1 2 9 0

UNIVERSIDADE D COIMBRA

Adriana Filipa Jesus Silva

THE ENFORCEMENT OF ACCOUNTING STANDARDS AND THE QUALITY OF FINANCIAL INFORMATION

Tese no âmbito do Doutoramento em Gestão de Empresas, orientada pela Professora Doutora Susana Jorge e pela Professora Doutora Lúcia Lima Rodrigues e apresentada à Faculdade de Economia da Universidade de Coimbra.

Fevereiro de 2021

THE ENFORCEMENT OF ACCOUNTING STANDARDS AND THE QUALITY OF FINANCIAL INFORMATION

Adriana Filipa Jesus Silva

Tese no âmbito do Doutoramento em Gestão de Empresas, orientada pela Professora Doutora Susana Jorge e pela Professora Doutora Lúcia Lima Rodrigues e apresentada à Faculdade de Economia da Universidade de Coimbra

Fevereiro de 2021

To my mom.

Acknowledgements

Those who pass by us, do not go alone, and do not leave us alone;

they leave a bit of themselves, and take a little of us.

Antoine de Saint-Exupéry

Concluding another particularly important stage of my life, I could not fail to express my deepest gratitude, appreciation and acknowledge to all those who have been by my side during every step of this journey and have contributed to the achievement of this work.

Firstly, to Professor Ana Maria Rodrigues. Wherever you may be, I know you will guide every step of the way and protect me. I hope you are proud of me as I expect you to be... I know you are.

To my supervisors, Professor Susana Jorge and Professor Lúcia Lima Rodrigues for the friendship, availability and for always kindly pushing me up, which was fundamental for the accomplishment of this thesis. I thank, in particular, Professor Susana Jorge for "welcoming" me with open arms, even without knowing me, for the unconditional support and understanding.

To Lili, for her friendship, and to Professor Pedro Cerqueira for his important help in the statistical model estimation.

To all my interviewees, without whom this study would not be possible to carry. To Dr. Ana, Dr. Jesus and Dr. Manuel Teixeira, especially for all their patience, attention and understanding.

To my brother, for all the affection, help and support shown.

To my dear friends who have constantly supported, encouraged, understood, and congratulated me: Ana, Paulinha, Jessica, Ana Bé, Elsa, Andreia and Lucinda.

Finally, to my family, the real foundation of my life. To my parents and grandparents, for the unconditional love, support, dedication, affection and for always believing in me. Last but not least, I am grateful to my wonderful husband, my full time companion, for his never ending understanding and for always being there for me, no matter what.

“Somewhere,

something incredible

is waiting to be known.”

Carl Sagan

Abstract

The objective of this thesis is to analyze the enforcement practices concerning the business accounting standards in Portugal, seeking to understand: 1) how they act to control compliance with financial reporting standards; and 2) their impact on the quality of financial reporting.

Based on the institutional theory, this research is organized in a compendium of four papers. The first paper is a systematic literature review and the other three are empirical studies, based on interviews, documentary analysis and a database.

The first paper aims three purposes: to identify, recap and analyze the current state of research on the relationship between International Financial Reporting Standards (IFRS) enforcement and accounting quality; to provide a critical overview of publications in this field; and to identify areas of interest for future research. Main findings show a scarcity of studies analyzing IFRS enforcement practices in individual countries and, subsequently, of the impact these practices may have on the accounting quality. Also, quantitative approaches have prevailed.

The second paper analyzes the enforcement practices regarding the international accounting standards, in order to understand how enforcers act to control IFRS compliance. The study relies on deep analysis of documentary sources and semi-structured interviews about the institutionalization of IFRS enforcement in Portugal, using the institutional model of Dillard et al. (2004) and the deinstitutionalization concept of Oliver (1992) to interpret the main findings. The study shows that, although enforcement mechanisms are provided for in the Portuguese legislation, they may not be working in practice.

The third paper investigates the regulations and practices of accounting enforcement concerning the Portuguese Accounting Standardization System (*Sistema de Normalização Contabilística* - SNC), looking for understanding compliance control. Documentary analysis and semi-structured interviews to the various enforcers were carried out, and main findings were again framed within institutional dynamics, also following the Dillard et al. (2004) model and Oliver’s (1992) deinstitutionalization concept. Main results show that there is no direct enforcement over most Portuguese companies that apply SNC, as they have no requirement for audited accounts and the standard-setter (Accounting Standards Board (*Comissão de Normalização Contabilística* - CNC)) is not fulfilling its controlling duties. The tax authority (AT) can only exerts this enforcement indirectly.

Finally, the fourth paper analyzes the impact of three levels of enforcement (audit committee, external audit, and oversight system) on the quality of financial reporting. The quality of financial reporting was measured using discretionary accruals. The results of multiple regression analysis show that only the independence of the audit committee and the quality of the external auditor have a positive impact on the quality of financial reporting. The association between the two enforcers (audit committee and external auditor) also has a positive impact on the quality of the financial reporting. However, the oversight system has no impact on the quality of the information disclosed, which agrees with the findings of the qualitative papers (papers 2 and 3), where accounting enforcement does not appear to be very effective in practice yet.

Overall, thesis fills a gap in the literature and is of interest to standard-setting bodies, regulators, enforcers, and users of financial information. It contributes to the understanding of how enforcement of accounting standards impacts financial reporting quality, supporting policy-making in terms of accounting standards enforcement regulations.

Keywords: enforcers; control; compliance; SNC; IFRS; Portugal

Resumo

O objetivo desta tese é analisar as práticas de *enforcement* das normas de contabilidade em Portugal, procurando compreender: 1) como atuam os *enforcers* para assegurar o cumprimento das normas de contabilidade; e 2) o seu impacto na qualidade do relato financeiro.

Baseada na teoria institucional, esta tese é organizada num compêndio de quatro artigos. O primeiro trabalho é uma revisão sistemática da literatura e os outros três são estudos empíricos, baseados em entrevistas, em análises documentais e base de dados.

O primeiro artigo engloba três objetivos: identificar, recapitular e analisar o estado atual da investigação sobre a relação entre o *enforcement* das *International Financial Reporting Standards* (IFRS) e a qualidade contabilística; fornecer uma visão crítica das publicações neste campo; e identificar áreas de interesse para investigação futura. As principais conclusões mostram uma escassez de estudos que analisam as práticas individuais de *enforcement* das IFRS dos países e, consequentemente, o seu impacto na qualidade contabilística. Além disso, mostra, ainda, prevalência de abordagens quantitativas.

O segundo artigo analisa as práticas de *enforcement* das normas internacionais de contabilidade, com o objetivo de compreender como é que os *enforcers* atuam para assegurar o cumprimento das IFRS. O estudo baseia-se na análise de fontes documentais e entrevistas semiestruturadas sobre a institucionalização do *enforcement* das IFRS em Portugal, utilizando o modelo institucional de Dillard et al. (2004) e o conceito de desinstitucionalização de Oliver (1992), para interpretar as principais conclusões. O estudo mostra que, embora os mecanismos de *enforcement* estejam previstos na legislação portuguesa, podem não estar a funcionar, na prática.

O terceiro estudo investiga os regulamentos e práticas de *enforcement* do Sistema de Normalização Contabilística (SNC), procurando compreender como é que este funciona. Foram realizadas análises documentais e entrevistas semiestruturadas aos vários *enforcers* e as principais conclusões foram, novamente, enquadradas na dinâmica institucional, seguindo também o modelo de Dillard et al. (2004) e o conceito de

desinstitucionalização de Oliver (1992). Os principais resultados mostram que não há *enforcement* direto sobre a maioria das empresas portuguesas que aplicam o SNC, uma vez que não existe exigência de contas auditadas e o normalizador (Comissão de Normalização Contabilística - CNC) não está a cumprir os seus deveres de controlo. A Autoridade Tributária (AT), poderá exercer este *enforcement* de forma indireta.

Finalmente, o quarto artigo analisa o impacto de três níveis de *enforcement* (comissão de auditoria, auditoria externa, e sistema de supervisão institucional) na qualidade da informação financeira. Essa qualidade foi medida utilizando os acréscimos discricionários. Os resultados da análise de regressão múltipla mostram que apenas a independência da comissão de auditoria e a qualidade do auditor externo têm um impacto positivo na qualidade da informação financeira. A associação entre os dois *enforcers* (comissão de auditoria e auditoria externa) também têm um impacto positivo na qualidade da informação financeira. No entanto, o sistema de supervisão institucional, não tem impacto na qualidade da informação, corroborando as conclusões dos artigos qualitativos (artigos 2 e 3), em que o *enforcement* das normas de contabilidade parecem, ainda, não ser muito eficazes, na prática.

Em geral, a tese preenche uma lacuna na literatura e interessa aos organismos de normalização, reguladores, *enforcers*, e utilizadores da informação financeira. Contribui para a compreensão de como o *enforcement* das normas de contabilidade têm impacto na qualidade da informação financeira, apoiando a elaboração de regulamentos de *enforcement* das normas contabilísticas.

Palavras-chave: *enforcers*; controlo; conformidade; SNC; IFRS; Portugal

List of acronyms and abbreviations

AandHCI	Arts and Humanities Citation Index
ASF	*Autoridade de Supervisão de Seguros e Fundos de Pensões*
AT	Tax Authority
BANIF	*Banco Internacional do Funchal*
BCP	*Banco Comercial Português*
BES	*Banco Espírito Santo*
BP	*Banco de Portugal*
BPN	*Banco Português de Negócios*
CC	*Contabilista Certificado*
CMVM	*Comissão de Mercado de Valores Mobiliários*
CNC	*Comissão de Normalização Contabilística*
CNSF	*Conselho Nacional de Supervisores Financeiros*
CPCI-S	Conference Proceedings Citation Index Science
CPCI-SSH	Conference Proceedings Citation Index-Social Sciences and Humanities
CPY	Citations per year
CSC	*Código das Sociedades Comerciais*
EBA	European Banking Authority
EC	European Community
EECS	European Enforcers Coordination Sessions
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authorities
ESFS	European System of Financial Supervisors
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FEE	Federation of European Accountants
GAAP	Generally Accepted Accounting Principles

IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
JCR	Journal Citation Reports
MS EXCEL	Microsoft Excel
NC-ME	*Norma contabilística para as Mico entidades*
NCRF	*Normas Contabilísticas e de Relato Financeiro*
NCRF	*Normas Contabilísticas de Relato Financeiro*
NCRF	*Norma Contabilística e de Relato Financeiro*
NCRF-PE	*Norma Contabilística e de Relato Financeiro para Pequenas Entidades*
NIS	New Institutional Sociology
OCC	*Ordem dos Contabilistas Certificados*
OROC	*Ordem dos Revisores Oficiais de Contas*
POC	*Plano Oficial de Contabilidade*
QFR	Quality of financial reporting
ROA	Return on assets
ROC	*Revisor Oficial de Contas*
RQ	*Research Question*
SCI Expanded	Science Citation Index Expanded
SNC	*Sistema de Normalização Contabilística*
SROC	*Sociedade de Revisores Oficiais de Contas*
SSCI	Social Science Citation Index
UK	United Kingdom
USA	United States of America
WoS	Web of Science

List of Tables

List of Figures

Chapter 1

Chapter 2

Chapter 3

List of contents

Introduction

"A journey of a thousand miles always begins
with the first step."
Confúcio

1. Background

The adoption of a set of high quality standards by companies – the International Financial Reporting Standards (IFRS) – was considered one of the biggest steps in the recent accounting history. However, the existence of high quality standards *per se* is no guarantee of quality financial information and financial reporting (Cho et al., 2015; Quagli et al., 2018). Recently, the literature (e.g., Alexandre & Clavier, 2017; Demmer et al., 2019; Gao & Sidhu, 2018; Gu et al., 2019; Oz & Yelkenci, 2018; Wijayana & Gray, 2019) argues that the quality of financial information is only possible with rigorous accounting enforcement.

Enforcement is considered a compliance analysis of financial information disclosed by entities to ensure that IFRS are being correctly applied (ESMA, 2014, p. 9). It is a system to prevent, identify and take necessary actions in cases of material errors or omissions in the application of IFRS (or other accounting standards). Therefore, according to the Federation of European Accountants (FEE), currently designated Accountancy Europe, accounting enforcement comprises six levels: self-enforcement; statutory audit of financial statements; approval of the financial statements (administration boards); institutional oversight systems; court complaints and sanctions; and public and press reactions (FEE, 2001).

In recent years, enforcement has been growing in importance (Anagnostopoulou, 2017; Daher, 2017; Duru et al., 2018; Eutsler et al., 2016; Preiato et al., 2015). It is recognized that it plays a key role in encouraging the production of high quality financial information (Alexandre & Clavier, 2017; Brown et al., 2014; Christensen et al., 2013; Gu et al., 2019; Kavanagh, 2017; Leuz, 2010; Oz & Yelkenci, 2018; Peña & Franco, 2017).

In 2014, the European Securities and Markets Authority (ESMA) published the "Guidelines on enforcement of financial information", which defined the scope and objective of enforcement, the characteristics of enforcers and the set of principles to be followed in the enforcement process in the European setting (Silva & Rodrigues, 2017). In February 2020, a revision of those Guidelines was made, namely amendments to Guidelines 5, 6 and 8, and the definitions of the types of examinations that enforcers can perform were also amended; however, these revisions will only enter into force on 1 January 2022 (ESMA, 2020a). Currently, European enforcers must communicate in writing to ESMA whether or not they intend to comply with the Guidelines (ESMA, 2020b). According to ESMA (2019), of the 28 Member States, 23 comply, four do not comply and one intends to comply with the ESMA guidelines on the enforcement of financial information.

ESMA also collaborates with the European Financial Reporting Advisory Group (EFRAG), in the sense that it promotes the endorsement of accounting standards and shares the experience that enforcers disclose in the European Enforcers Coordination Sessions (EECS) on the application of IFRS in Europe. To this end, six letters were sent during 2019 on EFRAG's draft comments letters about the IASB exposure drafts (ESMA, 2020a).

However, although the concept of enforcement appeared after the wide acceptance of IFRS (in the European Union (EU), particularly from 2005), enforcement mechanisms have not yet been implemented in some countries or, where implemented, the consequences and impacts of enforcement on the quality of accounting information, have not been empirically assessed yet (ESMA, 2017; Mantzari & Georgiou, 2019). The literature has also been arguing the scarcity of studies that actually assess the enforcement practices of countries (e.g., Böcking et al., 2015; Guerreiro et al., 2020; Kleinman et al., 2019; Mantzari & Georgiou, 2019; Moura & Gupta, 2019; Preiato et al., 2015; Silva & Rodrigues, 2017).

2. Purpose, research questions and research design

The main overall objectives of this thesis are understanding how enforcers work/act to ensure compliance with business accounting standards, and the impact of their action on the quality of financial information, taking Portugal as the context for the empirical study. For these purposes, the following research questions (RQ) were formulated:

RQ1: What is the current state of research on the relationship between IFRS enforcement and accounting quality?

RQ2: How Portuguese enforcers, at different levels, act to ensure compliance with the business accounting standards, either national or international?

RQ3: How enforcement, considered at different levels, impact the quality of companies' financial reporting?

In order to answer the above research questions that may be translated into four specific objectives, the thesis will converge in the publication of four scientific papers, as follows:

Paper 1 (chapter 1) – The aim of this paper is to identify, recap and analyze the current state of research on the relationship between IFRS enforcement and accounting quality, in order to provide a critical overview of publications in this field, and to identify future areas of interest. Supported by a structured literature review this paper fills in a research gap by conducting a scientometric analysis of papers on the relationship between IFRS enforcement and accounting quality understood in a broad sense. It reviews papers published between 2006 and 2019 selected from the Web of Science database, particularly analyzing main journals, authors, geographic areas of study, methods used, specific topics explored and future lines of research to be developed. Main findings show a scarcity of studies analyzing IFRS enforcement practices in individual countries and, subsequently, of the impact these practices may have on the accounting quality. Also, they evidence prevalence of quantitative approaches. This research corroborates the studies of Guerreiro et al. (2020), Kleinman et al. (2019), Mantzari and Georgiou (2019) and Moura and Gupta (2019), which indicate the lack of studies actually assessing the enforcement practices of countries. The gap that was found calls for further research to know the effectiveness of the IFRS-related enforcement mechanisms, in practice, namely resorting to qualitative analyses.

Paper 2 (chapter 2) – This paper analyzes the enforcement practices regarding the international accounting standards in Portugal, seeking to understand how enforcers act to control IFRS compliance. This study relies on deep analysis of documentary sources and semi-structured interviews about the institutionalization of IFRS enforcement in Portugal, adapting the institutional model of Dillard et al. (2004) and the deinstitutionalization concept of Oliver (1992) to interpret the main findings. Accordingly, there is evidence that legitimacy structures characterize the performance of Portuguese official entities responsible for controlling the application of IFRS, namely by Securities Markets Authority (*Comissão de Mercado de Valores Mobiliários* - CMVM). With this legitimacy, the actors exercise structures of domination and signification spread across lower institutional levels (Institute of Certified Auditors (*Ordem dos Revisores Oficiais de Contas* – OROC); statutory auditors of public-interest entities). However, due to bidirectional pressures between the levels of action, there is a significant part of the control of compliance with IFRS which, despite provided for by law, is not being exercised (Institute of Certified Accountants (*Ordem dos Contabilistas Certificados* - OCC), leading to deinstitutionalization of the enforcement practices. Considering several scandals with banks and the empirical data collected, the study shows that, although the enforcement mechanisms are provided for in the Portuguese legislation, they may not be working in practice.

Paper 3 (chapter 3) – This study analyses the practices of enforcement concerning the national accounting standards (*Normas Contabilísticas e de Relato Financeiro* - NCRF) in Portugal, seeking to understand how enforcers act to control compliance with those financial reporting standards. As in the second paper, this research relies on documentary analysis and semi-structured interviews to the various enforcers. Findings were framed within institutional dynamics, following the Dillard et al. (2004) model and Oliver's (1992) deinstitutionalization concept. Main conclusions reveal that, although the criteria are defined at the economic and political levels (by Accounting Standards Board (*Comissão de Normalização Contabilística* - CNC)), control has not been put into practice (decoupling), failing to comply with their duties of controlling the application of accounting standards. At the organizational field level, although the quality control system of OROC is being applied, this is not the case for the quality control of OCC. OCC's quality control has been suspended due to the pressure exercised by certified accountants. Decoupling practices can be observed (the criteria exist but they are not being applied) and, consequently, there was a deinstitutionalization of practices previously institutionalized. This calls into question the effectiveness of the enforcement system of the country (Portugal) and ultimately the true and proper view to be offered by the companies' financial statements (in this case, those prepared under Accounting Standardization System (*Sistema de Normalização Contabilística* - SNC).

Paper 4 (chapter 4) – This study aims to analyze the impact of the three levels of enforcement (audit committee, external audit, and oversight system) on the quality of financial reporting. Data was collected from 76 Portuguese companies for the years 2017-2018, the only years with availability of data. The quality of financial reporting was measured using discretionary accruals (Kothari et al., 2005). This panel regression considers both the cross-sectional and time-series effects and is based on firm-year observation with Fixed Effects Model. The results of multiple regression analysis show that only the independence of the audit committee and the quality of the external auditor have a positive impact on the quality of financial reporting. The association between the two enforcers (audit committee and external auditor) also has a positive impact on the quality of the financial reporting. However, the oversight system has no impact on the quality of the information disclosed, which agrees with the findings of the qualitative papers (papers 2 and 3), where accounting enforcement (namely from CMVM) does not appear to be very effective in practice yet.

3. Theoretical framework

The accounting literature has been using institutional theory in order to resort to sociological aspects to understand how this theory influences and/or is influenced by the dynamics and participation of the various agents (Dillard et al., 2004).

Introduction

Institutional theory has often been used in the literature to understand accounting practices, as it provides an attractive framework to explain the mechanisms that entities use to align the perception of their practices with the expectations of the social environment in which they operate. Given that organizations, within local and international governmental structures, are socially constructed and subject to regulatory processes, their compliance will give rise to legitimacy in relation to performance in the domestic and international marketplace (Dillard et al., 2004).

For entities to survive, they are obliged to adopt practices, structures and systems accepted as legitimate, that is, socially institutionalized procedures (Meyer & Rowan, 1977). Thus, for organizations to become legitimate they must adopt positions, policies and behaviors perceived as the most appropriate (institutionalized) (Crawford et al., 2014). According to DiMaggio and Powell (1983), organizations tend to adopt the same practices and structures as other organizations, considered legitimate. However, Meyer and Rowan (1977) showed that sometimes there is decoupling, i.e., the separation between norms and the administrative practice. Although there are institutionalized rules, they are not put into practice, and situations occur where the formal organizational structure is different from current practice. Years later, Oliver (1992) argued that there may be social, functional, or political pressures that lead to the disappearance of an institutionalized practice. Thus, the author introduced the concept of deinstitutionalization.

Based on the institutional theory, the dynamic structuring of social systems (Giddens, 1976, 1979, 1984) and Weber (1968) notions of social context, Dillard et al. (2004) proposed a model that analyses the institutional dynamics between three levels of the social context: the economic and political level, the organizational field level, and the organizational level. The first level represents the political, economic, and social systems, and has the responsibility to establish and disseminate standards and values in society and in the organizational field. The second level includes professional organizations, which aim to translate the norms established by the economic and political level into criteria of legitimacy. At the bottom is the level of organization, where the professionals are, which can be accountants and statutory auditors.

Accordingly, this thesis is overall based on the institutional theory, adapting the model of Dillard et al. (2004) together with the concept of deinstitutionalization of Oliver (1992) to analyze the interactions between the different actors (accounting standards enforcers) at different levels (papers 2 and 3). Globally, the accounting standards enforcers in Portugal are, at the first level (the economic and political level), CMVM, Insurance Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões* - ASF), Central Bank (*Banco de Portugal* - BP) and CNC; at the second level (the organizational field level), OCC and OROC; and at the lowest level (the organizational level) are the accountants and statutory auditors.

Since most companies in the sample are family-owned and often the owners are the company's managers (Oliveira et al., 2018), for paper 4, the institutional theory was also used, as it was considered as providing the most suitable and favorable framework for the analysis, since it focuses on the pressure and constraints of the institutional environment (e.g., State, auditors, accountants, interest groups, oversight authorities) (DiMaggio & Powell, 1983). In addition, the New Institutional Sociology (NIS) points to issues of legitimacy. Given that organizations are open systems that influence and are influenced by their environment, NIS allows to know how the institutional environment, composed of norms, beliefs, traditions and the need for legitimacy, affects the behavior of organizations (DiMaggio & Powell, 1983). In our research, organizational change regarding accounting and financial reporting practices is a result of a direct response to the Regulation (EC) No. 1606/2002. Through coercive pressure, in Portugal, CMVM, auditors and companies' administrators need to comply with the legislative requirements, allowing them to acquire legitimacy in the market, both to their professions and to the companies they lead. Thus, when Portuguese enforcers apply certain enforcement procedures, their action gains legitimacy.

4. Structure

After this Introduction, the thesis is organized in four chapters, as the four papers (published in/submitted to indexed journals). The analysis of the current state of research on the relationship between IFRS enforcement and accounting quality is presented in chapter 1 (paper 1). Considering the Portuguese setting, chapter 2 (paper 2) analyses the enforcement practices of IFRS enforcers, and chapter 3 (paper 3) how SNC enforcers act. Chapter 4 (paper 4) presents an empirical study of the impact of three levels of enforcement on the quality of financial reporting.

The thesis concludes with a summary of the main findings, which reflects on the results achieved in each of the three research questions, the contributions and applications of each chapter, the limitations of this research in general, and some opportunities for further research.

References

Alexandre, H., & Clavier, J. (2017). Adoption of IAS/IFRS, liquidity constraints, and credit rationing: The case of the European banking industry. *Quarterly Review of Economics and Finance*, *63*, 249–258. https://doi.org/10.1016/j.qref.2016.05.001

Anagnostopoulou, S. C. (2017). Accounting Quality and Loan Pricing : The Effect of Cross-country Differences in Legal Enforcement. *International Journal of Accounting*, *52*(2), 178–200. https://doi.org/10.1016/j.intacc.2016.11.001

Böcking, H. J., Gros, M., & Worret, D. (2015). Enforcement of accounting standards: how effective is the German two-tier system in detecting earnings management? *Review of Managerial Science*, *9*(3), 431–485. https://doi.org/10.1007/s11846-014-0159-z

Brown, P., Preiato, J., & Tarca, A. (2014). Measuring Country Differences in Enforcement of Accounting Standards: An Audit and Enforcement Proxy. *Journal of Business Finance and Accounting*, *41*(1–2), 1–52. https://doi.org/10.1111/jbfa.12066

Cho, K., Kwon, K., Yi, H., & Yun, Y. (2015). The Effect of International Financial Reporting Standards Adoption on the Relation Between Earnings Quality and Information Asymmetry in Korea. *Emerging Markets Finance and Trade*, *51*, 95–117. https://doi.org/10.1080/1540496X.2015.1039905

Christensen, H. B., Hail, L., & Leuz, C. (2013). Mandatory IFRS reporting and changes in enforcement. *Journal of Accounting and Economics*, *56*(2–3), 147–177. https://doi.org/10.1016/j.jacceco.2013.10.007

Crawford, L., Lont, D., & Scott, T. (2014). The effect of more rules-based guidance on expense disclosure under International Financial Reporting Standards. *Accounting and Finance*, *54*(4), 1093–1124. https://doi.org/10.1111/acfi.12037

Daher, M. (2017). Creditor control rights, capital structure, and legal enforcement. *Journal of Corporate Finance*, *44*, 308–330. https://doi.org/10.1016/j.jcorpfin.2017.04.002

Demmer, M., Pronobis, P., & Yohn, T. L. (2019). Mandatory IFRS adoption and analyst forecast accuracy: the role of financial statement-based forecasts and analyst characteristics. *Review of Accounting Studies*, *24*(3), 1022–1065. https://doi.org/10.1007/s11142-019-9481-7

Dillard, J. F., Rigsby, J. T., & Goodman, C. (2004). The making and remaking of organization context Duality and the institutionalization process. *Accounting, Auditing & Accountability Journal*, *17*(4), 506–542. https://doi.org/10.1108/09513570410554542

DiMaggio, P. J., & Powell, W. (1983). The iron cage revisited: institutional isomorphism in organizational fields. *American Sociological Review*, *48*(2), 147–160.

Duru, A., Hasan, I., Song, L., & Zhao, Y. (2018). Bank accounting regulations, enforcement mechanisms, and financial statement informativeness: cross-country evidence1. *Accounting and Business Research*, 1–35. https://doi.org/10.1080/00014788.2017.1415801

ESMA, E. S. M. A. (2014). Guidelines on enforcement of financial information. *ESMA/2014/1293*, *2*, 139–147.

ESMA, E. S. M. A. (2017). ESMA recommends improvements in financial information enforcement. In *Press release July 18, 2017*.

ESMA, E. S. M. A. (2019). Guidelines compliance table. In *European Securities and*

Market Authority (Issue March).

ESMA, E. S. M. A. (2020a). Enforcement and regulatory activities of European enforcers in 2019. In *European Securities and Market Authority* (Issue April). www.esma.europa.eu

ESMA, E. S.M. A. (2020b). Guidelines on enforcement of financial information. In *European Securities and Market Authority*.

Eutsler, J., Nickell, E. B., & Robb, S. W. G. (2016). Fraud risk awareness and the likelihood of audit enforcement action. *Accounting Horizons*, *30*(3), 379–392. https://doi.org/10.2308/acch-51490

FEE, F. des E. C. E. (2001). *Enforcement Mechanisms in Europe EU: A Preliminary Investigation of Oversight Systems* (Issue April).

Gao, R., & Sidhu, B. K. (2018). The Impact of Mandatory International Financial Reporting Standards Adoption on Investment Efficiency: Standards, Enforcement, and Reporting Incentives. *Abacus*, *54*(3), 277–318. https://doi.org/10.1111/abac.12127

Giddens, A. (1976). *New rules of sociological method*. Hutchinson.

Giddens, A. (1979). *Central problems in social theory: Action, structure and contradiction in social analysis*. University of California Press.

Giddens, A. (1984). *The constitution of society: Outline of the theory of structuration* (U. of C. Press (ed.)).

Gu, Z., Ng, J., & Tsang, A. (2019). Mandatory IFRS adoption and management forecasts: The impact of enforcement changes. *China Journal of Accounting Research*, *12*(1), 33–61. https://doi.org/10.1016/j.cjar.2018.09.001

Guerreiro, M., Rodrigues, L. L., & Craig, R. (2020). Institutional theory and IFRS : an agenda for future research. *Spanish Journal of Finance and Accounting*, *00*(00), 1–24. https://doi.org/10.1080/02102412.2020.1712877

Kavanagh, M. (2017). An overview of accounting enforcement in Europe. *Accountancy Ireland*, *49*(June), 42–43.

Kleinman, G., Lin, B. B., & Bloch, R. (2019). Accounting enforcement in a national context: an international study. *International Journal of Disclosure and Governance*, *16*(1), 47–67. https://doi.org/10.1057/s41310-019-00056-y

Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance matched discretionary accrual measures. *Journal of Accounting and Economics*, *39*(1), 163–197. https://doi.org/10.1016/j.jacceco.2004.11.002

Leuz, C. (2010). Different approaches to corporate reporting regulation: how jurisdictions differ and why. *Accounting & Business Research*, *40*(3), 229–256. https://doi.org/10.1080/00014788.2010.9663399

Mantzari, E., & Georgiou, O. (2019). Ideological hegemony and consent to IFRS: Insights from practitioners in Greece. *Critical Perspectives on Accounting*, *59*, 70–93. https://doi.org/10.1016/j.cpa.2018.06.003

Meyer, J. W., & Rowan, B. (1977). Institutionalized Organizations : Formal Structure as Myth and Ceremonyl. *The American Journal of Sociology*, *83*(2), 340–363.

Moura, A. A. F. de, & Gupta, J. (2019). Mandatory adoption of IFRS in Latin America: A boon or a bias. *Journal of International Financial Markets, Institutions and Money*, *60*, 111–133. https://doi.org/10.1016/j.intfin.2018.12.016

Oliveira, J., Azevedo, G., & Oliveira, B. (2018). Impairment Losses: The Impact of First-time Adoption of the Accounting Standardisation System in Portugal. *Australian Accounting Review*, *28*(4), 556–576. https://doi.org/10.1111/auar.12221

Oliver, C. (1992). The Antecedents of Deinstitutionalization. *Organization Studies*, *13*(4), 563–588.

Oz, I. O., & Yelkenci, T. (2018). Examination of real and accrual earnings management: A cross-country analysis of legal origin under IFRS. *International Review of Financial Analysis*, *58*(July 2017), 24–37. https://doi.org/10.1016/j.irfa.2018.04.003

Peña, H. F. P., & Franco, J. B. (2017). Impact of IFRS on the quality of financial information in the United Kingdom and France: Evidence from a new perspective. *Intangible Capital*, *13*(4), 850–878. https://doi.org/10.3926/ic.939

Introduction

Preiato, J., Brown, P., & Tarca, A. (2015). A Comparison of Between-Country Measures of Legal Setting and Enforcement of Accounting Standards. *Journal of Business Finance & Accounting*, *42*(1–2), 1–50. https://doi.org/10.1111/jbfa.12112

Quagli, A., Avallone, F., Ramassa, P., & Motta, L. (2018). Measuring the Effectiveness of National Enforcers in the IFRS Context: A Proactive Approach. *International Business Research*, *11*(6), 151–164. https://doi.org/10.5539/ibr.v11n6p151

Silva, A., & Rodrigues, A. M. (2017). Mecanismos de controlo das normas internacionais de contabilidade. *European Journal of Applied Business and Management*, 57–72.

Weber, M. (1968). *Economy and society: An outline of interpretive sociology*. Bedminster Press.

Wijayana, S., & Gray, S. J. (2019). Institutional Factors and Earnings Management in the Asia-Pacific: Is IFRS Adoption Making a Difference? *Management International Review*, *59*(2), 307–334. https://doi.org/10.1007/s11575-018-0371-1

Chapter 1: Enforcement and accounting quality in the context of IFRS

Paper 1: Enforcement and accounting quality in the context of IFRS: is there a gap in the literature?

Accepted on 31 December 2020 (Forthcoming): *International Journal of Accounting & Information Management*

Indexed journal: SCImago Journal Rank (SJR): 0.49; Accounting (Q2); Finance (Q1)
ABS 2

Chapter 1

ENFORCEMENT AND ACCOUNTING QUALITY IN THE CONTEXT OF IFRS: IS THERE A GAP IN THE LITERATURE?

Purpose – Existing research has concluded that accounting quality is influenced not only by the quality of accounting standards, but also by enforcement systems. Therefore, enforcement is one of the key factors for ensuring IFRS compliance and achieving accounting quality. However, one still does not know what has been studied about this relationship in scientific literature. Accordingly, the aim of this paper is to identify, recap and evaluate the current state of research on the relationship between IFRS enforcement and accounting quality, in order to provide a critical overview of publications in this field, and to identify future areas of interest.

Design – Supported by a structured literature review this paper fills in a research gap by conducting a scientometric analysis of papers on the relationship between IFRS enforcement and accounting quality construed in a broad sense. It reviews articles published between 2006 and 2019 selected from the Web of Science database, particularly analyzing main journals, authors, geographic areas of study, methods used, specific topics explored and future lines of research to be developed.

Findings – Main findings show a shortage of studies analyzing IFRS enforcement practices in individual countries and, in turn, the impact these practices may have on the accounting quality. This gap calls for further research to know the effectiveness of the IFRS-related enforcement mechanisms.

Originality/value – To the best of our knowledge, no previous scientometric studies focused on the enforcement of IFRS and accounting quality. This study fills this research gap and improves the understanding about what has been published on the topic, also proposing an agenda for future research that can help regulators to adjust policies for the implementation and enforcement of IFRS.

Keywords: Scientometric study, structured literature review, content analysis, research description, accounting standards.

Paper type: Literature review

1.1. Introduction

Accounting quality has been defined by several researchers considering different perspectives: the extent which the accounting information reflects the company's performance and/or financial position (Barth *et al.*, 2008; Chen *et al.*, 2010; Hribar *et al.*, 2014); the extent which accounting information makes it possible to estimate the expected cash flows (Callen *et al.*, 2013); or the accomplishment of the qualitative characteristics of the financial information (Legenzova, 2016; IASB, 2018). In this paper, all these perspectives are considered, meaning that accounting quality is understood in a broad sense, including but also going beyond the concept of financial reporting quality, to encompass earnings management, value relevance and timely loss recognition concepts, among others (Robu *et al.*, 2016).

Soderstrom and Sun (2007) identified the determinants of accounting quality following the adoption of IFRS in the European Union (EU). They concluded that, apart from the quality of the accounting standards, accounting quality is also influenced by management, political and legal factors. Other authors, such as Holthausen (2009), Hope (2003), Kabir and Laswad (2015) and Guerreiro *et al.* (2020), argued that accounting quality is only possible with a rigorous IFRS enforcement mechanism.

Enforcement is considered as a ‘compliance analysis’ of the financial information reported by an entity to ensure that the accounting standards, namely IFRS, are being properly implemented. It is a system to prevent, identify and take the necessary measures, in cases of material error or omission in the application of IFRS (ESMA, 2014). The authorities or bodies who control standard implementation are called “enforcers”.

