

**MISUNDERSTANDING OF ROLE AND POSITION OF
ACCOUNTING STANDARD SETTING AUTHORITIES TO
REDUCE INFORMATION ASYMMETRY:
EMPIRICAL EVIDENCE OF IRAN**

Ph.D. **Hamidreza VAKILIFARD**
Islamic Azad University (IAU)
Tehran, Iran

Ph.D. **Hashem NIKOOMARAM**
Islamic Azad University (IAU)
Tehran, Iran

Ph.D. student **Vahab ROSTAMI**
Islamic Azad University (IAU)
Tehran, Iran

Ph.D. **Mahdi SALEHI**
Ferdowsi University of Mashhad
Iran

Ph.D. **Daniela MITRAN**
“Athenaeum” University Bucharest

Abstract:

Purpose - Critical role of accounting and financial reporting is providing useful information for different and entitled users to help them in making economical decisions. While repeatedly it is stressed that the quality of financial information is a function of both the quality of accounting standards and the regulatory enforcement, it is vital that standard setting authorities bodies to have independence and suitable enforcement power to guarantee their issued standards implementation with accountants in preparing and releasing accounting information, where their enacting mechanisms differ significantly across countries, even being non-existent in some countries. This study seeks with aid of Abdolmohammadi's enforcement powers classification of standards (2002) including: Reward, Legitimate, Referent, Expert and Coercive Powers, determine from perspective of respondents and current condition of accounting profession, which powers are dominant, besides it also tends to evaluate past performance of Iranian accounting regulatory.

Design/methodology/approach - in order to test two main hypotheses of the study, a suitable questionnaire was used with some questions about current condition of enforcement ways of accounting standards in Iran. 281 questionnaires distributed among accounting related financial society members including: accountants, auditors, bank specialists, and accounting students as agents of financial society. After assuring of its validity and reliability, collected data tested by Kruskal-Wallis, Friedman, and T-test statistical methods.

Findings - The results showed that among various enforcement accounting standards powers respondents believe coercive power is more apparent and main motivation for providing accounting formal reports in accordance to GAAP come

from managers' concern of blocking their companies stock dealing by Tehran Stock Exchange organization, besides they accept standard setting professional abilities. Also respondents believe that Iran's Audit organization in standard setting process has had behaved unfairly and didn't pay attention to regulate accounting of governmental and Not-For-Profits parts as equal as large private corporation accounting.

Research limitation/implication - A key technical result is that the five original powers of enforcement accounting standards don't have equal weight and influence on current accounting environment of Iran and to enhance disclosure quality and reduce information asymmetry, some work must be done to more highlight powers with positive and professional perspective.

Practical implications - The paper will be of interest to standards setting authority bodies' when regulating accounting information releasing process to achieve high level of market efficiency and also to academics' investigating the reliability and value of current standard setting condition.

Originality value - The paper reports an original application of accounting standard enforcement origins as a determinant level of dominance financial wisdom in financial society of Iran.

Keywords: Accounting standard, enforcement powers, Information asymmetry, financial wisdom, and fairness in standard setting.

Paper type Research paper

1. Introduction

In order to improve the financial reporting quality and providing useful information to investors and other entitled information users, all countries in worldwide, provide necessary regulation and had established professional authorities bodies which over time changed their structure and duties because of the environmental change. For long time in United States, Committee on Accounting Procedure (CAP), Accounting Principles Board (APB) and Financial Accounting Standards Board (FASB), respectively handled the accounting standard setting Steerage. Operation of forgoing bodies resulted in the increases of transparency same as reduction of information asymmetry level which in the end by enhancing market efficiency leads to optimal resource allocation. In the same way other countries take steps towards more regulation of financial information releasing process in their new organized capital markets and similar institutions was formed there. It seems in most of these countries as long as capital market enlargement and improvement financial reporting, the level of the public financial wisdom was also increased and they have sophisticated and correct perceptible about vital role and duties of accounting regulatory authorities and standard setting bodies such as FASB, Governmental Accounting Standards Board (GASB) and

International Accounting Standards Board (IASB). In the other hand, in these countries, entities are willing to be in compliance with GAAP voluntary because they believe and accept that these institutions have sufficient expertise members and also public Consent to their operation and being in compliance with GAAP leads to maximizing social wealth and welfare. However these organizations have legal support for their issued rules and standards. In united states, for instance, FASB has coercive and legitimate powers for enforcement of it's issued standards and the Securities and Exchange Commission (SEC) dictated to all corporations which their stocks are dealing in capital markets, that they must provide financial statements in accordance with FASB' standards (legitimate power) and those companies that have main departure and disagreement from this GAAP upon their auditors reports, SEC will prohibit and prevent of those companies' stock deals in market and their accounting documents also wasn't used and accepted in calculating and determining income tax amount (coercive power). However there is also evidence that shows market has reacted to creative reports and stock price of such corporations will decrease (reward power of market).

