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Analysing the disciplinary power of proactive monitoring bodies

Kevin Flowers, Wayne van Zijl, Asheer Jaywant Ram and Warren Maroun

Margo Steele School of Accountancy, University of the Witwatersrand, Johannesburg, South Africa

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Abstract

Purpose – The important role of regulatory monitoring bodies in enhancing financial statement quality is increasingly being studied. Prior research focuses on developed economies and often adopts a relatively unproblematic regulatory perspective to explain how these bodies foster compliance. This paper adopts a more critical approach by investigating the forces and processes at work by utilising a Foucauldian disciplinary power perspective on the proactive monitoring unit (PMU) regulating South African listed companies on the Johannesburg Stock Exchange.

Design/methodology/approach – Seventeen semi-structured, open-ended interviews were conducted with expert financial statement preparers, auditors, regulators and academics. Open, axial and selective coding were used to analyse the interview data.

Findings – The PMU is indicative of an enclosure mechanism that monitors and controls the financial reporting space of listed companies. Consequently, preparers and auditors resemble well-trained individuals who follow the PMU's guidance without question. The PMU's constant gaze, combined with the negative reputational impact of an adverse review for individual preparers and auditors, results in them presenting their financial statements in conformity with the PMU's interpretation. However, complete panoptic control is not achieved, as there is some resistance.

Originality/value – This is one of the first studies to examine how an external monitoring body, the PMU, functions in a real-world setting. There is a limited understanding of what drives companies to comply with monitoring bodies that do not enjoy the direct force of law. This paper makes use of the novel Foucauldian framework to contribute towards understanding the disciplinary power that may be applied by the PMU.

Keywords Disciplinary power, Foucault, IFRS compliance, Independent external monitoring, JSE, Proactive monitoring unit

Paper type Research article

1. Introduction

A defining feature of contemporary capital markets is the monitoring and review activities performed by various independent agencies. The aim is to address mounting concerns regarding the reliability and accuracy of financial statements even though these have been independently audited (Louw and Maroun, 2017). Examples of monitoring and review bodies include the Securities and Exchange Commission (SEC) in the USA (SEC, 2016), the Financial Reporting Council (FRC) in the UK (FRC, 2023) and the Australian Securities and Investments Commission (ASIC) (Brown and Tarca, 2007). Emerging economies have also introduced external monitoring and review bodies. In Namibia, the Public Accountants' and Auditors' Board and, in Nigeria, the Financial Reporting Council of Nigeria conduct independent reviews of companies' financial statements (Dikuua *et al.*, 2023; Financial Reporting Council of Nigeria, 2023). In South Africa, the Proactive Monitoring Unit (PMU), established by the Johannesburg Securities Exchange (JSE), provides the focus for this paper (JSE, 2023a).

The establishment of financial reporting monitoring bodies, such as the PMU, aligns with Foucault's discussion on the evolution of modernity (Koopman, 2010). Understanding *how*

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these bodies drive compliance by preparers and auditors is paramount. Researchers have prioritised the impact of monitoring and review by regulatory monitoring bodies on auditors (Cooper and Robson, 2006; Louw and Maroun, 2017). Studies have examined the impact of regulatory monitoring bodies on companies, mainly in the USA (Bronson *et al.*, 2011; Vakkur *et al.*, 2010). Furthermore, research regarding monitoring bodies mainly applies a regulatory perspective (Fang *et al.*, 2024; Greenwood and Tao, 2021).

Despite these studies, the non-statutory activities of monitoring bodies to champion improved reporting quality [1] remain overlooked. One of the few studies to address this uses a model of isomorphic behaviour to understand how the PMU impacts corporate reporting compliance (Louw and Maroun, 2017). However, the political-disciplinary element of monitoring bodies remains largely unexplored. To address this gap, this paper considers the following question: is there evidence of Foucauldian disciplinary power at work in the PMU's functioning?

The relationship between accounting systems, accountability technology, and social relationship-shaping techniques is examined in this research. It considers whether the PMU's activities align with Foucauldian principles of enclosure, efficiency and hierarchical surveillance to enforce reporting compliance without having to rely on the direct force of law (see also van Zijl and Maroun, 2017).

As a qualitative paper, semi-structured interviews are used to explore the PMU as a source of disciplinary power. This methodology is appropriate for exploring perceptions of regulatory influence and disciplinary power (Louw and Maroun, 2017; Tsalavoutas *et al.*, 2020). The paper follows best practices for qualitative research (Adeoye-Olatunde and Olenik, 2021) and the coding of the Foucauldian themes identified, ensuring credibility through peer debriefing, pilot interviews and anonymised responses (Adeoye-Olatunde and Olenik, 2021; Nowell *et al.*, 2017; Ram *et al.*, 2016).

This paper addresses calls for interpretive research examining how regulatory systems operate in real-world settings (Cooper and Robson, 2006; Louw and Maroun, 2017; Mennicken and Miller, 2012). From a theoretical perspective, the paper uses a novel framework to expand the limited understanding of how non-statutory monitoring bodies enforce compliance. From a practical perspective, the paper provides insight for auditors, regulators and preparers into how monitoring bodies shape financial statement compliance and quality in an emerging economy.

In addition, this research also responds directly to calls for interview-based exploration of preparers' decision-making processes (Tsalavoutas *et al.*, 2020) and the psychological elements of regulatory effects (Libby *et al.*, 2015). In doing so, it provides compelling qualitative evidence of how enclosure, efficiency and hierarchical surveillance with normalising sanctions operate as compliance mechanisms. Finally, the results provide important insights beyond the South African context. They enhance our understanding of how non-statutory monitoring bodies worldwide achieve effectiveness without formal enforcement power.

The remainder of this paper is structured as follows: Section 2 discusses the Foucauldian theoretical framework with consideration to accounting technologies, considers literature concerning independent monitoring bodies and provides detail on the South African PMU. Section 3 provides an overview of the method and data analysis. Section 4 presents the findings and analysis. Section 5 discusses the findings and the analysis against the backdrop of studies of other regulatory bodies. Section 6 concludes the paper, identifies limitations and suggests areas for future research.

