Accounting standard-setting in South Africa - past practices and proposed reform: Is public accountability strengthened?

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ABSTRACT

This article deals with various public accountability issues. It comments on the need for public accountability and briefly describes the concept. It then elaborates on an approach or conceptual framework for improving public accountability, particularly in developing countries.

Once this framework has been set, the second part of the article focuses on accounting standards and establishes the relationship between accounting practices and the accounting standard-setting process. It highlights public ownership of a territory which is traditionally claimed by accountants and certain of their private bodies. An examination of the accounting standard-setting process in South Africa reveals deficiencies which impede the process from producing products that advance accountability and that are socially acceptable.

The last part comments on reform initiatives as contained in the *Proposed Financial Reporting Bill*. These initiatives claim to advance and strengthen the accountability framework and to address "serious problems" associated with South Africa's accounting standard-setting process and present accounting practices.

The article concludes that serious reform is necessary to address the shortcomings identified. Contrary to institutional opinion, these reform initiatives will have to be directed not at those labeled to be guilty of creative accounting practices or non-compliance with GAAP, but rather at the accounting standard-setting process and the institutions that have arrogated this process to produce current accounting standards. The reform processes will have to be based on public interest perspectives that incorporate as the clearly stated objective the advancement of public accountability.

Key words

Accounting practices, accounting standard-setting, accounting standards, *Financial Reporting Bill,* public accountability, public interest, reform initiatives, *voice* and *exit*

PART 1: PUBLIC ACCOUNTABILITY

1.1 The need for public accountability

It is not necessary to establish the need for and relevance of public accountability in this article.

Judging from current literature on the subject of public accountability it is not an exaggeration to state that public accountability plays an increasingly important role in the work of researchers, governments, organisations, and most important of all, the public itself. An unqualified, unstructured search of an academic database for sources including the phrase *public accountability* identified approximately 1.7 million sources on the subject. If a scholar were to scrutinise each source for only 5 minutes, it would take a full 16 years without sleep or interruption to attend to all sources. The same scholar would then still have to examine all those sources as wells as discourses not available on the internet.

The question is therefore no longer whether accountability is a necessity or not, but rather whether we have the means (and will) to ensure greater accountability in our society. Governments have considered public accountability an essential prerequisite for the efficient production and delivery of public services (Paul 1991a: 5). The central question has not been whether or not government and the public service providers should be accountable, but rather *how* they can be *more* accountable.

Accordingly, public accountability has been inseparably bonded with the concept of democracy (Loots 1991a: 205) and it is often used as a criteria in measuring true democracy (Rist 1989: 369; Batra & Kaur 1993: 30).

Public accountability has taken on specific measures of importance for developing countries and might be regarded as *the* competitive edge in satisfying the needs of organisations providing urgently needed investment lending and local and international development assistance (see Linn in Paul 1991a: foreword). The importance of international aid and foreign investment for South Africa has been sufficiently widely exposed in the media, to justify my omission of any specific further elaboration on the matter.

What is more important to note is what criteria are required by potential providers of capital and what the yardsticks are when competing for these funds in the international market. The World Bank has an unequivocal message:

"Public accountability has assumed special significance in the context of the governance of developing countries.

As a leading international development agency, the World Bank is concerned about the effective governance and public accountability in its borrower countries as they are pre-requisites for the success of its investment lending and related assistance programs." (Linn in Paul 1991a: foreword)

A perusal of publications and statements of policy on the website of the World Bank, (www.worldbank.org) indicates that the above statement, made a century ago, is still the Bank's focus today. Today, country financial accountability assessments form the basis of World Bank involvements (for example see: AFTOS 1993).

The increase in publications incorporating the accountability concept and the increased reference by professional bodies to this concept, indicates that accountability is also receiving more attention in business and the private sector accounting world. Whilst accountability was at first essentially required from the owners and providers of capital, it is suggested that the holistic nature of the concept ultimately broadens the focus to include full public accountability.

1.2 What is public accountability?

Although my article is not aimed at providing a detailed discussion of the concept of *public accountability*, some sort of definition is essential to ensure that further discourse is carried out from common ground.

The concept of accountability is relatively simple. It is not the concept itself that is difficult to understand: the factors that influence it are complex, difficult to describe and to analyse. This becomes clear once one realizes that socio-political and socio-economic factors, as well as mass psychology are involved. In addition, in determining accountability requirements, questions such as what constitutes the public interest, and defining ethical norms need to be addressed.

Therefore, attempts to capture the concept of public accountability in a concrete definition can find it to be rather elusive. As it depends on changing determinants the concept itself is not cast in stone but evolving and adapting continuously. Like "ethics", it means different things to different people, depending on experience, available information, education and the very system in which it is defined. Conditions such as being a "good citizen", a "true academic" or more personal goals such as being "a good father or mother" or "a good Christian/Moslem/Hindu", are never conclusively achieved at, but are strived for perpetually. Accountability falls into the same category.

Traditionally the definition of accountability focuses on the obligation to publish some form of account or report (Normanton 1966: 2; Drach 1985: 16-17). However, in view of the influence of constantly changing determinants, I would favour explanations that acknowledge characteristics of change and evolution, such as the one provided by McCandless (1994: 39), who argues that accountability has to do with the obligation of an organisation to allow public challenge of its fairness (also refer to McCandless 1993: 14).

The public declaration of an organisation's mission and how it will go about achieving this, are central to determining accountability.

Meyers and Hood (1994) link accountability to empowerment and innovation, two concepts particularly relevant in our country's current phase of development.

Equally accommodating is the definition of accountability as "an obligation to answer for a responsibility conferred" (Loots 1991a: 201).

Consequently, *public* accountability is the obligation to answer *publicly* for the responsibility conferred and to allow public challenge of its fairness (McCandless 1993: 14). In terms of such a definition, accountability is about asking questions and having them answered. This allows sufficient space for changing circumstances and enables us to easily accommodate the theory of *voice* and *exit*, two important determinants that measure effective public accountability.

1.3 Accounting standards and public accountability

In this article I wish to elaborate on an approach or conceptual framework for improving accountability, particularly in developing countries. This approach is an extension of a framework which has already been used by the World Bank in various work and planning exercises. I wish to focus on the role of accounting standards and the resulting practices on the accountability process and to indicate how certain aspects thereof affect public accountability.

By juxtaposing the very process that produces accounting standards with the determinants of effective public accountability, the role of accounting standards in the accountability framework becomes clear, as do the means for achieving such an objective.

Time constraints do not allow me to elaborate on all determinants and facets of public accountability and I will, therefore, concentrate on the role which accountancy practices play in a holistic accountability framework, irrespective of how certain determinants and components of public accountability are defined.

