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ACCOUNTING IN CRISES OR RISES?

Abstract

The corporate failures have challenged the credibility of the accounting profession and various stakeholders in Australia have questioned the relevance of financial reporting for decision making. This paper examines the recent historical developments of the Australian accounting profession as a corporative association in a society and its ups and downs of authoritative influence in accounting standard setting and financial reporting describing HIH as a case illustration. It then outlines the submissions made by the accounting profession, actuaries, and regulatory institutions to the HIH Royal Commission in relation to the HIH Group failure. These submissions are analysed in relation to the profession promoting functionally defined interests, offering stable compromises, to the questioning of the legitimacy of techniques and the demand to overcome the inevitable inequalities. 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

Two major factors motivated analysing the present power structure of the accounting profession. First, recent corporate collapses in Australia have called into question the credibility of the profession. Second, is the recent government intervention in regulating the financial affairs of firms.

The object of this paper is to analyse the evolution of the potential of the accounting profession to influence the behaviour of the government and community, and to offer a few suggestions as to how the profession could regain some if it's recently eroded authority. The aim of this paper is to analyse the trends of power of the profession in relation to the society. The accounting profession in Australia has two elements of interest for this study. First, the Royal Commission appointed to investigate causes for the HIH Group collapse (considered as the largest corporate collapse in Australia) implies that a contributory cause of the collapse was an 'accounting' failure (Main 2003, p. 263). Second, Australia will be adopting International Financial Reporting Standards (IFRS) and its conceptual framework from 1 January 2005.

In this context the paper is arranged as follows. Section 2 outlines a theoretical framework suggesting that the accounting profession is part of the institutional framework that has the power to influence the society. In particular, it cites from the previous literature that the profession is a specialized institution called an 'association' in the society. Section 3 draws out from the debate of the HIH Group failure as laid out by the key institutions which has influenced the re-organising of the power of the accounting profession in relation to its society. In this context it reviews arguments presented by the Australian Accounting Standards Board (AASB), 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). Section 4 examines the recent history of the profession in the context of its ability to influence its society. This section also analyses the key features of the conceptual framework in accounting since it serves as a basis for setting new and revised accounting standards as they become the basis for the accounting profession to assert and extend its authority. In conclusion, the paper discusses the possible underlying causes for the present status of authority of the profession and offers suggestions as to how it can regain its lost position.

On 15 March 2001, The HIH Group was placed in provisional liquidation which is 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, the subsequent suspicions about the seriousness of corporate mismanagement lead the Commonwealth Government to appoint a Royal Commission. On 16 April 2003, the Royal Commission released their findings to the public (Department of the Parliamentary Library 2003).

The Royal Commission revealed several factors that contributed to the failure of the HIH group and these can be divided into business and accounting categories. The factors identified as business failures include: over-priced corporate acquisitions; corporate extravagance based on the misconception that ‘money’ was there in the business; the HIH Group (which had three authorised insurance arms) was operating below the minimum solvency requirements set by the prudential regulator, the

Australian Prudential Regulatory Authority, and the *Insurance Act 1973* (Clarke & Dean 2001, p. 97; IAA 2002).

The factors relating to accounting include: inadequate provision made for insurance claims; past claims on policies not being properly priced leading to under-estimation of present and future insurance premiums for a given industry class and claim category; the internal audit committee focusing too much on the 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, pp. 91-98; IAA 2002; Main 2003, pp. 262-269).

Although a combination of business and accounting factors contributed to the collapse of the HIH Group, Institute of Actuaries Australia (IAA) in their submission to the Royal Commission noted that the inadequate provision made for insurance claims was one of the reasons for the corporate failure (IAA 2002). This corporate collapse has revisited the question of the credibility of the accounting profession (CPA Australia 2002; Malley 2003, p. 1).

2. Theoretical framework

Streeck and Schmitter’s (1985, pp. 1-29) model of political economy theory argues that in industrialised developed nations the social order is determined by four types of institutional arrangements. According to their model, in addition to the community, market, and the state (or the bureaucracy), a fourth institution called an ‘association’ influences the social order.

