DISCIPLINARY POWER AND THE PROACTIVE MONITORING UNIT

A research report submitted by:

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in partial fulfilment of the degree:

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The Head of the School of Accountancy: Professor Nirupa Padia

11 January 2020

Dear Professor

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfilment of the degree of Master of Commerce by Coursework and Research Report at the University of the Witwatersrand, Johannesburg.

This research has been carried out according to the ethical policies of the University of the Witwatersrand and has not been submitted elsewhere for the purpose of being awarded another degree or for examination purposes at any other university.

Yours faithfully

Kevin Flowers; 826086

11 January 2020

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I: List of abbreviations

Abbreviation	Description
AFS	Annual Financial Statements
CC	Conduct Committee
EE	European Enforcers
ESMA	European Securities and Markets Authority
EU	European Union
FRC	Financial Reporting Council
FRIP	Financial Reporting Investigations Panel
FRRP	Financial Reporting Review Panel
GMP	GAAP Monitoring Panel
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
JSE	Johannesburg Securities Exchange
PCAOB	Public Company Accounting Oversight Board
PMU	Proactive Monitoring Unit
SEC	Securities and Exchange Commission
SAICA	South African Institute of Chartered Accountants
UK	United Kingdom
USA	United States of America

II: Abstract

The value of independent bodies charged with monitoring and improving the quality of financial reporting is becoming increasingly recognised around the world. The United States of America, United Kingdom and the European Union are examples of where such bodies exist. South Africa has created the Proactive Monitoring Unit (PMU). The PMU monitors the financial statements of companies listed on the JSE to ensure that they comply with International Financial Reporting Standards (IFRS). As most of these bodies are relatively new, there is limited research exploring how they function. This thesis aims to understand monitoring bodies better. Specifically, it will investigate if the PMU's activities utilise Foucault's disciplinary power to achieve results. 17 semi-structured, open-ended interviews with financial statement preparers, auditors, regulators and academics were conducted.

The PMU is indicative of a partitioning mechanism used by the JSE in order to monitor and control the financial reporting space of listed companies. Preparers and auditors resemble well trained individuals who follow the PMU's guidance without question. Respondents felt the constant gaze of the PMU which, combined with the negative reputational impact of an adverse review, leaves preparers and auditors fearful of the PMU. This anxiety seems to create a belief that preparers and auditors must present their financial statements as instructed by the PMU. This is one of the first theses which examines how external monitoring bodies function in a real-world setting. It adds to the limited accounting research which investigates why monitoring mechanisms achieve or do not achieve compliance. This is the first study to consider the functioning of external monitoring bodies in an African setting. This will provide insight into how monitoring bodies may best be constructed to improve corporate governance.

Key Words:

Disciplinary power, Proactive Monitoring Unit, Corporate Reporting, IFRS Compliance, Foucault, Independent external monitoring

III: Acknowledgements

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1. Introduction

1.1 Context, purpose and significance of the study

Accounting systems create a field of economic visibility. They allow users to understand the financial position and performance of a company when making economic decisions (Hopwood, 1987; IASB, 2018; Maroun & van Zijl, 2016). Following the implementation and use of the 'accounting craft' (Hopwood, 1987, p. 207) , financial reporting has become a useful mechanism for holding companies accountable for their actions (Burchell et al., 1980; Louw & Maroun, 2017; Roberts, 1991).

Given their importance, it is pivotal that a company's annual financial statements (AFS) are seen as credible, accurate and useful documents (Levitt, 1998; Louw & Maroun, 2017; Rodrigues & Craig, 2007). One way of achieving credible AFS is through a legitimate accounting framework (Maroun & van Zijl, 2016). International Financial Reporting Standards (IFRS) are an example because they have been adopted by over 165 countries (IFRS Foundation, 2017). Any company which complies with IFRS is seen to have adopted sound reporting practices and is legitimate (for more see DiMaggio & Powell, 1983). This improves the credibility and usefulness of the entity's financial records (see Rodrigues & Craig, 2007; Suchman, 1995).

The preparation of a company's AFS using IFRS is a technical process which relies on experts such as auditors and accountants (Unerman & O'Dwyer, 2004). Many users of AFS are not experts and lack access to the underlying information considered when compiling a set of AFS. These non-experts are unable to evaluate whether the AFS have been prepared in accordance with IFRS (Unerman & O'Dwyer, 2004). Users must trust that the accountants and auditors have performed their functions appropriately when completing the AFS. Without this trust, the reliability and credibility of a company's AFS is diminished (Unerman & O'Dwyer, 2004).

Following numerous accounting and auditing scandals, the public's trust in auditors and accountants has been weakened (Cooper et al., 2013; Francis, 2004; Gavious, 2007), resulting in a loss of faith in published AFS. The public has lost faith in accountants' and auditors' ability to regulate their professions (Black, 2008; Botzem, 2014). This has contributed to and has expedited the introduction of increased laws and regulations[1] in the hope that these will help restore the public's faith (Black, 2008; Botzem, 2014; Daniels & Booker, 2011; Maroun & van Zijl, 2016).

[1] Some of these laws and regulations are: mandatory audit firm rotation, reportable irregularities and the Continuing Professional Development Act (Labuschagne & Els, 2006; Rademeyer & Schutte, 2018).

One of these regulatory reforms has seen the creation of independent monitoring bodies. Examples include the establishment of the Public Company Accounting Oversight Board (PCAOB) and Securities and Exchange commission (SEC) in the United States of America (USA). In the United Kingdom (UK), the Financial Reporting Council (FRC) is responsible for the monitoring of companies listed on the FTSE 350. (Church & Shefchik, 2012; FRC, 2014). A similar role is fulfilled by the European Securities and Markets Authority (ESMA) in the European Union (Moloney, 2011). In South Africa the Johannesburg Securities Exchange (JSE) established the Proactive Monitoring Unit (PMU) in 2011. The PMU was established to act as an external monitoring body over JSE listed companies' financial statements (JSE, 2011).

Currently, there is little academic research exploring how the above external monitoring bodies function. Most of the research on these bodies investigates whether or not they are effective in achieving their aims and not on why they are effective (see Flowers, 2019; Vakkur et al., 2010). There is little understanding about what drives companies to comply with the requirements of these monitoring bodies. This limited understanding means that monitoring bodies may not able to adjust their review processes appropriately to enhance compliance with their view of the applicable accounting standards. This thesis addresses this omission and provides monitoring bodies with an understanding of what elements of their process improves compliance. It investigates whether or not principles of discipline and punishment, as described by Foucault (1977), contribute to the effective functioning of the PMU. By examining the PMU, this thesis will add to the findings of Louw and Maroun (2017). They found that the PMU resulted in isomorphic pressures on preparers of AFS to comply with IFRS. This thesis provides an alternate perspective of how monitoring bodies operate as neither viewpoint is likely to work in isolation nor achieve complete compliance (see van Zijl & Maroun, 2017).

Few researchers have used Foucault's disciplinary principles as a theoretical framework in a corporate governance context (Mennicken & Miller, 2012). The existing research that has considered the relevance of disciplinary principles finds evidence of disciplinary power at work in specific IFRS standards (van Zijl & Maroun, 2017). In using a Foucauldian-inspired theory, this thesis adds to the research which examines a link, from a corporate reporting perspective, between 'accounting systems, technologies of accountability, and modes of shaping social relations' (Mennicken & Miller, 2012; van Zijl & Maroun, 2017, p. 43). It considers if the PMU achieves a sense of enclosure, efficiency and surveillance to create a 'valid expectation of enhanced financial reporting practices on the part of users of financial statements' (van Zijl & Maroun, 2017, p. 43).

This thesis will be of interest to a broad number of individuals such as policy makers, standard setters and regulators. It will highlight how these monitoring bodies function to promote compliance with IFRS. Similar to Louw and Maroun (2017), this thesis aims to add to the understanding of the rationale of setting up an independent monitoring body. It also addresses the calls for additional interpretive research which examines how regulatory systems operate in a real-world setting (A more detailed consideration of the contributions have been provided in section 5.2) (Broadbent & Unerman, 2011; Cooper & Robson, 2006; Mennicken & Miller, 2012).

1.2 Research question

Is there evidence of disciplinary power at work in the PMU's functioning[2]?

1.3 Assumptions

The research assumes that a company's compliance with IFRS leads to financial statements which are high quality, relevant and reliable to users (IASB, 2018). Another assumption is that modern society lacks a finite truth. Rather, the truth for a society is a social construct based on taken for granted 'facts' (Broadbent & Unerman, 2011, p. 9) which change as society changes (O'Dwyer et al., 2011; Rodrigues & Craig, 2007; Walsh & Stewart, 1993).

1.4 Limitations and delimitations

- This study does not discuss the preparation of integrated reports since the focus of the PMU is on financial reports (JSE, 2011).
- Specific compliance or non-compliance with IFRS will not be examined in detail.
- The thesis deals only with South Africa and the PMU. The presence of disciplinary power in the international regulators presented is not explored; these bodies are discussed to highlight the context of international external monitoring bodies.

2. Literature review

2.1 International monitoring bodies

The introduction of the Sarbanes-Oxley Act of 2002 (SOX) in the USA led to the creation of the PCAOB (Francis, 2004). The PCAOB is focused on issues relating to auditors and so will not be discussed further. More relevant for the purpose of this research is the role of the SEC (PCAOB, 2019).

The SEC aims to protect investors, maintain fair, orderly, and efficient markets and facilitate capital formation. The SEC monitors and promotes disclosure of important market information and fair dealings in order to protect market participants from fraud. They do this by reviewing

[2] It is expected that the normalising judgement as a result of the surveillance by the PMU will contribute to the functioning of the PMU's process

listed companies' filings (Flowers, 2019; SEC, 2019). In addition to reviewing disclosure requirements, they provide companies with assistance in interpreting the SEC's rules while recommending new rules for the SEC to adopt (SEC, 2019).

SOX requires that the SEC reviews a company's filings at least once every three years. Should they wish, the SEC can perform reviews more frequently. The SEC uses its division of corporate finance to assist in the monitoring of financial statements disclosure. The division's staff routinely review the disclosures which are filed by listed companies. The focus is on critical disclosures conflicting with the SEC's rules or applicable accounting standards, for example any disclosure which contravenes U.S. Generally Accepted Accounting Principles (U.S. GAAP) (Edmonds & Leece, 2017; SEC, 2019).

The SEC do not inform a company of when they are being reviewed. The company is only aware of the review should they receive a comment letter (Brown et al.; Edmonds & Leece, 2017; SEC, 2019). Should a potential problem be detected, the SEC sends the company a comment letter detailing what has been detected. The company can either send a response letter to the SEC clarifying the matter or amend the problem under review. If a response letter is sent, the SEC and the company remain in communication until the issue is resolved. Where an amendment is required, the company at fault often has to revise its AFS or add footnotes explaining the problem (Brown et al., 2018; Edmonds & Leece, 2017; SEC, 2019).

The USA have given the SEC powers to assist it in carrying out its mandate. The SEC can impose minimum reporting requirements by refusing to allow a company to file its financial results. This stops them from obtaining a listing or trading on the securities exchange (Hines et al., 2001; Louw & Maroun, 2017). The SEC is able to take civil or administrative action against any companies it deems to have contravened its rules (SEC, 2019). This improves the SEC's monitoring abilities and ensures that companies are accountable for their financial reports (Edmonds & Leece, 2017).

A recent study by Johnston and Petacchi (2017) explored the effect the SEC reviews have on enhancing and maintaining the reporting quality of USA listed companies. They considered the impact comment letters had on various aspects of the companies reviewed. The information asymmetry among USA companies before and after an SEC comment letter was analysed. The earnings quality of companies before and after an SEC comment letter was investigated. Information asymmetry among USA companies decreased following an SEC review. Following a review, the increased disclosure required by the SEC is improving the quality of financial reporting (see Johnston & Petacchi, 2017). The increased disclosure released by a company also improved the market's perception of the company's earnings quality. They concluded that these improvements to the reporting quality of the USA indicate the benefits of having the SEC review process (Brown et al., 2018; Johnston & Petacchi, 2017).

The UK's FRC is focused on high quality corporate governance to ensure that investors have reasonable confidence in their investments. They periodically review the AFS of companies listed on the FTSE 350. Their review is focused on compliance with the relevant accounting standards[3] (FRC, 2014). Before 2012, the Financial Reporting Review Panel (FRRP) was in charge of performing these reviews (FRC, 2017). In 2012, the FRC created a sub-committee, the Conduct Committee (CC). The responsibility of monitoring companies AFS was passed from the FRRP to the CC (FRC, 2014). The FRRP became a specialised unit within the FRC. When the CC comes across a complex case, or when it is unable to reach a common understanding of the issue with the company, a review group of FRRP members is set up to resolve the matter[4] (FRC, 2018).

The CC selects companies to review on a rotational basis. This review is known as a full review. All companies are reviewed at least once every five years. A company will also be reviewed as a response to a complaint or referral from other regulators or individuals (FRC, 2018).

After reviewing the selected companies' AFS, the CC send letters to the Chairmen of all the companies reviewed (this is irrespective of the reviews findings). A copy of the letter is also sent to the respective company's finance directors and audit committee chairman. The CC require a timely response to the letter[5]. The contents of the letters are informed by the CC's findings (FRC, 2018). Where no or immaterial issues are detected the CC's letter details this. The letter informs the company that no response is required. These letters may include an appendix of the less significant matters detected and it may include recommendations on how the company can improve the general quality of its reporting (FRC, 2018).

Where the CC detect a problem in a company's AFS, the letter sent will explain this. It identifies the areas of concern and invites the Chairman or their nominated representative to comment on the problems. The letter will request that the company responds within 28 days (FRC, 2017, 2018). There may be several rounds of communication between the CC and the company at fault before the matter is resolved. The issues are often resolved through explanations or the revision of the problematic aspect of the AFS under consideration. These revisions can either be in the company's next AFS or they are forced to re-issue their AFS, along with a press

[3] The FRC monitors both IFRS compliance, as well as UK GAAP compliance. However, the majority of companies reviewed use IFRS (FRC, 2019a).
[4] This is a very similar relationship to that of the PMU and the FRIP (see Section 2.2.1)
[5] This is currently around 31 days (FRC, 2019a).

notice referencing the CC's findings (FRC, 2018). Where a company amends the problem in the following financial year, the FRC will ensure that the issue is amended in the company's next AFS. Should a company fail to make the required changes, the CC will re-open the case (FRC, 2019a).

The CC also performs an annual thematic review. These are focused on targeting a specific area within the AFS of selected companies for review. The selection of an area is based on two aspects. Firstly, areas of emerging risk are considered, such as a new accounting standard. Secondly, any areas which require improved quality to meet the reasonable expectations of investors are selected. This is often informed by problems identified in the CC's findings from the previous year's full reviews. The companies selected for the thematic review are different to those selected for the full review. The selection process for both reviews is the same (FRC, 2018). The CC may write to a sample of selected companies, prior to their year-end, informing them that they we will be subject to a thematic review in their next published reports. These companies are afforded an opportunity to target the problem areas in advance of publication. This is aimed at prompting improvements in their AFS without regulatory intervention. The process of performing the thematic review is the same as the full review (FRC, 2018).

Each year following the review processes, the FRC release an annual review report detailing their monitoring activities. The report does not name all companies which were reviewed by the FRC. Only the companies which have been forced to issue a restatement of their AFS are named in the report. The FRC release the report with the aim of helping companies improve the quality of their corporate reporting (FRC, 2019a).

