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Article

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The FRIP as a Mechanism of Accountability in the South African Financial Reporting Environment

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Abstract: Objectives: This research explores how an independent financial reporting monitoring and review body functions as a mechanism of accountability. Prior Work: The paper extends on a critical body of accounting research which draws on institutional theory to explain the functioning of financial reporting systems. Approach: Detailed interviews with a sample of practitioners and regulators are used to illuminate the functioning of isomorphic pressures in a financial reporting setting. Results: Although the review body in question does not enjoy the direct force of law, its' functions are a significant source of coercive, normative and mimetic isomorphic pressure which drives compliance with accounting standards. Implications: This makes a case for the establishment of oversight bodies in responses to corporate failures and crises of trust and shows how these bodies contribute to confidence in the capital market by demonstrating that reporting prescriptions and systems of governance are more than just symbolic. Value: The research makes an important contribution by providing a detailed account of precisely how the activities of independent/regulatory review bodies achieve a sense of accountability and drive higher levels of financial reporting quality, something which has been overlooked by the prior literature.

Keywords: Financial Reporting Investigations Committee, Isomorphism, legitimacy, regulation, South Africa

1 Introduction

With the majority of users unable to observe directly how financial reports are prepared and appreciate every technical aspect of the financial statements, their role as a legitimate part of the corporate governance landscape relies heavily on the rational assumption that these documents have been prepared with due care (Unerman and O'Dwyer, 2004; Maroun and van Zijl, 2015a).

One reason for the 'faith' placed by non-experts in the utility of corporate reporting is the proliferation of systems of checks and balances designed to establish a sense of accountability, transparency and 'discipline of the self' on the part of preparers of these reports (Black, 2008; Roberts, 2009). Examples include systems of corporate governance, the functioning of external regulation such as Sarbanes Oxley Act (SOX)and the role played by external audit.The prior literature, however, frequently presents financial reporting, and related quality control systems, as a rational technical function supporting the maximisation of shareholder value (Watts and Zimmerman, 1978; Carruthers, 1995). Exactly how formal reporting structures are able to achieve a sense of accountability or self-discipline has not been examined in detail (Rodrigues and Craig, 2007; Broadbent and Unerman, 2011; Mennicken and Miller, 2012). This is especially true in a South African setting where financial accounting research has been dominated by a positivist focus (Maroun, 2012a; Maroun and Jonker, 2014).

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As a result, the purpose of this paper is to add to the limited interpretive accounting research which draws on the experiences of individual accountants to highlight the disciplinary effect of financial reporting systems. It focuses specifically on the functioning of the South African Financial Reporting Investigations Committee (FRIP). The FRIP is used as an example of a monitoring body, established to ensure high quality financial reporting, to demonstrate how an independent reviews of financial statements function as a technology of accountability.

Although the research deals only with a single monitoring body in one jurisdiction, the findings are relevant for a wider academic community. They demonstrate how regulatory bodies rely directly or indirectly on different isomorphic pressure to ensure compliance with accounting prescriptions and reassure stakeholders that financial statements are being prepared according to best practice. At the same time, the study provides a novel institutional account of mechanisms of accountability in a South African setting and contributes to the need for theoretical and methodological eclecticism in South African financial reporting research (Brennan and Solomon, 2008; Maroun, 2012a; Maroun and Jonker, 2014).Finally, the research makes an important contribution for policy-makers. It provides evidence in support of the need for independent review functions and confirms the important role played by regulation in the capital market system.

The remainder of this paper is structured as follows: Section 2 discusses institutional isomorphism and explains the operation of coercive, normative and mimetic isomorphic pressures in modern institutional settings, including the functioning of the FRIP. Section 3 explains theuse of detailed interviews. Findings are discussed in Section 4 and Section 5 concludes.

2 Literature review

2.1 Financial statements as a mechanism of accountability

The accounting information produced by organisation has been "…institutionalised as the most important, authoritative and telling means whereby activity is made visible…" (Roberts, 1991, p. 359). Over time, financial reporting standards have developed into the very discourse used to describe what constitutes useful information and have become the benchmark against which financial statements are evaluated (Rodrigues and Craig, 2007; Maroun and van Zijl, 2015a). Similar to the role of budgeting and standard costing(Hopper and Macintosh, 1993; Cowton and Dopson, 2002), formal accounting standards provide the basis or norm for evaluating the financial position and performance of the reporting entity. In doing so, they offer a framework for evaluating these economic dimensions and holding those charged with the organisation's governance accountable(consider Hopwood, 1987; Ravenscroft and Williams, 2009).

For the mechanism of accountability to function effectively, a sense of legitimacy is required such that for technologies of accountability to promote conformance or change, they themselves must be accepted as legitimate (Roberts, 1991).In this context, generally accepted accounting practice has been codified by the international Accounting Standards Board (IASB) with the result that International Financial Reporting Standards (IFRS) have become a repository of technical expertise and knowledge (Ravenscroft and Williams, 2009) and an important source of pragmatic and cognitive legitimacy (Maroun and van Zijl, 2015a). The proliferation of IFRS in multiple jurisdictions has added to its accepted status as a legitimate basis for the preparation of general purpose financial statements (Rodrigues and Craig, 2007). Consequently, compliance with IFRS becomes an important means of demonstrating how an organisation has adopted best reporting practice in the interests of its stakeholders andbecomes an important source of organisational legitimacy (Rodrigues and Craig, 2007). This results in the acceptance of IFRS as a basis for describing the financial position and performance of the reporting entity.

In other words, accountability and legitimacy are inextricably linked. The formal structure of the accounting system, coupled with its potential to construct fields of economic visibility, means that the accounting system acts as a mechanism of accountability. This is, however, only possible because the accounting craft has become a readily accepted part of the capital market paradigm. Its pragmatic and cognitive legitimacy give rise to normative, mimetic and coercive pressures to comply with the accounting standards.

2.2 Isomorphism

DiMaggio and Powell (1983) Identify three sources of isomorphic pressure: normative, mimetic and coercive.