Moreover, because of the especial condition of the governmental entities and their accounting, their standard setting, needs necessary attention. By considering their importance in society, after more challenge finally the duties of providing necessary rules for these economic parties are taken up from FASB and shifted to new organized authorities body namely GASB which issued some special rules for Not-For-Profit and governmental organizations of United States so far, which lead to improvement of the financial reporting quality in this area.

2. Research problem

Because of the vast consequences of accounting information releasing, especially from the economic perspective and also with attention to its wide affect on many parties, it is vertical that related authorities bodies have sufficient independence in standard setting and its implementation process. Also to assure that their rules have sufficient authority, it needs to be given suitable enforcement power for these professional bodies to guarantee their standards implementation in practice. The nature and degree same as ways of enacting of these regulation and enforcement powers differ significantly among countries. In some countries accounting standard setting duty is basically handled with governmental parties. So it seems that these organizations have sufficient power for enforcement of their standards, while in those countries that accounting standard setting duties are given up to private bodies, it needs heavy legal support for it's successful activation. However beyond the variation in standard setting mechanism, Abdolmohammadi (2002) classified enforcement powers of standards upon their force origin and nature in five categories below:

1. Reward Power: it is supposed that capital markets have sufficient ability to react to misleading implementation of GAAP by companies, and those companies that have had major departure from GAAP in providing accounting information, their stock prices get declined because of the market sophistication.

2. Legitimate Power: in those countries which standard setting duties are given up to private bodies, to guarantee their standards convenient implementation, sufficient enforcement legal power has been given them. For instance in united States, SEC surrendered this task to FASB which is basically a private institution, but SEC has obligated to support its standard practical implementation.

3. Referent Power: because of the election of the members of the standard setting by business society, they accept to behave in accordance on issued standard with this board. So this refers to another power of standard setting bodies for enforcement of their rules.

4. Expert power: in sophisticated societies and those countries with high level of the financial wisdom, members of the standard setting bodies are elected upon their professional same as experience merit and after that because of the professional abilities of these bodies, their issued standards very soon get common and accepted by public.

5. Coercive Power: for more guarantees to correct implementation of issued standards and to avoid any main devolution from GAAP, in most countries all over the world rigid law and serious penalty was issued for those companies which aren't in accordance with GAAP. For instance in United States, SEC would prevent stock dealing of those companies which haven't provided their financial statements in accordance with GAAP.

Although all of forgoing powers are arranged in all countries, but the implemental abilities and importance of the forgoing five powers differs among various countries upon their environmental and social same as their political differences. In other hand, in those countries which supposed that have high level of the public financial wisdom, enforcement of the accounting standard because of public acceptance of positive role of these standard setting bodies to wide spreading transparency and reducing information asymmetry which in the end leads welfare enhancement of society, comes mainly from Expert, Referent and Reward Powers while enacting on Legitimate and Coercive Powers are not as important as forging three powers.

In this study we seek to find out whether the level of the public financial wisdom is fairly sufficient so contributors in our financial activities have similar viewpoint about role of the Iran's Audit Organization as a unique accounting standard setting body in Iran. Hence, first question of the research is presented in this area below:

1. Is the level of our public financial wisdom sufficient so that financial society's members believe that main powers for enforcement accounting standards comparing to their Legitimate and Coercive Powers, come from public acceptance of their Expert, Referent and Reward Powers?

To enrich the study and fully cover the subject we continued the research by evaluation of past performance of the Audit Organization of Iran upon public satisfaction of its past operation around fairly attention to regulation of accounting activities of all affected parties which this organization have accepted it's duties.

By considering that in contrary to other countries, Iran's Audit Organization as a unique standard setting body in our country, handles the task of the accounting standard setting for both of the private and governmental parts and has accepted it's responsibility. However it seems because of the influences of the main groups on its activities this organization haven't had operated equally and in the fairness manner beyond the both forgoing parts' needs and at least around the regulation of governmental parts financial reporting, haven't had done considerable effort so far, while un-similar to industrial countries more than half of the economic activities in our country are done by governmental and Not-For-profit organization. Moreover even between the companies, Iranian domestic accounting standards are willing to meet needs of large corporation which listed in Tehran Stock Exchange Organization while there are other entities except corporation that didn't give their needs weight. Thus another question of research is presented below:

2. Do the members of our financial society believe that Iran's Audit Organization's past performance around providing accounting rules and standards for both private and governmental parties have been in fairness manner and it have behaved in justice?

3. Objectives of the study

The aim of the present study is determining the level and scope of the financial wisdom dominance and permanent in our financial society upon their members' perception of the vital role and position of the accounting standard setting bodies to wide spread transparency and reducing information asymmetry. In other hand, in those condition which there is sufficient public financial wisdom, members' perceptive of the role and position of accounting regulation authorities' bodies comes from positive view and they accept the standard and implemented them in financial statements providing because they believe these standards are arranged by sophisticated professional bodies which have adequate Expert, Referent and Reward Power not necessarily from negative view of worries of legitimate and coercive Power of this organization that may take penalty for them. However there are evidences that show this last perception is dominant, it may reflect that the public financial wisdom isn't in high level in our society. Moreover, we tend to recognize and document the overall satisfaction of the past performance

of Iran's Audit Organization from the perspective of equal accomplish with both private and governmental accounting activities regulation. In summary, while the final goal of the current research is providing condition to understanding of the positive role of the accounting standard setting boards in improvement of the financial reporting quality and achieve to higher level of the capital market efficiency, the applied objective of this study is also to highlight the various parts' needs to standard setting bodies which need more attention in this era.

