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Accounting: In Crisis or Ascendancy?

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Publication Details

This article was originally published as Abeysekera, I, Accounting: In crisis or ascendancy?, Accounting History, 10(3), 2005, 71-87. Original journal article available here

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Keywords

accounting, associations, Australia, conceptual framework, corporate failures, HIH Group, political economy

Disciplines

Accounting | Business | Social and Behavioral Sciences

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This journal article is available at Research Online: http://ro.uow.edu.au/commpapers/541

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Recent corporate failure has challenged the credibility of the accounting profession, leading many stakeholders to question the usefulness of financial reports for decision-making. This paper examines fluctuations in the accounting profession's authoritative influence over accounting standard setting and financial reporting. It focuses on the period following the collapse of the HIH Group in 2002, with contextual reference to earlier periods. It then outlines the submissions made by the accounting profession, actuaries and regulatory institutions to the Royal Commission Inquiry into the collapse of the HIH Group. These submissions are analysed in relation to the profession promoting functionally defined interests and offering stable compromises, the questioning of the legitimacy of accounting techniques by society and government, and the demand by other constituents that the accounting profession overcome the inequalities that arise from current accounting practice. Finally, the paper offers suggestions as to how the profession can reconstruct itself to regain its lost authority.

Key words: accounting, associations, Australia, conceptual framework, corporate failures, HIH Group, political economy.

1. Introduction

This paper examines developments in the Australian accounting profession following the collapse of HIH Group in 2002, with reference to earlier periods in accounting history. It focuses on fluctuations in the authoritative influence of the accounting profession with regard to accounting standard setting and financial reporting in Australia. The collapse of the HIH Group in 2002 is used as a case study, and submissions by various groups to the subsequent Royal Commission are used to highlight the problems facing the accounting profession. The paper concludes by offering suggestions as to how the accounting profession can regain some of its recently eroded authority.

A study of the accounting profession in Australia is of interest for two important reasons. First, the Royal Commission appointed to investigate the causes of the HIH Group collapse implied that a contributory cause of the collapse was a failure in accounting practice (Main 2003, p. 263). Second, there has been an increasing degree of intervention by the Australian government in the affairs of the accounting profession in the period 1940-2002.

This paper is arranged as follows. Section 2 outlines the theoretical framework used in this paper, which suggests that the accounting profession is a specialised social institution called a 'corporative association', and which has the authority to influence the society in which it exists. Section 3 examines the debate among key institutions over the collapse of the HIH Group. The arguments presented by the Australian accounting profession, the Institute of Actuaries in Australia (IAA), the Australian Prudential and Regulatory Authority (APRA), the Australian Securities and Investment Commission (ASIC), and the Australian Stock Exchange (ASX) are reviewed. It is shown how this debate has influenced the reorganisation of the authoritative influence of the accounting profession within Australian society. Section 4 examines the developments within the accounting profession since the 1940s, focusing on its ability to influence society. This section also analyses the key features of the conceptual framework used by the accounting profession. This framework has served as a basis for setting new and revised accounting standards, and has subsequently become the basis for the accounting profession to assert and extend its authority. Finally, consideration is given to the possible underlying causes for the present crisis of authority of the profession and suggestions are offered as to how it can regain its lost position.

On 15 March 2001, the HIH Group was placed under provisional liquidation, and the collapse that ensued remains the largest corporate failure in Australia to date. The liquidation process could take up to ten years and the financial return to creditors is expected to be negligible. In August 2001, suspicions about the role of corporate mismanagement in the collapse led the Commonwealth Government to appoint a Royal Commission, which released its findings to the public on 16 April 2003 (Department of the Parliamentary Library 2003).

The Royal Commission revealed several factors that contributed to the failure of the HIH Group. These factors can be divided into two categories: business factors and accounting factors. The business factors included: over-priced corporate acquisitions; corporate extravagance based on the misconception that 'money' was available for spending; and the fact that the HIH Group (which had three authorised insurance arms) was not operating according to the minimum solvency requirements set by the prudential regulator, the APRA, and the *Insurance Act 1973* (Clarke & Dean 2001, p. 97; IAA 2002).