The CC's legal powers are derived from the UK's Companies Act of 2006. The CC can apply to the court for a declaration that a company's AFS do not comply. The court can then order the company to revise its AFS in accordance with the CC's findings. The CC only involve the courts when a company refuses to comply. The FRRP has succeeded always in resolving its cases without using the courts. To date the CC have also not needed to use the courts to force a revision (FRC, 2018, 2019b). The FRC and CC are 'prescribed persons' for the purposes of whistleblowing legislation (FRC, 2017, p. 3). An employee can disclose information to the FRC and/or the CC relating to suspected or known non-compliance by their employer with the relevant legislation. These powers are intended to assist the FRC in enhancing the quality of corporate reporting in the UK (FRC, 2017).

The FRC not only monitors the accounts of public companies but they also monitor the quality of audits performed for listed companies (FRC, 2014). Porter et al. (2012) suggest that the existence of the FRC and its monitoring function leads to better corporate reporting in the UK.

This is indicative of how the FRC is using its monitoring function to achieve its objectives of quality corporate reporting by listed companies (FRC, 2014).

The last international monitoring body considered in this thesis is ESMA[6]. ESMA was established in 2011 by the EU as a response to the 2008 global financial crisis. ESMA aims to increase investor protection and promote stable, transparent and orderly financial markets (Di Noia & Gargantini, 2014). This is achieved through the regulation and supervision of financial reporting of companies listed on regulated markets in the EU. These reviews are focused on ensuring that these companies have complied with the relevant financial reporting framework when publishing their AFS. From 2018 onwards ESMA have expanded their reviews to include non-financial information and alternate performance measures published by listed companies (ESMA, 2019).

ESMA is unable to perform its supervisory role alone because of the large number of countries which belong to the EU (Di Noia & Gargantini, 2014; ESMA, 2019). The monitoring bodies of the respective EU countries are used in assisting ESMA with its yearly reviews. These bodies are known as European Enforcers (EEs). These EE's must perform their reviews in accordance with an enforcement guideline ESMA published in 2014. This allows ESMA to co-ordinate the various EE's monitoring activities, enhancing supervisory convergence within the EU (Di Noia & Gargantini, 2014; ESMA, 2019).

To facilitate the co-ordination of its reviews ESMA has European Enforcers' Co-ordination Sessions (EECS). EECSs allow ESMA and the EE's to meet and discuss emerging problems, as well as obtain guidance on technical issues that have been detected with regards to their reviews. These discussions also ensure that all EE's have a similar understanding of how to apply the principles of ESMA's enforcement guideline when performing their reviews (ESMA, 2014, 2019). The EECSs help ESMA obtain an understanding of what the level of application of IFRS is in the EU and what the most challenging topics are for issuers. The EECSs further contribute to the enhanced supervisory convergence within the EU. This increases the quality of corporate reporting in the EU and investor confidence in the EU market (ESMA, 2019).

An important activity for ESMA is having yearly European Common Enforcement Priorities (ECEP). These are discussed and decided at an EECS. The ECEPs are influenced by recurring enforcement matters and areas of significant risk, such as a new IFRS being implemented. The ECEPs are then communicated to the public before the preparation, audit and publication of that year's AFS. ESMA believes that announcing the ECEPs before the

[6] The JSE benchmark themselves against the ESMA by comparing their PMU results with those of the ESMA results annually (JSE, 2018). This comparison is done for 'information purposes' (JSE, 2018, p. 16) to indicate to users that there are other monitoring bodies in existence.

finalisation of AFS allows preparers to be aware of the problems when compiling their AFS. This is supposed to decrease misstatements and contribute to the uniformity and quality of corporate reporting in the EU (ESMA, 2019).

ESMA or the EE's will select companies for review using a risk-based approach in combination with a rotational approach. Having selected the companies for a particular year, it is up to the applicable EE to decide on the scope of the review. The scope can either be an unlimited examination or a combination of unlimited and focused examination (ESMA, 2019). An unlimited scope entails the review of the entire AFS of the applicable company. The focused examination is more concerned with reviewing pre-defined specific areas of the company's AFS. Whichever scope is selected, ESMA and the EEs are required to monitor the way in which companies address the ECEPs identified for the year (ESMA, 2014).

In accordance with the enforcement guidelines, ESMA and the EEs must release a public report each year detailing the monitoring activities they performed. In these reports it is left to the discretion of ESMA and the EE's on whether or not the companies reviewed are to be anonymous (ESMA, 2014). This report helps increase the quality of corporate reporting within the EU. The publication of these reports enhances the transparency of the work performed by ESMA and the EE's (ESMA, 2014, 2019).

Should ESMA or an EE identify a potential discrepancy in a company's AFS, they will communicate with the company at fault. The company is then required to explain their treatment of the problem and provide ESMA/EE with the supporting information. This communication is ongoing until a conclusion is reached between the two parties. ESMA or an EE have three options available to them when there is a material misstatement (ESMA, 2019). Firstly, they can require the re-issuance of a company's AFS. These new AFS will be subject to a new audit opinion. Secondly, they may request a corrective note to the AFS, publicised by either the company or the EE. Lastly, they may request that a correction to the matter be made in the company's next AFS. This means that ESMA has the role and power to monitor and enforce compliance with IFRS within the EU (ESMA, 2019).

2.2 The PMU

In South Africa the FRIP has existed since the early 2000's. This was when the JSE and the South African Institute of Chartered Accountants (SAICA) formed the GAAP Monitoring Panel (GMP) to monitor listed companies' compliance with IFRS (JSE, 2011). In 2011; the JSE recognised a need for change, based on the diminishing trust in auditors and accountants and created the PMU (Botzem, 2014; Flowers, 2019). '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 & van Zijl, 2016, p. 234). The PMU addresses this risk.

Following the creation of the PMU and the JSE's desire to be more proactive, the GMP was rebranded as the FRIP (JSE, 2014). The FRIP wrote a new charter detailing the change in the basis of its functioning. The GMP had functioned on a reactionary basis. It explored and reported on suspected cases of non-compliance with IFRS only when these cases were referred to it by the JSE or other stakeholders (Flowers, 2019). The FRIP now operates as a special unit within the PMU as a pro-active regulator (JSE, 2011). This updated FRIP still 'continues to deal with any queries directed to it by the JSE from either internal or external sources' (Louw & Maroun, 2017, p. 271).

The PMU is the main body in charge of performing financial statement reviews. As required, the PMU will refer cases to the FRIP – these are cases where there is a dispute between the JSE and the issuer. Following their review, the FRIP will make recommendations to the PMU of whether there is non-compliance and, if there is, what actions the FRIP thinks would be appropriate. It is then the PMU's decision on how to proceed with the issue (JSE, 2011). The PMU's existence as an extension of the JSE, in conjunction with the FRIP, offers a body of qualified individuals working to attend to non-compliance with IFRS. As a consequence of the PMU's proactive reviews, there may be a degree of monitoring which they perform over auditors. In this regard the PMU may also, to some extent, exert disciplinary power over these auditors[7] (Flowers, 2019; JSE, 2016).

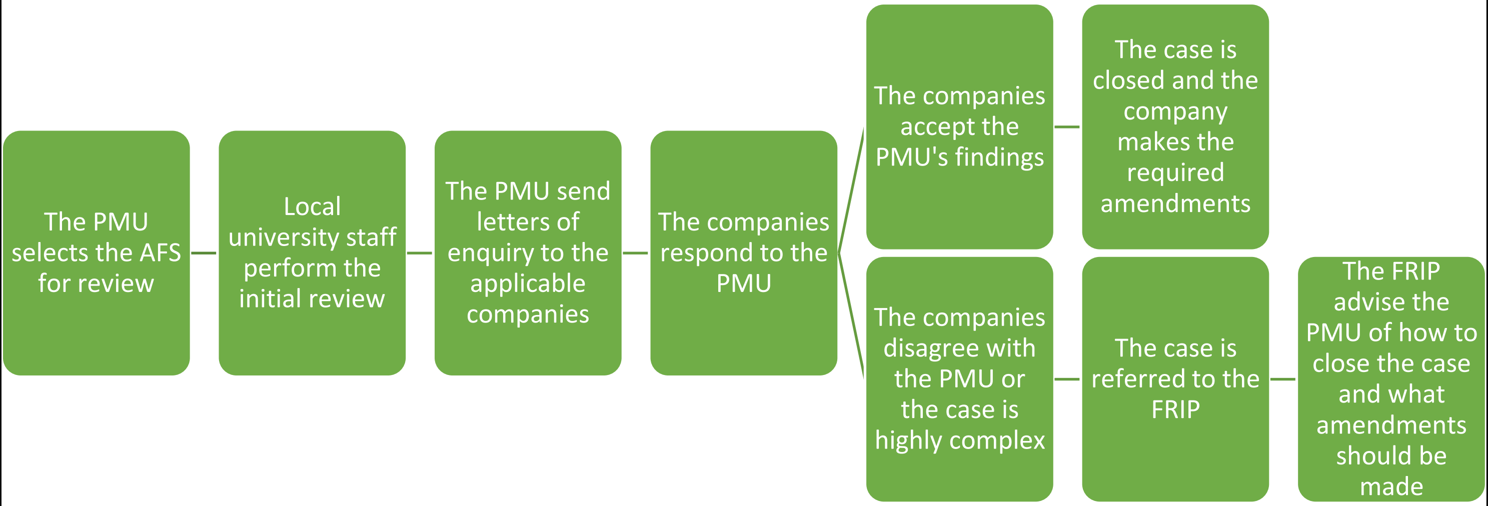
The PMU provides the JSE with a body capable of reviewing the AFS of listed companies proactively. This strengthens the integrity of these financial statements and contributes towards the production of high quality corporate reporting in South Africa (JSE, 2018). The PMU aims to review every listed company's financial statements at least once within a five-year cycle to detect any issues proactively. The selection of companies by the PMU in a given year is mostly done on a random basis. The PMU attempt to select and review some companies from each sector of the JSE every year (JSE, 2014). This allows them to have a selection of AFS which deliver a proportional depiction of the whole market. There are instances in a particular year when a company's AFS will be targeted because of the presence of specific risk factors (JSE, 2016). The PMU do not inform a company that they have been selected for a review. Upon selection of the companies, the PMU follows a risk-based approach to the review process. They are not concerned with a detailed assessment of compliance with every aspect of IFRS (JSE, 2018). The PMU is focused on specific accounting standards which, at the time of the review, are causing or may cause significant compliance

[7] Please note that this is not in the scope of this paper and is considered an area for future research.

problems for the JSE. The PMU also takes into consideration problems motivated by the business environment and certain situations which do not appear to be consistent with the entity in that year (Flowers, 2019; JSE, 2018).

An integral aspect of the review process is the JSE's collaboration with a local university (JSE, 2011). Having selected the AFS for a specific year, the PMU will send them to the UJ staff who perform the initial review. The staff then prepare a report on each set of AFS and hand these reports to the JSE. The PMU use these reports as the basis for their actions (Flowers, 2019; JSE, 2018). If the review has found that a company's AFS are compliant with IFRS nothing further happens. These cases are closed immediately. The PMU does not inform the

Figure 1: The PMU's Review Process



respective companies that their AFS have been reviewed and no problems were found. Where there is suspected non-compliance with IFRS the PMU sends a letter of enquiry to the chair of the Audit Committee of these companies. Communication between the two continues until they reach a satisfactory resolution (JSE, 2011, 2019b). Cases of non-compliance which are extremely technical or cases where the PMU and the affected company have a disagreement on the IFRS treatment will be referred to the FRIP. The FRIP then performs an investigation and advises the PMU accordingly (JSE, 2018). The advantage – for the review process – of the FRIP's involvement is that, as an advisory body of the JSE, they can recommend how the JSE can ensure that these companies are compliant with IFRS (Flowers, 2019).

On conclusion of a case the PMU send a final letter to the chair of the Audit Committee containing a request of the necessary actions that the implicated company must follow to comply with the PMU's interpretation of IFRS. The request in each letter is dependent on the gravity of the non-compliance detected. There are four levels of non-compliance which the PMU use when requesting an amendment (JSE, 2019b).

Firstly, there is non-compliance that is immaterial and related to a disclosure issue. The PMU requests that the companies identified clarify or correct the disclosure issue in the future. Secondly, there is non-compliance which is not material but it has the potential to prejudice investors in the future. The PMU requests that the company at fault corrects the matter within the next published AFS to avoid potential investor prejudice. The third level of non-compliance is when the problem is material in terms of IFRS but it is not price sensitive. These companies are required to correct the problem in their next results announcement. The last level of non-compliance is when the issue is material and, in the opinion of the PMU, makes the published AFS not a faithful representation of the company's financial performance and position. The PMU will request that the AFS be corrected and re-issued as a re-statement of the previously released AFS. In this instance, the company must also make a public announcement drawing stakeholders' attention to the misstatement and restated financial statements. If the restatement arose as a result of a referral to the FRIP, the company's announcement must make reference to the FRIP and its findings (JSE, 2019b).

As a means of making issuers aware of the PMU's findings, the JSE release a yearly report detailing the activities and findings of the PMU. The report provides a detailed description of all the cases of non-compliance the PMU has dealt with. This discussion details what was done wrongly and what the right action is. Although the PMU are not an authority on interpreting IFRS, the use of the report is intended to assist companies in complying with the PMU's application and interpretation of IFRS (JSE, 2019b). The companies reviewed are kept anonymous. The JSE have specifically requested that the Audit Committee of all listed companies consider the report each year when preparing their AFS. All companies must provide the JSE with confirmation that this has been done. This is usually indicated either by sending a letter to the JSE or through a statement in the integrated report (JSE, 2019b).

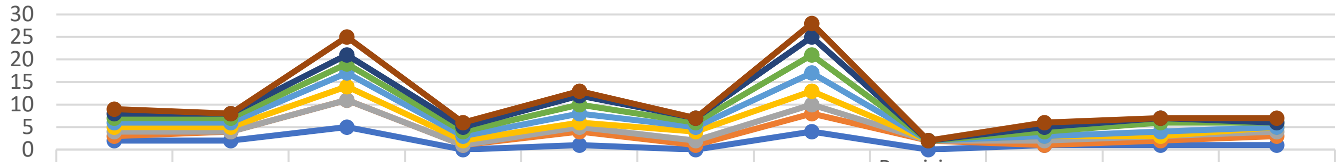
The JSE, assisted by the FRIP, issue IFRS circulars to the public when the JSE deem it necessary. These are detailed guidance letters explaining how certain aspects of a particular IFRS should be implemented. The circulars are considered necessary when the PMU's reviews detect a common misapplication of an IFRS repeatedly. The aim of releasing the circulars is to enhance compliance with IFRS, improving the quality and credibility of listed companies' AFS (Flowers, 2019).

The PMU, as a division of the JSE, obtains its legal power from the Financial Markets Act 19 of 2012. This provides them with the ability to enforce legally that all listed companies comply with the JSE's listing requirements (JSE, 2013a). The PMU's legal influence to enforce compliance with IFRS, as this is a listing requirement, partly enables it to carry out its mandate and enhance the quality of corporate reporting in South Africa (Flowers, 2019; Louw & Maroun, 2017).

2.2.1: The results of the PMU's work

Flowers (2019) performed an analysis of the work done by the PMU from its inception in 2011 to 2018. The data were analysed from the PMU's 2012-2019 reports which detailed the PMU's findings in the prior year (in other words, the 2012 report detailed the findings of 2011). This analysis was performed with the intention of determining what impact the PMU's monitoring function and reports have had on the AFS issued by JSE listed companies.

