants act of 2010 after a careful consultation and conclusion that the profession needed a strong body to provide a solid support system. The BICA was established alongside though independent, the BAOA, which would essentially supervise the profession as a whole in Botswana. The BICA has however been capacitated to undertake the major work in accounting regulation.

The findings of the research, validates the assertions of the United Nations Trade and Development division as quoted in the problem statement, that developing countries lacks infrastructure that is well suited to advance the needs of the profession. The same United
Nations study also shown the lack of robust regulatory systems can be detrimental to the health of that profession and the economy in which it operates. This is therefore an important revelation that will draw attention to the local accounting profession and perhaps motivate BICA to improve its contribution as regulatory institution.

The research confirms the researcher’s hypothesis that indeed the BICA regulation is inadequate for the Botswana economy. Local enterprises expressed a unanimous dissatisfaction in the way regulation is conducted. This has been generally attributed to the fact that, as a developing economy, Botswana does not have a well established profession and professionals. It however challenged the concept accounting harmonization. Local enterprises feel that, even though there may be relevant institutions and professionals in place, accounting is too centralized. Enterprises are expected if not forced to comply with the international accounting framework. National structures, point in case BICA, are limited in adapting standards that will adequately serve the local economy since they are mandated to adopt IFRSs.

This research was covered the issue of how accounting is regulated and has established the status quo as far as self regulation is concerned. It had revealed an inadequacy in the local regulation system which is attributed to factors in the control of the local accounting sector and those that are beyond the control of the BICA. The latter refers to factors or issues that have been somewhat neglected by BICA. These include issues that may not seem to command attention but ultimately, indirectly influence the regulation procedure as a whole. Factors beyond the control of the BICA refer to impositions by the authorities in charge of the global accounting practice.

The most practical and comprehensive recommendations to improve the regulation system include:

- Emphasis on continual improvement
  
  Any profession is defined by the professional that make it. It is imperative that those professional are kept at a level which closely matches the volatility of the corporate world. This is part of the mandate of BICA; however, it is more of a theorized concept than it is practical. The BICA is therefore called to task, to fully employ the resources that will carry out all the propositions of its act. This is not exclusively a part to be played by BICA. Local firms are responsible for the continued improvement of their members of staff.

- Engaged constant monitoring of the profession
It is imperative to constantly review the state of the profession and where it is headed. The BAOA which is charged with supervisory powers over the profession should be actively involved to establish if the accounting sector is serving in the best interest of the public.

- A comprehensive model involving government regulation

A self-regulatory system in its purest form neglects the contribution of governments. The authority to guide a profession is fully transferred to that profession. The researcher sees the need to come up with a comprehensive system that will establish a government department which will work hand in hand with the accounting institutions. This will help in the protection of public interest as is the objective of accounting standards since governments act in the best interests on the public.

In relation to issues that are brought about by harmonizing and converging standards, the researcher recommends the adoption of a customizable model which will fully capacitate jurisdictions to have country specific standards not blindly following IFRSs. The researcher recognizes that even though this is generally allowed, it is rather at a very limited level and it is expected to be dealt away with in the future. This research is a starting point in addressing harmonization issues particularly in less developed and developing countries. Studies’ relating to the effects it has on the national professional sectors and the provision of adequate and relevant regulatory procedures should be conducted. This research was constrained by time and resources to explore these avenues.

References


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