The accounting factors included: inadequate provision made for insurance claims; past claims on policies not properly priced leading to an under-estimation of present and future insurance premiums for any given industry class and claim category; the internal audit committee focussing too much on accounts rather than taking on additional functions to identify and assess overall risk; and the audit committee meeting with the directors too often without the management (Clarke & Dean 2001; IAA, 2002).

Of particular interest to this discussion is the fact that the IAA, in its submission to the Royal Commission, noted that inadequate provision made for insurance claims was a significant contributory factor to the collapse (IAA 2002). Thus the collapse of HIH raised serious questions about the credibility of the accounting profession (CPA Australia 2002; Malley 2003).

2. Theoretical framework

According to Streeck and Schmitter's (1985, pp. 1-29) model of political economy theory, in industrialised developed nations the social order is characterised by four types of institutional constituents. These are the community, the market, the state (or the bureaucracy) and the 'corporative association'.

According to Streeck and Schmitter, a corporative association is more than a transient and expedient amalgam of the other three orders; in fact, it is capable of making a predictive autonomous contribution to other constituents. Package-dealing arrangements between corporative associations and interest groups are established with the purpose of upholding the principles set by the corporative association –

principles that are designed to construct a certain version of social reality (Hines 1988).

Corporatism is an attempt to understand the reciprocal relationships between governments and corporative associations. It refers to the process of policy negotiation between government agencies and corporative associations. The resulting policy agreements are implemented through collaborative arrangements between governments and corporative associations (Grant 1985, pp. 3-5). Corporative associations must be willing and have the ability to secure the compliance of their members to deliver the desired outcomes for their benefiting constituency (Chubb 1983, p. 26). Both the government and corporative associations take the lead in these arrangements, with both parties seeking each other out at different times (Schmitter 1979, p. 27). This is because corporatist arrangements are an unintended yet necessary outcome of various conflicts and policy crises where neither government agencies nor the corporative associations are capable of imposing their preferred solution upon the other (Grant 1985, p. 7).

Schmitter (1985, pp. 35, 39) cites four reasons for the inability of either side to impose their preferred solution upon the other. First, corporative associations cannot attain the status of monopoly constituents, or form comprehensive hierarchies of sectors, without some degree of official recognition or encouragement. Second, corporative associations often tacitly agree with or actively promote the policies of government in order to secure their role as regular, integral participants of the policy-making process. Alternatively, governments may implement their policies without any such support or assistance from the profession. Third, an affected group (a corporative association or the government) may refuse to organise appropriately, or may refuse to participate in the process, if it considers the cost of collaboration to be too high. Fourth, these arrangements for collaboration are made by relatively autonomous groups within the government, rather than by government officials themselves. Thus government officials, while less than enthusiastic about sharing decision-making authority with corporative associations, have little control over the selection of leadership within corporative associations. As a result, the government is unable to ensure that the corporative association will accept and disseminate its views or implement policy adjustments on behalf other constituents.

The accounting profession in Australia can be classified as a corporative association for the following three reasons. First, corporative associations have as their common purpose to defend and promote their functionally defined interests. Functionally defined interests are the group norms of a collective actor that seeks to negotiate with political constituents or to resist pressure exerted on it by the government. Group norms are specifications of behaviour that all group members expect of each other (Emerson 1962, p. 33). Such groups thrive on negotiating within a limited set of special interest organisations that mutually recognise each other's status and interests (Kirkham 1992). The fact that these negotiations are carried out within an 'inner circle' can lead to the creation of inequalities between these special interest organisations and other organisations that are impacted by the practices of the accounting profession.