Figure 2: Issues per year by category

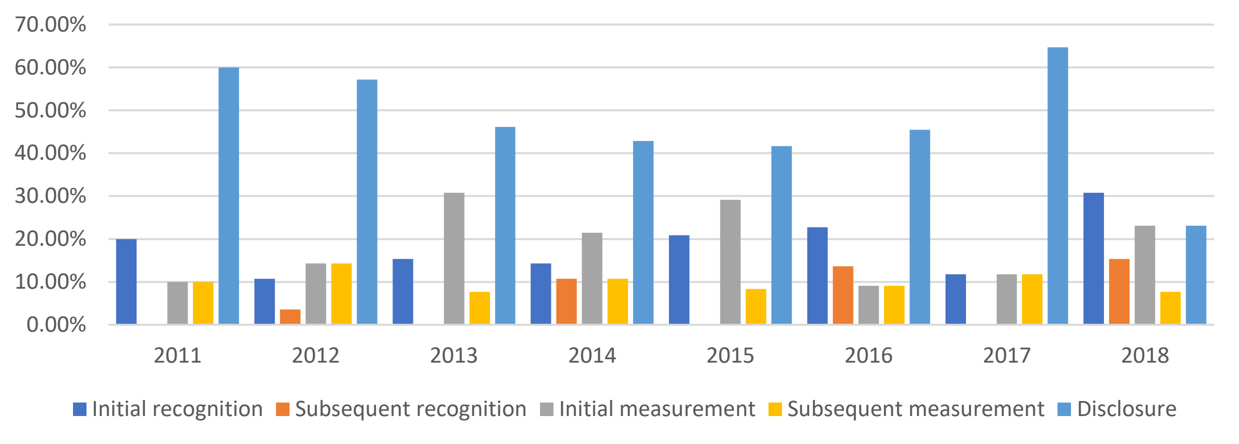


	Cash flows satement	Current and deferred tax	Equity and investments in other entities	Fair value, foregn exchange	Impairments	PPE&IP	Presentation and disclosure	Provisions and post-balanace sheet events	Revenue	Segmental and interim reporting	Share-based payments
2018	1		4	1	1		3		1		1
2017	1	1	2	1	2	1	4		1	1	
2016	1	1	2	1	2	1	4		1	2	1
2015	1	1	3	1	2	1	4			1	
2014	1	1	3	1	1	2	3		1		1
2013	1				1	1	2		1	1	1
2012	1	2	6	1	3	1	4	2		1	2
2011	2	2	5		1		4		1	1	1

According to Figure 2, IAS 7 is being misapplied constantly. The PMU reports explain that when dealing with IAS 7 companies are making the same errors every year. Companies are continually including non-cash items in the statement while incorrectly classifying items between operating and investing activities (JSE, 2015, 2016, 2018). This is a worrying trend for the PMU as, despite their attempts to make preparers aware, these preparers seem to be unable or unwilling to correct the problems in the cash flow statement (Flowers, 2019).

Contrary to IAS 7, the equity and investments in other entities appear to indicate how the PMU's work is improving compliance with IFRS. In 2011 and 2012, the PMU found that many companies were consistently misapplying IFRS 2 and IAS 33. As a response, the JSE aided by the FRIP, issued an IAS 33 circular along with a guidance letter for IFRS 2 in 2013. The circular explained how certain aspects of headline earnings should be dealt with. The guidance letter detailed how certain cases of cash-settled share options should be correctly applied (JSE, 2014). The reaction to these letters appears to have been positive in terms of compliance with IAS 33. The issues detected by the PMU relating to equity and investments appears to have steadily declined since 2013. It appears that the PMU has used its review process to increase compliance with IFRS and aid companies in calculating and disclosing earnings per shares that are more in line with IAS 33 (Flowers, 2019).

Figure 3: Percent of issues detected per year*



***No bar indicates that no issues for that category was detected in that year**

According to Figure 3, and considering Figure 2, presentation and disclosure is the most problematic area for preparers of AFS to comply with[8]. Given the subjective nature of the presentation and disclosure requirements of IFRS, this is an expected finding (JSE, 2013b). The threat presented by management is two-fold. They are subjective in disclosing information and they have a self-interest in the information presented in the AFS. Combined, these factors can create a lack of transparency in AFS (Maroun & van Zijl, 2016). The PMU's work means inadequate disclosures are not left undetected. The detection and subsequent correction of the disclosure problems improves the faithful representation of the respective AFS. Despite disclosure issues increasing (according to figure 1 and 2), the PMU's work appears to be improving South Africa's corporate reporting with the detection and correction of such issues (Flowers, 2019; JSE, 2018).

Figure 4 indicates that the PMU's reviews appear to have improved compliance with IFRS. The number of material misapplications detected per year has predominantly been in a declining trend.

Following the PMU's first year of reviews, it was expected that their process would become more effective and efficient, resulting in the detection of more matters. This explains the increase in material problems detected in 2012 (JSE, 2013b). The 2013 review saw the number of material cases dealt with decline by 5.4% suggesting that the reviews were

[8] Disclosure issues account, for on average, 47.63 percent of problems detected per year.

enhancing material compliance with IFRS (JSE, 2014). The increase in material cases dealt with by the PMU in 2014, 2015 and 2018 appear to be a contradiction of the trend which started to develop in 2013.

An investigation into the PMU's review process for those years revealed a logical explanation for these unexpected increases. The increase in 2014 appears to be 'due to a more risk-based selection approach undertaken by the JSE in this period' (JSE, 2015, p. 6). In 2015 new accounting standards were introduced and implemented. The misstatements identified by the PMU increased because of companies having to implement these standards for the first time (Flowers, 2019; JSE, 2016). Management are afforded discretion regarding the interpretation and application of new accounting standards. As a result, the increase in material items in 2015 was expected (see Maroun & van Zijl, 2016). The increase in 2018 is because of the PMU amending their review process in light of the recent accounting and auditing scandals in South Africa. This revised approach led to the PMU asking more questions than they had in prior years which resulted in the detection of more material cases. In conjunction with the adoption of new standards, IFRS 9 and IFRS 15, the increase in material matters detected in 2018 appears to be reasonable and expected (JSE, 2019b).

Figure 4: Percent of material items per year

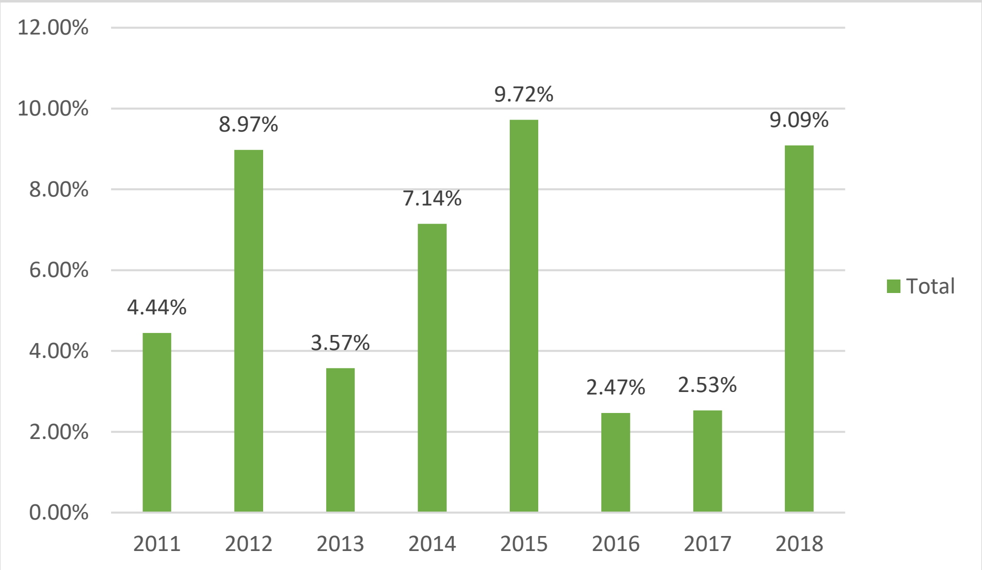


Figure 4 illustrates how the PMU is constantly improving its processes in order to detect more material misstatements (Flowers, 2019).

The positive results of the PMU are encouraging in a South African corporate reporting context. How the PMU achieves these results is, however, under-researched. This presents an opportunity for this thesis to explore how the PMU encourages compliance. This thesis will now consider Foucault's principles of disciplinary power and control as a means of understanding how the PMU functions.

2.3 Theoretical framework

Foucault (1977) did not specifically consider accounting as a source of power and control. This does not mean that his theory of a disciplinary society is irrelevant in an accounting setting (Hoskin, 1994; Mennicken & Miller, 2012; Quattrone, 2004; Walsh & Stewart, 1993). Foucault (1977) believed that the disciplinary practices which underlie a disciplinary society may be used to produce 'individual subjects as docile and obedient bodies necessary to the capital accumulation process' (Hopper & Macintosh, 1993, p. 185). There is a unique opportunity for this thesis to apply Foucault's theory of disciplinary power and control as a framework in understanding how the PMU is able to enhance compliance with IFRS.

According to Foucault (1977), three principles underlie the manner in which a disciplinary society functions: enclosure, the efficient body, and hierarchical surveillance culminating in correcting sanctions. Each is discussed briefly below.

2.3.1 The principles of disciplinary power

Enclosure begins with the general confinement of an individual within a defined space. The intention is to contain him in a repetitive disciplinary state. Enclosed within an area, the individual needs to be partitioned. Partitioning comprises of dividing up 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.

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

The use of partitions enables the measurement, assessment and ranking of the individual against the relevant benchmark of his partition (Hopper & Macintosh, 1993). The individual becomes defined by his rank. He can be subject to control if assessments and rankings are complemented by a system of rewards and penalties (Hopper & Macintosh, 1993; Hoskin & Macve, 1988).

The isolation of the individuals in their partitions, combined with assessment and ranking, renders them subject to control. They are mindful that any performance below the benchmark will be discovered and dealt with accordingly. It is this fear of being discovered which encourages compliance. Each partition is transformed into a functionally useful space where tight control can be exercised (Hopper & Macintosh, 1993; Hoskin & Macve, 1988; van Zijl & Maroun, 2017; Walsh & Stewart, 1993).

Next, the principle of the efficient body, which allows for the disciplining of time, needs to be brought to ‘bear’ on the object of surveillance (Hopper & Macintosh, 1993, p. 194).

First, there needs to be a carefully scheduled timetable (Hoskin & Macve, 1988). A timetable stipulates when specific activities and routines are to be executed in each partition (Hopper & Macintosh, 1993). The careful planning and scheduling of activities increases the efficiency of the processes being performed by developing a routine within the individual (Hopper & Macintosh, 1993). Individuals can be programmed to act according to asset regiment. Their actions become monotonous and automatic rendering them passive but efficient. (Hopper & Macintosh, 1993; van Zijl & Maroun, 2017).

The temporal elaboration of the act refers to the specification of the exact manner and sequence in which an action must be performed. The temporal elaboration is subtle. It coerces the individual into compliance by providing a restrictive guideline on how it is achieved (Maroun & Atkins, 2014). This ensures that ‘the detailed prescriptions (the knowledge) carried in the regulation (the discourse) and imposed on each individual (power) converted him or her into a manoeuvre…’ (Hopper & Macintosh, 1993, p. 195).

‘Dressage or correct training’ (Hopper & Macintosh, 1993, p. 196) is seen as the third practice of the efficient body. It is intended to ensure the exhaustive use of time by the subjected individual. The individuals develop a reflexive response to the situations they are presented with while performing their duties. The extensive and precise training encourages each individual to respond in a predetermined manner when exposed to specific triggers. This should result in the individual performing his duties exactly as desired by his superiors and in compliance with his training. The aim is to create a docile subject who follows his instructions without question (Hopper & Macintosh, 1993; van Zijl & Maroun, 2017).

The efficient body principle is not as open as the other principles. It is a more insidious principle. It must be used delicately to avoid weighing too severely on the individual and making him aware of its presence (Hopper & Macintosh, 1993). This will allow the principle to function in such a manner that ‘the individual functions as [an] obedient, docile and willing [body]’ (Hopper & Macintosh, 1993, p. 196).

Foucault (1977) believed using the instruments of hierarchical surveillance, normalising sanction and persistent examination — within the Panopticon — would lead to the successful imposition of the enclosure and efficient bodies principles (Hopper & Macintosh, 1993; Maroun & Atkins, 2014; van Zijl & Maroun, 2017).

Hierarchical surveillance refers to a specific type of 'gaze' (Hopper & Macintosh, 1993, p. 198). It is achieved by creating a surveillance device, the Panopticon[9], which allows the watcher to gaze upon the watched without being visible to the subject. This creates the impression within the subject that he is constantly visible and always being monitored.

The Panopticon's design creates a central eye for the watchers. The Panopticon consisted of a central tower that looked out in all directions which was surrounded by layers of solitary cells. 'The cells, or cages, acted as tiny theatres, putting each inmate on the stage, alone and individualized, but with uninterrupted visibility from the central tower' (Hopper & Macintosh, 1993, p. 203). The central tower's blinds were designed so that those in the tower could see into the cells but they were kept unseen from the prisoners (Cowton & Dopson, 2002). The prisoner was unable to see who was monitoring him but, through the view of a shadow in the central watch tower, he was aware that someone may be monitoring him. The design meant that it did not matter who was watching the prisoners. One person, be it a warden, guard or spectator in the watchtower, created the impression that each prisoner was being watched even though this may not be the case (Hopper & Macintosh, 1993).

The thought of potentially being under observation instilled an anxiousness in the prisoners. They became inclined to conform with the prison's training out of fear that they were being watched (Cowton & Dopson, 2002; Hopper & Macintosh, 1993). Even when not being watched, these prisoners started to self-monitor their actions. Their desire to act in accordance with the rules led them to an internalised self-discipline. This was aimed at transforming the prisoners into docile and obedient individuals (Brivot & Gendron, 2011; Cowton & Dopson, 2002; Hopper & Macintosh, 1993).

The warden could alter the behaviour of the prisoners without having to resort to physical force or violence or bear the costs of actually monitoring each individual constantly and in great detail. The Panopticon functions in an insidious manner by affecting the mind of the subject making him constantly visible and controllable (Cowton & Dopson, 2002; Hopper & Macintosh, 1993; van Zijl & Maroun, 2017).

Having become visible, the individual can be examined[10]. The individual's capabilities are subject to a constant examination and comparison against this pre-determined benchmark. Examinations enable the individuals to be ranked and compared against one another for public scrutiny (Hopper & Macintosh, 1993; van Zijl & Maroun, 2017). Continuously examining

[9] The use of the Panopticon by Foucault (1977) is modelled on Bentham's Panopticon and the panopticon is an architectural structure which enables the effective subjugation of its victims by encompassing the principles of disciplinary power and control (Hoskin & Macve, 1988).
[10] The use of examinations requires there to be an objective norm or standard which is used as the measurement basis.

individuals provides a constant and permanent record of prior and current behaviour, compliance and ranking. Their actions and compliance with society's norms are made visible. The permanent nature of records means it can be used against the individual at any point in time. The individual knows that any transgression is unlikely to be erased (Brivot & Gendron, 2011; Hopper & Macintosh, 1993). The persistent examinations result in the individual being continuously assessed. 'Constantly in the light, each individual could be seen, examined, categorized, rated, sanctioned and normalized' (Brivot & Gendron, 2011; Hopper & Macintosh, 1993, p. 202; Hoskin & Macve, 2000).

