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Auditing in the BRICs

Rachelle Quinn

Graduate Student, George Fox University

414 N. Meridian Street, Newberg, Oregon 97132

E-mail: rquinn12@georgefox.edu

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Abstract

The "Big Four" international accounting firms typically provide audit, tax, and advisory services throughout the world. Emerging market growth, specifically in the countries of Brazil, South Africa, and India, is expected to be significant in the upcoming years. In this paper, specific political, economic, socio-cultural, technological, legal, ethical, environmental and geographic factors are considered in each of these countries specifically as they relate to members of the Big Four and their auditing services. Further, Hofstede's cultural dimensions are evaluated in light of the provision of audit services within Brazil, South Africa, and India. Specific business risks and opportunities are identified for firms in each geographic location discussed.

Keywords: Big Four, Brazil, South Africa, India, Hofstede, business opportunities

Introduction

The international accounting services market is heavily dominated by four key players, termed the “Big Four”: Ernst &Young, Price Waterhouse Coopers, Deloitte & Touche, and KPMG International (KPMG). Combined, the international revenues of these four companies totaled $110 billion in 2012, which represented an increase of 6% from the previous year (Big4, 2013). Client companies with international operations or considering expansion rely on these service providers’ extensive global reach to assist their multiple offshore locations and provide important business insights related to specific geographic markets. As a result, these organizations are well positioned to take advantage of the emerging market opportunities within key countries such as Brazil, India and South Africa, as international expansion and local growth drive the need for accounting services.

Why Brazil, South Africa, and India?

Brazil and India, along with Russia and China, comprise the emerging market countries given the acronym “BRIC” as coined by Goldman Sach’s O’Neill, who was serving as the Head of Global Economic Research (2001) at the time. This acronym was later expanded to include South Africa and was then termed “BRICS”. O’Neill estimated that these BRIC nations comprised 23% of the world’s Gross Domestic Product (GDP) on a purchasing parity basis, and that this 23% would rise to 27% in ten years. Approximately ten years later, a 2010 report from Goldman Sachs estimated that the BRIC nations produced approximately 28% of the world’s GDP growth during the last decade, confirming O’Neill’s original estimates (Wilson, Kelston, & Ahmed, 2010). According to the International Monetary Fund (IMF)’s January 2014 World Economic Outlook, Brazil, South Africa, and India are expected to continue to demonstrate strong growth in 2014, at 2.3%, 2.8%, and 5.4%, respectively.

Unlike Russia and China, the countries of Brazil, South Africa and India have a form of democratic government, with Brazil and India utilizing a federal republic and South Africa a constitutional democratic government. These types of political systems pose less risk than the communist government of China and the formerly socialist Russian government that continues to operate with strong presidential powers. Given that the accounting services market relies heavily on the need for effective financial markets, Brazil, South Africa, and India provide unique and attractive opportunities, which will be discussed in more detail in the following sections.

International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are being increasingly adopted by individual countries throughout the world, as countries transition from their specific accounting standards to a common set of policies and rules for accounting and financial reporting. The International Accounting Standards Board (IASB) is the independent, not-for-profit organization responsible for establishing IFRS. The IFRS Foundation was established by the IASB as an organization specifically focused on evaluating the use and adoption of IFRS by countries around the world; to date the IFRS Foundation has evaluated the accounting practices of 129 countries. Based on this analysis, the IFRS Foundation determined that substantially all countries have made a commitment to adopting IFRS and in fact, 83% of those countries require the use of IFRS for publicly traded companies for their exchange (IFRS Foundation, 2013).

However, rates of adoption of IFRS differ for non-listed companies, governments, and companies operating in regulated industries. This in essence creates a dichotomy in accounting practices, where public and private companies within one country's borders could follow significantly different accounting practices. These differences could potentially have a material impact on the conclusions reached by the users of the financial statements, and would eventually require a transition for companies that have not yet adopted IFRS but desire to become publicly traded. The companies that have not yet adopted IFRS, or have recently adopted IFRS, represent an area of opportunity for accounting firms. The specific status of IFRS adoption in the countries of Brazil, South Africa, and India will be discussed below to determine if these represent business prospects for Big Four firms.

Country Analysis - Brazil

A useful framework for evaluating the unique considerations to the business environment in countries is the PESTLEEG framework, as it incorporates political, economic, socio-cultural, technological, legal, ethical, environmental, and geographical factors. Certain of these factors are less relevant to Big Four firms as a service industry that relies heavily on employee knowledge and expertise to serve companies; for example, environmental conditions and regulations are comparatively less important for Big Four firms than they would be for a company working in the manufacturing sector. An appropriate level of attention is dedicated to these PESTLEEG framework items depending on their significance to Big Four firms as a service provider.

Political

Brazil has a history of political dictatorship. While there was a brief period of democracy from 1945 to 1964, during the majority of the pre-1985 period the country was controlled by military dictators who developed strong central governments and instituted control over businesses within key sectors controlled and supervised by governmental agencies (de Souza Leao, 2013). During the period from 1968 to 1973, the focus of the dictatorship was on creating new regulatory policies and fiscal reforms to encourage economic growth. This resulted in a period termed the "economic miracle" as Brazil experienced high growth rates (annual increases of over 11% GDP) with declining inflation. The oil crisis of 1973 abruptly ended this period of economic growth, but created within Brazil an understanding of economic success and a desire for it to return (de Souza Leao, 2013).