2. Theoretical framework, literature review and South Africa's PMU

The regulatory landscape of accounting is often viewed in binary terms; either it is legally enforceable or it is not. This perspective overlooks the nuances of how different forms of regulation, guidance and regulatory bodies operate in practice. The JSE's PMU provides a

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useful illustration. South African listed companies must, by law, comply with IFRS (JSE, 2023a). However, the PMU appears to sometimes interpret IFRS and exert pressure on companies to adopt that interpretation despite not having the authority, from either the IFRS Foundation or South African legislation, to do so. Foucault's panopticon provides a useful lens through which to analyse *why* and *how* non-authoritative interpretations achieve their de facto authoritative status.

2.1 Theoretical framework

Disciplinary power and control stem from the work of Bentham (1787/1995) and Foucault (1977) [2]. Broadly, the concept was first theorised in the context of effective and efficient prisoner management and control—called the Panopticon. Since then, the theory has been applied to a wide range of disciplines, such as military training (Hoskin and Macve, 1988), factory organisation (Walsh and Stewart, 1993), management control (Cowton and Dopson, 2002), taxation (Ram, 2025; San Juan, 2018) and the application of accounting standards (van Zijl and Maroun, 2017).

Foucault (1977) believed that the disciplinary practices that underlie contemporary society may be used to produce "individual subjects as docile and obedient bodies necessary to the capital accumulation process" (Hopper and Macintosh, 1993, p. 185). To achieve power and control over subjects, three principles are necessary: enclosure, efficient body, and hierarchical surveillance, culminating in correcting sanctions (Cowton and Dopson, 2002; van Zijl and Maroun, 2017). Each principle is explained below.

2.1.1 Enclosure and partitioning. The enclosure begins with the general confinement of an individual within a defined space. The intention is to contain them in a repetitive disciplinary state subject to partitioning. Partitioning involves dividing the enclosed space so that the individual can be distributed into these smaller, identifiable spaces, with each partition carrying specific functions within the enclosed system (Foucault, 1977; van Zijl and Maroun, 2017).

Partitioning of the enclosed space makes the individual more visible while enabling the specification of the individual's function in the system (Hopper and Macintosh, 1993; Walsh and Stewart, 1993). The isolation of responsibilities and visibility is aimed at holding individuals accountable for their actions (Hopper and Macintosh, 1993; Hoskin and Macve, 1988; Maroun and Atkins, 2014).

The use of "partitions" enables the measurement, assessment, and ranking of individuals against the relevant benchmark of their partition (Hopper and Macintosh, 1993). The isolation of individuals in their partitions, combined with assessment and ranking, renders them controllable. They are mindful that any performance below the benchmark will be discovered and dealt with accordingly, encouraging self-modifying behaviour and compliance. (Hopper and Macintosh, 1993; Hoskin and Macve, 1988; van Zijl and Maroun, 2017; Walsh and Stewart, 1993).

Management accounting systems create enclosures by rendering information visible across organisations (Servalli and Gitto, 2021). Internal auditing exemplifies this by establishing specific control areas and making deviant behaviour conspicuous, thereby coercing compliance with set practices (Mihret and Grant, 2017). Similarly, accounting standards can be seen as a means of enclosure and partitioning. They create "clearly defined processes and procedures which are capable of being easily described and subjected to review" (van Zijl and Maroun, 2017, p. 48).

2.1.2 Efficient body. The principle of the efficient body needs to be brought to "bear" on the individual as the object of surveillance (Hopper and Macintosh, 1993, p. 194). There needs to be a carefully scheduled timetable (Hoskin and Macve, 1988). Thorough planning and scheduling of activities increase the efficiency of the processes being performed by developing a routine within the individual (Hopper and Macintosh, 1993). Their actions become monotonous and automatic, rendering them passive (Hopper and Macintosh, 1993; van Zijl

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and Maroun, 2017). For instance, the presence of internal auditing leads to a pattern of employee behaviour, conditioning them to act in a risk management-compliant manner (Mihret and Grant, 2017).

"Dressage or correct training" (Hopper and Macintosh, 1993, p. 196) is also a practice of the efficient body. It is intended to ensure the exhaustive use of time by the "object of surveillance" while limiting opportunity for resistance. Extensive and precise training encourages everyone to respond in a predetermined manner to specific triggers. The aim is to create a docile subject who follows instructions without question (Hopper and Macintosh, 1993; van Zijl and Maroun, 2017). In a management accounting context, the use of cost centres, budgets and other financial controls may be seen as training to ensure that a predetermined approach to business management is followed (Cowton and Dopson, 2002; Hopper and Macintosh, 1993).

Strict timetabling breaks tasks into manageable units that are easily compared to benchmarks, making deviations obvious. (Hopper and Macintosh, 1993; Servalli and Gitto, 2021; van Zijl and Maroun, 2017). Because all individuals are well trained, they know the required performance benchmarks of both their own and others' tasks. This heightens the sense of constant hierarchical surveillance brought to bear upon employees and ensures conformance with what those in power deem to be the "right" behaviours (Martinez, 2011; Servalli and Gitto, 2021; van Zijl and Maroun, 2017).

2.1.3 Hierarchical surveillance and normalising sanction. The thought of being under omnipresent observation fosters feelings of anxiety in the prisoners. Any deviant behaviour from their training carries the threat of immediate identification and sanction. Consequently, prisoners conform to their training out of fear at every second of every day (Cowton and Dopson, 2002; Hopper and Macintosh, 1993). This was aimed at transforming prisoners into docile and obedient individuals that are easily controlled (Cowton and Dopson, 2002; Hopper and Macintosh, 1993).

The prior research also highlights how physical punishment is not always desirable. Instead, "administrative devices" can be used (Walsh and Stewart, 1993, p. 787). Walsh and Stewart (1993) discuss how "telegraphs" were installed above workers' stations to reflect their performance from the previous day. This "silent monitor[ing]" put an individual's conformance or transgressions on display for all to see, making them self-conscious and controllable (Walsh and Stewart, 1993, p. 788). Taken further, businesses maintain "accounts" of employee behaviour to create immutable and immortal records of compliance or non-compliance that can stain them indefinitely (Cowton and Dopson, 2002; Hoskin and Macve, 1988; Walsh and Stewart, 1993). Logbooks, permits, and regular check-ups cross-referenced with other integrated systems to identify deviations reinforce this point (Servalli and Gitto, 2021). All these mechanisms illustrate the ways in which the principles of enclosure, the efficient body and hierarchical surveillance can be deployed to render individuals docile and obedient in accounting and business contexts.