A corporative association is more than a transient and expedient amalgam of the three orders which is capable of making a predictive autonomous contribution. Their package-dealing arrangements with limited interest groups reciprocally support each other to uphold the association principles to construct reality (Hines 1988). These modern interest associations tend to alienate themselves from the values of the communities they are supposed to represent and some believe that their associative action can lead to inefficient and sub-optimal resource allocation. These corporative associations tend to alienate themselves from the values of the communities they are supposed to represent and their actions can lead to inefficient and sub-optimal resource allocation (Streeck & Schmitter 1985, pp. 1-29).

The corporatism represents an attempt to understand such reciprocal relationships that have developed between the government and major organised interest groups. It is the process of negotiating policy between government agencies and interest groups that has arisen due to division of labour in the society. The policy agreements are implemented by collaborating with interest groups (Grant 1985a, pp. 3-5). These interest firms should be willing and have the ability to secure the compliance of their members to deliver support of their benefiting constituency (Chubb 1983, p. 26). These arrangements are lead by both groups, government and interest groups, in seeking out each other (Schmitter 1979, p. 27). This is because corporatist arrangements are an unintended outcome of different conflicts and policy crises where neither government nor the interest groups is capable of imposing its preferred solution upon the others (Grant 1985a, p. 7).

Schmitter (1985, pp. 35, 39) states the incapability to impose preferred solutions upon others arises due to four reasons. First, interest groups cannot attain the status of monopoly constituents, or form comprehensive hierarchies of sectors without some degree of official recognition or encouragement. Second, public officials should tacitly agree with or actively promote interest groups becoming regular, integral participants in making policies, or acquire direct responsibilities for policy implementation. Third, an affected group (interest groups or the government) may refuse to organise appropriately, or refuse to participate if they find the cost is too high for collaboration. Fourth, relatively autonomous groups within the government form these arrangements which are not due to relatively self-directed governments. The government officials on the one hand, are much less enthusiastic to share the power of decision making with interest groups, but on the other hand, are in less control of the leadership selection, and demand formation and continuation of the interest group to bring about desired adjustments.

Therefore, it is necessary to comprehend the relationships between economic, social, and political forces to understand the changing characteristics of corporative associations, and thereby the influence they have on different constituents interacting with them (Grant 1985a, pp. 3-5).

The accounting profession in Australia can be classified as a corporative association for the following three reasons. First, they are defined by their common purpose to defend and promote their functionally defined interests. The functionally defined interests are viewed as group norms of a collective actor, standing in coalition against the object of its demands. Group norms are specifications of behaviour which all group members expect of all group members (Emerson 1962, p. 33). They thrive on negotiating within a limited set of interest organisations that mutually recognise each other’s status and interests (Kirkham 1992). Second, they reach and implements relatively stable compromises to pursue their interests (Armstrong 1998). Their motives are largely determined by the needs of their operative organisational context and from which they receive resources (Chubb 1983, p. 26). The stable compromises are actions taken by the corporative associations to develop inter-organisational trust backed by devolved public authority (Schmitter 1985, p. 58). Third, the motives of members within the profession are less discernable since they have to surrender their opportunistically attractive possibilities in exchange for accepting to be bound by compromised, longer-term and more negotiated obligations (Streeck & Schmitter 1985, pp. 1-29).

According to Streeck and Schmitter (1985, pp. 1-29), proportional justice with limited interest groups leads to arbitrary standards, citizen unaccountability, and proportional inequality. At some stage, the proponents of the competing orders of the market, community and the government can question their actions, for legitimacy techniques developed in accounting owe more to patronage of their interest groups than any independent scholarly criteria (Hopper, Storey & Willmott 1987; Neu, Cooper & Everett 2001). Market forces then vote out these actions by an 'association'. Electoral competition or citizen interests also can dismantle rules of the association (Clegg & Dunkerley 1980, p. 5). They also can be dismantled by the government officials who are weary of excessive authority by simply outlawing them through the mechanisms of law or to attain the economic growth in a socially acceptable framework while structuring the inevitable incentives and inequalities (Hopwood 1983; Isaak 1991, p. 140).

