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ROLE OF ACCOUNTING DISCLOSURE IN FINANCIAL HEALTH: A STUDY WITH REFERENCE TO FINANCIAL INSTITUTIONS IN IRAN

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ABSTRACT

During the past two decades, various measures have been adopted to promote and advance accounting in Iran via harmonizing the domestic accounting practices with International norms and standards. Although Iran has employed International Accounting Standards as the basis for developing its National Accounting Standards, there are still some differences between Iranian and international standards, and there are some certain International Accounting Standards that are not applicable in Iran. A host of endemic factors, such as existing laws and rules, religious beliefs, culture, economic and political conditions, have influenced the National Accounting Standards setting processes. IFRS adoption is mandatory for countries such as EU (Europe Union) listed countries while is voluntary for some countries like Iran. But because the adoption benefits cannot be ignored, Over the past two decades, the Iranian accounting standards setter, Audit Organization, has decided to eliminate the differences between IFRS and NAS as a part of its convergence and harmonization project. In 2011, the Audit Organization decided that IFRS implementation would be permitted for all listed companies. The primary purpose of implementing IFRS is to enhance the international comparability of financial reports, which would attract more foreign investors to participate in the Iranian capital market, improve the efficient allocation of resources and boost the competitiveness of the market. In spite of her announcement, Iran has not supported IFRS. In this context a study is made to look into the issues in the implementation of IFRS in Iranian financial institutions.

KEYWORDS: *Financial Market, Financial Health, Accounting Disclosure, Financial Institutions, Accounting Practices, IFRS.*

INTRODUCTION

During the past two decades, various measures have been adopted to promote and advance accounting in Iran via harmonizing the domestic accounting practices with International norms and standards. Although Iran has employed International Accounting Standards as the basis for developing its National Accounting Standards, there are still some differences between Iranian and international standards, and there are some certain International Accounting Standards that are not applicable in Iran. A host of endemic factors, such as existing laws and rules, religious beliefs, culture, economic and political conditions, have influenced the National Accounting Standards setting processes. IFRS adoption is mandatory for countries such as EU (Europe Union) listed countries while is voluntary for some countries like Iran. But because the adoption benefits cannot be ignored,

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TRENDS IN THE FINANCIAL INSTITUTIONS

Today, financial markets in Iran are changing dramatically and the financial market witnessed excessive emergence of financial institutions in which the most significant components in financial markets is fundraising. Banks and financial institutions provide various financial services to attract more clients. Meanwhile, some of them present unrealistic financial statements to the shareholders and beneficiaries to illustrate their financial health. Since the shareholders and creditors are the main users of financial statements and whatever accounting disclosure provided to them should be relevant information which enable them to make rational decisions. It is reported by the central bank officials of Iran that these institutions possessed one fourth of the country's liquidity and invested the majority of funds in the real estate market in last 5 years. Apart of these illegal activities which lead to increased inflation and other economic consequences, a question arises, how these institutions obtained a large amount of funds from the shareholders and beneficiaries? The answer is simple, unrealistic financial statements. In this scenario it is imperative to examine the financial disclosure practices and hence, the present study.

NEED FOR DISCLOSURE OF FINANCIAL INFORMATION

Banks and financial institutions must provide full, reliable, up to date, and high quality disclosures of their operations and risks in timely and proper manner and also must adopt prudent accounting. High quality disclosures minimize information asymmetry between the managers and shareholders and also increase shareholders confidence in banking industry. In June 2016 central bank of Iran (CBI) set up regulatory measures and ordered all banks (public and private) and financial institutions must prepare their financial statements as per IFRS standards, and must be verified by national auditing department as well as external auditors. However, CBI supervisory measures caused relative financial health, but the financial market and banking industry in Iran requires fundamental changes.

LITERATURE REVIEW

According to *Morgan (2000)*, the pattern of disagreement between bond raters suggests that banks are inherently more opaque than other firms. The main objective of the current study is to investigate the accounting practices and financial transparency of financial institutions operating in Iran. And the second objective is to address the fact, whether the banks and financial institutions preparing their financial statements in accordance to IFRS guidelines.

Stocken, Phillip C. (2000), in a study on the Economic Consequences of Increased Disclosure, pointed out that Economic theory provides compelling arguments that a commitment by a firm to increased levels of disclosure should lower the information asymmetry component of the firm's cost of capital.

It is probable that the enhanced disclosures are not transparent to investors, given the complexity of the banking industry, or, that the enhanced disclosures lack credibility in the eyes of the Indian investing public. *Niranjan Chipalkatti (2000).*

Omneya H. Abd-Elsalam (2003), In a study on, Introducing International Accounting Standards to an emerging capital market: relative familiarity and language effect in Egypt, pointed that a lower degree of compliance with less familiar IASs disclosure is observed consistently across a range of company characteristics. Consideration of agency theory and capital need theory would lead to prior expectation of a distinction in disclosure practices between different categories of companies.