Coercive isomorphism

Coercive isomorphism is the product of external forces exerted on the organisation by a party in a position of relative power and authority and is the result of both formal and informal pressures (DiMaggio and Powell, 1983; Fogarty, 1992). The clearest example of coercive isomorphic pressure is the need to comply with prevailing laws and regulations in order to avoid sanctions (see Meyer and Rowan, 1977; Suchman, 1995). Less explicit, but equally relevant, is the pressure to appear responsive to stakeholders' needs, morally responsible and cognisant of social expectations in order ensure legitimacy and, in turn, their continued existence (Meyer and Rowan, 1977; Suchman, 1995; Atkins et al, 2015).

Normative isomorphism

As explained by Suchman (1995, p. 589), 'organizations often pursue professionalization, thereby linking their activities to external definitions of authority and competence'. This is because the cognitive legitimacy which these standards enjoy means that adherence to their prescriptions is the most effective means of conferring creditability on the individual preparer (Fogarty, 1992).

In this context, organisations are quick to comply with codes of best practice and industry norms or align themselves with the latest professional developments in response to normative isomorphic pressures (DiMaggio and Powell, 1983). This is especially true given that the individual responsible for the preparation of corporate reports are ranked according to their perceived standing in closely linked networks of like-minded individuals and against what society defines as competent (Roberts, 1991; Fogarty, 1992; Suchman, 1995).

Mimetic isomorphism

Finally, mimetic isomorphism is the process whereby organisations mimic or gravitate towards others as a response to uncertainties in their operating environment (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). Due to organisations facing similar uncertainties, those which are perceived to address these uncertainties are mimicked by others which seek leverage from this perceived legitimacy. This uncertainty effectively '… compels organizations to seek structuration patterns and actions from other organizations.' (Freitas and Guimarães, 2007, p. 39). The proliferation of modern organisational structures, including the relevant systems of governance and accountability, serve as examples (Meyer and Rowan, 1977).

2.3 Isomorphism and the FRIP

Of particular interest for the purpose of this research is that repeated corporate scandals and the on-going financial crisis have highlighted the need for independent monitoring bodies (Brown and Tarca, 2005; Malsch and Gendron, 2011). For example, the Financial Reporting Council (FRC) in the United Kingdom (U.K.) is intendent regulator responsible for promoting high quality corporate governance and reporting and holding the professionals responsible for the preparation of their corporate reports. The review mechanism is reactive in nature, with the FRC responding to matters brought to its attention (Hines et al, 2001).

Similarly, in the U.S.A, the Securities and Exchange Commission (SEC) aims to ensure that '… investors are furnished with the information necessary for informed investment decisions3' (Hines et al, 2001, p. 3). The SEC is able to enforce this through rejection of the filing of the company's financial results, preventing the company from obtaining a listing or alternately resulting in the company being barred from trading on the securities exchange (Hines et al, 2001), and so enforcing accountability for the financial reports issued.

South Africa's capital market also relies on the functioning of an independent monitoring body. Originally, the JSE and the South African Institute of chartered Accountants (SAICA) established the GAAP Monitoring Panel (GMP). The purpose of the GMP was to create a platform from which financial reporting standards could be enforced, which the JSE was previously unable to do (Mittner, 2002) and to ensure that standards were adequately applied by the reporting entity(Hogg, 2004).

During 2011, the GMP was renamed the "FRIP", and its charter was updated to modify the panel from a reactive to proactive one (JSE, 2011a). The FRIP comprises 16 individuals representing 'preparers, auditors, academics and users of listed entities' financial statements' (FRIP, 2011, p. 2) to ensure the panel provides an unbiased review of financial statements. The fundamental role of the FRIP remains unchanged from the function of the GMP but the operational style was

[3] The wording of SOX could result in South African companies being subject to review by the SEC. Likewise South African audit firms can be subject to review by the PCAOB. This is, however, beyond the scope of this research.

modified to a pro-active approach to ensure a greater detection and correction of non-compliance, resulting in a better regulated market (JSE, 2011b). The FRIP still continues to deal with any queries directed to it by the JSE from either internal or external sources, and, in addition, it oversees the random review of financial statements of all companies listed on the JSE, with each company being reviewed at least once in a five-year period (Bowman Gilfillan Attorneys, 2011).

The FRIP joins other international independent oversight bodies, such as the SEC, which are much needed in the wake of reporting scandals and on-going financial crises (Brown and Tarca, 2005; Malsch and Gendron, 2011; Maroun, 2012b). In addition to the benefits of holding the company and management accountable to third parties, the role that the FRIP plays within the company itself cannot be ignored. It is possible that the reviews carried out by the FRIP operate as a mechanism of accountability at the level of the individual preparer and result in a greater sense of self-discipline (cf Hopper and Macintosh, 1993; Roberts, 2009). Given professional (and the highly institutionalised) environment in which the financial statements are being prepared, the functioning of the FRIP may give rise to different isomorphic pressures driving compliance with best reporting practices.

3 Method

Semi-structured (open-ended) questions were developed by the researcher based on the prior literature dealing with technologies of accountability (examples include Roberts, 1991; Huse, 2005; Solomon, 2010), and professional publications explaining the functioning and role of the FRIP and the proactive review process (examples include Bowman Gilfillan Attorneys, 2011; FRIP, 2011; JSE, 2011b). The questions dealt with the importance of accountability for the preparation of high quality financial statements, the review process carried out by the FRIP and the intended or perceived effect of the FRIP’s review process (Appendix A).

Questions were, to the extent possible, non-leading, and as broad as possible to allow the themes and concepts of the research question to be explored (Creswell and Clark, 2007; O'Dwyer et al, 2011). To ensure research quality, the final interview agenda had also been piloted with one accounting academic and one senior audit manager at one of the ‘Big 4’ audit firms in South Africa to ensure accuracy, clarity and focus on the research question (Rowley, 2012).

Sample

Interviewees were purposefully selected based on their professional experience and direct involvement with FRIP reviews. Although this introduces the risk of bias, the sampling method ensures that only those individuals with first-hand experience are engaged in the study and that the findings are detailed and accurate (as per Cohen et al, 2002; Maroun and Solomon, 2013).