4. Importance and necessity of the study

While In recent years, the Iran economy has undergone a number of reforms, resulting in a more market-oriented economy and particularly the Government of Iran has taken steps towards liberalization of the economy, but it must be noted that more than half of economic recourses are still controlled by non-private entities and main part of the economic activities in our country were also done by those entities. However by considering the structure of the ownership of these entities which are public and don't have direct entitled users and demand for their financial information similar to owners and stockholders of the private companies, they don't have sufficient ability to influence the standard setting activities and require them for improvement of the quality of the their accounting and reporting standard, while there is a huge demand for improvement of the management's performance efficiency in this area. It is expected by regulating the accounting activities of this area, because of the increases of transparency in the society, besides the increasing the level of the management's responsibility, operational efficiency of these entities can be improved. Although Iran's Audit Organization has direct responsibility for providing and issuing the suitable accounting standards for this area which is extremely un-harmonized and inconsistent, but it hadn't have done considerable effort to achieve this goal yet. So each research which is done in this area for highlighting its problems must be supported and this study also tends to be done around these subjects. While the academic literature is intended foremost to inform the academic community, findings in the academic literature can certainly be relevant to regulators as well.

5. Theoretical issues

In the 1970 decade three researchers, Michael Spence, George Akerlof and Joseph Stiglitz (2000a) created a theory about the information economic area that later was known as information asymmetry theory. Upon this theory Akerlof (2002) considers a market condition in which sellers have more information about traded commodity than buyers. Certainly in this position, prices aren't reflecting it's fair and intrinsic value and depending on informative awareness difference level are higher or lower than its' fair values. Similarly in those capital markets which information distributed unequally, sellers willing to sale their stocks and securities

in high price, while in the other side, buyers because of inability to access to sufficient information for evaluation of those stocks and presence uncertainty about those securities, suggest low price to acquire those stocks. In financial literature, the abnormal Bid-Ask spread are proposed as position of dominance information asymmetry between buyers and sellers of securities and also the level of this spreading are reflecting the level of information asymmetry among dealers. However, it is known that the higher the information distributing unequally and with aid of informal ways such as inside trading, the higher the level of information asymmetry and the Bid-Ask spread prices. This topic is shown in the below equation:

$$\text{SPREAD} = \frac{\text{AP} - \text{BP}}{\frac{(\text{AP} + \text{BP})}{2}} \times 100 \quad (1-1)$$

Which in that:

Spread= the level of difference between ask and bid prices

AP= Ask Price

BP= Bid Price

5-1. Role of accounting information to decrease the level of information asymmetry

In order to protect investors' rights and strengthen capital market, formerly, United States got steps to regulate financial reporting environment by issuing Truth-in-securities act in 1933 and establishing the SEC in the 1934. In the 1957 APB as an important standard setting body was replaced to CAP and issued the prime principles of accounting formally. From it's begining, APB was willing to provide conceptual postulates for its decisions and it must work in standards and concepts simultaneously so to be able to provide meaningful basic concepts for standards. The motive of FASB, which replaced to APB In the 1973, from preparing conceptual framework, could be seen in engaged problems that its pervious candidate, APB experienced. However, besides formation and establishing the various accounting standard setting and regulatory authority's bodies in worldwide, it also is considered that these organizations should have sufficient powers and ability to enact their issued rules for achieving the accounting main objective. The subject of enforcement of accounting standards has attracted increased attention in recent years and also enforcement mechanisms continues to differ significantly across countries, even being non-existent in some countries (Fee, 1999). Many scholars argue that the extents to which standards are enforced and violations prosecuted are as important as the standards themselves (e.g., Sunder 1997, p. 167). In particular, the quality of financial information is a function of both the quality of accounting standards and the regulatory enforcement or corporate application of the standards (Kothari 2000, P. 92). Absent adequate enforcement, even the best accounting standards will be inconsequential. If nobody takes action when rules are breached, the rules remain requirements only on paper.

In some environments, for example, firms behave towards mandatory requirements as if they were voluntary (Marston and Shrides 1996). To illustrate, even though accounting policy disclosures are required in most countries as well as by International Accounting Standards (IAS 1), (e.g., Saudagaran and Diga 1997), Frost and Ramin (1997) document considerable variation in accounting policy disclosures within and across countries.