For hierarchical surveillance and persistent examinations to alter the subject's mind there needs to be a system of rewards and penalties (normalising sanctions). The sanctions must not be physical or criminal but they should be subtle and work on the mind of the subject as the purpose of these sanctions is 'to correct behaviour and minimize non-conformism' with the individual's training (Hopper & Macintosh, 1993, p. 200). Sanctions allow the disciplinary system to exert a constant pressure on each individual's mind. The individual is fearful of being found non-compliant which would result in his being penalised and highlighted as abnormal. These normalising sanctions result in the exertion of a constant pressure on the individual making him compliant, reliable and docile (Brivot & Gendron, 2011; Hopper & Macintosh, 1993).

The Panopticon allows for constant invisible supervision which provides the ideal means of disciplining space, time and the body (Hopper & Macintosh, 1993; Hoskin & Macve, 1988; Stewart, 1992). This thesis will use the Panopticon described by Foucault (1977) in a metaphorical sense when considering the design and functioning of the PMU.

Table 1: Summary of the principles of disciplinary power and control

Principal	Brief explanation of the principle
Enclosure	This is the metaphorical confinement of an individual to a particular area. It is required to ensure training and examination in sufficient detail.
Partitioning	This is the sub-division of the individual's role or functions into specific tasks, actions and time periods. This allows for the individual's role to be defined and monitored better.
Assessment and ranking	Once enclosed and partitioned, an individual's performance can be assessed and ranked according to his role within their partition.
Timetable	The use of a timetable allows for the careful scheduling of activities. This is to create a rhythm for the individual which ensures efficient use of the individual's time.

Principal	Brief explanation of the principle
Examination	The use of examination is to test the individual's compliance so as to rank individuals publicly. This, too, contributes to the subjugated's fear of becoming known to be non-compliant and judged by everyone else as a dissident.
Normalising sanction	This is the use of a rewards system for good behaviour instead of a punitive system for bad behaviour. This strives to promote compliance by enticing individuals with corrective rewards for compliant behaviour. Through public ranking systems, individuals are compelled to comply with their training in order to enhance their public ranking.
Temporal elaboration of the act	This is the specification of the exact manner in which the act must be performed and sequenced. This allows for the individual to be controlled, as he is coerced into performing his duty in the exact manner intended by those in charge.
Training	The individual is trained on how exactly his duty needs to be performed. This results in the subject developing a reflexive response to situations he is presented with. This, coupled with partitioning, renders the individual docile.
Hierarchical surveillance	This device creates the impression by the observed that someone may always be watching. The observed cannot see who is watching nor know the reason for being observed. This subtly coerces compliance as the observed is constantly fearful that he is being monitored and non-compliance with his training might become known.

2.4 Applying the Panoptic metaphor to the PMU

Although some academics have claimed that modern society is more complex than the Panoptic metaphor allows, the principles of disciplinary power and control can still be relevant for understanding how monitoring bodies function (Brivot & Gendron, 2011; Haggerty et al., 2011; Hoskin, 1994). This section provides a preliminary assessment of how monitoring bodies may be using the principles of disciplinary power and control to enhance the quality of corporate reporting in their respective countries. For the purpose of this research, the focus is on the PMU[11].

According to Maroun and Atkins (2014), from a regulatory perspective, the principle of enclosure is embodied in the prescription of the relevant laws. For the case of the PMU, the applicable 'law' is the IFRS. The JSE requires its listed companies to use IFRS to prepare their financial statements. This allows the PMU to 'enclose' the preparation of a company's AFS by using the complication of financials using the discourse developed by the IASB. (Hopper & Macintosh, 1993; Mennicken & Miller, 2012; van Zijl & Maroun, 2017). It also provides feedback on the application of specific standards (JSE, 2018).

IFRS as the applicable accounting framework provides the PMU with a benchmark to measure a company's AFS compliance. The PMU is then able to rank a company's AFS compliance based on its findings.

There are five possible outcomes from a PMU review (see Section 2.2.1) which can be interpreted as the PMU ranking[12] the level of compliance of a company's AFS. Any adverse ranking by the PMU casts doubt over the credibility of a company's AFS. The preparer's competency may also be identified as being deficient following an adverse ranking. This visibility and accountability should create fear in the preparer coercing him to comply with IFRS (Hopper & Macintosh, 1993; Louw & Maroun, 2017).

The PMU will review every company at least once in a five-year cycle while performing a review every year. The PMU's review process is given a sense of rhythm and regularity. As preparers are unaware whether their AFS have been selected for review, they feel as though they are being reviewed every year. They are left feeling as though they must be habitually

[11] However, the similarities between the various international monitoring bodies means that this discussion is relevant and applicable to the FRC, SEC and ESMA.

[12] The rankings are: compliant with IFRS, immaterial misstatement related to disclosure which must be clarified prospectively, immaterial misstatement which may prejudice investors in the future so it must be corrected in the next published AFS, material misstatement which is not price sensitive which must be corrected next period, major misstatement with the reissue of the current AFS and an announcement by the company on SENS explaining their transgression (Hoskin & Macve, 1988; JSE, 2018).

applied to the preparation process to avoid any instances of non-compliance (Hopper & Macintosh, 1993; JSE, 2018).

The PMU's report of the review process each year appears to be used as a way of training and specifying how the PMU believes IFRS compliance is achieved (Flowers, 2019). The PMU's report provides cases found where there was non-compliance with IFRS. This includes a detailed description of what the company, which is kept anonymous, did wrong. The PMU will explain what they believe is the correct IFRS treatment for each case to ensure compliance. The PMU appear to be training preparers by making them aware of the issues and then indicating what their correct treatment would be. Subliminally, these preparers appear to be trained to comply automatically with the PMU's interpretation of IFRS.

The PMU's review activities demonstrate the potential applicability of the Panoptic metaphor in explaining how they might be effective in enforcing compliance with their interpretation of IFRS without the significant burden of reviewing each company's AFSs in detail every year. In this theoretical Panopticon the PMU can act as the invisible eye of the JSE (Hoskin & Macve, 1988). The PMU does not inform a company that its AFS has been selected for review. The company is only informed of the review should the PMU detect a problem. Listed companies are seen but unable to know if they are being monitored. This 'gaze' created by the PMU is indicative of a system of hierarchical surveillance. The PMU appears to be trying to create a self-discipline within the preparers to encourage compliance. Preparers are constantly anxious that at any point in time the PMU may be reviewing their AFS. The intention is that this fear acts on the minds of the preparers, subliminally coercing them to comply with the PMU's wishes (Louw & Maroun, 2017; Walsh & Stewart, 1993).

The PMU's yearly review is representative of a constant examination of a company's AFS and its preparers' competence. The AFS represent immortal documents depicting preparers' abilities to comply with IFRS. The preparers are aware that any transgression will be permanently recorded. The fear of being labelled incompetent is aimed at coercing the preparer to comply (Hopper & Macintosh, 1993).

The PMU's normalising sanctions are subtle and aim to affect the image and minds of preparers. Where the PMU requires a restatement, the company at fault must publicly announce that their AFS were prepared incorrectly. Should this case have been referred to the FRIP, the announcement must also include reference to the FRIP and its findings. Being identified as non-compliant by the PMU/FRIP sends a strong negative signal to the market about the credibility of a company's AFS and the competence of the preparers. The intention is that this creates a sense of normalising judgement from the market. The potential judgement, from failing to adhere to the PMU's training and the codes of best practice (IFRS), should result in preparers feeling pressured to comply with the PMU's interpretation of IFRS (Refer to section 4.3 for detailed discussion of why preparers feel this pressure) (see Appendix B for an example of a restatement announcement).

3. Method

This section explains the method chosen to explore whether there is evidence of disciplinary power in the PMU's functioning. Section 3.1 examines the difference between positivist and interpretive research and explains the chosen approach. There is an explanation of the qualitative approach chosen in Section 3.2. Section 3.3 discusses the data collection while Section 3.4 explains the data analysis process in detail. Sections 3.5 and 3.6 discuss the validity and reliability, as well as the limitations, of the chosen method. Ethics clearance was obtained and is detailed in Appendix C.

3.1 Research paradigm

Positivist research enables the use of empirical methods as a means of exploring a phenomenon in an objective manner. It attempts to test these objective theories by investigating the relationships among the variables present. By investigating theories in such a manner this approach can generalise its results (Creswell & Creswell, 2017; de Villiers et al., 2019; Leedy & Ormrod, 2014).

Conversely, interpretive research is more subjective as the researcher is a part of the data collection and analysis (Cowton & Dopson, 2002; Creswell & Creswell, 2017; Leedy & Ormrod, 2014). Remote inferential testing is discarded in favour of more exploratory techniques, allowing for the interpretive objective to be achieved. The objective is to investigate and explore human behaviour. This method is able to incorporate important social features which might not be reduced, measured and studied in the positivist approach (Creswell & Creswell, 2017; van Zijl & Maroun, 2017). The validity and reliability are not dependent on an objective research method. They are enhanced through an exhaustive documentation of the findings and a thorough data collection and analysis process.

As this research is focused on testing a theory (see Section 2.3) while also investigating human behaviour, an interpretive worldview characterised by the need for pragmatism is adopted (Saunders et al., 2007). A qualitative method (detailed interviews) is used to collect data (Creswell & Creswell, 2017; O'Dwyer et al., 2011).

3.2 Method: detailed interviews

When exploring an under-studied area in financial reporting, it is believed that detailed interviews provide the best approach[13] (Creswell & Creswell, 2017; Rowley, 2012). A questionnaire was considered but was disregarded. The potential poor response rate in addition to the complexity of the principles of disciplinary power which could have skewed the results were the greatest considerations (Rowley, 2012). Questionnaires enable the generalisation of results because of their ability to obtain information from a larger number of influential individuals. This aspect of questionnaires is not relevant for this thesis as this research does not intend to generalise the results (Rowley, 2012).

Interviews can provide important insights which may further the understanding of the presence of disciplinary power in the PMU's activities. Interviews allow for the interviewee to lead the interview which enables the exploration of areas which might not have been apparent should a questionnaire have been used (Rowley, 2012). When the sample is made up of experts in key management positions, interviews are preferable. The experts' time is valuable so it is unlikely that the chosen respondents would take time in completing the questionnaire. These experts are more likely to provide the required facts, insights, experiences and opinions in an interview (Rowley, 2012; van Zijl & Maroun, 2017).

Lastly, when reading the prior literature which considered Foucauldian concepts of disciplinary power, it was observed that methods intended to generalise findings were not utilised. Hopper and Macintosh (1993), Walsh and Stewart (1993), Cowton and Dopson (2002) and Maroun and Atkins (2014) used interviews and/or case studies as a means of obtaining their findings. This highlights the success interviews have had in studying Foucauldian concepts of disciplinary power and control in accounting and management accounting further strengthening the use of interviews in this thesis.

[13] There is limited research and knowledge on the PMU and it is uncommon for studies on financial reporting to use a Foucauldian framework. This presented the risk that a quantitative approach would be unsuccessful (Louw & Maroun, 2017; van Zijl & Maroun, 2017).

3.2.1 Population and sample

Table 2: Details of interviewees				
Respondent reference	**Background (position held within respective company)**	**Approximate length of interview (Minutes)**	**Approximate years of experience (cumulative)**	**Has received a PMU letter or has a client which has received a PMU letter[14]**
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

Because of the relatively small population of individuals involved in preparing financial statements and engaging with the PMU, a purposeful sampling technique was used (Gentles et al., 2015; Leedy & Ormrod, 2014). This may introduce the risk of bias but it ensured that only individuals who have first-hand experience were engaged in the study. Their experience added to their answers and improved the details and accuracy of results (Engelbrecht et al., 2018; Lubbe, 2014; Viviers & Cohen, 2011).

Seventeen individuals were interviewed. The sample size was informed by the point when saturation of interview findings was achieved. It was noted that after interview 13 no new themes or findings emerged from the interviews.

Participants consisted of accounting academics, preparers of financial statements listed on the JSE, auditors and regulators. The 17 semi-structured interviews were conducted with 9

[14] Respondents P4 and P9 had not received a letter from the PMU in their roles as CFOs of their respective listed companies. Their inclusion in the study highlights that even preparers yet to receive a letter are aware of and fear the PMU and its process (refer to section 4 for detailed results).

preparers of financial statements, 2 academics who have had experience with the PMU/FRIP, 5 auditors and 1 regulator[15]. The interviews ranged from 30 to 100 minutes.

3.2.2 Ethical considerations

An inherent aspect of this research, to understand if there is the presence of disciplinary power and control in the activities of the PMU, was the need to obtain complete accounts from respondents regarding their interactions with the PMU/FRIP. Respondents were assured of their complete anonymity in the research report. Any quotations used in the thesis which could lead to readers identifying any interviewees or their place of employment were either removed or paraphrased. Any amendments which had to be made were indicated. All transcripts were kept in a document which was password protected, while all recordings were deleted following the completion of the research.

Respondents were interviewed at a location of their choice in order to ensure they felt comfortable. Interviewees were informed beforehand that participation in the study was completely voluntary. They were notified that, should they wish to, they could end the interview at any time. This contributed to their being open and co-operative (Alvesson, 2003; Creswell & Creswell, 2017; Rowley, 2012). A copy of the final report was offered to all respondents. The use of interviews could amount to moral enquiry. Consequently, the necessary ethical clearance was obtained from the University of the Witwatersrand (Appendix C). Experienced researchers and supervisors were consulted to assess the questions posed to respondents. This was to ensure that the questions did not present any ethical dilemmas for interviewees. Lastly, the pilot study provided a final test for any ethical problems regarding the interview agenda. There were no material threats to research ethics noted.

3.3 Data collection

Potential respondents were contacted telephonically or via e-mail. The initial communication provided a concise description of the research objective and what was required. Respondents were assured of their anonymity and informed that participation in the study was completely voluntary. Data collection and analysis was an iterative process (O'Dwyer et al., 2011).

The interview agenda was created based on the prior literature (see Appendix A). Semi-structured (open-ended) questions were developed in order to explore how the activities of the PMU achieve a sense of disciplinary power and control over respondents. It also limited the interviewees' ability to provide rehearsed responses.

Respondents were not expected to have any understanding or knowledge of the principles of disciplinary power and control but are knowledgeable about the PMU/FRIP. The questions

[15] The use of regulators as a category is done in order to protect the anonymity of the individuals.

were indirect and to the extent possible non-leading. This enabled the exploration of the underlying themes and concepts while avoiding imposing the researcher's own views on respondents (O'Dwyer et al., 2011; van Zijl & Maroun, 2017).

Having agreed to participate in the study, interviewees were provided with the interview agenda (Appendix A) and a consent form (Appendix C). The provision of the interview agenda helped ensure that respondents were completely informed of the purpose and nature of the study which improved the completeness and detail of their responses (Creswell & Creswell, 2017; Leedy & Ormrod, 2014; Rowley, 2012; van Zijl & Maroun). The risk that this would result in rehearsed responses was lessened because of the use of open-ended questions. Additionally, the risk was lessened as the questions were asked in different sequences and various different follow-up questions were posed when clarity was needed (Rowley, 2012).