Sixteen interviews ranging from thirty minutes to one hour were carried out. Interviewees included audit professionals (7), members of the Panel (3) and preparers (6). This ensured that the results were not dominated by the perspectives of a particular group of respondents but it should be pointed out that it is not the purpose of this research to differentiate the views of each group of respondents.

Data collection

Respondents were guaranteed anonymity and informed of the fact that participation in the study is completely voluntary, they may withdraw at any time, and all commentary will be treated with the strictest confidence. This was done to ensure that respondents would speak with complete candour (adapted from Alvesson, 2003; Atkins and Maroun, 2015).

If the potential interviewee agreed to participate, a time and location wasestablished. The interview agenda (Appendix A) was made available to respondents prior to the commencement of the interview to allow them to familiarise themselves with questions (as suggested by Creswell and Clark, 2007; Leedy and Ormrod, 2010; Rowley, 2012). Due to the open-ended nature of the questions, the risk of ‘rehearsed’ responses was relatively low, even though the interview agenda was provided beforehand(see Holland, 2005; Rowley, 2012).

At the start of each interview the respondent was reminded of the nature and purpose of the research, that there is no ‘correct’ or ‘incorrect’ answer, and that all responses would be treated as strictly confidential. As the interviews were semi-formal the interviewees were encouraged to talk as widely as possible. At the same time, respondents were asked to explain particular concepts or statements in different words or from a different perspective to address ‘script coherent expressions’ or resolve any ambiguities (Alvesson, 2003).

Data analysis

Interview transcripts were analysed using a three-tier approach: data reduction, data display and verification (O'Dwyer et al, 2011). Each transcript was broken down into key points. Notes were contrasted and general themes, categories and interconnections identified and aggregated using a ‘data mind map’ (Holland, 1998a; Holland, 1998b; Leedy and Ormrod, 2010). Data was organised under headings and sub-headings (axial codes) informed by the prior literature. These included axial codes on how accountability mechanisms function, the advantages and disadvantages of the review carried out by the FRIP, and elements of resistance to this review. Notes on the different phrases, concepts and principles were made on each transcript and used to summarise the data under these headings (adapted from O'Dwyer et al, 2011; Maroun and Solomon, 2013).

Defining axial codes afforded structure and allowed the study to retain focus. While there is a risk that this approach could have restricted the exploratory potential of this study, this is overcome by reclassifying individual transcripts as new information emerges from either additional interviews or the literature. In addition the axial codes were also revised as needed during the course of the study, to accommodate any new or previously unidentified information. In other words, the data analysis process was iterative. Where contradictions or inconsistencies were identified, they were verified during follow-up sessions or subsequent interviews. The aim of this process was to obtain a sense of saturation and not to achieve statistical consensus or a ‘result’ in a positivist sense (Holland, 2005; Leedy and Ormrod, 2010; O'Dwyer et al, 2011).

4 Results

4.1 Coercive isomorphism

Interviewees revealed two sources of isomorphic pressure associated with the functioning of the FRIP: the relevance of laws and regulations and the expectations of important stakeholders

On the relevance of the Companies Act and JSE listing requirements

The prescriptive use of IFRS in the preparation of listed companies' financial statements is a requirement of the South African Companies Act No 71 of 2008 (Companies Act, 2008)and of the JSE listing requirements (JSE, 2013). Having the required reporting framework legislated and as a listing requirement provides a statutory backing for its application. It is through this backing that the application of the framework can be enforced by establishing adverse consequences for non-compliance.

The consequences of non-compliance depend on the enforcement mechanism contravened and the severity of the contravention, as discussed below. The effect of having the reporting framework requirements legislated is summarised as follows:

> *if a company doesn't comply with IFRS then they are guilty of non-compliance with the Companies Act and then they are basically breaking the law, (R6)*

Laws and regulations are, in themselves, a source of coercive isomorphic pressure (DiMaggio and Powell). In addition to potentially material financial and criminal sanctions for non-compliance,legislation represents a powerful institutionalised system which contemporary organisations must comply with in order to ensure structural and procedural legitimacy (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Suchman, 1995). In this context, the FRIP does not enjoy the direct force of law and is not, in itself, the cause of legal coercive isomorphic pressure. Instead it works in conjunction with legislation and with the JSE listing requirements to drive compliance with IFRS. This is not achieved by the FRIP imposing penalties directly but by acting as a technology of accountability in terms of which it is able to rely on its data collection and analysis capabilities to identify poor application of IFRS and render the individual organisation visible. Consider the following:

> *The FRIP can't tell you what to do. It does not have statutory powers. But it works like a surveillance system. There is a very formal surveillance structure in place to monitor activities and report suspected non-compliance for further analysis and sanction (R16)*

> *Companies are starting to realise that somebody is looking at their financial statements and it's somebody they can't bully (R1)*

Due to the relative position of the FRIP within the financial reporting mechanism, and the legitimacy awarded to it by the market (R15; R16), organisations find it difficult to manipulate the panel (R2). Coupled with the technical proficiency of the members, the body is able to ensure adequate evaluation of compliance with the reporting framework. The technical rigor or the process is likely to result in a revelation 'for the company that may not be pleasant' (R1). Essentially, there is somebody 'with the appropriate skills looking over your shoulder' to ensure the framework is correctly and consistently applied (R3).