6. Review of related literature

While academics and practitioners agree on the importance of enforcement as an essential element of the financial reporting infrastructure, in comparison with huge amount of researches which were done in various accounting and financial reporting areas, there has been little, if any, research on enforcement in an international setting traceable. One potential explanation for this is that it is not easy to measure enforcement across countries. It is necessary also firstly to determine how to operationalize enforcement. Using a sample from 22 countries Hope and Rotman (2002) investigated the relations between EPS forecast accuracy and the degree of enforcement of accounting standards. They constructed a comprehensive measure of enforcement of five country-level factors including: audit spending; insider trading laws; judicial efficiency; rule of law; and shareholder protection law and find that strong enforcement is associated with higher EPS forecast accuracy. This finding is consistent with the hypothesis that enforcement encourages managers to follow prescribed accounting rules, which, in turn, reduces analysts' uncertainty about future earnings. They also find evidence consistent with enforcement being more important when more choice among accounting methods is allowed. Cohen et al. (2004) examine whether financial reporting appears to have improved post-Sarbanes–Oxley. The authors have studied earnings management and relative earnings informativeness in two time-period regimes that they call the “pre-Sox” period (1987 through the second quarter of 2002) and the “post-Sox” period (the third quarter of 2002 through the end of 2003). The “pre-Sox” period is then further divided into two periods: the “pre-scandal” period (1987 through the time of the Enron collapse) and the “scandal” period (the time of the Enron collapse through the passage of Sarbanes–Oxley). The authors find evidence of increasing earnings management throughout the “pre-scandal” and “scandal” time periods, with the increases found primarily in poorly performing industries. The authors further find that the earnings management is positively associated with compensation derived from bonus and option compensation. Following the passage of Sarbanes–Oxley, they find that the trend of increasing earnings management reversed abruptly. This evidence suggests that Sarbanes–Oxley and heightened regulatory scrutiny has had a rigid impact. The

authors also have examined whether Sarbanes–Oxley reforms led to more informative earnings announcements. After controlling the reduced earnings management, the authors did not find evidence suggesting that earnings announcements were more informative. Insider trading laws may deter managers from manipulating earnings to profit from trading in the firm's stock. Beneish and Vargus (2000) provide evidence that insider trading is related to earnings management. Bhattacharya and Daouk (2002) document that insider trading laws exist in 87 of the 103 countries in their sample, but enforcement (i.e. prosecutions) occurs in only 38 cases. Finally, Hung (2000) and Ball (2001) argue that strong shareholder protection should attenuate management opportunism in financial reporting. Managers in weak shareholder protection environments are more likely than managers in strong shareholder protection environments to manipulate earnings. For example, mechanisms by which shareholders might sue directors for losses incurred due to manipulated financial reports are more plentiful in the U.S. than in Germany (Hung 2000; La Porta et al. 1998). Hence, the higher anticipated cost to managers of engaging in manipulation in the U.S. might be expected to deter such behavior. Rezaee (2004) argues that conformity with existing regulations as well as recent reforms may not be sufficient to restore investor confidence. The author provides a supply chain paradigm with interrelated controls to make the reporting process more effective. Some best practices are also provided. Falkman and Tagesson (2004) also by using the lens of agency theory as well as institutional theory, and collecting data through a survey, documentary study and interviews, explored and explained the impact of the legislation and standard setting in the Swedish municipal sector. The overall results of their research showed that the reform has had a very limited impact on accounting practice and the compliance with accounting standards and legislation is in general poor. The study also shows that there are differences among the preparers. The supposition, suggested by institutional theory, that large municipalities should produce better accounting information more in line with generally accepted accounting principles, than the municipalities in general, could not be rejected. However it must be noted that the accounting profession is standing at the crossroads. The corporate world recently closed two decades of unprecedented greed and corruption. As accountants, we presently find ourselves with an overly complex rules-based, mixed-attribute accounting model, the future of which could reside in the public sector. We will be faced with numerous unresolved problems as we attempt to handle them. Some countries upon their environmental differences prefer to handle standard setting topic in public sector not necessarily in private sector or prefer principle-based comparing to rule-based standards. Wustemann and Kierzkw (2007) studied a central methodical and practical problem in three accounting regimes

including U. S. GAAP, IFRS and German GAAP which all of them pursue internal consistency. They investigated how management shall develop and apply accounting policies when specific guidance relating to particular transactions and events does not exist. With regard to the so-called filling of gaps, they showed that in an internally consistent regime management is required to choose and apply consistent accounting policies to comparable accounting issues in the absence of specific guidance. According to their analysis, the present IFRS regime fails to ensure this because IFRS dealing with comparable issues are partly inconsistent. They also documented that the complete elimination of rules and the reliance on principles only – as requested by many in accounting theory – is not an adequate solution since broad principles do not provide a sufficient structure to frame management's judgment in the choice of accounting policies. They propose that accounting regimes should consist of principles as well as of rules and that the rules shall be consistently derived from high-level principles. Due to the required consistency between standards addressing comparable issues, management's discretion in the choice of adequate accounting policies would be, from a normative perspective, ideally limited to one acceptable accounting treatment. In the other hand, while some disuse that adoption International Accounting Standards (IAS) by developing countries has the advantage of avoiding the high cost of setting up national standards, effectively using technical skills of other nations, but the result of the Chand's studies about the relevance of the implementation of International Financial Reporting Standards (IFRSs) in Fiji, by identifying the specific needs for accounting information in the domestic economy showed that the needs and the nature of the social and economic systems of developed countries that are behind the formulation of the IFRSs are significantly different from those in developing countries especially Fiji. Since IFRSs are demonstrably designed primarily to suit the needs of developed countries and the relevance of implementation of IFRSs to emerging economies is in serious doubt (Chand 2005). Green and Reinstein (2004) examine whether increased regulation and public scrutiny in the banking industry changed the frequency and/or nature of observed bank frauds. They examine specific characteristics of enforcement actions against financial service organizations between for violations committee between 1982 and 2000. They find that the frequency of frauds did not change significantly across time. However, as regulatory oversight and public scrutiny increased, the frauds became increasingly likely to involve the withholding of information rather than creating fictitious information. The authors interpret their findings as suggesting that regulation and scrutiny can affect fraud strategies as much or more than fraud frequency. Tornqvist and Lumsden (2001) made a ranking of persons based on the number of years that the persons have held positions in standard-