Over the last few years, IFRS enforcement has been acknowledged as increasingly important (Anagnostopoulou, 2017; Daher, 2017; Duru *et al.*, 2018; Eutsler *et al.*, 2016; Preiato *et al.*, 2015). It is also recognized that enforcement plays a very important part in encouraging the production of high quality financial information (Alexandre and Clavier, 2017; Brown *et al.*, 2014; Christensen *et al.*, 2013; Gu *et al.*, 2019; Kavanagh, 2017; Leuz, 2010; Oz and Yelkenci, 2018; Peña and Franco, 2017), hence playing a key role in accounting quality.

Accordingly, it is important to assay whether the standards are being enforced and to understand if this mechanism of control leads to an improvement in the quality of accounting information. Previous literature reveals that the adoption of IFRS is important for improving the quality of accounting information only if properly enforced (Guerreiro *et al.*, 2020). Enforcement is also necessary to enhance comparability and transparency of the accounting information disclosed by companies.

Accounting quality (considering the different perspectives mentioned before) and IFRS are vastly studied areas in the literature, especially if considered separately. On the other hand, although the concept of enforcement appeared after the wide acceptance of IFRS (in the EU, particularly from 2005), enforcement mechanisms have not yet been implemented in some countries or, where implemented, the consequences and impacts of enforcement on the quality of accounting information, have not been empirically assessed (ESMA, 2017; Mantzari and Georgiou, 2019). This may justify the scarcity of literature about enforcement and IFRS.

Given the significance of accounting information for society in general, IFRS enforcement and accounting quality turns out to be a very relevant topic. It is, therefore, important to provide researchers with an overview of what has, or has not yet, been done in terms of research in these areas. A structured literature review is appropriate to provide critical insight into this field, allowing to improve understanding of IFRS enforcement and accounting quality, to gain a broad view of the current situation, and to explore research opportunities for the future. According to Massaro *et al.* (2016), it is necessary to scrutinize the existing field of knowledge in order to offer a credible path for future research. These authors argue that a well-structured literature review must demonstrate what has been done in the literature, what the focus of the research is and what the future of research will be.

Supported by a structured literature review, this paper tries to fill in a research gap by conducting a scientometric analysis of studies on the relationship between enforcement and accounting quality in the context of IFRS. The aim is to identify, synthesize and evaluate the current state of research, to provide a critical overview of publications in this field, and to identify future areas of interest. The paper reviews articles published between 2006 and 2019 gathered from the Web of Science database. An ultimate objective of this paper is to improve understanding about what has been published on the topic and to propose an agenda for future research that can help regulators to adjust policies for the implementation and enforcement of the IFRS.

The research in this paper brings two important contributions. First, it highlights the shortcomings in the study of IFRS control mechanisms and the accounting quality. To the best of our knowledge, no previous studies focused on the enforcement of IFRS and accounting quality. Thus, this study fills a gap, because there is a shortage of research directed to this topic (Porte and Sampaio, 2015). Second, this research helps scholars and researchers directing their work, by proposing an agenda for future research.

The paper is organized as follows. The next section provides a short review of scientometric studies that helped to formulate the research questions. The sections that follow present the sample selection, research method, main findings and conclusions.

1.2. Review of scientometric studies and research questions

Literature reviews usually present an exhaustive collection of the scientific production in a given area of study (Dumay, 2014; Paoloni *et al.*, 2020). Through them, knowledge about the state of the art is acquired, allowing to identify research gaps (Jesson *et al.*, 2011). For a better outline of the literature review, a scientometric analysis is useful, since it provides both the general and the specific overview of a certain subject, pointing out trends and lines of future research, supported by quantitative data (Cocosila *et al.*, 2011; Ramy *et al.*, 2018; Waltman *et al.*, 2011).

Nalimov and Mulcjenko (1971) defined ‘scientometrics’ as a quantitative method that sheds light on the developments of science through an informational process. Scientometric studies have been published in scientific journals over the years in all areas of knowledge. However, to the best of our knowledge, there is no scientometric study involving accounting quality and enforcement of IFRS.

In order to proceed with the scientometric analysis, this paper relies on a structured review of the literature (Massaro *et al.*, 2016). Thus, along the same lines as Bracci *et al.* (2019) and Paoloni *et al.* (2020), we propose to answer the following research questions:

> **RQ_1: What is the current state of research on the relationship between IFRS enforcement and accounting quality?**
>
> **RQ_2: How have the main topics related to IFRS enforcement and accounting quality evolved?**
>
> **RQ_3: What are the future avenues of IFRS enforcement and accounting quality research?**

Regarding RQ1, the scientometric analysis aims to understand which journals publish more papers, the most cited papers and the most prolific authors, in the same way as Akhavan *et al.* (2016), Rodríguez Bolívar *et al.* (2016) and Sáez-Martín *et al.* (2017). Although good papers can be found in numerous sources of information, the best journals tend to publish the best papers. These were analyzed by the best reviewers, which leads to high-quality pieces of research (CABS, 2018).

The geographical area where the research is carried out has lately gained emphasis. It is interesting to know where these analyses have already been done, in order to identify less explored regions. As Akhavan *et al.* (2016), this research will also identify the countries where studies on IFRS enforcement and accounting quality were focused.

In the context of this research, it is also important to know the most used research design, the type of data collection and type of data analysis. The methodology is defined as the 'general logic and theoretical perspective for a research' (Bogdan and Biklen, 2007). Research methods can be described as all the data collection and analysis techniques that are used for conducting research activities to solve research problems (Kothari, 2004). Following Rodríguez Bolívar *et al.* (2016) and Sáez-Martín *et al.* (2017), the analysis in this paper seeks to identify the methodology used in the literature about IFRS enforcement and accounting quality.

In order to reply RQ2, the scientometric analysis seeks to analyze the main topics that have already been addressed in the previous literature, identifying which specific subjects are most frequently analyzed and the main trends over the years, in this case, relating particularly to both IFRS enforcement and accounting quality considered together. Furthermore, the structured analysis, while identifying the topics and regions that are less explored, and the methodologies less used, will also help to highlight future lines of research to be developed, in order to reply to RQ3.

1.3. Sample selection and research method

1.3.1. Database and sample selection

The data-gathering process is assumed to be the main aspect of this research, since the collected data will serve as basis for a better understanding of the research subject – enforcement and accounting quality in the context of IFRS.

1.3.1.1. Database

It is generally acknowledged that there are three main academic databases: Web of Science (WoS), Scopus and Google Scholar (Harzing and Alakangas, 2016). The WoS, formerly known as the Web of Knowledge, is one of the most comprehensive databases in the world, possessing, as at 2018, more than 12,530 high-quality journals in the fields of natural sciences, social sciences and arts and humanities. Scopus, later introduced by Elsevier, is defined as a large database of abstracts and quotations of scientific papers, books and conferences. These databases are competing in the market. Finally, Google Scholar is also a search engine that has greater breadth in the area of international business and management (Harzing and Wal, 2008). However, the Google Scholar database has been criticized for the unsuitability of scientometric analyses; although it helps in the search for very specific information, it is inflated by inadequate and out-of-date information (Falagas *et al.*, 2007; Harzing, 2014; Jacsó, 2010).

Considering this scenario, this paper uses the WoS database, since it is considered as a ‘gold standard’ for citation analyses (Harzing and Alakangas, 2016) and it is the database most used by researchers (Amara and Landry, 2012). In particular, it focuses on the Core Collection that includes Social Science Citation Index (SSCI), Science Citation Index Expanded (SCI Expanded), Conference Proceedings Citation Index Science (CPCI-S), Arts and Humanities Citation Index (AandHCI) and Conference Proceedings Citation Index-Social Sciences and Humanities (CPCI-SSH).

1.3.1.2. Time period

The time lapse of this study consists of fourteen consecutive years, starting in 2006 and ending in 2019. This time frame is essentially due to two aspects. The year 2006 was chosen as the starting date for the research because, under Regulation (EC) No. 1606/2002, from 2005 onwards all listed companies in the EU Member States were required to prepare their consolidated financial statements in accordance with IFRS. Consequently, since 2006 the amount of scientific production on the topic increased significantly (Anagnostopoulou, 2017). Also, in the period under review, we verified that issues related to IFRS enforcement and accounting quality deserved greater attention of researchers, probably related to the growing importance of control mechanisms (Anagnostopoulou, 2017; Daher, 2017; Duru *et al.*, 2018; Eutsler *et al.*, 2016).

1.3.1.3. Papers

As explained earlier, the analysis of these papers is the main purpose of this research, since it provides insight on the state of the art of a certain research matter. From this analysis it is possible to identify trends, gaps and future research perspectives.

In the process of selecting the papers, an initial WoS search was conducted, including in the field named "topic" the appropriate keywords and time period, in the same way as Paoloni *et al.* (2020). The search was limited to the “paper title”, “abstract” and “keywords”. Afterwards, following Rodríguez Bolívar *et al.* (2016) and Sáez-Martín *et al.* (2017), one exclusion criterion was applied: all types of documents that were not set up as research papers, e.g., abstracts of conference communications, book reviews, book chapters, editorial material and proceedings papers were excluded[1].

The search for the papers was carried out tacking these conditions into account. Concerning the accounting quality, a difficulty of finding the most appropriate terms to be searched had to be overcome, considering the aforementioned diverse understanding of the accounting quality concept. The literature has been developing different terminology to refer to the quality of accounting information. The most used terms are accounting quality, quality of accounting information, quality of financial information, and quality of financial reporting. A brief search allowed us to conclude that, despite different meanings, all terms tend to be used as synonymous; therefore, the search was carried out using all of these terms (together with IFRS), so that the results focus on themes related to accounting quality in a broad sense. The terms “enforcement”, “accounting quality” and “IFRS” were used to search for papers and 47 documents were initially found. To gather all papers that are related to international accounting standards (IAS and IFRS), another search was conducted using the terms "enforcement", "accounting quality" and "IAS"[2]. As a result, one additional paper was obtained. Thus, 48 papers were found in total for "enforcement", "accounting quality", "IFRS" and "IAS". Since IFRS presented the most results, IFRS will be the terminology used.

1.3.1.4. Knowledge areas

The definition of the research area gains importance in this study. A proper definition will provide for adequate research focus. The journals, and consequently the papers, will be selected according to the topics under research. WoS presents several categories or areas of knowledge, namely: business-finance; economics; management; business; public administration; international relations; law; educational research;

---

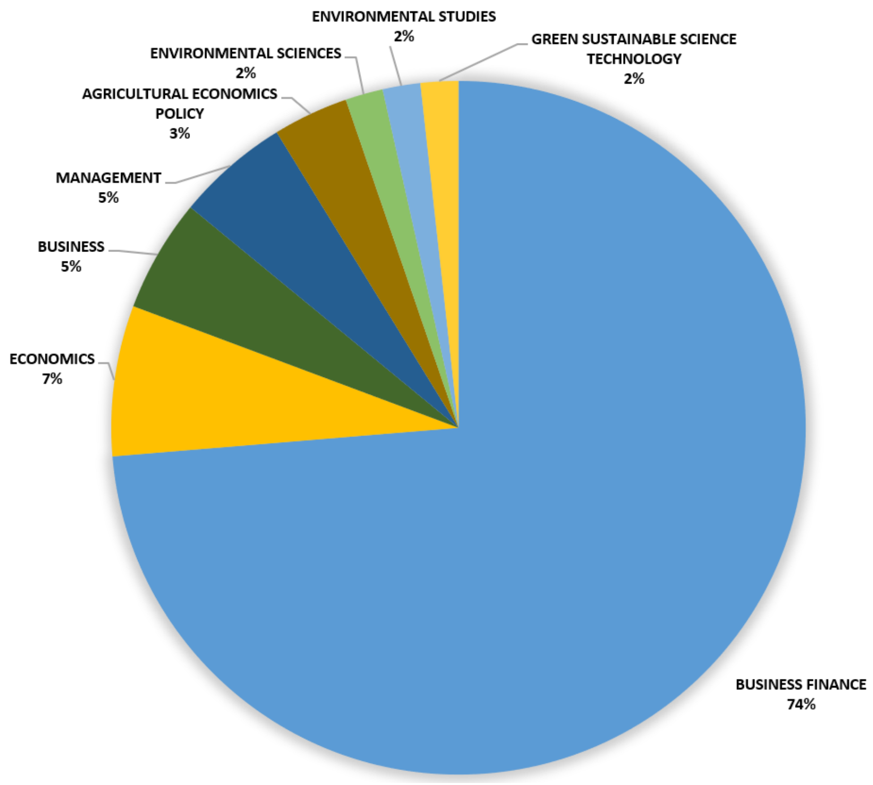
[1]These were excluded because the complete documents were not available, but only the summaries, not providing sufficient data for the analysis.

[2] Standards issued by the IASB before 2001 were called IAS. Thus, by including this term we make sure that all papers about international accounting standards are included in our study.

multidisciplinary sciences; social sciences interdisciplinary; environmental studies; and others. For the 48 papers under analysis, WoS was used to check the areas with highest relative weight and that are most suitable for the research, namely those related to accounting.

Figure 1.1 highlights the areas that comprise the most papers: business-finance, economics, management and business. Thus, to focus the sample on the desired topics, without ignoring any area that is related to the research, a filter was considered to restrict the papers only to these areas (Paoloni *et al.,* 2020; Rodríguez Bolívar *et al.*, 2016; Sáez-Martín *et al.*, 2017).

Figure 1.1 - Web of Science research areas



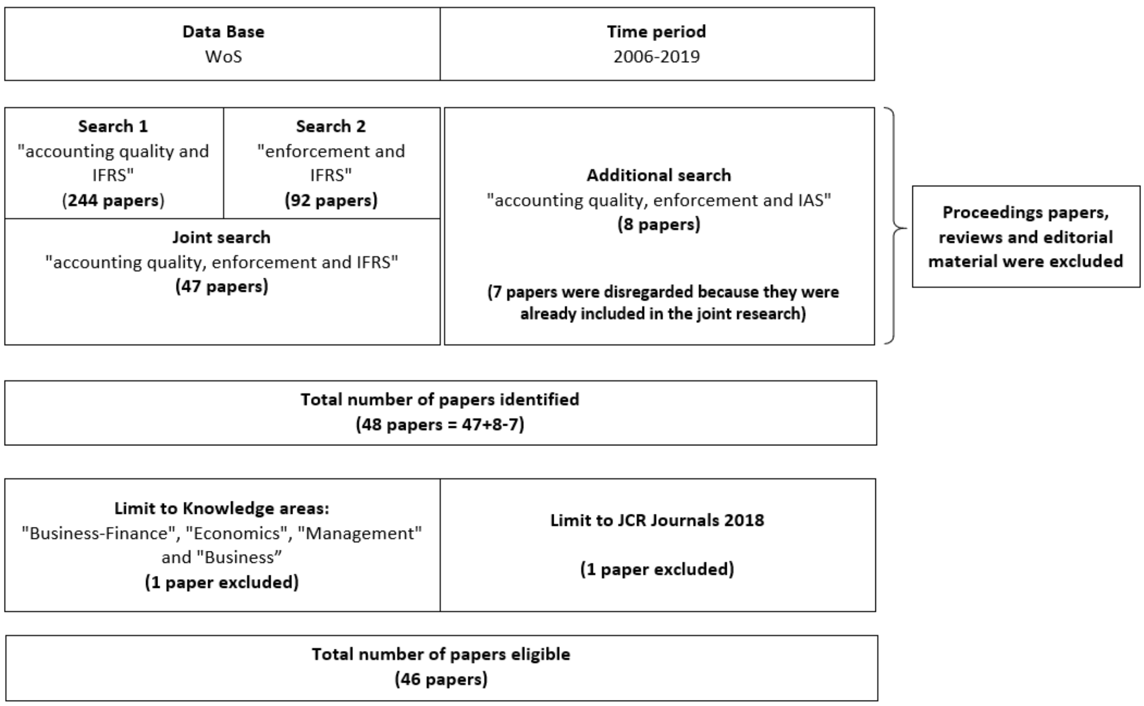
1.3.1.5. <u>Journals</u>

Finally, the search for papers was limited to journals included in the Journal Citation Reports (JCR) list with reference to the year 2018, which was the last year available. JCR is one of the most widely used indexes for impact factor of the most international and visible papers in the business area, not only amongst the bibliometric community, but also researchers and science policy makers (Bordons *et al.*, 2002).

1.3.1.6. Final Sample

Figure 1.2 summarizes the data collection process presented above.

Figure 1.2 – Papers selection scheme



Source: Based on Paoloni *et al.* (2020)

Accordingly, during the period 2006-2019, we collected 92 publications on "enforcement and IFRS" and 244 publications on "accounting quality (including synonyms) and IFRS", corroborating the idea that the "accounting quality" theme is already widely studied in the literature. Moreover, this evidence supports previous literature pointing to a shortage of studies related to the enforcement of IFRS, e.g. Böcking *et al.* (2015), Brown *et al.* (2014), Duru *et al.* (2018), Houqe (2018) and Preiato *et al.* (2015).

Then, we proceeded to select the common publications in the two searches, having found a total of only 47 documents. Indeed, a deeper analysis after the initial searches found that, despite several papers addressing “accounting quality and IFRS” and “enforcement and IFRS” separately, only 14% (47 out of the total 336) analyzed “accounting quality and enforcement and IFRS" together. In addition to these papers, research using IAS terminology ("enforcement", "accounting quality" and "IAS") has added one more paper to the 47 found previously. Furthermore, after this selection, two papers were excluded by applying the restrictions of the areas of knowledge (one paper was not included in the areas selected) and the journal rankings (one paper was not published in a JCR journal). Therefore, the research developed a deep analysis of the 46 papers that are finally part of the sample.

1.3.2. Research method

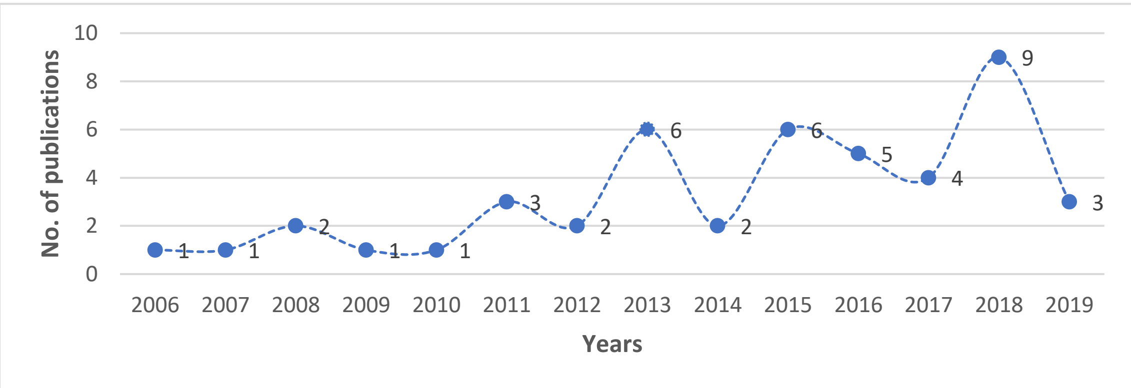
Following the point of view of several researchers (e.g., Akhavan *et al.*, 2016; Rodríguez Bolívar *et al.*, 2016; Paoloni *et al.,* 2020; Sáez-Martín *et al.*, 2017), the process starts with the reading of the title, summary or abstract, and keywords. These three elements provide a general idea of the study, identifying its purpose, how it is achieved, and its main conclusions. Where it is not possible to find the main ideas this way, the process continues with the reading of the introduction. However, to better analyze the methodology of each research, sometimes there is a need to read the whole paper. To systemize and interpret the findings of the readings, we use manual conventional (qualitative) content analysis (Hsieh and Shannon, 2005).

The articles collected in the research were organized using MS EXCEL (Harzing, 2014; Rodríguez Bolívar *et al.*, 2016; Sáez-Martín *et al.*, 2017). MS EXCEL was chosen as it is a widely used tool worldwide that allows you to select, classify, filter, introduce functions and draw many types of figures and graphs. In this research, we used MS EXCEL to categorize the papers under analysis by journal, date of publication, author(s), title, purpose, main conclusions, geographical area of study, research design, data collection method and data analysis methods. In addition to this categorization, considering the objectives of this research, we have classified the papers by main topic or focus of the study. This allowed us to see which have been the most frequently studied topics in the literature and the main trends observed in recent years. It also facilitated the analysis of the results and helped to provide better answers to the research questions. After the content analysis, the data were quantified by frequency analyses.

1.4. Main findings: description and analysis

An analysis of the chronological development of the publication of the papers shows a gradual increase in studies published since 2010 (Figure 1.3). Also, the average number of publications in the last ten years is four times higher than the average of the first years. However, very few studies were published in JCR journals, especially considering the importance the subject "enforcement of IFRS" and "accounting quality" appears to have gained in practice, in this period (IFRS Foundation, 2018).

Figure 1.3 - Chronological evolution of the papers published



1.4.1. Current state of research on the relationship between IFRS enforcement and accounting quality

1.4.1.1. Journals that published the most

To characterize the state of the art of the research we started by analyzing the journals that have served as a venue for most publications on the topic under study.

Table 1.1 displays the main findings. Accordingly, the journal that has published most papers on enforcement, accounting quality and IFRS is the *Accounting Review*. This journal publishes mainly quantitative studies in any accounting related subject. It is the oldest academic journal, with 4.562 impact factor, published by the American Accounting Association[3]. During the period under review, five papers on those joint topics were published in this journal, accounting for 11% of all publications. They all consist of empirical analyses conducted in different countries.

Table 1.1 - Distribution of papers by journals

Publication Source	Impact factor 2018	Five-year impact factor	Quartiles	Number of publications	%
ACCOUNTING REVIEW	4.562	5.464	Q1	5	11%
ACCOUNTING AND BUSINESS RESEARCH	2.250	2.653	Q2	4	9%
AUSTRALIAN ACCOUNTING REVIEW	1.443	1.758	Q3	4	9%
JOURNAL OF BUSINESS FINANCE ACCOUNTING	1.562	1.968	Q2	4	9%
REVIEW OF ACCOUNTING STUDIES	2.108	3.348	Q2	4	9%
ABACUS A JOURNAL OF ACCOUNTING FINANCE AND BUSINESS STUDIES	2.200	2.161	Q2	3	7%
ACCOUNTING HORIZONS	1.377	2.642	Q3	3	7%
ACCOUNTING AND FINANCE	1.481	1.829	Q2	2	4%
CUSTOS E AGRONEGOCIO ON LINE	0.390	0.426	Q4	2	4%
JOURNAL OF ACCOUNTING ECONOMICS	3.753	7.058	Q1	2	4%
JOURNAL OF ACCOUNTING RESEARCH	4.891	6.056	Q1	2	4%
AUSTRALIAN JOURNAL OF MANAGEMENT	1.183	1.600	Q4	1	2%
CONTEMPORARY ACCOUNTING RESEARCH	2.261	3.711	Q1	1	2%
EUROPEAN ACCOUNTING REVIEW	2.322	3.173	Q1	1	2%
FINANCE RESEARCH LETTERS	1.709	1.467	Q2	1	2%
INTERNATIONAL REVIEW OF FINANCIAL ANALYSIS	1.693	2.088	Q2	1	2%
JOURNAL OF INTERNATIONAL FINANCIAL MANAGEMENT ACCOUNTING	1.478	2.265	Q2	1	2%
JOURNAL OF INTERNATIONAL MONEY AND FINANCE	1.780	2.448	Q2	1	2%
MANAGEMENT INTERNATIONAL REVIEW	2.689	3.164	Q2	1	2%

[3] http://aaajournals.org/doi/full/10.2308/1558-7967-90.6.2639

RESEARCH IN INTERNATIONAL BUSINESS AND FINANCE	1.467	-	Q3	1	2%
REVIEW OF MANAGERIAL SCIENCE	2.393	2.015	Q2	1	2%
REVISTA DE CONTABILIDAD SPANISH ACCOUNTING REVIEW	1.250	-	Q3	1	2%
				46	

Then comes the *Accounting and Business Research*, the *Australian Accounting Review*, *Journal of Business Finance Accounting* and *Review of Accounting Studies* with four publications each. In the two journals that are not European (*Accounting Review* and *Australian Accounting Review*), nine papers were published, whereas 12 papers were published in three European journals (*Accounting and Business Research*, *Journal of Business Finance Accounting* and *Review of Accounting Studies*). However, most studies were multi-country, with a major focus on European countries.

Going deeper into the content of the four papers published in the *Accounting and Business Research*, two are literature reviews on the adoption of IFRS (the first published in 2011 and the following in 2016), and the other two papers are empirical studies. All papers published in the *Australian Accounting Review* are empirical studies. The *Journal of Business Finance Accounting* has also only published empirical studies. It should be highlighted that one of them presents the most recent measure of enforcement – an 'Audit and Enforcement Proxy' (Brown *et al.*, 2014). Given that several authors consider that the previous measures of enforcement, based on countries' legal system, are not real measures of IFRS enforcement (Moscariello *et al.*, 2014), this paper brings a significant addition to the field.

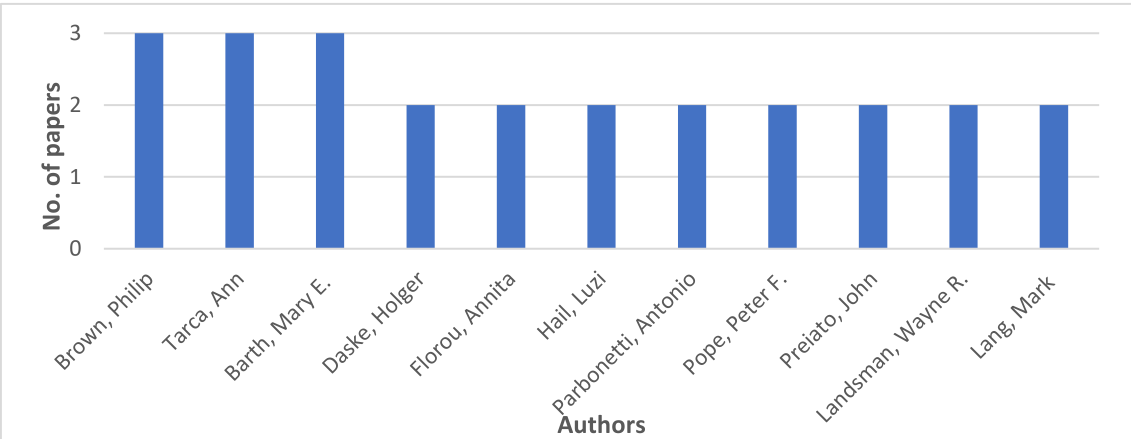
The *Review of Accounting Studies* published a literature review in 2016 about the effects of (IFRS) adoption, and three empirical studies. The *ABACUS – A Journal of Accounting Finance and Business Studies* (impact factor 2.200) and the *Accounting Horizons* (impact factor 1.377) provided three publications, all empirical studies.

Accounting and Finance, *Custos e Agronegocio On line*, *Journal of Accounting and Economics* and *Journal of Accounting Research* only published two papers each. All papers published by the journal *Custos e Agronegocio On line* address issues related to accounting standards of agriculture.

1.4.1.2. Most published authors

Looking at the authors, Figure 1.4 shows the authors who published more than one paper (as lead author or co-author) on the subject under study during the time concerned. The authors Philip Brown and Ann Tarca co-authored three papers. Their first joint paper related to the subject under study was published in 2007. Later, those authors joined John Preiato to create the most recent measure of enforcement in 2014 – the aforementioned 'Audit and Enforcement Proxy'. These three authors continued publishing in 2015 "A Comparison of Between-Country Measures of Legal Setting and Enforcement of Accounting Standards". Other authors presented in the figure published two articles each, in some cases co-authoring, e.g., Annita Florou and Peter F. Pope published "Mandatory IFRS Adoption and Institutional Investment Decisions" in 2012. Also, the trio Mary Barth, Wayne Landsman and Mark Lang wrote two papers. One of them is the most cited, which we will refer later. The other addressed whether IFRS are comparable to US GAAP.

Figure 1.4 – Authors who most published



1.4.1.3. Most cited papers

Regarding the most cited papers we have considered the average number of citations per year (CPY). A general analysis shows that the majority of the 46 papers are relatively recent, since most of them were published in the last 5 years of analysis (2014-2019) (see Figure 1.3). For this reason, the three most cited papers (CPY) date back to the first years of the analysis. These papers study the consequences of adopting IFRS, documenting some of the impacts of the standards on the countries' economies (considering that IFRS are high quality standards, but compliance with these standards depends on the existence of enforcement). Since then, these articles have been cited regularly in subsequent studies.

Analysing Table 1.2, the paper "International accounting standards and accounting quality" has the highest CPY (62.08) and is also the most cited in the period of analysis (807 citations). It is the only paper that refers to IAS, so this is the one that appears in the search "enforcement", "accounting quality" and "IAS". Using a sample of 21 countries, the authors evaluated whether the implementation of IAS was associated with a higher accounting quality, using the metrics earnings management, timely loss recognition and value relevance. The results helped to conclude that the entities that implemented IAS showed fewer earnings management, more timely loss recognition, and more value relevance of accounting amounts than the companies that applied non-US domestic standards.

Published in 2008, "Mandatory IFRS Reporting around the World: Early Evidence on the Economic Consequences" is the second most cited paper (665 citations in total in the period and quoted approximately 51 times a year). It is an empirical paper, which aims to look into the global economic consequences of mandatory IFRS reporting. It concluded that capital-market benefits occur only in countries where firms have incentives to be transparent and where legal enforcement is strong, emphasizing the importance of country enforcement regimes for the quality of financial reporting.

Table 1.2 - List of the most cited paper

Year	Authors	Article title	Average per Year (CPY)	Total Citations

2008	Barth, Mary E.; Landsman, Wayne R.; Lang, Mark H.	International accounting standards and accounting quality	62,08	807
2008	Daske, Holger; Hail, Luzi; Leuz, Christian; Verdi, Rodrigo	Mandatory IFRS Reporting around the World: Early Evidence on the Economic Consequences	51,15	665
2013	Christensen, Hans B.; Hail, Luzi; Leuz, Christian	Mandatory IFRS reporting and changes in enforcement	24,25	194
2010	Armstrong, Christopher S.; Barth, Mary E.; Jagolinzer, Alan D.; Riedl, Edward J.	Market Reaction to the Adoption of IFRS in Europe	23,82	262
2013	Ahmed, Anwer S.; Neel, Michael; Wang, Dechun	Does Mandatory Adoption of IFRS Improve Accounting Quality? Preliminary Evidence	22,13	177
2012	Barth, Mary E.; Landsman, Wayne R.; Lang, Mark; Williams, Christopher	Are IFRS-based and US GAAP-based accounting amounts comparable?	20,78	187
2014	Brown, Philip; Preiato, John; Tarca, Ann	Measuring Country Differences in Enforcement of Accounting Standards: An Audit and Enforcement Proxy	14,14	99
2016	De George, Emmanuel T.; Li, Xi; Shivakumar, Lakshmanan	A review of the IFRS adoption literature	11	55
2011	Pope, Peter F.; McLeay, Stuart J.	The European IFRS experiment: objectives, research challenges and some early evidence	8,7	87
2012	Florou, Annita; Pope, Peter F.	Mandatory IFRS Adoption and Institutional Investment Decisions	8,44	76
2006	Daske, Holger; Gebhardt, Guenther	International Financial Reporting Standards and experts' perceptions of disclosure quality	7,8	117
2015	Andre, Paul; Filip, Andrei; Paugam, Luc	The Effect of Mandatory IFRS Adoption on Conditional Conservatism in Europe	7,5	45
2015	Cascino, Stefano; Gassen, Joachim	What drives the comparability effect of mandatory IFRS adoption?	7,17	43
2011	Chalmers, Keryn; Clinch, Greg; Godfrey, Jayne M.	Changes in value relevance of accounting information upon IFRS adoption: Evidence from Australia	5,5	55
2015	Florou, Annita; Kosi, Urska	Does mandatory IFRS adoption facilitate debt financing?	5,33	32

The third most cited paper (about 24 CPY) is “Mandatory IFRS reporting and changes in enforcement”. This paper from 2013 sought to assay whether observed liquidity benefits following mandatory IFRS adoption are attributable to the change in accounting standards, changes in enforcement made concurrent with IFRS adoption, or a combination of the two. The results obtained allowed the authors to conclude that the concurrent changes in enforcement play an important, if not a dominant, role for the documented liquidity benefits around mandatory IFRS adoption.

The 2010 paper "Market Reaction to the Adoption of IFRS in Europe" is the fourth most cited, with an average of nearly 24 CPY. Its purpose was to assess market reactions related to the adoption of IFRS. It concluded that companies with lower quality in pre-adoption information and companies with high asymmetry in pre-adoption information reacted positively; companies domiciled in code law countries reacted negatively, consistent with investors' concerns over enforcement of IFRS in those countries.

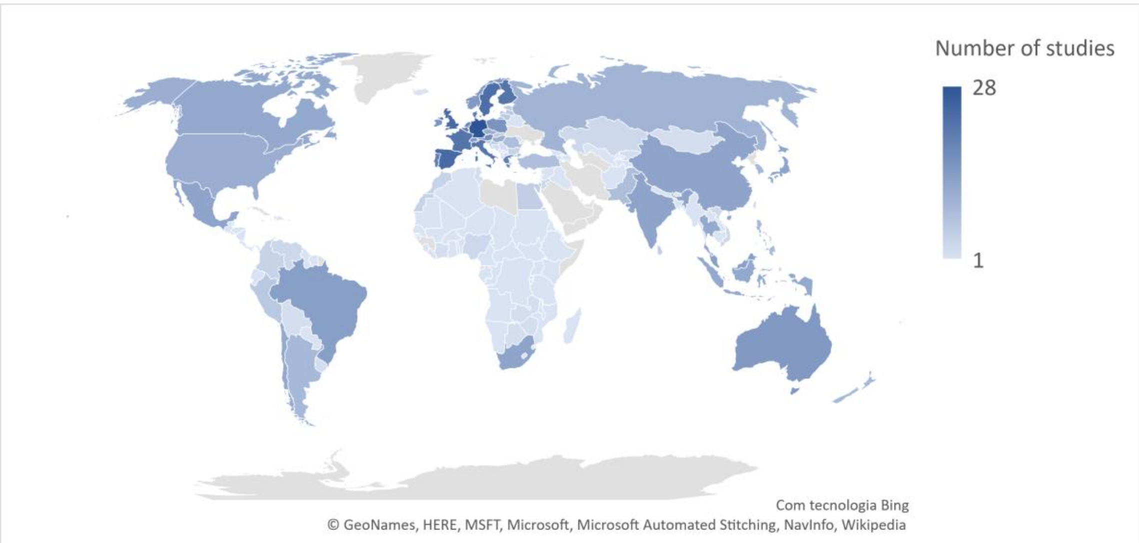
1.4.1.4. Most studied regions of the world

Figure 1.5 shows the regions of the world that have received more attention from researchers in the topics under analysis. For this it was important to first identify whether the studies focused on multi or single-country analysis, and only afterwards to identify which countries are more often study objects. Most of the studies conducted a multi-country analysis (72%), comparing several countries. Research has aimed particularly at comparing two distinct realities: code law *versus* common law systems. Understanding what is happening regarding IFRS enforcement and the consequences in accounting quality in different regions/countries may help to identify different practices as well as to know how different contexts may affect enforcement practices and mechanisms overall.