As the disclosure system has grown in size with the importance of evaluation of disclosure by other information intermediaries, analysts, business press, and the investors themselves, information asymmetries and agency conflicts between participants creates greater demand for reporting and assurance of disclosure (*Kothari 2009*).

The financial reporting environment, however, features several decision-makers. Investors gather information from various sources, including a firm, the firm's competitors, analysts, trade journals, and government statistical releases. Firm management, therefore, needs to consider not only the effect of reporting its information to its investors, but also the influence of its disclosure on the behavior of other market participants. Management needs to recognize that its disclosure will affect the behavior of other firms and how they choose to disclose their information; it needs to anticipate that its disclosure will influence the behavior of financial analysts and the information they provide investors (*Phillip C. Stocken 2013).*

STATEMENT OF THE PROBLEM

Economic prosperity can be realized through stable financial market. Obviously, banks and financial institutions play a vital role in this context. But to what extent their activities contribute stabilizing financial market is the problem to be looked into and hence present study with following research questions:

- To what extent IFRS standards used in accounting system of Iranian financial institutions?
- What are the issues in implementing latest accounting practices in financial institution operating in Iran?

OBJECTIVES:

The objectives set for the study are:

- To investigate IFRS standards in Iranian financial institutions.
- To examine the issues in the implementation of IFRS in Iranian financial institutions.

METHODOLOGY

The study method is empirical which tests the feasibility of solutions by applying statistical measures.

Data Source: Both secondary and primary data has been used for the study. The secondary data has been collected from the literature survey and annual reports of the institutions selected for the study. Primary data has been collected by using Purposive Sampling Technique with a total sample of 50 respondents selected 10 respondents each from 5 financial institutions. The Financial Manager and Chartered accountants with minimum of 5years experience are purposively taken for collecting information by using an interview schedule.

For drawing inference simple statistical and mathematical tools like percentages, mean and ranking methods are used .

DATA ANALYSIS AND INTERPRETATION

The analysis of data is made in two parts – Analysis on the socio economic profile of respondents in part I and Analysis of variable in part II.

Part I: Analysis on Socio Economic variables

The analysis on the personal profile of the respondents are very significant in knowing the behavioral response of the respondents in the sample. The Gender, age, Educational qualifications and professional experience are the personal variable considered for analysis. They are:

1. Gender

The response on any study depends on the information supplied for analysis in which male and female behavior is important .The gender wise classification of respondents are given in Table 1.1

Table 1.1
Gender wise Classification

Gender	No of response	Percent
Male	45	90
Female	5	10
Total	50	100

Source: Primary Data

It is noticed from Table 1.1 that 90 percent of respondents are males while other 10 percent are females. It shows that the majority of respondents in the sample are males.

2. Age

Age is yet another variable which affect the behavior of respondents in giving information for analysis . The age wise classification of respondents in the sample are shown in Table 1.2.

Table 1.2
Age wise Classification

Age	No of response	Percent
25-30	6	12
30-45	18	36
Above 45	26	52
Total	50	100

Source: Primary Data

Table 1.2 shows that 6 per cent of respondents are in the age group of 25 years to 30 years. 18 respondents (36 per cent) are between the age group of 25 and 35 years . A large majority d 52 per cent (26 respondents) are of the age group of above 45 years. It means that majority are from the age group of above 45 years.

3. Educational Qualifications

Education is knowledge and this knowledge increases the skill, maturity, potential of the respondents and their behavior. The classification of respondents on the basis of their educational qualifications are depicted in Table 1.3.

Table 1.3
Educational Qualification wise classification

Qualification	No of response	Percent
Professional	32	64
Nonprofessional	18	36
Total	50	100

Source: Primary Data .

As is noticed from Table 1.3 that 64 per cent (32 respondents) of the respondents have professional qualification (graduates in MBA, PhD of accounting) and 36 per cent (18 respondents) have non-professional education. It means majority of the sample respondents have high professional qualifications.

3. Experience

The experience makes a man perfect in the sense that his knowledge is practically applied and it affects the behavior in Toto. The Table 1.4 shows the classification of respondents on the basis of their professional experience.

Table 1.4
Classification on the basis of Experience

Professional Experience	No of response	Percent
5 – 10 years	4	8
10 -15 Years	12	24
15 -20 Years	10	20
Above 20 Years	24	48
Total	50	100

Source: Primary Data

Table 1.4 indicate that 8 per cent (4 respondents) of respondents have 5 to 10 years working experience, 24 percent (12 respondents) have 10 to 15 years experience, 20 per cent(10 respondents) have 15 to 20 years experience and 48 per cent (24 respondents) have above 20 years experience. It is clear that majority of them have experience of above 20 years.