Second, corporative associations reach and implement relatively stable compromises to pursue their interests (Armstrong 1998). Stable compromises involve the opportunistic surrendering of attractive possibilities in exchange for accepting negotiated obligations. These stable compromises result in the development of inter-organisational trust backed by devolved public authority (Schmitter 1985, p. 58). In creating stable compromises, corporative associations are primarily motivated by the needs of their operative organisational context from which they receive resources (Chubb 1983, p. 26).

Third, the motives of individual members within the profession are less discernable than the motives of the association as a whole. Individuals have to surrender their individual interests in exchange for accepting to be bound by compromised, longer-term and more negotiated obligations imposed by the professional associations (Streeck & Schmitter 1985, pp. 1-29).

According to Streeck and Schmitter (1985, pp. 1-29), selectively giving advantage to some interest groups over others, through the formation of corporative associations (such as the accounting profession), leads to arbitrary standards, lack of public accountability, and inequality. The accounting techniques used by the accounting profession, it is argued, owe more to the patronage of their interests groups rather than to any independent scholarly criteria (Hopper, Storey & Willmott 1987; Neu, Cooper & Everett 2001). Therefore, there will come a time when the other 3 social institutions - the market, community and government - will question the legitimacy of these techniques (Hopper *et al.* 1987; Neu *et al.* 2001). For instance, market forces can override actions taken by the corporative association that create patronage in favour of their interest groups. Electoral competition and citizen interest can dismantle the rules of the association (Clegg & Dunkerley, 1980, p. 5). Finally government officials, who are wary of the excessive authority of the association, can dismantle these rules by simply outlawing certain accounting techniques.

3. Re-organisation of the accounting profession during the debate over the HIH collapse

The collapse of the HIH Group was the most significant corporate failure in Australian history. The Royal Commission appointed by the Commonwealth Government to investigate this collapse called upon several key institutions to submit their views. This paper will now outline the submissions made to the Royal Commission by four institutions: the accounting profession as a corporative association; the IAA as a social constituent; the APRA and ASIC as political constituents; and the ASX as a capital constituent. Interestingly, what was clear in these submissions was the intention of these institutions to reshape the authoritative influence between their respective constituencies and the accounting profession.

The accounting profession as a corporative association

The proposal submitted by the Australian Accounting Standards Board (AASB) on behalf of the accounting profession presented a two-fold response to the HIH Group collapse, consisting of stable compromises and the promotion of functionally defined interests.

To arrive at a stable compromise with the government, the accounting profession argued that it was willing to conform its reporting practice to the reporting requirements of bureaucratic institutions such as the APRA, in accordance with accounting regulation, if doing so would contribute to minimising the cost of reporting by firms and satisfy the needs of all stakeholders. The only condition accompanying this concession was that the reporting and regulatory principles would be consistent (AASB 2002).

At the same time, the accounting profession was attempting to promote its functionally defined interests with other accounting bodies, arguing that it was inappropriate to fundamentally change accounting standards to conform to the reporting requirements of the APRA. The accounting profession pointed out that Australia had already decided to accept and implement the international accounting standards of the International Accounting Standards Board (IASB) by 2005 (Policy Statement 4 2002). For example, the accounting profession claimed that the IASB standards might involve taking into account future premiums and claims in determining the fair value of liabilities, given the fact that there would not be an active market price for such liabilities. Thus the present direction of the IASB is to determine that a fair value may involve discounted cash flow techniques. The accounting profession, on the other hand, argued that prudential risk margins should not be included in financial reporting insurance liabilities, because they are an allocation of profits and thus take on the character of retained reserves. Instead, the accounting profession argued that these margins should be presented in the equity section of the financial statement. The accounting profession asserted that the conceptual framework approach of defining and recognising liabilities using the probability criterion (where 'probably' means 'more likely than not') may not necessarily lead to the recognition of a margin of uncertainty as a liability.