Interviews were conducted in person or via a cell phone call. Participants were asked, at the beginning of each interview, for permission to record the interviews. This was done to add to the accuracy of the transcription process and allow for several reviews of the recordings. Recording the interviews also ensured the researcher could focus on the tone and non-verbal cues of respondents; instead of being preoccupied with taking detailed notes (O'Dwyer et al., 2011). In line with Rowley (2012), recording the interviews resulted in a meticulous method of collecting and processing the data from the interviews which improved the quality of the findings. The interviewees were able to request their transcribed interview should they wish, to add to the accuracy of the transcript and the validity and reliability of the results (Louw & Maroun, 2017; Rowley, 2012). A Phillips 'Voice Tracer' MP3 Dictaphone was used to record the interviews. Subsequently, the interviews were transcribed using Express Scribe transcription software. All transcripts were kept logically and physically secure using password protected documents and a password protected laptop.

Each interview began with the establishment of a rapport with the interviewee. Respondents were encouraged to speak openly and reminded that everything they said would be kept confidential. Additionally, they were told that there were no 'correct' or 'incorrect' responses. The interviews were then led by the introduction of the desired themes. The order of questions differed minimally in 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 asked, sometimes, to explain certain ideas or statements in different words or in a different manner. This was done to address 'script coherent expressions' or resolve any ambiguities (Alvesson, 2003; Louw & Maroun, 2017).

The interviews ranged from approximately 30 to 100 minutes which allotted the necessary time for all themes to be explored (Leedy & Ormrod, 2014; Rowley, 2012). The interviews occurred between July and October 2019 in Johannesburg at a location in which respondents felt most comfortable.

3.4 Data analysis

Interviews were analysed using an iterative process in which each interview was analysed at least 5 times. Following transcription, each interview was subject to open coding. The data were organised based on common themes detected from the interviews (open codes) (Gibbs, 2010). The open codes included the underlying aspects of the disciplinary principles and the reactions they evoked in respondents. There was a constant comparison between the open codes, interpretations of the responses and the literature review. (Corbin & Strauss, 2008; Gibbs, 2010). This was not a linear process: where new codes emerged, during the analysis process of subsequent interviews, the list was updated and all prior transcripts reviewed again in light of the updated open code list (Benaquisto & Given, 2008).

Following the development of the open codes, the data were further analysed to determine the links between the open codes. This allowed for the detection of common themes present among the open codes. The open codes were then grouped according to these broader theme headings or axial codes. These were mainly the individual ‘elements’ of disciplinary power per Table 1 (Section 2.3). As the thesis does not intend to generate new theories, selective coding has not been performed (Benaquisto & Given, 2008; Gibbs, 2010; O’Dwyer et al., 2011).

The coding process resulted in the expansion or aggregation of individual axial codes where applicable. This process was done following secondary reviews of the interviews where it was realised more or fewer axial codes were required. For example, surveillance was expanded into Hierarchy, Panoptic gaze and Surveillance: the axial code of consistency was aggregated with IFRS compliance into Enclosure. The final result was a type of mindmap which showed the links between the work of the PMU and mechanisms of disciplinary power (Corbin & Strauss, 2008; Gibbs, 2010; Holland, 1998; Leedy & Ormrod, 2014).

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 the prior literature and with each interview (Leedy & Ormrod, 2014; O’Dwyer et al., 2011). The intention of this process was to obtain a sense of ‘saturation’ for the interview findings.

3.4 Validity and reliability

- The presence of subjectivity in the study is an inherent aspect of qualitative research and is not a threat to the reliability and validity of the research, it is merely a product of the manner in which financial reporting has been socially constructed (Hopwood, 1994; Ram et al., 2016).
- Peer debriefing was employed to ensure the validity of the research. This is where the report's supervisor reviewed and analysed the research report to ascertain if the report would be understood appropriately with individuals that are not the researcher (Ram et al., 2016).
- Through using only experts, the reliability of the research was enhanced. Their knowledge improved the reliability of their answers and follows similar technical studies performed in the past (Rowley, 2012; van Zijl & Maroun, 2017).
- As precautionary measure, a pilot interview was conducted using an accounting academic at the University of the Witwatersrand to strengthen the interviews' validity and reliability.
- Interviews were open-ended which allowed for interviewees to give a rich and complete perspective. This strengthened the validity and reliability of their answers.
- Using semi-structured interviews ensured that all themes were addressed in each interview, increasing the reliability and validity of the results.
- The researcher strengthened the completeness and validity of the findings of the interviews through the use of a methodical coding process. This process detected the PMU activities and, using a well-defined theoretical framework, analysed associations between the disciplinary practices present.

3.6 Limitations

Despite safeguards implemented to improve the reliability and validity of the study, a number of inherent limitations must be noted:

- There is always the risk that the answers given in the interviews are rehearsed or distorted by a need to be politically correct (Alvesson, 2003; Louw & Maroun, 2017). This was partly addressed by assuring interviewees of their anonymity.
- With detailed interviews the researcher inescapably becomes a part of the data collection instrument so the results are not necessarily conducive to reproduction or generalisation (Creswell & Creswell, 2017; Holland, 1998; van Zijl & Maroun, 2017).
- Interviews provide exploratory, contextual accounts. However, this can result in them providing results that are technical. This can make it difficult for non-experts to interpret the results. This has been addressed by excluding details of this nature.

- The impact the PMU has on auditors is not specifically investigated. It is, however, highlighted to the reader where applicable. This is to help provide a complete panoptic view of the PMU's activities (Section 4).
- The analysis of the findings is carried out using a single theoretical framework. Investigating how the PMU/FRIP could be used as an instrument of political power by the JSE or SAICA, the relevance of a company's structure on how the PMU is perceived and the PMU/FRIP as an instrument of legitimisation, for example, are not dealt with. While this research aims to highlight an aspect of how the PMU/FRIP functions, it is unable to provide a complete account of the review function (Louw & Maroun, 2017).
- Lastly, the research examines the activities of the PMU/FRIP as a possible mechanism of disciplinary power and control from the perspective of a group of experts in South Africa. How the PMU/FRIP is viewed by other users was not investigated.

4. Results

The results suggest the presence of disciplinary practices within the PMU's functioning. Section 4.1 considers the presence of the enclosure principle. The principle of the efficient body is discussed in Section 4.2. Section 4.3 considers whether the PMU has been able to use the principle of disciplined bodies as a means of strengthening compliance with IFRS.

4.1 Principle of enclosure

Most respondents indicated that the PMU plays an important role in defining a minimum level of quality by enclosing the external financial reporting space (P1; P2; P3; P4; P5; P6; P7; P8; P9; A1; A2; A4; A5; R1; T2). In doing so, the PMU is able to 'partition' the financial reporting function. Individuals are allocated specific responsibilities: training can be provided while the outputs are scrutinised in detail. The financial reporting regulatory space is further divided into functional sites with more refined roles and responsibilities. These are: the chair of the Audit Committee, the CFO, the technical IFRS experts and the auditors.

Enclosure, from a regulatory perspective, is displayed by the unquestioned conformance to the applicable laws and regulations (Maroun & Atkins, 2014; van Zijl & Maroun, 2017). Respondents revealed that they comply:

> 'Because you are listed. There are rights and obligations and privileges from 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' (P4).

> ‘The JSE has the responsibility to monitor whether the clients are complying with the JSE listing requirements and one of them is that they comply with IFRS. They monitor the AFS of those listed companies to see if they are complying’ (T2).

The JSE ‘acts as the frontline regulator, setting listings requirements and enforcing trading rules’ (JSE, 2013a, p. 1). Respondents implied that the need to adhere to these regulations caused companies to feel constrained when it comes to reporting on their financial performance. As a result of the consistency created by the PMU, all companies believe that they are limited in the way they can interpret IFRS and present their AFS (P1; P5; P8; P9; A1; A5; T2). The ‘enclosure’ of the reporting space goes hand-in-hand with a sense of hierarchical surveillance. For example, while discussing innovation in the presentation of their company AFSs, 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 - there’s still something that is going to check this, and we have to make sure that we stay on the right side of this’ (P3).

The JSE effectively partitions its compliance requirements. More specifically, the PMU appears to be the apparatus the JSE uses to partition the Financial Reporting regulation which is distinct from other regulatory areas:

> ‘They are part of the system. I see the PMU as part of the system…they [are] there to ensure compliance [with IFRS]’ (P2).
>
> ‘[the PMU] is one of many pressures to comply. It certainly adds to your requirement to get things right’ (P8).

The existence of the PMU means that companies:

> ‘still have to comply from a regulatory perspective and regulatory non-compliance is a lot worse than IFRS non-compliance, if I can call it that. What you find with the PMU is that **it’s the same thing**’ (P7, emphasis added).

Partitions facilitate assigning tasks to the people who are most suited to discharge them efficiently such as the chair of the Audit Committee, the CFO and his team. An example of one of these tasks is that the Audit Committee have to provide the JSE specifically with confirmation that they have read and considered the PMU’s Findings Report before signing off their company’s AFS.

> ‘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…and then we have a compliance certificate which, in our case, we get our company secretary to certify' (P2).

This public declaration causes the Audit Committee to take ultimate responsibility for considering the report and implicitly accepting the reports' authority over IFRS interpretation. They cannot raise ignorance as a defence at a later stage. This statement is public and it is enforceable because:

> 'It becomes very difficult to say that you didn't know about this requirement [within IFRS] because the JSE has given that guidance' (T2).

The use of IFRS is an important feature in the PMU's ability to operate because:

> 'IFRS provides standardisation…[it] enables the users of those AFS to be able to compare across different companies. That's I think where IFRS is most valuable' (P5).

The PMU can, using IFRS, define the terms of its review while specifying to preparers how the PMU believes IFRS compliance is achieved at the granular level (P1; P2; P3; P4; P5; P6; P7; P8; P9; A1; A2; A4; A5; R1; T2). For example:

> '[It is a] necessity to have that function [the PMU] and not just assume that the listed companies plus their auditors will always get to similar outcomes' (P8).

> 'I see [the PMU] as an independent body ensuring general application [of IFRS] across the board' (P9).

Preparers felt that the PMU defines acceptable interpretations of IFRS by entities. The PMU appears to have specified how it believes IFRS should applied as they aim to obtain 'consistency with the standard that they expect' (P7).

Enclosure 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 and its fairly obvious that in different firms [and] among different clients everybody is reporting differently 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' (P3).

> 'It is also about discipline. Where I think that the standards and intelligence that's put into financial reporting, that discipline of accuracy and correctness and technical ability, is maintained. It keeps a standard within the JSE which I think is then worldwide' (P6).

‘You can interpret IFRS in very different ways, so [the PMU exists] to make sure there’s clarity and look through into all of those sets of AFS. I think that’s where the JSE, for me, becomes quite important’ (A4).

With preparers’[16] roles specified within the financial reporting space, the PMU can use its activities to isolate the individuals responsible for compliance with IFRS in their company. This isolation of responsibility makes the specific preparers feel identifiable and accountable (made known) for their role in the preparation process. The most notable example of this isolation of responsibility is where queries about a company’s financial statements are specifically addressed to the Audit Committee chair. Firstly, management within companies:

‘are going to be judged according to their roles. If you are talking about this particular aspect [receiving a letter], it’s going to hit hardest [on] the CFO, the chairmen and members of the Audit Committee. The general board will say “that’s below our paygrade”’ (P1).

Secondly:

‘if [the PMU’s letter] just went to the CFO, as it did originally, and the CFO doesn’t share it with anybody, then the Audit Committee just blindly carries on’ (R1).

Consequently, preparers ─ especially CFO’s ─ are unable to ‘mask’ (P8) non-compliance and continue their non-compliant behaviour. Preparers indicated that the receipt of the letter would make them visible and accountable for their actions (P1; P2; P3; P5; P6; P7; P8; P9; A2; A3: A4; A5; R1; T1; T2) (see Section 4.3). They become compelled to modify their application of IFRS to avoid being identified as non-compliant by the high-ranking members of the Audit Committee.

Respondents also felt anxious at the thought of receiving a letter as they would be exposed and ‘mark[ed]’ (P8) to the Audit Committee:

‘for every review you definitely do consider that [the PMU is watching you]. The ultimate risk is that this gets picked up by the JSE and I didn’t clear this comment appropriately and, therefore, I could be [on] their radar’ (A5).

‘Certainly, from my perspective, I wouldn’t want to get to a position where we got something wrong or omitted something’ (P9).

[16] The Audit Committee and its chair are responsible for the approval of AFS and will be referred to as preparers throughout this thesis.

All respondents felt the Audit Committee could use a PMU query letter to accuse the CFO and his team or auditors as defaulting and being non-compliant with the PMU's training (see Section 4.2).

In summary, the JSE appears to have enclosed the actions of companies through the various regulatory requirements which listed companies are subject to. The PMU creates the impression of being the apparatus used by the JSE to partition the financial reporting space apart from other regulatory matters. The PMU's activities resemble a procedural system which outlines what is expected of each company and its preparers when preparing their AFS. This results in preparers and, to a lesser extent, auditors feeling sufficiently enclosed and enables the facilitation of the principles of the efficient body and hierarchical surveillance.

4.2 Principle of the efficient body

Respondents suggested that the PMU use their yearly Findings Report to provide training indirectly to preparers and auditors on how the PMU believes compliance with IFRS can be achieved (P2; P3; P8; A2; A3; A4; R1; T2). The PMU's attempts at conditioning respondents is assisted by IFRS itself seeming to be enclosed and partitioned (see van Zijl & Maroun, 2017). Within IFRS, different areas are broken down into topics (e.g., revenue, property, plant and equipment, intangible assets). Each topic is then broken down into smaller sections: scope; definition; classification; initial recognition; measurement; subsequent recognition and measurement; derecognition and disclosure. This allows the PMU to assess and judge a company's compliance at each sub-topic level, providing multiple opportunities to identify non-compliance. The PMU also presents its Findings Reports using these sections, facilitating detailed and specific training (JSE, 2018) (P4; P5; P6; P7; P9; A2; A5; R1).

Respondents felt that the conditioning begins by 'publishing the report…to make the market as a whole aware of the issues [it sees]' (R1). All respondents believed that this made them aware of the common problems, would indicate to the market to pay specific attention to these areas and encourage preparers to develop a procedural response to these problems:

> 'at the back of your head when you see these findings, even for us [auditors] it becomes a part of the risk assessment which you do' (A3).
>
> '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**' (P2, emphasis added).
>
> 'because they describe in the report what errors and issues they have seen, common areas...I think that provides guidance for any clients moving forward to take into account' (T2).

Respondents implied that the PMU's reports provide preparers and auditors with the conditioning needed not only to be aware of the issues but also to modify their own interpretations in accordance with the PMU's guidelines (P1; P5; P8; P9; A3; A4; A5; T2). This form of conditioning is slow and subtle - it appears that respondents did not realise that they were being conditioned so that they have developed a reflexive response where they apply IFRS in line with the PMU's interpretation. Preparers and auditors[17] see the reports in an innocent light as a 'helpful' tool to be used in improving their understanding of IFRS:

> 'When our group Audit Committee looked at the results and assessed the level of disclosure that we put in play; one of the things was that they put in the two latest documents that the PMU had issued and when you look at what recommendations were made there and in which environment and which is pertinent to us and which is not. We took that into account in looking at whether our disclosures were appropriate or not. I think it's a useful process' (P4).

> 'It's more of **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**. Even though I'm not JSE accredited, I think knowing about the shortcomings allows you to address them in some of your audits and make sure that they are addressed adequately. That's the general sense of it from my usage of it' (A2, emphasis added).