3. The power re-organisation of the accounting profession during the debate of the HIH collapse

Miller, Hopper and Laughlin (1991) argue that one common feature that would appear by deploying history is to demonstrate the legitimacy of a particular body of professional knowledge, and its status as a neutralised body of techniques.

One of the most significant of the corporate failures in Australia was the HIH Group collapse. The Royal Commission which was appointed by the state to investigate this failure called upon several key institutions to submit their views. This paper outlines the views presented on financial reporting by the four institutional frameworks Australian Accounting Standards Board (AASB) as a corporative association; (Institute of Actuaries of Australia) IAA as a social constituent; Australian Prudential and Regulatory Authority (APRA) and Australian Securities and Investment Commission (ASIC) as political constituents; and Australian Stock Exchange (ASX) capital constituents. Their submission also highlights the intentions of the other constituents to re-organise the power of the accounting profession.

AASB as a corporative association

The response of the AASB on the HIH Group failure can be can be classified into two classes: stable compromises and, define and promote functionally defined interests; surrendering opportunistically attractive possibilities in exchange for accepting more negotiated obligations.

To arrive at a stable compromise with the government counterparts, AASB in their submissions to the Royal Commission argued that AASB could harmonise its reporting through accounting regulation with reporting requirements of bureacratic institutions (such as APRA) if it could contribute to minimizing the cost of reporting by firms, satisfy the needs of all stakeholders, and where reporting and regulatory principles can be harmonised (AASB 2002)

At the same time AASB was attempting to promote its functionally defined interests with other accounting bodies, argued that changing accounting standards fundamentally to harmonise with International Accounting Standards Board (IASB) is inappropriate since Australia has decided to accept and implement international accounting standards of the IASB by 2005 (Parker 1997; Policy Statement 4 2002) although some argue whether they are any better than existing standards (Cheney 2002). For example, AASB claimed that IASB may involve taking into account future premiums and claims to determine the fair value of liabilities given the fact that there would not be an active market price for such liabilities. The present direction of IASB is to determine that a fair value may involve discounted cash flow techniques. AASB argued that as suggested by APRA, the prudential risk margins should not be included in financial reporting insurance liabilities because they are an allocation of profits and in the nature of reserves. Instead, they should be presented in the equity section of the statement of financial position. AASB 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 recognising a margin of uncertainty as a liability. AASB further claimed that the substance of the contract should determine the motive behind the transaction. AASB 1001 paragraph 4.1.8 comments that it is necessary that the substance rather than the form of a transaction or other event be reported to satisfy relevance and reliability concepts. Where the expression 'pattern of the incidence of risk' may not suit some reinsurance contracts they should be recognised over the period of reinsurance (AASB 2002).

Institute of Actuaries in Australia as a social constituent

The Institute of Actuaries in Australia (IAA 2002) in their submission to the Royal Commission criticised the accounting profession questioning their legitimacy of techniques on three major counts: probability criterion of the conceptual framework (statement #4), concept of reliability of the conceptual framework (statement #3) and professional judgment accorded to accountants.

The probability criterion in the conceptual framework in accounting can mislead results when transactions are bundled together to determine the probability. The current accounting concepts are more deterministic (i.e. where variations due to random fluctuations have no place) than stochastic (i.e. understood subjected to uncertainty). In the deterministic approach in accounting what is recognised is included in the financial statements, and any unrecognised assets and liabilities are ignored in the calculation of equity. The conceptual framework of accounting (statement #3) discusses reliability in qualitative terms. Prudence and conservatism are discussed in it but they only become desirable characteristics if these terms are interpreted to get the best answer in the face of uncertainty. However, they become unacceptable if they are introduced and interpreted to reach a deliberate bias. IAA also argued that the professional judgement accorded to accountants can lead to an inaccurate valuation of accounting elements since the two parts of the transaction can be valued using different measurement methods. The absence of an active market on some accounting elements makes it difficult to assess them at market value.