The accounting profession further claimed that the substance of the contract should determine the motive behind the transaction. AASB 1001 paragraph 4.1.8 asserts that it is necessary that the substance rather than the form of a transaction be reported to satisfy relevance and reliability concepts. Where the expression 'pattern of the incidence of risk' did not suit some reinsurance contracts, the incidence of risks should be recognised over the period of reinsurance (AASB 2002).

The IAA as a social constituent

In its submission to the Royal Commission, the IAA (2002) criticised the conceptual framework of the accounting profession, questioning the legitimacy of its techniques on three major counts: the probability criterion (SAC 4); the concept of reliability (SAC 3); and the professional judgment accorded to accountants.

According to the IAA, the probability criterion in the accounting conceptual framework can produce misleading results when transactions are bundled together to determine probability. The IAA argued that current accounting concepts are more deterministic (i.e. where variations due to random fluctuations have no place) than stochastic (i.e. where some variation is understood to be subject to uncertainty). In the deterministic approach to accounting, recognised assets are included in financial statements, and any unrecognised assets and liabilities are ignored in the calculation of equity. The conceptual framework of accounting (SAC 3) deals with reliability in qualitative terms. Prudence and conservatism become desirable characteristics only if these terms are interpreted in a way that obtains the best answer in the face of uncertainty. However, they become unacceptable if they are introduced and interpreted in order to create a deliberate bias. The IAA also argued that the professional discretion accorded to accountants could lead to inaccuracy in financial reporting.

The APRA and ASIC as political constituents

The APRA (2002) similarly criticised the legitimacy of the techniques used by the accounting profession. Further, the APRA stated that it is important that consistent accounting principles be applied worldwide without compromising the accuracy of financial reporting.

In its submissions to the Royal Commission, the ASIC (2002) also questioned the legitimacy of the accounting profession's techniques, claiming that there was a need to overcome the inequalities created by these techniques. The ASIC submission stated that complex and technical accounting rules are secondary, and that the primary objective of applying accounting standards should be to ensure accuracy.

To overcome inequalities, the ASIC proposed a low-cost, rapid and decisive mechanism to resolve disputes when the application of accounting standards gives rise to difficulties. The ASIC claimed that it should be given the power to quickly resolve any disputes relating to non-compliance with accounting standards by firms. It also argued that inequalities result from the actions of the accounting profession that compromise its integrity, such as longstanding associations between audit firms and client firms. Audit firms should therefore be prohibited from providing both auditing and consulting services to client firms. Further, according to the ASIC, the law should strengthen the obligation of auditors to report non-compliance with legislation, since it is difficult to detect non-compliance in the absence of qualified auditors' reports or 'whistle-blowing'. Auditing standards should be given the force of the law in the same way as accounting standards. The law should be more explicit, requiring boards of directors to manage the relationship of firms with auditors, so that directors can be held liable. In addition, it should mandate whistle-blowing obligations for senior officers of firms and provide legislative protection for them. Finally, the law should also clarify the role and obligations of officers of firms, such as that of the chief financial officer.

The ASX as a capital constituent

Submissions made by the ASX attempted to facilitate the smooth operation of capital markets, by making stable compromises with the accounting profession, and by seeking to overcome the inequalities created by accounting practice (ASX 2002).

In terms of a stable compromise with the accounting profession, the ASX reiterated that listed firms should follow accounting standards in presenting financial information. With a view to overcoming inequalities, the ASX took action to implement two measures. First, it enhanced the current listing rule requirement in relation to audit committees and the corporate governance reporting of firms comprising the All Ordinaries Index (top 500). The ASX requires that shareholders be given the opportunity to vote on the disposal or radical transformation of their investment whenever firms seek to divest themselves of their main undertaking. Second, when firms need to disseminate information about their activities, they are required to provide opportunities for qualified analysts to ask relevant questions in relation to publicly available information.

