THE POWER OF POLITIC AND LOBBYING PARTIES
IN THE AUSTRALIAN ACCOUNTING REGULATION REFORM PROGRAM

Suwaldiman

Abstract

This paper argues that Australian accounting regulations seem to be close to the government or political approach in its setting process. CLERP (Corporate Law Economic Reform Program) proposed by government can be viewed as changes made by Federal Government in the structure of setting accounting standards that show a substantial shift in power from the two professional accounting bodies: ICAA (The Institute of Certified Accountants in Australia) and ASCPA (Australian Society of Certified Practising Accountants) to the government. The CLERP rules accounting standard setting and companies must comply with proliferation of regulations. The government involvement in setting accounting standards as stated in the CLERP is to reach a high quality of accounting standards, to lead the lower costs of capital and to protect public interest from corporate collapse. However those efforts are aggravated by private interest lobbying that is more powerful and close to political process. Potential winners or losers will use lobbying to influence the authority so that the outcomes of setting accounting standards will protect their private interest. Finally the force of law of accounting standards will increase companies’ distress in facing the proliferation of regulations that must be complied.

Keywords: Australian accounting regulations, politic parties, lobbying parties, accounting standards

INTRODUCTION

Australian accounting regulations seem to be close to the government or political approach in its setting process. The main reason of government involvement in setting accounting standards comes from market failure such as corporate collapse (Brown and Tarca, 2001, p. 269). It is argued that public interest must be protected from the failure of market caused by financial information fraud. The government involvement had been started when the new accounting standard-setting arrangements were passed by Parliament in October 1999 and came into force on 1 January 2000 (Deegan, 2003, P. 5). Then the role of Corporate Law Economic Reform Program (CLERP) Act 1999 becomes very important in accounting standard setting process. CLERP can be viewed as changes made by Federal Government in the structure of setting accounting standards that show a substantial shift in power from the two professional accounting bodies (ICAA and ASCPA) to the government (Stoddart, 2000, p. 713). Even though Australian accounting

1 Fakultas Ekonomi Universitas Islam Indonesia Yogyakarta
already has a conceptual framework for financial reporting (as stated in statements of accounting concepts/SACs) the Australian Accounting Standard Board (AASB) cannot ignore the CLERP in setting the accounting standards. The CLERP rules accounting standard setting and companies must comply with too many regulations. Consequently, it can be said that Australian companies are faced with a proliferation of complex accounting regulations. It can be examined in the area of the needs of conceptual framework for financial reporting, political influences in the efficiency and effectiveness of accounting regulations, and the role of regulatory reform in the effort to overcome the recent corporate collapse.

**NEEDS OF CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING**

To reach consistency and comparability, accounting standards should be derived from norms or certain concepts, so that, the accounting standards will be consistent, systematic, logic, and form a coherent set of rule. The norms or concepts are conceptual framework that is used as guidance and basic norms in standard setting process. Conceptual framework is defined by Financial Accounting Standard Board (FASB) as follow (FASB, 1980, p. i):

Conceptual framework is a coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and reporting. It is expected to serve the public interest by providing structure and direction to financial accounting and reporting to facilitate the provision of even-handed financial and related information that is useful in assisting capital and other markets to function efficiently in allocating scarce resources in the economy.

According to the FASB’s definition, the main goal of conceptual framework is to lead the consistency of accounting standards determination, which means, there is no contradiction among the accounting standards. It is expected that accounting standards be derived from the same concepts, so that, the standards form a coherent set of functional rule. In detail the roles of conceptual frameworks are:

1. Guidance for accounting standard setting body to determine accounting standards,
2. To reduce or omit inconsistency in standard setting,
3. To be a guidance and framework in evaluating the existing accounting practices,
4. To release the controversies of accounting standard setting.
Australian conceptual framework for financial reporting was issued by Australian Accounting Research Foundation (AARF) in August 1990 (McGregor, 1990, p. 68). However, since Australian Accounting Standard Board (AASB) began operations on 1 January 1991, the development of conceptual framework is conducted by AASB as stated at Section 227 of the Australian Securities and Investments Commission (ASIC) Act (Deegan, 2003, p. 10). The concept issued is named Statements of Accounting Concepts (SACs). Since the first issued it has been issued 4 concepts, SAC 1 (Definition of The Reporting Entity), SAC 2 (Objective of General-purpose Financial Reporting), SAC 3 (Qualitative Characteristics of Financial Information), and SAC 4 (Definition and Recognition of the Elements of Financial Statements). AASB and PSASB released Proposed Program for the Development of Concepts on Measurement of the Elements of Financial Statements in July 1994 (Hampton and Bishop, 1998, p. 42). The program would issue SAC 5, which associated with the measurement of the elements of financial statements, but it has not been released yet.