In addition to rendering non-compliance visible to statutory mechanism, the operations of the FRIP make the transgression visible to the JSE. A primary objective of the securities exchange is to establish the integrity of the market by ensuring uniform reporting and adherence to the reporting framework (R9). As such, this non-compliance is of particular interest to the JSE (R2; R3; R6). The review of financial statements by the FRIP has established a platform with the necessary expertise and technical rigor to ensure compliance (R16). This process allows the JSE to evaluate cases of suspected non-compliance, with the FRIP serving as the mechanism for doing so. Consider the following:

> *[The FRIP] has raised the awareness that it's not a free for all. They [preparers and their organisations] can't do anything they want and that there is this risk of having to restate, which is the worst thing for any company in the world, have to restate accounts, and that created a caution for the companies that are a little circumspect in the application of IFRS and liberal interpretation of IFRS (sic) (R3)*

The risk of restatement causes the organisation to consider its application of IFRS more closely (R5). It influences the company to ensure its interpretations are consistent with IFRS and other market participants (R1; R9). Through this process, the JSE is able to ensure organisations appropriately consider and apply the financial reporting framework. In addition, while the JSE listing requirements do not give the Exchange the power to instruct a company to restate, the JSE is able to uses other avenues made available by the listing requirements (R3). The most serious of these is the suspension of the organisation's listing, as explained:

> *Where they say we want you to restate and the company says no, and then what can they do, they can suspend them, that's what they can do, it's punishment, so that suspension is a massive thing (R3)*

Suspension is a serious step that, in most cases, results in a company rather restating its financial statements. It may be the case that a company refuses to do so, with the result that its shares are suspended (R1). Respondents pointed out that this was not a hypothetical consequence. As the JSE has previously suspended shares for non-compliance, several interviewees felt that the threat of suspended trading, in part a result of poor financial reporting practices, has been clearly established.

In addition, the negative consequences of non-compliance are not limited to the company and extend to the other parties involved in the preparation process, as explained:

> *You've got to consider than maybe [the FRIP] reports it to the FSB and they follow up, the auditor who signed off, well they get reported to IRBA, and they also get reported to SAICA because they are usually CA's as well, and they may or may not report the IFRS advisor [as well] (R1)*

The FRIP allows for the individuals responsible for the preparation of non-compliant financial statements, as well as the auditor, to be held accountable (R1; R3; R5; R6; R9). As with the consequences for the company, the FRIP itself does not hold these individuals responsible for the transgression. It establishes a processby which pre-existing laws and regulations can be brought to bear on the individual accountants and auditors. In other words, the FRIP is not responsible for holding each of the involved parties responsible; it establishes a process through which non-compliance is identified, evaluated and reported to the relevant professional bodies. This possibility of being reported for a negative FRIP finding, and the consequences of related professional disciplinary, civil or criminal sanction,means that the FRIP exerts a coercive isomorphic pressure (The professional ramifications of a FRIP review are discussed in Section 4.2).

The FRIP and compliance with stakeholder requirements

The capital market has become more aware of the importance of faithful reporting (Atkins and Maroun, 2015). For example, many of the new standards released by the IASBhave been in response to the recent spate of corporate failures and financial scandals and the need for enhanced transparency (see, for example, IASB, 2011a; IASB, 2011b; Jonker and Maroun, 2013; Maroun and van Zijl, 2015b). In addition to new standards, corporate scandals and failures have driven the need for, and proliferation of, codes of corporate governance (see, for example, IOD 2009, Solomon 2010, IIRC 2011). Society has placed greater importance on the accuracy of financial reporting, with the impact of incorrect reporting becoming more severe, as explained:

> *If there are accounts that had to be restated, that must mean that the first accounts were not reliable and couldn't be used for their intended purposes, and what does that tell me about management and/or the systems? [It] must put a question mark on the integrity of the data, integrity of the system and/or the way management are reporting it (R3)*

Similarly:

> *Because of all the issues that have arisen due to corporate failures, there is an increased expectation that financial statements will be compliant with IFRS, which would increase the transparency of financial reporting and ensure management are discharging their fiduciary duty. Transparency assists stakeholders in assessing the financial results of the business, how it was managed given all the disclosures in that regard, and whether there has been any reckless trading, because if you have*

> *paid yourself a R15 million bonus and the business hasn't done very well, it's an indication of poor overall management and adequate compliance with IFRS allows stakeholders to see this… I think having a policemen [such as the FRIP] there forces people to do what they were supposed to do in the first place, allowing these disclosures to be relied on (R5)*

The proliferation of codes of corporate governance, in conjunction with the new, more detailed, financial reporting standards, has resulted in stakeholders expecting higher quality, transparent financial reporting (see Maroun and van Zijl, 2015a). The non-compliance with the reporting framework not only casts doubt on the integrity of the information and those responsible for its preparation but also the transparency of the organisation reporting the information (R13; R14). The functioning of the FRIP cannot, therefore, be interpreted in isolation. The review body is, in essence, a means of operationalising stakeholders' demands for high quality financial statements. Users of the financial statements are provided with some assurance that technical experts are reviewing the financial statements for compliance with IFRS. Conversely, if the FRIP identifies inappropriate accounting practice, the company is held accountable in terms of the provision of the Companies Act (2008) and Listing Requirements(JSE, 2013). Interviewees pointed out that, although the identity of the organisation is not disclosed, the respective *accounting treatment* is identified as inappropriate to a broader group of stakeholders who, in turn, are able to hold organisations accountable and demand reforms where similar accounting practices occur.

4.2 Normative isomorphic pressures

For many respondents, more relevant than the direct cost of a contravention of statute, listing requirements or contractual provisions are the professional implications of an adverse finding by the FRIP. Interviewees explained how this normative isomorphic pressure has implications for the company, the preparers of the financial statements and their auditors.

Consequences for the company

Several respondents explained that a restatement of the financial statements sends an important signal to the market which can have significant implications for the company's reputation (R1; R3; R5; R9). Consider the following:

> *If there are accounts that had to be restated, that must mean that the first accounts were not reliable, and couldn't be used for their intended purpose (R3)*

In other words, the effect of an adverse FRIP finding are more significant than the direct costs of non-compliance with statute or listing requirements. A report by the FRIP calls the integrity of the financial reporting process into question. An error, even if it is isolated, has the potential to cast doubt on the ability or willingness of the company to prepare transparent and useful financial statements. As explained by one respondent, a finding by the FRIP can, therefore, discredit the company in the eyes of its current investors:

> *I think it stigmatises the company because if that could happen [a restatement], are their controls really that good and then why did it happen? … And if it comes out that you had inadequate controls and policies and procedures and you ended up reporting false information, it will stigmatise the company (R9).*

Unsurprisingly, several interviewees also pointed out the implications for a company trying to raise additional capital with new investors and creditors.