The countries classified as common law are characterized by higher accounting quality (Ball, 2006; Ball *et al.*, 2000; Filip *et al.*, 2015; Tawiah and Boolaky, 2019). As such, studies analyzed several countries with distinct characteristics. Most studies focused on the countries of Europe. EC Regulation 1606/2002 laid down that, from 2005, all listed companies would have to adopt the international accounting standards – IAS/IFRS. From that year onwards, European business accounting systems suffered major changes. Member countries had to adapt to the new rules, consequently having to implement enforcement mechanisms to control this implementation. The following years were marked by studies that assessed the effects of the adoption of IFRS on the accounting quality (Isaboke and Chen, 2019; De George *et al.*, 2016; Tokar, 2016). Among these studies with European focus, many authors considered that the adoption of IFRS *per se* is not enough to guarantee accounting quality (Barth *et al.*, 2008; Cho *et al.*, 2015; Daske *et al.*, 2013; Hail *et al.*, 2014; Horton *et al.*, 2013; Landsman *et al.*, 2012). Subsequently, more recently, enforcement has been considered an essential factor for achieving such quality (Alexandre and Clavier, 2017; Demmer, *et al.*, 2019; Gao and Sidhu, 2018; Gu, *et al.*, 2019; Houqe, 2018; Oz and Yelkenci, 2018; Wijayana and Gray, 2019).

Looking at Figure 1.5, the countries which earned most attention were Germany (in 28 papers), Spain and United Kingdom (in 24 papers), Sweden (in 23 papers), Finland, France and Italy (in 22 papers), Belgium (in 21 papers), and Denmark, Greece and Portugal (in 20 papers).

Figure 1.5 – Studies per country



1.4.1.5. Most used methodology

Table 1.3 displays the most used research design, the type of data collection and type of data analysis.

Table 1.3 - Research design, data analysis and data collection

<table>
<tr><th colspan="9">Research design and Data analysis</th><th colspan="2">Data collection methods</th></tr>
<tr><td>Non-empirical studies:</td><td>3</td><td>7 %</td><td>Qualitative methodology studies:</td><td>1</td><td>2 %</td><td>Quantitative methodology studies:</td><td>42</td><td>91 %</td><td>Secondary data (databases, websites, archival sources, international reports)</td><td>93 %</td></tr>
<tr><td>-Literature Review</td><td colspan="2">100%</td><td>-Content analysis</td><td colspan="2">100%</td><td>-Univariate analysis</td><td colspan="2">7%</td><td>Primary data: surveys conducted to analyse the objective of research (by email, Web, online or telephone)</td><td>7%</td></tr>
<tr><td colspan="6" rowspan="3"></td><td>-Multivariate analysis:</td><td colspan="2">93%</td><td colspan="2" rowspan="3"></td></tr>
<tr><td>✓ Cluster analysis</td><td colspan="2">12%</td></tr>
<tr><td>✓ Regression analysis</td><td colspan="2">88%</td></tr>
</table>

Firstly, it was important to understand the research design used in the studies under analysis and whether the studies were empirical or non-empirical. The analysis showed a clear preference for the use of empirical research methods (93%). The remaining 7% (3 papers) refer to non-empirical studies, representing literature reviews on the adoption of IFRS (as evidenced in the topics under analysis, see Figure 1.6).

Regarding empirical studies, quantitative techniques are preferentially used (91%), supporting what had been observed by Ryan *et al.* (2002), that quantitative studies prevail in empirical accounting and finance research. Qualitative analysis is considered more difficult and it is adopted by researchers because they do not trust numerical data or because they do not like working with numbers (Smith, 2012). The most frequent data analysis used in quantitative studies is multivariate analysis (93%), whereby 88% of the papers carried out regression analyses and only 12% cluster analyses. On the other hand, the qualitative content analysis is adopted in only one paper.

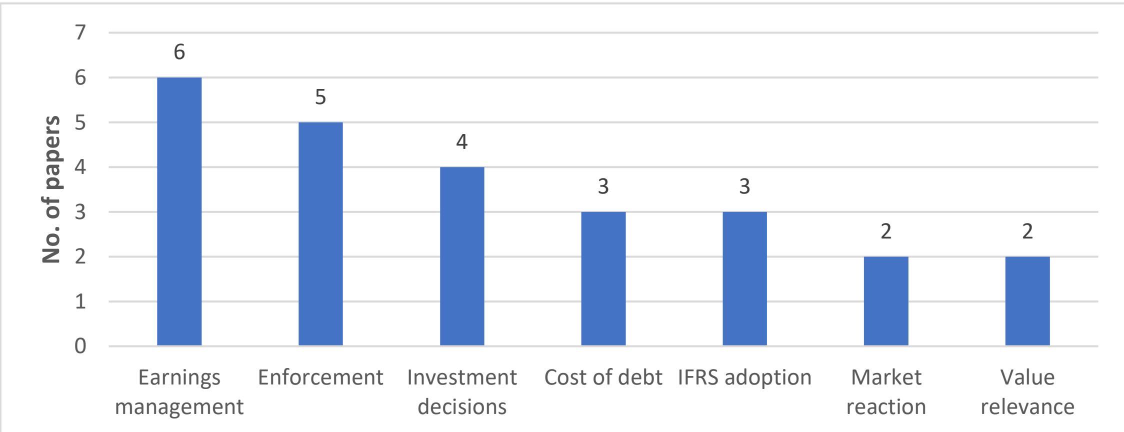
The RQ1 sought to verify the form of data collection used as well. Among the different methods of data collection, questionnaires, interviews, focus groups, and the use of secondary data stand out (Tashakkori *et al.*, 2003). Data can be collected through surveys, questionnaires or interviews being the methods most frequently used (Smith, 2012). While the interview assumes the meeting and conversation between two people on a certain subject, the questionnaire can be sent by post, email or internet. The focus group is a set of people with similar interests or characteristics, who discuss a particular subject (Marvasti, 2004). Secondary data might be defined as the set of information already collected and treated by other researchers or sources.

The analysis reveals that, as displayed in Table 1.3, for the great majority of papers (93%), data were obtained from secondary sources, where they were previously treated by third parties, either databases or information from other papers. There is one paper that uses both data collection methods and seeks to understand the enforcement of the IFRS. Other methods of data collection, namely surveys, although not so widely used, are most popular among enforcement researchers.

1.4.2. Evolution of the main topics studied

Figure 1.6 helps us to start answering the RQ2 on the main topics addressed by researchers. Only those which are addressed in more than one paper are presented.

Figure 1.6 – Categorisation of papers by topics



The 46 papers that were obtained from the search using "enforcement, accounting quality, IFRS" were categorized according to a specific (main) topic addressed. The topics were obtained by applying manual content analysis (Hsieh and Shannon, 2005) to the abstracts of individual papers, focusing in particular on the objective and conclusions.

Six papers addressed "earnings management". These studies aimed to study the behavior of "earnings management" before and after the adoption of IFRS, briefly mentioning the enforcement of IFRS. Three of them included only one country, and the other three performed analyses including different countries.

As referred, earnings management is one of three main dimensions commonly used to measure accounting quality (Paananen and Lin, 2009; Dayanandan *et al.*, 2016; Eliwa *et al.*, 2019; Liu *et al*., 2011; Muttakin *et al.*, 2020; Song, 2016). Earnings management has been described as a change in financial reporting (Ronen and Yaari, 2008) to mislead stakeholders about the entity's economic performance or contractual results that come from accounting figures (Healy and Wahlen, 1999). In the literature, several proxies have been used to capture earnings management, such as income smoothing (Ahmed *et al.*, 2013; Barth *et al.*, 2008; Christensen *et al.*, 2015; Hellman, 2011; Uyar, 2013; Zeghal *et al.*, 2012), accruals quality (Chen *et al.*, 2010; Cho *et al.*, 2015; François and Gary, 2011; Kabir and Laswad, 2015; Martínez *et al.*, 2014; Zeghal *et al.*, 2012), and discretionary accruals (Bouchareb *et al.*, 2014; Cang *et al.*, 2014; Chen *et al.*, 2010; Hail *et al.*, 2010; Robu *et al.*, 2016; Uyar, 2013; Zeghal *et al.*, 2012). Overall, researchers have demonstrated that high levels of earnings management imply low accounting quality (Barth *et al.*, 2008).

The second most discussed topic is "enforcement". However, out of the 46 papers selected for the period under analysis, only 11% (five) focus on the study of IFRS enforcement, which corroborates the opinion of several authors who claim that studies on enforcement mechanisms of the various countries are scarce (Böcking *et al.*, 2015; Guerreiro *et al.*, 2020; Mantzari and Georgiou, 2019; Moura and Gupta, 2019; Preiato *et al.*, 2015).

From these five papers, one proposed a new metric for enforcement, already mentioned, the "Audit and Enforcement Proxy", and another compared this with other metrics previously created. Brown *et al.* (2014) developed a proxy to identify differences between countries in auditing and enforcing accounting standards. Data were collected from the International Federation of Accountants (IFAC), the World Bank and the securities commissions in 51 countries for the years 2002, 2005 and 2008. The measure created includes the audit quality index for public companies (AUDIT), the degree of accounting control activities carried out by independent supervisory bodies (ENFORCE) and the sum of the two measures (AETOTAL) (Brown *et al.*, 2014). The first index (AUDIT) comprises nine items related to the audit function: licensed auditors; more extensive licensing requirements; ongoing professional development; quality assurance program in place; set up of an audit oversight body; the possibility of the oversight body to apply sanctions; audit rotation required; audit fee level; and the level of litigation risk for auditors. Regarding the measure of enforcement, developed by independent supervisory bodies (ENFORCE), six items have been identified: the security market regulator or other body that monitors financial reporting; the body that has the power to set accounting and auditing standards; the body that reviews financial statements; the body that provides a report about its review of financial statements; the body that takes action to enforce financial statements; and the level of resourcing based on the number of employees by the securities market regulator. The authors conclude that the measure developed has additional explanatory power in determining the level of economic activity, financial transparency and earnings manipulation in each country, when compared with the measures of legal systems. Recent studies have adopted this measure to evaluate the enforcement of IFRS (André *et al.*, 2015; Bonetti *et al.*, 2016; Duru *et al.*, 2018; Kabir and Laswad, 2015).

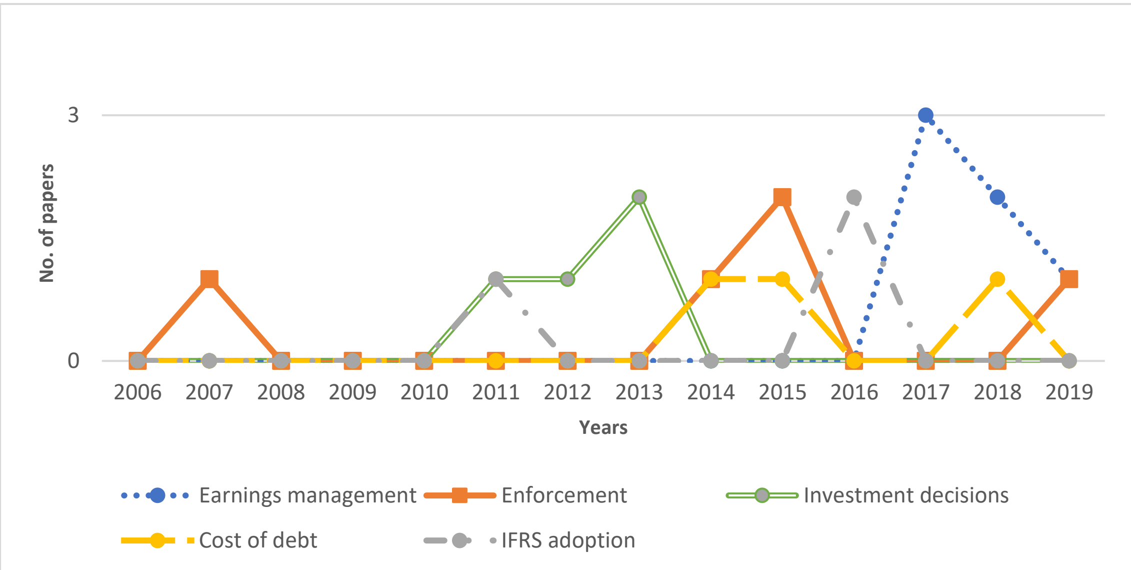
The remaining three papers reviewed the enforcement system of one specific country. Brown and Tarca (2007) studied the practices of two different enforcement bodies: the U.K. Financial Reporting Review Panel (FRRP) and the Australian Securities and Investments Commission (ASIC). In Germany, there is the two-tier enforcement system: the DPR (Deutsche Prufstelle fur Rechnungslegung – German Financial Reporting

Enforcement Panel) and the German securities market regulator BaFin (Bundesanstalt fur Finanzdienstleistungs- aufsicht) studied by Böcking *et al.* (2015). More recently, a study was published to assess the implications of the enforcement of accounting standards in Nigeria (Abdul-Baki and Haniffa, 2019). Only the latter analyzes the impact of enforcement on the quality of financial information disclosed by entities. This means that the first study analyzing the enforcement of IFRS and accounting quality was carried out in 2019 only.

Of the remaining (39) papers, four focused on which countries have more reliable accounting systems to support foreign investment. These studies assayed the best country to invest in. The other (35) papers mostly analyzed the accounting quality of several countries, highlighting the importance of control mechanisms for greater compliance with IFRS.

As to how these topics have evolved, Figure 1.7 highlights that the only topic that follows an upward trend in recent years of analysis is enforcement of the IFRS. This analysis allows us to state that this topic may become a publishing trend in the next few years, corroborating the opinions stated above. Additionally, topics related to earnings management, in other words, research on accounting quality, which were widely studied in literature in the past, are consequently less published nowadays.

Figure 1.7 – Chronological evolution of the main topics



1.4.3. Future avenues of research on IFRS enforcement and accounting quality

The last research question may be addressed by analyzing the findings stemming from the previous questions. Our findings suggest that the matters related to accounting quality are vastly studied in the literature in comparison with the topic on IFRS enforcement. When crossing the two searches, we found that the number of papers is relatively low for a 14-year analysis period, which flags a shortage of studies. The literature recognizes further gaps, both in how practitioners see the changes in IFRS implementation (Mantzari and Georgiou, 2019) and in the understanding of how enforcement interacts with the assessment of the impact of IFRS on accounting quality (Gao and Sidhu, 2018). Several authors have additionally highlighted the scarcity of studies on enforcement mechanisms in the various countries (Böcking *et al.*, 2015; Guerreiro *et al.*, 2020; Mantzari and Georgiou 2019; Moura and Gupta 2019; Preiato *et al.*, 2015), perhaps because of the acknowledged difficulty in analyzing real practices, since these depend on the internal characteristics of the country (Gu *et al.*, 2019).

During the research in this paper, we have found that, in reality, there is only one study, conducted in 2019, that analyzes the impact of IFRS enforcement on the quality of financial information disclosed by entities, studying the reality of Nigeria. This result allows us to alert researchers to several issues. The first is related to the fact that there are no such studies in Europe (region where the most studies in these areas are published), which represents a research opportunity, especially since there are two legal contexts in Europe (code law *versus* common law countries) and it would be interesting to understand the differences between them. Finally, the analysis also highlights the fact that most research carries out quantitative analyses, being the qualitative perspective an opportunity to explore methodologies that have never been used. The only (qualitative) content analysis that was found in the research is a study of the enforcement in Australia, which may raise awareness of the fact that the enforcement in countries can only be studied through qualitative approaches.

1.5. Conclusion and implications

In the context of IFRS, this paper sought mostly to carry out a scientometric analysis of the literature on the relationship between IFRS enforcement and accounting quality, with a view to identifying, synthesizing and evaluating the current state of research, in order to provide a critical overview of published trends in this field and to identify future areas of interest. As underlined, this type of analysis allows us to assess the state of development of a certain scientific subject, encouraging the debate between researchers. In the accounting setting, this paper presents a preliminary study of this kind, therefore making an interesting contribution to identifying research trends and gaps in research about IFRS enforcement and accounting quality.

Considering only papers in journals in the JCR ranking, the results showed that *Accounting Review*, an American journal, has published the most about accounting quality, enforcement and IFRS. Still, European countries have earned the greatest attention of researchers, particularly Germany, Spain, United Kingdom, France, Italy, Sweden, Finland, Belgium, Denmark, Greece and Portugal.

The categorization of the topics evidenced that only one paper published in 2019 was used to assess the impact of IFRS enforcement on the accounting quality. This finding allows us to observe that there is a gap in the literature concerning studies that analyze IFRS enforcement by countries and the impact thereof on the quality of financial information disclosed by entities.

This study also shows that most studies have relied on quantitative analyses using multivariate, namely regression, analysis. However, to study the level of IFRS enforcement (and its effectiveness), it is important to analyze the practices of enforcers. Qualitative research aims to understand, interpret and explain in depth social practices (Mason, 2002; Vieira *et al.*, 2009). In particular, the depth and detail analyses intended in the study of enforcement of accounting standards are only achieved with such approaches. Consequently, in our opinion, qualitative studies have the potential to provide a more detailed picture of the practices being adopted by enforcers. Subsequently, their impact on accounting quality can be assessed using quantitative methodologies. Accordingly, the combination of a mixed methodology appears to be the most appropriate way to study enforcement practices and their relationship with the quality of accounting and financial information reported.

This analysis also underscores that most of the data for the research is obtained through secondary sources. The use of secondary data may raise problems for researchers. The problems relate to the scope of data collection which differs from study to study, the ability of the researcher to select only the relevant information, and the need to ensure that the data meet quality requirements for research and methodological criteria of good scientific practice (Hox and Boeije, 2005). Data should be collected, preferably, directly by the researcher to assess the actual situation in each country.

In summary, the analysis evidenced that enforcement in the context of IFRS and its impact on accounting quality is a topic that is still in the early stages of research, and must be looked into further. This corroborates the opinion of researchers who argue that few studies actually assess the enforcement practices of countries (Böcking *et al.*, 2015; Guerreiro *et al.*, 2020; Kleinman *et al.*, 2019; Mantzari and Georgiou, 2019; Moura and Gupta, 2019; Preiato *et al.*, 2015; Silva and Rodrigues, 2017).

Fifteen years have elapsed since the mandatory adoption of IFRS in the European Union, recommending the implementation of enforcement mechanisms to ensure that accounting standards are applied correctly. However, this neither means that these mechanisms have been implemented, nor, if implemented, that they are working properly[4]. Therefore, nowadays research should no longer be concerned with IFRS implementation in the different countries, but rather with how IFRS enforcement mechanisms are performing and the consequences of this performance. For this, assessment analysis about enforcement mechanisms is important.

[4] Although the ESMA has been publishing activity reports on the European enforcers since 2014 (e.g., ESMA, 2020), only since 2018 has a detailed analysis of the enforcement actions by country been carried out.

This paper identifies a clear gap in research – the shortage of studies analyzing enforcement practices of each country and, in turn, the impact these practices may have on the accounting quality. This gap calls for further research on the effectiveness of the IFRS-related enforcement mechanisms implemented by each country, namely: to understand the existing bodies (enforcers), in particular those which in the country are responsible for enforcing IFRS and the procedures that have been adopted to exercise such control; and to analyze the impact of enforcement practices on accounting quality and on IFRS implementation.

Despite the above contributions, this research presents some limitations. The fact that only JCR listed journals were used may have led to disregard important papers on the topic under analysis that, even if not having high impact factor, may nevertheless have brought important additions to research. Another limitation concerns the use of the term “accounting quality” in a broad sense, which may have prevented more focus on the quality of financial reporting.

References

Abdul-Baki, Z., and Haniffa, R. (2019). The impact of accounting reform on accounting quality: Evidence from Nigeria. *Journal of International Financial Management and Accounting*, *October*, 1–22.

Ahmed, A. S., Neel, M., and Wang, D. (2013). Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence. *Contemporary Accounting Research*, *30*(4), 1344–1372.

Akhavan, P., Ebrahim, N. A., Fetrati, M. A., and Pezeshkan, A. (2016). Major trends in knowledge management research: a bibliometric study. *Scientometrics*, *107*(3), 1249–1264.

Alexandre, H., and Clavier, J. (2017). Adoption of IAS/IFRS, liquidity constraints, and credit rationing: The case of the European banking industry. *Quarterly Review of Economics and Finance*, *63*, 249–258.

Amara, N., and Landry, R. (2012). Counting citations in the field of business and management: Why use Google Scholar rather than the Web of Science. *Scientometrics*, *93*(3), 553–581.

Anagnostopoulou, S. C. (2017). Accounting Quality and Loan Pricing : The Effect of Cross-country Differences in Legal Enforcement. *International Journal of Accounting*, *52*(2), 178–200.

André, P., Filip, A., and Paugam, L. (2015). The Effect of Mandatory IFRS Adoption on Conditional Conservatism in Europe. *Journal of Business Finance and Accounting*, *42*(3–4), 482–514.

Ball, R. (2006). International Financial Reporting Standards (IFRS): pros and cons for investors. *Accounting and Business Research*, *36*(1), 5–27.

Ball, R., Kothari, S. P., and Robin, A. (2000). The efect of international institutional factors on properties of accounting earnings. *Journal of Accounting and Economics*, *29*, 1–51.

Barth, M. E., Landsman, W. R., and Lang, M. H. (2008). International Accounting Standards and Accounting Quality. *Journal of Accounting Research*, *46*(3).

Böcking, H. J., Gros, M., and Worret, D. (2015). Enforcement of accounting standards: how effective is the German two-tier system in detecting earnings management? *Review of Managerial Science*, *9*(3), 431–485.

Bogdan, R., and Biklen, S. K. (2007). *Qualitative research for education: An introduction to theory and methods* (NY: Pearson, 5th ed.).

Bonetti, P., Magnan, M. L., and Parbonetti, A. (2016). The Influence of Country- and Firm-level Governance on Financial Reporting Quality: Revisiting the Evidence. *Journal of Business Finance and Accounting*, *43*(9–10), 1059–1094.

Bouchareb, M., Ajina, A., and Souid, S. (2014). Does the Adoption of IAS/IFRS with a Strong Governance Mechanism Can Deter Earnings Management? *International Journal of Academic Research in Economics and Management Sciences*, *3*(1), 264–282.

Bordons, M., Fernández, M. T., & Gómez, I. (2002). Advantages and limitations in the use of impact factor measures for the assessment of research performance in a peripheral country. *Scientometrics, 53*(2), 195–206.

Bracci, E., Papi, L., Bigoni, M., Gagliardo, E. D., and Bruns, H. (2019). Public value and public sector accounting research: a structured literature review. *Journal of Public Budgeting, Accounting and Financial Management*, *31*(1), 103–136.

Brown, P., Preiato, J., and Tarca, A. (2014). Measuring Country Differences in Enforcement of Accounting Standards: An Audit and Enforcement Proxy. *Journal of Business Finance and Accounting*, *41*(1–2), 1–52.

Brown, P., and Tarca, A. (2007). Achieving high quality, comparable financial reporting: A review of independent enforcement bodies in Australia and the United Kingdom. *Abacus*, *43*(4), 438–473.

CABS - Chartered Association of Business Schools (2018). *Academic Journal Guide 2018*. Available at https://charteredabs.org/academic-journal-guide-2018/

Callen, J. L., Khan, M., and Lu, H. (2013). Accounting quality, stock price delay, and future stock returns. *Contemporary Accounting Research*, *30*(1), 269–295.

Cang, Y., Chu, Y., and Lin, T. W. (2014). An exploratory study of earnings management detectability, analyst coverage and the impact of IFRS adoption: Evidence from China. *Journal of Accounting and Public Policy*, *33*(4), 356–371.

Chen, Tang, Q., and Lin, Z. (2010). The Role of International Financial Reporting Standards in Accounting Quality : Evidence from the European Union. *Journal of International Financial Management and Accounting*, *21*(3), 220–278.

Cho, K., Kwon, K., Yi, H., and Yun, Y. (2015). The Effect of International Financial Reporting Standards Adoption on the Relation Between Earnings Quality and Information Asymmetry in Korea. *Emerging Markets Finance and Trade*, *51*, 95–117.

Christensen, H. B., Hail, L., and Leuz, C. (2013). Mandatory IFRS reporting and changes in enforcement. *Journal of Accounting and Economics*, *56*(2–3), 147–177.

Christensen, H. B., Lee, E., Walker, M., Zeng, C., Christensen, H. B., Lee, E., Walker, M., and Zeng, C. (2015). *Incentives or Standards : What Determines Accounting Quality Changes around IFRS Adoption ? 8180*(March 2016).

Cocosila, M., Serenko, A., and Turel, O. (2011). Exploring the management information systems discipline: A scientometric study of ICIS, PACIS and ASAC. *Scientometrics*, *87*(1), 1–16.

Daher, M. (2017). Creditor control rights, capital structure, and legal enforcement.

Journal of Corporate Finance, *44*, 308–330.

Daske, H., Hail, L., Leuz, C., and Verdi, R. (2013). Adopting a Label: Heterogeneity in the Economic Consequences Around IAS/IFRS Adoptions. *Journal of Accounting Research*, *51*(3), 495–547.

Dayanandan, A., Donker, H., Ivanof, M. and Karahan, G. (2016), "IFRS and accounting quality: legal origin, regional, and disclosure impacts", *International Journal of Accounting and Information Management*, 24(3), 296–316.

De George, E. T., Li, X., and Shivakumar, L. (2016). A review of the IFRS adoption literature. In *Review of Accounting Studies*, 21, 898-1004.

Demmer, M., Pronobis, P., and Yohn, T. L. (2019). Mandatory IFRS adoption and analyst forecast accuracy: the role of financial statement-based forecasts and analyst characteristics. *Review of Accounting Studies*, *24*(3), 1022–1065.

Dumay, J. (2014). 15 years of the journal of intellectual capital and counting: a manifesto for transformational IC research. *Journal of Intellectual Capital, 15* (1), 2-37.

Duru, A., Hasan, I., Song, L., and Zhao, Y. (2018). Bank accounting regulations, enforcement mechanisms, and financial statement informativeness: cross-country evidence. *Accounting and Business Research*, 1–35.

Eliwa, Y., Gregoriou, A. and Paterson, A. (2019), "Accruals quality and the cost of debt: the European evidence", *International Journal of Accounting and Information Management*, *27*(2), 333–351.

ESMA. (2014). Guidelines on enforcement of financial information. *ESMA/2014/1293*, *2*, 139–147.

ESMA. (2017), *Peer Review on Guidelines on Enforcement of Financial Information*, *ESMA 42-111-4138*.

ESMA, E.S. and M.A. (2020), *Enforcement and Regulatory Activities of European Enforcers in 2019*, *European Securities and Market Authority*, available at: www.esma.europa.eu.

Eutsler, J., Nickell, E. B., and Robb, S. W. G. (2016). Fraud risk awareness and the likelihood of audit enforcement action. *Accounting Horizons*, *30*(3), 379–392.

Falagas, M. E., Pitsouni, E. I., Malietzis, G. A., and Pappas, G. (2007). Comparison of PubMed, Scopus, Web of Science, and Google Scholar: strengths and weaknesses.

The FASEB Journal, *22*(2), 338–342.

Filip, A., Labelle, R., and Rousseau, S. (2015). Legal Regime and Financial Reporting Quality. *Contemporary Accounting Research*, *32*(1), 280–307.

François, A., and Gary, G. (2011). The impact and importance of mandatory adoption of international financial reporting standards in Europe. *Journal of International Financial Management and Accounting*, *22*(1), 1–26.

Gao, R., and Sidhu, B. K. (2018). The Impact of Mandatory International Financial Reporting Standards Adoption on Investment Efficiency: Standards, Enforcement, and Reporting Incentives. *Abacus*, *54*(3), 277–318.

Gu, Z., Ng, J., and Tsang, A. (2019). Mandatory IFRS adoption and management forecasts: The impact of enforcement changes. *China Journal of Accounting Research*, *12*(1), 33–61.

Guerreiro, M., Rodrigues, L. L., and Craig, R. (2020). Institutional theory and IFRS : an agenda for future research. *Spanish Journal of Finance and Accounting*, *00*(00), 1–24.

Hail, L., Leuz, C., and Wysocki, P. (2010). Global accounting convergence and the potential adoption of IFRS by the U.S. (part I): Conceptual underpinnings and economic analysis. *Accounting Horizons*, *24*(3), 355–394.

Hail, L., Tahoun, A., and Wang, C. (2014). Dividend Payouts and Information Shocks. *Journal of Accounting Research*, *52*(2), 403–456.

Harzing. (2014). A longitudinal study of Google Scholar coverage between 2012 and 2013. *Scientometrics*, *98*(1), 565–575.

Harzing, A.-W., and Alakangas, S. (2016). Google Scholar, Scopus and the Web of Science: a longitudinal and cross-disciplinary comparison. *Scientometrics*, *106*(2), 787–804.

Harzing, and Wal, R. van der. (2008). Google Scholar as a new source for citation analysis. *Ethics in Science and Environmental Politics*, *8*, 61–73.

Healy, P., and Wahlen, J. (1999). A Review of the Earnings Management Literature and Its Implications for Standard Setting. *Accounting Horizons*, *13*(4), 365–383.

Hellman, N. (2011). Soft Adoption and Reporting Incentives: A Study of the Impact of IFRS on Financial Statements in Sweden. *Journal of International Accounting*

Research, *10*(1), 61–83.

Holthausen, R. W. (2009). Accounting standards, financial reporting outcomes, and enforcement. *Journal of Accounting Research*, *47*(2), 447–458.

Hope. (2003). Disclosure Practices, Enforcement of Accounting Standards, and Analysts' Forecast Accuracy: An International Study. *Journal of Accounting Research*, *41*(2), 273–283.

Horton, J., Serafeim, G., and Serafeim, I. (2013). Does mandatory IFRS adoption improve the information environment? *Contemporary Accounting Research*, *30*(1), 388–423.

Houqe, N. (2018), "A review of the current debate on the determinants and consequences of mandatory IFRS adoption", *International Journal of Accounting and Information Management*, *26*(3), 413–442.

Hox, J., and Boeije, H. (2005). Data Collection, Primary vs. Secondary. In *Encyclopedia of Social Measurement* (pp. 593–599).

Hribar, P., Kravet, T., and Wilson, R. (2014). A new measure of accounting quality. *Review of Accounting Studies*, *19*(1), 506–538.

Hsieh, H. F., and Shannon, S. E. (2005). Three approaches to qualitative content analysis. *Qualitative Health Research*, *15*(9), 1277–1288.

IASB - International Accounting Standards Board (2018), *Conceptual Framework for Financial Reporting*, IFRS Foundation, UK: London.

IFRS Foundation. (2018), *Use of IFRS Standards around the World*, *Use of IFRS Standards around the World*, London, available at: https://www.ifrs.org/-/media/feature/around-the-world/adoption/use-of-ifrs-around-the-world-overview-sept-2018.pdf?la=en.

Isaboke, C. and Chen, Y. (2019), "IFRS adoption, value relevance and conditional conservatism: evidence from China", *International Journal of Accounting and Information Management*, *27*(4), 529–546.

Jacsó, P. (2010). Metadata mega mess in Google Scholar. *Online Information Review*, *34*(175–191).

Jesson, J., Matheson, L., and Laceym, F. M. (2011). *Doing your literature review traditional and systematic techniques.* (C. S. Thousand Oaks (ed.)).

Kabir, H., and Laswad, F. (2015). The Impact of Improvements in Institutional Oversight on IFRS Accrual Quality in Europe. *Australian Accounting Review*, *25*(4), 428–444.

Kavanagh, M. (2017). An overview of accounting enforcement in Europe. *Accountancy Ireland*, *49*(June), 42–43.

Kleinman, G., Lin, B. B., and Bloch, R. (2019). Accounting enforcement in a national context: an international study. *International Journal of Disclosure and Governance*, *16*(1), 47–67.

Kothari, C. (2004). *Research methodology: Methods and techniques.* (NY: New Age International (P) Ltd (ed.)).

Landsman, W. R., Maydew, E. L., and Thornock, J. R. (2012). The information content of annual earnings announcements and mandatory adoption of IFRS. *Journal of Accounting and Economics*, *53*(1–2), 34–54.

Legenzova, R. (2016). A Concept of Accounting Quality from Accounting Harmonisation Perspective. *Economics and Business*, *28*(1), 33–37.

Leuz, C. (2010). Different approaches to corporate reporting regulation: how jurisdictions differ and why. *Accounting and Business Research*, *40*(3), 229–256.

Liu, C., Yao, L.J., Hu, N. and Liu, L. (2011), "The impact of ifrs on accounting quality in a regulated market: An empirical study of China", *Journal of Accounting, Auditing and Finance*, *26*(4), 659–676.

Mantzari, E., and Georgiou, O. (2019). Ideological hegemony and consent to IFRS: Insights from practitioners in Greece. *Critical Perspectives on Accounting*, *59*, 70–93.

Martínez, J. A., Martínez, D. A., and Lin, H. (2014). The value relevance of accounting numbers under International Financial Reporting Standards. *Australian Accounting Review*, *24*(3), 237–254.

Marvasti, A. B. (2004). *Qualitative Research in Sociology*. SAGE Publications London.

Mason, J. (2002). *Qualitative Researching* (SAGE Publications (ed.); Second Edi).

Massaro, M., Dumay, J., and Guthrie, J. (2016). On the shoulders of giants: undertaking a structured literature review in accounting. *Accounting, Auditing and Accountability Journal*, *29*(5), 767–801.

Moscariello, N., Skerratt, L., and Pizzo, M. (2014). Mandatory IFRS adoption and the cost of debt in Italy and UK. *Accounting and Business Research*, *44*(1), 63–82.

Moura, A. A. F. de, and Gupta, J. (2019). Mandatory adoption of IFRS in Latin America: A boon or a bias. *Journal of International Financial Markets, Institutions and Money*, *60, 111-133*.

Muttakin, M.B., Mihret, D., Lemma, T.T. and Khan, A. (2020), "Integrated reporting, financial reporting quality and cost of debt", *International Journal of Accounting and Information Management*, *28*(3), 517–534.

Nalimov, V., and Mulcjenko, B. (1971). *Measurement of science: Study of the development of science as an information process*.

Oz, I. O., and Yelkenci, T. (2018). Examination of real and accrual earnings management: A cross-county analysis of legal origin under IFRS. *International Review of Financial Analysis*, *58*, 24–37.

Paananen, M., and Lin, H. (2009). The Development of Accounting Quality of IAS and IFRS over Time: The Case of Germany. *Journal of International Accounting Research*, *8*(1), 31–55.

Paoloni, P., Modaffari, G., & Mattei, G. (2020). Knowledge resources in the university context: an overview of the literature. *Journal of Intellectual Capital*, *in press.*

Peña, H. F. P., and Franco, J. B. (2017). Impact of IFRS on the quality of financial information in the United Kingdom and France: Evidence from a new perspective. *Intangible Capital*, *13*(4), 850–878.

Porte, M. de S., and Sampaio, E. S. (2015). Bibliometric and Scientometric Research in Auditing (2002-2013). *Journal of Education and Research in Accounting*, *9*(2), 137–153.