Having conceptual framework such as SACs lead to some implications for the setting of accounting standards, preparers and auditors of financial reports, and public interest. According to McGregor (1990, p. 71) SACs influences accounting standards and standards setters in developing specific financial reporting requirements. Firstly, accounting standards must be consistent and logical to the SACs. It is clear that accounting standards will stem from an orderly set of concepts stated in SACs. Secondly, accounting standards must be more comprehensive and concise. It is not applicable to develop accounting standards that fulfil every type of transaction; therefore, the SACs should reduce the need for detailed accounting standards. Additionally, AASB or standards setters must be more accountable for their actions because the thinking behind specific requirements will be more explicit, as well any compromises that may be included in particular accounting standards. Finally, accounting standards setting must be more economical and cost benefit consideration. Accounting standards issued should not be re-debated from differing viewpoints that are likely to be costly instead of efficient. In this case due process must be passed before the accounting standards launched.

SACs also have implications to preparers and auditors of financial reports. Accountants who are involved in, or responsible for, the preparation, presentation or audit of general purpose financial reports must support SACs and accounting standards due to the mandatory in respect of the accounting profession (McGregor, 1990, p. 71). Furthermore McGregor argues that even though SACs do not have the law
consequences to the accountants, the applications of the statements would be appropriate for preparers and auditors in endeavouring to satisfy their legal obligation in respect of the preparation and audit of financial reports.

The implications of SACs to public interest are seemed to be flawed because SACs are proposed to fulfil the economic reasons. The public interest in corporate social responsibility is ignored in SACs. SAC 2 paragraph 43 states that the objective of general purposes of financial reporting is to provide information useful to users for making and evaluating decisions about the allocation of scarce resources (cited in Deegan, 2003, p. 32). It is likely that financial reporting does not cover the social responsibility of corporations. It cannot be denied that a company does economic and social transactions. Social costs and social benefits are always resulted in every operation of companies and must be disclosed in annual reporting. Therefore accounting standards must play an important role in this area.

Accounting standards should play an important role in maximizing social welfare; in a macro area it is national macro economic objectives. It was argued by Hawkins (cited in Solomons, 1978, p. 67) that:

“The (FASBs) objectives must be responsive to many more considerations than accounting theory or our notions of economically useful data…. Corporate reporting standards should result in data that are useful for economic decisions provided that are the standard is consistent with the national macro economic objectives and the economic programs designed to reach these goals.”

Accounting is a tool to achieve social goal, that is, national macro economic goals in a country where accounting is applied. Therefore, accounting structure in a certain country is very possible different from other country. It must be designed in such a way that is appropriate with the country. Accounting standards should be developed to influence the wealth distribution of a society. According to Horngren (1973, p. 61), reaching this goal makes accounting standard setting is a political process:

“The setting of accounting standard is as much a product political action as of flawless logic or empirical findings. Why? Because the setting of standard is a social decision. Standard place restrictions on behaviour, therefore, they must be accepted by the affected parties. Acceptance may be forced or voluntary or some of both. In a democratic society, getting ac-
ceptance is an exceedingly complicated process that requires skillful marketing in a political arena."

Furthermore, May and Sundhem (1976, p. 750) state that:

"In practice as well as in theory, the social welfare impact of accounting reports apparently recognized. Therefore it is no surprises that the (Financial Accounting Standard Board) is a political body and, consequently, that the process of selecting an acceptable accounting alternative is a political process. If social welfare impact of accounting policy were ignored, the basis of existence of regulatory body would disappear. Therefore, the FASB must consider explicitly political (i.e., social welfare) aspects as well as accounting theory and research in its decisions."