The 1985 overturn of the military regime by a civilian government and creation of a federal republic led to many significant changes, including an opening of the Brazilian economy to foreign investment and trade. However, the Brazilian state continued to be heavily involved in the business sector, as investor, owner and manager of firms in a variety of industries, including the oil industry. This continued until 1990 reforms resulted in the sale of many state-owned businesses, including banks and companies in the energy, transportation, communications industries (de Souza Leao, 2013). Even with the disposition of these companies, in 2013 the Brazilian Federal Government remains Brazil's largest consumer of goods and services (United States Commercial Service, 2013a).

Unlike many other countries, the Brazilian government, specifically the Ministry of Education, regulates the accounting profession. Accountants are required to obtain a diploma from a recognized Brazilian college and register with the Superintendence of Commercial Teaching and their geographic regional council of accountancy (Murphy, 1960). Individuals without a Brazilian diploma may not sign audit opinions, as foreign accounting degrees are not recognized by the Brazilian government. This creates a significant barrier for international firms' accountants, as their professional options are limited within the country's borders. Consistent with the limitations on the accounting industry, the World Bank has found that doing business in Brazil can be cumbersome. They rate the ease of doing business in Brazil as 118 out of 189, due in part to the average 107.5 days it takes to start a new business (World Bank, 2014).

However, Brazil has instituted many federal programs to encourage national and regional economic development, as well as business-friendly tax policies (PWC & HSBC, 2013). Their political environment represents a stable political climate for businesses considering entry into the country. It is worth noting that Brazil did experience public protests in various cities throughout the country in June 2013 over public transportation services, and it is possible that protests could return before the upcoming October 2014 elections (Economist Intelligence Unit, 2014a).

Economic

Brazil's GDP and overall economic presence is the largest in South America. Brazil has experienced strong and consistent economic growth and was one of the emerging markets least impacted countries by the 2008 financial crisis (PWC & HSBC, 2013). In 2013, unemployment was at historic lows, and the country has made significant progress in combating income inequality (Central Intelligence Agency, 2014a). Natural resources, including agriculture, mineral resources, and those involving the services of Brazil's 201 million people (representing the sixth largest country in the world) form the basis of the economy (Central Intelligence Agency, 2014a).

Brazil has also faced economic challenges associated with extremely high inflation levels form the 1960's to the 1990's, and subsequently received worldwide recognition for developing sophisticated accounting models and requirements to respond to these issues (Carvalho & Salotti, 2013). These hyperinflation issues appear to have been resolved, with relatively stable growth occurring since the 1990's.

Even for companies traded on the Brazilian stock exchange (Bolsa de Valores, Mercadorias & Futuros de Sao Paulo) companies frequently have a highly concentrated ownership structure (Ferriera Caixe & Krauter, 2013). This has important implications for both marketing and relationship management techniques for public accounting firms and overall corporate governance, as decision making would tend to be concentrated in the hands of a few individuals. Other challenges facing the Brazilian economy include poverty and inadequate training and education; while the country has succeeded in elevating 26.1 million Brazilians from poverty between 2008 and 2013, creating a growing middle class, the country still has progress to make in this area (United States Commercial Service, 2014a). Approximately 21% of Brazilians remain below the poverty line (Central Intelligence Agency, 2014a). This may result in challenges for accounting firms seeking qualified employees with the appropriate Brazilian education and training. This explains KPMG's use of a recruiting firm, Stratton Craig, to focus on the identification and recruitment of accounting candidates (M2PressWIRE, 2009).

While a strong culture of entrepreneurship exists in the country, approximately 90% of small business owners are not represented in trade unions or trade associations; further, 32% of those business owners do not seek professional financial help (Ngozi, 2012). This tendency to avoid the use of professional accountants will make it difficult for accounting firms to reach the privately held companies during their initial growth phase, a key and attractive stage for public accounting firms to attract clients.

Socio-cultural

The Brazilian population represents a diverse mix of ethnic groups: 53.7% white, 38.5% mulatto, with the remaining 7.8% split among various ethnicities, according to Brazil's 2000 census. Inequalities among these groups do exist, with black and mulatto citizens comprising over half of the unemployed population but significantly less than half of the total population (Saboia & Saboia, 2009). This is due in part to differences in average levels of education. Regardless of ethnicity, the majority of the country is Christian, with those of Roman Catholic faith comprising approximately 74% of the population (Central Intelligence Agency, 2014a). This shared faith background unites the various races and serves to overcome natural ethnic barriers.

Another factor that unites the Brazilian population is their love of soccer. Brazil is in the midst of preparing for the 2014 World Cup. The Brazilian government estimates expenditures of $470 billion will be made in preparation for both the World Cup and the 2016 Olympics, including outlays for energy and transportation infrastructure, as well as stadiums and other athletic-specific forums (United States Commercial Services, 2013a). Big Four firms would be well served to leverage their expertise with previous sporting events and compliance to attract new clients, particularly in the consulting arena. This is a unique expertise and would benefit Brazil in their preparation for upcoming sporting events.