2.2 Literature concerning proactive monitoring bodies

Many jurisdictions have non-statutory monitoring bodies that review companies' compliance with accounting frameworks. For example, there is the USA's SEC (Johnston and Petacchi, 2017), the UK's FRC and Australia's ASIC (Brown and Tarca, 2007). Prior literature has primarily been concerned with the impact of monitoring bodies in developed economies. For instance, Brown and Tarca (2007) and Johnston and Petacchi (2017) argue that proactive monitoring leads to enhanced transparency and, ultimately, improved financial reporting quality. Similarly, auditors subject to monitoring were found to achieve improved audit quality (Lamoreaux, 2016).

These studies, and those by Bronson *et al.* (2011), Fang *et al.* (2024), Greenwood and Tao (2021), and Vakkur *et al.* (2010) are quantitative in design and speak to the effect and impact of monitoring bodies and regulation in developed economies. They find strong evidence that

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non-statutory bodies improve financial reporting quality and transparency. They also raise different factors that impact how effective they are, including but not limited to, whether a rules- or principles-based framework is followed (Fang *et al.*, 2024); how dependent companies are on funding from regulatory bodies (Greenwood and Tao, 2021) and how regulators choose what to regulate and the political aspects of regulation (Baudot and Cooper, 2022).

What is missing from the existing literature are qualitative studies that focus on understanding the mechanisms that achieve compliance with non-statutory monitoring bodies (Tsalavoutas *et al.*, 2020). Louw and Maroun (2017) partly address this through institutional isomorphism, arguing that a specific South African body exerts coercive, normative, and mimetic influence over preparers, despite not being empowered by statute. Compliance is explained through professional uncertainty and published findings creating interpretive standards for preparers, but the disciplinary mechanisms making such influence effective remain unexplored (Louw and Maroun, 2017).

Furthermore, Olojede *et al.* (2020), while using surveys, introduce the idea of using regulatory persuasion over legal enforcement, making way for a disciplinary power perspective. Libby *et al.* (2015) propose, but do not test, that psychological factors impact the effectiveness of non-statutory monitoring. Tsalavoutas *et al.* (2020) explicitly call for interviews and interdisciplinary studies. Read with Libby *et al.* (2015), this demonstrates that the functioning of non-statutory monitoring bodies is complex and remains understudied. Specifically, it has identified the importance of interviews to gather and assess the psychological and subtle nuances involved in the efficient functioning of these bodies. This paper addresses these gaps by evaluating a developing context and adopting a qualitative approach that assesses Foucauldian discipline to explain the effect of non-statutory bodies, such as the JSE's PMU, in enhancing financial reporting quality.

2.3 South Africa's proactive monitoring unit

"The volume of transactions, intricacies of their client's business models and inherent limitations of risk-based audit means that there is always a risk of non-compliance with accounting prescriptions going undetected" (Maroun and van Zijl, 2016, p. 234). As a result, the JSE introduced an independent monitoring body (Botzem, 2014; Flowers, 2019). The PMU proactively reviews the AFS and related information released by JSE-listed companies on a risk-based rotational basis (JSE, 2018). Historically, the PMU aimed to review companies' AFS at least once within a five-year cycle. From 2021, a review takes place in a 3-, 5-, 8- or 10-year window. Company selections are random. However, the PMU focuses on companies with larger market capitalisation and active participation in debt and equity markets (JSE, 2023b). Companies may also be reviewed because of specific industry risk factors (JSE, 2016).

The Financial Reporting Investigation Panel (FRIP) operates as an independent advisory panel for the PMU. It provides expert opinions on complex and contentious accounting matters. When the panel is involved in a dispute, it makes a recommendation to the PMU, as opposed to a ruling (Louw and Maroun, 2017). This structure is designed to provide the FRIP with legal protection to enhance its objectivity and independence (FRIP, 2011; Louw and Maroun, 2017).

2.3.1 Proactive monitoring process of the PMU. Companies are not informed of selection for review. The PMU does not perform a detailed assessment of compliance with every aspect of IFRS. Rather, the focus is on specific accounting standards that, at the time, exhibited significant non-compliance (Flowers, 2019; JSE, 2018). The initial review is undertaken by a South African university on behalf of the PMU.

Based on the review results, the PMU takes one of two actions. If it is satisfied, no further steps are taken, but the company is not informed of this fact. If the PMU has queries, a letter is sent to the chair of the company's audit committee (JSE, 2019). Complex cases are referred to

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the FRIP. The FRIP investigates and makes recommendations to the PMU (Flowers, 2019; JSE, 2018).

Depending on the severity of suspected non-compliance, the PMU may simply require that the respective company make changes to its processes and AFS going forward. For material non-compliance, the PMU will require the company to issue an announcement to the market and re-issue updated financial statements as soon as possible. If the restatement arises because of a referral to the FRIP, the company's announcement must refer to this and the findings (JSE, 2019). Figure 1 summarises the review process.

The PMU publishes an annual report summarising key inspection findings and regularly publishes combined findings reports that summarise the annual reports (JSE, 2022). The reports also summarise and rank the accounting standards associated with most cases of non-compliance and provide details on the non-compliance. Exhibit 1 provides an example of this type of reporting by FRIP.

The PMU's reports include anonymised details of cases referred to the FRIP together with links to access more detailed FRIP reports. As part of its listing requirements, the JSE calls on audit committees to use the PMU's reports to reduce the likelihood of companies repeating errors flagged by the proactive monitoring. For example, Exhibit 2 details the information that JSE-mandated audit committees *must* consider in "fulfilling their responsibilities" (JSE, 2023b, p. 24).

3. Method

This section explains the method used in the paper to achieve the objective of analysing whether there is disciplinary power inherent in the operations of the PMU. Section 3.1 explains the use of semi-structured interviews, along with how the interview protocol was developed (see Appendix 2). This is followed by section 3.2, which explains the coding of the analysis, linking back to Section 2.1. Finally, Section 3.3 adds detail on the actions undertaken to enhance the credibility and validity of the paper.