The first step in juxtaposing accounting practices against public accountability, is to recognise that accounting practices are based on accounting standards. The latter are described in statements of generally accepted accounting practices (GAAP). As *AC100* states: "The approach adopted in the setting of standards is to identify those accounting practices that are desirable and thereby narrow the difference and variety of available accounting practices without attempting rigid uniformity of the production of an inflexible set of rules for all circumstances. The objective is to produce standards that have as general an application as is possible but that eliminate undesirable alternatives. This process may well go further than codifying existing practice." (SAICA 1983 para .06).

What makes the above statement significant, in which context all statements of GAAP should be read and applied (SAICA 1983 para .01), is that it clearly indicated that the accounting standard-setting process is not undertaken by following a normative, but rather a deductive approach. Therefore, unless the public accountability notion is specifically identified as a leading criteria in determining what is "desirable" and what is not, the products of the accounting standard setting process may fail to actually advance accountability. Taking into account that *AC100* (SAICA 1983 para .06) does indeed fail to identify accountability as a criteria of desirability, we are starting to appreciate the shortcomings of the process that is effectively responsible for shaping accounting practices.

Stated differently, the following questions highlights the first deficiency.

- If the process that shapes accounting practices does not have as clear objective the advancement of accountability, will accounting practices advance accountability? or
- Why is the advancement of accountability not a major objective in identifying "desirable" accounting practices?

The attention consequently shifts to the standard-setters and the professional bodies involved in the standard-setting process.

Before examining the accounting standard-setting process further, we do, however, need to develop a better understanding of the factors that improve accountability. In this regard I will elaborate upon the conceptual framework of Samuel Paul (1991a&b) and juxtapose his recommendations for improving accountability with South African accounting practices and the accounting standard-setting process.

1.4 A framework to strengthen public accountability

Paul (1991a: 11) suggests that the directional change required in the reform of public accountability systems needs to incorporate the public viewpoint.

His theories build on those of Hirschman (1970) and focus on two specific elements of accountability, the public's so-called "*voice*" and "*exit*" which need to be further explained.

According to the *voice* and *exit* theory, effective public accountability can only be sustained and improved if the public is willing and able to chose alternatives to the providers of public services. They need to be able to *exit* the provider of a public service, and be able and willing to exert pressure on the public service providers to perform, by raising their *voice* of dissatisfaction. The pressures of *voice and exit* are exerted to balance the phenomenon of *capture*, being the tendencies of those who manage and control the allocation of public services to seek rents, instead of serving the public interest (Paul 1991b).

Before arguments are raised which claim inapplicability of this notion to the setting of accounting standards, I have to underline the close relationship between the accounting standard setting process and the performing of a public function. As the sections in the next part will indicate, the accounting standard setters are indeed performing a public service.

Assessments of the effectiveness of public accountability should therefore focus on removing or minimising the factors which influence the willingness and ability of the public to use *voice* and *exit*. Monopolies held by public service providers, legal barriers that prevent the development of alternatives, spatial and informational barriers are examples of factors which need to be removed or otherwise overcome. In developing countries educational barriers, which directly relate to the public's ability and willingness to *voice*, are additional hurdles obstructing development of the public's maximum *voice* potential (also refer to Meyers & Hood 1994: 16).

Whilst many factors can be classified as natural barriers (for example spatial barriers), others, particularly informational barriers, are policy-induced factors. "Informational asymmetries can be a severe constraint on the public's use of *voice*. Service providers often possess information that is not available to the public." (Paul 1991a: 11-26).

Those frequently elite groups who have privileged access to the relevant information on services, may take advantage of such information at the expense of other segments in the public.

It is these factors we need to focus upon in pursuit of increased public accountability.

The notion of *voice* and *exit* can be found in other spheres as indicated by Abraham Briloff (Briloff 1967: 3-4). In this instance these notions are placed within a similar context of public accountability. "Every social context requires communication between those who are put into a position of responsibility and those to whom they are presumed to be accountable. Those who are in these positions of responsibility must be prepared to answer questions about what they are doing; correspondingly, those who have delegated responsibility must prepare themselves to ask the vital questions (or alternatively to designate those persons who are presumed to be competent to ask these questions).

In the political realm, the very concept of constitutional government presupposes the effective operation of a system of checks and balances so that the citizenry generally can limit the ambitions and power of those to whom they have delegated this responsibility. It is only such an enlightened citizenry (in a government or in a corporation) who will be capable of asking the critical questions and then punish or reward and, most important of all, be able to take their business elsewhere if they do not like the answers they receive. For this, there must be effective communication between those who perform and those who judge the performance."

PART 2: ACCOUNTING STANDARDS

2.1 The effect of accounting standards on real life

I will use a modest fable to firstly illustrate the effect that accounting standards have on the life of normal persons and society in general:

The Fable of the Two Factories

Once upon a time there were two little factories. These little factories were alike in all respects. Their design, condition, and equipment were identical. Both factories had just been built by a local builder and each was quite obviously worth the same amount, but only the builder knew exactly what it had cost to build them.

In this same locality lived a capable business man named John and a stupid business man named William. The builder of the two factories went to John and, by reason of skilful argument, succeeded in selling him one factory for R5,000. A few days later this builder went to William and, by reason of William's stupidity, succeeded in selling him the remaining factory for R20,000.

John then formed a corporation so that he could sell stock to raise money for operating his factory. He sold his factory to this corporation for the same price that he had paid for it, namely, R5,000, and accepted stock to a par value of R5,000 in payment thereof. John then called in a reputable accountant and asked him to prepare a certified balance sheet for publication. The accountant found that John's company had bought a factory for R5,000, and prepared a certified balance sheet showing the factory to be worth R5,000. William, copying John, also formed a corporation so that he could sell stock to raise money for operating his factory. He sold his factory to this corporation for the same price that he had paid for it, namely, R20,000, and accepted stock to a par value of R20,000 in payment thereof. William also called in the reputable accountant and asked him to prepare a certified balance sheet for publication. The accountant found that William's company had bought a factory for R20,000, and prepared a certified balance sheet showing the factory to be worth R20,000.

Both John's company and William's company then sold additional stock on the basis of their respective balance sheets. A banker put R5,000 cash into John's company in return for (half of the) stock to a par value of R5,000. The banker thus acquired a one-half interest in John's company in return for his R5,000. A farmer invested his cash savings of R5,000 in William's company in return for (20%) stock to a par value of R5,000. The farmer thus acquired a one-fifth interest in William's company in return for his R5,000.

Now almost everybody in town, except the farmer, knew that John's factory and William's factory were identical and were worth the same amount, so it was not long before William found himself arrested on a charge of defrauding the farmer. William defended himself by putting the sole responsibility for the balance sheet upon the accountant, whereupon the accountant was arrested and put on trial.

The accountant defended himself by confessing that he did not know the value either of John's factory or of William's factory. He did not know what these factories could be sold for, nor indeed, if they could be sold at all. He did not know what it would cost to build and equip them. In the absence of any inkling as to what they could be sold for, or what they could be built for, he had used the original cost price to John's company as the value of its factory, and had used the original cost price to William's company as the value of its factory. He claimed that this was the best he could do and, while admitting that the difference between the values of the two factories was absurd, he maintained, nevertheless, that the makeshift of adopting original cost price as value was the only makeshift at hand. He spoke of these original cost prices as constituting "going concern values" and challenged the jurors to say what they would have done if they had been in his place.