This suggests an implicit acceptance that the PMU is right and should be followed. Moreover, it appears this training extends beyond only public company preparers. Auditors who work on non-listed clients, but have had exposure to the PMU through the receipt of a letter on listed clients when they were managers, also appear to be targeted. This reflects the pervasive power the PMU may be exerting through its findings reports (A2; A3; A4; A5). Where any changes need to be made, auditors and preparers follow the PMU's reports without question as they are viewed as being 'enhanced interpretation…a bit like an interpretation note that you get' (P4). Respondents would 'rather put [the PMU's findings] in than have it raised as an issue' at a later stage (P8). This has resulted in companies modifying their processes to ensure they are compliant with the PMU's interpretation of IFRS as:

> '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

[17] Through the interviews with all the auditors it was noted that the technical departments of the applicable audit firms use the PMU's findings in their technical updates and training. This implies that the PMU's reports may have a more pervasive impact on auditors with limited exposure to the PMU.

cash flows, where we have said that because the JSE have 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**' (P6).

'We struggle sometimes to convince clients to make these changes; they don't necessarily always understand the rationale behind it or they just see it as admin work or they don't really see the benefit of bringing in that disclosure but often when we actually tell the client: "look the JSE is probably going to be looking at this and their last report mentions it is going to be a focus area for them", we see that it actually **does motivate clients, and audit teams as well, to actually push to make those changes**' (A5, emphasis added).

Respondents felt that the matters dealt with in the reports have become repetitive and that there is a 'trend' (A3) in the problems presented (P3; P8; P9; A2; A3; A4; R1). While:

'We've done exercises where we took a few years of reports and stacked them together and said what are the findings. Its consistent as all hell. I don't know if it's just that everybody gets them that bad or badly wrong, which they do, or that's just kind of the things they review' (P3).

Similar to repetition used in formal education and the military, the repetition appears to wear down preparers and auditors to the point where they just accept the PMU's view. This is akin to a soldier rendered docile as he 'begins to obey whatever he is ordered to do; his obedience is prompt and blind' (Hopper & Macintosh, 1993, p. 196). The preparers and auditors feel as though they should respond in accordance with the report's 'guideline' (P4) as the PMU's interpretation is the only one which matters:

'Now we all go "remember you have to describe every main category [of the tax rate recon]". We don't think twice about it, we don't argue about it' (P7).

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

The PMU recently released a report which combines all of its findings from 2011 to 2018. The reason for the report is:

'Our review process continues to reveal common problems which have been addressed in our previous PM[18] reports. The purpose of this report (which combines the content of our 2011 to 2018 PM reports) is to assist issuers in identifying matters

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which they may have previously overlooked. This report should also assist audit committees in fulfilling their responsibilities to apply our previous findings against new events or transactions not present at the time the original PM report was issued' (JSE, 2019a, p. 5).

This cumulative report may be aimed at assisting the PMU in reiterating their IFRS interpretation, strengthening the training as the PMU are, once again, making preparers aware of the problems they have encountered since 2011 and how they should be corrected.

In addition to the conditioning provided by the repetition, this repetition also serves as a punishment. By forcing preparers to report repeatedly in compliance with IFRS and the PMU's findings, the PMU simultaneously punishes delinquents and increases compliance (P1; P2; P3; P5; P6; P7; P9; A2; A3; A4; A5; R1). This is an efficient and cost-effective way to control financial reporting and achieve compliance.

The PMU have created the impression that there is a timetable articulating when the activities, which preparers have been trained for, are required to be carried out. Audit Committees have been instructed that they have to consider the PMU's findings report every year (Section 2.2.1). Respondents indicated that this has created a rhythm within their company's processes. It has become a 'very formal process' (P9) which is automatic and without question for these preparers and their companies (P1; P2; P3; P4; P6; P7; P8: P9). As some respondents explained:

> '[The PMU] issue that report once a year of their findings…we have that as a standing item on our Audit Committee agenda… if there's a follow up, you know we do that and obviously when we get to the year-end and we do our sign offs, we make sure that we have addressed all of those issues as far as possible and where they are relevant to the group' (P9).
>
> 'We've now built that into our annual report to our Audit Committee [and] we have to do a report back on it' (P7).
>
> '[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' (P6, emphasis added).

The explanation of when these tasks have to be performed appears to have standardised the approach followed by preparers and auditors when dealing with the PMU's reports every year. This will assist the training of preparers who will interpret and apply IFRS as the PMU considers correct: this forms a normalising mechanism.

The yearly report is complemented by the second timetabling element. Companies are required by the JSE to provide SENS updates, quarterly reports, interim AFS and year-end AFS. This organises all of the preparers' time and provides continuous opportunities for preparers to practise their training, align themselves with the PMU's view and be subject to constant examination (see Section 4.3). Respondents suggested that this creates a routine for preparers who are required to consider constantly how every aspect of their reporting is aligned with each other and the PMU (P1; P2; P3; P5; P9; A2; A3; A4; R1). This results in preparers incorporating the PMU's guidance into many other aspects when preparing various other corporate reports throughout the year. Respondents indicated that the pervasiveness of the PMU review strengthened this timetable element. Preparers feel as though they have to incorporate the PMU's conditioning into all aspects of their reports. Any report prepared in contradiction of the PMU could be detected and subjected to scrutiny (P2; P3; A5; R1) (see section 4.3).

In summary, through the PMU's Finding Report sufficient, and repetitive, training on the 'correct' interpretation of IFRS is provided. The PMU, JSE listing requirements and Companies Act create a complete timetable which ensures complete control over all of the preparers' time.

4.3 Disciplinary control: surveillance, examination and normalising sanction

Respondents felt the presence of hierarchical surveillance within the functioning of the PMU. In particular, respondents are fearful of a matter being referred to the FRIP because:

> '[the FRIP] are the ones that deal with the identified criminals as opposed to the potential suspects - companies of interest' (R1).
>
> '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 advise the issuing regulator as to the appropriate action' (P1).
>
> 'At that point, as a responder/reporter you don't want to get to that point because then you know you've just gone way too far' (P3).

With a clearly defined hierarchy in place, the PMU gives rise to a sense of perpetual surveillance reminiscent of Foucault's panoptic gaze. There are two important elements to this. Firstly, respondents are unaware of when their financial statements are actually going to be reviewed. Although, the review is performed in a 5-year cycle, the random selection and the PMU's ability to perform follow-up reviews means respondents did not believe preparers or auditors could predict when their AFS would be reviewed (P1; P2; P6; P7; A4). This results in respondents feeling as though they are under constant surveillance. Secondly, respondents do not know who is monitoring them, what the watchers are looking for and what the outcome of this surveillance is (Hopper & Macintosh, 1993).

> ‘If you are being told that the PMU has completed its first five-year cycle, [it] should mean that everybody who has been listed for 5 years has been looked at, at least once. Now we are in the next five-year cycle. What that has conveyed is that it doesn’t matter where you were in the selection process in the first five years, it is almost now random selection time again. You can’t think: “I can get away with it for the next year or two years [and] carry on with this reprehensible practice”. It means [you] could be looked at straight away’ (R1).

> ‘I think [companies] would be told if there was an error and not necessarily if they were under review. I think as a listed client if you are going to comply with the requirements, you should actually expect that your AFS are going to get reviewed and you might not necessarily be told’ (T2).

The feeling of anxiety from not knowing when your company will be selected is compounded by the PMU not informing you if you had a ‘clean bill of health’ (P7) following a review. Sometimes the PMU will:

> ‘have a look and say: “Well, the university haven’t found anything so no letter”... Companies don’t know if they don’t get a letter [whether it’s because] they have been selected and they [the company] have been cleared [or because they haven’t been selected this year]’ (R1).

> ‘If you have not heard anything during a cycle, you assume you must be in compliance…**because otherwise you hope that’s what the process did because you have no other way to know**. It’s like only if you have a problem will you hear from them’ (P7, emphasis added).

Respondents indicated that if you haven’t been contacted this year, it may mean you weren’t reviewed and are, as a result, available for selection in the following year. This works on the minds of preparers as they are left feeling uneasy from the belief that they have not been reviewed and could be subject to a review at any moment because:

> 'We haven't had a specific review, not that I know of, because I think typically if you are selected there is direct interaction. I have been with [my company] now for 2 years and we haven't had that but I presume we will come up quite soon' (P9).

> 'I don’t know actually [if the PMU inform you that they are going to review your AFS]. We haven't been reviewed in the last two years…because we have had no feedback' (P4).

Respondents were aware that the PMU ‘do roll the issues [forward] to do follow-up reviews to see if there has been an improvement’ (A2). Respondents are left believing that if they are contacted this year, it does not mean they won’t be reviewed again in the cycle. The PMU may decide to re-review ‘offenders’ again to ensure these preparers did comply with the PMU’s ‘advice’. Irrespective of the contact, each year preparers feel next year they will be reviewed.

For two respondents, this feeling of constant surveillance meant:

> ‘[I] sort of thought it was every year but maybe I'm overstating the frequency. It’s very visible when you do get things that you have to fix. It certainly wasn’t infrequent; they might have missed one or two years but it certainly wasn’t infrequent. So, I was just assuming every year’ (P2).
>
> ‘I anticipate that they get looked at every year’. When asked why they believed that, the response was ‘Because I want to be prepared’ (P6).

Another aspect which interviewees identified with the surveillance system of the PMU was the review’s pervasive nature. While the PMU review,

> ‘has to be focused on the AFS. That’s not to say they don’t look at other bits. At the moment they are also looking at the interim reports…A lot of areas where companies fall down is in IFRS 8 where they always want to have fewer segments and you are going to see the same thing for IFRS 15, for breaking down of revenue. You give this information as segment information but then when you read the rest of the [integrated] report, there are all these other divisions that are seemingly important…But this disappears in the segment report so why is that? … there is a disconnect taking place in there’ (R1).

Respondents indicated that the pervasive nature of the reviews heightened preparers and auditors’ feelings of being surveyed and expanded the areas in which the PMU’s conditioning should be implemented:

> ‘When I got one letter, I saw [that] the JSE had actually gone onto the client’s website and they were saying: “ok, on your website it tells me you do things in this way but I can’t see this in your IFRS 15 disclosures”’ (A5).
>
> ‘If the segment report is like, they have all these requirements around how you address that and what you put in your segmental report. Then they will look at your integrated

report and if you have described your business in a different way, they then have a go at you' (P3).

Preparers and auditors 'know [the PMU] do look at other reports' (P3) as well as other elements of a company's reporting activities. This element of surveillance appears to work subtly on the psyche of preparers and auditors as they know the review is 'not just the AFS. It's the whole reporting [process]' (P2), they feel as if they must implement their training from the Findings Reports into all aspects of their corporate reporting duties throughout the year. Any inconsistencies in their quarterly, interim, integrated reports or even websites has the potential of being compared to your AFS to identify non-compliance (P2; P3; P6; P7; P9; A2; A3; A4; A5; R1).

The feeling by respondents of the PMU's omnipresent surveillance is increased by the PMU's practice of sending letters of enquiry which contain only immaterial disclosures and 'boiler plate concerns' (R1). This is consistent with the PMU's reports which indicate that disclosures are the most common area of non-compliance (see Figure 3 and Section 2.2.2). Some respondents felt that the PMU highlighted immaterial disclosure issues as 'the low hanging fruit…[and] It's a cheap trick' (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, revert to 'radio silence' (P8) instead of sending a response accepting the company's explanation. Instead of seeing this as a 'cheap trick', it may be the PMU's way of reminding companies that they are being monitored and ensuring individuals feel as if they are always being monitored. This has also left preparers feeling anxious that the PMU is looking for problems which can be used to identify them as delinquent (P1; P2; P5; P6; P8). This approach has meant that

> 'It is common, if you are working in the technical department, [to] have at least dealt with one letter' (A5).

Adding to the fear created by their examination of a company's AFSs, the PMU can request any additional information it wants from the company it is reviewing. The PMU's initial letters of enquiry 'say "there are particular matters we would like more information [on]"' (R1). Companies are then required to respond to the letter within a specified time frame. The PMU's scope to require additional information appears pervasive and not to be limited to what they detect in the initial review which initiated the letter of enquiry as:

> 'What I find a bit strange is that sometimes in the second [round of] comments, when they respond to your response, **sometimes they raise more findings**. Which I find a bit strange' (A5).

Preparers and auditors are left feeling uncomfortable by the thought that the PMU can obtain any information it desires. They are left questioning why the PMU needs this additional information and, more importantly, how the information will be used, whether it will be used against them in future and whether their response will - accidentally - create more concerns about non-compliance. No-one wants ‘the JSE to come with a 100 questions’ (A4) because,

> ‘The current mindset is that a letter means there is something wrong…[and] It’s just not a comfortable process to go through’ (P7).

In-depth examination by the PMU gathers much information about companies and their preparers and is considered to be a form of extending and exerting power over the preparers (Hopper & Macintosh, 1993). This power appears to have impacted on the psyche of preparers and auditors so that

> ‘[Clients] obviously also don’t want to get a JSE letter. I think they fear the JSE letter almost as much as we do’ (A5).

As a result of this fear, the mindset of respondents appears to be

> ‘if you have made an error’ fess up to it because my experience has taught me that when people try and hide an error you are opening up a can of worms. The JSE will start digging, digging, digging and they will find it, but that process is a lot worse than just being open, honest and transparent in the beginning and just be respectful’ (P7).

The PMU’s ability to obtain this information is likely to instil an increased level of anxiety among preparers as the significance of getting one little thing wrong is exaggerated because this can expose bigger issues or draw unwanted attention.

All respondents, except for R1[19], had limited knowledge of how the PMU’s internal processes work because the PMU operates ‘in the background’ (P6). By creating this form of opaqueness respondents are left unaware of who is reviewing them and how they are being reviewed.

> ‘I don’t know their processes [of] how they look at things, what is their internal checklist or quality reviews that they do, how does it get reviewed by their internal process, hierarchy [or] how many people’ (A4).

The uncertainty displayed over the ‘inner workings’ (P4) of the review process results in added anxiety for preparers and auditors ‘because if you don’t know how they review [you], you do everything you can to make sure the unknown is mitigated’ (A4).

[19] R1’s role as a regulator has resulted in R1 having an in-depth knowledge of the PMU and its processes.

Respondents feel compelled to self-regulate their behaviour in accordance with PMU reports and interpretations. It is irrelevant to the respondent who is reviewing the work. Rather it is merely the knowledge that the respondent might be watched which creates a source of anxiety and encourages compliance (P1; P2; P3; P5; P6; P7; A1; A2; A3; A4; A5; R1; T1; T2):

> 'I think since the PMU has come into play you see a lot more thought going [into preparing AFS]. It's not just the case of is it disclosed, have you ticked all the paragraphs. It's actually *"is this meeting all the stakeholders' needs"* If you do this will the PMU come back and ask questions. If they come back is it clear enough, will it be defendable enough what you have disclosed. So, they can't take you on for disclosing **either too much or too little**… That is an active decision if you are on the JSE, like if they come back would you have a problem. That is how we think about it now' (P7, emphasis added).

> 'We have a policy that…for our listed clients we need to do a review at least annually. So annually we do a review at a minimum for listed clients and I guess that's already interesting then. Why do we look at listed clients? Why is that sort of priority over other clients? That is because those are risky you know, more public accountability with our bigger clients. But also, one of the big reasons is because the JSE are looking at those AFS. Obviously, a lot of the JSE [reviews] do result in restatements and that is a reputational risk to our clients **and to us**. That's why our job is to actually look at the AFS before it gets to the JSE' (A5, emphasis added).