Recent experience with the 2014 Winter Olympic Games in Sochi provides an excellent and timely example of the importance of strong internal controls and effective financial reporting for businesses and governments associated with major athletic events. A recent investigative report covering the Sochi Games estimates that of the record-breaking $50 billion in Russian expenditures for the Olympics, approximately $26 billion was embezzled or used for kickbacks (Nemstov & Martynyuk, 2013).

Technological

Infrastructure in Brazil, like many emerging markets, remains challenging. The need for significant infrastructure investment in the country to accommodate the World Cup and upcoming Olympics demonstrates the overall infrastructure weaknesses within the country. Certain areas of strength do exist: the telephone system, both landline and cellular, is strong (with the fifth and sixth largest number of phones in use in the world, respectively). Internet usage is also widely distributed in Brazil, with the fourth largest number of internet users in the world (Central Intelligence Agency, 2014a). For an accounting firm, telephone and internet represent two of the most critical infrastructure systems.

Legal

The legal structure in Brazil is centered primarily in each state, with an overall higher-level court available to settle disputes at the state level (The Economist Intelligence Unit, 2014a). However, this structure does not appear to be operating efficiently, as the World Bank ranks Brazil's contract enforcing process and process for resolving insolvency at 121 and 135, respectively, of the 189 countries surveyed for their 2014 Ease of Doing Business analysis (World Bank, 2014). From the perspective of an accounting firm, however, what is more critical is securities law enforcement and overall country policies relating to audits of companies.

Since the end of 2010, Brazil has fully adopted IFRS, requiring that all businesses regulated by the Brazilian Central Bank and their Securities and Exchange Commission (CVM) fully adopt IFRS. This initially included banks, publicly traded companies, as well as insurance entities, but has since been expanded to technically include all private companies as well, although adoption for those small and medium sized entities (SME) has had mixed results (Carvalho & Salotti, 2013). As Brazil has fully adopted IFRS, and the remaining adoption will occur at the SME level, this does not represent a market opportunity for Big Four firms but does require the firm to ensure that they have professionals trained in both IFRS and legacy Brazilian generally accepted accounting principles.

Publicly traded companies, as well as those regulated entities (banks, utilities, governments, and insurance companies) are required to produce annual audited financial statements, with the audit opinion signed by an auditor authorized by the Regional Accountancy Council and the CVM (Niyama & Silva, 2005). Since 2005, the CVM has determined that their priority is securities law enforcement, and has enhanced their level of regulatory intensity accordingly. Through the development of international principles and an increase in staffing and budget resources, the CVM has created the means to successfully manage Brazilian financial markets (Cardenas, 2012).

Data shows that auditing services represent the bulk of the purchased services from accounting firms, with relatively little expenditures invested by Brazilian companies in consulting services (Pires Hallak & Carvalhal da Silva, 2012). Higher audit fees are generated for auditors serving large companies with a high quality of corporate governance, with Big Four firms recognizing the highest overall fees (Pires Hallak & Carvalhal da Silva, 2012). Accordingly, Big Four firms would benefit by continuing to focus on providing audit services to companies meeting these criteria.

Ethical

As discussed previously, a large percentage of Brazil's citizens are Roman Catholic, which creates a cohesive ethical belief system. Further, the well-developed legal and regulatory system of the financial markets and the regulation of the accounting profession serve to provide ethical foundations for the auditing services industry. Ethical issues may arise from prejudice against various racial groups, but Brazil has a relative absence of significant ethical concerns from the perspective of an independent accountant.

Environmental

While Brazil has experienced challenges with deforestation in the Amazon and illegal wildlife trades (Central Intelligence Agency, 2014a), these issues have relatively little impact on auditing services. Pollution in large cities, resulting in poor air and water quality, may be more relevant to the field of accounting as accounting offices tend to be located in large cities. In addition to challenges with pollution, the country's developing sewage infrastructure is only available to 48% of the population; of the sewage collected, only 32% is treated, creating potential water quality issues (United States Commercial Service, 2013a). These environmental concerns may make it more difficult for Big Four firms to recruit developed nation accountants to Brazil, but otherwise pose no significant business risks or opportunities, other than as potential service providers to firms involved in the continued infrastructure development of the nation.

Geographical

Brazil is the largest country in the continent of South America, by both size and population. Its location bordering the Atlantic Ocean provides it access to water transport and the 5,000 mile-long coastline provides opportunities for tourist activities such as diving and surfing (United States Commercial Service, 2013a). Given its large size, it is not surprising that the climate of the country varies significantly, including tropical rainforests and mountain ranges. As discussed previously, Brazil has significant natural resources, including minerals and agricultural products that are derived from the size and location of the country. These geographical factors do not create any significant market risks or opportunities for Big Four firms, other than as a service provider to companies located in distant cities around the country.

Brazil Summary

In summary, Big Four firms may face challenges in Brazil with attracting qualified professionals, due to the government regulation of the accounting profession, as well as the overall state of the Brazilian education system and income distribution. Ownership and control over businesses tends to be concentrated, accompanied by a high amount of government regulation and control. A business culture that does not typically encourage the use of professional financial expertise also may prove challenging. Opportunities around the provision of sporting event services do exist, and represent an attractive way for Big Four firms to take advantage of future growth in Brazil. With the recent experience of corruption and negative publicity for Russia following the 2014 Winter Olympics, Big Four firms' audit and compliance services could be in high demand for governmental entities and businesses seeking to ensure good use of taxpayer and shareholder dollars.