Preiato, J., Brown, P., and Tarca, A. (2015). A Comparison of Between-Country Measures of Legal Setting and Enforcement of Accounting Standards. *Journal of Business Finance and Accounting*, *42*(1–2), 1–50.

Ramy, A., Floody, J., Ragab, M. A. F., and Arisha, A. (2018). A scientometric analysis of *Knowledge Management Research and Practice* literature: 2003–2015. *Knowledge Management Research and Practice*, *16*(1), 66–77.

Robu, L. B., Carp, M., Popescu, C. C., Pavaloaia, L., Istrate, C., and Georgescu, I. E. (2016). The country risk influence on accounting quality in the case of Romanian listed companies. *Transformations in Business and Economics*, *15*(3C), 597–616.

Rodríguez Bolívar, M. P., Alcaide Muñoz, L., and López Hernández, A. M. (2016). Scientometric Study of the Progress and Development of e-Government Research During the Period 2000–2012. *Information Technology for Development*, *22*(1), 36–74.

Ronen, J., and Yaari, V. (2008). *Earnings Management - Emerging Insights in Theory, Practice, and Research* (Springer (ed.)).

Ryan, B., Scapens, R. W., and Theobald, M. (2002). *Research method and metodology in Finance and Accounting* (CandC Offset Printing Co. Ltd (ed.); 2nd editio).

Sáez-Martín, A., López-Hernandez, A. M., and Caba-Perez, C. (2017). Access to public information: a scientometric study of legal versus voluntary transparency in the public sector. *Scientometrics*, *113*(3), 1697–1720.

Silva, A., and Rodrigues, A. M. (2017). Mecanismos de controlo das normas internacionais de contabilidade. *European Journal of Applied Business and Management*, 57–72.

Smith, M. (2012). *Research Methods in Accounting* (2 edition). SAGE Publications, Inc.

Soderstrom, N. S., and Sun, K. J. (2007). IFRS Adoption and Accounting Quality: A Review. *European Accounting Review*, *16*(4), 675–702.

Song, L. (2016), "Accounting quality and financing arrangements in emerging economies", *International Journal of Accounting and Information Management*, *24*(1), 2–19.

Tashakkori, A., Teddlie, C., and Teddlie, C. B. (2003). *Handbook of Mixed Methods in Social and Behavioral Research*. SAGE Publications, Inc.

Tawiah, V. and Boolaky, P. (2019), "Determinants of IFRS compliance in Africa: analysis of stakeholder attributes", *International Journal of Accounting and Information Management*, 27(4), 573–599.

Tokar, M. B. (2016). 'IFRS – ten years later': A standard-setter's view. *Accounting and Business Research*, *46*(5), 572–576.

Uyar, M. (2013). The Impact of Switching Standard on Accounting Quality. *Journal of Modern Accounting and Auditing*, *9*(4), 459–479.

Varela, D. (2013). The contribution of ISI indexing to a paper's citations: Results of a natural experiment. *European Political Science*, *12*(2), 245–253.

Vieira, R., Major, M. J., and Robalo, R. (2009). Investigação Qualitativa em Contabilidade. In M. J. Major and R. Vieira (Eds.), *Contabilidade e Controlo de Gestão - Teoria, Metodologia e Prática* (pp. 131–163). Escolar Editora.

Waltman, L., Yan, E., and van Eck, N. J. (2011). A recursive field-normalized bibliometric performance indicator: An application to the field of library and information science. *Scientometrics*, *89*(1), 301–314.

Wijayana, S., and Gray, S. J. (2019). Institutional Factors and Earnings Management in the Asia-Pacific: Is IFRS Adoption Making a Difference? *Management International Review*, *59*(2), 307–334.

Zeghal, D., Chtourou, S. M., and Fourati, Y. M. (2012). The Effect of Mandatory Adoption of IFRS on Earnings Quality: Evidence from the European Union. *Journal of International Accounting Research*, *11*(2), 1–25.

Chapter 2: Institutional dynamics as a process of understanding the enforcement systems of IFRS

Paper 2: Institutional dynamics as a process of understanding the enforcement systems of IFRS

Submitted to *Accounting, Auditing & Accountability Journal*

Indexed journal: SCImago Journal Rank (SJR): 1.46; Accounting (Q1)

Impact Factor: 3.497

ABS 3

Chapter 2

INSTITUTIONAL DYNAMICS AS A PROCESS OF UNDERSTANDING THE ENFORCEMENT SYSTEMS OF IFRS

Abstract

Purpose: Enforcement has been considered a key factor in ensuring compliance with accounting standards and better financial information. This paper analyses the enforcement practices regarding the international accounting standards, seeking to understand how enforcers act to control IFRS compliance.

Design/methodology/approach: The study relies on deep analysis of documentary sources and interviews about the institutionalization of IFRS enforcement in Portugal, using the institutional model of Dillard *et al.* (2004) and the deinstitutionalization concept of Oliver (1992).

Findings: There is evidence that legitimacy structures characterize the performance of Portuguese officials responsible for the application of IFRS. With this legitimacy, the actors exercise structures of domination and significance spread across the various institutional levels. However, due to bidirectional pressures between the levels of action, there is a significant part of the control of compliance with IFRS which, although provided for by law, is not being exercised.

Practical implications: Considering several scandals with banks and the empirical data collected, the study shows that, although the enforcement mechanisms are provided for in the Portuguese legislation, they may not be working in practice.

Originality/value: This research fills a gap in the literature, as it contributes to the understanding of how enforcement of accounting standards works. Through the model of Dillard *et al.* (2004), the actors, forces and procedures adopted by the enforcers are explained, expanding the power of explanation of the institutional theory.

Keywords: oversight authorities, ESMA, control, legitimation, Dillard *et al.* model, deinstitutionalization

Paper type: Research paper

2.1. Introduction

The effects of the adoption of International Financial Reporting Standards (IFRS) on the quality of financial information have been studied in recent years (De George *et al.,* 2016; Quagli *et al.,* 2020). However, several authors argue that the mere adoption of high quality standards is not enough to ensure the quality of financial information and its reporting (Cho *et al.,* 2015; Quagli *et al.,* 2018). Enforcement has been considered an essential factor in achieving this quality (Alexandre and Clavier, 2017; Demmer *et al.,* 2019; Gao and Sidhu, 2018; Gu *et al.,* 2019; Oz and Yelkenci, 2018; Wijayana and Gray, 2019). "It is now universally accepted that effective financial reporting depends on the rigorous and consistent enforcement of high-quality standards." (Kavanagh, 2017:42).

According to ESMA (2014), enforcement is considered a compliance analysis of financial information disclosed by entities to ensure that IFRS are being correctly applied. It is a system to prevent, identify and take necessary actions in cases of material errors or omissions in the implementation of IFRS. Therefore, enforcement ensures compliance with accounting standards, namely IFRS, leading to the accomplishment of the true and fair view principle (Egan and Yanxi Xu, 2020). Amiram *et al.* (2018) argue that confidence in the markets can only be obtained with the existence of three enforcement mechanisms. At the top of the related-party enforcement triangle is the strength of the market system and the power of reputation in the market. The bottom left corner refers to third-party enforcement, which is related to the strength of the system in enforcing the laws. The bottom right corner of the triangle refers to cultural influences on the propensity to maintain trust, including personal values and social norms.

However, the literature has also been underlining the scarcity of studies that actually assess the enforcement practices of countries (Böcking *et al.,* 2015; Guerreiro *et al.,* 2020; Kleinman *et al.,* 2019; Mantzari and Georgiou, 2019; Moura and Gupta, 2019; Preiato *et al.,* 2015; Silva and Rodrigues, 2017; Silva et al., 2021), perhaps because there is an acknowledged difficulty in analyzing real practices, such as the number of decisions and the amount of sanctions issued (Quagli *et al.,* 2018), since these depend on the internal characteristics of the country (Gu *et al.,* 2019; Monteiro and Aibar-Guzmán, 2010).

The model of Dillard *et al.* (2004) has been used to explain changes in accounting systems internationally (Harun *et al.,* 2020; Guerreiro *et al.,* 2015). We argue that this model can also be useful to understand how institutional power is distributed among the three hierarchical levels (economic and political; organizational field; organizational) of the IFRS enforcement system.

The Portuguese economic and political enforcers are identified in national regulations. In Portugal, a tripartite enforcement system is used, comprising the Portuguese Securities National Commission (*Comissão de Mercado de Valores Mobiliários* – CMVM), the Central Bank (*Banco de Portugal* – BP) and the Insurance Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões* – ASF). What is not yet understood is how they act to ensure compliance with the enforcement regulations. Additionally, also the role of the organizational field and organizations was not studied yet.

This paper aims to understand how enforcers act individually and how they interact at the different institutional levels. It also seeks to explain how the legitimation, domination and signification structures work between the three hierarchical levels; and the coercive, normative, or mimetic pressures among the different types of enforcers.

The study addresses the specific contexts of actors responsible for the implementation of IFRS – enforcers – in Portugal, to understand how they act to control the quality of IFRS accounting practices. We use a qualitative research approach, based on interviews with enforcers at different levels and documentary analysis, namely from reports, news, and regulations.

This paper contributes to the literature in several ways. First, it helps to fill the above mentioned gap of lack of studies about real enforcement practices at the country level. Second, this study extends the use of institutional theory by adapting the Dillard *et al.* (2004) model to analyze the interactions between different enforcers at different levels and introduces Oliver's (1992) framework for understanding the cases of deinstitutionalization. Third, contrary to most of the existing literature, this paper follows a qualitative analysis through documentary analysis and interviews. Most studies on the enforcement of accounting standards follow quantitative approaches; however, qualitative analyses appear to be best suited to understand, interpret and explain social practices in depth (Mason, 2002; Vieira *et al.,* 2009).

The paper is organized as follows. Section two presents a theoretical framework, particularly addressing the Dillard *et al.* (2004) model of institutional dynamics. Sections three and four follows with a contextualization of the European and the Portuguese enforcement systems. The later sections present the research method and discuss the main findings and conclusions.

2.2. Theoretical Framework

2.2.1.Institutional theory

In recent years, institutional theory has been the most widely used theoretical framework for understanding accounting practices, since it provides an attractive background for explaining the mechanisms that entities use to align the perception of their practices with the expectations of the social environment in which they operate (Guerreiro *et al.,* 2020). Considering the principle that organizations are socially constructed and subject to regulatory processes, compliance will give rise to legitimacy (Dillard *et al.,* 2004).

Accordingly, institutional theory has been widely used to study aspects related to stability and changes in accounting systems (Aburous, 2019; Albu *et al.,* 2014; Alon and Dwyer, 2014; Carneiro *et al.,* 2017; Guerreiro *et al.,* 2012, 2015). For example, Guerreiro *et al.* (2012) analyzed a sample of large unlisted Portuguese companies to identify factors associated with the preparation of these companies for the adoption and implementation of a new IFRS-based accounting system.

Organizations tend to adopt the same practices and structures as other organizations considered legitimate; this process of imitation is called isomorphism (DiMaggio and Powell, 1983). The institutional isomorphism allows a better understanding of the modern life of the organization, as it considers cultural, social, and political issues. Isomorphism can occur through three mechanisms: coercive, mimetic, and normative. Coercive isomorphism results from pressures exerted by powerful organizations, such as the State. Mimetic isomorphism corresponds to the process of imitating structures, administrative practices, strategic policies, or other internal procedures of other institutions that are considered successful and legitimate. Normative isomorphism occurs when the entity adopts standards recognized as the most appropriate because of professional pressures in the environment of the organization (DiMaggio and Powell, 1983).

These three types of isomorphism can occur simultaneously or independently. Isomorphism is considered to be the key element of institutional theory and is considered synonymous with convergence (Rodrigues and Craig, 2007). For this reason, several authors have used isomorphism to understand the adoption of IFRS (e.g., Hassan *et al.,* 2014; Mantzari *et al.,* 2017; Nurunnabi, 2015; Pricope, 2016; Tahat *et al.,* 2018).

Besides isomorphism, Meyer and Rowan (1977) showed that there is decoupling, i.e., the separation between norms and the administrative practice. The authors stressed that strict obedience to norms is a fiction; although there are institutionalized rules, they are not put into practice, and situations occur where the formal organizational structure is different from current practice.

2.2.2. Dillard, Rigsby and Goodman's institutional dynamics

The framework of Dillard *et al.* (2004) depicts institutionalization processes in organizational contexts in a recursively cascading manner, suggesting that the process of institutionalization of a new accounting system encompasses three levels. The first level of institutionalization is composed by the political, economic, and social systems. It has the responsibility to establish and disseminate standards and values in society and in the organizational field. The second level, the organizational field, is composed by professional organizations, which aim to translate the standards set by the higher level. The third level, the organization level, comprises the preparers of financial information.

The Dillard *et al.* (2004) model combines the institutional theory, with the dynamic structuring of social systems (Giddens, 1976, 1979, 1984) and Weber's (1968) notions of social context. Dillard *et al.* (2004) argue that social systems are regularized patterns of interactions between groups and individuals, structured by rules and resources that are evidenced in society.

According to Giddens (1976, 1979) there are three types of structures in the social system: signification, legitimation, and domination.

Signification structures aim to assign meaning to social behavior through organized webs of language (such as semantic codes, interpretive schemes, and discursive practices) in a conscious, subconscious, or unconscious manner (Guerreiro *et al.,* 2015). Like the study of Guerreiro *et al.* (2015), in our study the enforcement regulations and accounting systems are interpretative schemas that comprise shared rules and concepts from the practice of accounting.

Legitimation relates to a system of moral rules. The legitimization structure involves a series of rules and moral codes sanctioned in the forms of social behavior, thus constituting a set of values and ideals that highlights what is well or badly done, what is important or not (Macintosh and Scapens, 1990). Accordingly, the enforcement application guidelines issued by superior entities such as ESMA, led to the development of control procedures to be adopted by the different actors (enforcers) in the exercise of their activity. Legitimation structures explain the meaning of adopting certain control practices, given that the actors proceed according to the guidelines proposed by ESMA to legitimize their behavior over others.

The domination structures are associated with the power in social systems that results from control over resources (Guerreiro *et al.,* 2015). The resources are used by actors to achieve their objectives. Giddens (1984) distinguishes two types of resources: allocative resources, which arise from objects, goods, and other material phenomena; and authoritative resources, which derive from the capacities to organize and coordinate the activities of social actors. These two types of resources are the means by which power is exercised and structures of domination are reproduced.

In contrast to the concept of institutionalization, Oliver (1992) introduces the concept of deinstitutionalization, which happens when an institutionalized practice disappears. The author indicates that there may be three main causes for deinstitutionalization: social, functional and political. When there are changes in institutional rules motivated by divergent opinions and beliefs among members, these are social causes. Functional pressures occur when there are questions about the value or usefulness of a certain institutionalized practice. Finally, political causes are related to changes in power.

The Dillard *et al.* (2004) model has been widely used in the literature to understand the accounting phenomena, as in Abdul-Baki *et al.* (2020), Albu *et al.* (2011), Guerreiro *et al.*(2015), Harun *et al.*(2020). As far as we know, our study is the first application of the model to enforcement practices.

Portugal, as a member of the European Union is required to comply with the EU enforcement system. At European level, ESMA is the entity responsible for IFRS enforcement. Based on the Dillard *et al.* (2004) model, we will show in the following sections, that the enforcement system in Portugal implies interactions between the different actors at the three levels of institutionalization. Responsibilities are allocated at different levels, although the political and economic level keeps the power over the main resources.

2.3. The EU Enforcement System

The emergence of several accounting scandals in the last decades called into question not only the accountants' work but also the supervisory systems. This led the European Commission to accelerate the process of harmonizing financial reporting. To this end, Regulation (EC) No 1606/2002 (known as the IAS Regulation) was published with the aim of increasing transparency and comparability. This regulation imposed that, from 2005 onwards, all listed companies should apply accounting international standards (IAS/IFRS) for the purposes of preparing their consolidated financial statements.

Acknowledging that high quality accounting standards *per se* are not enough for guaranteeing the quality of financial reporting, the European Union has developed a supervisory system, but leaving the implementation of the enforcement mechanisms largely under the responsibility of each EU member state (Gros and Nevrela, 2020).

In line with the De Larosière *et al.*(2009) recommendations on strengthening the European supervisory system, the European System of Financial Supervisors (ESFS) was established, taking up its duties on 1 January 2011. It comprises the European Systemic Risk Board (ESRB), the three European Supervisory Authorities (ESAs) – the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) – and national supervisors. The ESFS is composed of macro-prudential supervision, ensured by the ESRB, and micro-prudential supervision (European Parliament, 2020).

As regards to micro-prudential supervision, there is a clear separation of functions between the three ESAs, namely between banking (EBA), insurance (EIOPA) and securities markets (ESMA), all of which have the role of facilitating the smooth functioning of the market by promoting "a sound, effective and consistent level of regulation and supervision; ensuring the integrity, transparency, efficiency and smooth functioning of financial markets; strengthening international coordination in the field of supervision; (...)" (European Parliament, 2020:2). They also have a responsibility to develop a set of rules, particularly technical standards for regulation, technical implementing rules, guidelines, and recommendations, with powers in the case of breaches of EU law by national supervisory authorities. European supervisory authorities are not intended to replace national supervisory authorities, but to complement them with European counterparts, whose ultimate purpose is to ensure the uniform application of EU law in their respective financial sectors.

The EBA is an independent EU authority responsible for ensuring an effective and consistent level of prudential regulation and supervision of the entire European banking sector. Its main objectives are to improve the functioning of the internal market through an adequate, effective, and harmonized level of European supervision and regulation, although the supervisory competence of individual financial institutions remains with the national supervisory authorities (EBA, 2020).

The EIOPA is the body responsible for European insurance and pension fund supervision, with the objectives of maintaining the stability of the European financial system and ensuring the transparency of markets and financial products in order to protect policyholders and pension scheme members and beneficiaries. It coordinates financial supervision at the systemic and at the corporate level, with day-to-day supervision being the responsibility of national authorities (Regulation EU No. 1094/2010).

The ESMA is the body responsible for supervising and sanctioning credit rating agencies and trade repositories and aims to contribute to the stability of the European Union's financial system by improving investor protection and promoting stable and orderly financial markets (ESMA, 2020a). ESMA's main role is to promote the consistent application of IFRS and to promote the convergence of application practices across Europe. To this end, the European Enforcers Coordination Sessions (EECS) are held 7 to 9 times a year. This is a forum with about 40 European enforcers from the European economic area, with the objective of having the European enforcers discussing and sharing their experiences with the application and enforcement of IFRS. According to ESMA (2020b), the EECS discussions allow national enforcers to learn from the experience of others who have already come across similar issues, and to gather useful input for the analysis of technical issues. In 2014, ESMA published the "Guidelines on enforcement of financial information", which defined the scope and objective of enforcement, the characteristics of enforcers and the set of principles to be followed in the enforcement process (Silva and Rodrigues, 2017). In February 2020, a revision of the Guidelines was made. However, these revisions will only enter into force on 1 January 2022 (ESMA, 2020c). Currently, European enforcers must communicate in writing to ESMA about whether or not they intend to comply with the Guidelines (ESMA, 2020b). According to ESMA (2019), of the 28 Member States, 23 comply, four do not comply and one intends to comply with the ESMA guidelines on the enforcement of financial information.

The above three supervisory entities form the Joint Committee of the European Supervisory Authorities, which aims to ensure consistency of supervision.

Regarding the national supervisory authorities, it is for the Member States to designate the authorities which will form part of the ESFS and are represented in the ESAs. According to ESMA (2020b) and FEE (2001), in Portugal the enforcers are the Securities National Commission (CMVM), the Bank of Portugal (BP) and the Insurance and Pension Funds Supervisory Authority (ASF).

Next, we present the Portuguese enforcement system and the responsible institutions.

2.4. The Portuguese enforcement system

As mentioned before, the financial supervision in Portugal follows a tripartite model, also known as the ‘traditional three pillar’ model. The supervision is divided into three sectors: one for banking, another for insurance and a third for the securities market.

Decree-Law 228/2000 created the National Council of Financial Supervisors (CNSF – *Conselho Nacional de Supervisores Financeiros*), which is composed by CMVM, BP and ASF, the three enforcers. This council aims at removing the boundaries between the three sectors of financial activity, encouraging cooperation, communication and coordination between supervisory authorities, so as to put an end to conflicts of jurisdiction and regulatory gaps. The CNSF did not affect the competence and autonomy of the authorities but created a forum for coordinating the supervisory activities of the financial system to facilitate the exchange of information between the three sectors (preamble of Decree-Law 228/2000).

The BP is responsible for the supervision of credit institutions, financial companies, and other entities legally under its supervision (Law 5/98). However, when we consider some economic scandals related to banks, reported in newspapers[5], we may be led to conclude that the BP has not been effective in fulfilling its supervisory purpose. In Portugal, recently two banking institutions, BES and BANIF, were resolved, causing serious consequences for the economy and breaking confidence in the supervisory bodies, namely in the BP. Again, these cases seem to have occurred due to the lack of mechanisms for coordination and the exchange of information between supervisory authorities.

The mission of the ASF is to ensure the regular functioning of the insurance market and pension funds by promoting the stability and financial soundness of the entities under its supervision, as well as by ensuring the maintenance of high standards of conduct by them, with a view to achieve the main objective of protection of policyholders, insured persons, underwriters, participants, beneficiaries, and injured parties (Decree-Law 1/2015).

[5] For example, https://rr.sapo.pt/2020/01/20/economia/associacao-de-transparencia-acusa-banco-de-portugal-de-conivencia-com-isabel-dos-santos/noticia/178992/

CMVM is the entity responsible for the supervision of the security markets, as well as of the entities operating in these markets. This entity is also in charge of the supervision of statutory auditors, audit firms, auditors, and audit entities (national, from Member States and from third countries registered in Portugal), as long as they perform auditing activities for entities classified as of public-interest (Decree-Law 5/2015; Law 148/2015).

Due to their connections with the Ministry of Finance, the above-mentioned entities, ASF, BP and CMVM, belong to the first level of the Dillard *et al.* (2004) model – the economic and political level. These entities are responsible for supervising the Portuguese financial system and for disseminating accounting standards, values and rules of conduct to the lowest levels.

The professional organizations, namely the Institute of Certified Accountants (OCC) and the Institute of Certified Auditors (OROC), are considered to belong to the organizational field level, as per Guerreiro *et al.* (2015). They represent those in charge of implementing the IFRS, regulating the professions and ensuring quality standards.

The lower level, the organization level, is represented by the certified accountants (CC) and statutory auditors (ROC), who carry out the activity. The CC collects information, processes the data, interprets the information and prepares the financial reporting. The ROC gives an opinion on whether the financial reporting conveys a true and fair view of the organization.

Table I summarizes the adaptation of the Dillard *et al.* (2004) model to the study about IFRS enforcement practices in Portugal.

Table 2.1 - Adaptation of Dillard et al. (2004) model to IFRS enforcement in Portugal

Level of institutionalization	Focus of study	Participants
Economic and political level	National governmental level	ASF; BP; CMVM
Organizational field level	Professional organizations	OCC; OROC
Organizational level	Accounting practices	CC; ROC

2.5. Research Method

To achieve the objectives of this research, we went to the field to understand and interpret context, as Ahrens and Chapman (2006) and Harun *et al.* (2020). A qualitative approach was used based on documentary analysis (namely regulations) and semi-structured interviews with enforcers at the different levels of the Dillard *et al.* (2004) model – ASF, CMVM, OROC, OCC, certified accounts, and statutory auditors. This has been a research method used to develop a detailed and well-rounded understanding of a social process, social change, social organization, or social significance (Guerreiro *et al.,* 2015; Horton *et al.,* 2004; Mason, 2002), as that we want to reach in our study.

Initially, information was collected from reports, regulations and news, about the context of each organization, including their competencies, rights and obligations, and later, key people were selected for the interviews. We sought to interview people who carry out activities related to the subject under study, i.e., IFRS supervision and enforcement. In this way, it was ensured that the interviewee would have the proper knowledge, increasing credibility and trust.

As to the interviews, the interview protocol and scheduling was completed by email directly with the interviewees. A letter of introduction and a script with broad questions were sent to participants in advance, allowing the interviewees to prepare the requested information, consequently increasing the validity and reliability of the interview.

In order to ensure the reliability and validity of the data, the guidelines proposed by Horton *et al.* (2004) and Mason (2002) were followed in terms of methodological approach for the conceptualization and operationalization of the interviews. The interviews were semi structured, with open questions in order to allow respondents to provide their views through a 'free-flowing' discussion. Interviews were conducted in the native language of all interviewees (Portuguese)[6]. Subsequently, a transcript was sent to the respondents for the purpose of validation, giving them the opportunity to add additional information. In this way, the accuracy of the interview data was reinforced, and the possibility of distorting

[6] The list of questions may be made available upon request.

idiomatic terms and particular meanings avoided. Contrary to what was desired, the interviews were conducted via Skype, due to restrictions related to the Covid-19 pandemic.

In the cover letter of all interviews, respondents were asked about authorization to record, in order to ensure the accomplishment of the General Data Protection Regulation; then, a short introduction to the topic was made. We emphasized the importance of the interview for the carrying out of the study, indicating that the participant would have the opportunity to verify the accuracy of the transcript, making any amendments deemed necessary. This was intended to make the interviewee to feel comfortable with what would be said. During the interviews, the personal perspective of the interviewer was not disclosed in order to not influence the answers of the interviewees. Long questions or theoretical concepts were avoided, a neutral tone of voice was maintained and there were no restrictions in terms of response times, that is, time was given to develop their answers (Horton *et al.,* 2004).

For a detailed analysis of the political and economic level, four interviews were conducted, with people from CMVM (1) and ASF (3). Unfortunately, the BP refused to participate in the interviews, although the importance for the development of this research has been reinforced.

The main objectives of these interviews were to gather information about: how IFRS enforcers are structured; how they operate; and why they operate. We also tried to understand if the way they act is influenced by structures of signification, legitimation, and domination at the three different institutionalization levels; and which isomorphic processes are being developed.

At the organizational field level, interviews were conducted with the two professional organizations related to the enforcement of accounting standards: OROC (1) and OCC (4). At this level, we wanted to obtain information about the role of these two organizations in ensuring the implementation of accounting standards. Once again, we also tried to understand if the way they act is influenced by structures of signification, legitimacy and domination.

At the organizational level, interviews were carried out with several certified accountants and statutory auditors, in a total of six, differing in terms of age, main activity of their clients, years of experience, and whether or not they worked in professions other than accounting. These interviews were conducted to understand how accountants and auditors act and to understand how they see the work done by higher levels, to ensure the correct implementation of accounting standards. All accountants and auditors are well experienced with IFRS.

Table 2.2 lists the set of respondents included in the study and duration of each interview.

Table 2.2 - List of interviewees details

	Interviewee	Position	Duration (minutes)
Economic & political level	I	Supervisor of the financial information of listed entities, CMVM	60
	II	Director of the Risk and Solvency Analysis Department, ASF	60
	III	Supervisory member of the Department of Authorizations and Records, ASF	60
	IV	Member of the Prudential Supervision of Insurance Companies, ASF	60
Organizational field level	V	President, OROC	90
	VI	Director of the consultancy department, OCC	45
	VII	Member of the Board of Directors, OCC	60
	VIII	Advisor to the President of the OCC	30
	IX	Director of Disciplinary Board, OCC	30
Organizational level	X	Partner of an accounting firm and Statutory Auditor. Accountant for over 300 companies in Portugal and Mozambique. Member of the Board of Directors of the OCC. 25 years of professional experience.	45
	XI	Accountant of an accounting firm. Statutory Auditor. Fifty clients in all sectors of activity. 14 years of professional experience.	45
	XII	Coordinator accountant of 33 companies in the real estate sector. 9 years of professional experience.	45
	XIII	Accountant responsible for the Accounting and Tax Compliance Department of a Multinational Company, present in more than 10 countries. 29 years of professional experience.	45
	XIV	Supervisor of accountants from various countries. 20 years of professional experience.	30

	XV	Statutory Auditor. 10 years of professional experience.	45

2.6. Main findings

The results presented aim to characterize the practices of enforcement concerning IFRS implementation in Portugal, namely how enforcers proceed with that control (applied practices), as well as to analyze the interactions at each of the three institutionalization levels of social context suggested by Dillard et al. (2004). In this way, we aim to understand the relational dynamics existing between the economic and political level (Section 2.6.1), the organizational field level (Section 2.6.2) and the organizational level (Section 2.6.3).

2.6.1. Economic & Political Level

In the economic and political level, we identified the entities ASF, BP and CMVM. All are under the structures of signification and legitimation of ESMA, once they adopt ESMA's enforcement guidelines. Although they have autonomy to define the enforcement procedures, to gain legitimacy they adopt internationally defined practices. The CMVM is subject to scrutiny regarding compliance with the ESMA guidelines, although it is not obliged to adopt these practices. At the national level, the three entities belong to the CNSF work together in the coordination of supervisory activities, highlighting the importance of adopting the same semantic codes, interpretive schemes, and discursive practices (signification structures) and also evidencing how relevant is their participation in the EECS, where they acquire technical knowledge for the resolution of situations at the national level (legitimation structures).

ASF

According to Decree-Law 1/2015, ASF has the following attributions, among others (article 7): to supervise and regulate the insurance, reinsurance, insurance mediation and pension fund activities and other related or complementary activities; to participate in the macro-prudential supervision system for the prevention and mitigation of systemic risks that may affect financial stability; to cooperate with the other national supervisory authorities of the financial system, within the National Council of Financial Supervisors (CNSF); to perform technical support and consulting functions to the Parliament and the Government, in matters related to the sector of activity under supervision; and to participate in the ESFS, namely integrating the ERSB and the EIOPA. The same legislation indicates that it is also responsibility of ASF to ensure compliance with legal or regulatory duties or with those resulting from acts of European Union law to which the entities under their supervision are subject, as well as to ensure the application of laws and regulations, and other rules applicable to the sector of activity under their supervision (article 16).

As summarized in its website[7], ASF has regulatory competencies, of authorization or non-opposition, registration or certification, on-site and off-site supervision, enforcement, revocation, administrative and institutional supervision.

Moreover, the Regulatory Standard n.8/2016-R of the ASF (article 31) refers to the information to be provided by the supervisees for the purpose of exercising the supervisory powers legally committed to the ASF. The accounts and other accounting elements of insurance and reinsurance companies are among the accounting, statistical and behavioral information to be reported.

Although ASF is part of the EIOPA, accounting enforcement is not part of the EIOPA's responsibilities. As explained by Interviewee IV, contrary to what happens in Portugal, the other national supervisors who are members of the EIOPA are not responsible for carrying out the enforcement of accounting standards, as this competence has been handed over to other authorities in their countries.

Accordingly, in Portugal, the enforcement of the accounting standards of insurance companies is ensured by two organizational units of the ASF: the Department of Prudential Supervision of Insurance Companies and the Department of Risk and Solvency Analysis. The former is responsible for defining, implementing and conducting the micro-prudential supervision process of insurance companies and insurance groups (off-site and on-site)

---

[7] https://www.asf.com.pt/NR/exeres/4BF1F468-F99E-40FD-A3CC-8A47F5C7F099.htm

through the verification of compliance with the legal provisions relating to the governance system, technical provisions, capital requirements, investments, own funds and reporting and disclosure duties, as well as the enforcement of the applicable accounting regime. The latter is responsible for defining and implementing the risk assessment framework of the insurance and pension funds sectors, on a macro-prudential basis, and for developing studies and initiatives to consolidate the solvency and accounting reporting models of the sectors.

From the above, we note that ASF has full autonomy to define IFRS enforcement procedures, although structures of significance and legitimacy are present in the relationship with ESMA. ASF exercises control over the organizational level (auditors and accountants), through domination structures.

As per Interviewee IV, regarding the enforcement process, there is a mimicking of practices, in the sense that the ASF adopts the same practices as other supervisory authorities. In order to legitimize its performance, it uses the EECS to present and discuss the most complex cases in terms of IFRS enforcement. Through the experience of other enforcers, opinions are collected on how to handle different situations. Interviewee IV observed that:

> *Regarding accounting enforcement, the approach followed by the ASF is similar to that of other supervisory authorities, and the ASF may review the procedures whenever it deems necessary... The ASF is a member of the European Enforcers Coordination Sessions (EECS), a Committee under the ESMA. The EECS represents all the authorities with responsibilities for carrying out accounting enforcement in the various Member States that make up the European Union.*

Currently, according to interviewee IV, ASF has eight expert officials to supervise the appropriate application of the accounting principles, standards and disclosures about the criteria used to measure assets and liabilities, for the purposes of Solvency Regime II. Thus, in the scope of the supervision work, each expert official has the responsibility to analyze the financial statements of the supervisee, validate the disclosure requirements and take the necessary steps to notify the entity of errors/disclosure failures detected. According to Interviewees II and IV, the selection process of the companies to be supervised depends on the human resources available, selecting the entities that, in the previous reporting period, presented a higher number of defaults, regardless of their size. If disclosure errors/faults that condition the understanding of the financial statements are detected, a written communication is sent, in which a deadline is indicated for the companies to correct the inconsistencies detected. On the other hand, if omissions are detected that do not condition the understanding of the financial statements, the ASF contacts the insurance companies, requesting that the omissions detected be corrected in the subsequent reporting period. There is no provision for a sanctioning framework applicable exclusively to accounting enforcement; the generic types of infractions applicable to all entities subject to the supervision of the ASF are applied. Therefore, the sanctioning framework applicable to the results of accounting enforcement actions is provided for in the Legal Framework for Access to and Exercise of the Activity of Insurance and Reinsurance (Law 147/2015), considering the classification of simple, serious, and very serious offences, applied according to the gravity of the situation. Articles 369 to 371 provide guidance for fines to be imposed on entities that do not comply with the applicable accounting principles and standards.

It was not possible to assess the number of controlling actions or the results of the analyses developed by the ASF, given that the entity is under the obligation of professional secrecy, so no such information is public. However, according to the opinion of Interviewee X, certified accountants feel no pressure from the ASF; the accounting enforcement carried out by the ASF is not observable:

> *Regarding insurance (entity responsible for the supervision of insurance companies, i.e. the ASF), I think that there is great control over the insurance activity itself, but not over the companies' accounts. They are even right, because they take as valid the financial information prepared by Certified Accountants, and certified by Statutory Auditors, so I think it is normal that they need to have some official reports, but they do not need to be a controlling entity over information that is prepared by certified professionals and validated by other professionals also specialized for that.*

Despite the fact that Interviewee X, an accountant, does not feel the existence of control by the ASF, as described above, there is evidence, through the information obtained from

Interviewees II-IV but also through regulations, that such enforcement exists. As indicated, there are also penalties for non-compliance by the supervisees.

BP

The BP is attributed with the supervision of credit institutions, financial companies and other entities legally under its supervision (Law 5/98). In addition to its duties, it follows the General Regime of Credit Institutions and Financial Companies (Decree-Law 298/92), charging fines to its supervisees for failure to comply with accounting rules and procedures (Article 210), as well as for falsifying the accounts and failing to comply with other accounting rules (Article 211).

As mentioned previously, the BP refused to participate in this investigation, so we were unable to gather direct evidence on how it acts. However, Interviewee XV, a Statutory Auditor of a banking institution, explained that, although there are penalties for non-compliance with accounting standards, the Bank of Portugal does not do any kind of supervision regarding the accounting standards implementation. He underlined that one of the scandals related to a Portuguese bank was motivated precisely by the lack of enforcement of the BP.