> *I think it's going to be public knowledge if they put it out on SENS that the company has been forced to withdraw their accounts and restate. The investor has to undoubtedly say: 'does the board of directors tasked with governance of this entity know what the hell they are doing?'… Every investor does not have the opportunity to go to the offices and walk through them and say: 'Are you running a tight ship?'. Here the CEO and the FD, who are paid significant amounts to make sure the numbers they are giving [the investors] are the right numbers, haven't done what they are supposed to. And I am going to base my calculations and decisions [on that incorrect information] (R9)*

There are a large number of investment options with analysts only able to follow the performance of a select number of companies with the result that these institutional investors rely on a collection of indicators for quickly categorising the appropriateness of the potential investment(Atkins and Maroun, 2015; Atkins et al, 2015). As explained by one expert:

> *A restatement is a negative on the tick boxes of many of the investors. You have thousands of companies to search through and you have a screening so [the question you ask is] has a company had to restate in the past three years? [If the answer is] 'yes', it doesn't matter how big the restatement was, it's off the radar. (R1)*

The technical competency of the FRIP, coupled with its significant professional standing, means that it has become an institutionalised part of the capital market system with which organisations must comply in order to secure legitimacy (R13; R14). The converse is also true. The FRIP is regarded as such a respected authority on appropriate financial reporting (R1; R3) that a negative report by the body, resulting in restatement, is quickly accepted as an indicator of poor financial reporting practice. Due to the cognitive legitimacy reserve of the FRIP, an investor does not need to carry out a detailed due diligence on the financial reporting practices of a potential investment. A restatement (due to an adverse finding) is sufficient to cast the legitimacy of the organisation into doubt and negate the need for any additional analysis. The effect of a negative signal by the FRIP is also relevant for a company's broader corporate governance.

Although not a recurring finding, because the FRIP calls into question the integrity of the financial reporting process (R13; R15), it has the potential to cast doubt over other systems and processes related to the financial statements. The identity of the company may not be revealed to the public but senior management and committees of the Board of Directors of the affected organisation are aware of the findings with a number of adverse implications. For example, it may raise questions about the appropriateness of the auditor appointed by the audit committee (see Section 4.2.3) or the underlying internal controls used by the company to safeguard financial resources and ensure the integrity of the financial statements. In turn, this has important implications for the perceived rigor of a company's corporate governance systems.

As discussed in Section 4.1.1, there is a general expectation by stakeholders for high quality financial statements and an effective system of checks and balances over financial and non-financial resources. As a result, adherence to codes of best practice and governance has become an important source of structural and procedural legitimacy (Maroun and van Zijl, 2015a). This means that an adverse FRIP findingchallenges any prior claims made by an organisation that it is committed to effective governance and results in significant internal reflection by the organisation on the challenge to underlying legitimacy (R1, R9).

In other words, the FRIP functions concurrently with other systems of accountability to yield a source of normative isomorphic pressure. As explained by (Suchman, 1995, p. 589) 'organizations often pursue professionalization' in order to 'link their activities to external definitions of authority and competence'. Claims to compliance with the principles in, for example, King-III and the COSO framework, have become an important means of defining how organisations are operated and presented to stakeholders and a driver of normative isomorphic change(consider: Meyer and Rowan, 1977; Maroun et al, 2014). The FRIP is an integral part of this, either confirming or challenging the extent to which a company has complied with best practice. This effect is magnified when financial statements are restated. For example, one expert discussing the implications of a FRIP finding and restatement of financial statements for the reputation of an organisation said:

> *Because you never restate something that wasn't material that means something serious has gone wrong here and, even if [the company] thought it was right, why didn't [the company] highlight it in their accounts… As an investor, you rely on management telling you that those numbers are right and the auditor confirms them. That is the assurance process on the underlying numbers… So now if the FRIP shows that the financial statements are wrong, that definitely stigmatises [the company] (R13)*

Respondents went on to explain that even if the company does not restate its financial statements, the likely outcome is a suspension of trading. In this way, that there is a problem in how the company has applied IFRS is still being communicated to stakeholders (R1; R3). Consequently, irrespective of whether or not there is a restatement, the company is 'exposed to bad press' and 'it doesn't smell very good' (R15). This results in investors no longer wanting to invest in the company, customers and suppliers no longer wanting to deal with the company and other stakeholders not wanting to be associated with the company (R5). In this way, the reputational implications of a negative FRIP finding, including the perception that the company is not complying with best practice designed to service the information needs of stakeholders, means that there are strong normative isomorphic pressures exerted on the organisation to ensure their financial statements are of a high quality. This is reinforced by similar isomorphic pressures working on the individuals responsible for those financial statements.

Consequences for the preparers

Interviewees pointed out that a preparer is unlikely to face criminal sanctions for non-compliance with IFRS or otherwise suffer direct personal financial cost. The most important implication of an adverse report by the FRIP are the consequences for the professional reputation of the preparers and those charged with the organisation's governance.

The name of the individual responsible for the preparation of the company's financial statements is required to be published (Companies Act, 2008). The individual responsible for the preparation of the financial statements is identified and becomes the object of regulation and prescription (see Maroun and Atkins, 2014). In the context of a FRIP review, this means that any adverse finding is quickly linked, not only with the identity of the respective firm, but also with the professional competency of the individual accountants tasked with the preparation with the financial statements[4]. The finding of non-compliance also places strain on the employment relationship. A preparer may very well 'fall out of favour' (R3) with his employer and 'either lose his job or stunt his professional development' (R14). As a result, that the financial statements may be subject to review by the FRIP operates as a subtle (but important) source of normative isomorphic pressure. Consider, for example, the following comment:

> *[Preparers] will always have the **possibility** of being called by the FRIP at the back of their minds. From experience, people would rather have it right than even a **possibility** of incorrect or incomplete disclosure by the mere fact that they know there is a **possibility** that someone out there **could be looking** at the financial statements (sic) (R5, emphasis added).*

Most respondents shared this view. On one level, an actual review by the FRIP has a disciplinary effect, resulting in self-regulation and careful reflection on how IFRS is being applied at the respective organisation (R14). In this way, the professional implications for the individual accountants involved (normative isomorphism) works hand-in-hand with sanctions by the JSE and relevant professional bodies for non-compliance (coercive isomorphism). Similar isomorphic pressures are,

[4]This is the case even if restatement does not result because, as explained by respondents, the FRIP findings become common knowledge among senior management, the Board of Directors and the independent committees of the Board

however, also felt even when the preparer was not subject to a FRIP review. Respondents were unanimous that the *potential for review* (and resulting reputational impact) is often sufficient to condition preparers to apply IFRS very conservatively (R12; R14; R15; R16).