APRA and ASIC as political constituents

APRA (2002) had the following criticisms on the accounting profession on their legitimacy of techniques. APIRA stated that it is important that consistent accounting principles apply worldwide without compromising what is right. The IASB proposal for Financial Instruments if adopted, is that accounting for all financial instruments will be based on implicit discounting on the basis of market value, rather than for just selected industries. It appears from their statement that their claim was consistent with the overall aim of the government in promoting IFRS.

ASIC in their submissions to the Royal Commission questioned the legitimacy of techniques and appealed to overcome inevitable inequalities created by the accounting profession (ASIC 2002).

ASIC questioned the legitimacy of accounting techniques practiced by the accounting profession. ASIC stated that complex and technical accounting rules are secondary, and primary objective of applying accounting standards must lead to accuracy.

To overcome inevitable inequalities, ASIC proposed to institute a low-cost, rapid and decisive mechanism to resolve disputes about the application of accounting standards gives rise to difficulties. ASIC claimed that they should be given the powers to quickly resolve any such disputes relating to non-compliance of accounting standards by firms. ASIC stated that inevitable inequalities results from actions of the accounting profession such as longstanding associations between audit firms and client firms by compromising integrity of the profession. It is necessary to prohibit audit firms providing both audit and consulting services to the client firms. According to ASIC the law should strengthen auditors' obligation to report non-compliance with legislation. It is difficult to detect non-compliance in the absence of qualified auditors' reports or other forms of whistleblowing. Audit standards should be given the force of the law in the same way as accounting standards. The law should be more explicit to require the board of directors to manage the relationship of the firm with auditors to hold directors liable. It should mandate 'whistleblowing' obligations for senior officers of firms and provide legislative protection to them. The law should also clarify the role and obligations of officers of firms such as Chief Financial Officer.

Australian Stock Exchange (ASX) as capital constituents

Submissions have been made by the Australian Stock Exchange (ASX) to smoothly operate the capital markets by making stable compromises with the accounting profession, and appealing to overcome inevitable inequalities created by the accounting profession (ASX 2002):

As a stable compromise with the accounting profession, ASX re-iterated that listed firms should follow accounting standards in presenting financial information.

With a view to overcome inevitable inequalities, the ASX proposed two measures. First, the ASX enhanced the current listing rule requirement in relation to audit committees and corporate governance reporting of firms comprising All Ordinaries Index (top 500). ASX requires that shareholders be given the opportunity to vote in relation to disposal and its subsequent radical transformation of the nature of their investment from firms seeking to divest itself of its main undertaking. Second, when firms need to disseminate material information the firm should not exclude analysts in a context seeking to minimise or eliminate opportunities for qualified analysts to ask relevant questions of the firm in relation to publicly available information.

4. Changes in the power potential during the recent history of the profession

The recent historical developments of the accounting profession in Australia point to a series of events which strengthened its authoritative position over a period of time, and another series of events which weakened its authoritative position over a period of time.

Rise in authority

Reinforce functionally defined interestsAs described by Birkett and Walker (1962)it can be construed that in the period between 1946 and late 1970s the accounting bodies in Australia reinforced their common purpose to defend and promote their functionally defined interests.

In 1942, a period where major corporate collapses were virtually absent in Australia, the Institute of Chartered Accountants in Australia (ICAA) in 1946 issued a series of five ‘recommendations on accounting principles’ based on recommendations issued by the Institute of Chartered Accountants in England and Wales. They were later incorporated into the *Victorian Companies Act 1938* when preparing the income statement and the balance sheet although these recommendations were largely ignored by the preparers of the financial statements (Heazlewood 2002).