An informal contact with a BP official let us know that the BP does not have any specialized department for the control of the application of accounting standards in the various banking institutions. It assumes that the accounting standards are being correctly applied, since its supervisees are entities subject to statutory audit and also supervised by CMVM. Also, according to Interviewee XV, the supervision of the bank he works for, regarding IFRS implementation, is done by the CMVM.

Through triangulation of information, it seems to us that there is an overlap of responsibility between the BP and CMVM. ESMA indicates that the BP is responsible for the enforcement of accounting standards in financial entities, namely banks (ESMA, 2020b; FEE, 2001); the BP assumes responsibility for the supervision of credit institutions, financial companies and other entities legally under its supervision (Law 5/98), despite no specific reference is made to accounting enforcement; but, the CMVM appears as responsible for statutory auditors, audit firms, auditors, and audit entities, either national or from Member

States and third countries registered in Portugal, if they are considered public-interest entities (Decree-Law 5/2015; Law 148/2015). Banks are public interest entities, according to Law 148/2015. As such, it seems to us that the BP waives its responsibility as enforcer and assumes that the enforcement of accounting standards in credit institutions and financial companies is being ensured by the CMVM, although this entity’s responsibility is limited to the supervision of the Statutory Auditors and Auditing Firms (Regulation (EU) 537/2014; Law 148/2015). Therefore, we believe there is evidence of decoupling (Meyer and Rowan, 1977), as the BP in practice is leaving its enforcement responsibility to the CMVM, which only enforces securities issuers.

CMVM

In Portugal, the capital market presents a decreasing trajectory, with the number of companies with publicly traded shares reducing. The Portuguese capital market has been considered very small. In August 2020, only 55 companies were listed in the Portuguese Stock Exchange. Consequently, although there is concern about the information needs of investors, the tax authorities and Portuguese banks are considered the main users of accounting information (Pires and Rodrigues, 2011).

As stated above, the CMVM is a legal person under public law, with the nature of an independent administrative entity, endowed with administrative and financial autonomy and with its own assets, although it is attached to the Ministry of Finance (Decree-Law 5/2015). It is part of CNSF and ESFS, collaborating actively with ESMA. In the performance of its duties, it is endowed with powers of regulation, supervision, inspection and sanction of infractions (Decree-Law 5/2015; CMVM Regulation 11/2005). However, the central core of its mission is the regulation and supervision of the security markets, as well as of the entities operating in these markets. Within the scope of supervision, CMVM continuously supervises, even without any suspicion of irregularity, various entities, such as: regulated market management entities and related activities; financial intermediaries, companies of management of collective investment undertakings and investment advisors; securities issuers; guarantee funds and compensation schemes for investors and their management entities; auditors registered with the CMVM; providers of trading data communication services; venture capital companies, companies of management of venture capital funds and entrepreneurship companies (Decree-Law 486/99).

Since 2015, CMVM has also been entrusted with the public supervision of statutory auditors (ROC), audit firms (SROC), auditors and audit entities, national and from Member States and third countries registered in Portugal, if they audit entities classified as of public-interest[8], defining the competence, organization and functioning of this supervisory system (Regulation (EU) 537/2014; Law 148/2015).

Accordingly, as also observed in ESMA (2020b) and FEE (2001), CMVM is considered an enforcer of accounting standards. Interviewee I explained that:

> *CMVM, besides being the regulator of the capital market, is also the supervisor of audit activity in Portugal. There is a group of auditors who are directly supervised by CMVM, which are the auditors of public-interest entities.*

Therefore, we observe that the economic and political level exercises control over the organizational level (auditors of public-interest entities), through domination structures. There is pressure exerted by CMVM on the auditors, who are obliged to adopt certain practices in order to become legitimate. In the same way, Interviewee X said:

> *Today, the statutory auditor raises a lot of questions and, consequently, reservations, because he is greatly pressured by the CMVM, and the pressure is direct. The accountant does not feel pressure from the CMVM at all, as there is no contact at all, but via the auditor there is immense pressure.*

Also, regarding the relationship between CMVM (economic and political level) and OROC (organizational field level), we found domination structures, through authoritative resources that allow CMVM to have the capacity to organize and coordinate the activities of social actors, such as in the developments of Giddens (1976, 1979, 1984). CMVM has

---

[8] According to Law 148/2015, entities of public interest are mainly issuers of securities admitted to trading on a regulated market; credit institutions; insurance and reinsurance companies; pension funds; and public undertakings which, for two consecutive years, have a turnover exceeding (euro) 50 000 000 or a total net asset value exceeding (euro) 300 000 000.

delegated the functions of control of non-public-interest entities to OROC, however, CMVM has always the final power of decision (Accountancy Europe, 2018).

The structures of signification and legitimation are also present in the CMVM's relationship with ESMA, although there are no sanctions for non-compliance. Even if there is no presence of coercive isomorphism, we are facing structures of significance and legitimation, in the sense that CMVM is structured on the basis of ESMA's guidelines, as Interviewee I explained:

> *ESMA guides our activity in the format of guidelines, which are defined by all regulators that integrate it, including the CMVM.*

ESMA validates the financial information supervision procedures implemented by each national authority, including: the way CMVM selects companies to verify compliance with the IAS/IFRS; and how the national authority draws conclusions. ESMA also supervises the way CMVM follows up the irregular situations detected and subsequent regularization. The structures of legitimacy are well present in the type of relationship established between these two entities, since CMVM wants to be recognized as compliant and truthful, in the sense of adopting a set of rules, codes, and moral values that are recognized by the market as the most correct, which reveals mimetic isomorphism. As Interviewee I stated:

> *CMVM is committed to doing a good job, and the compliance with the* [ESMA] *guidelines contributes to that goal; on the other hand, since the conclusions of ESMA in relation to the work we do are disclosed, the guidelines that are not complied with will be made public. If we want to have credibility before supervisees and other actors in the market, we have to act in accordance with European standards. We want to act on the basis of existing best practices and we only have to gain from the knowledge and sharing that ESMA gives us, because many of those regulators have much more experience than we do. Also, the adoption of this way of being in the market provides legitimate grounds for Portugal's action in international markets.*

Regarding the way CMVM acts in the market, in terms of supervision, it uses a risk model in accordance with ESMA's guidelines. According to Interviewee I, that risk model is composed of a set of indicators extracted from the entities' annual accounts to which scores are attributed according to the associated risk level. For instance, Interview I mentioned the existence of reservations in the auditors' opinion, the recording of financial difficulties, whether there is a history of serious errors in the accounts, the weight of the company in the market, the seniority of the last analysis, among others. Subsequently, after obtaining the sum of the scores for each issuer, a list is made with the total scores of all issuers, according to the level of risk. In Portugal, five issuers are analyzed annually, four selected based on the risk model and the fifth randomly selected. Over a ten-year period, CMVM analyses the accounts of all issuers. The scope of supervision analysis can be 'unlimited' or 'focused'[9]. In the former case, the content of the financial information is assessed as a whole in order to identify questions or areas that need further analysis and assess whether this information complies with the standards relevant reporting. In the latter case, predefined questions are evaluated and their compliance with the relevant financial reporting standards is verified. According to Interviewee I, the procedures of analysis cover the verification of recognition and measurement criteria, and completeness of disclosures.

CMVM has a legal basis for collecting the information required within the scope of its supervisory powers, according to the Securities Code of Law (Decree-law 486/99). Subsequently, if there are situations in which the accounting treatment is not considered to be the most appropriate and/or there are matters requiring further clarification, a request for clarification is made to the issuer. Depending on the nature and complexity of the matters involved, a visit to the issuer may be warranted. After the analysis of the issuer's accounts, CMVM prepares a document in which the supervision operation is reported, which will be sent to the CMVM Board of Directors for approval. After deliberation, a letter is sent to the issuer indicating the situations to be corrected in the accounts of the financial year analyzed (if serious) or in the following years, and the recommendations to be adopted in the future are issued in matters of minor importance. In the next year, when the following annual accounts are disclosed, it is verified whether the situations identified in the previous year have been rectified and the recommendations

[9] Unlimited means the analysis refers to the entire content of the financial information; focused means the analysis refers to some particular matters.

accepted. For those not rectified, and for which there is no strong explanation that justifies it, consideration is given to referral to litigation and penalties are provided for in the Securities Code of Law (Decree-law 486/99).

From the above, we can see that CMVM also exerts a coercive pressure on certified accountants to correct the accounts.

According to ESMA's 2019 activity report, Portugal had 51 IFRS-adopters issuers (two fewer than in the previous year); only three of them do not present consolidated financial statements. During 2019, eight enforcement actions were carried out, four of unlimited scope and four focused. As an outcome, four of these analyses resulted in corrections to future financial statements (ESMA, 2020b).

In the context of CMVM supervision, sanctions are also identified. Decree-Law 486/99 refers to fines and prison sentences for any issuer who discloses false, incomplete, exaggerated, biased or misleading information.

2.6.2. Organizational Field Level

In the organizational field, both organizations – OCC and OROC – are under the dependence of the State (the Ministry of Finance and the Ministry of Justice). In accordance with the law (Law 140/2015; Law 119/2019), members' registration with these organizations is compulsory to the exercise of the profession. Thus, the State controls indirectly the allocation of resources and exercises domination structures over the accounting and auditing professional organizations.

OROC

The Institute of Certified Auditors (OROC) is a professional organization with the power to supervise the audit activity of accounts and related services, as well as the quality control and inspections of auditors who do not perform statutory audits of and who are not SROC of public-interest entities[10] (Law 140/2015; CMVM Regulation no. 4/2018). By the end of 2020, OROC comprised 2001 statutory audits and 339 SROC. At the OROC, the governing bodies are also statutory auditors (ROC), belonging, at the same time, to the organizational field level and to the organizational level. This means that the same actor is present at the different organizational levels, causing pressure and influence between the levels.

Due to the mandatory transposition of Directive 2014/56/EU and Regulation 537/2014, both of the European Parliament and Council, the Portuguese government felt the need to consult experts, such as auditors and OROC, to give their opinion on the matters to be legislated (CMVM public consultation document No. 6/2015 – Draft CMVM Regulation on Auditing). The institutional dynamic proposed by Dillard *et al.* (2004) helps to explain this relationship, since the organizational (auditors) and organizational field (OROC) levels influence the actors of the economic and political level (the State) in the establishment of standards and values. There is also pressure from statutory auditors on OROC to change standards, and the pressure is not always from above, but the opposite is also possible (for example, there is a page in the OROC website to receive input to reflect about changes in standards and regulations applied to the ROC professionals[11]).

According to the Interviewee V, OROC is under the supervision of the CMVM. The CMVM has structures of domination, the power being exercised through authoritative resources since the CMVM has capacities to organize and coordinate the activities of social actors (auditors). As interviewee V stated, CMVM controls everything, except administrative procedures:

> *The supervision of the Institute is currently carried out by the CMVM, and the CMVM has very broad functions of supervision of the Institute in general. By law, the CMVM can give orders to the Institute, so it controls most of the Institute; only it does not control administrative issues, but it controls, for example, the entries of the auditors,*

[10] As mentioned before, auditors who perform audits of public-interest entities are under the supervision of CMVM.

[11] https://www.oroc.pt/publicacoes/contributos-para-reflexao-sobre-alteraces-normativas-dos-roc/

the registration and everything that is changed in the registration. It naturally monitors the rules that the Institute publishes, the so-called technical application guides on matters. In general, it supervises the Institute.

Normative, coercive and mimetic pressures from the CMVM forced OROC to adopt new forms of action in terms of supervision of audit from 2015 onwards, after the publication of Law 148/2015. As Interviewee XV explained, the practices used by the two entities (CMVM and OROC) are similar. Under the CMVM domination structures, OROC mimics the same semantic codes, interpretive schemes, and discursive practices (signification structures) of CMVM to become legitimized (legitimation structures). Through mimetic isomorphism, OROC selects, annually, by lot, a set of statutory auditors (ROC) or audit firms (SROC). This selection is made based on the listings of ROC and SROC, as of December 31 of the previous year, excluding all those which perform functions in public-interest entities and those which have been controlled in the previous cycle, ensuring that all ROC/SROC are subject to at least one control in each period of six years.

According to the Auditing Quality Control Regulations (CMVM Regulation no. 4/2018[12]), the control should be horizontal and vertical. Horizontal control involves the overall evaluation of the activity, namely the way the functions are performed, the human and material resources, the internal quality control system used, and the compliance with the legally established duties. On the other hand, the vertical control consists in verifying that the ROC/SROC have work files instructed in accordance with the international auditing standards in force. For the execution of quality controls over larger auditors and for other controls considered to be of greater complexity and/or risk, the Quality Control Committee may appoint a team of two or more auditors.

Every year, the activity reports of the OROC Quality Control Commission are published, describing the activities developed and the conclusions of the controls carried out. Through the analysis of the Annual Quality Control Report from June 1, 2018 to May 31, 2019, it is

[12] This Regulation provides for audit quality assurance by OROC on auditors who audit entities which do not qualify as public interest entities.

possible to verify that 21 SROC and 42 ROC were subject to quality control. For vertical control purposes, 51 SROC files and 41 ROC files were analyzed. As a result, of the horizontal control, 34 of the 63 processes analyzed were categorized as with "no observations worthy of registration"; 12 with "observations of minor relevance"; 12 with "observations of relevance"; and 4 with "unsatisfactory results". Regarding the vertical control of the 92 files analyzed, 29 were categorized as with "no observations worthy of registration"; 25 with "observations of minor relevance"; 30 with "observations of relevance"; and 8 with "unsatisfactory results". Under the terms of the Quality Control Regulations, all ROC or SROC that obtained "observations and recommendations of relevance" and "unsatisfactory results" will be followed up in the following year, being given the possibility of implementing the recommendations resulting from the quality control, avoiding the submission to disciplinary procedures.

OCC

The Institute of Certified Accountants (OCC) is a legal person under public law that represents the professionals who exercise the certified accountant profession. To date, more than 68,000 members are registered, according to OCC data. Considering Law 139/2015, OCC is responsible for the implementation, organization and execution of systems of quality control of services provided by certified accountants (CC), being able to apply sanctioning measures in cases of non-compliance (Decree-law 452/99). Interviewee IX explained that:

> *As a result of the infractions detected, four types of sanctions may be applied: warning, fine, suspension and expulsion.*

In the same line, Interviewee VII explained:

> *The objectives of the quality control actions were: besides the pedagogical aspect, to ensure that the professionals presented reliable financial statements, prepared at the highest level; as a profession of public interest, to reinforce the public trust in the accounting professionals, with the concern of maintaining high-quality standards;*

to dignify the inter-professional relations, providing that the ethical and deontological norms are fulfilled.

In 2004, the Quality Control Regulation (Announcement No. 131/2004) was drawn up, which contained information on how the control system was organized and how it worked for the CC. The quality control system for these professionals, according to the Interviewee VIII, was designed in a similar way to the quality control that was established by OROC previously. This reveals similar signification and legitimation structures and mimetic isomorphism of practices considered successful.

Although quality control is one of the duties of the OCC provided for in its statute, it is currently suspended. The latest quality control data published by OCC date back to 2015. Currently, OCC has no quality control over accountants, and this fact is justified by the need to reflect on the methodologies to be adopted. However, one of the interviewees mentioned that the quality control was highly criticized by accountants, which led to its suspension about three years ago. Thus, we can see that the pressure of the organizational level (certified accountants) on the organizational field level (OCC) suspended one of its duties. At the same time, we see the deinstitutionalization of enforcement practice (Oliver, 1992). We can verify that this deinstitutionalization is associated with social, functional, and political practices. In this sense, some members (organizational level) were dissatisfied with the control practices and, as the OCC does not suffer pressure from the economic and political level, it deinstitutionalized the practice.

According to the Interviewee VI, OCC provides technical advice and training on IFRS. He also mentioned that whenever there is any complaint from an entity regarding the technical performance of a member of the Institute, an inquiry process is open.

Through the above it is possible to verify that there is no quality control over the CC, which may compromise accounting standards compliance. Subsequently, we can observe that there is a failure in the OCC enforcement; there is decoupling as organizational practice is separate and distinct from real organizational practice (Dillard *et al.,* 2004; Meyer and Rowan, 1977).

2.6.3. Organizational Level

According to FEE (2001), Certified Accountants (CC) and Statutory Auditors (ROC) are considered the first level of accounting standards enforcement. In Portugal, these two professions are distinct. CC are responsible for accounting records and the preparation of financial statements and are represented by the OCC. ROC are the statutory auditors registered with OROC. All financial statements of Portuguese companies have to be signed by a CC; however, not all are required to be certified by a statutory auditor[13].

Statutory Auditors (ROC)

The ROC who works in large auditing companies, namely the so-called «Big Four», tend to adopt the control practices enunciated by the parent company. Thus, we identify coercive pressures from the parent company over the subsidiaries. Accordingly, we can also observe signification structures, whereby the subsidiaries established in several countries adopt semantic codes, interpretive schemes, and discursive practices of the parent companies. Furthermore, the domination of the parent company prevails; there is a submission of the subsidiaries, in which the parent company has the capacity to manage and dominate the subsidiaries of the different countries, the power being exercised through authoritative resources as stated by Giddens (1984). In this line, Interviewee XV refers:

> *We adopt the practices of the parent company, not only for legitimacy, but if they are the best practices and try to follow the methodologies worldwide, it is normal that we use these practices to present a work to the client. They are the best practices and thus we can do a proper job. It is almost mandatory that we adopt these practices to safeguard our work and for someone from outside to notice.*

Thus, although the pressures are coercive, auditors recognized that since standards are based on the best auditing international standards (mimetic isomorphism), the adoption of these standards promote legitimacy. Although the supervision of the statutory auditor is directly under the domination of the parent company, it is also subject to a domination

---

[13] Article 262 of Decree-Law 262/86.

structure by CMVM or OROC, as explained above. About supervision of the work of the statutory auditor, the interviewees recognize that there is a demanding control, particularly regarding CMVM. Interviewee X explains that:

> *Entities subject to supervision by CMVM are subject to such scrutiny that they exercise excessive prudence involving uncommon value judgments. Today the auditor raises countless questions and, consequently, reservations, because s/he is under great pressure from CMVM; the pressure is direct.*
>
> As to the supervision exercised by OROC, the same interviewee affirmed the existence of a mimicking of the practices adopted by CMVM. As CMVM is the supervisor of audit activity in Portugal, OROC adopts the same procedures in order to obtain legitimacy. Legitimation structures help explain why institutions at different levels, such as the CMVM (economic and political level) and OROC (organizational field level) adopt the similar enforcement practices.

Certified Accountants (CC)

The accounting profession overall acknowledges that the requirements established by the OCC (organizational field) for regulating the profession are followed and are unavoidable, since it is required that CC (organizational level) attend a minimum number of professional trainings to ensure the exercise of the profession. Thus, there is an institutional pressure on the part of OCC to create structures of significance over the work of the CC, as proposed by Dillard *et al.* (2004).

However, the CC with client companies that apply the international standards (IFRS) consider that OCC provides little support, since the training is essentially about the Portuguese GAAP. According to the opinion of Interviewee XII:

> *In terms of international standards, I don't feel support from the Institute. The support ends up being a lot from external entities... For example, the auditor who supervises us ends up being the main support at the level of training, knowledge, and the correct use of international standards. I think it ends up being a very solitary research, as an accountant. On the part of the Institute, there is no such concern of*

> *supporting the accountant, in regard to the international context and in terms of the international accounting standards.*

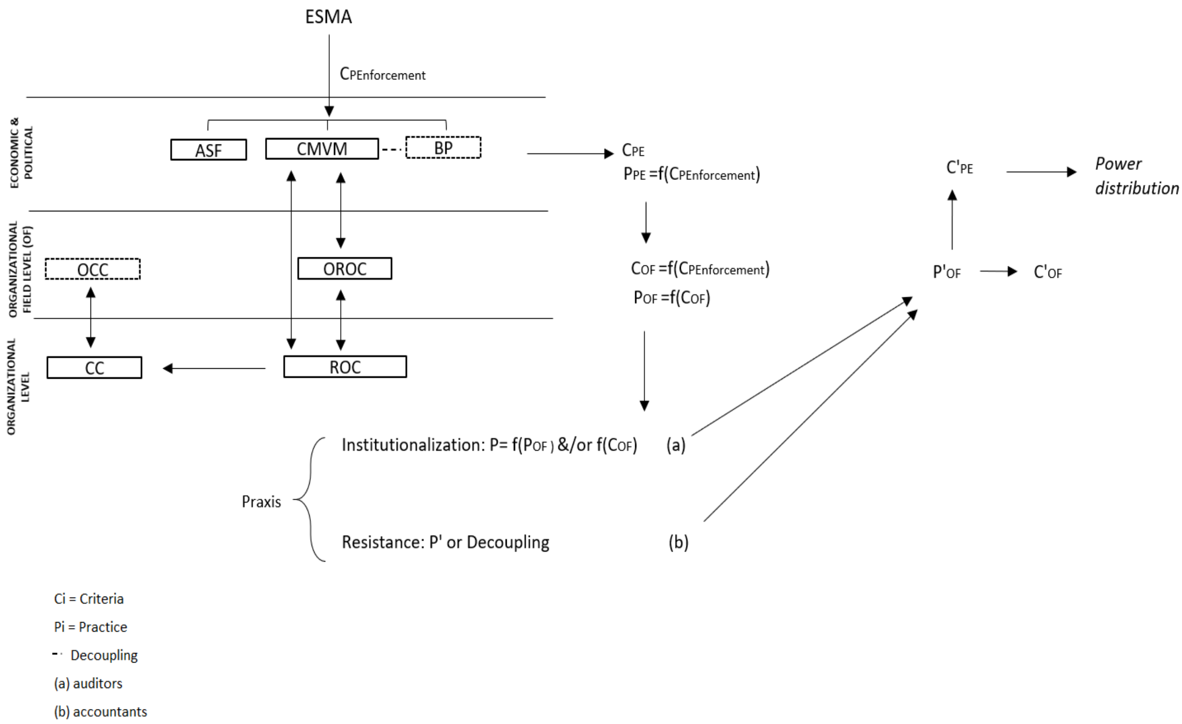
According to Interviewees XII and XIII, accountants rely on the opinion of statutory auditors to adopt best practices, since they will later oversee the accountant's work. Thus, it is the statutory auditors who provide the real structures of significance for the work done by certified accountants. At the same time, certified accountants tend to adopt the practices enunciated by statutory auditors, since they will organize, coordinate and supervise accountants' work (domination structures are exercised through the authoritative resources) and not the OCC. Consequently, we can conclude that, even though auditors are external to organizations and belonging at the same level (organizational level), they have a position that allows them to exercise power over the organizational level (Hardy and Maguire, 2008) (domination structures).

Interviewees XII, XIII and XIV reinforce that they do not feel pressure from the OCC to comply with the accounting standards. They point out that even though they are accountants of entities of some considerable size, they have never been subject to control, with Interviewee XIV even stating that *"my perception is that no quality control is made"*. Interviewee X also stated that those who are trainers of the Institute have never been subject to OCC quality control, given that they are seen as 'professionals of merit recognized'.

2.7. Discussion

The institutional dynamics proposed by Dillard et al. (2004) provide a favorable environment for understanding how actors (enforcers) act to ensure compliance with accounting standards. In this paper, we have succeeded in establishing a hierarchy of social systems, related to structures of signification, legitimation and domination that influence and are influenced by the three levels of analysis, as displayed in Figure 2.1.

Figure 2.1 – Model of enforcement system in Portugal



Source: Based on Dillard *et al.* (2004:512)

The research showed that at the economic and political level, CMVM is the central enforcer actor, since the interviewees consider it to be the entity responsible for accounting quality control in Portugal, carrying out the IFRS enforcement. Significance and legitimacy structures required CMVM to adopt the guidelines on enforcement of financial information published by ESMA. ESMA, as the European supervisory body, provided the "Guidelines on enforcement of financial information" (C_{PE}) to be adopted by the designated entities in each EU member state. Enforcement practices are considered legitimate at the economic and political level (P_{PE}) because they are a function of economic and political level criteria (C_{PE}). While acquiring legitimacy in the exercise of its activities, CMVM exercises domination structures over OROC and statutory auditors of public-interest entities, providing signification and legitimation structures. As in Dillard *et al.* (2004) model, social, economic, and political parameters enter the organizational field through the criteria of the organizational field (C_{OF}), which are a function of the criteria of the societal level (C_{PE}), providing legitimation to the action of the OROC. Enforcement practices are considered legitimate at the organizational field level (P_{OF}) because they are a function of organizational field criteria (C_{OF}).

Contrary to other countries, in Portugal the ASF is responsible for the enforcement of accounting standards of insurance, reinsurance, insurance mediation, pension fund activities and other related or complementary activities. Since EIOPA does not provide guidance in terms of enforcement, ASF seeks legitimacy following ESMA guidelines to exercise accounting quality control.

According to its statute, the BP is the entity responsible for controlling the banking sector, imposing fines for non-compliance with accounting rules and procedures. However, information informally gathered evidenced that the BP does not carry out any supervision regarding accounting matters; this enforcement is instead carried out by the CMVM. There is decoupling, since the BP passes its responsibilities, taking into consideration that, as the CMVM is responsible for the supervision of ROC and SROC of public-interest entities (i.e., the banking sector), it is responsible for the respective enforcement of accounting standards.

In the organizational field, professional institutes appear as the interlocutor between the organizational level and the economic and political level. The institutional dynamics proposed by Guerreiro *et al.* (2015), in which the same actor is present at different levels, can influence anyone of them, since auditors and accountants exercise the profession and, at the same time, have functions in professional organizations. The pressure that can be exerted from above (in the sense that the CMVM has structures of dominance and significance over the OROC and, in turn, over the statutory auditors) and from below (the statutory auditors put pressure on OROC (through public consultations) to implement/review standards is perceptible. Due to the existence of pressures between levels, new innovative practices may be created that can modify the set of legitimate practices (P_{OF}) and criteria (C_{OF}) in the field of the organization, reinforcing, reviewing or eliminating existing practices (Dillard *et al.*2004). As we can see in Figure 1, changes in practices (P'_{OF}) and criteria (C'_{OF}) at the organizational field level contribute to a new contextual environment.

At the organizational field level, regarding the enforcement of accounting standards, we have found that only the OROC is performing quality control over its members. Although the criteria are defined by the OCC (C_{OF}), there is a decoupling, there is no control in practice (P_{OF}) over accountants at the organizational field. This can be justified because OCC does not receive any pressure at the economic and political level. Pressure from certified accountants on the OCC to eliminate accounting quality control has been made possible by the lack of economic and political pressures over the OCC. Thus, decoupling seems to exist between criteria and practices, leading to a deinstitutionalization of the practice of enforcement (Oliver, 1992).

2.8. Conclusion

In Portugal there is a tripartite supervision model based on the three activities of the financial system: banking (BP), insurance (ASF) and capital markets (CMVM). These three entities represent the economic and political level, where norms and values are established and disseminated to the organizational field and organizational level. It is important to note that although the BP has enforcement rules in its laws and sanctions, it does not appear to be complying with the enforcement of accounting standards. There is evidence of decoupling, delegating that competence to CMVM. However, CMVM, according to its statute, only enforces the accounting standards of issuers, being responsible for supervising the ROC and SROC of the banking sector, given that banks are public-interest entities.

The organizational field level, represented by the professional institutes (OCC and OROC), acts as the interlocutor between the higher level (economic and political level) and the lower level (organizational level), being under pressure from both levels. The certified accountants and auditors influence (establishment of standards and values) and are influenced (way of acting) by the superior levels.

The institutional dynamics proposed by Dillard *et al.* (2004) allows for an understanding of the institutional pressures that occur between the three levels of analysis, reinforcing the idea that actors influence and are influenced by the different levels. As previously established in Dillard *et al.* model, the economic and political level influences the organizational field, and this influences the organizational level (top-down institutionalization process), but this study corroborates that the opposite is also true, validating the model of Dillard *et al.* (2004) also in the case of IFRS enforcement practices. We conclude that the CMVM acquires legitimacy in ESMA, following guidelines of the latter. At the same time, through domain structures, it introduces at the organizational field level (OROC) and at the organizational level (statutory auditors) the criteria (C_{OF}) and practices (P_{OF}) of enforcement. As the pressures are bidirectional, statutory auditors have the power to lead to the creation of new practices (P'_{OF}) and new criteria and control (C'_{OF}). Accounting quality control is not done by the OCC, namely in terms of IFRS compliance since the pressures of certified accountants have managed to eliminate this control. Thus, deinstitutionalization may be expected as a consequence.

Studies like this are important to evaluate the level of enforcement in a country, bringing relevant contribution for practice. Our research is of particular interest to standard-setting bodies, regulators, enforcers, and users of financial information, especially in Europe. We underline the leading role of ESMA but, at the same time, we show evidence from Portugal, that enforcers in member states may not be working as they should, so the quality of IFRS-based financial information ultimately published may not be as expected.

Moreover, while highlighting that enforcement mechanisms are provided for in the Portuguese legislation, but they may not be working in practice, this research points out the need of Portuguese authorities to establish policies to make IFRS enforcement more effective, particularly regarding banks and insurances companies and unlisted companies that are using IFRS.

Finally, this research also fills an important gap in the literature, as it adapts the Dillard *et al.* (2004) and Oliver (1992) models to the case of IFRS enforcement, in this way contributing to the understanding of the actors, forces and procedures adopted by the enforcers, expanding the power of explanation of the institutional theory.

Despite the contributions, this study also presents limitations. One concerns the fact that no interview was obtained from the Bank of Portugal, given that the analysis about this actor/enforcer was performed only using documentary sources. Additionally, all drawbacks of qualitative studies can also be present in this study. Lastly, this is case study of a single country.

As further research we propose to replicate the study of the IFRS enforcement systems to different countries. This will permit to go deeper in the analysis of the enforcement systems in different realities, continuing feeling the research gap. These country studies would allow comparative analyses of enforcement systems adopted in several parts of the world, supporting the definition of common or harmonized policies by the relevant international bodies, as in the accounting standards themselves.

References

Abdul-Baki, Z., Uthman, A. B., and Kasum, A. S. (2020). The role of accounting and accountants in the oil subsidy corruption scandal in Nigeria. *Critical Perspectives on Accounting*, *(in press).*

Aburous, D. (2019). Critical Perspectives on Accounting IFRS and institutional work in the accounting domain. *Critical Perspectives on Accounting*,Vol.62, pp.1–15.

Accountancy Europe. (2018). *Organisation of the Public Oversight of the Audit Profession in Europe - State of affairs after the implementation of the 2014 Audit Reform*.

Ahrens, T., and Chapman, C. S. (2006). Doing qualitative field research in management accounting: Positioning data to contribute to theory. *Accounting, Organizations and Society*, Vol.31 No.8, pp.819–841.

Albu, C. N., Albu, N., and Alexander, D. (2014). When global accounting standards meet the local context-Insights from an emerging economy. *Critical Perspectives on Accounting*, Vol.25 No.6, pp.489–510.

Albu, N., Albu, C. N., Bunea, Ş., Calu, D., and Girbina, M. (2011). A story about IAS/IFRS implementation in Romania. *Journal of Accounting in Emerging Economies*, Vol.1 No.1, pp.76–100.

Alexandre, H., and Clavier, J. (2017). Adoption of IAS/IFRS, liquidity constraints, and credit rationing: The case of the European banking industry. *Quarterly Review of Economics* *and Finance*, Vol.63, 249–258.

Alon, A., and Dwyer, P. D. (2014). Early adoption of IFRS as a strategic response to transnational and local influences. *International Journal of Accounting*, Vol.49 No.3, pp.348–370.

Amiram, D., Bozanic, Z., Cox, J. D., Dupont, Q., Karpoff, J. M., and Sloan, R. (2018). Financial reporting fraud and other forms of misconduct: a multidisciplinary review of the literature. *Review of Accounting Studies*, Vol.23 No.2, pp.732–783.

Böcking, H. J., Gros, M., and Worret, D. (2015). Enforcement of accounting standards: how effective is the German two-tier system in detecting earnings management? *Review of Managerial Science*, Vol.9 No.3, pp.431–485.

Carneiro, J., Rodrigues, L. L., and Craig, R. (2017). Assessing international accounting harmonization in Latin America. *Accounting Forum*, Vol.41 No.3, pp.172–184.

Cho, K., Kwon, K., Yi, H., and Yun, Y. (2015). The Effect of International Financial Reporting Standards Adoption on the Relation Between Earnings Quality and Information Asymmetry in Korea. *Emerging Markets Finance and Trade*, Vol.51, pp.95–117.

De George, E. T., Li, X., and Shivakumar, L. (2016). A review of the IFRS adoption literature. In *Review of Accounting Studies,* Vol.21, pp.898-1004.

De Larosière, J., Balcerowicz, L., Issing, O., Masera, R., Mc Carthy, C., Nyberg, L., Perez, J., and Ruding, O. (2009). *The High level group on financial supervision in the EU*. The de Larosière Group.

Demmer, M., Pronobis, P., and Yohn, T. L. (2019). Mandatory IFRS adoption and analyst forecast accuracy: the role of financial statement-based forecasts and analyst characteristics. *Review of Accounting Studies*, Vol.24 No.3, pp.1022–1065.

Dillard, J. F., Rigsby, J. T., and Goodman, C. (2004). The making and remaking of organization context: Duality and the institutionalization process. *Accounting, Auditing* and *Accountability Journal*, Vol.17 No.4, 506–542.

DiMaggio, P. J., and Powell, W. (1983). The iron cage revisited: institutional isomorphism in organizational fields. *American Sociological Review*, Vol.48 No.2, pp.147–160.

EBA, E. B. A. (2020, September 24). *Missions and tasks*. https://www.eba.europa.eu/about-us/missions-and-tasks

Egan, M., and Yanxi Xu, W. (2020). The true and fair view: exploring how managers, directors and auditors engage in practice. *Accounting Forum*, pp.1–23.

ESMA, E. S. M. A. (2014). *ESMA Guidelines on enforcement of financial information.* (Report No. ESMA/2014/1293en). European Securities and Market Authority.

ESMA, E. S. M. A. (2019). *Guidelines compliance table* (Report No. ESMA 32-67-142). European Securities and Market Authority.

ESMA, E. S. M. A. (2020a, September 24). *Who we are*. https://www.esma.europa.eu/about-esma/who-we-are

ESMA, E. S. M. A. (2020b). *Enforcement and regulatory activities of European enforcers in 2019.* (Report No. ESMA 32-63-846). European Securities and Market Authority.

ESMA, E. S. M. A. (2020c). *Guidelines on enforcement of financial information.* (Report No. ESMA 32-50-218). European Securities and Market Authority.

European Parliament. (2020, December, 10). *Fact Sheets on the European Union: European System of Financial Supervision (ESFS)*. European Parliament. https://www.europarl.europa.eu/factsheets/en/sheet/84/european-system-of-financial-supervision-esfs-

FEE, F. E. C. E. (2001). *Enforcement Mechanisms in Europe EU: A Preliminary Investigation of Oversight Systems*. Fédération des Experts Comptables Européens.

Gao, R., and Sidhu, B. K. (2018). The Impact of Mandatory International Financial Reporting Standards Adoption on Investment Efficiency: Standards, Enforcement, and Reporting Incentives. *Abacus*, Vol.54 No.3, pp.277–318.