4. Changes in the authoritative relationships prior to the HIH collapse

The HIH collapse and subsequent changes to accounting practice did not, however, take place in a vacuum. An examination of historical developments (that is, from the 1940s through to 2000) within the accounting profession in Australia points to a series of events which strengthened the authoritative position of that profession over a period of time (i.e. 1940s to 1970s), and another series of events which weakened its authoritative position over a period of time (i.e. 1980s to 2000). In this latter period, the groundwork was laid for a major overhaul of the accounting profession, culminating in the Royal Commission that followed the HIH collapse.

Rise in the authority of the accounting profession

Reinforcing functionally defined interests

According to Birkett and Walker (1971), in the period between 1946 and the late 1960s, the Australian accounting bodies developed a common strategy for defending and promoting their functionally defined interests in order to consolidate their authoritative influence.

In 1946, when major corporate collapses were virtually absent in Australia, the Institute of Chartered Accountants in Australia (ICAA) issued a series of five 'recommendations on accounting principles' based on recommendations issued by the Institute of Chartered Accountants in England and Wales (ICAEW). These recommendations were later incorporated into the *Victorian Companies Act 1938* to cover accounting activities involved in preparing income statements and balance sheets (Heazlewood 2002).

The spectacular crashes of the early 1960s of firms that had declared profits, and that had received unqualified audit reports in the previous financial year, raised concerns about the integrity of financial reporting (Birkett & Walker 1971; Chua & Sinclair 1994). In 1966, the threat of accounting standards being regulated saw the CPA Australia (CPAA) and ICAA jointly form the Australian Accounting Research Foundation (AARF). Although initially each accounting body continued to operate its own accounting principles committees, in 1973 they agreed to form one committee called the Australian Accounting Standards Committee (AASC), under the auspices of the AARF. The AARF became responsible for the preparation of accounting standards (Heazlewood 2002).

Fall in the authority of the accounting profession

During the latter period, however, the accounting profession experienced a decline in its authority. This was due, firstly, to the drive to overcome the inequalities resulting from the application of accounting techniques. Secondly, questions were raised regarding the legitimacy of the stable compromises created by the accounting profession.

Overcoming inequalities

The rise in the authority of the accounting profession took a turn in 1984, when the Accounting Standards Review Board (ASRB) was established under the auspices of a statutory regulatory body National Companies and Securities Commission (NCSC, now ASIC). This body was established as a co-operative scheme between the Commonwealth and State governments. It must be noted that the ASRB was not established by statute (unlike the Australian Accounting Standards Board (AASB), which is discussed later in this paper). Rather, its roles and functions were shaped by the unpublished decisions of the Ministerial Council. The ASRB was established in the wake of calls for greater government and community involvement in the development of accounting rules, the enforcement of compliance with accounting standards by firms, and the need for accounting standards to be adjusted to private sector needs (Chua & Sinclair 1994; Heazlewood 2002; Walker 1987). The accounting profession's preferred position, which was for the majority of positions on the ASRB board to be filled by accountants, was rejected (Walker 1987).

Professional authoritative influence, professional prestige and financial rewards are legitimated by society. With the formation of the ASRB, the accounting profession faced the possibility of the loss of this legitimacy, thus putting under threat the successful advancement and social reproduction of the accounting profession (Hines 1989).

Offering stable compromises

This decline in the authority of the accounting profession was countered to some extent by the stable compromises offered by the profession. First, the accounting profession reluctantly agreed to accept the authority of the ASRB to approve standards, but insisted on retaining the copyright on those standards (Walker 1987). Second, the accounting profession agreed to set up the Public Sector Accounting Standards Board (PSASB) under the AARF, which would extend the standard setting function of the AARF to the public sector, thus ensuring that financial reporting and management within the public sector would be of a high standardised quality (Chua & Sinclair 1994). This led to a compromise between the ASRB, controlled by the government, and the AARF, controlled by the accounting profession, which worked together to produce a common set of accounting standards for both the private and the public sectors (Armstrong 1998; Heazlewood 2002).