setting bodies in Sweden during a period of ten years. This study shows that there are many persons who have held a position. However, there is a small group of persons who have held a position during many years and also in more than one body. Thus, they have had the opportunity to exercise larger influence than others. As these persons belong to various interest groups it becomes interesting to discuss potential effects for these groups. Furthermore, a comparison is made between the standard-setting bodies focusing the criteria used when selecting the members of the actual standard-setting units. This study shows the importance of considering political aspects when studying accounting standard-setting in Sweden. Historically, regulators have considered primarily the reliability of relevant information in deciding whether recognition or disclosure should be mandated.

The SEC implemented Regulation Fair Disclosure in October 2000. This regulation prohibits firms from disclosing value relevant information to select capital market participants without simultaneously disclosing the same information publicly. Some were concerned that Regulation Fair Disclosure would cause a decrease in the quality and quantity of information about firms because managers: (1) would not want to divulge too much information broadly and risk that competitors would exploit the information and (2) would not want to risk legal liability from inappropriate disclosure. Studies published in the academic literature have provided some information about this issue. Heflin et al. (2003) examine whether information flow to the capital markets before earnings announcements is reduced after Regulation Fair Disclosure was implemented. The authors measure what they term the information gap for announcements before and after Regulation is implemented. The information gap is the difference between the pre- and post-earnings announcement stock price after controlling for market-wide stock price movements. The authors compare three post- Regulation quarters (fourth quarter of 2000 and the first and second quarters of 2001) to the same quarters in the prior year, which are pre- Regulation. The final sample consists of 5,072 pairs of pre- and post- Regulation observations. The authors find a smaller information gap after Regulation Fair Disclosure was implemented. This suggests that the market actually had more overall information about the upcoming earnings announcements in the post- Regulation quarters.. Last, the authors find that firms more frequently offered voluntary earnings-related disclosures to the capital markets after Regulation Fair Disclosure was implemented. These findings suggest that Regulation Fair Disclosure did not cause a decrease in the overall amount of information made available to capital market participants. Gintschel and Markov (2004) use a sample of financial analysts' earnings forecasts and stock recommendations between October 1999 and October 2001 showed that the stock price impact drop was especially large for stocks with the highest market-to-book

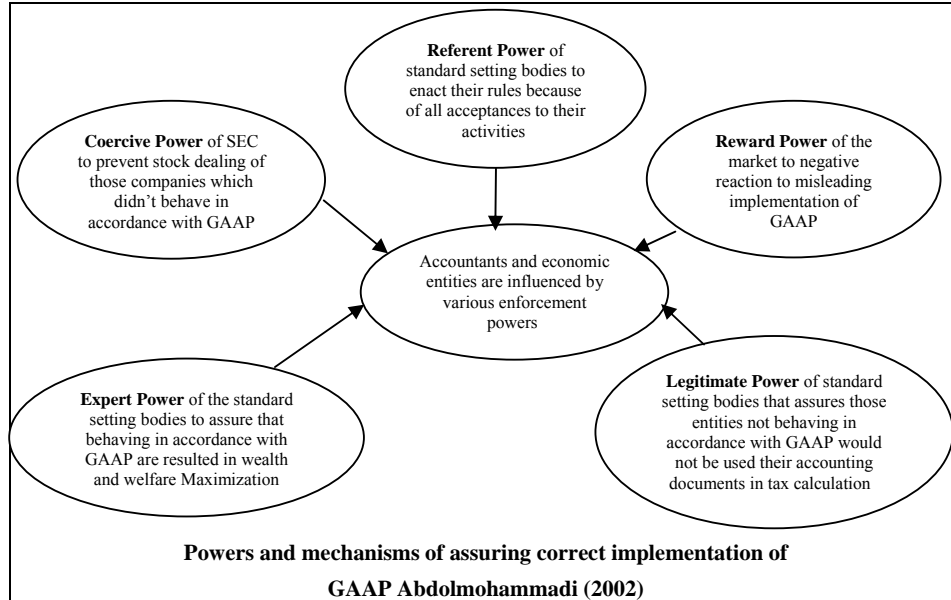
ratios. The authors believe that analysts would have required and received more specific and firm-internal knowledge from these high growth firms pre- Regulation. The authors interpret their findings in totality as evidence that Regulation Fair Disclosure has reduced selective disclosures to financial analysts. Jorion et al. (2005) use this unique setting to examine the change in the information environment post-Regulation Fair Disclosure. The authors examine the change in the information content of ratings announcements post-Regulation. They find that after Regulation Fair Disclosure was implemented, credit rating upgrades lead to larger stock price increases and downgrades lead to larger stock price drops. This evidence suggests that credit rating agencies actions do contain more new information post- Regulation. It follows that the information available to market participants (other than those privy to inside information such as ratings agencies) dropped. It also follows that the ratings agencies gained a strategic advantage from Regulation Fair Disclosure. In similar direction Irani and Karamanou (2003) examine the change in the number of analysts following a sample of firms and the dispersion of the analysts' forecasts after Regulation Fair Disclosure was implemented. Using sample data from 1995 to 2001, the authors, measure end of quarter mean number of analysts following firms and the mean earnings forecast dispersion for the analysts that follow the firms. They find a decrease in the number of analysts following firms' post-Regulation and an increase in the forecast dispersion post-Regulation Fair Disclosure.