Country Analysis – South Africa

Political

South Africa transitioned out of decades of apartheid by holding its first fully democratic all-race elections in 1994. Since that date, the African National Congress (ANC) has won all elections by a significant margin, and the current president is expected to win another five-year term at the upcoming May 2014 elections (The Economist Intelligence Unit, 2014b). Beyond its political implications, the history of apartheid has had significant economic and socio-cultural impacts on the country, which will be discussed in more detail in the following sections. Despite the ANC's electoral success, concerns remain about their institutional strength and their political stability (United States Department of Commerce, 2013b), as well as their ability to enforce property, patent, piracy, and basic safety laws (Varriale, 2013).

State-owned enterprises dominate the electricity, transportations, and telecommunications industries, among others (United States Department of Commerce, 2013b). With a relatively young government and one dominant political party seeking to overcome the legacy of apartheid, the South African political climate poses significant business risks to accounting firms that rely on stability and well-regulated markets.

Economic

The most notable aspect of South Africa's economic strengths is their successful financial services sector that the World Economic Forum recently ranked as third in the world in their 2014 Global Competitiveness Report. Established in 1887, the Johannesburg Securities Exchange (JSE) is one of the strongest emerging markets securities exchanges. This creates a sound foundation for auditing services. Overall, these effective financial markets and the country's vast natural resources help South Africa to represent the largest economic entity in the continent of Africa. South Africa is the world's largest producer of certain rare metals, including platinum and manganese (United States Department of Commerce, 2013b).

Despite a 25% unemployment rate, it can be difficult for businesses to attract and retain qualified professional employees due to a lack of effective educational institutions (Central Intelligence Agency, 2014b). This is also true in the accounting profession, as KPMG leaders, including Director of Recruitment Richard Warren-Tagney, describe retention as a significant challenge resulting from the country's skill shortage (Finweek, 2008). The South Africa Institute of Chartered Accountants, the country's leading professional trade group, estimates that there is a need for 22,000 chartered accountants in South Africa to meet the needs of both accounting firms and industry (Finweek, 2010).

Socio-Cultural

As mentioned previously, the legacies of apartheid remain in unequal access to markets, education, and healthcare. In response, the South African government has instituted a series of reforms intended to address these inequalities, termed the Black Economic Empowerment initiative (BEE). These provisions include preferential procurement policies, targets and timelines for black representation in both companies and government agencies (Varriale, 2013). The potential level of government involvement in the actions of individual businesses could have far-reaching and unintended effects on the social environment in the country. As Varriale (2013) states, “BEE is an intrusive policy that will prescribe many aspects of business operations including equity ownership, executive control, employment, affirmative procurement and supply, the transfer of skills, corporate investment in disadvantage communities, and the development of entrepreneurship” (56). While this may make a significant improvement in the achievements of the black majority, which comprises 79% of the population (Central Intelligence Agency, 2014b), it remains to be seen what overall impact this will have on the local economy and social factors. It is possible that this explicit discrimination will have the effect of causing white immigration to other countries, or that social unrest will occur in the event that the BEE provisions become intolerable for whites.

Another significant socio-cultural factor that must be addressed is the HIV/AIDS pandemic occurring in the country. South Africa has the world’s highest infection rate in the world, with 18% of the country’s adult population living with HIV (Central Intelligence Agency, 2014b). The impact that this has on both the personal lives of citizens and on the economic use of human capital is immeasurable.

Legal

The World Bank ranks the country of South Africa as the 41st out of 189 countries in their Ease of Doing Business report (2014), primarily due to their strength in protecting investors. A series of King Reports on Corporate Governance, issued in 1994 with revisions in 2002 and 2009, originally applied to publicly traded companies but was later expanded in 2009 to all South African companies. The King Report has been described as a compilation of the best international policies on corporate governance (Rossouw, van der Watt, & Malan, 2002), including consideration of leadership, sustainability, and good corporate citizenship. Corporate responsibility reporting in South Africa is typically embedded within the overall financial reporting process; KPMG reports that 98% of the largest revenue-generating companies in the country report on Corporate Responsibility (CR) (KPMG, 2013a). One challenge facing all users of published CR data is that the contents of the reported CR are typically unaudited. South Africa and France are two of the few countries requiring auditing of this data. For those CR reports that are audited, the bulk of companies employ their public accounting firm to conduct the audit procedures, reflected in the fact that 67% of CR audits are performed by major accountancy firms (KPMG, 2013a).

While it might be surprising that an emerging market is the basis for the development of corporate governance and responsibility reporting, the World Economic Forum’s 2013-2014 Global Competitiveness Report ranked South Africa as first in the world relating to the strength of their auditing and reporting standards. This was far ahead of the United States’ ranking at position 36 of the 148 countries evaluated. South Africa’s rating speaks positively of the quality of professionals in the country’s accounting sector as well as the regulatory institutions supporting them.

In addition to their policies on corporate governance, South Africa has implemented strong regulations on minimum wages and employment, and created a collective bargaining system that encourages trade unions (Varriale, 2013). These policies resulted in their placement in the

2014 Index of Economic Freedom at 75 out of 186 countries evaluated (Heritage Foundation). Therefore, it is not surprising that as part of the BEE requirements, companies must publish their BEE scorecard so that potential customers, employees and others may understand their BEE adoption status.