When the jury retired to consider its verdict, it disagreed. Certain jurors thought that the accountant should have made numerous inquiries as to what the factories could be sold for, and should have adopted one of the resulting bids as the value of each factory. Some jurors thought that the accountant should have had a builder estimate what it would cost to build each factory, and should have used this amount as its value. Still others felt that the accountant did right in *adopting the value of R5,000 for John's factory, and the value of R20,000 for William's factory because, they reasoned, no one could know what the factories could be sold for, and an accountant could hardly be expected to know what a factory could be built for. At the end of three days the jury was still in disagreement and the accountant was released.*

But the farmer, nevertheless, because of his reliance on the accountant's balance sheet, received for his R5,000 only a one-fifth interest in the assets and earnings of William's company, whereas the banker, in reliance on the same accountant's balance sheet, had, for the same sum, received a one-half interest in John's company. Yet William's company had at no time been worth one penny more than John's company although the reputable accountant had certified one as having assets worth R20,000 and the other as having assets worth R5,000.

The accountant was anxious to do right but he himself did not know what to do. Therefore, although he was careful to keep away from twin factories in the future and was never arrested again, he continued to prepare balance sheets in the same manner that he prepared John's and William's. And reputable accountants still do the same down to this day.

Kenneth MacNeal (1939)
Truth in Accounting

Considering that this fable was written in 1939 and that the reputable accountant may even today still be embarrassed by recording the transaction in the manner described, we immediately realise the effect that accounting standards have in creating social and socio economic problems. We also realise that accounting standards may neither meet public expectations, nor necessarily advance public accountability.

2.2 The role of accounting standards in society

As is evident from the above fable, the work of an accountant influences many constituencies (see also Hines 1989, Sikka 1992, Mitchell *et. al.* 1993, SAICA 1995c, Harding & McKinnon 1997). In modern society the role of accounting standards and their resulting accounting practices are even more pertinent.

Accounting information has a major legitimising influence on social communications and the discharge of corporate and social responsibilities. Accounting conventions play a particularly important role where stewards of capital, labour and corporate wealth discharge their responsibility by reporting on certain aspects of their domains. The accounting function therefore provides the basis of legitimising the account given by corporate stewards.

Seen in the broader context of the function of financial statements to report to society on the employment of resources, wealth distribution and discharge of social responsibilities, the accounting function fulfils a role as communication protocol.

Accounting practices (as seen as the application of professional standards), directly affect the public and society (the reader is referred to a detailed discussion of the effect of accounting standards on social relations in Briloff 1967 & 1980). Depending on which accounting practices are applied, companies report either profits or losses and thus pay more or less tax. These figures are also used to determine payouts to shareholders, bonuses to the workforce and are used as the basis for negotiating wage increases. This makes us aware of the profound influence the accounting standard setters have on accountability relations affecting income distribution and resource allocation (Miller 1994, Craig 1997). Such influence and power normally resides with the State or other legislating bodies (Peasnell 1982, Laughlin & Puxty 1983, Dearing 1988, Hines 1989: 81).

South Africans also make extensive use of accounting information and distinguish themselves as having an above average knowledge of certain accounting-related products.

This was revealed in a study conducted amongst 12,000 of South Africa's financially knowledgeable persons. The study showed that 80% of financially knowledgeable persons study the financial statements of companies when they receive them (Gloeck 1993: 219). These findings support the supposition that accounting information plays an important part in investors' decisions in South Africa and that the products of accounting labour influence our society and the South African public in general (also refer to Gloeck & De Jager 1993). There is no indication that the reliance on financial statements for decision taking purposes has declined during the past ten years.

The products of the accounting profession's labours, in turn, are shaped by the standards which have to be applied. As already discussed, the delineation of what constitutes admissible and acceptable performance when exercising the accounting function, is captured in pronouncements of a voluntary association of standard-setters, the Accounting Practices Board (APB) in co-operation with the South African Institute of Chartered Accountants (SAICA).

This leads us to conclude that the APB and the SAICA are exercising powers normally confined to the State and other legislatory bodies and that statements on generally accepted accounting practices published by the SAICA are supplementary to legislation and can be described as *quasi-legislatory*.

The development of accounting regulations through the publication of documents called “statements of GAAP” therefore provides a critical and highly relevant domain for theorization, analysis, research and debate (Abdel-khalik 1983).

As accounting standard setting activities have intensified in recent years, researchers and affected parties have increasingly engaged in this debate to influence the processes of defining acceptable performance in accounting labour (Robson 1993, Risse 1995: 830; Harding & McKinnon 1997). In addition to this, there has been a noticeable change in the relationship between suppliers of services and the users thereof. Users have become better educated, more socially confident and aware of their rights as consumers and therefore are more likely to complain when services or standards do not meet expected criteria (also refer to Colquhoun 1994: 75). This aspect argues well for the strength of notion of *voice* and *exit*, and ignoring other influencing factors, in theory at least, this should advance public accountability.

2.3 Accounting practices in South Africa

Although in America recent financial failures such as Enron, WorldCom, Xerox, Quest and Merck, Tyco, Global Crossing, Vivendi, Bristol-Meyers Squibb, Élan, Halliburton and Harken Energy, (Donaldson 2002, Editor 2002,) are most frequently cited to highlight the deficiencies of accounting practices, South Africa can also boast a long list of financial and accounting failures.

African Bank, Alpha Bank, Bankorp, Brokers Group, Cape Investment Bank (CIB), Crulife, Crusader Life, Discount House Merchant Bank, Drop Inn, Fancourt Group, Furngro, IGI Insurance Company, Kofkor Group, Macmed, Magnum Financial Holdings, Marina Martinique, Masterbond group of companies (in total 81 companies), Millys' Fast Food Chain, Nedbank, NEI Africa, Owen Wiggens Trust, Pretoria Bank, Prima Bank, Real Africa, Rusfurn, Sechold, Supreme Bond, Supreme Holdings, Toco Holdings, Tollgate, Trustbank, Unidev and W&A Holdings (as listed in: Meades 2002, Basson 1998, Basson 1997, De Bruin 1997, Nel 1997, Jones 1995, Wilmot 1994, Steward 1994, Basson 1991).

More recently other well-known names have been added to this hall of shame:

FBC Fidelity, Saambou, Regal Bank Treasury, Retail Apparel Group (RAG), McCarthy, Tigon and LeisureNet (as listed in: Crotty 2003a: 16, Crotty 2003b: 4, Meades 2002: 2, Morris 2002b, Vermeulen 2002, Kruger 1997).

Although not all institutional failures can be attributed to deficient accounting standards, the *Report of the Commission of Inquiry into the affairs of the Masterbond Group and investor protection in South Africa* (Nel 1997) has provided a large amount of evidence to support the connection between inefficient adherence to accounting standards and corporate failures.