However the difficulty in measuring enforcement arises in part because enforcement takes different forms in different countries. As Ball (2001, 128) puts it, "the accounting infrastructure complements the overall economic, legal and political infrastructure in all countries". But we tend to engage in attitude from different view, especially from financial society members' perception of importance and preferences of various mechanisms which countries enact their regulatory power to ensure that issued rules and standards are applied in real world beyond the ways of the setting accounting standards. For this purpose we used a classification of origin and ways of acting the enforcement accounting standards powers which provided by Abdolmohammadi (2002).

These categories includes five distinct powers of enforcement accounting standards and guarantee to it's practical implementation including Reward Power, Legitimate Power, Referent Power, Expert Power and Coercive Power which their weight and importance are variant from one country to another upon their environmental, Economic and legal differences and main objective of this study is also to trace importance and dominances of those powers in Iran's financial society. The table 1 highlights this category's components.

Table 1

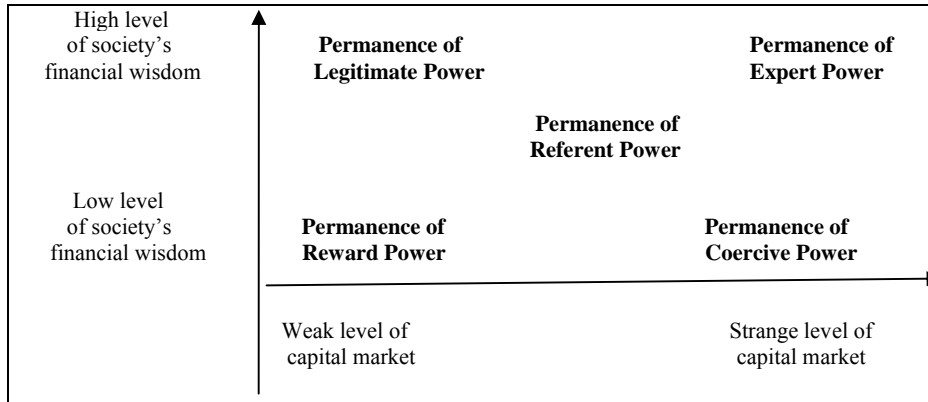
Origin of powers to enforcement accounting standards and guarantee to it's practical implementation



More over it seems that in various countries upon their market efficiency and also their members' financial wisdom sufficiency, the importance and weight and influence abilities of forgoing five powers is different. Relation between these two variables and enacting those five enforcement powers are showed in table 2 below:

Table 2

The relation between the level of the market efficiency and dominant of financial wisdom with importance of various enforcement powers to assure practical correct implementation of GAAP



7. Research hypotheses

According to the research problem and objectives of the study two main hypotheses and several sub-hypotheses were postulated in the study as following:

Hypothesis 1: The level of our public financial wisdom is sufficient that members of financial society believe that main powers for enforcement accounting standards comparing to their Legitimate and Coercive Powers, comes from public acceptance of their Expert, Referent and Reward Power.

Sub-hypothesis 1: Five powers of enforcement accounting standards and guarantee its practical implementation including: Reward, Legitimate, Referent, Expert and Coercive Powers don't have equal weight and level of influences.

Sub-hypothesis 2: Main power of enforcement accounting standards and guarantee its practical implementation drives from market Reward Power.

Sub-hypothesis 3: Main power of enforcement accounting standards and guarantee its practical implementation drives from accounting regulatory bodies' Legitimate Power.

Sub-hypothesis 4: Main power of enforcement accounting standards and guarantee its practical implementation drives from accounting regulatory bodies' Referent Power.

Sub-hypothesis 5: Main power of enforcement accounting standards and guarantee its practical implementation drives from accounting regulatory bodies' Expert Power.

Sub-hypothesis 6: Main power of enforcement accounting standards and guarantee its practical implementation drives from accounting regulatory bodies' Coercive Power.