South Africa has been extremely progressive in the implementation of IFRS, and has required IFRS adoption for all listed companies since 2005 (Ames, 2013). South Africa has been involved with the IASB and its predecessor since 1976, and original South African generally accepted accounting principles closely mirrored IFRS (Coetzee & Schmulian, 2013). Full transition in 2005 thus was fairly smooth, with no significant changes in earning quality post-implementation (Ames, 2013). One concern does exist related to the availability of educational accounting materials in the Afrikaans language used by many South African universities; the absence of translated materials has negatively affected the ability of those colleges to ensure their students are adequately prepared for the accounting profession (Coetzee & Schmulian, 2013). This contributes to the overall shortage of qualified accounting professionals.

Ethical

The primary ethical issue facing South Africa today relates to assessments of the appropriate way to overcome the legacies of apartheid. Income inequality and high unemployment continue to plague the nation, but critics of the BEE, including Archbishop Desmond Tutu, argue that this government solution only benefits a black elite few, and that South Africa is sitting on a "powder keg" (BBC, 2004). Other ethical concerns may exist regarding the appropriate level of governmental and societal response to the HIV/AIDS epidemic.

Environmental

The geographical location of the country understandably influences South Africa's access to water and frequent prolonged droughts require strict water conservation and control measures (Central Intelligence Agency, 2014b). Acid mine drainage, which further pollutes surface and groundwater, exacerbates water shortage concerns (United States Commercial Service, 2013b). While these are important issues, they are not extremely relevant for public accounting firms except to the extent that it impacts quality of life for employees or creates business opportunities for companies providing environmental remediation services.

Geographical

South Africa is located at the southern tip of the African continent, and is the twenty-fifth largest country in the world (Central Intelligence Agency, 2014b). With a coastline that includes both the Indian and South Atlantic oceans, the country has access to maritime trade. Natural resources, including gold, platinum, copper, and salt, are one of the country's most significant assets, while agriculture plays a small role in the country as the amount of arable land represents less than 10% of the country's land mass. Given the inhospitable climate, it is not surprising that 62% of the country's population is urban (Central Intelligence Agency, 2014b). The urban population of the country allows Big Four firms to reduce the number of office locations throughout the country and focus on key cities.

South Africa – Summary

In summary, the apartheid legacy of South Africa continues to influence overall equality, with government intervention through the BEE and other regulation focusing on resolving remaining cultural and economic challenges. A high level of government regulation in many aspects of business, including financial markets and corporate governance, creates a level of stability within this emerging market that is attractive for public accounting firms. However, challenges in attracting and retaining qualified employees, as well as the HIV/AIDS infection rate, are less enticing. A significant opportunity exists for Big Four firms in leveraging their South African experience with the auditing of corporate responsibility reporting to other nations. With the recognition that South African accounting and auditing services and corporate governance requirements reflect best practices, Big Four firms will be able to draw on their experiences in serving these clients to market to other organizations throughout the world as auditing of CR becomes mandatory in more countries.

Country Analysis – India

Political

Although the country of India is home to one of the world's oldest civilizations, for decades it was subject to colonization from the British Empire. It was not until 1947 that a series of nonviolent protests, led primarily by Gandhi, resulted in Indian independence (Central Intelligence Agency, 2014c). Upon transitioning to an independent country, India had to overcome centuries of British imperial policies to establish a political system and rule of law. Today, India is organized as a federation of 28 states and 7 union territories, each with significant autonomy in establishing regulations, taxation, education, and labor relations (United States Commercial Service, 2013c). This inconsistent regulatory landscape creates challenges for businesses seeking to operate throughout the country. India also receives poor marks from the World Bank in their 2014 Ease of Doing Business report, ranking the country 131 out of 189 countries around the world (World Bank, 2014). The "red tape" challenges in starting a business, paying taxes, and dealing with construction permits are all cited as factors driving the country's poor ranking. While the country's Right to Information Act of 2005 was intended to provide access to citizens to help them identify the status of their regulatory applications, the paper-based government processing creates significant backlogs and challenges with governmental approvals (Jaeger, 2013).

Corruption in the country is also a significant challenge. Transparency International ranks India as 94 out of 177 countries worldwide in their 2013 Corruptions Perceptions Index. In 2011, India introduced corruption and bribery legislation in the form of the Prevention of Bribery of Foreign Public Officials and Officials of Public International Organizations, but it remains to be seen if it will significantly improve the culture of graft. While the "license-permit Raj" culture encouraged small bribes to navigate complex rules and quotas, with economic growth in the country came larger corruption issues.

A March 2014 article by The Economist quoted an executive of a firm with a reputation for strong corporate governance as saying, "everybody pays", while another executive interviewed stated, "it is hard for any business to be fully compliant… When you are dealing with the tax people or the environmental people the consequences for the business become very severe – they can hold money in escrow or imprison you.” For an accounting services firm, corruption represents both a risk and an opportunity. As Multi-National Corporations (MNC) seek to ensure that they are complying with their internal policies and applicable laws, they may choose to employ their auditors or consultants to assist in the evaluations. However, as Big Four firms conducts business in an environment rife with corruption, it will be difficult for them to ensure they are maintaining strict ethical standards while still meeting their operational needs.