The spectacular crashes of the early 1960s of firms declaring profits which have received an unqualified audit report in the year prior to their crash, raised concerns about the integrity of financial reporting (Birkett & Walker 1971; Chua & Sinclair 1994). In 1966, the threat of accounting standards being legislated saw the CPA Australia (CPAA) and ICAA to jointly form the Australian Accounting Research Foundation (AARF). Although initially each accounting body operated their own accounting principles committees, in 1973 they agreed to form one committee called Australian Accounting Standards Committee (AASC) under the auspices of AARF. The accounting standards board of the AARF became responsible for the preparation of accounting standards, and in the late 1970s accounting standards were given statutory support (Heazlewood 2002).

Fall in authority

The fall in authority can be identified by several forces: overcome inevitable inequalities resulting from applying techniques and offering stable compromises by the profession. These techniques and comprises are been questioned for their legitimacy.

Overcome inevitable inequalities

This rise in 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 NCSC (now ASIC) to overcome inevitable inequalities. It was an institution of a co-operative scheme between the Commonwealth and State governments. It must be noted that ASRB was not established by statute like AASB which is discussed later in this paper. Its roles and functions were shaped by the unpublished decisions of the Ministerial Council. It was established following proposals for greater government and community involvement in the development of accounting rules, and to enforce compliance with accounting standards by firms, to make accounting standards more suitable to the private sector (Chua & Sinclair 1994; Heazlewood 2002; Walker 1987). The preferred position to construct the ASRB board with a majority of accountants nominated by the profession was rejected, which gave rise to the possibility of recognising the standards developed by other bodies (Walker 1987). As Streek and Schmitter (1985) propose, this is a period where the government began to question the actions for legitimacy for the actions of the profession having exclusive power to set and shape accounting standards.

Since professional powers, professional prestige and financial rewards are legitimated by society, the possibility of the loss of this mystique poses a threat to the successful advancement or social reproduction of the profession (Hines 1989, p. 79).

Offer stable compromises

This decrease in authority of the accounting profession was countered to some extent in two ways offering stable compromises by the accounting profession. First, the accounting profession reluctantly agreed to ASRB ‘approving standards’ while the profession holding on to the copyrights of accounting standards (Walker 1987). Second, the accounting profession agreed to set up the Public Sector Accounting Standards Board (PSASB) under the AARF to extend the standard setting function to the public sector to ensure that the financial reporting and management with in the public sector was of a high standardized quality (Chua & Sinclair 1994). This lead to a temporary negotiated power between the ASRB controlled by the government and AARF controlled by the accounting profession working together to produce a common set of accounting standards for both the private and the public sectors (Heazlewood 2002). As Armstrong (1998) points out, at this stage the profession attempted to reach and implement a relatively stable compromise to pursue their interests (Armstrong 1998).

Question the legitimacy of the techniques

The Commonwealth government questioned the legitimacy of accounting techniques and their implementation by the accounting profession and the Corporations Law was amended by the Company Law Review Act 1998 which became operable from 1 July 1998. The amendment to the Corporations Law reduced the power of the accounting profession in four ways. First, it authorised the AASB (subsequent name of ASRB) to develop accounting standards. Second, it overrode the true and fair view of accounting standards by amending the Corporations Law allowing firms to deviate from compliance with accounting standards if directors explain the departure will lead to a true and fair view in their financial statements. Third, (through the first Corporate Law Simplification Act) it deviated from the accounting profession backed ‘reporting entity’ concept in classifying firms and defined them as ‘small’ and ‘large’ firms. This lead to the classification of firms under the purview of the Corporations Law for financial reporting purposes as disclosing firms, public firms, large proprietary firms, and small proprietary firms. Fourth, legal approach rather than by substance-over-form preferred by the accounting profession, determined the status of a firm (Heazlewood 2002). This could be identified as a stage where the government simply decided to curb excessive powers of the profession by outlawing them through the mechanism of law (Hopwood 1983; Isaak 1991, p. 140).