Part B: Variable Analysis

In this part an analysis is made to know the implementation of International Reporting Standards in the reporting system of Iranian financial institutions in which Five variables are put for opinion survey and the views expressed by the respondents in the sample are codified in tabular form and are presented in Table 2.1

1. Implementation of IFRS in Reporting system

The IFRS in the reporting system is made for attaining the advantages such as the elimination or reduction of set-up costs in developing national accounting standards; use of one common global reporting language; increases in market efficiency in financial markets; provision of more suitable, understandable, comparable, and reliable financial statements; a reduction in the cost of firms for preparing financial statements; supporting the growing globalization of markets; attracting internal investment; improvements of the financial reporting quality for most countries; increases in the value relevance; enhances in transparency, disclosure and comparability. The question of implementation of IFRS in the Iranian financial institutions is enquired into and the collected information is presented as item num 1 of table 1.5.

It is noticed from the analysis that 20 respondents (40 per cent) disagree that they are not implemented the system properly but another 26 respondents (52 percent) are of the view that it was implemented in Iranian financial institutions. The average level of opinion recorded by the respondents in the sample is 63 per cent. It indicate that the IFRS is implemented in Iranian financial institutions .

2. Awareness by Managers about latest changes in IFRS

The managers are fully aware about the merits or demerits of the implementation of IFRS and if not implemented they should know what will be the consequence. The opinion on this variable is presented as item number 2of Table 1.5 .

The mean level of satisfaction marked on this variable by respondents in the sample is 57 per cent. It signifies that they are satisfied with this variable that the managers of financial institutions in Iran are fully aware about the IFRS. In this variable 23 respondents (46 per cent) agreed on it and 23 respondents (46 percent) are not agreed with that except 8 per cent respondents not express their opinion.

3. Training programs of the Institution

Training should be given for all personnel's in the organization for adoption of any kind of new programme to be implemented .In the case of IFRS is entirely new in the sense that there is convergence from IAS . The Iran's decision on adoption or non-adoption of IFRS has been strongly influenced by the cultural factors. The disclosure requirements (like disclosing key management personal compensation in IAS 24) are one of the main conflicts between IAS standards and Iranian National Accounting standards. So before its introduction sufficient training should be extended to them. The opinion on this variable by respondents in the sample are depicted as item number 3 of Table 1.5.

It is seen that 30 respondents (60 per cent) are of the opinion that there is no such training whereas only 17 respondents (34 per cent) agree on it that they are getting sufficient training on IFRS. The mean marked level of opinion on this variable is 48 per cent and indicate that majority are of the view that the training given is not sufficient.

4. Facilities of IFRS Experts

Iran's decision to privatize state-owned companies is to be achieved through the sale of state owned corporations as a whole or as shares in stock market . This means that the country has to change its legal, political, economic and social environments to attract local and foreign investment. Adoption of IFRS plays an important role in this process. IFRS is entirely a new concept and its implementation requires the facilities of an expert in this field for its effective and efficient disclosure practice in the organization. The opinion recorded by respondents on this variable is shown as item number 4 of Table 1.5.

It is noticed from Table 1.5 that 29 respondents (58 per cent) are of the opinion that there is no such facility of experts whereas only 18 respondents (36 per cent) agree on it that they are having experts in IFRS. The mean marked level of opinion on this variable is 46 per cent and indicate that majority are of the view that there is lack of IFRS expert for its implementation .

5. Shareholders satisfaction and its effects

The views on shareholders satisfaction and its effects on the preparation of financial statements are also examined and level of satisfaction is assessed. Their views on it are given as item number 5 of Table 1.5. It is clear from the level of satisfaction recorded by the respondents that they are satisfied with it because the mean recorded level in this case is 69 per cent. In this variable 17 respondents (34 per cent) recorded a level unfavourable to it whereas 31respondents (62 per cent) recorded a level at a favourable level which indicate that the effect of IFRS on the preparation of financial statements in which shareholders are satisfied with it.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total	
	No-Percent	No-Percent	No-Percent	No-Percent	No-Percent	No-Percent	Mean
1.Does your institution has Adopted the IFRS standards	14 (28.0)	6 (12.0)	4 (8.0)	11 (22.0)	15 (30.0)	50 (100)	63
2. Does your institution's Management aware of Latest changes by IFRS Regarding financial repo-rting	13 (26)	10 (20)	4 (8)	18 (36)	5 (10)	50 (100)	57
3. is there any training Program conducted in Your institution	23 (46)	7 (14)	3 (6)	8 (16)	9 (18)	50 (100)	48
4. is there any IFRS expert Working in your institution	18 (36)	11 (22)	3 (6)	9 (18)	9 (18)	50 (100)	46
5.Does shareholders Satisfaction, effects the Process of financial Statement preparation	10 (20)	7 (14)	2 (4)	12 (24)	19 (38)	50 (100)	69

Source: Computed from Primary Data

: Figures in brackets shows percentage to total.

