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The Pattern of Improving Disclosure in Financial Reporting[1]

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Research Paper

INTRODUCTION

One of the major objectives of financial reporting is to supply information for decision making. This requires proper disclosure of financial data and other relevant information. To achieve proper disclosure, three major questions need answering:

1. For whom is the information to be disclosed?
2. What is the purpose of the information?
3. How much information should be disclosed? (Hendriksen and van Breda,1992)

There are three fundamental problems of financial reporting disclosure that no market or regulatory solutions can entirely remove:

1. Subjectivity: Relevance and materiality are subjective judgments.
2. Self-reporting bias: Financial reporting is a product of managers who are reporting on their own performance and a degree of bias is expected.
3. Potential self-inflicted damage. It is against firms' interests to be completely transparent. Some disclosures will give valuable

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information to their competitors or to those with whom they contract. (Singleton-Green and Hodgkinson, 2013)

International disclosure requirements lead to disclosures that are more useful in some countries than in others because the usefulness of a disclosure depends on the context in which it is made.

The International Accounting Standards Board (IASB) characterized the disclosure problem as “not enough relevant information”, “too much irrelevant information” and “poor communication of disclosures”. (Elkins and Entwistle, 2018)

Various causes are attributed to disclosure overload including: increased complexity of underlying transactions themselves; a checklist/compliance mentality by preparers, auditors and regulators perhaps due to risk aversion; and failure to employ the materiality criterion correctly. (Saha et al., 2019)

Disclosure is a broad concept and has been examined from various aspects of research conducted in Iran. Rahmani and Bashiri Manesh (2014) classified research this into three general categories:

1. Measuring the level of information disclosure by companies,
2. Identifying the factors affecting the practices and level of information disclosure,
3. Studies on the consequences of information disclosure, which according to the results, more disclosure and transparency brings many benefits such as lower capital cost and reduction of information asymmetry.

Although many researchers have investigated the problems in disclosure in financial reporting, this research aims to identify the weakness in disclosure and provide a comprehensive solution in order to achieve the goal of providing more relevant information and reducing irrelevant information, and ultimately increasing the effectiveness of financial reporting.

MATERIALS AND METHODS

The process of conducting this research is as follows:

1. At first, the literature review was undertaken in order to obtain information that could direct the research.
2. Experts were selected using the purposeful sampling method, because of their information and experience about the subject, and exploratory interviews were conducted.

3. The main interview questions were set based on the information obtained through previous steps, and the participants were determined by using snowball sampling technique.
4. The interviews continued until “theoretical saturation” was reached.
5. After coding the qualitative data and grouping them into themes, a pattern was presented by using the thematic analysis method.

The statistical population of the research includes faculty members, employees of professional institutions, financial managers, analysts, and audit partners. A total of 22 interviewees were selected. The conducted interviews were semi-structured and MAXQDA software was used to analyze qualitative data.

RESULTS AND DISCUSSION

The findings of this research are presented in three sections including what affects disclosure in Iran and the current problems of disclosure in financial reporting and solutions to improve disclosure. According to the findings of this research, disclosure in financial reporting in Iran is affected by many factors such as cultural, political, and economic factors, regulatory issues, existing challenges in the auditing process, and structural characteristics of companies. Existing obstacles in the full implementation of standards, the complexity of disclosure, lack of motivation for voluntary disclosure, inappropriate disclosure of risk and related party transactions, reduction in the audit quality, insufficient relevant information and sometimes disclosure overload, are some of the current problems.

CONCLUSION

High quality disclosure is important to well-functioning capital markets; so it is needed to identify and confront problems impeding such disclosure. According to the findings of this research, there are problems in disclosure that prevent achieving the desired results. It is suggested to make changes in the process of developing and implementing existing requirements as well as in the form and content of the disclosure according to the findings of this research.

Improving the process of developing standards and also implementation of the requirements, providing guidelines on disclosure, and improving voluntary disclosure and auditing process can improve disclosure and also enhance the effectiveness of financial reporting.

Keywords: Disclosure, Mandatory Disclosure, Voluntary Disclosure, Information Overload, Thematic analysis.

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