This provides adequate reason to research, analyse and criticise the process which is presented as constructing socially acceptable and financially reliable pronouncements relating to the accounting function (Horngren 1973, Peasnell 1982) and its effect on public accountability.

Unfortunately, from the standard-setters point of view, the claim cannot be made that the contribution these flawed accounting standards have made to social disorder in the accounting realm is a new phenomenon. The standard-setters have steadfastly ignored warnings that were made many decades ago:

In 1966 Normanton (1966: 1) said “A financial account on any large scale hides far more than it reveals”, and added that “the law provides that it may not conceal criminal sins, but any other kind of sin can and normally will be lost without trace among the headings and totals”.

In 1970 MacNeal (1970: vii-viii) issued a warning of a similar nature:

“For more than five hundred years, since the publication of Pacioly's book on double entry bookkeeping in 1494, accounting methods have been based on expedience rather than on truth. Financial statements today are composed of a bewildering mixture of accounting conventions, historical data, and present facts, wherein even accountants are often unable to distinguish between truth and fiction. The toll which this situation levies on business management and on the general public, is beginning to be recognised... Under present conditions a full, honest disclosure of the facts in a set of financial statements is most improbable.”

Last year, at the height of the American accounting crisis, the former Federal Reserve Chairman, and influential accounting standard-setter, Paul Volcker, stated that: “The Enron affair is plainly symptomatic of a larger, systemic problem. The state of the accounting and auditing systems which we have so confidently set out as a standard for all the world is, in fact deeply troubled.” (Volcker 2002: 1).

With our fable of the two factories still fresh in our minds, the parallel with Mr Volcker’s next statement is almost frightening: “Encouraged by ever imaginative investment bankers yearning for extraordinary fees, companies were bought and sold with great abandon at values largely accounted for as “intangible” or “good-will”. Some of the best mathematical minds of the new generation turned to the sophisticated profession of financial engineering…” (Volcker, 2002: 2).

His solutions for the crisis acknowledge the fundamental flaw of the accounting standard-setting process: “First are accounting principles and standards themselves. Do they set out with clarity, logically consistent and comprehensive “rules of the game”, rules that reasonably reflect underlying economic reality? What has become indisputable is that standards themselves, national and international, need review: our goal must be not just consistent standards but better standards.” (Volcker 2002: 4).

This article has already pointed out that standard-setting is in effect a political activity unsuited for voluntary associations such as the SAICA and its fellow the APB that have arrogated the standard-setting processes. You cannot be trade association, standard-setter and regulator all at the same time. Again, Volcker's remarks on the accounting standard-setting process support this view:

"…it is those same areas that generate intense controversy and where standard-setters meet the most resistance. Almost inevitably, there are claims of inadequate consultation. Those perceiving harm to their interests threaten withdrawal of financial support for the standard-setters themselves and even turn to their legislators for preemptive action. In such a charged environment, change in the United States as elsewhere has been slow as suspicions of political compromise have damaged confidence in the process." (Volcker 2002: 5-6).

This is underlined by a few examples from our own country, South Africa:

The cynical way in which leading South African business journalists have referred to the accounting standards indicates that the public has completely lost faith in the products of the accounting standard-setting and the stewards of this process:

"Long after Iraqi President Sadam Hussein has disappeared into the distant memories, I might still be listening to lawyers and accountants try to make common sense of accounting". "… they would all be fascinated by the heroic efforts of … the master of the Pretoria High Court to make some sense of the accounting policies that were used…". "For one moment on Friday afternoon it seemed almost as if the audit partner … from Deloitte & Touche, was about to explain to (the master of the Pretoria high court) that these were accounting policies and standards and were not supposed to make sense." "By Monday morning (the audit partner) was firmly back in accounting reality, where common sense was difficult to grasp." (Crotty 2003a: 16).

The headings of a number of articles alone, indicate the public's concern on the topic of accounting practices and the accounting standards:

- Writing off goodwill as GAAP prescribes it may be misleading (Swanepoel 2001: 14)
- GAAP's world must be open to the public (Gloeck, D. 2001: 16)
- Maatskappyverslae en die Grimms se sprokies (Joubert 2002b: 10)
- Don't be fooled by earnings (Kemp 2002)
- The World according to GAAP is an illusion (Garbutt 1999: 74)
- Leuens, blatante leuens en maatskappyverslae (Joubert 2002a: 6)
- Accounting policies turned LeisureNet unit's insolvency into profit (Morris 2002a: 3)
- Openbaarmaking: iets is nie pluis nie (Jones 2002: 28)
- Openbaarmaking: Wees bedag op die kulkunsies (Harris 2002: 18)
- Rekeningkunde moet nie gemonopoliseer word nie. (Basson 2002a: 2)
- Rekeningkundige Standaarde: AARP is by 'n kruispad in SA (Basson 2002b: 15-16)
- Rekeningkundige Praktyk: Instrumente verwar beleggers (De Klerk 2003: 29-30)
- Vrae oor Groep Five-rekeningkunde (Basson 2003: 10)
- Chaos theory + accountancy rules = 417 inquiry (Crotty 2003a: 16)
- The standard-setters are partly to blame (Hattingh 2003: 29)

Taking into account the direct extent to which accounting practices influence the public, their grave concerns (made known by expressing their *voice*) is shifting attention to the standard-setters themselves and the processes known as accounting standard-setting.

2.4 Accounting standard-setting practices in South Africa

As already highlighted, the accounting standard setting process in South Africa is performed by the SAICA and the APB. In this relationship, the APB has played a subdued role by merely approving the statements on GAAP. The SAICA on the other hand is managing the standard-setting process through its Secretariat, and also publishes the statements (SAICA 1983).

In analysing the composition of representatives serving on the APB, attention has to be given not to those represented, but to those constituencies which do not enjoy representation, yet have a major interest in and contribution to make to the setting of accounting standards:

- all spheres of government;
- financially related government agencies (e.g. Treasury, Receiver of Revenue);
- financial regulators (*not* self-regulators or private institutes);
- organised labour;
- organised business (at least eight professional accounting institutes do not have representation);
- academia;
- the public (through publicly chosen representatives).

It is, however, the SAICA through its committees which drafts and publishes the statements on GAAP. The SAICA therefore has a major influence on accounting conventions in South Africa. It effectively controls agendas, procedures, and publications. The SAICA controls the process of handling comments submitted by external parties. It analyses and interprets comments, deciding on the basis of subjective criteria, which comments it deems carry sufficient merit to influence or change the exposure documents or final statements. The SAICA must therefore be held primarily responsible for the products of the accounting standard-setting process.

Committee procedures exercised by the SAICA therefore have a major influence on shaping the published statements on GAAP.

This necessitates a closer look at the standard setting process of the SAICA.