Hypothesis 2: Respondents believe accounting regulatory bodies don't pay attention in expected level to regulate governmental and Not-for-Profit and small Organizations accounting as part of their duty.

8. Research methodology

Because this study tends to determine and describe the level and scope of the financial wisdom dominance in our financial society upon their members' perception of the vital role and position of the accounting standard setting bodies, it is classified as applied research. Moreover, by considering that the current researches focuses on abilities of various powers to enact accounting enforcement rules and we are associating with numerous individuals of accounting environment and system, hence the research method in this study is descriptive. For determining study domain, Social theories generally and organization theories specially are analysis in three levels including; micro, macro and medium. The level of analysis of this study upon its captured individuals is macro. Also for handling troublesome attitudes which is the case of hypothesis in this study, the focus of analysis is determining level of influence of financial wisdom in our society. Finally similar to

other Survey studies that unit of analysis is human; in current study also the unit of analysis is the entire engaged individuals in providing, handling, controlling, disclosure same as using of accounting information process.

8-1. Data Collection and sample

In order to test the hypotheses, financial society of Iran constitutes our statistic population, so we considered accountants, auditors, stock analysts, bank specialists and accounting students as agents of financial society. By considering the research methodology and objective of the study condition, the suitable tool for gathering such data is questionnaire. So for getting accurate answers to the study questions, the authors design and developed a questionnaire which is the most suitable for this study. The questionnaire contains two parts namely (A) bio-data and (B) this section includes several questions regarding the condition of the accounting standard setting and enforcement of those standards and also level of satisfaction from their bodies' past performance in Iran. Five-Point Likert Scale questionnaire was employed in this research. The Five-Point Likert's scale having the ratings of "strongly disagree" (1) and "strongly agree" (5) were used. Before distributing the questionnaires with using of Delphi and getting aid of experts we get assured of validity of questionnaire. After that in order to test its permanence Cranach's Alpha method was employed. Because the results of Cranach's Alpha stood at 0.89 that is larger than minimum level of 0.7 so it shows that the study questionnaire has sufficient Reliability.

9. Results of analyses

Out of 400 questionnaires which distributed for gathering data, 281 usable questionnaires were collected from the different participants. 233 questionnaires were collected from B.A degree students and 48 questionnaires were collect from M.A and PhD students. Table 3 shows the general information of the participants.

Table 3

Demographic information of participants

The age of participants	Overall frequency	Percentage
Under 25	25	9%
Between 26 to 30	109	40 %
Between 31-35	84	30 %
Over 35	63	21%
Gender of participants	Overall frequency	Percentage
Male	176	63%
Female	105	37%
Educational background	Overall frequency	Percentage
Bachelor degree	233	83%
Master & PhD degree	48	17%
Field of study	Overall frequency	Percentage
Accounting	195	70%
Management & Economic	86	30%

Experience	Overall frequency	Percentage
Less than 5	98	35%
Between 6-10	106	38%
Between 11-15	42	15%
More than 15	35	12%
Work area	Overall frequency	Percentage
Accountant & manager	194	69%
Stockholder & analyst	10	4%
Bank specialist	26	10%
Auditor	35	12%
Accounting student	16	5%

According to this table, majority of participants, 109 participants have age of between 26 to 30 years old (39 per cent); further 63 per cent of participants were male in contrast only 37 per cent of participants were female. Also 194 participants are working as accountants and financial managers (69 per cent). To conclude that majority of the participants were male as well as they were accountants of entities.

As mentioned before, in present study two main hypotheses as well as several sub-hypotheses were postulated; hereunder the testing of hypotheses is elaborated.

Testing of hypothesis 1:

9-1. Testing of first sub- hypothesis:

First sub-hypothesis tends to determine whether there is sufficient financial wisdom in our financial society that they believe main powers for enforcement accounting standards comparing to their Legitimate and Coercive Powers comes from public acceptance of their Expert, Referent and Reward Powers. In the other hand, form various respondents' viewpoints about five powers of enforcement accounting standards including: Reward, Legitimate, Referent, Expert and Coercive Powers don't have equal weight and merit. Statistical expression of this sub-hypothesis is presented in below:

$$\begin{cases} H_0: & \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 \\ H_1: & \text{there is at least a case that differs from other} \end{cases}$$

Where μ_1 , μ_2 and so on are reflecting median answers of respondents of importance of enacting forgoing powers to assure practical implementation of issued standards.