According to Puxty, Willmott, Cooper, and Lowe (1987) the accountancy profession is regulated by the following three principles. First, capital principles increasingly control, improve, and monitor employee and organisational performance. The capital market pressures have stimulated 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 goad of regulation. Second, the state principles such as legislation (for example, requiring preparation and publication of company accounts, a legal requirement) and regulation (for example, wages and prices) also increasingly shape the reproduction and formation of the accountancy profession (Hopwood 1983). Self-governance of the profession is subject to exercising the privilege of the profession in a way acceptable to the state. Third, community principles such as recognition of the role of the profession (for example, gentlemanly conduct, expertise, honesty, and public service) are based upon the ideals of the community.

Re-enforcing functionally defined interests

Puxty et al. (1987) argued that accounting regulation should be analysed within a nexus of ideal-typical principles of coordination and allocation: market forces (capital or economic), bureaucratic controls (state or political) and spontaneous solidarity (community or social). These principles can be better understood by comparing and contrasting them in relation to the sources of motivation and authority that lead to action and sources of tension and violation that result from that action.

These changes during the 1980s encouraged the accounting profession to present its financial reporting in a more consistent and logical framework. This is partly because the public views accounting as 'objective' since it deals with numbers, and they also viewed 'rules' and 'uniformity' as solutions to the subjectivity problems (Merino & Mayper 2002). Since the previously designed 'rules' in accounting have been manipulated by firms (Rogers & Menon 1985, pp. 547-548; Kohler 1991, p. 64; Knight & Beyer 1991, pp. 1-2) accounting profession has inclined towards designing a 'uniform' basis in financial reporting (Rowles, 1991, pp. 69-70) by initiating a conceptual framework. According to Hines (1989), it is a strategic manoeuver to provide legitimacy to the accountancy profession during periods of competition or threatened government intervention. This could be construed as another attempt by the profession to defend and promote their functionally defined interests.

The American Accounting Association Committee on 'Concepts and Standards for External Reporting' issued their report in 1977 'Statement on accounting theory and theory acceptance' which recognised a three-part structure in constructing a conceptual framework: (i) classical (normative, deductive-inductive) giving consideration to preparers of information; (ii) user-oriented based on decision usefulness (decision model-decision maker); and (iii) information economics to reflect economic reality (Macve 1999, p. 607). This first fully developed conceptual framework influenced attempts to develop conceptual frameworks in countries such as Australia (Sundgaard 1999). According to Gore (1992, p. 135) this was a concern because the American conceptual framework is a flawed work developed through a compromised process.

The conceptual framework of accounting was questioned for its normative, deductive approach to uphold its operational credibility (Booth 2003; Dean 2003; Loftus 2003; Walker 2003. Although the conceptual framework is easier to define, securing ‘truth and fairness’ in financial reporting is as difficult as securing a system of justice for all (Sundgaard 1999). Some other authors argued that its acceptance would imply origin of profit is capital rather than unpaid productive labour which provided an unquestioned basis to theorise accounting which was consistent with the institutional dynamics to sustain the accounting conceptual framework (Bryer 1999a; Bryer 1999b; Robson 1999, p. 627; Whittington 1999). Samuelson (1999) states that the conceptual framework defines the asset based on prospective cash inflows but instead the author argues that the utility of an asset in production or exchange should define its value.

The framework was structured as an inter-related set of propositions and observations that provide a logical foundation for deducting what accounting principles ought to be (ASRB/AARF 1990, pp. 1-6). These principles ought to be empirically tested before their introduction to ascertain that they result in greater accuracy in financial reporting (Walker 2003). Divided opinions about ‘true and fair view’ also made proponents of the conceptual framework to assert that the application of the qualitative characteristics of the framework and accounting standards will lead to a ‘true and fair view’ (Cairns 2001). Laughlin and Puxty (1983, p. 476) suggest that there is a need for a richer and fuller conceptual framework than that which is presently suggested.