3.1 Semi-structured interviews

Semi-structured, open-ended interviews were used to collect data, in line with the qualitative nature of this paper. Semi-structured interviews are appropriate as they allow for a focus on the topic of the interview while also affording the interviewer the ability to engage with important ideas that are revealed in the interview (Adeoye-Olatunde and Olenik, 2021). The interview agenda was created based on the prior literature. The semi-structured questions were developed to explore how the activities of the PMU achieve a sense of disciplinary power and control over

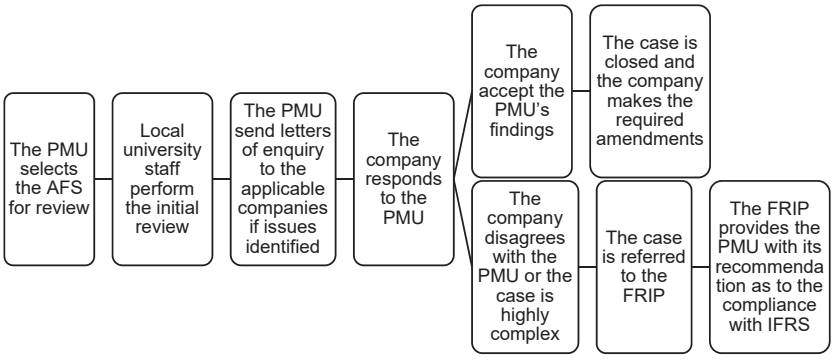


Figure 1. The PMU's review process. Source: Authors' own work

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Exhibit 1. Ranking of standards by the PMU

Ranking	
1	IAS 12 *Income Tax* , paragraph 81(c) and 84 Insufficiently detailed tax rate reconciliations
2	IAS 36 *Impairment of Assets*, paragraphs 130-134 Insufficient information regarding impairment calculations
3	IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 49 Correction of errors not reflected as such in a transparent manner
4	IFRS 13 *Fair Value Measurement*, paragraph 93 Lack of details regarding entity specific unobservable inputs used in valuation models
5	IAS 1 *Presentation of Financial Statements*, paragraphs 31, 117, 119 Accounting policies not entity specific or focussed on significant policies
6	IFRS 3 *Business Combinations*, paragraph B64(e) Factors in support of goodwill recognised in the current period not described in an entity-specific manner
7	IFRS 7 *Financial instruments: Disclosures*, paragraph 39(c) Incomprehensive liquidity risk disclosures

Source: JSE (2020, p. 10)

Exhibit 2. Information the PMU requires audit committees to consider

For ease of reference, this annexure contains information that all audit committees *must* consider in fulfilling their responsibilities referred to on page 3 of this the 2023 report.

(1) This, the 2023 report;

(2) From the Proactive Monitoring Limited Scope Thematic review: Cash flow information and disclosures of liquidity and going concern of October 2022;
   a. Section 7.4: Cash and cash equivalents; and
   b. Section 7.8 : Changes in liabilities arising from financing activities
   c. Section 8: Liquidity Risk

(3) Given our common findings, the following sections from the Combined Findings Report issued in October 2023;
   a. General (due care) (page 7);

Audit committees should consider the entire content of the Combined Findings Report if the issuer:

- is newly listed; or
- had events or transactions that were not present when they considered our previous reports.

Source: JSE (2023b, p. 24, emphasis added)

respondents. This approach also limited the interviewees' ability to provide rehearsed responses (Alvesson, 2003; Rowley, 2012). The interview agenda is included in Appendix 2.

The population of potential interviewees was defined as all auditors, preparers of AFS at JSE-listed companies, regulators and academics with at least 3 years of experience. Purposive sampling was used to ensure that only individuals with first-hand experiences were engaged. Their experience added to their answers and improved the details and accuracy of the results. The same two researchers interviewed 17 individuals, consisting of accounting academics, preparers of AFS for companies listed on the JSE, auditors, and regulators. Because of the relatively small population of individuals involved in preparing financial statements and engaging with the PMU, the number of interviews is considered appropriate (Gentles *et al.*, 2015). The interviews were, on average, 53 min long. Further details are provided in Appendix 1.

Potential respondents were provided a description of the research study. The respondents were assured of their anonymity and informed that their participation in the study was voluntary. They were notified that they could end the interview at any time. This contributed to the respondents being open and honest (Alvesson, 2003; Rowley, 2012).

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Interviewees were provided with a consent form and agenda. This helped inform the respondents of the purpose and nature of the study, which improved the completeness and detail of their responses.

Respondents were asked for permission to record the interviews. Recording ensured that the researchers could focus on the tone and non-verbal cues of the respondents (O'Dwyer *et al.*, 2011). Respondents were not expected to understand the principles of disciplinary power and control but were knowledgeable about the PMU/FRIP. The questions were non-leading and unbiased. This enabled the exploration of the underlying themes and concepts while avoiding imposing the researchers' own views on the respondents (O'Dwyer *et al.*, 2011; van Zijl and Maroun, 2017).

The respondents were informed that there were no "correct" or "incorrect" responses. The order of the questions differed minimally for each interview. However, the themes addressed in each interview remained consistent, and all interviews began with the same question: "Why does the PMU exist?" (Alvesson, 2003; Rowley, 2012). Respondents were sometimes asked to explain certain ideas or statements in different words or in different ways. This was done to address "script coherent expressions" and resolve any ambiguities (Alvesson, 2003).

3.2 Data analysis and coding process

Following the transcription, each interview was analysed at least five times and subject to open coding. The data were organised based on the common themes detected (open codes). These were not predefined to allow for richness in the data to be considered (Louw and Maroun, 2017). Similar to van Zijl and Maroun (2017), content was initially organised under headings and sub-headings (codes) consistent with the interview questions (Appendix 2), including, *inter alia*, the role of the PMU, the attitude of the interviewee towards the PMU, the transparency of the PMU and interactions with the PMU. There was an ongoing comparison between the open codes, interpretations of the responses and the literature review in a non-linear fashion (Rowley, 2012). When new codes emerged during the analysis of subsequent interviews, the list was updated, and all prior transcripts were reviewed again, considering the updated open code list (Benaquisto and Given, 2008).

Following the initial coding, the open codes were grouped according to broader theme headings or axial codes. These were the individual "elements" of Foucault's discipline discussed in Section 2.1, namely, enclosure and partitioning, the efficient body, hierarchical surveillance, and normalising sanctions. These are not data-driven themes but rather theoretical concepts used as a "sensitising framework" for analysis and for the selection of relevant quotes that speak to the specific element of Foucault's discipline. As this paper does not intend to generate new theories as the Foucauldian framework is applied, selective coding is not performed (Benaquisto and Given, 2008; O'Dwyer *et al.*, 2011). This method allowed each transcript to be analysed effectively as important arguments and counterarguments were discovered. Additionally, it enabled the comparison of responses with the findings in prior literature and with each interview (O'Dwyer *et al.*, 2011). The intention of this process was to obtain a sense of "saturation" in the interview findings and ensure that the findings are appropriately mapped to the elements of Foucauldian discipline.