Respondents felt that the PMU gaze enables the PMU to 'both create and constrain subjectivity' (Mennicken & Miller, 2012, p. 7) of the preparers which will increase compliance with IFRS in line with the PMU's interpretation and training. Their anxiety of being found deficient and made known as deficient means respondents feel they have 'to self-check that they are within the interpretation of best practice' (P8). The presence of the review subtly works on the psyche of respondents as:

> '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. To know that there is another review coming will also make sure that they do their part of the assurance part better' (P1).

> 'it helps when you know that there is going to be someone else looking at the same thing you are looking at. Because as a person generally that will force you to sort of make sure that you haven't just assumed the information from last year and sort of carried on, but you've actually applied yourself. It forces you to apply yourself even more' (A3).

Importantly, the PMU appears to be approximating the effect of constant and complete surveillance of each company each year without needing to bear the cost of 100% monitoring. By creating the belief of being reviewed each year but only performing a review once every five years, the cost is lowered while improving compliance (P1; P2; P3; P4 A1; A2; A3; A5; R1; T1; T2).

For example, by deeming the Audit Committee Chair responsible; sending them the letter allows the PMU to hold the person with most 'authority' within the organisation accountable. This is easier than trying to hold a reporting team accountable. All respondents indicated that this, again, reduces the costs of getting compliance which would need to be borne by the PMU.

IFRS provides the PMU with a sufficiently adequate and partitioned (see Section 4.2) benchmark all respondents felt their performances could be measured against exactly:

> 'Different standards have different levels of disclosure. Some of them have ridiculous disclosures that make it worse not better. Tick box means that you go do everything that is in bold in the accounting standards' (P1).
>
> 'From the outlook of the AFS [the PMU] could be able to tell what the company does. Obviously, you are complying with IFRS 9 so is your business model correctly disclosed in terms of IFRS 7. Did you make all these disclosures that are required? Almost like a disclosure checklist type of thing' (A1).

The detail that IFRS provides has afforded the PMU with more opportunities to detect faults in respondents' AFS – something respondents are very aware of. They are left with the knowledge that the PMU will:

> 'pick up where you've incorrectly restated something or classified something, or your cash flow statement is wrong. They pick up a lot of those…We know they are going to be focusing on IFRS 17. You want to make sure you are ready so it does assist with compliance behaviour because you know they are going to be looking at this …It is important in our case and the Audit Committee feel accountable and the board feel accountable so you just don't want to have these things [findings], you don't want to be reprimanded or asked to fix these things or restate because you got something wrong…[and], if there is an error, I do lose a few hours of sleep and **I feel personally responsible**' (P2, emphasis added).

Many other interviewees felt the same and indicated that although IFRS does allow for certain deviations from what is the minimum, there is still a benchmark for what is expected to be seen in the AFS. 'You still have got to have a relative level of disclosure and proper treatment' (P4).

All respondents indicated that they felt the PMU review was used by the Audit Committee as an examination of either their credentials or their company's processes. The letter is used as a:

> 'KPI[20] for [preparers and auditors]. If they don't get a question from the JSE, they've done a good job' (A4).
>
> 'The PMU doesn't assess the competence: it just looks at the financial reports. But if it finds the financial reports are wrong and misleading, **it's usually because somebody is not as competent as they should be** or somebody who is in a supervisory position hasn't asked the right questions' (R1, emphasis added).

The feeling of being examined by the preparers and auditors is heightened the more senior the individual is within the preparation/audit team. This is because of the accountability of these senior individuals (P1; P2; P5; P7; A1; A3; T1). They are ultimately the people responsible for signing off that the AFS comply with IFRS and it is their names placed on the AFS (P3; P4; P6; P8; P9; A2; A4; A5; R1; T2). Consider, for example, the following comments:

> 'You can probably see it because people whose names [go] on the AFS in terms of the Companies Act supervised and prepared [that set of AFS] – [these people] probably take a lot more responsibility and a lot more effort, in making sure the AFS are right, than any of their juniors because the juniors' names are not on the AFS' (P7).
>
> 'If we have to make a restatement even though I didn't do the work, I [as CFO] have to take accountability. It's about who takes accountability. [The JSE is] not going to look at anyone else. It is my responsibility and my accountability and that's why I do take it personally' (P2).
>
> 'I'm the Audit Committee Chair and let's say the chairmen of X Audit Committee did not comply with this requirement, [that I] should've known about. [I] didn't and people would know I'm that person and so, by association, I would not have done my job properly' (P1).

While for the auditors

> 'When there are findings that maybe you have missed, when you go to that Audit Committee it's going to be a very hot Audit Committee. Because these people are

[20] Key Performance Indicator

going to want answers and they are going to want answers from [the CFO, Auditors and Internal Auditors]' (A3).

Similarly, 'it was always the CFO's job to make sure they took ultimate responsibility' over ensuring the compliance of their AFS (P6). The accountability and visibility created by a PMU review instils anxiety amongst preparers and auditors which encourages them to comply with the PMU's interpretation of IFRS.

The feeling of being examined is heightened by the PMU letter being sent to the Audit Committee as opposed to the CFO or another executive because 'obviously the Audit Committee and the board sign off on my credentials every year' (P2). Some respondents explained that:

> 'I think again if I'm the CFO, I'd be concerned that the Audit Committee and board will look at that [finding]. That you haven't done what you should've done, and an independent party has picked it up' (P1).
>
> 'It's always a question, specifically from the Audit Committee Chair. He looks to the audit partner to say you said you ticked everything in the AFS. "I asked it [and] you minuted it, so why did you miss this" …it sometimes raises the question over the quality of that partner or manager on the job and even QRPs[21]. Normally they look to who was your QRP, who was your technical partner reviewing this, and **are you sure they are qualified to do this**. So it does create a question mark over our own individuals on the team' (A4, emphasis added).

Preparers and auditors feel the constant pressure to comply with the PMU's interpretation of IFRS and minimum quality level. Should they fail, their superiors (usually the Audit Committee) will be aware of this which can have adverse effects on their personal reputation, perceived competence and also have financial implications. Added to this is the idea that the preparers are unaware when they are under review. This leads them to believe that the examination of their credentials is 'every year' (P3). This appears to work on the psyche of respondents. Their anxiety drives them to regulate their own behaviour in so far as complying with IFRS is concerned (P1; P2; P5; P6; P7; P8; P9; A2; A3; A4; A5).

The PMU appears to rank preparers in terms of their abilities according to three rankings. The PMU will not say 'well done! Your AFS are 98% compliant' (P8). Rather, preparers feel as though they are ranked as (1) compliant, (2) mostly compliant with minor corrections or (3) non-compliant. In other words, preparers feel as if they are ranked according to passing,

[21] Quality Review Partner

passing with minor corrections or failing the annual PMU examination (P1; P2; P3; P5; P6; P7; P8; P9; A1; A2; A4; A5). Preparers feel that this is all determined by the findings on the letter:

> 'If they come back, generally there are no significant issues and one or two minor issues that's a pass in my mind…obviously if they found a lot of things wrong you would see that as a fail, like an exam fail' (P8).

For the PMU's hierarchical surveillance and examination to be effective it needs to be accompanied by normalising sanctions. The PMU has various sanctions for the company at fault such as fines or penalties. However, it was not these sanctions that interviewees were concerned about. For the respondents it was the implications for their personal reputation. All interviewees explained how a negative finding from the PMU can, in their minds, result in 'very significant reputational damage' (P9). The PMU reviews appear to create normalising judgements on the individuals themselves, as opposed to companies:

> 'The concern would be that we did not table [the report] at the Audit Committee [which] I am the Chairman of. [This is] something that this body within the JSE required us to do and I would be shamed as a result of [not tabling the report]' (P1).

> 'If you get a letter and there are a lot of findings, obviously it's sort of a sanction by a regulator. It's declared to the whole Audit Committee so its professional pride if I can call it that' (P2).

> 'I think it is more of a professional reputation kind of thing' (A2).

> 'Because my reputation would be hit. Emotionally 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' (T1, emphasis added).

The auditors also appear to be mindful of a negative finding impacting their reputation. For the auditors these sanctions were reinforced by the current problems auditors are facing[22]. Because clients like to use the auditors as a 'scapegoat' (A3) they felt that their reputation is often under threat. This is exactly the type of sanctions envisaged by Foucault (1977), who believed these sanctions should not be physical. Instead, they should work on the mind 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 as:

[22] Examples of these are the VBS scandal, EOH, Steinhoff and Oakbay (Day, 2019; Rossouw & Styan, 2019).

> ‘[a negative finding] would have a psychological impact. I’m not sure it would have an external impact but internally it would have a big impact on people being more diligent on compliance’ (P1).
>
> ‘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’ (P7, emphasis added).
>
> ‘If a restatement is picked up then it looks bad on the client and therefore 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’ (A5, emphasis added).

Normalising sanctions do not only comprise of negative aspects. Like its penalties, the PMU’s rewards are subtle and appear to work on the attitudes of the respondents to encourage compliance. When preparers do not receive a letter from the PMU, it is perceived as positive confirmation that they are doing the right thing. This appears to be positive reinforcement which is aimed at leaving preparers docile and entrenching the desire to be compliant with the PMU’s interpretation of IFRS. Many respondents also indicated that if they received a letter from the PMU with immaterial findings, they are left feeling confident in their abilities and that, for the most part, their company’s processes are working (P1; P2; P3; P4; P7; P8; A1; A2; A3; A4; A5; T2). :

> ‘Having no findings is a good thing. I think if there is a finding you would like it to be a housekeeping/ just improve it or just be cognisant of it. Anything more than that is problematic’ (P7).
>
> ‘There’s always going to be small stuff. You will never get away from that’ (P4) but ‘if you do get the letter and there’s not a lot on it, I take huge comfort out of disclosures personally. We know we've done the right things and disclosed the right things’ (P2).

The PMU is evidently using normalising sanctions to drive compliance with IFRS by preparers as it creates rewards which they strive for and penalties which the preparers are motivated to avoid. The cost of these normalising sanctions is nil for the PMU which supports the goal of maximum control at the least cost (Foucault, 1977; Hopper & Macintosh, 1993). Although the PMU does have a psychological system of rewards, respondents indicated that they comply out of fear of the negative sanctions rather than compliance out of a desire to be rewarded.

With respondents feeling the effects of the PMU’s hierarchical surveillance and normalising sanctions, the PMU appears to have constructed a metaphorical panopticon. Where, akin to

Foucault's Panopticon, 'it is not the eventual punishment that ensures compliance…rather it is the fear of being found out' (Walsh & Stewart, 1993, p. 795). This means:

> 'you do change your process and make [the PMU review] more forefront of your mind. It can't just be at the back of your mind; you will screw yourself over' (P7).
>
> '**I can't overstate - it's a real issue for me** if the PMU finds stuff. It is a problem and it's a formal process that you have to go through with the Audit Committee Chair, they have to write the letter, so it certainly keeps you on your toes if I can put it that way' (P2).
>
> 'Again, it's that thing of I don't want to be criticised for getting it wrong and so the CFO will put pressure on his team to make sure everything gets done correctly. The Audit Committee Chairmen is going to want to be more diligent and the Audit Committee members will probably read every page' (P1).
>
> 'I have seen where they got hit [reviewed] 2 or 3 years ago and now...the minute you try touch something all the alarm bells go off because if we get reviewed, we're in trouble' (P3).
>
> 'Because you know what's going to come with it at the back of your head as much as you are not a part of the client but you are just hoping that they are fine or if they are not fine you would hope that the issues that were found are the issues that you saw and that you covered [in the audit]' (A3).
>
> 'I see majority of our [clients] are still very focused on "we need to meet the JSE requirements". So, they go to advisors and actually ask advisors who have dealt with the JSE reviews before to make sure they are compliant because they don't want to have a reputational question around their ability to comply with IFRS' (A4).
>
> 'I'll be honest I don't ever wish or want to have any PMU finding … I certainly do not want that and so we are very cognisant of that' (P6).

They appear to have increased their compliance with IFRS out of this fear of getting caught and the negative implications (P1; P2; P3; P6; P7; A1; A2; A3; A4; T1; T2).

4.4 Limitations of panoptic metaphor

While the results of the study provide significant evidence that the PMU's activities are a source of disciplinary power and control, there are limitations.

One factor which contributed to the resistance present was the experience of the preparer or auditor. Preparers and auditors who were yet to receive a letter from the PMU/FRIP showed less concern about receiving a letter and its implications than those with direct experience with a FRIP review (P4; P9; A1). For some 'the fact that the JSE are looking over my shoulder makes no difference at all' (P4). Additionally, where preparers felt that their companies' processes and their auditors were strong, it resulted in less fear of the PMU (P3; P4; P8; P9).

> 'If my auditors are doing their job correctly, they'll make sure that my disclosure is appropriate over and above what we have already done and, if we haven't done something, I have every expectation that they would knock us into shape and they do' (P4).

Other respondents indicated that if there were non-compliance in their AFS but they believed it to be immaterial, they were more likely not to correct the issue (P3; P4; P7; P9; A1; A2; A3; A4; T1). This is because 'from that perspective, immaterial items are immediately not of a concern' (A2) for auditors. From an audit perspective, the auditors would not force their clients to change these issues. Consequently, preparers are less worried about them and are more willing to accept a PMU letter and explain the process of why the non-compliance was not changed because

> 'At the end of the day [clients] made the call about whether to change anything and I can tell you 90% of the time they said it's not a big enough deal, not material enough or some other colloquialism [saying it's] just not worth the effort' (T1).

Lastly, some respondents felt that the PMU's tone and focus in its letter left respondents feeling attacked. Respondents were specifically concerned that the letters can sometimes be too technical and not consider that:

> 'There is materiality, there are things that are in the preparation process, calls that were made and I guess that is where people get their back up against the wall. It's like who the hell is going to question me now after I have spent all this time and it has gone through all these people and they have all said ok and now somebody is going to come and throw a book at me and say the minimum requirement is to disclose this but it's irrelevant in my business or it is not material or whatever' (P3).

Although the intention of these letters, focused on immaterial matters, may be to remind respondents that the PMU is watching (see Section 4.3), they may serve the opposite purpose of frustrating preparers. This may leave them feeling as though the information is too technical and can be ignored. An example of this is the IAS 7 cash flow problems which the PMU constantly encounter (see Figure 2, Section 2.2.1):

> 'Where I've seen reports coming through its been around this item is in the financing section in your cash flow but it should be in the operational section of your cash flow.

> Great but that doesn't really make any difference to anybody and it probably is a grey area of which is the right place to put it. So that doesn't really take you forward' (P1).

These findings from some of the respondents indicate that complete Panoptic control is not achieved by the PMU. However, as Sections 4.1-4.3 have suggested, there are elements of disciplinary power present in the PMU's activities.

5. Conclusion

This section provides a summary of the important findings from the interviews in Section 5.1. The thesis's contribution to the academic literature is discussed in Section 5.2. Section 5.3 considers the inherent limitations and areas for further research.

5.1 Summary

The results indicate that there is some form of disciplinary power in the PMU's functioning. The findings from the 17 interviews have highlighted how the structure and activities of the PMU have left preparers and auditors feeling enclosed and partitioned when preparing a set of AFS. By using various regulations, the JSE has constrained the manner in which companies can operate. The PMU acts as a mechanism focused on regulating the financial reporting space. The existence of the PMU creates a certain level of consistency in interpreting IFRS. This results in preparers and auditors being constrained in the preparation of their AFS. Partitioning enables the allocating of certain roles and responsibilities to the preparers who are most suited to discharge these roles. The division of responsibilities created by the PMU's activities assists in the identification of any preparer who is non-compliant with the PMU's interpretation of IFRS. With the regulatory environment broken down into the corporate reporting, the PMU can train preparers and auditors on how compliance is achieved.

