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**ACCOUNTING REGULATION AS AN
INSTRUMENT OF PUBLIC ACCOUNTABILITY:
A CASE STUDY OF NEW ZEALAND**

A thesis presented in partial
fulfilment of the requirements
for the degree of

Doctor of Philosophy
in
Accountancy

at Massey University

Gregory Dean Tower

1991

ERRATA SHEET

P. 46 [Add sentence to the very bottom of the fifth paragraph]

"It is noted, however, that losses could not be sustained indefinitely by a corporation."

P. 111 [Add sentence directly after the second sentence to the third paragraph]

"The participation rates are similar, albeit slightly lower, to the experience in other Anglo-American countries (see for example Redding & Miller, 1986)."

P. 141 [Add sentence directly after the third sentence to the fourth paragraph]

"Certain preparers may argue that from a narrower perspective corporate reports (or their intended readability) are not intended for non-sophisticated stakeholders."

P. 152 [Add sentence directly after the first sentence to the second paragraph]

"One useful proposal could be the mandated use of required insurance cover which would give aggrieved parties the assurance of some compensation if their case is proven."

P. 154 [Add sentence to the very bottom of the first paragraph]

"The thrust of the study remains on the private sector (Section 1.4.2) with public sector initiatives discussed as an influencing agent upon accounting regulatory arrangements. Universities are examined merely to provide an example of the application of explicit accountability tenets upon a sector."

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ABSTRACT

This thesis highlights the importance and privileges of corporations with the obligation to provide information to society about their activities. The primary reporting vehicle is seen to be the annual report with accounting regulation viewed as a significant quality control device. It is postulated that New Zealand accounting self-regulation has failed in delivering the latter protection. By way of providing a background to the discussion the Anglo-American accounting regulatory systems are critiqued and found inadequate. Special concerns are noted with the accounting standard setting due process procedures and enforcement mechanisms. Linkage of the New Zealand accounting system to the Anglo-American cluster is shown through various international classification studies.

Financial accounting paradigms are analysed with a view to determining the end-purpose of corporate reporting. It is concluded that the accountability paradigm is most closely aligned with a broad societal view of accounting. A Public Accountability Model of Accounting Regulation is evolved. The Model is based on efficiency and equity criteria, and emphasises the responsibility of preparers to communicate adequate financial and non-financial information to stakeholders.

The New Zealand accounting regulatory structures are empirically examined as a case study, with the New Zealand Society of Accountants, domestic and overseas systems compared. It is shown that the NZSA, overseas bodies (especially the British and International Accounting Standards Committee), and preparers exert the most influence, with non-accountant stakeholders shown to have the least impact. The regulatory mechanism under the Model incorporates the profession's expertise, stakeholder representation, and the coercive power of the state.

New Zealand corporate reports are found to be: difficult to read, lacking sufficient disclosure data, and imparting very little non-financial information. It is shown that these inadequacies are due mainly to the absence of a capital market overseer, critical lack of stakeholder input, lack of explicit objectives and ineffective enforcement mechanisms. External crises such as the 1987 sharemarket crash, company failures and publicised lack of compliance/enforcement have generated abundant public pressure leading to several governmental reviews. These reviews are deemed incomplete and unlikely to meet societal expectations.

The research provides insights into accounting regulation and its relationship with corporate reporting in New Zealand. It is recommended that more effective regulation be introduced to ensure greater disclosure, recognition of stakeholder needs, and a higher level of non-financial data. It is argued that the proposed Model would help increase stakeholder confidence in corporate reports as it is designed to address the issues of the under-production of accounting information and information asymmetry.

To my wife **Julie**
for her encouragement, love and support

ACKNOWLEDGEMENTS

This study owes thanks to many people. My peers within the Division of Accountancy were of great assistance, with notable contributions offered by Linda Bauer, David Coy, Keith Dixon, Jack Dowds and Joanne Locke. I appreciated their comments, criticisms and support. My gratitude is extended to my Corporate Accounting teaching team, Pauline MacDonald, Heather Batley, Lin Mei Tan, Lisa Clark and John Cuthbertson for their willingness to help alleviate my teaching load, allowing me sufficient time for this research project. I would like to acknowledge the entire administrative staff, especially Justine Harding and Sharon Munro, for their cooperation in formatting and printing this thesis. I would also like to thank the Division's top management, especially Fin Hamilton, for their willingness to adjust schedules to maximise my research time.