3.3 Credibility and validity

Peer debriefing and review by researchers involved in the study were employed to enhance the depth of analysis and the credibility of the paper (Nowell *et al.*, 2017; Ram *et al.*, 2016). The researchers conducted a pilot interview with an academic at their university. The role of the pilot interview was to ascertain whether the questions were asked correctly and whether they aligned with answering the research question of this paper in the vein of Adeoye-Olatunde and Olenik (2021). This study involved human respondents, and ethical clearance was obtained from the researchers' university (clearance number CACCN/1189).

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4. Findings and analysis

4.1 Principle of enclosure and partitioning

4.1.1 Establishing enclosure. According to Maroun and Atkins (2014), the principle of enclosure is embodied in the prescription of relevant laws from a regulatory perspective. In the case of the PMU, the applicable "laws" are the IFRS and PMU reports. The JSE's requirement for listed companies to use IFRS allows the PMU to enclose the preparation of companies' AFS via the detailed prescriptions of IFRS standards (Hopper and Macintosh, 1993; Mennicken and Miller, 2012; van Zijl and Maroun, 2017). The PMU provides feedback on the application of specific standards and corrective guidance based on *its* interpretation of IFRS (JSE, 2018). Respondents discussed how the PMU's interpretation of IFRS encloses the financial reporting space (Maroun and Atkins, 2014; van Zijl and Maroun, 2017). Respondents revealed that they comply:

> Because you are listed. There are rights and obligations and privileges to being listed … the obligations are that for you to have access to that market, you have to comply with certain basic standards and IFRS is just one of those (Preparer, P4).

Respondents felt that the need to adhere to these regulations, as interpreted by the PMU or FRIP, caused companies to feel constrained when it came to how they interpreted IFRS and presented their AFS (P1; P5; P8; P9; A1; A5; T2). The enclosure of the reporting space goes together with a sense of hierarchical surveillance. For example, while discussing intended innovations in the presentation of their AFS, one respondent commented:

> You go: 'You still have to comply - so chill'. As much as it sounds bad, having the threat of something [like the PMU] makes you realise there's still a monitoring committee and we have to make sure that *we stay on the right side of this* (Preparer, P3, emphasis added).

The respondents elaborated that the PMU's annual reports provided details of the past year's reviews. They summarise and rank the IFRS with the most identified non-compliance and provide details thereof (JSE, 2020). In doing so, PMU reports become "quasi-authoritative guidance" as audit committees must publicly confirm they have considered PMU findings before signing off on AFS, accepting ultimate responsibility and the PMU's interpretation.

> We formally have to note to the audit committee [the PMU's] report. If you look at our audit committee [meeting agenda], there is a letter from the issuer, there is a report back [on] the proactive monitoring report (Preparer, P2).

4.1.2 Partitioning the financial reporting space. IFRS, as the applicable accounting framework, provides the PMU with detailed and segmented benchmarks against which they can measure the compliance of a company's AFS. The structure through which past transgressions by companies are presented in the PMU reports further partitions the financial reporting space into yet smaller subsections. This facilitates an easier assessment of a company's AFS to identify non-conformance with the PMU's interpretation of IFRS. The PMU's activities resemble a procedural system that outlines what is expected of each company and its preparers when preparing their AFS. This results in preparers and auditors feeling sufficiently enclosed and enables the facilitation of the principles of the efficient body and hierarchical surveillance to be brought to bear upon them.

Essentially, the PMU acts as a type of accounting interpretation committee. It delineates acceptable interpretations of IFRS. That this role has emerged without an express design intent is also important because it points to the subtlety of the disciplinary environment within which listed companies find themselves. This enclosure, partitioning and a feeling of surveillance result in self-directed corrective behaviour by preparers. For example:

> Making sure that across all the different firms there's a consistent level of quality, so something like the PMU is a nice structure to have in place to just make sure that everybody is being measured by the same yardstick (Preparer, P3).

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4.2 Principle of the efficient body

4.2.1 Application of timetabling. The PMU's review process is characterised by a sense of rhythm and regularity. Unless and until a company receives a query letter from the PMU, they fear that each year this is the year that their AFS will be selected for review. Consequently, they experience a heightened sense of awareness of their compliance or lack thereof with IFRS and the PMU's interpretations (Hopper and Macintosh, 1993; JSE, 2018).

Audit committees are instructed to consider the PMU's findings report every year (JSE, 2023b). The respondents indicated that this created a rhythm within their company's processes. It has become a "very formal process" (Preparer, P9), which is automatic and without question for these preparers and their companies (P1; P2; P3; P4; P6; P7; P8; P9).

> [They] take it to the audit committee and we give a report to the audit committee of all the findings that they had and we give answers to how *we deal* with them in our AFS . . . in order to be clear that *we don't do any of those things wrong* (Preparer, P6, emphasis added).

The explanation of when these tasks must be performed appears to have standardised the approach followed by preparers and auditors when dealing with the PMU's reports every year. This assists in creating automatic responses and a type of muscle memory that facilitates greater compliance with the PMU's interpretation of IFRS.

4.2.2 Dressage or correct training. The PMU's annual reports may be a training and specification mechanism for how the PMU believes IFRS should be interpreted and applied (Flowers, 2019) (P2; P3; P8; A2; A3; A4; R1; T2). Respondents felt that the conditioning begins by "publishing the report . . . to make the market as a whole aware of the issues [it sees]" (Regulator, R1). All respondents believed that this made them aware of common problems. It instructs the market to pay particular attention to these areas and insidiously encourages preparers to develop procedural responses to these problems:

> Obviously the report gives you useful guidance on where other people have made mistakes, so you can look at it to make sure you pick up on the issues (Preparer, P2).

Respondents implied that the PMU's reports provide preparers and auditors with the conditioning needed to be aware of the current issues and modify their own interpretations in accordance with the PMU's "training" reports (P1; P5; P8; P9; A3; A4; A5; T2). This subtle conditioning appears unconscious, with preparers and auditors viewing the reports as "helpful" tools rather than recognising their conditioned responses to align with PMU interpretations.