Because of ordinal scale of the study's data, for analyzing this hypothesis we employed Kruskal-Wallis nonparametric statistical methods. Table 4 shows the result of Kruskal-Wallis test below:

Table 4

Result of the Kruskal-Wallis test

Number of Compared groups	Number of each Groups' respondents	Chi-Square	df	Sig. P-Value	Result of the test
5	281	101.539	4	0.00	H ₀ Rejected

As the result of the Kruskal-Wallis test showed that P-Value is less than α (P-Value=0.00 < α =0.05). So, for this sub-hypothesis the H₀ rejected and there is at least a case that its mean is different from others. Remainder second to sixth sub-hypotheses seek by ranking the weight of five forgoing powers with aid of Friedman ranking test, besides recognizing case which make differences, determine importance and, level of influences of each power in enforcement standard process. Testing of second to sixth sub- hypotheses:

In order to test these hypotheses and ranking the importance and preferences of forgoing powers we used Friedman test which result of this test is presented below:

$$\left\{ \begin{array}{l} H_0: \text{ five powers for enforcement accounting standards have same rank.} \\ H_1: \text{ five powers for enforcement accounting standards don't have same rank.} \end{array} \right.$$

Upon the result of Friedman test, P-Value of these hypotheses test is less than α (P-Value=0.000 < α =0.05), thus in the significant level of the .5, H₀ rejected and there is meaningful difference among five compared powers' rank which result of test is summarized in Table 5, below:

Table 5

Result of Friedman ranking test

Compared enforcement powers	Mean rank	Rank result
Reward Power	2.65	5
Legitimate Power	2.89	4
Referent Power	2.92	3
Expert Power	3.17	2
Coercive Power	3.37	1

Upon the Friedman ranking test results among various enforcement accounting standards powers respondents believe coercive power is more apparent while they accept sufficient experience and public agreement for their operation is in later level of importance. In the other hand result of Friedman test shows that the main origin and motivation for preparing accounting reports in accordance to GAAP comes from managers' concern of blocking and preventing their

companies' stock dealing by Tehran security Exchange organization besides accepting standard setting professional abilities. Hence by considering the ways of arranging sub-hypothesis 2 to 6 only for sixth sub-hypothesis are null hypothesis is rejected in significant level of .95, and for remainder of sub-hypotheses H_1 are rejected.

9-2. Testing of hypothesis 2

This hypothesis is tend to document that respondents believe accounting regulatory bodies don't pay attention in expected level to regulate governmental same as Not-for-Profit Organizations' accounting as part of their duty. For testing this hypothesis because of the quality of the data gathering with aid of Five-Point Likert Scale questionnaire, we suppose that in condition when the mean answers of the respondents is less than 3, so they are satisfied about last performance of the Audit Organization from perspective of behaving fairly with both private and governmental parts regulation and vies versa. Statistical expression of this hypothesis is also presented below:

$$\begin{cases} H_0: \mu \leq 3 \\ H_1: \mu > 3 \end{cases}$$

Where, μ is median answers of respondents about degree of injustice and unfairly behaving of Audit organization in relation regulatory process of governmental and also Not-For-Profit entities same as private large corporation entities. However we employed T-test method to test this hypothesis which results are shown in table 6, below:

Table 6

Results of testing of second hypothesis with T-test method

Number of Participants	Mean	Std. Deviation	T-Value	d.f	Sig. P-Value	Result of the test
281	3.28	1.050	4.396	280	.000	H_0 Rejected

As result of inferential statistics in Table 6, H_0 rejected in 0.95 meaningful levels ($\alpha=.05 > P\text{-Value}=00$). In the other hand, respondents believe that Iran's Audit organization in standard setting process has had behaved unfairly and don't pay attention to regulation of government and Not-For-Profits parts' accounting as equal as private entities accounting.

10. Conclusion

In order to reduce negative consequences of information asymmetry in capital markets, accounting system and respectively accounting profession get responsible to provide necessary regulation and mechanism to meet financial informational needs of the contributors in capital market in world wide. As long as market enlargement, duties and role of accounting profession and it's standard setting bodies has changed and increased and for assuring of practical implementation of their rules are given necessary enforcement powers to these bodies. However the present structure of financial reporting system and its usefulness is universal in the sense that it meets the requirements of users independent of culture. The results of this survey showed, level of our public financial wisdom isn't as expected as adequate in our financial society and their members believe that main power and motivation for implementation of accounting standards by entities' managers comes from their concern of blocking their companies' stock dealing by Tehran security Exchange organization, instead of accepting standard setting professional abilities or referent power of this boards and this last powers has placed in later importance. Moreover upon the result of the second hypothesis test, respondents believe accounting regulatory bodies don't pay attention in expected level to regulate governmental and Not-for-Profit Organizations' accounting as part of their duty and at least around the providing necessary accounting rules for governmental and public sector haven't had done remarkable work so far.

10.1. Suggestions

With due attention to results, in order to enhance disclosure quality and reduce information asymmetry, some work is necessary to be done in two distinct areas, simultaneously. Firstly, it needs to wide spread and strengthen general knowledge and awareness about vital role and position of the accounting standard setting in our society. However in the other side, it seems that it is necessary to reevaluate the operational objectives and aims of standard setting bodies, at least there needs to be a periodical oversight on activities of this organization to assure they operate along their stated goals. While some have justified that for achieving equal and perpetual development in accounting regulation process, it is probably preferable with aid of other countries' experiences, to establish a new especial standard setting bodies for governmental and Not-For-Profit organizations, similar to GASB in United state and dividing governmental entities' standard setting duties from private ones entirely, but because of Iran's entities environmental operating differences it needs some more work in this area. However to achieve to high level of financial transparency goal in our country in future is highly depended to handle this problem.

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