Questioning the legitimacy of accounting techniques

In this period, too, the Commonwealth government began to question the legitimacy of accounting techniques and their implementation by the accounting profession. As a result, the Commonwealth Government's Corporations Law was amended by the Company Law Review Act 1998, with the changes being operable from 1 July 1998. The amendments to the Corporations Law reduced the authoritative influence of the accounting profession in four ways. First, they authorised the AASB (formerly the ASRB), where representation from the accounting profession was in the minority, to develop accounting standards. Second, they overrode the 'true and fair view' of accounting standards, by allowing firms to deviate from compliance with these standards if directors could show that such a departure would lead to a 'true and fair' representation of financial activity in their financial statements. Third, through the first Corporate Law Simplification Act, these amendments deviated from the accounting profession's preferred 'reporting entity' method of classifying firms. Instead, firms would now be classified as disclosing firms, public firms, large proprietary firms and small proprietary firms. Fourth, the amendments mandated that a legal approach, rather than the substance-over-form approach preferred by the accounting profession, would determine the status of a firm (Heazlewood 2002).

According to Puxty, Willmott, Cooper, and Lowe (1987), the accounting profession is regulated by three principles. First, capital principles increasingly control, improve and monitor employee and organisational performance. Capital market pressures stimulate the development of disclosures. It has been argued that company accounts, produced to facilitate the smooth operation of capital markets, have been constructed and audited without the impetus of regulation (Watts & Zimmerman 1986, pp. 15-36). Second, government principles such as legislation (for example, the preparation and publication of company accounts as a legal requirement) and regulation (for example, minimal wages and price ceilings) are increasingly shaping the reproduction and formation of the accountancy profession (Hopwood 1983). These laws and requirements have restricted the self-governance of the profession, making it subject to government supervision. Third, community principles, such as expectations regarding the nature and role of the profession (for example, expectations of honourable conduct, expertise, honesty and public service), are adopted in response to the ideals and expectations of the community.

Puxty *et al.* (1987) have argued that the regulation of the accounting profession should be understood within the nexus of the other three constituents: market forces (capital or economic); bureaucratic controls (government or political); and spontaneous solidarity (community or social). These principles can be better understood by comparing and contrasting them with the sources of motivation and authority that lead to action, and with the sources of tension and violation that result from such action.

The changes during the 1980s detailed above forced the accounting profession to present its financial reports in a more consistent and logical manner. This was partly in response to the fact that the public generally views accounting as an objective practice, since it deals with numbers, and that it subsequently views rules and uniformity as offering solutions to the perceived problem of accounting subjectivity (Merino & Mayper 2002). Since the previously designed rules in accounting had been manipulated by firms (Knight & Beyer 1991, pp. 1-2; Kohler 1991, p. 64; Rogers & Menon 1985, pp. 547-548), the accounting profession designed a uniform basis for financial reporting (Rowles 1991, pp. 69-70), by creating a new conceptual framework. According to Hines (1989), this was an attempt by the accounting profession to pre-empt government intervention, by strengthening its own legitimacy via the creation of stable compromises.

The new framework was structured as an interrelated set of propositions and observations that provided a logical foundation for deducing what accounting principles ought to be (ASRB/AARF 1990, pp. 1-6). These principles were to be empirically tested before their introduction in order to ensure that they did, in fact, result in greater accuracy in financial reporting (Walker 2003). Despite divided opinions about the nature of a 'true and fair view' of accounting, proponents of the conceptual framework have asserted that the application of the qualitative characteristics of the framework and its associated accounting standards will lead to a 'true and fair' outcome (Cairns 2001).

5. Conclusion and proposals

The foregoing analysis is summarised in Table 1. The analysis of events following the HIH Group collapse highlights the way in which social and political constituents questioned the legitimacy of the financial reporting techniques used by the accounting profession. The accounting profession responded by offering stable compromises to ensure its continued existence. Further, the various political and capital constituents that contributed to the Royal Commission proposed ways of overcoming the inequalities resulting from the technical application of financial reporting. Finally, the capital constituents essentially supported the techniques used by the accounting profession, offering stable compromises while simultaneously attempting to overcome the inequalities created by current accounting practice.