ISSUES IN IMPLEMENTATION OF IFRS IN IRANIAN FINANCIAL INSTITUTIONS

The administration is attempting to follow the market reform plans by investing oil revenues in other areas of industries. Iran also expects to attract foreign investment by creating a more favorable investment climate. One of the ways to attract foreign direct investment (FDI) is improving the NAS and financial reporting in Iran, the primary purpose of implementing the new accounting standards is to enhance the international comparability of financial reports, which would both attract more foreign investors to participate in the Iranian capital market and improve the allocation efficiency and competitiveness of the market .

Iran's decision to privatize state-owned companies is to be achieved through the sale of state owned corporations as a whole or as shares in stock market. This means that the country has to change its legal, political, economic and social environments to attract local and foreign investment. Adoption of IFRS plays an important role in this process.

The accounting standards committee have undertaken a convergent project with the objective of reducing differences between IFRSs and Iran generally accepted accounting principles (GAAP). In this year, Iran has accepted international standards for more convergence and the Audit Organization developed revised standards as part of its project on convergence. The Iran's decision on adoption or non-adoption of IFRS has been strongly influenced by the cultural factors. The following are the different issues before Iran to implement the process of IFRS:

a. Lack of Proper Training

The training facilities for convergence from IAS to IFRS is almost nil in Iranian financial institutions. According to 36 per cent (18 respondents) of the respondents in the sample pointed out that there is lack of training facilities is the main issue in implementation of IFRS in Iranian financial Institutions and is ranked as First .

b. Difficulties in its Implementation

The implementation of IFRS is a difficult process according to 20 per cent of the respondents (10 respondents) in the sample because of lack of awareness about IFRS and its implementation and is ranked as Second prominent issue.

c. Management's Negligence

Managers are real executors of this programme but they are not performing well in it. Managers negligence in its implementation is yet another cause according to 14 per cent (7 respondents) of the respondents and is ranked Fourth in the order of preference.

d. Lack of existence of IFRS Experts

For the implementation IFRS there is a need for experts in preaching and creating awareness about IFRS and its advantages , if implemented. But really this facility is lacking according to 18 per cent (9 respondents) of the respondents in the sample and is ranked Third in the order of issues.

e. Organizational issues

Organization should take measures for implementation of any kind. But there are inherent issues affect the organization in initiating the process of implementation of IFRS . In it 12 per cent of the respondents (6 per cent) recorded a rank as Fifth Table 1.6.

It is concluded that the first variable which is "lack of proper training" obtained highest rank. Second ranked variable by the respondents is difficulties in implementation . Third ranked variable is lack of existence of IFRS experts . The Management negligence as the Fourth ranked one and organizational issues ranked as fifth

Table 1.6
The issues in implementation of IFRS in Iran

Lack of proper training		Difficulties in implementation		Management negligence		Lack of existence of IFRS expert		Organizational issues		Total	
No	per cent	No	per cent	No	per cent	No	per cent	No	per cent	No	per cent
18	36%	10	20%	7	14%	9	18%	6	12%	50	100%
No	Rank	No	Rank	No	Rank	No	Rank	No	Rank	Total	
12	1	8	2	9	4	16	3	5	5	50	

Source: Primary Data

CONCLUSIONS AND SUGGESTIONS

Today, financial markets in Iran are changing dramatically and the financial market witnessed excessive emergence of financial institutions in which the most significant components in financial markets is fundraising. Banks and financial institutions provide various financial services to attract more clients. Meanwhile, some of them present unrealistic financial statements to the shareholders and beneficiaries to illustrate their financial health. Since the shareholders and creditors are the main users of financial statements and whatever accounting disclosure provided to them should be relevant information which enable them to make rational decisions. It is reported by the central bank officials of Iran that these institutions possessed one fourth of the country's liquidity and invested the majority of funds in the real estate market in last 5 years. Apart of these illegal activities which lead to increased inflation and other economic consequences, how these institutions obtained a large amount of funds from the shareholders and beneficiaries made it clear that the financial statements are unrealistic. The study concluded that on account of organizational issues, lack of availability of service of experts , managers awareness and negligence, lack of sufficient training and the inherent difficulties as the main issues prevent Iranian financial institutions in implementing the new system of reporting at the international level named IFRS.

For enhancing the international comparability of financial reporting which would both attract more foreign investors to participate in the Iranian capital market and improving the efficient allocation of resources and competiveness of the capital market, it is suggested to solve the issues in the implementation of IFRS and initiate steps to implement IFRS system in its full sense.

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