Giddens, A. (1976). *New rules of sociological method*. Hutchinson.

Giddens, A. (1979). *Central problems in social theory: Action, structure and contradiction in social analysis*. University of California Press.

Giddens, A. (1984). *The constitution of society: Outline of the theory of structuration* (U. of C. Press (ed.)).

Gros, M., and Nevrela, A. (2020). Revisiting the effectiveness of the German accounting enforcement reforms: a replication study. *Management Review Quarterly*, Vol.70 No.1, pp.135–164.

Gu, Z., Ng, J., and Tsang, A. (2019). Mandatory IFRS adoption and management forecasts: The impact of enforcement changes. *China Journal of Accounting Research*, Vol.12 No.1, pp.33–61.

Guerreiro, M., Rodrigues, L., and Craig, R. (2012). Factors influencing the preparedness of large unlisted companies to implement adapted International Financial Reporting Standards in Portugal. *Journal of International Accounting, Auditing and Taxation*, Vol.21 No.2, pp.169–184.

Guerreiro, M., Rodrigues, L. L., and Craig, R. (2020). Institutional theory and IFRS : an agenda for future research. *Spanish Journal of Finance and Accounting*, pp.1–24.

Guerreiro, M. S., Rodrigues, L. L., and Craig, R. (2015). Institutional Change of Accounting Systems: The Adoption of a Regime of Adapted International Financial Reporting Standards. *European Accounting Review*, Vol.24 No.2, pp.379–409.

Harun, H., Carter, D., Mollik, A. T., and An, Y. (2020). Understanding the forces and critical features of a new reporting and budgeting system adoption by Indonesian local government. *Journal of Accounting and Organizational Change*, Vol.16 No.1, pp.145–167.

Hassan, E. A., Rankin, M., and Lu, W. (2014). The development of accounting regulation in iraq and the IFRS adoption decision: An institutional perspective. *International Journal of Accounting*, Vol.49 No.3, pp.371–390.

Horton, J., Macve, R., and Struyvenm, G. (2004). Qualitative Research: Experiences in Using Semi-Structured Interviews. In C. Humphrey and B. Lee (Eds.), *The real life guide to accounting research - A behind-the-scenes view of using qualitative research methods* (pp. 339–359).

Kavanagh, M. (2017). An overview of accounting enforcement in Europe. *Accountancy Ireland*, Vol.49 No.June, pp.42–43.

Kleinman, G., Lin, B. B., and Bloch, R. (2019). Accounting enforcement in a national context:

an international study. *International Journal of Disclosure and Governance*, Vol.16 No.1, pp.47–67.

Macintosh, N. B., and Scapens, R. W. (1990). Structuration theory in management accounting. *Accounting, Organizations and Society*, Vol.15 No.5, pp.455–477.

Mantzari, Elisavet;, and Georgiou, O. (2019). Ideological hegemony and consent to IFRS: Insights from practioners in Greece. *Critical Perspectives on Accounting*, Vol.59, pp.70–93.

Mantzari, Elisavet, Sigalas, C., and Hines, T. (2017). Adoption of the International Financial Reporting Standards by Greek non-listed companies: The role of coercive and hegemonic pressures. *Accounting Forum*, Vol.41, pp.185–205.

Mason, J. (2002). *Qualitative Researching* (SAGE Publications (ed.); Second Edition).

Meyer, J. W., and Rowan, B. (1977). Institutionalized Organizations : Formal Structure as Myth and Ceremonyl. *The American Journal of Sociology*, Vol.83 No.2, pp.340–363.

Monteiro, S. M., and Aibar-Guzmán, B. (2010). Organizational and accounting change within the context of the environmental agenda: Evidence from Portugal. *Journal of Accounting* and *Organizational Change,* Vol.6 No.4, pp.404-435.

Moura, A. A. F. de, and Gupta, J. (2019). Mandatory adoption of IFRS in Latin America: A boon or a bias. *Journal of International Financial Markets, Institutions and Money,* Vol.60, 111-133.

Nurunnabi, M. (2015). The impact of cultural factors on the implementation of global accounting standards (IFRS) in a developing country. *Advances in Accounting*, Vol.31 No.1, pp.136–149.

Oliver, C. (1992), "The Antecedents of Deinstitutionalization", *Organization Studies*, Vol. 13 No.4, pp.563–588.

Oz, I. O., and Yelkenci, T. (2018). Examination of real and accrual earnings management: A cross-county analysis of legal origin under IFRS. *International Review of Financial Analysis*, Vol.58, pp.24–37.

Pires, A., and Rodrigues, F. (2011). As características do tecido empresarial determinam necessidades específicas e definem um utilizador padrão para a informação financeira: evidência empírica. *Proceedings of the XXI Jornadas Hispanos - Lusas de Gestão Científica.*

Preiato, J., Brown, P., and Tarca, A. (2015). A Comparison of Between-Country Measures of Legal Setting and Enforcement of Accounting Standards. *Journal of Business Finance* and *Accounting*, Vol.42 *No.*1–2, pp.1–50.

Pricope, C. F. (2016). The role of institutional pressures in developing countries. Implications for IFRS. *Theoretical and Applied Economics*, Vol.607 No.2, pp.7–40.

Quagli, A., Avallone, F., Ramassa, P., and Motta, L. (2018). Measuring the Effectiveness of National Enforcers in the IFRS Context: A Proactive Approach. *International Business Research*, Vol.11 No.6, pp.151-164.

Quagli, A., Lagazio, C., and Ramassa, P. (2020). From enforcement to financial reporting controls (FRCs): a country-level composite indicator. *Journal of Management and Governance*, pp.3-31.

Rodrigues, L. L., and Craig, R. (2007). Assessing international accounting harmonization using Hegelian dialectic , isomorphism and Foucault. *Critical Perspectives on Accounting*, Vol.18 No.December, pp.739–757.

Silva, A., and Rodrigues, A. M. (2017). Mecanismos de controlo das normas internacionais de contabilidade. *European Journal of Applied Business and Management*, pp.57–72.

Silva, A., Jorge, S. and Rodrigues, L. (2021), "Enforcement and accounting quality in the context of IFRS: is there a gap in the literature?", *International Journal of Accounting & Information Management*, in press.

Tahat, Y., Omran, M. A., and AbuGhazaleh, N. M. (2018). Factors affecting the development of accounting practices in Jordan: an institutional perspective. *Asian Review of Accounting*, Vol.26 No.4, pp.464–486.

Vieira, R., Major, M. J., and Robalo, R. (2009). Investigação Qualitativa em Contabilidade. In M. J; Major and R. Vieira (Eds.), *Contabilidade e Controlo de Gestão - Teoria, Metodologia e Prática* (pp. 131–163).

Weber, M. (1968). *Economy and society: An outline of interpretive sociology*. Bedminster.

Wijayana, S., and Gray, S. J. (2019). Institutional Factors and Earnings Management in the Asia-Pacific: Is IFRS Adoption Making a Difference? *Management International Review*, Vol.59 No.2, pp.307–334.

Chapter 3: Understanding the enforcement system of national accounting standards: the case of Portugal

Paper 3: Understanding the enforcement system of national accounting standards: the case of Portugal

Submitted to *Accounting Forum*

Indexed journal: SCImago Journal Rank (SJR): 0.95; Accounting (Q2); Finance (Q1)
Impact Factor: 1.824
ABS 3

Chapter 3

UNDERSTANDING THE ENFORCEMENT SYSTEM OF NATIONAL ACCOUNTING STANDARDS: THE CASE OF PORTUGAL

Abstract

This study analyses the regulations and practices of accounting enforcement concerning the Portuguese Accounting Standardization System (*Sistema de Normalização Contabilística* – SNC), seeking to understand control compliance. Documentary analysis and interviews to the various enforcers were carried out. The main findings were framed within institutional dynamics, following the Dillard et al. (2004) model. The main conclusions reveal that although the criteria are defined at the economic and political levels, control is not being effective. It was also possible to verify the existence of dominance and significance structures, however the pressures between the levels have led to the suspension of an important part of the control. This calls into question the enforcement system of the country and the true and proper view to be given by the companies' financial statements. To the best of our knowledge, this study is not only the first addressing this topic in Portugal, but also because it uses the model of Dillard et al. (2004) to explain the behavior of enforcers, contributing to expand the explanation power of institutional theory. This study will be of interest to standard-setting bodies, regulators, enforcers and users of financial information.

Keywords: control, legitimation, standard-setter, professionals, institutional dynamics.

Article classification: Research paper

3.1. Introduction

Demmer et al. (2019), Gu et al. (2019) and Wijayana and Gray (2019), among others, argue that the quality of financial information is only possible with rigorous enforcement. Enforcement is considered a compliance analysis of financial information disclosed by entities to ensure that IFRS are being correctly applied (ESMA, 2014). It is a system to prevent, identify and take necessary actions in cases of material errors or omissions in the implementation of IFRS.

In recent years, enforcement has been growing in importance (Anagnostopoulou, 2017; Daher, 2017; Duru et al., 2018; Eutsler et al., 2016; Preiato et al., 2015). It is recognized that it plays a key role in encouraging the production of high-quality financial information (Alexandre & Clavier, 2017; Barth & Doron, 2013; Brown et al., 2014; Gu et al., 2019; Kavanagh, 2017; Leuz, 2010; Oz & Yelkenci, 2018; Peña & Franco, 2017; Quagli et al., 2018, 2020). Only the enforcement of accounting standards ensures the accomplishment of the principle of a true and fair view (Egan & Yanxi Xu, 2020).

Literature has drawn attention to the lack of studies analyzing the enforcement practices of countries (e.g., Guerreiro et al., 2020; Kleinman et al., 2019; Mantzari & Georgiou, 2019; Moura & Gupta, 2019; Silva & Rodrigues, 2017; Silva et al., 2021, in press). In the same line, Quagli et al. (2018) argue that there is a difficulty in obtaining data because of the confidentiality of information.

Several studies have used the Dillard et al. (2004) model to explain how institutional changes affect accounting (Harun et al., 2020; Hopper & Major, 2007; Moore, 2013) and also to explain the adoption of the SNC, a regime of adapted International Financial Reporting Standards– IFRS (Guerreiro et al., 2015). The perspective of the enforcement of accounting standards can also fit within the model proposed by Dillard et al. (2004) regarding the way institutional power is distributed across three hierarchical institutional levels.

Subsequently, combining this model with the Oliver framework (1992), this paper shows how the enforcers act and interact with the different levels of institutionalism. Considering the Portuguese GAAP (SNC), the study attempts to understand how enforcers are influenced by domination, legitimation, and signification structures; and how coercive, normative, or mimetic pressures are being exerted among the existing types of enforcers. It characterizes enforcement practices in the country, namely, to know who is responsible and how that control is exercised (applied practices). Using the model of Dillard et al. (2004), we will show how enforcement is exercised at different hierarchical levels, adding the framework of Oliver (1992) to explain the cases of deinstitutionalization.

The study uses a qualitative approach, based on documentary analysis of laws and regulations, and on interviews with possible enforcers at different institutional levels. According to Mason (2002) and Vieira et al. (2009), a qualitative methodology is more adequate to understand, interpret and explain social practices in depth.

The results show that although the criteria are defined at the economic and political levels, control is not being effective. Interesting learning can be drawn from this case, inasmuch as Portugal has an accounting standard-setter with very weak enforcement practices. Structures of dominance and significance have also been found, but pressures between levels have led to the suspension of an important part of control.

This study overcomes the lack of studies on the real practices of accounting enforcement in each country, as has been recognized by several authors, e.g., Böcking et al. (2015), Guerreiro et al. (2020), Kleinman et al. (2019), Mantzari and Georgiou (2019), Moura and Gupta (2019), Preiato et al. (2015), Silva and Rodrigues (2017) and Silva et al. (2021, in press).

In addition, this study extends the use of institutional theory by combining the Dillard et al. (2004) model with the Oliver (1992) concept to analyze the interactions between different actors at different levels, in enforcing the Portuguese GAAP (SNC). To the best of our knowledge this is the first study that analyses the different levels of enforcement using the combination with two models.

The paper is organized as follows. Section two presents the theoretical framework followed by a contextualization of the Portuguese enforcement system in section three. The later sections present the research methods, main findings, and discussion and conclusions.

3.2. Theoretical Framework

The New Institutional Sociology (NIS) is the most recent trend in institutional approaches (Ribeiro & Scapens, 2006). As opposed to economic currents, this theoretical branch considers that organizations are open systems, influenced by the environment in which they are inserted, emphasizing the cognitive, cultural, and normative aspects of organizations. NIS studies show how the institutional environment, composed of norms, beliefs, traditions, and the need for legitimacy affects the behavior of organizations (Dimaggio & Powell, 1983)

Recently, institutional theory is being used in accounting studies, namely NIS, resorting to sociological aspects to understand how change influences and/or is influenced by the dynamics and participation of the various agents (Dillard et al*.,* 2004).

Institutional theory has been widely used to study aspects related to stability and changes in accounting systems (Aburous, 2019; Albu et al*.,* 2014; Alon & Dwyer, 2014; Carneiro et al*.,* 2017; Guerreiro et al., 2012, 2015). In recent years, has been the most widely used theoretical framework for understanding accounting practices, since it provides an attractive framework for explaining the mechanisms that entities use to align the perception of their practices with the expectations of the social environment in which they operate. Considering the principle that organizations, under the scope of local and international governmental structures, are socially constructed and subject to regulatory processes, compliance will give rise to legitimacy in relation to the performance in the national and international market (Dillard et al., 2004).

According to Meyer and Rowan (1977), in order for entities to be successful and therefore survive, they must accept and adopt practices, structures and systems that are accepted as legitimate, i.e., socially institutionalized procedures. In this way, organizations that intend to consider themselves as legitimate must adopt positions, policies and behaviors understood as the most appropriate (institutionalized) (Crawford et al., 2014). Isomorphism is then identified as the process by which entities tend to adopt the same practices and/or structures over time in response to pressures from an individual, organizational level or organizational field (DiMaggio & Powell, 1983).

DiMaggio and Powell (1983) identified the existence of two types of isomorphism: competitive and institutional. Competitive isomorphism is related to free and open competitiveness, assuming rationality and efficiency. This perspective does not configure the modern world of organizations nor is it of interest to our study (DiMaggio & Powell, 1983). In opposition, institutional isomorphism allows a better understanding of the modern life of the organization, as it considers cultural, social, and political issues. Institutional isomorphism occurs through three mechanisms: coercive, mimetic, and normative pressures. Coercive isomorphism results from pressures exerted by powerful organizations, such as the State, that forces organizations to adopt certain practices; otherwise, they face reprimands and punishments for non-compliance. Due to the uncertainties of the organizational environment, mimetic isomorphism corresponds to the process of imitating structures, administrative practices, strategic policies, or other internal procedures of other institutions that are considered successful and legitimate. This mechanism may be important in understanding/explaining how enforcers act. Enforcers adopt the practices of entities considered legitimate "although there is uncertainty as to what they seek to achieve and how they intend to achieve their objectives" (Major & Ribeiro, 2009:47). Normative isomorphism occurs when an entity adopts standards recognized as the most appropriate as a result of professional pressures in the environment of the organization. This is associated with professionalization, which can be seen as a set of actions understood by members of a profession to define working conditions and methods (DiMaggio & Powell, 1983). Through this type of isomorphism, we can analyze the relationship between accountants and auditors and the institutes they are affiliated with.

The paper of Kondra and Hinings (1998) intended to develop a theory on how organizations responded to violations of institutionalized norms and possible institutional changes. According to the authors, there may be an organization that does not comply with the norms, called Renegades. The Renegades, being organizations that perform well, no longer meet the institutional norms by choice or by chance, for pragmatic reasons.

Associated with changing institutionalized practices, the concept of deinstitutionalization emerges (Oliver, 1992). According to the author, deinstitutionalization occurs when an institutionalized practice or activity is discontinued. The main causes related to deinstitutionalization may be functional, political, and social. Functional pressures are related to the fact that doubts are raised about the value of a certain institutionalized practice. Political causes are related to conflicting interests or changes in power. Finally, social pressures are associated with divergent opinions and beliefs among members, resulting in a change in institutional values and rules (Oliver, 1992). However, the same author points out that this deinstitutionalization may help the development of new practices and, as a consequence, of a new institutionalization.

To analyze processes of change it is necessary to develop studies at different levels of analysis (Scott, 2001). A limitation associated with the institutional theory is that it ignores the institutional dynamics between the various levels of analysis (Cruz et al*.,* 2009; Dillard et al*.,* 2004; Guerreiro et al., 2015; Hopper & Major, 2007). It ignores how higher levels of the social context influence and/or define the organizational context, the non-inclusion of 'games of interest' and power relations, and the connections between the various actors in the institutional field.

Meyer and Rowan (1977) indicate that in organizations, predominant social behaviors occur, responsible in some way for inducing other types of behavior. Accordingly, Major and Ribeiro (2009) indicate that institutionalization is the process by which expected practices in various social contexts are developed and learned.

Dillard et al*.* (2004) proposed a model that analyses the institutional dynamics between three levels: the economic and political level, the organizational field level, and the organization level. The first level, the most comprehensive one, represents the political, economic, and social systems, and has the responsibility to establish and disseminate standards and values in society and in the organizational field. At this first level the criteria and norms (C_{PE}) that will be disseminated in the organizational field are defined. The second level includes professional organizations, which aim to translate the norms established by the higher level (C_{PE}) into criteria of legitimacy (C_{OF}). Based on these criteria, the practices (P_{OF}) are created that will serve as a legitimizing basis for the lower level. According to Barley and Tolbert (1997), professional organizations can be affected by the upper level—the economic and political level—and even by the lower level—the organization level. At the lowest level is the organization level in which "(...) the managers and workers may be the primary actors" (Dillard et al., 2004, p. 513). That ends in the practice of standards and values. Dillard et al.'s (2004) institutional dynamics is that "[…] the development of formal organization structures is influenced by the interorganizational context in which organizations are institutionally embedded" (Dillard et al., 2004, p. 509). At the last level, we verified the existence of two types of professionals, those who adopt the practices within the parameters defined at the previous level (innovators); and late adopters, who adopt the innovators' practices. Still at this level, according to Dillard et al. (2004), the practices and criteria can be modified or removed, giving rise to new practices (P'_{OF}) and new criteria (C'_{OF}). Meyer and Rowan (1977) suggests that decoupling may occur as the structures and criteria may be clearly defined, clearly legitimized, but their practices are different.

The model of Dillard et al. (2004) comprises the structuration theory by Giddens (1976, 1979, 1984). This author argues that social systems are regularized patterns of interactions between groups and individuals, structured by rules and resources that are evidenced in society. Giddens (1976, 1979, 1984) states that there are three types of structures in the social system: signification, legitimation, and domination. The literature has come to recognize that accounting as a language form, codified through different categories such as costs, gains or profits serves as a structure of meanings that are used by actors to understand what has happened, anticipate the future and plan, and evaluate the action (Macintosh & Scapens, 1990; Roberts & Scapens, 1985). The structure of signification is related to this creation of semantic codes, interpretive schemes and discursive practices that facilitate communication between the different levels (Guerreiro et al., 2015). Macintosh and Scapens (1990) define legitimation structures as those involving a set of rules and moral codes that are sanctioned in forms of social behavior. Legitimation is a perception that the actions of an entity are appropriate within a system socially constituted by norms, values, beliefs and definitions (Suchman, 1995). The structures of domination are related to the exercise of power. The structure of domination indicates that power in social systems that have a certain continuity in time and space, presupposes regularized relationships of autonomy and dependence between actors or groups in contexts of social interaction, being associated with the production of power that results from control over resources. The resources of domination are used by the actors to achieve their results, generating power, i.e., the capacity they possess to act and dominate. In our case study, on the enforcement system in Portugal, the State had some power over the main resources.

According to Dillard et al. (2004), Giddens's (1976, 1979, 1984) structuration theory provides a theoretical representation of the primary dynamics of institutional theory, considering the dimension of the primary context and dynamics for institutional change.

Dillard et al.'s (2004) model has been used in literature to understand the accounting phenomena (Abdul-Baki et al., 2020; Albu et al., 2011; Guerreiro et al., 2015; Harun et al., 2020; Moore, 2013). For example, Hopper and Major (2007) used this model to understand why a telecommunications company adopted activity-based costing (ABC). The main conclusions indicated that the adoption and implementation of ABC involved mimetic, coercive, and regulatory isomorphic factors, and improved the competitiveness and cost efficiency of companies.

Using theoretical triangulation, Alsharari et al. (2015) adopted three approaches: old institutional economics for internal processes and factors (Burns & Scapens, 2000); new institutional sociology for external processes and pressures (Dillard et al., 2004); and power and politics mobilization (Hardy, 1996), and discusses a new contextual framework to explain the processes of management accounting change in various organizations.

Using the Dillard et al. (2004) model, Albu et al. (2011) explained the implementation of IAS/IFRS in an emerging country, Romania. In the same way, Guerreiro et al. (2015) analyzed the processes of institutional change when Portugal adopted a regime of adapted international accounting standards.

The study of Moore (2013) used the Dillard et al. (2004) model to explain the processes of institutionalization and deinstitutionalization of internal practices of sustainable and environmental management in a public sector water company in Australia. Harun et al. (2020) used it to analyze the adoption process of a reporting and budgeting system (RBS) in Indonesian local governments. To the best of our knowledge, the latest study using Dillard et al.'s (2004) model was by Abdul-Baki et al. (2020), investigating what motivates a company to become involved in corruption. The investigation is based on the premise of institutionalizing corruption in the organizational field.

3.3. The Portuguese framework

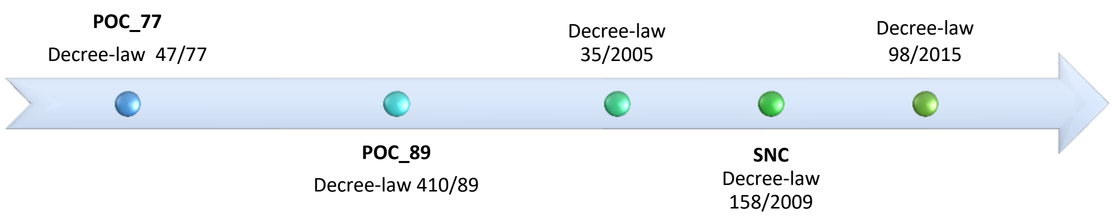
3.3.1. Accounting system

In 1977, the first Portuguese Official Accounting Plan (POC) was created by Decree-Law 47/77, strongly influenced by accounting standardization French (Pinheiro et al*.,* 2013). The POC/77 has undergone several changes due to the increasing need to adapt the national accounting model to the Directives Community.

The second stage of accounting standardization was in 1989, when Decree-Law 410/89 was published, which involved various adjustments and improvements to the 1977 POC. This new accounting plan, driven by the 4th and 7th Community Directives, made it possible to update the Portuguese accounting standards. After it came into force and in order to keep pace with international accounting developments, 29 Accounting Guidelines and 5 Technical Interpretations. At the same time, several laws were also published to update the POC, namely Decree-Law 35/2005 which transposed Regulation (EC) 1606/2002 into Portuguese law. Following the adoption of Regulation (EC) No 1606/2002 of the European Parliament and of the Council, which aimed to contribute to a better functioning of the capital market in the European Union and the internal market and a harmonization of companies' financial reporting and consequent transparency and comparability of information, companies with listed securities should adopt International Accounting Standards (IAS/IFRS). Since then, the Accounting Standards Board (*Comissão de Normalização Contabilística* - CNC) has started to develop the Accounting Standards System (SNC).

The Figure 3.1 represent the - chronological evolution of the main Portuguese accounting standards.

Figure 3.1 - Chronological evolution of the main Portuguese accounting standards



The Accounting Standards System (SNC) was implemented in Portugal, in order to bring Portuguese accounting standards closer to the international accounting reality. Thus, Decree-law 158/2009 approved the SNC which came into force on 1 January 2010. The SNC aimed to increase the relevance of financial information; to provide wider and more transparent information; and to increase the comparability of financial information (Silva & Rodrigues, 2017).

SNC is in force, comprising a set of 28 NCRF standards (NCRF) - *Normas Contabilísticas de Relato Financeiro* - derived from the international accounting standards in force in the EU. Recently, Decree-Law 98/2015 brought changes to the SNC, changing the limits of categorization of entities, groups of entities and their classification as small, medium, or large enterprises, defining the various categories of entities and which specific regulations apply. For the different levels of application of the SNC, Decree-Law 98/2015 establishes the limits related to the balance sheet total, turnover, and number of employees foreseen for the classification of entities.

Table 3.1 synthesizes the levels of accounting standards existent in Portugal.

Table 3.1 - Levels of accounting standards in Portugal

International Standards	IAS/IFRS	Companies whose securities are admitted to trading on a regulated market
System of Accounting Standardization (SNC)	NCRF	Non-financial companies
	NCRF-PE	Smaller companies
	NCRF-ESNL	Non-profit sector entities
	NC-ME	Micro entities

Thus, at a first level we have companies whose securities are admitted to trading on a regulated market of any EU Member State, the IASB accounting standards adopted in the EU are applicable, pursuant to Regulation 1606/2002, supervised by CMVM.

In the next level are entities applying the SNC – General Regime, the set of 28 financial accounting and reporting standards (NCRF). Simplified regimes are considered for smaller size entities: entities classified as 'small' apply the NCRF-PE, based on the same principles of the SNC - General Regime but with lower financial reporting requirements; entities classified as 'micro-entities' apply a specific standard (NC-ME). There is also a special standard for the entities of the Non-Profit Sector (NCRF-ESNL), and a separate regime for public sector entities – the IPSAS-based SNC- AP. For SNC purposes, the thresholds are defined in Decree-Law 158/2009, with the most recent changes in Decree-Law 98/2015. The categorization of entities, according to the limits regarding the total of assets, turnout and number of employees, are intended to define the accounting standards that each company adopts by obligation (or option): Accounting Standard for Micro entities (NC-ME); Accounting and Financial Reporting Standard for Small Entities (NCRF-PE), or Accounting and Financial Reporting Standards (NCRF) – General Regime. Micro entities are considered those that, at the balance sheet date, do not exceed two of the following three limits: balance sheet total: EUR 350 000; net turnover: EUR 700 000; average number of employees during the period: 10. The set of entities that comply with this limit, apply the NC-ME; however, they may choose to apply NCRF-PE or NCRF. Small entities are those that, excluding those considered as micro entities, at the balance sheet date, do not exceed two of the following three limits: balance sheet total: EUR 4 000 000; net turnover: EUR 8 000 000; average number of employees during the period: 50. As a general rule, these entities use NCRF-PE, however, they may opt for the application of NCRF.

3.3.2. Enforcement system and institutional dynamics

The enforcement of accounting standards came about through Decree-Law 160/2009, which was subsequently revised by the Decree-Law 134/2012. This first law established the legal framework for the organization and functioning of the Accounting Standards Board (CNC). The CNC is a technically independent body, composed of representatives of public and business entities interested in the field of accounting, with technical autonomy but operating within the Ministry of Finance (CNC, 2020). The CNC is the standard-setting body that issues accounting standards to be adopted by non-financial entities, such as the SNC.

In its mission, CNC is also in charge to promote the actions that necessary for the accounting standards to be effectively and properly applied by the entities subject to them. In the scope of its activities, there is a function of control aiming at "evaluating the compliance with the obligations legally established in the scope of the application of the applicable accounting rules" (Decree-Law 134/2012, Article 3).

In the exercise of its supervisory activity, the CNC prepared, in 2016, a document titled "Regulation for the Control of the Application of Accounting Standards", which establishes the definition and methodology to be adopted in the actions of control of the application of the accounting standards. Due to its intrinsic characteristics, the CNC belongs to the first institutional level of the Dillard et al. (2004) model: the economic and political level. At this level are the entities responsible for supervising the Portuguese system, and for disseminating values and rules of conduct to the lowest levels.

Tax Authority (AT) is a State body, part of the Ministry of Finance, which is responsible for administering taxes, customs duties and other taxes allocated to it. In accordance with Decree-Law 118/2011, its main tasks are to ensure the assessment and collection of taxes; to carry out tax and customs inspections; and to promote the correct application of legislation and administrative decisions related to its attributions. As CNC, also AT, belongs to the economic and political level.

At the second level of the model, we find the professional bodies. Accordingly, we highlight the role of the professional institutes that play an important role in the enforcement of accounting standards, the Institute of Certified Accountants (OCC) and the Institute of Certified Auditors (OROC), which we consider belonging to the organizational field level, following Guerreiro et al. (2015).

The OCC is a legal person under public law that represents the professionals who exercise the professional activity of certified accountants. OROC is a legal person under public law that is responsible for representing and grouping its members, as well as overseeing all aspects related to the audit profession. OROC and OCC are represented in the CNC and both provide oversight over their members. According to Law 140/2015, OROC is responsible for supervising the auditing of accounts and related services of business companies or other entities, in accordance with the auditing standards in force and to propose to the Government, in articulation with the standardizing entities, the regulation of accounting aspects that may allow for a more efficient auditing of the accounts. In the same line, Decree-Law 452/99 establishes as OCC's attributions the implementation, organization, and activity of systems to verify the quality of services provided by certified accountants.

At the lowest institutional level in Dillard et al.'s (2004) model (organizational level) are the accountants and auditors who carry out the professional activity. The work of a certified accountant begins with the collection of information, data processing, interpretation of reality against existing standards and ends with the preparation and presentation of financial statements. In turn, the statutory auditor's role is to issue an opinion on whether the financial statements are correctly presented, in all material respects, and whether these convey a true and proper view of the organization.

Table 3.2 summarizes the adaptation of Dillard et al.'s (2004) model to the Portuguese case of NCRF enforcement.

Table 3.2 - Adaptation of Dillard et al.'s (2004) model to the study

Level of institution	Focus of studies	Participants
Economic and political level	National governmental level	CNC; AT
Organizational field level	Professional organizations	OCC; OROC
Organizational level	Accounting practices	Accountants; Auditors

3.4. Research Method

In this research a qualitative approach was used, initially with content analysis (Hsieh & Shannon, 2005; Miles et al*.,* 2014) of regulations and reports, and then with semi-structured interviews to the enforcers of the three levels under analysis (Guerreiro et al*.,* 2015; Horton et al*.,* 2004; Mason, 2002).

The interviews were conducted in Portuguese (native language of all respondents) via Skype, between May and August 2020 because of COVID-19 restrictions. The questions were opened and semi-structured in order to allow the interviewees to give their opinion. Following a proper protocol, transcriptions were later sent to the respondents so that they could correct any errors and/or misinterpretations.

At the political and economic level, three interviews were conducted: the first, with a member of the Business Accounting Subcommittee of the CNC (interviewee I); the second, with the representative of the President of the CNC (interviewee II); and the third with the Assistant Director of Tax Inspections at the Large Taxpayers Unit at the AT. These interviews sought to know how the CNC and AT, in practice, ensured compliance with the accounting standards, knowing how it works and how it acts.

To understand the way professional organizations ensured compliance with the accounting standards five interviews were conducted one with OROC and four with OCC, since OROC has 2001 statutory auditors and OCC has over 68,000 certified accountants.

At the organizational level, we tried to understand the way accountants and auditors act and their perception about the control of the application of the accounting standards exercised by the higher levels. Aiming this intent, 16 interviews to accountants and statutory auditors with different characteristics (with different sectors of activity, years of experience and other professional activities) were carried out (interviewees IX to XXIV).

Table 3.3 summarizes the set of respondents included in the study.

Table 3.3 - List of interviews

	Interviewee	Position	Duration (minutes)
Economic and political level	I	Member of the Executive Commission and the Business Accounting Subcommittee of the CNC	60
	II	Representative of the President, CNC	45
	III	Assistant Director of Tax Inspections at the Large Taxpayers Unit, AT	60
Organizational field level	IV	President, OROC	90
	V	Director of the consultancy department, OCC	45
	VI	Member of the board of directors, OCC	60
	VII	Advisor to the President of the OCC	30
	VIII	Director of disciplinary board, OCC	30
Organizational level	IX	Partner of an accounting firm. Fourteen clients in construction, food, commerce, and services industries, including non-profit entities. Standards: NCRF-PE; NC-ME. 27 years of professional experience in accounting.	45
	X	Partner of an accounting firm. Fifteen clients in the commerce, construction, services industries, culture sectors and non-profit entities. Standards: NCRF-PE; NC-ME; NCRF-ESNL.	45

		A teacher in higher education. 17 years of professional experience in accounting.	
	XI	Accountant of an association of producers. Standards: NCRF 20 years of professional experience in accounting.	30
	XII	Accountant of an agricultural company. Standards: NCRF-PE 42 of professional experience in accounting.	30
	XIII	Partner of an accounting firm and Statutory Auditor. Accountant for over 300 companies in Portugal and Mozambique. Standards: NCRF; NCRF-PE; NC-ME; NCRF-ESNL; IFRS. Member of the board of directors of the Institute of Chartered Accountants. 25 years of professional experience in accounting.	45
	XIV	Accountant of an accounting firm. Fifty clients in all sectors of activity. Standards: NCRF; NCRF-PE; NC-ME; NCRF-ESNL; IFRS. 14 years of professional experience in accounting.	45
	XV	Partner of an accounting firm. Ten clients in construction, food, and commerce. Standards: NC-ME. 6 years of professional experience in accounting.	45
	XVI	Accountant of an agroindustry company. Standards: NCRF 10 years of professional experience in accounting.	30
	XVII	Accountant of two entities in the retail sales and wholesale of food. Standards: NCRF-PE; NC-ME. A teacher in higher education. 6 years of professional experience in accounting.	45
	XVIII	Coordinator accountant of 33 companies in the real estate sector. Standards: NCRF; IFRS/IAS. 9 years of professional experience in accounting.	45
	XIX	Accountant responsible for the Accounting and Tax Compliance department of an International Company, present in more than 10 countries. Standards: Local GAAP (NCRF); IFRS/IAS. 29 years of professional experience in accounting.	45
	XX	Accountant for a motor vehicle sales, maintenance, and repair services company. Standards: NCRF-PE 18 years of professional experience in accounting.	30
	XXI	Statutory Auditor. Standards: NCRF; NCRF-ESNL. 9 years of professional experience in accounting.	45
	XXII	Statutory Auditor. Standards: NCRF; NCRF-ESNL. 10 years of professional experience in accounting.	30
	XXIII	Statutory Auditor. Standards: NCRF; NCRF-PE. A teacher in higher education. 11 years of professional experience in accounting.	30
	XXIV	Supervisor of accountants from various countries. Standards: NCRF; IFRS/IAS 20 years of professional experience in accounting.	30

3.5. Main findings

The following sections present the results that characterize the practices of enforcement concerning the implementation of accounting standards under the SNC in Portugal, namely, how they proceed to control SNC implementation (applied practices), and to analyze the interactions between each of the three levels of enforcers in the social context, suggested by Dillard et al. (2004).

3.5.1. Economic and Political Level

On the economic and political level, we identified CNC and AT. Although the CNC has defined the criteria for enforcing them, it does not put them into practice and decoupling takes place.