Many outsiders provided great assistance to the project. Lindsay Trotman, Department of Business Law, provided noteworthy expertise in corporate and securities law reform and helped keep me abreast of the dynamic changes occurring in the New Zealand business environment. Professor Don Trow of Victoria University offered important aid through his willingness to explain historical developments in New Zealand accounting standard setting. Phil Shatkky and Jack Hodder of the New Zealand Law Commission were of great help by allowing me access to their archives and in their willingness to debate law reform issues from a different perspective. Lay Wee Ng of the Securities Commission also kept me well informed of the views and undercurrents of governmental activities. Special thanks are extended to the staff of the New Zealand Society of Accountants especially Kevin Simpkins, Technical Director and Dr Brenda Porter, former Director of Research for access to the Society's archives and their willingness to assist me in many facets of my research. I would also like to thank the Massey University Research Fund and New Zealand Ministry of Education for their financial support on parts of my research project.

I would like to acknowledge special recognition to Professor Mike Pratt. His guidance and encouragement for the first two years of my research project was very appreciated. Immeasurable gratitude is extended to my supervisors, Associate Professor Hector Perera and Dr Asheq Rahman. Their wisdom, expertise and humour were key contributors in enhancing this project. The supervision of this thesis was always focused, perceptive and timely. The support provided by these gentlemen will always be remembered, but can never be repaid.

I would also like to acknowledge the American and Australian sides of my family for their continuing support through the years. Many thanks to all our friends in Palmerston North, especially Janine and Mark Kenny, for their on-going support. Personal assistance in maintaining my sense of perspective was provided by my two young children, Jared and Jessica, who reminded me how to laugh and smell the flowers.

Last, but first in my heart is the need to express my appreciation to my wife, Dr Julie Plummer. Her willingness to raise two children virtually single-handed whilst maintaining her own important academic career allowed me the time to tackle and complete this project. Her wisdom, editing skills and laughter were always appreciated. The karma debt is high my love, it is our turn now.

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LIST OF ABBREVIATIONS

AAA	American Accounting Association
AASB	Australian Accounting Standards Board
AC	Auditing Committee (NZSA)
AcSC	Accounting Standards Committee (Canada)
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board (US, superseded)
ARSB	Accounting Research and Standards Board (NZSA)
ASAC	Accounting Standards Authority of Canada
ASB	Accounting Standards Board (UK; NZ, proposed)
ASC	Accounting Standards Committee (UK, superseded)
ASCPA	Australian Society of Certified Practicing Accountants
ASRB	Accounting Standards Review Board (AUS, superseded; NZ, proposed)
ASSC	Accounting Standards Steering Committee (UK, superseded)
CER	Closer Economic Relations (NZ:AUS)
CCA	Current Cost Accounting
CCGA	Canadian Certified General Accountants
CICA	Canadian Institute of Chartered Accountants
EC	European Community
FAC	Financial Accounting Committee (NZSA)
FAF	Financial Accounting Foundation (US)
FASB	Financial Accounting Standards Board (US)
FERF	Financial Executives' Research Foundation (US)
GAAP	Generally Accepted Accounting Practices
GAAT	General Agreement on Tariffs and Trade

GEISAR	Group of Experts on International Standards of Accounting and Reporting (UN)
GST	Goods and Services Tax (NZ)
IASC	International Accounting Standards Committee
ICAA	Institute of Chartered Accountants in Australia
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants in Scotland
IFAC	International Federation of Accountants
IOSCO	International Organization of Securities Commissions
IRD	Inland Revenue Department (NZ)
MNC	Multinational Corporations
NAFTA	New Zealand/Australia Free Trade Agreement (superseded)
NZLC	New Zealand Law Commission
NZSA	New Zealand Society of Accountants
NZSC	New Zealand Securities Commission (proposed)
NZSE	New Zealand Stock Exchange
OECD	Organisation for Economic Co-operation and Development
OSC	Ontario Securities Commission (CAN)
RC	Russell Committee (NZ)
SEC	Securities and Exchange Commission (US)
SC	Securities Commission (NZ)
SMA	Society of Management Accountants (CAN)
SOATTA	Statement of Accounting Theory and Theory Acceptance
SSAP	Statements of Standard Accounting Practice (NZ)
UN	United Nations

Unfortunately, the financial community's self regulation scenario developed into a mobocracy [sic] which was supported by uncontrolled creative accounting. Investor confidence will remain heavily 'chilled' while the establishment complicate and hinder progressive reforms, and cling to their own self style tribal witch doctoring.

Quote from disgruntled small New Zealand investors (Kincaid & Kincaid, 1988, p.1).