> It's more about *educating myself*. Making myself more aware of the general shortcomings that are out there to make sure that you are cognisant of them as an *audit partner* (Auditor, A2, emphasis added).

It is suggested that there is an implicit acceptance that the PMU is correct and should be followed, or at least that there is little other choice. Where any changes need to be made, auditors and preparers follow the PMU's reports, as they are viewed as being "enhanced interpretation . . . a bit like an interpretation note that you get" (Preparer, P4). Respondents would "rather put [the PMU's findings] in than have it raised as an issue" at a later stage (Preparer, P8). This has resulted in companies modifying their processes to ensure compliance with the PMU's interpretation of IFRS:

> We are quite diligent around those findings of the past. We go through [the PMU report] with a *fine-tooth comb*. Our technical guy looks at it, compares it to anything that we do in our AFS and there have been issues, for example, classification within cash flows, where we have said that because the JSE has actually said this . . . we must actually *correct the way we understood something . . . We will make sure that our AFS are aligned to the way they [PMU] see it* (Preparer, P6, emphasis added).

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The PMU released a report that combined all its findings from 2011 to 2021 (JSE, 2022). Repeated malpractice is expressly highlighted to make departures from norms more explicit. Respondents felt that the matters dealt with in the reports have become repetitive, aligning with Foucault's idea of training until those being trained become docile and obedient (P3; P8; P9; A2; A3; A4; R1).

Even if some preparers and auditors initially resist the PMU's interpretations, the repetition appears to wear them down to the point where they agree to comply with the PMU's view. The preparers feel as though they should respond in accordance with the report's "guideline" (Preparer, P4), as the PMU's interpretation is the only one that matters.

> We normally add [the PMU's findings] as focus areas. When we do our first reviews, we go, 'Okay, yes, this is applicable to our set of AFS; let's make sure this *is compliant* [with the PMU]' and we do a more detailed review (Auditor, A4, emphasis added).

4.3 Principles of surveillance, examination and normalising sanction

4.3.1 Applying the principle of surveillance. The PMU achieves surveillance by not informing companies of selection. Consequently, companies and auditors experience a fear and anxiety that is like what they would experience had they known this year their AFS would be reviewed, and this is experienced annually. The preparers are aware that any transgression will be permanently recorded. The fear of being labelled as incompetent is aimed at coercing the preparer to comply (Hopper and Macintosh, 1993; Hoskin and Macve, 1988). The concurrent functioning of the PMU's enclosure of the IFRS reporting space, coupled with its PMU annual reports and unknowable review activities, creates a self-discipline in which each company's AFS is reviewed annually, whereas the PMU is actually comprised of only a handful of staff members.

Respondents experience constant surveillance anxiety because the PMU does not disclose review status. Not hearing from the PMU could mean compliance or non-selection, so preparers act as if a review is imminent each year. The PMU's surveillance is also hierarchical in nature: the JSE, as the regulator, empowers the PMU to carry out reviews. The PMU employs the FRIP, highly renowned (and feared) experts, to also scrutinise a company's AFS. Many respondents relayed their fear that their AFS would be referred to the FRIP for additional probing:

> The FRIP is then Big Daddy . . . If someone gets caught and it's serious enough that the issue goes up to the FRIP, [the FRIP] then advises the issuing regulator as to the appropriate action. (Preparer, P1).

Preparers and auditors have no avenue to appeal PMU judgements from independent courts. This adds to their anxiety of being labelled as "delinquent" if the PMU finds an issue with AFS prepared or audited by them. Where non-compliance with IFRS is detected, the result of the PMU's "panopticon" makes preparers feel like criminals. A disciplinary environment is created, as Foucault (1977) envisioned, driving conformity and compliance with the PMU's interpretation of IFRS in a singular way (Louw and Maroun, 2017; van Zijl and Maroun, 2017).

Respondents' feelings about the PMU's omnipresent surveillance are increased by the PMU's practice of sending letters of inquiry that contain only immaterial disclosures and "boilerplate concerns" (Regulator, R1). Some respondents felt that the PMU highlighted immaterial disclosure issues as "the low-hanging fruit" (Preparer, P3) to use as a means of attacking preparers (P3; P7; P8; A4; A5; R1). In these instances, the PMU, when satisfied with the response, reverts to "radio silence" (Preparer, P8) instead of sending a response accepting the company's explanation. This may be the PMU's way of reminding companies that they are being monitored, resulting in anxiety on the part of the individual accountant as a potential transgressor (P1; P2; P5; P6; P8). The PMU's secretive processes create uncertainty and anxiety, as preparers do not know who reviews them or how, leading them to "do everything you can to make sure the unknown is mitigated" (Auditor, A4).

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> Having this second review, you definitely do your job. You're definitely more focused on making sure these are right, and I think the same thing applies for an audit firm. (Preparer, P1).

4.3.2 Applying the principle of examination. Preparers and auditors feel constant pressure to comply with the PMU's interpretation of IFRS and the minimum quality levels. Should they fail, their superiors (usually the audit committee) will be aware of this, which can adversely affect their personal reputation and perceived competence and have financial implications. Preparers are unaware of when they are under review. This leads them to believe that the examination of their credentials is "every year" (P3). This works on the respondents' conscience and leads preparers and auditors to regulate their own behaviour as far as complying with IFRS and the PMU's interpretation is concerned (P1; P2; P5; P6; P7; P8; P9; A2; A3; A4; A5).

4.3.3 Applying normalising sanctions. For the PMU's hierarchical surveillance and examination to be effective, it must be accompanied by normalising sanctions. The PMU has various sanctions for the company at fault, such as fines or penalties. However, interviewees were not concerned about these sanctions. Rather, it is the implications of the PMU's findings for the personal reputations of the individuals involved that are most important and effective. All interviewees explained how a negative finding from the PMU can result in "very significant reputational damage" (Preparer, P9). The PMU reviews appear to create normalising judgements on the individuals themselves, as opposed to the companies:

> Because my reputation would be hit. Emotionally, I'm in turmoil, but also *if anyone ever found out* that I missed it, then my stock as a technical accountant would've dropped so badly (Academic, T1, emphasis added).