As mentioned, the CNC is under the domain of the Ministry of Finance (State) and therefore under its control of resources (domination structure). The CNC is composed of two committees – one working in business and not-for-profit accounting and the other in public sector accounting. Both committees comprise people representing several institutions. The Business Accounting Standardization Committee is made up of nine persons representing Employers' Associations, General Inspection of Finance, Tax and Customs Authority, Financial Information Preparers, OCC, OROC, CMVM, a personality of recognized merit (usually a reputed scholar) and the representative of Universities and Polytechnics that teach accounting. From the above we can see that, even though they do not have power, they hold positions that allow them to exercise power over the field (Hardy and Maguire, 2008). The same actor can influence the three levels of analysis, since the same actor can be present in the different levels of the Dillard et al. (2004) model, namely accountants or auditors who are part of OCC and OROC boards and representatives of OCC and OROC in the CNC (political level), as observed by Guerreiro et al. (2015). This inter-level dynamics is proposed by Dillard et al. (2004) showing that pressures can go up and down in the interorganizational context.

The CNC is responsible for the enforcement of accounting standards of entities that adopt the SNC whether they are large, small, or micro entities (Decree-law 134/2012).

According to data from Pordata (2020), in 2017, 96.1% of the Portuguese business entities are micro entities, 3.8% are small and medium-sized entities and only 0.1% are large entities. Therefore, most Portuguese business companies are under the supervision of the CNC in terms of enforcement of the accounting standards.

In 2016, the CNC approved internal regulation for the control of the implementation of the accounting standards (SNC), since, according to article 4(2) of Decree-Law 134/2012, the CNC must develop the actions necessary for the accounting standards to be effective and properly applied by the entities subject to them. The aforementioned Regulation establishes the forms of action, the procedures to be adopted, the reports to be drawn up for each control action, the various types of sanctions to be applied and the way in which the control report should be drawn up.

However, although the forms of action in terms of the control of accounting standards are planned and defined, the CNC does not have an enforcement system in place, due to the lack of human resources, as it was explained by Interviewee II:

> *In our organic law, there is a technical secretariat with five people, and it is essential to have a person with legal standing. However, in reality, the technical secretariat is composed of only one person who works part-time and provides support to both committees. Although 'on paper' there is enforcement, in practice, enforcement is reduced to what is possible, i.e., if complaints are made, we will obviously have to proceed with the analysis. The CNC is financed by the Ministry of Finance and, as such, depends on the State Budget, and as there have been budgetary restrictions, it has not been possible to hire people to carry out the enforcement of accounting standards.*

According to the Interviewee II, the only type of control carried out by the CNC is reactive, that is, there is only one control action when a complaint or participation is presented. In the same line, Interviewee I clarify:

> *We have not had the financial resources and the human and administrative resources necessary to carry out a rigorous control, and therefore our posture so far has been more reactive and not so active. That is, for example, if there is some entity that makes a complaint that there is an organization that is not complying with the*

accounting standards, we have to find out if that is true. At the moment, we proactively have not done a check because we are not in a position to do so. We are few members, the committee has few people, we are not full time, we meet once a week, and so it [the enforcement?] does not work. We do not have technical staff; we do not have enough staff to strictly monitor the implementation of the SNC.

In addition to the failure in enforcement, Interviewees XVIII and XIX (accounting professionals) considered that the CNC should have a role closer to the accountants, working together with the OCC, in order to have consistency in the interpretation of accounting standards. Also, there should be a clear identification of each body's competences. The same interviewees mentioned that, when asking questions to both bodies, the answers sometimes are dissimilar, reinforcing the idea that they feel 'lost' in the interpretation and application of the standards. As accountants, they indicate that all questions end up to be clarified with the entity's statutory external auditors themselves, since they have no other entity to clarify with; and that, in turn, statutory auditors are the ones who certify the accounts, which puts their own supervision into question.

Portugal is considered a code-law country, where there is a strong relationship between accounting and taxation, and accounting is regulated in detail, like Spain, Greece, France, and Belgium (Nobes & Parker, 2006). The close link between accounting and taxation has been helped by the fact that the accounting income is the starting point of the taxable income. In the Portuguese tax system, there is a model of partial dependence for the calculation of taxable income. There is, therefore, a dependency between the income calculated in accounting and that determined under the tax rules. As in Germany, Belgium and France, the tax authorities carry out independent verification of financial statements because they are the basis for taxation (Downing & Langli, 2019; Van Tendeloo & Vanstraelen, 2008). Thus, several interviewees (such as XIII, XVII, XIX, XX) emphasize that many accounting entries are carried out according to tax criteria, and the accounting essence is compromised. According to the Interviewee XXII:

We have a big problem in our country, which is the concern with taxation. There is an overvaluation of the tax aspects in relation to accounting.

Consequently, also according to the Interviewee XX, the AT exercises some control over specific accounting matters, often forcing to make corrections to accounting movements:

> *AT exerts a lot of pressure, for example an accounting aspect that we consider to be correct, through specific legislation, but AT considers it wrong and obliges us to correct and pay fines.*

This finding evidence that AT is an entity indirectly responsible for the control of accounting standards, i.e., for enforcement –, although this is not its sphere of action in terms of legal functions (Decree law 118/2011). There is decoupling since the CNC is accountable for the enforcement of accounting standards, but in practice it does not.

Interviewee III also highlighted that accounting is the basis of tax inspection work, pointing out that it is the source of information to be able to assess tax aspects. The CNC is composed of members that represent institutions, one of which is AT. The institutional dynamics verified make it possible that, when there are issues in more complex accounting frameworks, the AT frequently has recourse to the CNC for further clarification.

3.5.2. Organizational Field Level

In the organizational field level, domination structures represent the relationship between the State (Ministry of Finance and Ministry of Justice) and professional organizations (OCC and OROC), since the State still controls indirectly the allocation of resources (Law 140/2015; Law 119/2019).

OCC

The Institute of Certified Accountants (OCC) is a legal person under public law, created for the purpose of representing certified accountants. To be considered certified accountants, it is necessary to take an examination given by the OCC and attend a minimum number of training courses every year to ensure the exercise of the profession. Thus, the OCC exercising domination structures establishes semantic codes, interpretive schemes, and discursive practices (signification structures) in certified accountants. Endowed with power over certified accountants (structure domination) scope of its functions, it is responsible for the implementation, organization, and execution of systems to verify the quality of the services provided by certified accountants and may apply sanctioning measures in cases of non-compliance. According to its statutory law, it is OCC's duty to implement quality control systems for the certified accountant profession.

The Quality Control Regulations of OCC (Announcement No 131/2004), according to Interviewee VII, is like the quality control of OROC, evidencing mimetic isomorphism of practices in order to obtain legitimacy. The control measures carried out to certified accountants, aim at ensuring that professionals present reliable financial statements, with penalties in the event of failures detected.

In last years, quality control has been suspended and there is currently no active control over the certified accountant. OCC argues that it is not in operation due to the need to reformulate the methodologies to be adopted. However, one of the interviewees mentioned that the control was strongly criticized by the accountants themselves (organizational level), pressing OCC (organizational field) for its suspension. Although control of accounting standards is established, it is not put into practice, with the occurrence of decoupling (Meyer and Rowan, 1977).

It seems to us that, together with the will to reformulate the control methodologies and the pressure exercised by certified accountants (organizational level) led to organizational change. According to Kondra and Hinings (1998), the OCC, can be considered a "*Renegade"* because it operates *outside the institutional norm*s. As they do not feel pressure from the higher levels (economic and political level), they still do not comply with the enforcement of accounting standards, satisfying the lower level (organizational level). Thus, there was a deinstitutionalization of the quality control of certified accountants, driven by social, functional and political pressures (Oliver, 1992).

Presently, the OCC only provides technical and professional advice. If complaints are made by colleagues or entities to the OCC regarding a member's technical bad performance, an inquiry process is opened. As Interviewee V (Director of the consultancy department of OCC) explained:

> *We [OCC] do it [enforcement] indirectly, that is, through technical advice and training.*

Although the interviewee considers the training as indirect enforcement, in our opinion, this is not considered. The enforcement of accounting standards aims to ensure compliance, the training of CCs may serve as a complement, not as a primary function to achieve compliance.

OCC, through normative isomorphism, requires certified accountants to carry out a set of annual training courses for the profession (Regulation 17/2020). This training, in the areas of accounting, taxation, law, ethics and deontology, aims to provide the necessary knowledge for a certified accountant profession (structures of signification). Every year the OCC draws up a training plan. For example, for the year 2021, approximately 10 distance learning courses per month are planned, most of them related to tax aspects. This shows the characteristics of Portugal, considered as a code-law country, where there is a strong dependence from accounting to taxation (Nobes & Parker, 2006).

The lack of control over the preparers of financial information (accountants) calls into question compliance with the application of accounting standards. If, on the one hand, the CNC has no control mechanisms over the entities under its jurisdiction, OCC also does not control the preparers and, in turn, the financial information disclosed. As Interviewee V stated:

> *In terms of legislation, according to Decree-Law 158/2009, the entity that enforces the application of the accounting rules in the companies is CNC, which, frankly, I think, in practice, is only a "dead letter of the law" because the CNC itself does not have the means to make this enforcement. In fact, I have never seen it put into practice.*

This situation is particularly critical for small and medium-sized companies that apply the SNC regulations (as stated before, about 99% of the Portuguese business fabric), since they are not under the OROC (there is no obligation to audit the accounts) or the OCC controls. Accordingly, Interviewee XXIV stated:

In companies that have an external auditor, the control for compliance with the standards is easier; the biggest problem arises in companies that are not obliged to have an external auditor. In these cases, OCC must create mechanisms to control the certified accountants.

OROC

The Institute of Certified Auditors (OROC), as mentioned above, is responsible for the recognition, training, and supervision of statutory auditors of non-public-interest entities[14] (Law 140/2015). In this way, like OCC, through domination structures, it establishes structures of signification and legitimacy for the performance of statutory audits. OROC also has a visible institutional dynamic, since the Institute's governing bodies are also statutory auditors, belonging at the same time to the organizational field level and at the organizational level. The presence of the same actor at the different organizational levels leads to pressure and influence between the levels. Frequently, statutory auditors present several questions to the Institute, which are analyzed and taken into consideration for reply and future practice.

As in the OCC, OROC exercises normative structures (Regulation 17/2017) on the ROCs. Thus, it obliges the OCC to attend professional training with a view to updating them in matters of a technical and deontological nature (structures of significance). OROC conducts annual training in auditing, organization and regulation of activities, accounting, tax, law and corporate governance. According to OROC, its training courses have a strong practical and application component, allowing for the permanent updating of technical and deontological knowledge and providing conditions for increasing the skills of its members.

At the end of 2015, Portugal completed the transposition into national legislation of Directive 2014/56/EU and Regulation 537/2014 both of the European Parliament and Council, in response to regulatory pressure from Europe. At that time various entities were

[14] The statutory auditors of public-interest entities are subject to the supervision Securities National Commission (CMVM).

consulted, including OROC, which reinforces the idea that the interests of the auditors (organizational level) and, in turn, the respective Institute (organizational field) were taken into account for the purpose of amending the new statute, established at the political and economic level. Normative and coercive pressures forced OROC to adopt new forms of action in terms of supervision from 2015 onwards, after the publication of Law 148/2015.

OROC has in operation the auditors' quality control. Following OROC's Quality Control Regulations and interviewed IV, control involves the overall evaluation of the auditing activity – horizontal control (such as the way the functions are performed, the human and material resources and the internal quality control system used, and the fulfillment of legally established duties) and the detailed evaluation, i.e., vertical control, where the ROC work files are evaluated. Every year OROC publishes and activity report, where the number of control activities performed, and the respective results are described.

3.5.3. Organizational Level

The organizational level is where the first actors of the compliance with accounting standards are represented, those who are considered the practitioners. At this level we include certified accountants (CC) and statutory auditors (ROC), who are considered first level enforcers (FEE, 2001). In Portugal, the profession of accountant and auditor has been separated, with the two professional institutes (OCC and OROC) in their representations. The CCs, members of the OCC, keep the accounting records and prepare the financial statements. According to Portuguese law, all annual accounts and tax returns of companies have to be signed by a CC. On the other hand, all those registered with the OROC are considered ROC. As presented above, only a few entities[15] are required to have their accounts audited.

[15] Article 262, Decree-law 262/86

Certified Accountants (CC)

The CC is the preparer of the financial information, responsible for planning, organizing, and coordinating the execution of the accounting of an entity, with responsibility for the technical regularity, in the accounting and taxation areas, of companies.

In Portuguese jurisprudence and according to a Supreme Court ruling, it is part of the competence of a certified accountant to ensure compliance with accounting rules as well as tax rules[16].

In Portugal, small and medium companies (the great majority of the total) tend to outsource accounting services, allowing CC to have the power to decide which regulations apply to each entity (Guerreiro et al*.,* 2015). As stated above, there are different accounting standards for each type of entity (NCRF; NCRF-PE; NCRF-ESNL; NC-ME). We can see that there is 'freedom' of choice in terms of the rules applicable to the entities. For example, Interviewee XIV stated that he has entities covered by the NC-ME, but he opts for the application of NCRF-PE.

Structures of domination and significance mark the relationship between the OCC (organizational field) and the CC (organizational level), in the sense that they have to take an examination for access, and are obliged to attend a minimum number of training to ensure the exercise of the profession, as stated by the interviewee XIX:

> *In a way, we are guided by the Institute of Certified Accountants; we have to perform at least a total of 30 professional training credits per year, so that we can sign the accounts.*

Most of the interviewees, such as the XIII, XVII, XIX, XX, consider that AT is a body that exerts a lot of pressure on the performance of the profession of accountant. The banks also were referred (as they pressure the accounting numbers because of ratios) and the company's management itself (pressuring the accountant to pay the minimum tax).

---

[16] Summary of the Judgment of the Supreme Court of 21/06/2011, in case no. 1065/06.7TBESP.P1.S1, available at www.dre.pt.

It is also found that the organizational level (CC) exerts pressure on the organizational field level (OCC) and, in turn, influences the economic and political level. Often, CCs ask the OCC, either through requests addressed to the Institute or through social networks, for changes to the deadlines for submitting tax returns and, in turn, the OCC asks the Ministry of Finance for this change. Recently, in August 2020, through Order 330/2020, an extension of the deadline for submission of VAT returns was granted, claimed by the accountants, and requested by the OCC because of the corona virus pandemic. As mentioned above, the pressure of CCs on OCC also caused the quality control to be suspended. From the above, we can observe that the actor, even belonging to the organizational level, can exercise power over the field level, as suggested by Hardy and Maguire (2008) and, at the same time, have power to influence the three levels of analysis, as proposed by the model of Dillard et al. (2004). This reinforces the importance of inter-level dynamics, proposed by the model's authors, to explain the relationships between organizational level, organizational field level and organizational level, showing that pressures can go up and down in the corporate system.

Regarding the procedures adopted, interviewees XIII, XV, XVI and XX, recognize that there is a tendency to imitate structures, administrative practices, strategic policies, or other internal procedures of other colleagues considered successful, establishing a mimetic isomorphism, as proposed by DiMaggio and Powell (1983). Thus, innovators accountants (those who immediately adopt control practices) and late adopters (those who copy the control practices of the first ones) (see Figure 2) exist. Accordingly, Interviewee XVI referred:

> *There are many companies in this sector in the area and we all know each other and share experiences and information. We often talk about the organization of work; the most disorganized tend to receive contributions from the most applied.*

Statutory Auditors (ROC)

The ROC is a professional with the competence to audit the accounts of companies (whether public or private) (Law 140/2015). The audit activity, according to article 42 of Law 140/2015, comprises the statutory audit of accounts (in compliance with a legal or statutory provision); the voluntary audit of accounts (in compliance with a contractual obligation); and other audit services related to the statutory audit and the voluntary audit of accounts, (e.g., certification of bad debts; certification of interim financial statements; supervision of the project of spin-off, merger and transformation of companies; verification of contributions in kind in the incorporation and capital increase of companies).

The statutory audit (article 44 - 45, Law 140/2015), initially includes a review of the financial information of the entity, assessing the conformity of the accounts of the entity with the accounting and financial reality of the company and, subsequently, the legal certification of accounts, which consists in issuing the opinion of the ROC on the conformity of the management report and accounts with the actual situation of the company. reinforces article 44 that the objective of the statutory audit of accounts does not guarantee the future viability of the entity, nor the efficiency or effectiveness with which the management body has conducted the activities of the audited entity, representing only the certification of legality, veracity and regularity of accounting**.**

Access to the profession of ROC is subject to a set of requirements, namely academic qualification, official assessment, and professional internship, which must be assessed by OROC (Law 140/2015). From this standpoint, OROC, as the regulator of the profession, predisposes power in the social system (domination structures), given that auditors depend on OROC for attribution of status. As in the CC/OCC relationship, the organizational field level – OROC – exercises dominion over the organizational level—auditors – provide semantic codes, interpretive schemes, and discursive practices (signification structures). At the same time, by acquiring structures of significance, auditors are considered legitimate (Meyer & Rowan, 1977).

Regarding the way the profession is exercised, it is possible to verify the presence of mimetic isomorphism, since auditors adopt the practices of other colleagues in the profession considered successful. Thus, there are the ROCs that immediately adopt (innovators) and those that copy the control practices of the former (late adopters) (see Figure 2). In this line, Interviewee XXVI stated:

> *A problem that has to do with today's society, which is the mimicking procedure. People, to ensure some comfort and some protection, end up imitating and adopting*

> *the so-called best practices. There are practices that are more or less rooted in the profession.*

The literature (e.g., Ball et al., 2012) has stated that auditing is essential, as third-party assurance is given that there is quality in the financial information and compliance with accounting standards. Pressure has been put on the European Commission to regulate mandatory auditing for small and medium-sized companies (Downing & Langli, 2019). However, as in Portugal and in several countries, although the business context is mainly composed of small and medium enterprises, responsible for a large part of economic activity, auditing is only mandatory for larger entities and groups (Vanstraelen & Schelleman, 2017).

In Portugal, the statutory audit is essentially required from larger entities, in particular: public limited companies are required to have a ROC, included on the supervisory board or appointing a sole auditor (Article 413 of Decree-Law 262/86); private limited companies, whenever they exceed two of the three limits provided for in Article 262(2) of Decree-Law 262/86 (balance sheet total: 1 500 000 euros; total net sales and other income: 3 000 000 euros; number of workers employed on average during the year: 50), for two consecutive years; Municipalities and municipal associations holding capital in foundations, municipal companies, intermunicipal companies or public limited companies (Law 73/2013); Complementary Groupings of Companies, provided that the grouping issues bonds in accordance with Law 4/73 ; all Holding Companies - SGPS in accordance with article 10 of Decree-Law 495/88; Entities of public interest in accordance with article 45(3) of Law 140/2015.

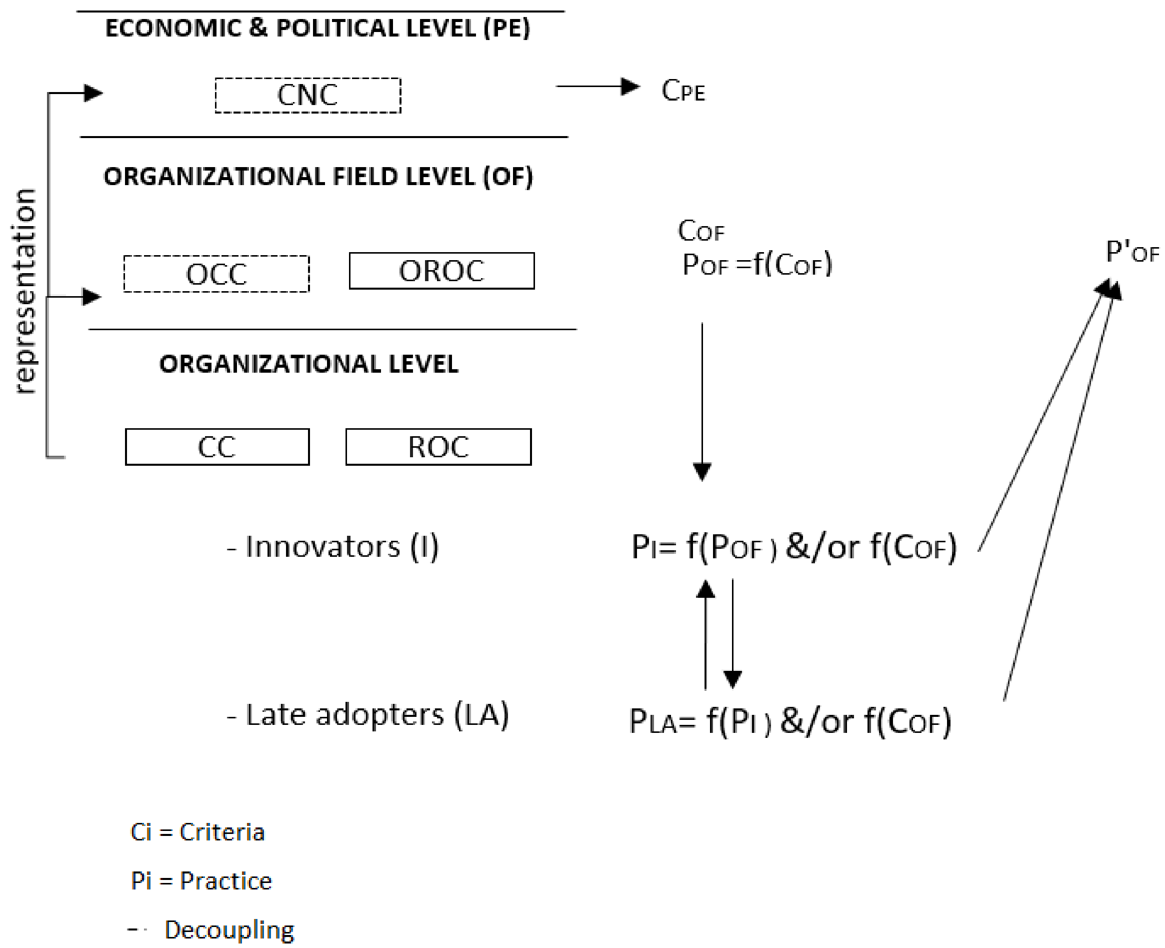
From the above we can see that most Portuguese companies (as the market consists of 99% small and medium-sized companies) are not subject to legal certification of accounts. According to Vaz Ferreira (2019), only 10% of these small companies are audited.

3.6. Discussion and conclusion

The implementation of control mechanisms to assess the correct application of accounting standards was a measure adopted by countries driven by Regulations (EC) Nos. 1606/2002 and 1725/2003. In recent years, the literature has recognized that enforcement is essential to ensure compliance with accounting standards and the quality of financial information. However, the literature has also recognized the scarcity of studies that analyze the real enforcement practices of countries. This gap hinders the understanding of the level of control implemented in each country.

The model of Dillard et al. (2004) provided a theoretical framework favorable to the understanding of the way enforcers act in Portugal, allowing to verify the influence of the three organizational levels. It was possible to establish a hierarchy of the social system through structures of meaning, legitimization, and dominance, as we can see in Figure 3.2.

Figure 3. 2 - Model of enforcement system in Portugal



Based on Dillard et al. (2004:512)

The CNC was supposed to be the main enforcement actor in the accounting field in Portugal (political and economic level), as it is the body responsible for the elaboration of the national accounting standards (SNC) and responsible for the control of its implementation. The CNC has prepared the "Regulation for the Control of the Application of Accounting Standards", where the enforcement criteria and procedures (C_{PE}) have been defined, however, they have not been put into practice, failing to comply with their duties of controlling the application of accounting standards (decoupling).

At the organizational field level, the professional bodies emerge, which also have the power to control the application of accounting standards through the quality control exercised over their members, since some actors of the organizational field are, at the same time, actors at the economic and political level. Thus, the criteria of the organizational field (C_{OF}) were created, regardless of the criteria of the societal level (C_{PE}). Enforcement practices are considered legitimate at the organizational field level (P_{OF}) is a function of organizational field criteria (C_{OF}) (Dillard et al*.,* 2004). Although the quality control system for statutory auditors is being applied, this is not the case for the quality control of certified accountants. OCC's quality control has been suspended due to the pressure exercised by certified accountants. Therefore, as emphasized by Dillard et al. (2004), people among the levels can organize, reinforcing, reviewing, or eliminating existing practices. In the case of OCC, although the criteria were not revoked, the practices do not exist. This means that not only new practices (P'_{OF}) but also that we can observe decoupling practices (the criteria exist but they are not being applied both at the political and economic level and at the OCC organizational level) and, consequently, there was a deinstitutionalization of practices previously institutionalized (Oliver, 1992).

Currently, companies that are not required to have audited accounts are not being subject to enforcement of accounting standards. Only indirectly the AT exerts some control over them. This means that 99% of the companies do not have any direct control of accounting standards implementation. Indirect control is exerted on the SNC accounting standards implementation by AT, because in Portugal there is a significant dependency of accounting rules in relation to taxation rules.

So, one important conclusion to derive from this study is that, in countries such as Portugal, where the standard-setter end up to have weak enforcement power, tax authorities need to ensure the control of implementation of national accountings standards, hence safeguarding that accounting and financial reporting quality is attained.

The theoretical framework proposed by Dillard et al. (2004) helps in understanding how the same actor can be present in the various organizational levels and influence any of them. It was also possible to verify that the pressure can either be exercised from the economic and political level to the organizational level or as the opposite, corroborating the Dillard et al. (2004) arguments.

Although we are cautious not to generalize the conclusions obtained, because it is a case study of only one country, this study made several contributions. Firstly, it contributes to the scarcity of literature on actual enforcement practices, presenting the collection of information on the current state of enforcement in a country. Secondly, the model presented in Figure 2 of the enforcement system of a regime of adapted international accounting standards can be considered as a theoretical contribution since it can be easily adapted to other countries. Thirdly, it contributes to theory by combining the institutionalization and deinstitutionalization models for analysis of real enforcement practices.

Additionally, our study also has some practical implications since it shows that although enforcement rules exist at the economic and political level, and at the OCC organizational level, they are not being complied. Considered as Renegades, OCC dissociates in the sense that regulations are defined but in practice are not enforced, de-institutionalizing an institutionalized practice occurs. Thus, it is of interest to standard-setting bodies, regulators, enforcers, and users of financial information. Further research could use the approach used here and replicate this study in other countries to allow comparisons of the institutional dynamics between different national states. Such studies would help to increase knowledge about the actual enforcement practices of each country, linking up with different institutional levels.

Chapter 3

References

Abdul-Baki, Z., Uthman, A.B. and Kasum, A.S. (2020, in press), “The role of accounting and accountants in the oil subsidy corruption scandal in Nigeria”, *Critical Perspectives on Accounting*.

Aburous, D. (2019), “Critical Perspectives on Accounting IFRS and institutional work in the accounting domain”, *Critical Perspectives on Accounting*, *62,* 1–15.

Albu, C.N., Albu, N. and Alexander, D. (2014), “When global accounting standards meet the local context-Insights from an emerging economy”, *Critical Perspectives on Accounting*, *25*(6), 489–510.

Albu, N., Albu, C.N., Bunea, Ş., Calu, D. and Girbina, M. (2011), “A story about IAS/IFRS implementation in Romania”, *Journal of Accounting in Emerging Economies*, *1*(1), 76–100.

Alexandre, H. and Clavier, J. (2017), “Adoption of IAS/IFRS, liquidity constraints, and credit rationing: The case of the European banking industry”, *Quarterly Review of Economics and Finance*, *63*, 249–258.

Alon, A. and Dwyer, P.D. (2014), “Early adoption of IFRS as a strategic response to transnational and local influences”, *International Journal of Accounting*, Elsevier B.V., *49*(3), 348–370.

Alsharari, N.M., Dixon, R. and Youssef, M.A.E.A. (2015), “Management accounting change: Critical review and a new contextual framework”, *Journal of Accounting and Organizational Change*, *11*(4), 476–502.

Anagnostopoulou, S.C. (2017), “Accounting Quality and Loan Pricing : The Effect of Cross-country Differences in Legal Enforcement”, *International Journal of Accounting*, *52*(2), 178–200.

Barley, S.R.. and Tolbert, P.S. (1997), “Institutionalization and Structuration: Studying the Links between Action and Institution”, *Organization Studies*, *18(*1), 93–117.

Barth, M.E. and Doron, I. (2013), “Disentangling mandatory IFRS reporting and changes in enforcement”, *Journal of Accounting and Economics*, *56,* 178–188.

Böcking, H.J., Gros, M. and Worret, D. (2015), "Enforcement of accounting standards: how effective is the German two-tier system in detecting earnings management?", *Review of Managerial Science*, *9(*3), 431–485.

Brown, P., Preiato, J. and Tarca, A. (2014), "Measuring Country Differences in Enforcement of Accounting Standards: An Audit and Enforcement Proxy", *Journal of Business Finance and Accounting*, *41*(1–2), 1–52.

Burns, J. and Scapens, R.W. (2000), "Conceptualizing management accounting change: An institutional framework", *Management Accounting Research*, *11(*1), 3–25.

Carneiro, J., Rodrigues, L.L. and Craig, R. (2017), "Assessing international accounting harmonization in Latin America", *Accounting Forum*, *41*(3), 172–184.

CNC, C. N.C. (2020), "Sobre a CNC", *CNC*, available at: http://www.cnc.min-financas.pt/sobre.html. (accessed 24 September 2020).

Crawford, L., Lont, D. and Scott, T. (2014), "The effect of more rules-based guidance on expense disclosure under International Financial Reporting Standards", *Accounting and Finance*, *54*(4), 1093–1124.

Cruz, I., Major, M.J. and Scapens, R.W. (2009), "Institutionalization and practice variation in the management control of a global/local setting", *Accounting, Auditing & Accountability Journal*, *22(*1), 91–117.

Daher, M. (2017), "Creditor control rights, capital structure, and legal enforcement", *Journal of Corporate Finance*, *44*, 308–330.

Demmer, M., Pronobis, P. and Yohn, T.L. (2019), "Mandatory IFRS adoption and analyst forecast accuracy: the role of financial statement-based forecasts and analyst characteristics", *Review of Accounting Studies*, *24(*3), 1022–1065.

Dillard, J.F., Rigsby, J.T. and Goodman, C. (2004), "The making and remaking of organization context Duality and the institutionalization process", *Accounting, Auditing & Accountability Journal*, *17*(4), 506–542.

DiMaggio, P.J. and Powell, W. (1983), "The iron cage revisited: institutional isomorphism in organizational fields", *American Sociological Review*, *48(*2), 147–160.

Downing, J. and Langli, J.C. (2019), “Audit exemptions and compliance with tax and accounting regulations”, *Accounting and Business Research*, *49(*1), 28–67.

Duru, A., Hasan, I., Song, L. and Zhao, Y. (2018), “Bank accounting regulations, enforcement mechanisms, and financial statement informativeness: cross-country evidence”, *Accounting and Business Research*, 1–35.

Egan, M. and Yanxi Xu, W. (2020), “The true and fair view: exploring how managers, directors and auditors engage in practice”, *Accounting Forum*, 1–23.

Eutsler, J., Nickell, E.B. and Robb, S.W.G. (2016), “Fraud risk awareness and the likelihood of audit enforcement action”, *Accounting Horizons*, *30(*3), 379–392.

Gao, R. and Sidhu, B.K. (2018), “The Impact of Mandatory International Financial Reporting Standards Adoption on Investment Efficiency: Standards, Enforcement, and Reporting Incentives”, *Abacus*, *54(*3), 277–318.

Giddens, A. (1976), *New Rules of Sociological Method*, Hutchinson, London.

Giddens, A. (1979), *Central Problems in Social Theory: Action, Structure and Contradiction in Social Analysis*, University of California Press., Berkeley.

Giddens, A. (1984), *The Constitution of Society: Outline of the Theory of Structuration*, edited by Press, U. of C., Berkeley.

Gu, Z., Ng, J. and Tsang, A. (2019), “Mandatory IFRS adoption and management forecasts: The impact of enforcement changes”, *China Journal of Accounting Research*, Sun Yat-sen University, *12*(1), 33–61.

Guerreiro, M., Rodrigues, L. and Craig, R. (2012), “Factors influencing the preparedness of large unlisted companies to implement adapted International Financial Reporting Standards in Portugal”, *Journal of International Accounting, Auditing and Taxation*, Elsevier Inc., *21*(2), 169–184.

Guerreiro, M., Rodrigues, L.L. and Craig, R. (2020), “Institutional theory and IFRS : an agenda for future research”, *Spanish Journal of Finance and Accounting*, 1–24.

Guerreiro, M.S., Rodrigues, L.L. and Craig, R. (2015), “Institutional Change of Accounting Systems: The Adoption of a Regime of Adapted International Financial Reporting

Standards", *European Accounting Review*, *24*(2),379–409.

Hardy, C. and Maguire, S. (2008), "Institutional entrepreneurship", in Greenwood, R., Oliver, C., Suddaby, R. and Sahlin-Andersson, K. (Eds.), *The SAGE Handbook of Organizational Institutionalism*, SAGE Publications Ltd, 198–217.

Harun, H., Carter, D., Mollik, A.T. and An, Y. (2020), "Understanding the forces and critical features of a new reporting and budgeting system adoption by Indonesian local government", *Journal of Accounting and Organizational Change*, *16*(1), 145–167.

Hopper, T. and Major, M. (2007), "Extending institutional analysis through theoretical triangulation: Regulation and activity-based costing in portuguese telecommunications", *European Accounting Review*, *16(*1), 59–97.

Horton, J., Macve, R. and Struyvenm, G. (2004), "Qualitative Research: Experiences in Using Semi-Structured Interviews", in Humphrey, C. and Lee, B. (Eds.), *The Real Life Guide to Accounting Research - A behind-the-Scenes View of Using Qualitative Research Methods*, Elsevier Ltd, 339–359.

Hsieh, H.F. and Shannon, S.E. (2005), "Three approaches to qualitative content analysis", *Qualitative Health Research*, *15(*9), 1277–1288.

Kavanagh, M. (2017), "An overview of accounting enforcement in Europe", *Accountancy Ireland*, *49(*June),42–43.

Kleinman, G., Lin, B.B. and Bloch, R. (2019), "Accounting enforcement in a national context: an international study", *International Journal of Disclosure and Governance*, Palgrave Macmillan UK, *16*(1), 47–67.

Kondra, A.Z. and Hinings, C.R. (1998), "Organizational diversity and change in institutional theory", Organization Studies, *19*(5), 743–767.

Leuz, C. (2010), "Different approaches to corporate reporting regulation: how jurisdictions differ and why", *Accounting & Business Research*, *40(*3), 229–256.

Macintosh, N.B. and Scapens, R.W. (1990), "Structuration theory in management accounting", *Accounting, Organizations and Society*, *15*(5), 455–477.

Major, M.J. and Ribeiro, J. (2009), "A Teoria Institucional na Investigação em

Contabilidade”, *Contabilidade e Controlo de Gestão - Teoria, Metodologia e Prática*, Escolar Editora, Lisboa, 37–59.

Mantzari, E. and Georgiou, O. (2019), “Ideological hegemony and consent to IFRS: Insights from practioners in Greece”, *Critical Perspectives on Accounting*, *59*, 70–93.

Mason, J. (2002), *Qualitative Researching*, edited by SAGE Publications, Second Edi.

Meyer, J.W. and Rowan, B. (1977), “Institutionalized Organizations : Formal Structure as Myth and Ceremonyl”, *The American Journal of Sociology*, *83(2)*, 340–363.