As explained in Section 4.2.1, compliance with IFRS is part of a process of signalling an awareness of the need for high quality financial statements and users' expectations for transparent corporate reporting. This is a source of normative isomorphic pressure for companies. By the same token, demonstrating a command of IFRS and a stakeholder-centric reporting model is a defining feature of a competent professional accountant (Fogarty, 1992; Maroun and van Zijl, 2015a) . As a result, the possibility of a review by the FRIP and a negative finding, even if this is remote, is often sufficient to encourage preparers to review the application of IFRS to complex transactions, consult with peers, and seek the advice of their auditors.

> *Most of us make sure that standards are being complied with. We consult [with the audit firm's technical department] and make sure that whatever comments come back from the technical department are looked at more closely than they would have been in the past because, in a way, the JSE would be looking as well (R5)*

FRIP reviews also affect how preparers interact with their auditors when the latter detect errors in the accounting records as part of the normal audit process. For example, one interviewee, explaining how a company's preparers respond to difference detected during an audit pointed out that:

> *I think that [FRIP reviews] have made people a bit more aware in terms of the questions that could be asked and the level that people do go into when looking at the financials. So, I think that, any issue or debate that would've been an audit difference as a disclosure issue and would've been left unadjusted because it wasn't material is looked at more carefully. If it can be done right, rather do it as opposed to just leaving it unless it is really impossible. (R14)*

This comment suggests that preparers rely on materiality to justify not complying precisely with the requirements of IFRS (see Tremblay and Gendron, 2011; Maroun and van Zijl, 2015a). FRIP reviews address this commonly used method of resisting corporate reporting prescriptions. Most interviewees agreed that the possibility of the FRIP questioning a company's application of IFRS is making preparers less likely to dismiss differences detected by auditors on the grounds that these are immaterial (R6).

Respondents also identified normative isomorphic pressure being exerted on those charged with governance, in particular, organisations' audit committee chairmen. The main reason for this is that communications between then JSE and the company are usually addressed to the chairman of the audit committee (R1; R3; R5; R6). This means that the reputational risks for preparers, as discussed earlier, apply equally to the Chairs of audit committees. That the Companies Act (2008)specifically requires the audit committee to accept responsibility for the preparation of financial statements in compliance with IFRS reinforces this sense of accountability. For example:

> *[The chairman] is a bit more aware in terms of the questions that could be asked [by the FRIP] and the fact that a panel of experts will go through the financial statements in detail (R5)*

The result, according to all interviewees, is that the chairman places additional pressure on both management and the specific individual responsible for the financial statements to ensure they are compliant with the IFRS (R6). In other words, normative isomorphic pressure is reflexive. It not only makes the chairman more aware of his monitoring and quality control responsibilities but also results in his holding the organisation and individual preparers accountable.

In this way, the FRIP is part of a complex system characterised by the concurrent functioning of normative and coercive isomorphic pressure. Its review processes remind individual accountants of the importance of applying the IFRS with due care and skill. At the same time the professional implications of identified non-compliance promotes more active monitoring and review by those charged with an organisation's governance, something which is a source of normative and coercive isomorphic pressure in its own right. The final result is that the FRIP, even though it does not enjoy the direct force of law, encourages respondents to internalise the importance of high quality financial reporting and engage in active self-regulation to ensure compliance with IFRS.

Consequences for the auditor

As auditors are reliant on their reputation for continued existence(Chandler et al, 1993; Agulhas, 2007) , the risk of having a restatement on a set of financial statements on which an unqualified opinion was issued cannot be ignored. Based on the new reporting standards and heightened awareness of high quality transparent corporate reporting (Section 4.2.1), there is an increased expectation that the auditors will ensure compliance. Respondents identified two areas of interest when considering the auditors. The first was the impact of the proactive review in which auditors are participating. The second were the implications of this review process yielding a result which is inconsistent with the auditors' opinion of the financial statements.

After the recent financial crises and corporate scandals, regulators have increased their scrutiny of the audit profession(Malsch and Gendron, 2011). This has placed additional pressure on the firms to ensure that they discharge their fiduciary duties. Because these regulators often have the power to impose penalties, they operate as a source of coercive isomorphic pressure. At the same time, professional sanction, which calls into question the technical competency of the individual accountant is a source of normative isomorphic pressure(Malsch and Gendron, 2011) . Although the FRIP is not established specifically as an audit oversight body, its review processes can be viewed in a similar light.

According to all respondents, the FRIP can be viewed as another body scrutinising the application of IFRS by clients (see also Section 4.2.1) and, indirectly, the rigor of the procedures carried out by auditors to support their opinion that the respective financial statements achieve fair presentation. The effect on the auditor was explained as follows:

> Researcher: *Does the effect of the FRIP review have implications for the auditor when the FRIP criticises the application of IFRS and the auditor has concluded that the financial statements comply in all material respects with IFRS?*
>
> Respondent: *It is very uncomfortable for the auditor, very uncomfortable because not only do they have their own client turn on them, every client blames their auditor because they said the financial statements were okay. That's what happens. So this will definitely sour the relationship with the client… It is also a further matter of discomfort… When there are two audit firms because there is peer pressure… Then there is the third element in that, if there is a restatement, it is an automatic referral to the JSE, SIACA, and the IRBA and there will probably be a disciplinary hearing. (R13)*

Similar to the discussion in Section 4.2.2, normative isomorphic pressure works on the individual responsible for the audit engagement. A contradiction of the auditor's conclusion by the FRIP calls into question the practitioner's understanding and application of IFRS and the extent to which he has carried out the audit engagement in compliance with the relevant standards. In other words, an adverse FRIP review is an attack on each of the essential elements of professionalization: technical proficiency, due care and skill, and the sound application of professional judgement(Chandler et al, 1993; Maroun and Atkins, 2014) . Consequently, even though the FRIP does not hold the individual auditor directly responsible, its conclusions 'identify the auditor as possibly lacking ' (R7) and are, an important source of normative isomorphic pressure. The possibility of being judged by peers adds to this[5].