It has been argued that accounting standards should play an important role in achieving the distribution of social welfare, instead of just providing economic information. Finally, it can be argued that if accounting just discloses information of economic transactions, accounting will be meaningless and do nothing in achieving social welfare.

POLITICAL INFLUENCES IN THE EFFICIENCY AND EFFECTIVENESS OF ACCOUNTING REGULATION.

In the beginning of this paper it is argued that Australian accounting regulations seem to be close to the government or political approach in its setting process. The main reason of government involvement in setting accounting standards comes from market failure such as corporate collapse (Brown and Tarca, 2001, p. 269). The formal reason argued by government in its involvement in accounting regulation is to protect public interest. However, politic and lobbying that comes from private interest is more powerful than the original efforts to protect public interest.

It was stated in CLERP Proposal No. 2 that "the ultimate objective for the setting of accounting standards in Australia should be the production of high quality accounting standards that facilitate Australian business by leading to lower costs of capital and enabling Australian companies to compete on an equal footing overseas, while also maintaining investor confidence" (cited in Collet, Godfrey and Hrasky, 1998, p. 10). The government involvement in setting accounting standards as stated in the proposal is to reach a high quality of accounting standards and to lead the lower costs of capital. Furthermore, it is expected to win in international competition. However those efforts are aggravated by private interest lobbying that is more powerful and close to political process.
Interest groups lobbying had influenced in the CLERP and their reaction when it was published resulted in substantial modification to the CLERP proposals. For example the interest groups lobbying appeared to support radical changes that Australian accounting standards should adopt International Accounting Standards (IASs). It came from Australian Stock Exchange (ASX) as argued by Richard Humprey (CEO of ASX) that those international standards would benefit companies and capital market (Brown and Tarca, 2001, p. 277). In this case ASX expected that the use of IASs would be a way to protect and expand its business. The Institute of Chartered Accountant in Australia (ICAA) also supported the adoption of IASs by saying argument that defraying the costs by sharing them with other countries and adopting international standards must have been an attractive option (Brown and Tarca, 2001, p. 278). Other interest group lobbying is G100, a body of the chief financial officers of Australia’s largest corporations. They argued that they were frustrated with Australian standard setting and felt their views were being ignored. G100 seemed to be confidence that because they were players in a global field so that adopting the IASs in Australian accounting would make economic sense. AASB and AARF also encouraged the changes by arguing that Australian standard setting structure should follow the U.S. or U.K. model with an independent board, adequate funding and integrated research unit.

In contrast the supports in adoption of IASs became to be weaker when CLERP No. 1 was proposed. It was stated in the CLERP that “Australian accounting standards are not understood in, and are out of step with, the major capital markets in the U.S.A., U.K. and Europe, thereby resulting in higher cost of capital for Australian business” (cited in Brown and Tarca, 2001, p. 279). Therefore one of the outcomes expected by government in its reform of accounting standards (as stated in CLERP No. 1) is to achieve clear and relevant policy framework for the development of accounting standards to ensure they are responsive to changes in commercial practices, meet the needs of users without being overly burdensome, and improve Australia’s international competitiveness (Brown and Tarca, 2001, p. 280). In addition, it is also to improve institutional arrangements for standard setting process that will ensure that the process operates in a responsive, efficient and effective manner, thereby enabling all relevant stakeholders to participate while maintaining the independence of the process.

Consequently CLERP No. 1 suggested that Australia should discontinue issuing its own standards and move quickly to adopt IASs issued by International Accounting Standards Committee (IASC). It should be started on 1 January 1999. The interest groups reaction was
contrast to their previous arguments. The G100 did not agree with the
date proposed for adoption of IASs or with issuing exposure drafts identi-
tical to those of the IASC. The disagreements also came from ICAA that
the adoption of IASs was premature. Others interest groups that dis-
agree to the proposal were Australian Institute of Company Directors
(AICD), Australian Bankers’ Association (ABA), accounting firms, etc.

