Do accountants want full disclosures in corporate financial statements?

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In August 2002, in the aftermath of the corporate failures in the US (e.g., Enron and WorldCom) the New Zealand Institute of Chartered Accountants (NZICA formerly ICANZ) released a discussion document on 'corporate transparency', thereby signaling the importance of full disclosure to the accounting community (ICANZ, 2002). Full disclosure means the disclosure of all potentially material information even when there are no legal or accounting requirements to do so. This is necessary to achieve greater transparency of corporate financial statements. Simply meeting the minimum disclosure requirements of standards may be legally sufficient but may not achieve NZICA's preferred goal of greater corporate transparency. Though it is the corporate management that has control over the level of transparency in corporate financial statements, accounting practitioners are called to express their opinion on these statements, and hence, they too have a major influence on the matter. A move towards achieving greater corporate transparency therefore raises an important question. Do accountants want to see greater disclosures in corporate financial statements?

Data collection

The participants of the study were accounting practitioners whose interests included financial accounting and/or auditing. They were asked to indicate one of the two disclosure policies (minimum disclosure or full disclosure) they thought companies ought to follow. Participants were also requested to make disclosure decisions relating to several disclosure scenarios. Each disclosure scenario required participants to decide (a) whether they recommend the disclosure or not and (b) if they recommend the disclosure, then the level of detail to be disclosed by indicating a number selected from a scale of 1(very low) to 7 (very high). Moreover, both voluntary disclosure scenarios were given equal importance by not specifying the dollar amount associated with either of these scenarios.

Three hundred names of practitioners were randomly selected from the NZICA members' list and participants responded to the survey under the assurance of guaranteed anonymity. The response rate was 12.7%. This suggests that a caution should be exercised in interpreting the results. However, in mail surveys 10% to 50% response rate is considered common (Neuman, 2000, p. 268).

RESULTS AND DISCUSSION

The results are summarized in Table 1 below. The participants' responses were measured using a scale of 1 (very low) to 7 (very high). The results show that sixty percent of the respondents indicate that companies should adopt a policy of full information disclosure, while forty percent indicate companies should follow a minimum disclosure policy (see Table 1).

Table 1: Participants' responses to disclosure questions

Question	Response					
1. When asked to recommend a disclosure policy companies must follow	**Minimum disclosure (15 participants = 40%)**			**Full disclosure (23 participants =60%)**		
	Low	Medium	High	Low	Medium	High
Panel A: **2. When asked to recommend a level of detail for:**						
(a) Company voluntary disclosure	33%	67%	-	-	57%	43%
(b) Environmental cost disclosure	80%	20%	-	23%	27%	50%
(c) Human resource cost disclosure	100%	-	-	55%	18%	27%
Panel B: **3. When making disclosure decisions participants**:						
(a) Feel accountable to external users	-	33%	67%	-	24%	76%
(b) Consider interests of external users as	6%	67%	27%	-	48%	52%
(c) Consider the importance of true & fair view as	-	47%	53%	-	14%	86%

Note: The differences of responses between the two groups (who prefer minimum and full disclosure) are statistically significant except in the case of participants' response to the question 3 (a) (i.e., feeling accountable to external users).

Furthermore, participants who are in favour of full disclosure tend to recommend significantly more details for voluntary corporate disclosures than do their counterparts who indicate a preference towards minimum disclosure (see Table 1: Panel A). Therefore, when accounting rules are less specific, participants' preference towards greater disclosure becomes important for them to recommend more detailed disclosure.

The results also reveal that, when making decisions, those participants who are in favour of greater disclosure seem to consider the interests of external users and the importance of true and fair view more than the participants who are in favour of minimum disclosure (Table 1: Panel B). These responses may indicate that the participants who subscribe to a full disclosure policy are willing to consider the disclosure using much broader criteria than the specific provisions contained in the respective individual standards.

CONCLUSION

Currently, there are serious disagreements between stakeholders and company management over the adequacy of disclosures made in financial statements. These disagreements suggest that stricter compliance with accounting standards alone may not provide sufficient justifications for the adequacy of company disclosure. This is especially relevant in New Zealand where financial statements of a company must not only comply with accounting standards but also represent a true and fair view. However, the results of this survey show that there is still a widespread belief among accountants that companies must disclose only the legally required minimum information. This disclosure belief among accounting practitioners may imply that, additional disclosures, which may be essential for promoting corporate transparency, are possible only through regulation.

References

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