The author, as part of a comprehensive team of researchers at the University of Pretoria, observed the current practices of the SAICA's standard setting over a period of ten years. Information pertaining to the procedures followed, official viewpoints, policies and practices relating to the standard setting process, was obtained by studying available minutes, through research efforts directed at obtaining more details of standard setting practices, through enquiries and correspondence with the standard setting bodies, subcommittees and various office bearers of the SAICA. In this period, the author also served a term as member of the Auditing Standards Committee (ASC) of the SAICA.

Direct communications with the standard setter was necessitated by the fact that no authoritative document has been published which captures all elements of the standard setting process. Other relevant documents are not publicly available and could only be accessed after submitting letters of request to various office bearers and the secretariat of the SAICA. In numerous instances such letters had to be duplicated or readdressed to persons who were more sympathetic to the notion that information relating to a function which affects the public interest should be easily accessible and available for research purposes. Research efforts were further frustrated as official policies were subjected to personal interpretation by office bearers, which prevented easy access to information pertaining to the standard setting process. Eventually, our enquiries elicited a disappointing response, that effectively prevented further academic research.

In a letter from the SAICA's President (SAICA 1997a), the researchers were told: “The Executive Committee believes that it is unreasonable to expect the secretariat to deal with the volume of letters, faxes and other correspondence received from yourselves on a regular basis. The Institute ... simply does not have the staff or the infrastructure to handle enquiries of the complexity and in the volume that you as members expect. Accordingly, the Executive Committee has decided that in future the secretariat should take note of the content of your letters and, where appropriate, forward your views to the committees or interest groups concerned for noting. The secretariat has been instructed not to reply to your correspondence, other than in circumstances that it considers exceptional.”

Nevertheless, research is a resourceful activity which is not easily silenced or subdued. Ongoing research identified a number of shortcomings relating to the standard setting process in South Africa (refer to SAICA 1995a, SAICA 1995b, SAICA 1995d, SAICA 1995e, SAICA 1995f, SAICA 1997e):

- The standard setting process is secret: the SAICA's committees meet behind closed doors.
- Minutes of meetings of standard setting bodies and their committees are not freely available. Members of the public are not allowed to have sight of the minutes. Those SAICA members privileged to receive minutes, have to sign secrecy declarations before minutes are made available to them. As these bodies are pivotal in the standard setting process, approving the publishing of exposure drafts and approving the final standard setting documents, these restrictions prevent other persons from following the standard setting process, from analysing and evaluating its legitimacy, and from formulating on-going, meaningful comments. Meaningful comments regarding the proposed documents can only be forthcoming through a process of interaction and communication with all affected parties.
- Agendas of the SAICA committee meetings are not available to non-committee members.
- Members of the SAICA committees are *selected* rather than *elected*.
- Members of the SAICA committees serve in their personal capacities and therefore do not represent any particular constituency or interest group.
- Members of the SAICA committees have to sign secrecy declarations not to pass any information about committee proceedings to anyone, not even members of the SAICA.
- The SAICA committees have neither public representatives nor representatives from major interest groups affected by accounting regulations in their ranks.
- Comments relating to the discussion documents published by the SAICA committees must be made in writing. The SAICA does not provide for forums such as public hearings or open sessions. This effectively restricts contributions and dissuades many commentators, as written comments require a substantial time investment and a considerable measure of skill to formulate meaningful perspectives on the discussion documents.
- Officially the only way to influence the standard setting process is through the submission of written comments which are reviewed and evaluated by the SAICA committees and working parties. The process of evaluating these comments seems highly subjective.
- Unknown criteria are used to evaluate the responses.
- Comments are not weighted according to their source, completeness, scientific argument or public interest considerations.
- The counting of “votes” “for” and “against” has been found flawed (for a detailed account of such miscounting see Gloeck & De Jager 1994 & 1995).
- Normative decision making is not applied (the reader is referred to a discussion by Laughlin & Puxty 1983).
- Individual preferences and individual interpretations therefore become pivotal and disproportionately weighted and it is highly probable that a committee under a different

chairperson, let alone a committee with different members, would come to different conclusions and therefore produce a different recommendation and differently worded pronouncement. Such a situation is highly undesirable.

Internationally, the process of standard setting by the accounting bodies has also been criticised for its propensity to grant greater legitimacy to the rationalizations of certain groupings and the resultant agendas reflecting only issues consistent with such rationality (Selto & Grove 1982 & 1983, Booth & Cocks 1990, Sikka 1992, Zaid 1997). Any "conflict" that might arise is pre-empted to involve only competing options based on that rationality. Any "debate" is therefore limited as well as superficial, since the outcome has been prescribed as one of the "acceptable" options within this rationality.

The unavailability of minutes and agendas inhibits research on the validity of such claims in the South African context. But the existence of such dominant modes in, for example, the South African standard-setting process is in some way supported by the fact that the SAICA pre-standards documents (exposure drafts) elicit very little comment and therefore give rise to speculation that role players have found alternative ways of influencing the standard setting process (for a detailed discussion of the matter refer to Gloeck 1998).

Furthermore, the pertinence of some comments received can be questioned, as they are in some cases curt, often amounting to little more than an acknowledgement of having read or received the document.

In spite of various recommendations and inputs as to how the response rate could be improved and the process be made more *in*clusive, the SAICA has maintained its exclusive approach.

Other notable aspects affecting the standard setting process, and which contribute to exposing the process to criticism, and which undermine the credibility of the standards, is the marginalisation and lack of support for certain parties who actively participate in the standard setting processes.

- Research directed at measuring the compliance with auditing standards by major firms (Gloeck *et. al.* 1993), was met with public, unsubstantiated disparagement by the standard setter (refer to Cape Argus 1994, Kessel Feinstein 1994, Kessel Feinstein 1995, SAICA 1994, Sunday Tribune 1994, The Citizen 1994). This was in spite of the fact that such research has a major contribution to make towards the development of auditing and the refinement of auditing standards and procedures (for a more detailed account refer to Gloeck & De Jager 1995). It is also important to note that the above mentioned research identified a number of deviant practices regarding the application of reporting standards by South Africa's major auditing firms.
- Instances have been recorded where the SAICA has denied members and researchers access to comment files. This was done in spite of the fact that the exposure drafts contain a covering letter stating that all comments are on public record (unless otherwise indicated by the commentator). It also became apparent that no explicit policy exists as to who has access to documents and comments submitted; that existing policies are applied at the discretion of certain office bearers. It is acknowledged that after extensive correspondence voicing disapproval of these practices (which also led to our excommunication – (SAICA 1997a)), access is now being granted more readily.
- Comment files are, however, only available *after* the standard setting process has been "completed", a highly subjective criteria, as it can be easily argued that the standard setting process is never really "completed". This consideration can then be used to deny access to comment documents indefinitely.
- Conflicting instructions from the SAICA secretariat, however, state that the relevant committees will decide when to release a particular comment file. This has added yet another element of subjectivity which can be used to further enhance the exclusivity and secrecy of the standard setting process.
- The elitist and exclusive standard setting process is further entrenched by the levying of financial penalties for participation. In terms of the EXCO policy (SAICA 1995f), a substantial amount has to be paid for each *set of minutes* requested by a member. In order to participate meaningfully in the standard setting processes, the minutes of various bodies and committees have to be obtained and studied regularly and the cost of obtaining all relevant documents therefore becomes substantial. This further discourages members and disempowers many individuals from participating and promotes both the exclusiveness of the process and the diminution of the degree of acceptability of the final product (also refer to Sutton 1984).