Further complicating the political environment is the lack of homogeneity of the Indian population and the historical caste system, in which various ethnicities within the citizenry were deemed lower than others. While discrimination based on caste is technically prohibited, culturally prejudice remains (Srividya, 2011). Political parties cater to specific caste groups, in addition to affiliations based on religion, geography, or language.

The Naxalite movement, a Maoist insurgency, consists of groups conducting guerilla warfare throughout the country and living in India’s rural forests. Violence conducted by these individuals pose a safety risk to nearby citizens as well as challenges for logging and mining companies (Economist, 2010). While the Indian government has made important strides in combating the Naxalite groups, in 2007 Indian’s Prime Minister referred to the group as posing the most serious threat to India’s national security (BBC News, 2007).

Economic

India has a strong history of representation by MNCs within its borders. Adhikari (2013) assembled a list of MNCs operating within India for over 75 years, creating an inventory that included Citibank, General Electric, HSBC Bank, Siemens, and Nestle, among others. India’s physical location, access to natural and labor resources, as well as the country’s relationship with the British Empire proved historical attractions.

Later economic reforms in the 1990’s included significant reductions in tariff levels and led to an economic boom in India (The Economist, 2010). World Bank reports show that India’s GDP has consistently grown between 1995 and 2010, at annual rates ranging between 3.9% and 10.5% (The World Bank, 2013). Further, the country is expected to continue to grow at an average rate of 6.1% per year between 2013 and 2030, making it the fastest-growing major country in the world (The Economist Intelligence Unit, 2014c). Driving the boom is a large and young population; the median age of Indian citizens is 26.7 years, and overall the country has the second largest population in the world (Central Intelligence Agency, 2014c). While this “youth bulge” has the potential to create a large and powerful middle class, income inequality and illiteracy challenges will need to be overcome. The overall literacy rate in India for individuals over the age of 15 is only 63% (Central Intelligence Agency, 2014c).

Service sectors in general, and information technology services specifically, have been a large component of overall economic growth in the country in the 1990’s and 2000’s. While initially these services were thought to employ only a small percentage of highly trained citizens, new research demonstrates that in fact there is a wide distribution of service sector opportunities for both high- and low-skilled workers (Eichengreen & Gupta, 2011). It would be to Big Four firms' advantage to seek to leverage the use of India's citizens that are currently lower skilled, highly motivated and relatively young, and seek to embed them within their professional service offerings.

Socio-Cultural

The socio-cultural identity of India is still somewhat impacted by the historical caste system, as discussed previously. From a religious standpoint, India is dominated by those practicing the Hindu religion (80.5%), although the remaining population is diverse (Central Intelligence Agency, 2014c). India was the birthplace of both Hinduism and Buddhism and has a rich tradition of architecture, art, music and literature derived from its ancient civilizations. However, poverty is a serious concern, with almost 30 percent of citizens living below the poverty line (Central Intelligence Agency, 2014c). This has decreased from the 40% rate of poverty in 1998 (United States Commercial Services, 2013c) but remains both a challenge and an opportunity for the business community. Despite the high rates of poverty, the overall unemployment rate is only 8.8% (Central Intelligence Agency, 2014c), close to the rate reported by the United States Bureau of Labor Statistics of 7.3% (2013). This indicates that a significant number of individuals work at very low wage rates, which is confirmed via review of the Indian Minimum Wage Act that provides for a minimum wage of Rs 115 per day, or approximately $1.90 in terms of United States dollars (Wage Indicator Foundation, 2012). The rates of poverty are further evidenced by the lack of access to improved sanitation facilities, which only provide services to 35% of the population (Central Intelligence Agency, 2014c).

Technological

India's extremely poor physical infrastructure contrasts with a strong and successful telecommunications industry. Since mobile cellular service was introduced in the country in 1994, density of use has exploded and the country is currently adding more than 20 million users per month (Central Intelligence Agency, 2014c). Access to cellular phones has made development of landlines substantially irrelevant, leapfrogging that stage of infrastructure development (Friedman, 2006). For other areas, including roads, railways, and ports, the Indian government has invested approximately $400 billion (7.2% of Indian GDP) in making improvements between 2007 and 2012, although an additional $332 billion in infrastructure investments are still planned (United States Commercial Service, 2013c). In sum, cellular phone and internet access may nicely facilitate business transactions, but the physical transportation to destinations frequently proves problematic. From the perspective of Big Four firms, internet and cellular system access are the critical components to seamless provision of services.

Legal

The Indian legal system reflects their roots under British imperialism, incorporating English common law into a strong legal foundation (The Economist Intelligence Unit, 2014c), but with the challenge of being tremendously backlogged. According to Jaeger's 2013 analysis, the court system has over 30 million backlogged court cases, which is the equivalent to 350 years of court services. Similar to the strong legal foundation within the country is a successful history of accounting policy development and oversight. The Institute of Chartered Accountants of India (ICAI) was formed in 1949 in conjunction with the Chartered Accountant Act of 1949 (Verma & Gray, 2006).

Historically, the Indian government has recognized that consistent and accurate accounting was an important tool for economic development. Proper accounting ensures accurate tax reporting, social development through distribution of wealth, and strong corporate governance practices through transparency provided to directors (Verma & Gray, 2006). While the ICAI was created through government action, it was done with recognition that actual government intervention in accounting policies and regulations would be minimal and the industry would largely be self-governing.