The respondents appear to be mindful of a negative finding impacting their reputation. For auditors, these sanctions were reinforced by the current problems they are facing. Examples include scandals involving VBS, EOH, Steinhoff and Oakbay (Day, 2020; Rossouw and Styan, 2019). Because clients like to use the auditors as a "scapegoat" (Auditor, A3), they feel that their reputation is often under threat. This type of sanction was envisaged by Foucault (1977), who believed that sanctions should not be physical. Instead, they should work on the minds of those subjected to control to make them docile and obedient. The subtlety of the PMU's sanctions may assist the PMU in improving compliance:

> Yes, there is [a fear of the PMU]. I won't lie. Trust me, like, *some days that's probably my biggest worry,* is if they come back . . . *It's weird because I don't quite know what the enforceability status is,* but it's not good. It's not good to have that on you, knowing that something could be wrong (Preparer, P7, emphasis added).

> If a restatement is picked up, then it looks bad on the client and it looks bad on us because we signed off on those AFS. *Even though they don't do anything to us directly,* through the clients [and] through our involvement with the client, I think that's how we get involved (Auditor, A5, emphasis added).

The PMU's normalising sanctions can tarnish the reputation of preparers and auditors. When a restatement is required, the company must publicly admit their mistake and not rely on the AFS. If a case is referred to the FRIP, the self-confession must include the FRIP and its findings. This self-flagellation helps preparers and auditors stand out as delinquents (Hoskin and Macve, 1988; Louw and Maroun, 2017; Walsh and Stewart, 1993). However, normalising sanctions can also have positive effects, as not receiving a letter from the PMU or receiving a letter with immaterial findings can leave preparers confident in their abilities (P1; P2; P3; P4; P7; P8; A1; A2; A3; A4; A5; T2).

Respondents appear to have increased their compliance with IFRS out of this fear of getting caught and the associated negative implications (P1; P2; P3; P6; P7; A1; A2; A3; A4; T1; T2). While the results of this paper provide significant evidence that the PMU's activities are a source of disciplinary power and control, there are areas of resistance. Preparers and auditors

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who were yet to receive a letter from the PMU showed less concern about receiving a letter and its implications (P4; P9; A1). For some, "the fact that the JSE is looking over my shoulder makes no difference at all" (Preparer, P4). Additionally, where preparers felt that their companies' processes and auditors were strong, it resulted in less fear of the PMU (P3; P4; P8; P9).

5. Discussion

The findings support the view that non-statutory bodies can efficiently and effectively enhance compliance because of the principles of enclosure, the efficient body and hierarchical surveillance. It dismisses the notion that preparers and auditors comply with regulating bodies simply because this is required of them (see also, Maroun and van Zijl, 2016). Instead, compliance is a function of PMU reviews being a source of disciplinary power and control.

While physical violence was once necessary to achieve control (Foucault, 1977), administrative processes have become more common and more effective for enforcing compliance and conformity (Walsh and Stewart, 1993). Just as internal audit (Mihret and Grant, 2017), manufacturing and fishery operations (Cowton and Dopson, 2002; Servalli and Gitto, 2021; Walsh and Stewart, 1993), and IFRS (van Zijl and Maroun, 2017) enclose and partition business and manufacturing processes, the PMU's interpretation reports have become "quasi-authoritative guidance" that serves a similar purpose.

Preparers' and auditors' time is strictly regimented via the quarterly, interim and year-end reporting deadlines. While the PMU does not state that it actively reviews these other sets of financial statements, they, too, must comply with the PMU's "guidance" to ensure consistent accounting throughout the year. Consequently, the PMU's interpretations of IFRS are applied daily and throughout each year, with the result that preparers and auditors, like soldiers at boot camp (Hoskin and Macve, 1988), repeatedly maintain their "training" as desired by the PMU's reports. The aim is to render preparers and auditors docile and obedient beings that respond promptly and accurately to "commands" *without question*. This is supported by the mimetic influences of the FRIP (Louw and Maroun, 2017) and reinforces the view of external regulatory bodies as an external mechanism of control (Olojede *et al.*, 2020).

Importantly, the findings reveal how, while it may appear that the PMU's "gaze" is upon companies, the true objects of its disciplinary power and control are the individuals involved in the financial reporting and auditing processes (see Walsh and Stewart, 1993). The specific individuals responsible for each aspect of the preparation, sign-off and audit of financial statements are known and will be singled out and labelled as delinquents if the PMU finds non-compliance with their "authoritative guidance." Even the audit committee, while not directly responsible for the preparation of the AFS, is brought under the PMU's "gaze" and is made responsible for monitoring and enforcing the PMU's "authoritative guidance." This is because the PMU requires audit committees to acknowledge having considered the PMU's "authoritative guidance" when determining whether the financial statements are compliant and should be authorised for issue. Accordingly, the audit committee should seek explanations from individuals responsible for preparing and auditing the financial statements to confirm that the PMU's guidance has been "considered" and take action as required. The result is the perception by preparers, audit committees and auditors that an extensive network of PMU "agents" exist and are continuously on the lookout for possible transgressors to name and shame.

As Cowton and Dopson (2002) observe, previous "victims" of the panoptic gaze become more motivated to alter their behaviour to be compliant with the respective teachings. They become additional observers for the PMU to ensure their reputation is not again brought into question should the company's AFS be reviewed. In this fashion, and not through any additional effort from the PMU, the PMU's gaze is periodically reinforced to facilitate its continued operation. This may explain why monitoring activities lead to improved financial reporting quality (Greenwood and Tao, 2021).

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Interestingly, the consequences of the PMU's disciplinary power are not limited to those JSE-listed companies over which they have some regulatory power. The PMU's interpretations are studied by the audit firms' technical departments and audit partners to ensure they comply. This compliance invariably spills over into their audit and management of non-listed entities and their preparers. Auditors truly come to accept and internalise the PMU's interpretations without question and strive to ensure consistent interpretation of IFRS across all clients. Any preparers of listed companies that move to non-listed firms will also carry over their experience and influence of the PMU's training, surveillance and normalising sanctions.

6. Conclusion

Globally, regulatory monitoring bodies form an important component of capital markets by holding preparers of financial statements and auditors accountable for their compliance with accounting standards (Louw and Maroun, 2017). These monitoring bodies do not, however, necessarily enjoy statutory powers to force compliance. Accordingly, the prior research has investigated why companies comply despite the lack of statutory powers. These studies typically focus on developed economies (Bronson *et al.*, 2011; Greenwood and Tao, 2021; Vakkur *et al.*, 2010) and often adopt a rather technical regulatory perspective of regulatory monitoring bodies (Fang *et al.*, 2024; Greenwood and Tao, 2021). They lack a critical analysis that more actively probes the underlying forces and processes at work and does not assume a progressive and functionalist perspective.

