Increased movement in South African mid-tier accounting firms explained

Recently the South African accounting industry has seen a sharp increase of movement within mid-tier firms.

Julian van der Westhuizen, Chairman of Moore Stephens South Africa, sees the volatility as a natural consequence of changes in legislation, "The accounting industry is facing uncertainty, and imminent changes, with the implementation of the new Companies Act. For many companies audits will be replaced by reviews or independent compilations."

"If this is the case, smaller firms, usually with smaller clients, that wish to remain in the auditing environment will move into larger associations in the hope of retaining their exposure to auditing. In addition to this, firms that want to be able to conduct audits for JSE-listed companies need to comply with certain criteria determined by the JSE, and fulfilling all the requirements of the JSE is a stringent and costly process," explains van der Westhuizen.

Firms wishing to be on the JSE register must have a reporting accountant and an IFRS advisor in place. Further to this, firms need an audit partner with training in three courses determined by the JSE. These courses are the Auditors General Listing Requirements, Reporting Accountants Specialist Training and Headline Earnings per Share.

"Conducting audits for JSE and ALTx listed clients requires absolute adherence to stringent levels of service and compliance to regulations as you are auditing public interest companies. (ALTx is an exciting parallel market focused on good quality small and medium-sized high growth companies.)

In addition to the JSE requirements the IRBA (Independent Regulatory Boards for Auditors) conduct reviews of audit firms to assess their policies and procedures and adherence to ISQC1. These reviews occur every three years and the cost of a review is daunting for smaller firms. For these reasons it makes sense for smaller firms to join larger ones who have already absorbed the costs of training and compliance and have all of the above requirements in place.

"Another obvious reason for smaller firms to join larger ones is access and availability of skills and knowledge – especially if the firm is part of an international network. Firms may also decide to join for strategic geographical reasons, in order to be able to offer offices in areas that they previously did not have a presence in."

According to van der Westhuizen, many larger firms are actively approaching smaller ones to join them in order to grow their size and ultimately their fee earnings and ranking.

"Smaller firms need to research the central services costs charged by the association that they are joining. Some are far more expensive than others and this can place undue stress on a small member firm entering a large network."

"There is definite jockeying in the industry amongst the larger mid-tier firms to assume the 5th position in the "Big 5" – something which Moore Stephens regards as a unnecessary aspiration as mid-tier accounting firms differentiate themselves by offering a more cost-effective, personalised service than larger firms whilst still offering the same level and standards of excellence. nVan der Westhuizen concludes by explaining the difference between a merger and an admission in the accounting industry.

"A merger occurs when the smaller firm joins the bigger entity and basically ceases to exist. An admission occurs where the smaller firm joins a network, stays independent and continues to manage itself and does not have to share its profits. Firms that have always had autonomy will usually choose an admission to a recognised network in order to access all of the benefits listed above, whilst firms that might find themselves in a difficult position in terms of earnings and succession may prefer a merger."