As explained by Respondent 13 above, in multi-audit engagements, having a professional opinion disputed by the FRIP 'is especially embarrassing' because of peer pressure. To paraphrase Maroun and Atkins (2014, p. 848), there is a 'strong awareness of reputational risk' which is 'magnified by the fact that non-compliance [with IFRS], if detected, would become common knowledge among the respective partner's peers and subordinates'.

As with preparers, respondents also felt that it was not necessary for the auditor to be involved in an actual FRIP review for this normative pressure to function. Several interviewees explained how, on listed engagements, auditors are aware of

[5]As discussed in Section 4.2.2, it does not matter that the identity of the company/audit client is not made public. The critical review of the auditor's skills by those *within* the organization is a source of normative isomorphic pressure. This is simply amplified if results are restated.

the possibility of a FRIP review and are taking this into account when designing their audit procedures and concluding on identified differences[6] (R5; R7). In addition, interviewees commented that FRIP reviews have the potential to erode confidence in the attest function as a whole:

> *If you are saying that you need this [FRIP reviews] over and above what's in the audit opinion then that causes doubt about the audit opinion (R4)*

and

> *If you're saying the FRIP process adds an additional level of confidence what does it say about your audit process? (R6)*

If a company's financial statements have been audited and an unqualified audit opinion has been issued on these financial statements, there is a reasonable assumption that the accounts correctly reflect the financial position and performance of the reporting entity in accordance with IFRS (R4; R5; R6). If the stakeholders believe an additional monitoring system is necessary, then there must be doubt regarding whether or not the auditors are able to discharge adequately their duties, leading to 'the opinion of the auditor being second guessed' (R6). In this way, the indirect effect of a FRIP review on the professional standing of the auditor in the eyes of the public, and the confidence that non-experts vest in the attest function, is a significant source of normative isomorphic pressure.

The proactive review provided a reminder to the audit profession, specifically the big four firms, that 'they are not above the law' (R1). This process itself could be seen as a normative force, reminding the firms that they cannot simply rely on their relative position in the market and also need to ensure they spend sufficient and appropriate time ensuring their clients' financial statements comply with the reporting framework (R3). From a slightly different perspective while auditors are required to be independent of their clients(IAASB, 2009), as in any business, they are economically dependent on their clients. Therefore, FRIP reviews can act as an additional regulatory mechanism which exerts indirect coercive and normative isomorphic pressure to safeguard against threats to independence which might compromise the quality of an audit engagement.

The proceeding discussion should not, however, be interpreted as implying that isomorphic pressures are only functioning on the auditor. Respondents explained that the proactive review by the FRIP can enhance auditors' ability to hold clients accountable for non-compliance with IFRS. For example the proactive review can be used to convince or persuade clients to adhere to IFRS:

> *For me it makes it easier for the companies I work for to say 'look it's not just me you need to convince, there is another regulatory body that can ask questions', so we need to ensure that our disclosure is correct (R2)*

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[6] A specific analysis of how auditors are modifying the nature, timing and extent of audit procedures to take into account the increased professional risks associated with a FRIP review is beyond the scope of this research.

FRIP reviews may also be useful for managing the tension between economic dependence on a client and the regulatory function carried out by the auditor:

> *It makes the auditors' job easier because they don't have to take up the cudgels against their own clients. They say 'look you could interpret it that way, but do you want to take a risk that the FRIP will take a different view, and then we have a fight with them, and you may have to restate' (R3)*

In other words, auditors can utilise the consequences of a negative FRIP finding to ensure that their clients are applying IFRS appropriately. This becomes especially useful when the audit client considers the preparation of their financial statements as a 'tick box' exercise and are reluctant to adhere to the spirit of the accounting standards (R2). In this way, the normative and coercive isomorphic pressures resulting from FRIP reviews function in two ways. Firstly, they work on the individual auditor to ensure compliance with IFRS and are relevant in the context of demonstrating that confidence in the attest function remains valid. Secondly, the potential of the FRIP as a source of isomorphic pressure can be relied upon by the auditor to compel clients to adhere to IFRS.

4.3 Mimetic isomorphic pressures

Although not a common finding, there was some evidence of the functioning of mimetic isomorphic pressure as a result of FRIP reviews. For example, one preparer explained how his team reviews technical reports (published by the JSE) and summarises the main findings resulting from the proactive review process. The purpose was not to identify the offending organisation but to understand how the FRIP is interpreting relevant sections in the IFRS. This has a number of important implications.

Firstly, there is evidence of a type of inverse of mimetic isomorphism at work in that preparers are identifying those practices deemed inappropriate by the FRIP and avoiding them when preparing their financial statements (R5; R8; R9). Consider, for example, the following comment:

> *[Published findings from FRIP reviews] are making the general public more aware of the good stuff and the bad stuff in terms of good financial reporting and bad examples [sic] and making them aware of what they [preparers] should not be doing. (R5)*

Secondly, preparers and auditors confirmed that they are actively reviewing financial statements. The purpose of these reviews is to ensure that all information required by the IFRS is being included in the financial statements in order to pre-empt interrogation by the FRIP (R5; R6; R8; R9). As explained by most interviewees, this is resulting in additional disclosure by most listed companies to ensure that their financial statements are consistent with those of their peers and the requirements of IFRS (R2; R5; R6; R9). Finally, there was some evidence to suggest that the FRIP has been elevated to the position of an interpretation committee, even though this is not part of the FRIP's mandate:

> *I haven't heard of any cases where boundaries are being pushed. There haven't been big public debates or challenges of the FRIP's findings… You will only see the authority they have because people are not pushing the boundaries… People are doing what they are told and if the FRIP decides on something then that's the way it is. (R8)*

As discussed in Section 4.1 and 4.2 the technical standing of the FRIP has resulted in a cognitive legitimacy reserve. All respondents confirmed that the FIRP is constituted by some of the country's leading minds in corporate financial reporting and that this confers significant pragmatic legitimacy. At the same time, a rigorous review processes - coupled with a clear mandate from the Stock Exchange - has resulted in procedural legitimacy. This is complemented by structural legitimacy resulting from the fact that the purpose of the FRIP is to drive high quality financial reporting in the interest of the users of financial statements. This means that, in South Africa, the FRIP is generally accepted as a financial reporting authority capable of providing legitimate interpretations of IFRS. Whether or not this was intended by the JSE was unclear but comments from most preparers and auditors revealed that findings from a FRIP review carry as much weight as interpretations issued by the IFRIC and, in some cases, are seen as an irrefutable extension of the IFRS's.

5 Conclusion

This paper uses DiMaggio and Powell (1983) model of isomorphic pressure as a theoretical framework to explain how the functioning of an independent monitoring and review body in South Africa operates as a technology of accountability and drives compliance with IFRS. In particular, the study reveals significant sources of coercive, normative and mimetic isomorphic pressures. These are relevant for organisations themselves, as well as for individual preparers and auditors.

Interviewees explained how, despite the FRIP not enjoying the direct force of law, it provides a means of reviewing financial statements and challenging the application of IFRS by the reporting entity and its preparers. This works in conjunction with company law, listing requirements and societal expectations for high quality corporate reporting to yield an important source of coercive isomorphic pressure. Respondents also pointed to the concurrent functioning of normative isomorphism.

In professional and highly institutionalised reporting environments, FRIP reviews have the potential to cast doubt on integrity of an organisation's corporate governance systems. A negative finding by the FRIP calls into question professional competency and due care of the individual accountant and those charged with the entity's governance, effectively tarnishing their professional reputation. This is especially true when the company is required to restate results because non-compliance with IFRS is, indirectly, reported to all relevant stakeholders. The effect of an adverse FRIP review for external auditors should also not be overlooked.Audit firms are heavily dependent on claims to professional expertise and technical competency in order to command the confidence of non-expert users. Even though the FRIP does not hold the individual auditor accountable for the quality of a client's financial statements, its conclusions can weaken the legitimacy of the attest function.

Finally, although not a recurring finding, some respondents pointed to the FRIP as a source of mimetic isomorphic pressure. This often takes the form of identifying those reporting practices deemed unacceptable by the FRIP and ensuring they are not repeated. Many preparers are also devoting considerable time and effort to ensuring that their financial statements include comparable disclosure to their peers and include all required disclosures prescribed by IFRS. Perhaps the most important finding is the expansion of the FRIP's jurisdiction to include interpretation of IFRS. This is not included in the Review Board's mandate but the cognitive legitimacy of the FRIP means that its findings are often undisputed and readily accepted as a valid basis for how particular requirements of IFRS must be applied by different sectors.

These findings have a number of important implications. Firstly, they add to the limited body of interpretive corporate governance research in South Africa. Most local corporate governance and accounting research is descriptive and lacks the theoretical analysis necessary for explaining how regulatory bodies are functioning (see Brennan and Solomon, 2008; Maroun and van Zijl, 2015a).

From a practical perspective, the research offers evidence in support of the JSE's decision to establish a proactive monitoring review. Coercive and normative isomorphic pressure work on individual accountants and auditors and remind them of the importance of applying IFRS with due care and skill. In this way, the findings suggest that FRIP reviews are an important part of the corporate reporting quality system. At the same time, because these reviews can be used to hold individuals accountable, they assist in preserving confidence in the professional accounting and auditing function, a conclusion which may not be limited to the South African context. This may be especially important given that, in the aftermath of multiple corporate failures, automatic trust in these expert systems can no longer be taken for granted.

Related to this, the research shows how the FRIP provides a practical method of enforcing local listing requirements and company law. By actively reviewing financial statements and interrogating instances of non-compliance, resulting isomorphic pressures are an important means for demonstrating how corporate reporting requirements are capable of being enforced and are, therefore, more than just symbolic. In this way, the findings are on a South African-specific example of an independent monitoring function, but the identified interconnection between the review functions of a monitoring body, isomorphic pressure and sense of accountability is broadly applicable for developing capital markets which are dependent on maintaining an image of good governance in order to attract foreign investment.

Additional research will be required to support these assertions. It is recommended that future research engage a broader group of stakeholders to understand better the implications of FRIP reviews. For example, it would be interesting to explore the views of investors, analysts and other regulators to determine more clearly the contribution made by FRIP reviews. This should go hand-in-hand with additional theoretical development. This paper has offered evidence of the FRIP as a source of coercive, normative and mimetic isomorphic pressure. Future research is needed to explain precisely how these contribute to the development of and confidence placed in the accounting and auditing profession in South Africa. As part of this process, the history of some form of monitoring activity by the South African Stock Market, including how this compares with other leading jurisdictions, should be taken into account.

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Appendix 1: Interview agenda

- What is your understanding of the purpose of the FRIP?
- What do you believe the effect of the monitoring has been on the users of the financial statements and the company itself?
- Does review by the FRIP increase the confidence of stakeholders in financial reporting?
- Do you believe the FRIP has resulted in an improvement in the quality of financial statements issued by companies listed on the JSE
- Do you believe the FRIP has adequate authority, autonomy and power to enforce a higher quality of financial reporting?
- Does the FRIP, in your opinion, lead to improved corporate transparency?
- Do you believe the FRIP adds a dimension of legitimacy to the company's financial statements?
- Why do you think the FRIP uses a five-year rotation period?
- Overall, do you have any recommendations on how to ensure high quality financial reports in South Africa?