Whether or not the above restricting influences and practices have been introduced as part of a definite agenda is open to speculation. Our excommunication as researchers clearly reveals how the SAICA intends dealing with enquiring individuals. We therefore have to turn to office bearers' public statements for explanations of their rationale and interpretations regarding the standard setting process.

In this regard the remarks by the chairperson during a highly publicised conference on the audit expectation gap, hosted by the standard-setters, provides some insight. The fact that the speaker was the Chairperson of the Auditing Standards Committee at the time, is of particular significance. Of further significance is the fact that the standard-setters (as professional bodies) have neither censored the speaker, nor have they dissociated themselves from these views.

"...are we talking self-interest here, or are we talking some sort of fuzzy 'We are here for the benefit of society stuff?' I always get suspicious when people start creating these halos around 'We are here for the good of society'. You know, I am not sure that people work like that."

"I genuinely believe that we should be masters of our own destiny, we should be deciding what markets we want to be in, and what markets we want to provide ... I believe that we must retain control of what we do ... Perhaps if I didn't make that clear, I was certainly saying that we should be in control of what we decide we provide and not simply run after whatever the client wants..." (Harte 1994).

"Turning to the role of SAICA and PAAB ...(Public Accountants' and Auditors' Board), and this whole issue of self-interest ... I would see SAICA and the PAAB as being really representing our industry ... they represent our interests in the industry. I don't see that they should be representing the interests of society, and being on the side of society ... They're our societies, our structures. Let them work for us." (Harte 1994).

These statements display insensitivity to the needs of users of auditing services and the public in general. They do not accommodate the public interest but instead focus on serving self-interests only (for a discussion of the dangers this view may hold, refer to Laughlin & Puxty 1983). In the context of our discussions of public accountability, they represent the ultimate rejection of public accountability.

PART 3: REFORM INITIATIVES

3.1 Reform initiatives aimed at enforcing compliance with flawed accounting standards

During the past few years, a number of Acts have been published to strengthen the regulatory and public accountability framework (*Financial Advisory and Intermediary Services Act* [No. 37 of 2002]; *Financial Intelligence Centre Act* [No. 38 of 2001]; *Financial Institutions (Protection of Funds) Act* [No. 28 of 2001]; *Stock Exchanges Control Amendment Act* [No. 40 of 2001]; *Financial Services Board Amendment Act* [No 12 of 2000]; *Promotion of Access to Information Act* [No. 2 of 2000]; *Financial Markets Control Amendment Act* [No. 40 of 1999]; *Public Finance Management Act* [No.1 of 1999].

More Bills are currently being drafted, debated and considered. (*Public Audit Draft Bill* (Gazette 25064, Notice 762), 5 June 2003; *Financial Services Ombud Schemes Bill* [B13-2002]; *Local Government: Municipal Finance Management Bill* [B1-2002]; *Proposed Draft Accounting Professions' Bill*, 2001)

Although it is clear that we have entered an era which introduces far-reaching changes to the accountability framework, the current accounting practices as presently applied, were designed and shaped by the publications (statements of accounting standards) which were developed through the process the shortcomings of which this article has just exposed.

Controlling the standard-setting process has brought many benefits to the bodies involved, and to their constituencies. Their influence and desire to control continues to be evident in certain drafts of proposed legislation (examples are the *Proposed Financial Reporting Bill* and the *Proposed Accountancy Profession Bill*).

Not all accounting practices applied in South Africa are, however, aligned with the GAAP statements published by the SAICA. Such deviances from existing statements of GAAP (as publicised by the SAICA), are portrayed by the standard-setters and the SAICA in particular, as foul and *mala fide* (see for example Terry 1991: 311). This oversimplification of a highly complex phenomenon reveals the standard-setters inability to recognise the fact that a major factor driving the departure from their GAAP statements may be the public exercising its right to "exit".

If voice is not an effective option as the discussion on the shortcomings of the standard-setting process revealed, surely the only alternative left is to *exit* this framework. If the statements of GAAP fail to reflect and incorporate social and economic realities; if the application of statements of GAAP are producing irrelevant, user-*un*friendly and misleading accounting information; if statements of GAAP are designed with disregard for the public interest; if statements of GAAP are the product of an exclusive process driven by sectional interest, and if the standard-setters fail to produce socially acceptable products, incorporating the public interest perspective, surely, the only approach left is to *exit*, by deviating from what is falsely presented as the norm.

Within the context of the question asked in this article: "Are accounting practices advancing public accountability?", the standard-setters' suppression of both *voice* and *exit* lead us to conclude that they are not advancing, but rather preventing public accountability.

Within the *voice* and *exit* framework, initiatives such as the SAICA's GAAP Monitoring Panel (refer to SAICA 2002) may be viewed as an intervention seriously obstructing the advancement of accountability.

I do not wish to be misunderstood on this crucial point. I do *not* argue that there are not certain parties that do mislead the public by introducing their own set of "accounting standards and practices". The point I wish to stress is that by the same account one has to recognise that many accounting alternatives are introduced because SAICA's GAAP statements are not reflecting reality and because they display other major flaws and shortcomings.

It seems appropriate to repeat Mr. Paul Volcker's questions on accounting standards: "First are accounting principles and standards themselves. Do they set out with clarity, logically consistent and comprehensive "rules of the game", rules that reasonably reflect underlying economic reality? What has become indisputable is that standards themselves, national and international, need review…" (Volcker 2002: 4).

Acknowledging the shortcomings of accounting standards whilst simultaneously taking steps to force users to comply with the same standards, seems a prime example of a surreal situation and one that most certainly does not advance public accountability.

3.2 The Proposed Financial Reporting Bill

3.2.1 *Background*

For many years the SAICA has been lobbying government to provide legal backing to their GAAP statements (Editorial 1995, Editorial 1995b, Singer 1993, Singer 1994). In effect, what they have been asking for is that government declares the deviance from regulations devised by them, a socially unacceptable practice, punishable by law. This request is made in spite of a division by dichotomy. *AC100* acknowledges that: "... compliance with a standard is no guarantee that fair presentation will be achieved in the financial statements." and "It is recognised that there may be exceptional circumstances in which a statement of GAAP is not strictly applicable because, having regard to the circumstances, it would fail to yield fair presentation, i.e. to comply would be misleading." and "...it is recognised that practical problems will arise in the application of statements of GAAP." (SAICA 1983 para. .07-.10).