This paper contributes to the under-researched area of regulatory monitoring bodies by adopting a novel theoretical framework to investigate the subtle forces at work that encourage compliance. Foucault's panopticon is used to analyse and frame the actions of South Africa's PMU to explain how it contributes to creating a disciplinarian environment that fosters compliance with the PMU's interpretation of IFRS. The paper provides insights for auditors, regulators, and corporate governance bodies on how monitoring bodies shape financial reporting behaviours. It raises important implications about the impact of the PMU's apparent disciplinary mechanism on financial transparency, investor confidence and corporate governance improvements, which can be explored in further research.

Interviews with financial reporting and auditing experts revealed that the PMU's structure and activities enclose and partition the financial reporting environment as envisaged by the panopticon. The PMU constrains the interpretation of IFRS through its "quasi-authoritative guidance." The requirement that audit committees and, by extension, preparers and auditors, "consider" the PMU's "quasi-authoritative guidance" can be viewed as a subtle form of training and conditioning that leaves preparers docile to interpret and apply IFRS as the PMU deems correct. The annual half-yearly and yearly reporting requirements provide proper timetabling for preparers' and auditors' activities, ensuring their training is kept constant and current.

The hierarchical surveillance and examination components of the panopticon are achieved via the PMU's policy to keep companies guessing whether this year their financial statements will be reviewed and what the outcome of the review is. No news from the PMU may either indicate that this year their financial statements were not reviewed or that they were reviewed and no negative concerns were identified. This structure promotes the perception and "feeling" that each year a preparer's financial statements will be reviewed and that they must act as their "training" requires. If they do not, they will fall victim to "normalising sanctions," which, despite being addressed to the company, work on the preparers' subconscious as they feel exposed and singled out as delinquents. Respondents reiterated that their personal reputation is at stake and any PMU findings will follow them wherever they go. The final piece of the panopticon is achieved when this threat of sanctions coerces preparers and auditors to act as they have been trained, being what the PMU considers the "correct" interpretation of IFRS.

The findings revealed that the PMU does not enjoy complete disciplinary power. Like the findings of Hopper and Macintosh (1993), Cowton and Dopson (2002) and van Zijl and

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Maroun (2017), some preparers and auditors resist the panopticon. Years without substantive findings against preparers and auditors can lead to a sense of complacency. Some preparers and auditors are confident in their work regardless of the PMU and, if the need arises, can withstand the subtle and unconscious feelings of inadequacy others might feel when singled out by the PMU.

This research is not without its limitations. This paper focused on only one theoretical framework in a single jurisdiction. The effectiveness of disciplinary power and control by monitoring bodies in other jurisdictions is an area for future research. Research specifically considering the impact and functioning of regulatory monitoring bodies on auditors, boards of directors, and "ground floor accountants" is required. Research regarding the mechanisms of resistance to disciplinary power and control by regulatory monitoring bodies would assist bodies like the PMU to enhance their effectiveness, as would research aiming to identify weaknesses in regulatory monitoring bodies' processes and structures in so far as these support disciplinary power and control.

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Appendix 1

Table A1. Interviewee information

Interviewee reference	Position held	Length of interview (minutes)	Years of cumulative experience	Received or has a client which has received a PMU letter?
P1	Preparer (Audit Committee Chair)	100	33	Yes
P2	Preparer (CFO)	60	32	Yes
P3	Preparer (Technical advisor)	90	13	Yes
P4	Preparer (CFO)	45	24	No
P5	Preparer (Financial Manager)	40	15	Yes
P6	Preparer (CFO)	45	28	Yes
P7	Preparer (Group technical accountant)	55	13	Yes
P8	Preparer (CFO)	60	32	Yes
P9	Preparer (CFO)	55	30	No
A1	Auditor (Manager)	30	5	No
A2	Auditor (Partner)	35	17	Yes
A3	Auditor (Third-year Trainee)	55	3	Yes
A4	Auditor (Senior Manager)	50	9	Yes
A5	Auditor (Technical Manager)	45	5	Yes
R1	Regulator	70	40	Yes
T1	Academic	45	5	Yes
T2	Academic	30	6	Yes

Source(s): Authors' own work

Appendix 2
Semi-structured interview questions

(1) Why does the PMU exist?

(2) Do we need the PMU?

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(3) Is the PMU important for users of financials? Why? Do you think users are aware of the PMU and how it actually functions?

(4) Can you discuss the change to require JSE companies to include a statement that they have considered any PMU findings?

(5) Can you describe the PMU's processes and state why each process exists?

(6) What are the possible different outcomes of a PMU review?

(7) What is the effect of each outcome on users of financial statements?

(8) Do companies know when (and how often) they will be reviewed?

   a. If so, does this impact the effectiveness of their monitoring?

   b. If not, does this impact the effectiveness of their monitoring?

(9) What do you believe the effect of the monitoring has been on the preparers of the financial statements?

(10) Who can bring potential issues to the PMU/FRIP's attention? Does this have an effect on preparers?

(11) Why was the FRIP sub-unit created? Could the PMU function just as effectively without the unit? Does the unit add anything to the PMU?

(12) How do preparers perceive the FRIP? I.e. if they heard about a case being referred to the FRIP, what would that mean?

(13) Why does the JSE issue accounting circulars? Do these affect how preparers of financials behave? If so, how so? If not, why not?

(14) Why is it that the JSE has only issued two circulars?

(15) Would you prefer it if the PMU told you in advance that your company or client would be reviewed? Why?

(16) Are you aware that in 2019, the PMU informed 30 companies that they would be reviewed? How do you think this will impact those companies' financial statements?

Notes

1. The audit committee and its chair are responsible for the approval of annual financial statements (AFS) and will be referred to as preparers throughout this research.
2. Gallhofer and Haslam (1993) and Haslam and Gallhofer (2003) highlight that Bentham (1787/1995) was concerned with improving the lives of prisoners, at a time when being in prison was analogous to a kind of living hell. Foucault, on the other hand, adopts a more subtle and insidious perspective of the Panopticon's potential as a model for governing society, workers and even school children through enclosure, timetabling and surveillance.

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Corresponding author
Asheer Jaywant Ram can be contacted at: Asheer.Ram@wits.ac.za

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