India is in the process of IFRS adoption, with mandatory public company adoption having occurred in 2012 and phased implementation for private companies based on net worth through 2014 (IFRS, 2014). The implementation of IFRS occurred with the recognition that it is an important step for Indian companies to ensure comparability with other international companies and improve transparency to customers and investors, especially crucial with the increasingly global economy (Doval, 2008). One challenge for the implementation and conversion of IFRS for Indian businesses are the ICAI regulations prohibiting foreign firms from auditing Indian companies. ICAI further requires that accounting firms have the names of their partners in their brands (Layak, 2009), which proves problematic for firms such as KPMG whose long-deceased partners Klynveld, Peat, Marwick, and Goerdeler likely never imagined that their firms would be well-represented in India.

Big Four firms have created affiliations with local Indian public accounting firms to comply with ICAI laws. For example, KPMG "virtually took over" Indian firm Bharat S. Raut & Company to operate in the country in 1993 (Layak, 2009, p. 64.) The ICAI permits branding under the KPMG logo and allows the firm to leverage its international reputation.

The 2013 Companies Act passed by the Indian government addresses a variety of broad topics, including corporate governance, financial reporting, director and management responsibility, investor protection, and increased auditor accountability (KPMG, 2013b). Provisions include a requirement for internal audit services for public companies, as well as required internal financial control reporting (roughly equivalent to the United States requirements of internal controls over financial reporting but with a broader scope to encompass *all* financial controls and not just those related to financial reporting).

Most significant for auditors are the requirements relating to the appointment of an audit firm for a five-year term, with a mandatory rotation after a maximum ten-year period and a five-year cooling off period for both the audit firm and individual team members (KPMG, 2013b). Audit firm rotation requirements are only required in approximately 30 countries around the world (Ernst & Young, 2013). Opinions are mixed as to whether mandatory audit firm rotation has any benefit to audit quality or impact on independence. Harris and Whisenant performed a 2012 study of three countries that have implemented mandatory audit firm rotations. They found that when audit firm rotation occurs because of a mandate, audit quality actually decreases, in contrast to voluntary audit firm turnover, which tends to improve audit quality. Regardless of the impact to clients, from the perspective of Big Four firms, mandatory audit firm rotation will make their relationship development and marketing efforts even more critical, as they cannot rely on long-standing clients to provide a stable revenue stream.

Ethical

Ethical challenges in the country primarily relate to the prevalence of corruption, as discussed previously. Public accounting firms must maintain an unsoiled reputation and avoid any appearance of impropriety. In recognition of this business imperative, in 2008 KPMG began requiring all of their main contact suppliers to adopt a code of conduct, incorporating business conduct, labor conditions, environmental impacts, and human rights (Accountancy Age, 2008). Since Big Four firms advise others on corporate citizenship, it is critical that they model best practices.

Environmental

The large population of India creates a significant amount of pressure on the environment of the country and in some areas, overpopulation has caused environmental degradation. Deforestation, soil erosion and air pollution are all the result of a population that is overstraining the country's natural resources (Central Intelligence Agency, 2014c). Water pollution resulting from the absence of sewage infrastructure, as discussed above, as well as generally poor infrastructure, has made tap water not potable throughout the country. Environmental regulations are established in large part by the various Indian states and are inconsistent throughout the country.

One positive opportunity for India exists related to their potential as a destination of renewable energy investment; the wind energy industry in India had already attracted over $586 million in project financing through 2011 (KPMG, 2011). India was also identified as one of the top three destinations for companies in the solar energy industry (KPMG, 2011), creating an opportunity for Big Four firms to provide services to companies in the renewable energy industry.

Geographical

India is the seventh-largest country in the world and is bordered by the Indian Ocean and the Bay of Bengal. The size of the country creates a large amount of climate and geographic diversity, incorporating the Himalayan mountain range as well as desert regions, wetlands, and coastal areas. As noted previously in the Brazil and South Africa discussions, geographical considerations are less relevant for Big Four firms in the professional services arena.

India Summary

In summary, operating in India poses several contradictions for Big Four firms. Inefficient and inconsistent government regulations are contrasted with strong accounting regulatory practices and industry groups. Strong economic growth has occurred with a large percentage of the population remaining below the poverty line, creating a potentially significant successful middle class as the relatively young population creates demand for products and services. An effective telecommunications industry, including a high rate of internet and cellular phone access, contrasts with poor roads, rail lines, and inconsistent electricity. In order to continue to succeed and grow, Big Four firms must successfully navigate these contradictory factors and leverage their international experience to serve both MNCs and local companies. Further, Big Four firms must continually seek for ways to identify and train promising young employees, as the "youth bulge" and the pressing issues of poverty has created a population that is full of youthful energy, highly motivated, but in many cases insufficiently trained.