Table 1: Forces shaping the authoritative influence of the profession

Forces\Constituents	Social	Capital	Political	Corporative Association
Questioning legitimacy	X		X	
Offering stable compromises		X		X
Overcoming inequalities		X	X	
Reinforcing functionally defined interests				X

The final Report of the HIH Group Royal Commission emphasised the importance of the AASB 1023 standard, which deals with general insurance. The Report noted that, at the time of the HIH collapse, the accounting standard did not carry a definition of 'material transfer of risk'. A definition of risk is necessary in order to accurately classify whether an insurance policy constitutes reinsurance or one of the more rapacious and illusory forms of financial insurance. Further, of 61 recommendations put forward by the Report, 23 related to increasing the APRA's ability to more effectively carry out its responsibilities. These recommendations invariably contributed to the shifting of authoritative influence from the accounting profession to the government (Main 2003, p. 265).

As indicated in this paper, the challenge to the authoritative influence of the accounting profession had its roots earlier in the century. Events not only following, but also prior to, the HIH Group collapse demonstrated that neither the accounting profession nor the other constituents are capable of imposing their preferred solution with regard to accounting standard setting and financial reporting. Rather, the relationship between these groups is characterised by a competition for authoritative influence. The accounting profession seeks to increase its authoritative influence through a dual strategy involving the promotion of functionally defined interests on the one hand, and the implementation of stable compromises on the other. The government, on its part, attempts to increase its authoritative influence by seeking ways to overcome the inequalities resulting from accounting practice, and by questioning the legitimacy of accounting techniques. The resulting compromises are necessary for restoring confidence in the accounting profession among constituents, such as the community and capital providers.

Thus the allocation of authoritative influence between the accounting profession and other constituents is by no means one-way. For example, as pointed out by Schmitter (1985, pp. 35, 39), the accounting profession requires the official recognition or encouragement of other constituents in order to form a monopoly or comprehensive hierarchy. At the same time, however, the government depends on the accounting profession when it makes and implements policies and to bring about its desired adjustments.

Clearly, then, no single interest group can impose its preferred solution with regard to accounting standard setting and financial reporting. However, our survey of historical developments within the accounting profession points to five ways in which an interest group such as the accounting profession can enhance the possibility of its solutions being accepted. The first way is to present a more united front when expressing demands for negotiation and compromise, in order to reinforce the functionally defined interests of the accounting profession. Thus the two major accounting bodies, the CPAA and ICAA, should jointly present the demands of the profession. The second way is to centralise the internal structure of the accounting profession in order to increase consensus formation and member compliance. This may involve joint voting of members of both accounting bodies on important issues common to the profession. The third way is to modernise the interest group to increase its professionalism. This can be achieved by increasing the mandatory professional development hours to be completed by members of the accounting body over a given period. It can also involve raising the ethical requirements of members and increasing the penalties for non-compliance. The fourth way is to steer modernised interest groups to contribute to corporatist co-operation (Marin 1985, pp. 97-100). This can involve pro-active participation in decision-making by other constituents. Finally, the fifth way is to forge partnerships between private and public interest groups in the delivery of products and services (King 1985, p. 205).

In the last part of the twentieth century, the authoritative influence of the accounting profession has been challenged. In particular, the collapse of the HIH group in 2002 highlighted the counter-influence that can be exercised by capital, social and political constituents against the authoritative influence of the accounting profession. Important lessons can be gleaned from the events surrounding the HIH collapse that can assist in upholding and strengthening the authoritative influence of the profession. At the same time, these events have highlighted the need for the accounting profession to reduce inequalities that may result from accounting practices, strengthen functionally defined interests between the CPAA and ICAA in designing and implementing accounting practice, and negotiate compromises with interest groups.

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