The PMU's findings reports are used as a means of conditioning preparers and auditors to apply IFRS as interpreted by the PMU. The guidance is aided by the reports containing very detailed guidance on how to identify and correct specific IFRS. The report also constantly repeats IFRS standards and sections which are misinterpreted, in the PMU's view, every year by preparers and auditors. The reports leave preparers and auditors subconsciously aware of the need to identify systematically the issues and correct them to comply with the PMU's interpretation of IFRS. The JSE's constant need for financial reporting updates, combined with the requirement of all Audit Committees to consider the findings reports every year creates a timetable for the PMU's activities. Preparers and auditors are kept in a repetitive schedule which dictates when and how performance is measured. This leaves some preparers and auditors docile and obedient (Hopper & Macintosh, 1993).

Hierarchical surveillance, examination and normalising sanction are pivotal parts in the PMU's functioning. Through its process of conducting a review, the PMU subjects preparers, and to some extent auditors, to its Panoptic-like gaze. Most preparers and auditors are unaware of exactly how the PMU functions. These individuals do not know who is monitoring their AFS, nor do they know when they are being reviewed. They have been made visible but unable to see when they are being viewed. They believe that PMU is constantly monitoring them and subconsciously begin to act accordingly. Using IFRS as a benchmark of what the minimum in the AFS should be, preparers and auditors are left feeling as if they are subject to constant examination. For many respondents, the surveillance and examination by the PMU is compounded by the impact of being found to be non-compliant. The most pertinent sanction, according to respondents, was the effect a negative finding can have on their reputation. Many respondents were fearful of their reputation being tarnished by a negative finding. This form of monitoring and assessment, together with the reputational risk for the preparer and company identified as non-compliant, has a significant disciplinary effect which encourages compliance. 'Encourage' rather than 'ensure' is used because complete Panoptic control is not achieved (Hopper & Macintosh, 1993, p. 210). Although the PMU's processes may not perfectly fit Foucault's model of disciplinary power and control, its review process appears to have a similar normalising effect to hierarchical surveillance and persistent examination associated with the Panopticon (van Zijl & Maroun, 2017).

This must not be viewed as implying that the PMU's existence has corrected the problem of preparers and auditors not complying with IFRS. In line with the findings of van Zijl and Maroun (2017), Cowton and Dopson (2002) and Hopper and Macintosh (1993) there were elements of resistance to complete panoptic control evident. Many respondents revealed that with minor matters of non-compliance with IFRS, because the issues were minor, they were willing to not correct them and debate the issue with the PMU if they needed to.

There are motifs of disciplinary power and control apparent in the PMU's functioning. Given the prospect of resistance to the PMU's activities, a complete account of the PMU's activities is not provided by Foucault's model of disciplinary power and control.

5.2 Contribution of the thesis

In using a Foucauldian theoretical framework, this thesis responds to the calls for more research focused on accounting systems and how they operate as a source of disciplinary power (van Zijl & Maroun, 2017). The work of Cowton and Dopson (2002) and Hopper and Macintosh (1993) is complemented through the expansion of the applicability of Foucault's model of Disciplinary Power and Control.

The thesis also expands on earlier work by Louw and Maroun (2017) on how monitoring bodies function. Similarly, to the findings of Louw and Maroun (2017) this research presents evidence in support of the JSE'S decision to establish the PMU. The establishment of the PMU and the manner in which it functions is encouraging and it has left preparers believing that the quality of corporate reporting in South Africa has improved. The use of 17 interviews in this thesis results in a conceptual account of how the principles of enclosure, efficiency and disciplinary power and control may be at work in a corporate governance setting. This will be of use to monitoring bodies as it can indicate what aspects of their process improve compliance allowing monitoring bodies to better their processes accordingly.

Thirdly, this research adds to the existing literature on corporate governance research. In line with the findings of Louw and Maroun (2017), this study has highlighted how social forces are at work and contribute to influence the corporate governance function. Lastly, this thesis is one of the first which provides a detailed interpretive explanation of how monitoring bodies function in an African setting. This provides insight into how other African countries can use monitoring bodies to improve their corporate governance practices.

Finally, the use of interviews as a method adds to the limited body of interpretive accounting research. With the focus of accounting research having become increasingly qualitative, this thesis adds to the calls for more qualitative approaches as a means of investigation how society and accounting interact (de Villiers et al., 2019).

5.3 Limitations and areas for future research

This thesis focused only on one theoretical framework in one jurisdiction. The presence of disciplinary power and control in other countries, such as the EU, USA and the UK, has not been studied and is considered as an area of future research. Additional research is required to understand fully the impact of these bodies on auditors. Although touched on in this paper, the impact the PMU has on auditors is limited here and needs to be studied in more detail to understand fully how they are impacted.

This thesis has not considered the impact of an effective Audit Committee on a company's willingness to comply with the PMU. Some respondents indicated that, because they believed their company had strong processes and a strong Audit Committee, they were less fearful of a PMU finding. They believed these sound structures in their company lowered the risk of a negative finding. In light of this, additional research is required on the correlation of Audit Committee effectiveness and the number of findings from an external monitoring body.

Lastly, this study was not carried out to provide recommendations on how the PMU can improve its processes to obtain improved compliance. Many respondents did provide various recommendations which could improve the PMU's functioning as a monitoring body. This presents a future area of research which should be focused on how the PMU can improve its processes to make its work more effective. An example of a recommendation is for the PMU to name the companies that have misstated their AFS in the current year, similar to how the FRC operate.

6. Appendix A: Interview agenda

The potential interviewees were e-mailed the following agenda:

- Why does the PMU exist?
- Do we need the PMU?
- Is the PMU important for users of financials? Why? Do you think users are aware of the PMU and how it actually functions? (expectation gap) Institutional investors v lay investor.
- Can you discuss the change to require JSE companies to include a statement that they have considered any PMU findings?
- Can you describe the PMU's processes and state why each process exists?
- What are the possible different outcomes of a PMU review?
- What is the effect of each outcome on users of financial statements?
- Do companies know when (and how often) they will be reviewed?
    - If so, does this impact the effectiveness of their monitoring? Please elaborate.
    - If not, does this impact the effectiveness of their monitoring? Please elaborate.
- What do you believe the effect of the monitoring has been on the preparers of the financial statements?
- Who can bring potential issues to the PMU/FRIP's attention? Does this have an effect on preparers?
- 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?
- How do preparers perceive the FRIP? I.e. if they heard about a case being referred to the FRIP, what would that mean?
- Why does the JSE issue accounting circulars? Do these affect how preparers of financials behave? If so, how so; if not, why not?
- Why is it that the JSE has only issued two circulars?
- Would you prefer it if the PMU told you in advance that your company / client would be reviewed? Why?
- Are you aware that this year the PMU informed 30 companies that they will be reviewed? How do you think this will impact those companies' financial statements?

7. Appendix B: Restatement by SANRAL because of the findings of the PMU/FRIP

The South African National Roads Agency SOC Limited
Incorporated in the Republic of South Africa
(Registration number 1998/009584/30)
Company code: BINRA
("**SANRAL**" or the "**Issuer**")

CORRECTION OF ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

SANRAL advises its bondholders that the JSE Limited ("**JSE**") found the Issuer in breach of the JSE Listings Requirements ("**Listings Requirements**") with respect to the annual financial statements for the year ended 31 March 2016. The JSE's findings are that SANRAL has transgressed paragraphs (v) and (vii) of the General Principles of the Listings Requirements as well as paragraphs 5.2 and 5.5* of the Debt Listings Requirements in that the Issuer did not comply with International Financial Reporting Standards ("**IFRS**") in its accounting for impairment on trade receivables and that it failed to comply with IFRS paragraph 17 of International Accounting Standards (**IAS**) 1, *Presentation of Financial Statements* in respect of the accounting treatment in instances where the Issuer departed from the provisions of IFRS.

SANRAL disagrees with these findings based on the following:

1. The impairment assessment which was done on 31 March 2016, included all the information that was available to SANRAL management. Due to the short duration since the commencement of e-toll, the limited payment trends and the impact of external influences were assessed and were included in management's judgement of the impairment at the time.
2. IFRS states that hindsight should not be used when correcting amounts for a prior period. Therefore, the timing of events is crucial in assessing the impairment of e-toll debtors. To this end SANRAL could not recalculate/quantify the impairment without hindsight bias.
3. The Auditor-General of South Africa (AGSA), applying International Standards on Auditing (ISA), concluded that management's assessment of impairment was reasonable in all material respects and issued an unqualified audit opinion on both the 2015 and 2016 annual financial statements.

In a letter dated 26 October 2018, the JSE requested SANRAL to publish the information reflected in the table below. The JSE took the view that it would be impracticable to require SANRAL to restate its previously issued financial statements but that a more detailed ageing analysis of e-toll debtors would provide investors with information for decision making purposes.

SANRAL maintains that this assessment is biased to hindsight and contrary to IAS 8 and therefore does not accept the JSE's decision in this regard.

* *Paragraph 5.5 was renumbered to 5.7 in terms of Service Issue 26 of the Debt Listings Requirements.*

Ageing of Toll Impairment	2017 -18			2016-17			2015-16			2014-15		
Days	**Gross debtors balance R'000**	**Impairment**	**% Percentage impairment**	**Gross debtors balance R'000**	**Impairment**	**% Percentage impairment**	**Gross debtors balance R'000**	**Impairment**	**% Percentage impairment**	**Gross debtors balance R'000**	**Impairment**	**% Percentage impairment**
Current	736 156	-	0%	1 723 916	-	0%	730 666	-	0%	848 089	(26 093)	3%
31-60	152 030	(5 544)	4%	268 516	-	0%	204 904	-	0%	316 370	(9 733)	3%
61-90	149 314	(3 172)	2%	323 089	-	0%	47 155	-	0%	194 167	(5 974)	3%
91-120	167 025	(3 450)	2%	345 879	-	0%	657 244	(8 053)	1%	239 207	(18 067)	8%
121 to 365	1 278 461	(40 580)	3%	1 156 890	(35 867)	3%	1 163 890	(9 580)	1%	2 368 112	(67 388)	3%
1 to 2 years	1 650 877	(689 209)	42%	1 163 880	(694 145)	60%	2 846 900	(45 316)	2%	969 329	(15 315)	2%
2 to 3 years	2 691 900	(1 299 675)	48%	2 846 900	(1 913 659)	67%	969 329	(27 013)	3%	-	-	0%
+3 years	4 014 640	(4 014 640)	100%	969 329	(969 329)	100%	-	-	0%	-	-	0%
Total	**10 840 403**	**(6 056 270)**	**56%**	**8 798 399**	**(3 613 000)**	**41%**	**6 620 088**	**(89 962)**	**1%**	**4 935 274**	**(142 570)**	**3%**

Note: During the initial years of e-tolling, the limited data indicated positive responses by road users to government concessions, therefore the impairment was low. The significant increase of the impairment in 2017 and 2018 is as a result of the prescription assumption on civil claims, which applies after 3 years. Additionally, an allowance was made for possible further dispensation on the old debt.

Johannesburg
21 December 2018

Debt sponsor
One Capital

8. Appendix C: Ethics clearance and information sheet

Ethics clearance was granted by The University of the Witwatersrand granted. The ethics clearance number for this study is: CACCN/1189. Below is the information sheet given to respondents:

INFORMATION SHEET FOR PARTICIPANTS

Ethics clearance number: **CACCN/1189**

Title: Disciplinary Power and the Proactive Monitoring Unit

Dear Sir/Madam

My name is Kevin Flowers and I am a master's student in the School of Accountancy at Wits University in Johannesburg. As part of my studies I have to undertake a research project. I am evaluating the JSE's proactive monitoring unit (PMU). I am focusing on how the PMU is able to enhance compliance with IFRS. We would like to invite you to participate in this research project. You should only participate if you want to; choosing not to take part will not disadvantage you in any way. Before you decide whether you want to take part, it is important for you to understand why the research is being done and what your participation will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear or if you would like more information.

- In this study, we want to investigate (1) how the activities of the PMU affect preparers of financial statements and (2) whether these activities are similar to principles of disciplinary power.
- The interview is expected to take between thirty to sixty minutes to complete.
- There are no material risks posed by participating. Your identity and place of employment will be kept confidential. No personal information will be collected from you.
- There are no right or wrong responses – this research is only interested in your own experiences and impressions.
- Interviews will be audio recorded, subject to your permission. The interview will be transcribed and kept on file by the researcher but your identity and that of your employer and/or clients will be kept confidential and will not be referred to directly in the final research report.
- You will not receive any compensation for participating in the research. There is no direct benefit from participating or not participating in the research.
- Should you be interested, a copy of the final report will be available to you on request.

▪ **<u>PMU Interview agenda</u>**
▪ Why does the PMU exist?
▪ Are you aware of how the PMU review process works?
▪ How do preparers/auditors feel about their company's /client's AFSs being reviewed?
▪ What role does the FRIP play in the PMU?
▪ Are you aware of any other activities the PMU perform outside of their annual review?

It is up to you to decide whether to take part or not. If you decide to take part you are still free to withdraw at any time and without giving a reason. In addition to withdrawing yourself from the study, you may also withdraw any data/information you have already provided up until it is transcribed for use in the final report.

If this study has harmed or offended you in any way, you can contact the University Human Research Ethics Committee (non-medical), telephone +27(0)11 717 1408, email hrec-medical.research@wits.ac.za/ Shaun.Schoeman@wits.ac.za. If you require further advice and/or information, the researchers can be contacted using the details below:

Details	Researcher 1	Researcher 2	Researcher 3
Name	Kevin Flowers	Wayne van Zijl	Warren Maroun
Contact number	+27 (0)82 940 3136	+27(0)11 717 8227	+27(0)11 717 8245
Email address	Kevin.flowers1@wits.ac.za	Wayne.VanZijl@wits.ac.za	Warren.Maroun@wits.ac.za

Yours sincerely

Kevin Flowers

▪ CONSENT FORM FOR PARTICIPANTS IN RESEARCH STUDIES

Please complete this form after you have read the Information Sheet and/or listened to an explanation about the research.

Title of Study: Disciplinary power and the Proactive Monitoring Unit
Ethics Committee: CACCN/1189

Details	Please tick or initial
I agree that my participation will remain anonymous.	
I agree that the researcher may use anonymous quotes.	
I understand that if I decide at any time during the research that I no longer wish to participate in this project, I can notify the researcher involved and withdraw from it immediately without giving any reason. Furthermore, I understand that I will be able to withdraw my data up to the point of submission of my responses.	
I understand that the information I have submitted will be published in a thesis and/or publication and that I can request a copy of the final article.	
I understand that my personal information will not be collected. My identity and that of my employer and/or clients will be kept confidential and will not be referred to directly in the final report.	
I agree that the information I provide may be used anonymously in other research projects.	
I consent to my interview being recorded/to may data being used in the research/my questionnaire being included in the final results.	

Participant's Statement:

I ____
Agree that the research project named above has been explained to me to my satisfaction and I agree to take part in the study. I have read both the notes written above and the Information Sheet about the project, and understand what the research study involves.

Signed **Date**

__________________________ _______________________________

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