Interest groups lobbying influences again in accounting regula-
tion. They succeeded in delaying the date of IASs adoption in Australia
to 1 January 2005. Therefore it has been proved that if government
involves and controls in the setting accounting standards the process
will be closer to political process and the lobbying of interest groups will
influence significantly. When politic reason is being considered the de-
cision will be taken in a way that is far from public interest protection, or
at least, public interest is misused to achieve private interest. Efficiency
and effectiveness of accounting regulation only can be achieved if set-
ting of accounting standards are conducted in fair process and totally
based on conceptual framework.

THE REGULATORY REFORM AND THE CORPORATE COLLAPSES

Australian accounting regulations had been tested in facing the
failure of market. Many of high-profile Australian companies and trusts
faced financial collapse or failure in 1980s, such as Adsteam, Ariadne,
Bell Group, Bond Corporation Holdings, Elders-IXL, Girvan, Hooker
Corporation, Lintner, Metrogroup, Qintex, Rothwells, Tricontinental,
State Bank of Victoria, State Bank of South Australia, and Spedly
(Walker, 1993, p. 98). The formers and recent collapse of HIH a big
insurance company in 2001 with debts of about $5.3billion had raised
questions to the role of accounting regulations and accounting profes-
sion.

Accounting and auditing profession was criticized regarding to
the corporate collapse. Creative accounting had been practised by con-
juring up profits from paper transaction, concealed losses, understated
debt, window-dressed balance sheets and enabled some entrepreneurs
to enrich themselves through previously-unreported related party trans-
actions (Walker, 1993, p. 98). Auditors had been blamed in practising
creative accounting because they did not maintain their independence.
Auditors are expected to maintain the highest ethical and professional
standards to ensure their independence. An external auditor's role is to
provide an independent opinion as to whether the company has pre-
pared its financial statements in accordance with Australian accounting
standards and other mandatory requirements. In the HIH case the audi-
tors did not maintain their independence both in fact and in appearance. The chairman of HIH was the chairman of company’s audit committee and a former senior partner in Arthur Andersen, the auditors of HIH (Sexton, 2001, p. 59).

The failure of accounting regulation encouraged the government to take over the role of setting accounting standards. It is argued that public interest must be protected so that the regulations must be reformed and the CLERP is a way out proposed by government. However, the blame cannot be addressed to accounting profession or regulators. Accounting profession may claim that there is no form of accounting can eliminate fraud, greed, bad faith and deceit (Chambers, 1991, p. 1). Furthermore regulators may claim that corporate morality is no worse in this country than in any other.

The reform proposed by government in CLERP delegates the setting accounting standards to AASB. The members of AASB are appointed by government from nominations of interested groups. Unfortunately, all the standards must be passed in Parliament in regard to protect public interest by ensuring adequate protection of investors. Australian accounting standards also have the force of law for companies and ASIC can take legal action for non-compliance.

Therefore the reform of setting accounting standards is close to political process. Potential winners or losers will use lobbying to influence the authority so that the outcomes of setting accounting standards will protect their private interest. Finally the force of law of accounting standards will increase companies’ distress in facing the proliferation of regulation that must be complied.

CONCLUSION

To conclude, it is clear that the setting of Australian accounting standards is close to political process. All the standards proposed by AASB must be passed in parliament. The original reason of government involved in setting accounting standards is to protect public interest from financial reporting fraud, because it had been proved that former accounting standards were not able to protect public interest from corporate collapse. CLERP can be viewed as changes made by Federal Government in the structure of setting accounting standards that show a substantial shift in power from the two professional accounting bodies (ICAA and ASCPA) to the government. Even though Australia has already SACs, AASB also must take into account the CLERP as a framework as well as SACs. Unfortunately, all standards proposed by AASB must be passed in Parliament.
The government involvement in setting accounting standards as stated in the CLERP No 2 is to reach a high quality of accounting standards and to lead the lower costs of capital. Furthermore, it is expected to win in international competition. However those efforts are aggravated by private interest lobbying that is more powerful and close to political process. Therefore it can be concluded that the Australian reform of setting accounting standards is close to political process. Potential winners or losers will use lobbying to influence the authority so that the outcomes of setting accounting standards will protect their private interest. Finally the force of law of accounting standards will increase companies’ distress in facing the proliferation of regulation that must be complied.

REFERENCES


