



When a high-profile company like Enron or HIH collapses, governments will often respond by rushing in new corporate governance rules for dealing with financial information. But according to a new book by two Faculty scholars, such knee-jerk policy solutions are simply not addressing the financial reporting disclosure problems of corporate giants.

The crisis in CORPORATE ACCOUNTING

IN *INDECENT DISCLOSURE: Gilding the Corporate Lily*, Honorary Professor Frank Clarke (BEC '70, PhD Ec '82) and Professor Graeme Dean (BEC '73, MEd '76) make the case that there is a major crisis facing corporate accounting and auditing around the world. Supporting their position with case studies taken from the past five decades, they argue that compliance with accounting standards will often fail to disclose a company's true performance and financial position. When a misleading financial statement is produced, they say, it will as often arise from trying to comply with accounting rules with bona fide intentions as from setting out to mislead.

Professor Dean points to the continuous disclosure rules introduced in the securities market as an example of rules which are simply "tinkering" with the accounting problem and not fixing it. "There is a presumption that the regime known as continuous disclosure will mitigate the problems we are seeing at the moment in the securities market," he says. "But unfortunately, continuous disclosure is not having that effect, because

the kinds of information that are being disclosed are inadequate and inappropriate."

According to the authors, what is needed is a principles-based approach to accounting rather than the piecemeal array of rules which currently exist. "Today's accounting practices are driven by an increasing number of rules that companies must comply with, but we are arguing that those rules do not have fundamental principles that they are drawn from," Professor Dean explains. "As opposed to prescribing a set of rules that must be complied with, you need to apply the core legal principle that accounts should provide a true and fair view of the performance and position of a company, and all rules should flow from that."

As a sign of the impact the book is making on the business community, *Indecent Disclosure* was recently shortlisted for the 2007 Blake Dawson Prize for Business Literature, a prestigious annual award which aims to encourage high standards in business and finance writing. The winner of the \$30,000 prize, which is administered

by the State Library of New South Wales on behalf of Blake Dawson Lawyers, will be announced this April.

Both Professor Dean and Professor Clarke are long-serving staff members at the Faculty of Economics and Business as well as being alumni of the Faculty from the early 1970s. Currently, they are jointly conducting a Summer School at the Faculty and teach together in a popular postgraduate masters unit in auditing as well as a course analysing issues related to the collapse of major companies. In fact, their research-led teaching in that course is what formed the basis of the ideas in *Indecent Disclosure* as well as the scholars' previous successful collaboration, *Corporate Collapse*.

Indecent Disclosure: Gilding the Corporate Lily is published by Cambridge University Press.



Professor Clarke and Professor Dean at the book's public launch in July 2007, held at Berkelouw Books, Leichhardt.