The lobbying process has so-far yielded the issuing of what is termed the *Financial Reporting Bill* (dated 2002). Although the current document circulated by the SAICA for comment is named so as to indicate formal Bill-status, it is listed neither as Bill nor Draft Bill on the official government website (www.gov.za).

According to the memorandum on the objectives of the *Financial Reporting Bill*, it was drafted to provide for the setting of financial reporting standards, a regulatory Council, supervision and enforcement of compliance with the still-to-be-set financial reporting standards. In view of the relevance of accounting standards established in this article by earlier discussion, some comments seem relevant.

This article argues that enactment of the *Financial Reporting Bill* in its current format, and before the *Accountancy Profession Bill* is finalised, will not be in the public interest.

3.2.2 *Comment approach*

Rather than commenting on technical aspects contained the *proposed Financial Reporting Bill* (hereafter referred to as the "proposed Bill") this article attempts to outline some of the problematics concerned with the introduction of an *ad hoc* piece of legislation, the stated intent of which is to address a deep-rooted problem having a serious socio economic affect on South Africa's society.

The comments arrive from juxtaposing the intended objectives (as derived from the "background problems" highlighted in the memorandum to the proposed Bill) against the proposed actions and structures as contained in the proposed Bill. The proposed Bill, viewed as an isolated document, may be perfect. However, if viewed against its intended objectives, serious flaws become apparent.

3.2.3 *Lack of a holistic approach*

The proposed Bill deals with the following problems in a symptomatic and isolated manner:

- flawed accounting and auditing standards;
- high levels of non-adherences to existing standards;
- differences in statements of generally accepted accounting practices as published by various standard-setters world-wide;
- creative accounting practices and low levels of disclosure;
- uncertainty as to the role of the auditor in the reporting process;
- high level of unethical practices by both accountants and auditors;
- failure of professional accounting bodies to act responsibly and objectively within the accountability framework;
- the inherent flaws of self-regulation;
- low levels of adherence to *Companies Act* requirements;
- shortcomings in the system of professional entrance examinations in the accounting industry;
- a disregard for the public interest at the expense of vested interests (mainly of a business nature) by professional accounting bodies and their members;
- and other problems highlighted by financial scandals experienced in this country

In formulating the proposed Bill, no attempt has been made to investigate some of the most grave concerns and problems related to poor reporting practices, such as:

- the failure of professional accounting bodies to "self-regulate";
- the practice by accounting bodies and the South African Institute of Chartered Accountants (SAICA) and the Public Accountants' and Auditors' Board (PAAB) in particular, to protect and abet those moving in the accounting corridors of power at the expense of the public;
- the inherent flaws in the educational systems of both the PAAB and the SAICA, including the subject contents, professional examinations and systems whereby so-called training contracts are administered and managed;
- the role of auditing in the financial reporting process;
- the role and effectiveness of other regulating agencies;

- the exact nature and extent of the malpractices mentioned above.

For example, the memorandum to the proposed Bill refers to "unsound accounting practices". It seems, however, that no investigation has been undertaken to identify and to quantify these "unsound" practices". Such an exercise would make it possible to evaluate the effectiveness of the proposed Bill – it would also ensure that the proposed Bill is formulated on a basis of facts, rather that unscientific converse.

No inclusive and balanced solution can be devised unless an independent probe is undertaken in respect of the abovementioned problems.

3.2.4 *Lack of defining underlying principles*

The proposed Bill lacks a coherent set of underlying criteria and principles.

Although one of the main aims of the proposed Bill is to provide for the "setting of financial reporting standards", the proposed Bill lacks a coherent set of criteria and principles against which the outcomes and products of the standard-setting process can be evaluated. This leaves the standard-setting body without guidance, open to undue influences and also, to a large extent, unaccountable.

It does not provide those affected by the standard-setter's products (the final statements of accounting) with an avenue of redress or basis on which to formulate an objection to the publication of flawed statements. Seen in the context of the notions of *voice* and *exit*, discussed in an earlier part of this article, this is a significant shortcoming from the perspective of advancing public accountability.

History has taught us that the contents of accounting standards are changed continuously by the standard-setters. These changes occur if and when the standard-setters decide to do so. The public has very little, if any say in it (for a full discussion of this aspect, refer to Gloeck 1998). The main reason given for effecting "necessary" changing are that the "old" statements were "deficient" and needed revision. Similar arguments are, however, assumed invalid if raised (during the comment period) by concerned members of the public, when a newly published statement is obviously flawed.

Without a set of accepted criteria and principles to which all published statements must conform, no convincing argument (or comment) can be formulated against flawed products of the accounting standard-setting products – thereby seriously inhibiting the notion of *voice*.

This leaves the accounting standard-setters unaccountable and in a position of absolute power, which, as history has also taught us, corrupts absolutely. It also minimises and effectively eradicates the public's right to *exit*. The absence of proper attention to matters of *voice* and *exit* in the proposed Bill highlights the fact that it is not designed to take into account the public interest.

3.2.5 *Incorrect supposition regarding legal backing*

Many problems relating to financial reporting in South Africa are based on the fact that South African companies do not adhere to the most basic *Companies Act* requirements. For example, research conducted by the University of Pretoria's School of Accountancy showed that only 3% of the top 300 listed companies fully adhere to Section 283 of the *Companies Act* – disclosure of audit remuneration (Gloeck, 1997).

The proposed Bill is not addressing these problems. It is, however, assumed that another Act and certain *Companies Act* amendments will solve the stated problems. In view of the foregoing, it should be obvious that the root of the problem lies deeper.

The public interest will therefore not be served by *ad hoc* amendments to the *Companies Act*.

The proposed Bill *incorrectly* supposes, and later treats as a matter of fact (which is supposed to be generally accepted and supported by evidence), that legal backing of accounting standards will solve the problems associated with poor reporting and accounting practices, etc.

Legal backing is not a magic wand that will solve the problems of poor financial reporting practices.

If viewed in isolation from other elements of the accountability framework, legal backing may actually be highly destructive and counterproductive within South Africa's socio-economic framework.

Five countries, including the USA are listed in the proposed Bill's memorandum as having legal backing. The argument is then presented that it is also essential in South Africa. However, the country with longest legal backing (USA: since 1930) is currently experiencing the worst accounting crisis ever, necessitating the country's President to intervene and to put forward an "emergency plan" to address the serious shortcomings. How has legal backing favoured the USA and ensured better reporting practices and fewer financial scandals?

The solution to the problems the proposed Bill wished to address lie much deeper than the measures proposed.

3.2.6 *Lack of research and scientific basis*

The conclusions as formulated in the memorandum to the proposed Bill (paragraph 3.1) are clearly not based on any research whatsoever and phrases such as "*This approach will inevitably result in a more objective, credible, consistent and fair …*" are unscientific, unfounded and misplaced in a document intended to support proposed legislation.

The effect which the proposed Bill may have on smaller companies has not been researched and the problematics of defining a small/large company, taking into account company structures, creative accounting engineering, and South Africa's specific circumstances etc., has not been addressed.