Hofstede's Cultural Dimensions

While it is useful to understand the frameworks outlined above, the somewhat-indefinable aspects of culture create complexities in responding to business risks and opportunities. One useful framework for understanding cultural dimensions was created by Hofstede, a former IBM executive whose studies of culture covered than 50 countries worldwide. Hofstede defines culture as "the collective programming of the mind which distinguishes the members of one group or society from those of another" (Hofstede, 1984, p. 82). Hofstede's cultural dimensions analyze the cultures in the following categories (Hofstede, Hofstede, & Minkov, 2010):

Table 1. Hofstede's cultural dimensions

Dimension	**Definition**
Power distance	The extent to which individuals accept and expect that power is distributed unequally.
Individualism	The level of focus on individual rights and personal accomplishments in contrast to a tendency of identification as a member of group or organization.
Uncertainty avoidance	The society's tendency to minimize the unknown and uncertain outcomes. A high level of uncertainty avoidance in a culture is demonstrated by the existence of large quantities of rules and regulations.
Masculinity	Gender role identification, whereby masculine traits are competitiveness, ambition and materialism, and feminine cultures focus on relationships and quality of life.
Long-term orientation	Relates to society's timeline and focus on the future versus the current day. High levels of saving and values of persistence demonstrate a future-focus.
Indulgence	The extent to which society encourages citizens to control desires and impulses.

Hofstede's cultural dimensions and definitions.

In analyzing the cultural dimensions of Brazil, South Africa and India according to the data provided by the Hofstede Centre (2014), the following are notable aspects of each country.

Brazil

Brazil ranks highly in the area of power distance, indicating a respect for hierarchy and a tolerance for inequalities. This serves the traditional structure of an audit team very well, as a team is led by a partner, with strict hierarchical responsibilities and reporting requirements for each team member. Brazil scores low on the dimension of individualism, which means that citizens view themselves as part of a group or family, and that they view relationships as being very important. This also creates a positive auditing environment, as extensive time spent with audit team members creates a family-like atmosphere where trust in one another is critical. Finally, Brazil rates a high score of 76 on their uncertainty avoidance dimension, which can be attributed to mean that Brazilians are most comfortable with rules and laws governing their actions and society as a whole. Again, this is very positive for the accounting industry and auditing in particular, as the existence of standards and rules are critical for audit quality. In totality, the cultural dimensions results for Brazil indicate that the provision of auditing services would fit well with their cultural values.

South Africa

One potential challenge with Hofstede's cultural dimension data as it relates to South Africa is that it focuses exclusively on the white population of the country. As the majority of the country is in fact black, and the BEE regulations are causing Big Four firms to employ an increasing number of black employees, this data has limited relevance. However, for the purposes of discussion, I will continue to analyze the data below.

In contrast to Brazil, South Africa scores highly on the dimension related to individualism. South Africans view themselves as primarily responsible for their own actions irrespective of group or familial connections. From a business standpoint, this indicates that they would see employment as a contract focused on mutual advantage rather than a commitment to an organization that is akin to a familial connection. This tendency, combined with the previously discussed challenges in the country related to recruitment, could prove problematic for Big Four firms.

South Africa also rates highly as a masculine country, where individuals are competitive and driven to accomplish tasks. In the highly competitive public accounting environment, this tendency is positive. However, South Africa also scored 63 on the scale relating to indulgence, demonstrating that the culture focuses on giving into their impulses and having fun. With critical deadlines and high overtime levels in the auditing industry, having employees that highly value indulgence could prove problematic. In summary, the cultural dimensions information for Africa demonstrate that there are likely challenges for the typical public accounting firm that must be addressed and managed for the firm to be successful.

India

India's cultural dimension scores in one specific area, power distance, are extremely high.

This is consistent with their historical caste system and belief that different groups of individuals have specific traits that make them more or less desirable. This translates into a workforce where formal, hierarchical relationships are valued and obedience is expected. While certain amounts of these values are positive for the average audit team, it may translate into situations where unethical choices are made by partners or managers and not questioned by subordinates. Big Four firms must be aware of this risk and ensure that whistleblower policies are well communicated and that it is understood that questioning decisions related to audit quality are allowed.

The remaining area where India's cultural dimension scores are notable relates to indulgence. In contrast to South Africa, India ranks a low 26 in the area of indulgence, indicating that the citizens place a high value on restraint and spend relatively less time on leisure activities. For a public accounting firm employing salaried individuals, this tendency is very valuable and makes the country an attractive place to conduct business. This trend likely explains India's success in outsourcing, as citizens are willing to work hard and sacrifice for the sake of personal and familial accomplishment.

Conclusion

The three nations of Brazil, South Africa, and India are unique in many aspects, but similar in that they represent emerging market economies with significant projected growth. Through consideration of the recommended strategies, including focus on sporting events for auditing and compliance services in Brazil, leverage of experience with South African corporate responsibility reporting for other countries throughout the world, and a dedicated focus on transitions required resulting from India's 2013 Companies Act, Big Four firms would be able to fully maximize opportunities from the growth in these emerging markets. Throughout this process, it is critical for Big Four firms to be aware of the specific cultural dimensions in each nation, as they affect the individual office environment and the success of individual audit teams. Brazil in particular appears to have a cultural identity that will transition well to audit teams and the provision of audit services. Further, the significant expected investments in infrastructure and preparation for the 2014 World Cup and upcoming Olympics are valuable opportunities for a firm that specializes in compliance and assurance services. The timing is ideal for marketing of this expertise to ensure that Brazil does not repeat the corruption allegedly experienced in Russia's 2014 Winter Olympic Games. Of the recommendations for Big Four firms provided as outlined above, Brazil's opportunities appear to be the most lucrative and should be the focus of the firm, as they leverage their international experience gained throughout the world.

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