The conceptual framework in accounting includes a probability criterion as ‘more likely than less likely’ which empowers the accountants to make a professional judgement on the likelihood of an event or transaction that could take place (AASB

2001; Hines 1989). The AASB argues that a rules-based standards setting where quantitative limits are established is widely criticised as firms can manipulate these standards to achieve a desired outcome (AASB 2002).

Cairns (2001) points out that the conceptual framework is also least satisfactory in measurement and capital maintenance. It also eliminates the possibility of recognising provisions which may adversely affect solvency and capital maintenance. The new and revised accounting standards point to that wherever there is a reference to an active market the accounting standards setters have mandated using the net market value as a basis for measurement. Where there is no active market, it has either mandated the historical cost or the net present value. The historical cost, although a reliable measurement, might not provide relevant information (Lashinsky 1999).

5. Conclusion

The above analysis is summarised in Table 1: Forces shaping the power restructure of the profession. It appears that social and political constituents questioned the legitimacy of the techniques used by the accounting profession in financial reporting. The accounting profession opposes this force by offering stable compromises for its continued existence. The capital constituents support the legitimacy of the techniques used by the accounting profession. The political and capital constituents subscribe to re-structuring the inevitable inequalities resulting from the technical application of financial reporting. Although the capital constituents support functionally re-structuring inequalities, they also support the accounting profession to continue with defined interests.

Table 1: Forces shaping the power restructure of the profession during the debate of the HIH collapse

Forces\Constituents	Social	Capital	Political	Corporative Association
Question legitimacy	X		X	
Offer stable compromises		X		X
Overcome inevitable inequalities		X	X	
Reinforce functionally defined interests				X

The Commissioner of the Royal Commission made a heavily emphasized on AASB 1023 standard which deals with general insurance. The Commissioner noted that as it stood at the time of the HIH collapse, the accounting standard did not carry a definition of ‘material transfer of risk’. The ‘material transfer of risk’ is necessary to accurately classify whether the insurance policy is reinsurance or one of more rapacious and illusory forms of financial insurance. Further, of sixty-one recommendations put forward by the Commissioner post-HIH collapse, twenty-three of them related to improving APRA’s ability to more effectively carry out their responsibilities. These recommendations may have contributed to shifting of the power paradigm towards the government (Main 2003, p. 265).

The past and the recent history of the accounting profession demonstrate that neither the accounting profession nor the other constituents are incapable of imposing their preferred solution. Overcoming of inevitable inequalities and questioning the legitimacy of the accounting techniques could be necessary to restore confidence in capital providers. This is because in a globalised economy the capital providers can move their capital to locations in the world where it provides the highest return (Castells 1989).

On the other hand, as stated by Schmitter (1985, pp. 35, 39), the accounting profession requires the official recognition or encouragement of the other constituents to form a monopoly or a comprehensive hierarchy. The government also promotes the accounting profession to make and implement policies. The government officials are less in control of their leadership selection and demand the accounting profession bring their desired adjustments.

Although no one interest group can impose a preferred solution, past case studies indicate five ways as to how an interest group can enhance the capability of imposing a preferred solution. First, is to express all demands through only a few voices for negotiation and compromise to strengthen the functionally defined interests of the accountancy profession. In this instance, the two major accountancy bodies, CPAA and ICAA should get together when expressing the demands of the profession. Second, is to centralise the internal structure of the accountancy profession to increase consensus formation and member compliance. Third, is to modernise the interest group to increase its professionalism. This may involve from refining the conceptual framework to increasing the mandatory continuing professional development hours to be completed by a member of the accountancy body for a given period. This also can involve uplifting the ethical requirements of the members and penalties imposed for non-compliance Fourth, is to create 'modern' interest groups to play their role in corporatist co-operation (Marin 1985, pp. 97-100). This may involve pro-active participation in influencing decision-making by other constituents. Fifth, is public corporatists go into competition with private corporatists to mediate between the government and key social interests (Grant 1985b, pp. 177-178) or forge partnerships between private and public interest groups in the delivery of products and services (King 1985, p. 205).

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