It is dangerous to target certain symptoms without having holistically studied and captured the underlying causes of the problem.

3.2.7 *Ignoring the role of the auditor*

The fact that auditors play a critical role in the financial reporting process (this is what the proposed Bill is all about) and that auditors have a legitimising role over accounting practices, is universally accepted.

The proposed Bill, however, ignores the audit function and the serious problems associated with the audit expectation gap and its negative influence on the quality of financial reporting and accounting practices.

It seems irresponsible to introduce legal backing of accounting standards, without addressing legal backing of auditing standards and clarifying the role of the auditor.

The still to be developed *Accountancy Profession Act* forms an integral part of solving problems associated with the financial reporting process and poor accounting practices. Publishing *ad hoc* legislation and changes to the *Companies Act*, before the *Accountancy Profession Act* is drafted, severely limits the options of the Minister of Finance to introduce new structures and procedures. The *Accountancy Profession Act* will change the regulatory framework and new structures will influence the *Financial Reporting Bill*.

The *Proposed Financial Reporting Bill* cannot be drafted before the *Accountancy Profession Act*.

3.2.8 *Composition of the Financial Reporting Council*

The activities and products of the work of the proposed Financial Reporting Council influences everyone in South Africa. Changes in accounting standards have an effect on the calculation of distributable profits, taxes and levies collected and paid, bonuses paid to the workforce as well as the perceived performance of companies holding vast sums of moneys from both local and overseas investors, workers, trusts, and the general public.

In view of the above, the composition of the Council needs to be extended to be inclusive of the various constituencies affected by the setting of accounting standards.

The following constituencies also need to be represented:

- all spheres of government
- financially related government agencies (e.g. Treasury, Receiver of Revenue)
- financial regulators (not self-regulators or Institutes structured on the same basis as exclusive clubs)
- organised labour
- organised business
- academia
- the public.

In selecting Council members, cognisance needs to be taken of the fact that the functions of the Council differ from that of the technical committees. Therefore Council members need not necessarily have a high technical accounting qualification. It is much more important that they are independent, that they can analyse, assess recommendations, think logically and accept and incorporate the notion of the public interest.

Taking into account the enormous advantage which a representation on the Council potentially holds for members of the big auditing and accounting firms, all partners and senior staff of these firms should be disqualified from serving on the Council.

Furthermore, no Council member should be allowed to hold a public office at any accounting and/or auditing institute. All Council members must be required to declare any interests they have with the big accounting and auditing firms. Excessive interests should also be a criteria for disqualification.

3.2.9 *Lack of a definition of accountability principles in the standard-setting process*

The proposed Bill does not contain safeguards to ensure the applicability of established and critical *accountability principles in the standard-setting process*, such as:

- openness
- transparency
- inclusivity
- public access (the public's right to be present at the standard-setting processes)
- availability of information (effects of proposed accounting standards)
- compulsory publication of draft documents so that they are accessible to the public
- democracy in standard-setting
- procedures to object to the standard-setting process / standard-setters
- accountability of the standard-setters (declaration of interests)
- misuse of information before it is published ("insider trading" on accounting standards information)
- assurances regarding independence issues.

3.2.10 *Comment conclusion*

This article concludes that:

- Before any meaningful and focused reform initiatives are introduced, the auditing and accounting industry needs to be subjected to an independent investigation, which extends and builds on the constructive work done by the Commission of Inquiry into the Affairs of the Masterbond Group of Companies and Investor Protection in South Africa.
- Only when the results of such an investigation are known, and once the *Accountancy Profession Act* is finalised, will it be possible to

design strategies and structures to address the problems related to financial reporting and accounting practices in a holistic manner.

- Publishing the proposed *Financial Reporting Bill* before such information is available and such processes have been completed is not in the public interest.
- The *Accountancy Profession Act* has to be drafted before the *Proposed Financial Reporting Bill*.
- Judging the *Proposed Financial Reporting Bill* against criteria that advance public accountability, the proposed legislation fails to meaningfully contribute towards strengthening the accountability framework.

CONCLUSION

Accountability is a prerequisite for empowerment. If we don't hold onto accountability, empowerment could turn into anarchy (Meyers & Hood 1994: 14).

In order to advance the accountability framework, accounting standards should remove information barriers, enabling the public to exercise *voice* by enhancing the flow of reliable information to the receivers of public accountability. This article has indicated that this is not currently taking place and that the accounting standard-setting practices are chiefly to blame for this predicament.

The standards other role-players in the accountability framework have to adhere to are negotiated by democratic processes and ruled by statute. There is no reason why the accountancy profession has to be an exception.

It would thus be appropriate that democratically chosen representatives of the various constituencies define the objectives of accounting conventions and accept the related accounting standards. The process of accounting standard-setting and the resultant accounting practices should focus wholeheartedly on enabling the public to apply their power through *voice* and *exit*.

The choice of alternatives (part of the standard setting process) and the process of applying the standards, should not be privately made by accountants. The same *sunshine standards* that are accepted in governmental deliberations should prevail. Accounting standards should be open covenants arrived at and exercised in total sunshine (also refer to Briloff 1980: 259).

Acceptance of this fundamental premise will advance the *voice* and *exit* notions and pave the way for participation and empowerment. It is equally applicable to both the private and public auditor.

This will not only advance the notion of public accountability but it will also make a significant contribution to the objective of empowerment in South Africa.

My last message (Cook 1987) is directed at the chartered accountancy profession whose trade association has been instrumental in shaping accounting standards and the resulting current accounting practices:

"Every profession is continually changing or being changed. It is changed by the aspiration of its own members - not only by those who cherish its old traditions, but by those who are inspired by a new vision of its function in society. It is changed by the emergence of additional opportunities for service which, if accepted, can stimulate its growth and, if neglected, may reduce its prestige. It is changed by the need to develop new skills - a requirement which may entail the enlistment of those trained in different disciplines or an apparent incursion into other realms of knowledge. It is changed by the impact of new social and moral values and by the influence of political decisions reflecting those values. It is changed by the spectacular advance of technological innovation. It is changed by the mounting demand for a constantly higher level of competence - not only in terms of a wider span of knowledge, but also a greater depth of knowledge in specialized areas. And a profession successfully adapts to its altered environment or it runs the risk of extinction. For no calling has a valid claim to eternal professional status. It must constantly justify its retention of that privilege by responding, in a creative and responsible manner, to the changing needs of society".

Since the role which a profession has to play is not static, the accounting profession in South Africa, in its continuing endeavour to play a justifiable and indispensable role in the business world must continually adapt and develop its functions with due consideration and understanding of the perceptions and requirements of user groups. (Gloeck & De Jager 1993: 8).

The pace required might at times remind us of the *Red Queen* and *Alice in Wonderland* - having to run faster and faster in order to stay in the same place (*Through the Looking Glass*; Carroll 1871).

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