Miles, M.B.., Huberman, A.M. and Saldana, J. (2014), *Qualitative Data Analysis-A Methods Sourcebook*, edited by Publications, S.

Moore, D.R.J. (2013), “Sustainability, institutionalization and the duality of structure: Contradiction and unintended consequences in the political context of an Australian water business”, *Management Accounting Research*, Elsevier Ltd, Vol. 24 (4), 366–386.

Moura, A.A.F. de and Gupta, J. (2019), “Mandatory adoption of IFRS in Latin America: A boon or a bias”, *Journal of International Financial Markets, Institutions and Money*, *60*, 111–133.

Nobes, C.W. and Parker, R. (2006), *Comparative International Accounting*, edited by Hall, P., 9th Editio., London.

Oliver, C. (1992), “The Antecedents of Deinstitutionalization”, *Organization Studies*, Vol. *13*(4), 563–588.

Oz, I.O. and Yelkenci, T. (2018), “Examination of real and accrual earnings management: A cross-county analysis of legal origin under IFRS”, *International Review of Financial Analysis*, *58*, 24–37.

Peña, H.F.P. and Franco, J.B. (2017), “Impact of IFRS on the quality of financial information in the United Kingdom and France: Evidence from a new perspective”, *Intangible Capital*, *13(*4), 850–878.

Pinheiro, C., Azevedo, G. and Cruz, S. (2013), “Do Poc Ao Snc : Evolução E Aspetos Diferenciadores”, *Revista Portuguesa de Contabilidade*, *III*(10).

Preiato, J., Brown, P. and Tarca, A. (2015), “A Comparison of Between-Country Measures of Legal Setting and Enforcement of Accounting Standards", *Journal of Business Finance & Accounting*, *42*(1–2),1–50.

Quagli, A., Avallone, F., Ramassa, P. and Motta, L. (2018), "Measuring the Effectiveness of National Enforcers in the IFRS Context: A Proactive Approach", *International Business Research*, *11(*6), 151–164.

Quagli, A., Lagazio, C. and Ramassa, P. (2020), "From enforcement to financial reporting controls (FRCs): a country-level composite indicator", *Journal of Management and Governance*, Springer US,

Ribeiro, J.A. and Scapens, R.W. (2006), "Institutional theories in management accounting change: Contributions, issues and paths for development", *Qualitative Research in Accounting & Management*, *3*(2), 94–111.

Roberts, J. and Scapens, R. (1985), "Accounting systems and systems of accountability - understanding accounting practices in their organisational contexts", *Accounting, Organizations and Society*, *10*(4), 443–456.

Scott, W.R. (2001), *Institutions and Organizations*, Thousand Oask, CA: Sage.

Silva, A. and Rodrigues, A.M. (2017), "Mecanismos de controlo das normas internacionais de contabilidade", *European Journal of Applied Business and Management*, 57–72.

Silva, A., Jorge, S. and Rodrigues, L. (in press), "Enforcement and accounting quality in the context of IFRS: is there a gap in the literature?", *International Journal of Accounting & Information Management*.

Suchman, M.C. (1995), "Managing Legitimacy : Strategic and Institutional Approaches", *Academy of Management Review*, *20(*3), 571–610.

Van Tendeloo, B. and Vanstraelen, A. (2008), "Earnings management and audit quality in Europe: Evidence from the private client segment market", *European Accounting Review*, *17*(3), 447–469.

Vanstraelen, A. and Schelleman, C. (2017), "Auditing private companies: what do we know?", *Accounting and Business Research*, Taylor & Francis, *47*(5), 565–584.

Vaz Ferreira, J.M.B. (2019), "The effects of legal certification of accounts on company performance: The Portuguese case", *Corporate Governance and Organizational Behavior Review*, *3*(1), 8–18.

Vieira, R., Major, M.J. and Robalo, R. (2009), "Investigação Qualitativa em Contabilidade", in Major, M.J. and Vieira, R. (Eds.), *Contabilidade e Controlo de Gestão - Teoria, Metodologia e Prática*, pp. 131–163, Escolar Editora, Lisboa.

Wijayana, S. and Gray, S.J. (2019), "Institutional Factors and Earnings Management in the Asia-Pacific: Is IFRS Adoption Making a Difference?", *Management International Review*, *59*(2), 307–334.

Chapter 4: The impact of IFRS enforcement on financial reporting quality: Evidence from Portugal

Paper 3: The impact of IFRS enforcement on financial reporting quality: Evidence from Portugal

Submitted to *Journal of International Financial Management and Accounting*

Indexed journal: SCImago Journal Rank (SJR): 0.47; Accounting (Q2)
Impact Factor: 2.280
ABS 2

Chapter 4

THE IMPACT OF IFRS ENFORCEMENT ON FINANCIAL REPORTING QUALITY: EVIDENCE FROM PORTUGAL

Abstract

This study aims to analyze the impact of three levels of enforcement (corporate governance, external audit, and oversight system) on the quality of financial reporting. Data were collected from 76 Portuguese listed companies for the years 2017-2018. The quality of financial reporting was measured using discretionary accruals. The results of multiple regression analysis showed that the independence of the audit committee (but not its expertise) and the quality of the external auditor have a positive impact on the quality of financial reporting. The association between two enforcers (audit committee and external auditor) has also a positive impact on the quality of the financial reporting. However, the oversight system has no statistically significant impact.

This research fills a gap in the literature, contributing to the understanding of how enforcement of accounting standards, at the different levels that affect the companies' environment, impacts financial reporting quality. It brings important implications to standard-setting bodies, regulators, enforcers, and users of financial information, inasmuch as it may support policy-making in terms of accounting standards enforcement regulations.

Keywords: accounting quality; corporate governance; auditing; oversight system; compliance.

4.1. Introduction

Enforcement is considered a compliance analysis of financial information disclosed by entities to ensure that IFRS are being correctly applied (ESMA 2014). It is a system to prevent, identify and take necessary actions in cases of material errors or omissions in the application of IFRS.

In Europe, according to FEE (2001), accounting enforcement involves six levels: self-enforcement; statutory audit of financial statements; approval of financial statements by companies' boards; institutional oversight system; courts: sanctions/complaints; and public and *media* reactions. Literature has recognized particularly the importance of the role of auditing, not only internal (e.g., through the audit committee, which approves the financial statements prepared by the certified accountant) but also external auditing (e.g., an independent external auditor that issues an opinion on the financial statements, informing the public authorities of any problems found) (e.g., Brown et al., 2014; Quagli et al., 2018). At the national level, the institutional oversight system, usually represented by a securities markets regulator, has the power to demand the reformulation of financial statements, to apply sanctions to non-compliant companies and, in the most serious cases, to instigate court proceedings.

Accounting enforcement has been growing in importance in recent years, as the effectiveness of IFRS in improving accounting quality depends on the strength of a country's law enforcement mechanism (Cai et al., 2014).

The literature has shown that enforcement affects the impact of IFRS on accounting quality (Christensen et al., 2013; Florou & Pope, 2012; Li, 2010). However, the authors Brown et al. (2014) argue that the enforcement proxies often used in the literature (namely, the rule of law, investor protection and stock exchange rules) are biased, as they focus on elements of the legal system or securities law and do not capture the enforcement of accounting standards.

Several authors have pointed to the scarcity of studies analyzing the real enforcement practices of different countries (e.g., Gros and Nevrela, 2020; Guerreiro et al., 2020; Kleinman et al., 2019; Mantzari and Georgiou, 2019; Moura and Gupta, 2019); the lack of information about enforcement activity is likely to be a justification for this scarcity (Quagli et al., 2020). Quagli et al. (2018) point out that in the EU there are no databases on the results of enforcement, such as the number of decisions and the number of sanctions issued. The same authors argue that researchers should develop measures to analyze the level of enforcement in each country, so that comparisons between countries can be made and their impact on accounting quality assessed.

Although the European Securities and Markets Authority (ESMA) has published the European enforcers' activity report (e.g., ESMA, 2020) since 2014, detailed country analyses were only published from 2018 onwards. Despite the recommendation, in 2015, to implement appropriate control mechanisms to monitor accounting standards, this does not mean that they have been implemented and are working properly.

Individual analysis of the level of enforcement in a country is necessary, given that enforcement is influenced by the characteristics of the country itself. ESMA points out the lack of empirical studies analyzing the effectiveness of accounting enforcement reforms and their importance to European policy makers and regulators (ESMA, 2017b, 2018b). Studies of a single country allow us to capture the main characteristics of the country, covering more companies than the global databases and allowing us to obtain a more representative sample of the specific population of the country (Key & Youn, 2020).

Subsequently, this study explores the Portuguese context, seeking to understand the impact of three levels of enforcement – corporate governance (audit committee), external audit and oversight system (here represented by the Portuguese Securities Market Commission (CMVM), on the quality of financial reporting. These three levels of enforcement are those more directly related with que control of IFRS implementations. Although specific measures for accounting enforcement have been developed in recent years, they present many limitations and methodological problems (Quagli et al., 2018). Accordingly, through three measures for the enforcement variables, we seek to understand their behavior in the quality of financial reporting.

This study contributes to the literature in two ways. First, it analyzes the impact of three components of enforcement on the quality of corporations' financial reporting. Second, it studies the reality of enforcement in a single country, contrary to what has been done in the literature, where authors have been analyzing several countries at the same time, not providing detailed analyses of the economic reality of each country. The findings are useful for European policy makers and regulators and pertinent to financial accountants, standard setters, auditors, and investors in international and Portuguese contexts, inasmuch as it may support policy-making in terms of accounting standards enforcement regulations.

The paper is organized as follows. Section 2 briefly describes the institutional setting of accounting enforcement in Portugal and the theoretical framework. This is followed by the literature review and hypotheses setting, in section 3. Section 4 presents the research design, followed by the empirical results in section 5, and the discussion and sensitivity analyses in section 6. A conclusion is then offered in section 7.

4.2. The Portuguese accounting enforcement setting and theoretical framework

Portugal is a code law country, with a low level of investor protection, low legal enforcement, and conservative accounting practices (La Porta et al., 1998). In comparison with other EU countries (e.g., UK, Germany) Portugal has a small stock exchange. Most companies have family structures (Oliveira et al., 2010), are highly concentrated (Lopes & Rodrigues, 2007) and are financed mainly by banks and their owners (Caria & Rodrigues, 2014).

In relation to corporate governance, in 1999, CMVM has issued the first recommendation about this matter. Since then it has published several other, requiring listed companies to provide a set of information regarding compliance or non-compliance about those recommendations. In 2007, the first Portuguese Corporate Governance Code was finally published.

According to Silva et al. (2006), on the national scene, the predominant corporate governance model is *Monista*. This is based on the Latin Model, comprising four structures: The General Assembly, the Board of Directors, composed by executive and non-executive's directors, the Supervisory Board or Single Auditor and the Statutory Auditor (*Revisor Oficial de Contas* (ROC)). Rodrigues et al. (2017) explained that the Portuguese Corporate Governance Code of 2007 brought important changes, when it required Boards of Directors to include a sufficient number of non-executive members to ensure effective oversight, control and evaluation of the activities of executive members. This code also provided for the creation, on the proposal of the General Assembly, of a number of committees. The Audit Committee was for the first time considered, which is responsible for selecting and monitoring the ROC, has as its basic pillars its exemption and independence. The new Corporate Governance Code (IPCG, 2020) classifies the Audit Committee as a supervisory body, requiring the annual reports to include a description of the Audit Committee's supervisory activity. This requirement is also applicable to the Supervisory Board, so we can see an overlapping of functions and legal regimes between the Audit Committee and the Supervisory Board, which, in Portugal, are both supervisory bodies.

With the introduction of Regulation (EC) No 1606/2002 of the European Parliament and Council, from 2005 onwards, listed companies of EU Member States, including Portugal, were required to prepare consolidated financial reports in accordance with International Accounting Standards/International Financial Accounting Standards (IAS/IFRS). Linked to this obligation, the Regulation also indicated that Member States must take measures to ensure compliance with accounting standards, i.e., enforcement mechanisms.

At the economic and political level (Dillard et al., 2004), CMVM is the entity responsible for the supervision of the securities markets, as well as of the entities that operate in them, together with the supervision of statutory auditors, audit firms, auditors, and audit entities, national and from Member States and third countries, registered in Portugal (Law 148/2015).

As to the theoretical framework that better explains the relationship between IFRS enforcement and accounting quality in Portugal, although the relationship has been analyzed according to the agency theory, we believe that the most appropriate in this case is the institutional theory. In this country, most companies are family-owned and often the owners are the company's own managers, so agency relationships are nor predominant.

Instead, the New Institutional Sociology (NIS) points to legitimacy issues. It considers that organizations are open systems that influence and are influenced by the environment in which they are inserted, emphasizing the cognitive, cultural and normative aspects of organizations. Therefore, NIS allows us to know how the institutional environment, composed of norms, beliefs, traditions and the need for legitimacy, affects the behavior of organizations (Dimaggio & Powell, 1983). When entities accept and adopt socially institutionalized practices or procedures, they become legitimate (Meyer & Rowan, 1977).

In the main financial scandals in Portugal, the cases of banks such as BNP and Millennium BCP, and more recently, of BES and Banif, were motivated by accounting manipulations in order to show unachieved results[17]. These behaviors were taken to ensure the legitimacy of the organization. We believe that the principles of institutional theory help to realize that organizations dissociate results from actual performance, as a means of maintaining the appearance of legitimacy (Kury, 2007).

On the other hand, in our research, organizational change regarding accounting and financial reporting practice is a result of a direct response to the Regulation (EC) No. 1606/2002. Through coercive pressure, in Portugal, CMVM, auditors and directors need to comply with the legislative requirements, allowing them to acquire legitimacy in the market, both to their professions and to the companies they lead. Thus, when Portuguese enforcers acquire certain enforcement procedures, their action gains legitimacy.

Finally, the concept of decoupling (Meyer & Rowan, 1977) seems to apply in the Portuguese case, since a gap appears to exist between the regulations applied and the practices of the enforcers, as we can see in the empirical part.

4.3. Literature review and hypothesis development

At the international level, the effects of the adoption of IFRS on the accounting quality have been quite studied in recent years (De George et al., 2016; Tokar, 2016). In Portugal, Morais & Curto (2008) studied the impact of the adoption of IFRS on the quality of financial information of Portuguese listed companies, showing that after the adoption of IFRS, companies improved the quality of their profits, but the value relevance decreased. Alves (2013) showed for 33 Portuguese non-financial companies that only when jointly acting,

[17] https://www.publico.pt/2016/01/03/economia/opiniao/ainda-a-proposito-do-caso-banif-1718966

the audit committee and the external auditor, reduce earnings management. However, as in international literature (e.g., Cai et al., 2014), the impact of IFRS on the quality of financial information in Portuguese companies is not consensual. Also, there are still few studies in Portugal on this topic (Oliveira et al., 2018; Oliveira et al., 2010).

Many authors consider that the adoption of IFRS, *per se*, is not enough to guarantee accounting quality (Barth et al., 2008; Cho et al., 2015; Daske et al., 2013; Hail et al., 2014; Horton et al., 2013; Landsman et al., 2012). IFRS are considered standards that lead to high-quality financial information, but only with appropriate control mechanisms is compliance achieved (Gu et al., 2019). In recent years, enforcement has been growing in importance (Anagnostopoulou, 2017; Daher, 2017; Duru et al., 2018; Eutsler et al., 2016; Preiato et al., 2015). It is recognized that it plays a key role in encouraging the production of high-quality financial information (Alexandre & Clavier, 2017; Brown et al., 2014; Christensen et al., 2013; Gu et al., 2019; Kavanagh, 2017; Oz & Yelkenci, 2018; Peña & Franco, 2017).

In the first publication in Portugal about the enforcement, an opinion article, Gonçalves (2000) explained what enforcement is and the importance of the statutory auditor in the process. Subsequently, Silva et al. (2003) in an empirical study, concluded that the statutory auditors ensured compliance with accounting standards, contributing to the improvement of the quality of the information disclosed. Guerreiro (2009), using a literature review, found that the enforcement of IFRS is primarily associated with the performance of the auditor, the audit firms and the CMVM.

Taking the previous research further, our study analyzes three levels of enforcement: internally, the company's own management, through the Audit Committee; and externally, the external statutory auditor, responsible for the statutory audit; and the institutional oversight system, represented by the performance of CMVM.

For the purpose of this research the quality of financial reporting is represented by the discretionary accruals, despite several other measures are extensively used in the literature (Barth et al. 2008; Paananen and Lin 2009; Robu et al. 2016).

4.3.1. Audit Committee and the quality of financial reporting

The audit committee, the internal level of enforcement, is considered one of the four mechanisms of corporate governance (Gramling et al., 2004). As one of the most important committees of companies, its responsibility is to supervise internal control and ensure the high quality of financial reports (Agyei-Mensah et al., 2020; Defond & Jiambalvo, 1991; Lin & Hwang, 2010).

Several studies have analyzed the effects of the audit committee's characteristics on earnings management not only in US listed companies (e.g., Ghosh et al., 2010; Sun et al., 2014) but also in Europe (e.g., García et al., 2012; De Vlaminck and Sarens, 2015). However, the results were contradictory (Bilal et al., 2018).

The literature has shown that the skills and professional experience of the audit committee members increase their effectiveness (Velte, 2018). Just like in other countries (e.g., UK and USA), Portugal also requires that at least one of the members of the audit committee has a university degree appropriate to the performance of his functions and knowledge in auditing or accounting (Article 423-B, CSC; IPCG, 2020). According to Lisic et al. (2019), the audit committee members must be auditors, accountants or financial officers who have experience in dealing with accounting matters. According to Badolato et al. (2014), Hayes (2014) and Zalata et al. (2018), the financial expertise of the Audit committee reduces earnings management. Instead, Ghosh et al. (2010) concluded that earnings management does not vary with the audit committee's financial experience. Sun et al. (2014) concluded that audit committee members with additional management positions are positively associated with real earnings management. In the same way, for a Portuguese sample of non-financial companies, Alves (2013) found a positive association between the existence of an Audit committee and earnings management.

Another feature that members of the audit committee should have is independence. In particular, they should not be under the influence of management. When companies meet the audit committee's requirements for the number of independent and experienced members (Article 423-B, CSC; IPCG, 2020), they acquire legitimacy, since its performance is supported by socially institutionalized procedures (Meyer & Rowan, 1977). Also, a member of the audit committee with appropriate professional training, gives greater legitimacy to the accounts of companies (Kury, 2007). According to Hayes (2014), when members of the audit committee are independent, they express an impartial opinion on the company's financial reports. Prior evidence (e.g., Al-Rassas and Kamardin, 2016; Klein, 2002; Kusnadi et al., 2016) has shown that audit committee independence has a positive impact on the quality of financial reporting.

Therefore, we formulate the following hypotheses:

H_1: The independence of the audit committee has a negative impact on discretionary accruals.

H_2: The experience of the audit committee has a negative impact on discretionary accruals.

4.3.2. External Auditor and the quality of financial reporting

The external auditor, another level of enforcement, is an entity independent of the company that provides the annual statutory audit of the financial accounts and gives an opinion on whether the accounts reflect a true and fair view of the company's financial situation.

Just as the size of the audit firm is a proxy for audit quality (DeAngelo, 1981), the quality of an external auditor has been measured by the size of the audit firm (e.g., Agyei-Mensah et al., 2020; Alzeban, 2020a, 2020b). Previous studies find that larger audit firms (so-called the 'Big 4') perform higher quality audits and, consequently, produce better accounting quality, than smaller audit firms do ('non-Big 4') (Ball et al., 2012; Hung Chan & Wu, 2011). In order to maintain legitimacy in the market, Big 4 auditors must prove to be enforcers that guarantee the quality of financial information (Suchman, 1995).

Therefore, we hypothesize that the external auditor being a Big 4 firm, has a positive impact on the quality of financial reporting.

H_3: The quality of the external auditor has negative impact on discretionary accruals.

4.3.3. Association between the Audit Committee and External Auditor in the quality of financial reporting

Although literature has been studying the audit committee and the external auditor as independent enforcers (Bilal et al., 2018), in Portugal, there is a great proximity between these two. The audit committee is the body who chooses the external auditor or the audit firm, relying on their opinion and advice. The current Portuguese Corporate Governance Code (IPCG, 2020) provides that the supervisory body (i.e., audit committee) "establish and monitor formal, clear and transparent procedures on the selection of the statutory auditor and the relationship of the company with it, and on the monitoring of its compliance with the rules of independence that the law and professional standards impose on it" (IPCG, 2020:34). According to Alzoubi (2019), for companies listed on the Amman Stock Exchange, the audit committee and the internal auditor reduce earnings management.

Accordingly, and because they work together for a better quality of financial information, it is important to analyze the joint impact of the audit committee and the external audit on the quality of financial reporting. The audit committee and external auditor, which are considered to be the first levels of enforcement, must ensure compliance with accounting standards to become legitimate to the market. Through the above, it seems appropriate to formalize the following hypothesis to be investigated:

H_4: The association between the audit committee and quality of the external auditor has negative impact on discretionary accruals.

4.3.4. The Institutional Oversight System and the quality of financial reporting

In order to monitor compliance with IFRS, ESMA has recommended that EU countries design and implement institutional oversight systems to do so (CESR, 2003; FEE, 2001). Therefore, since 2006, several European countries have established national oversight bodies to monitor the application of IFRS. Among the various types of institutional oversight systems (e.g., Stock Exchange; Review panel; Governmental department) in Portugal, as in Belgium, France, Italy and Spain, there is a stock exchange regulator (CMVM), an independent regulator/supervisor, with the responsibility of supervising and ensuring compliance with IFRS (FEE, 2001). With a view to making its performance in the market legitimate, CMVM has adopted ESMA's guidelines for the enforcement of accounting standards and should ensure the best QFR by reducing discretionary accruals.

Due to the auditing independence gap, institutional oversight systems are also considered to be an important external (high) level of enforcement (Christensen et al., 2013; Jackson & Roe, 2009; Jia et al., 2009; Nurunnabi, 2014). Hitz et al. (2012) found that the enforcement system in Germany, by penalizing non-compliant companies, provides potential deterrence, although Germany is characterized in literature as having a weak enforcement environment. Christensen et al. (2013) concluded that, in five European countries (UK, Germany, Finland, Netherlands and Norway), when IFRS adoption is accompanied by improvements in the enforcement system, the accounting quality increases. Kabir & Laswad (2015) found that, in European countries, institutional supervision has an incrementally positive impact on accrual quality. Finally, it has been observed that when the enforcement system is strong there is a decrease in earnings management behaviors (Houqe et al., 2012) and an improvement in financial disclosure (Glaum et al., 2013). Therefore, we formulate the following hypothesis:

H_5: The institutional oversight system has negative impact on discretionary accruals.

4.4. Research design

4.4.1. Sample and data

The data used in this study was gathered from several sources, namely: issuers companies' annual reports and corporate governance reports published on the CMVM website, the companies' websites, the Portuguese Institute of Corporate Governance website, the Sabi database and the ESMA reports.

The study embraces only two years – 2017-2018, due to data availability restrictions. Indeed, it was only from 2017 that ESMA started to disseminate detailed information about European enforcers. On the other hand, the last information available about enforcers activity (ESMA's 2020 report) concerns the analysis of the financial and non-financial information of companies listed in 2018 (ESMA, 2020).

We collected the financial data and information about audit from Sabi database; in cases where there was no data, a manual search was made in the companies' annual reports. The audit committee data was extracted manually from the companies' corporate governance reports. The data related to the activity carried out by CMVM was collected in ESMA's reports (ESMA, 2017a, 2018a, 2019, 2020); for the year 2017, we have used the value of the variable determined by Quagli et al. (2020); for 2018, we replicated the authors' index.

Initially, the sample was composed of the population of entities subject to CMVM supervision (issuers), eliminating those that did not provide their annual reports and others with missing data regarding the dependent or independent variables of the study. Of the 95 companies subject to CMVM supervision, we excluded 19 because there was not enough information related to the key variables. Thus, we arrived at a final sample of 76 companies and 152 observations.

4.4.2. The quality of financial reporting (QFR) – dependent variable

Following recent accounting literature, to measure the quality of financial reporting we use discretionary accruals (DAC_abs) as a proxy for the QFR (Alzeban, 2020b; Chen et al., 2020). Discretionary accruals are estimated using the performance-matched model proposed by Kothari et al. (2005). This model is based on the modified Jones' model and incorporates the ROA variable to control for the changes in companies' financial performance. It expresses accruals (TOTACC) according to variation of revenues (Δ REV), change in receivables (Δ REC) and the level of gross property, plant, and equipment (PPE). To avoid problems of heteroscedasticity all variables are divided by the total assets of the previous year. The DAC_abs are the absolute value of residuals, and non-discretionary accruals are the predictions from the estimation of model below:

$$\frac{TOTACC_{it}}{TA_{it-1}} = \alpha_1 + \alpha_2\left(\frac{1}{TA_{it-1}}\right) + \alpha_3\left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}}\right) + \alpha_4\left(\frac{PPE}{TA_{it-1}}\right) + \alpha_5 ROA_{it} + \varepsilon_{it}$$

Where:

TOTACC = total accruals in year t, calculated as the difference between net income and operating cash flows.

TA = total assets at the beginning of year t.

Δ REV = change in revenues.

Δ REV = change in accounts receivable.

PPE = gross property, plant and equipment.

ROA = net income before tax divided by total assets of firm *i* at period *t*.

4.4.3. Independent variables

The explanatory variables of the model are the three above-explained components of enforcement, which provide the focus of this study: audit committee, external audit, and institutional oversight system.

The audit committee is measured by two indicators – independence and expertise (Alzeban, 2020b, 2020a; Zalata et al., 2018). Following Dhaliwal et al. (2010), an audit committee is effective when it has a combination of independent directors with accounting and financial expertise[18]. Independence of the audit committee (AUD_COMIND) is calculated using the percentage of the independent directors on the audit committee. Expertise (AUD_COMEXP) is calculated using the percentage of the members' experience in the field of accounting and/or auditing.

The quality of the external auditor has been measured by the size of the audit firm (Agyei-Mensah et al., 2020; Alzeban, 2020a, 2020b). DeAngelo (1981) considers that the technical competence and degree of independence are characteristics that may be observed by the size of the audit firm, with incentives to maintain the number of customers and their reputation. The quality of external audit is represented by this being amongst the BIG 4 firms or not (Big 4) and is measured as a dichotomous variable equal to 1 if the auditor is

[18] "Financial expert" means a director trained in both accounting and finance, a certified accountant, or a statutory auditor. "Independents" are all those who have no relationship whatsoever with the company.

Deloite Touche Tohmatsu Ernst & Young KPMG or PricewaterhouseCoopers, and 0 otherwise.

The literature has used the Brown et al. (2014) index to conduct studies involving enforcement issues, but this is only available for the years 2002, 2005, 2008. Recently Quagli et al. (2020) developed an enforcement indicator for 2017, based on the ESMA's 2018 report *Enforcement and Regulatory Activities of European Accounting Enforcers.* This report provides information on the enforcement activity of each member state. Quagli et al. (2020) measure the institutional oversight system (OVER_SIST) by: (i) the number of full-time equivalents per IFRS issuer; (ii) the examination rate, calculated as the number of companies examined, divided by the total number of companies; (iii) the focused examination rate, calculated as the number of focused examinations, divided by the total number of examinations; and (iv) the action rate, calculated as the number of companies for which enforcement actions were taken, divided by the number of examinations carried out. In our study, given the reduced number of years under analysis and considering that all these indicators have the same importance in determining the institutional oversight system variable, this variable was obtained by transforming the year 2017 into the base 100, which was then calculated for 2018. Then, we calculated the average of the four components.

As in other studies (e.g., Alves, 2013; Alzoubi, 2019), the combination of the audit committee (independence and experience) and the external auditor is obtained by the variable (ACBIG4) that results from AUD_COMIND*AUD_COMEXP*BIG4.

4.4.4. Control variables

Following previous studies (e.g., Abdul-Baki and Haniffa, 2019; Alzeban, 2020a; Barth et al., 2008; Christensen et al., 2015; Zeghal et al., 2012), we included four variables to control other factors that appear to be helpful in predicting discretionary accruals (DACC). The variables considered were: company's size (SIZEit) measured as the logarithm of total assets of firm *i* at period *t*; financial leverage (LEVit) measured as total debt divided by total assets of firm *i* at period *t*; and return on assets (ROAit) measured by net income before tax divided by total assets of firm *i* at period *t*.

4.4.5. Regression models

Once the variables of the model were determined, the following first model (Model I) was built to test hypotheses 1, 2, 3 and 5.

$$\boldsymbol{QFR} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1}(\boldsymbol{AUD\_COMIND_{it}}) + \boldsymbol{\beta_2}(\boldsymbol{AUD\_COMEXP_{it}}) + \boldsymbol{\beta_3}(\boldsymbol{BIG4_{it}}) + \boldsymbol{\beta_4}(\boldsymbol{OVER\_SIST}) + \boldsymbol{\beta_5}(\boldsymbol{SIZE_{it}}) + \boldsymbol{\beta_6}(\boldsymbol{LEV_{it}}) + \boldsymbol{\beta_7}(\boldsymbol{ROA_{it}}) + \varepsilon_{it}$$

Subsequently, to examine the impact of the association of the audit committee and the quality of the external auditor on the quality of financial reporting (hypothesis H4), we specified Model II below:

$$\boldsymbol{QFR} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1}(\boldsymbol{ACBIG4_{it}}) + \boldsymbol{\beta_2}(\boldsymbol{OVER\_SIST}) + \boldsymbol{\beta_3}(\boldsymbol{SIZE_{it}}) + \boldsymbol{\beta_4}(\boldsymbol{LEV_{it}}) + \boldsymbol{\beta_5}(\boldsymbol{ROA_{it}}) + \varepsilon_{it}$$

4.5. Empirical results and discussion

Table 4.1 presents the descriptive statistics for the entire sample. The mean of absolute values of the discretionary accruals (0.083) is higher than zero and significant compared to companies in other European countries, such as France (Lazzem & Jilani, 2018) and Spain (Saona et al., 2020), indicating the existence of earnings management, either by earnings increasing or decreasing (our discretionary measures are computed in absolute values). This supports the idea that Portugal, considered a code-law country, has a low quality of financial information. The results also show that the average percentage of independent audit committee members (AUD_COMIND) is 78%. Regarding the experience of the audit committee, on average, half of the members are experienced in accounting and/or auditing (50 %). However, there are companies whose auditee committees do not have experience (minimum 0) and others with 100%of experienced directors. Around 65% of the companies in the sample have Big 4 as their external auditor.

Table 4.1 - Descriptive statistics

Variable	Mean	Median	SD	Min	Max
DAC_abs	0,08372	0,02765	0,1647	0,000	1,140
AUD_COMIND	0,783	1,00	0,336	0,000	1,00
AUD_COMEXP	0,501	0,500	0,262	0,000	1,00
BIG4	0,649	1,00	0,479	0,000	1,00
ACBIG4	0,266	0,250	0,276	0,000	1,00
OVER_SIST	109,	109,	9,05	100,	118,
SIZE	5,59	5,59	1,33	-0,474	7,91
LEV	0,671	0,553	0,701	0,000	5,98
ROA	0,530	1,68	29,8	-291,	57,0

Notes: Number of observations: 152, period: 2017-2018; **DAC_abs** is the absolute value of discretionary accruals (Kothari et al., 2005); **AUD_COMIND** is the percentage of independent directors on the audit committee; **AUD_COMEXP** is the percentage of members with expertise in accounting and/or auditing; **BIG4** is a dummy variable which takes a value 1 if the auditor is a Big 4, and 0 otherwise; **ACBIG4** represents the combination between independence and expertise of audit committee and Big 4; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is the natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets.

Table 4.2 presents the matrix of correlations between the respective research variables. Figures show that there is no high degree of linear correlation between the variables under study, since almost all the coefficients obtained are less than 50%.

Table 4.2 - Correlation matrix

DAC_abs	AUD_COMIND	AUD_COMEXP	BIG4	OVER_SIST	SIZE	LEV	ROA	
1	-0,4196	-0,1788	-0.301	-0,0177	-0,49	-0,093	0,0444	**DAC_abs**
	1	0,1278	0,2038	0,0369	0,2665	0,2098	-0,134	**AUD_COMIND**
		1	-0,108	-0,0152	0,193	0,0268	-0,206	**AUD_COMEXP**
			1	-0,0272	0,4899	-0,072	0,1703	**BIG4**
				1	0,0021	-0,021	0,039	**OVER_SIST**
					1	0,0921	0,0268	**SIZE**
						1	-0,263	**LEV**
							1	**ROA**

Notes: Number of observations: 152

The results of the multiple regression analysis of Model I are presented in Table 4.3. This panel regression considers both the cross-sectional and time-series effects and is based on firm-year observation with Fixed Effects Model. The due tests showed no problems of multicollinearity, heteroscedasticity and autocorrelation. The model has a p-value of the statistic F less than 0.0001, indicating good fit and statistical significance. It has also an R^2 of 0.3239, indicating that all the explanatory variables in the model jointly explain the extent of about 32% of variation in the discretionary accruals (QFR).

Table 4.3 - Regression of determinants of absolute value of discretionary accruals – Model I

$$QFR = \beta_0 + \beta_1(AUD\_COMIND_{it}) + \beta_2(AUD\_COMEXP_{it}) + \beta_3(BIG4_{it}) + \beta_4(OVER\_SIST) + \beta_5(SIZE_{it}) + \beta_6(LEV_{it}) + \beta_7(ROA_{it}) + \varepsilon_{it}$$

DAC_abs	*Expected sign*	*Coefficient*	*Standard error*	*t-statistic*	*p-value*	
(Constant)		−1,61837	1,10125	−1,470	0,1462	
AUD_COMIND	**-**	**-0,386356**	**0,135612**	**-2,849**	**0,0058**	***
AUD_COMEXP	**-**	**0,264918**	**0,137685**	**1,924**	**0,0585**	*
BIG4	**-**	**-0,349612**	**0,103180**	**-3,388**	**0,0012**	***
OVER_SIST	-	-0,000778527	0,000898648	-0,8663	0,3893	
SIZE	**-**	**0,392329**	**0,186625**	**2,102**	**0,0392**	**
LEV	?	-0,0520935	0,0516708	-1,008	0,3169	
ROA	-	8,00504e-05	0,000470559	0,1701	0,8654	
R^2		0,323940				
F (p-value)		<0,0001				

Notes:
*, **, *** indicate statistical significance at the p-value ≤ 0.10, 0.05 and 0.01 levels, respectively.

Number of observations: 152, period: 2017-2018; **DAC_abs** is the absolute value of discretionary accruals (Kothari et al., 2005); **AUD_COMIND** is the percentage of independent directors on the audit committee; **AUD_COMEXP** is the percentage of members with expertise in accounting and auditing; **BIG4** is a dummy variable, which takes a value 1 if the auditor is a Big 4, and 0 otherwise; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets.

As expected, the results of Table 4.3 show that a larger number of independents in the audit committee (AUD_COMIND) have a negative impact on the discretionary accruals. As in Al-Rassas and Kamardin, (2016), Klein (2002), Kusnadi et al. (2016), audit committee independence has a positive impact on the quality of financial reporting, impacting negatively on discretionary accruals. Thus, H1 is accept.

In regard to the audit committee experience (AUD_COMEXP), the results show that the more experienced they are, the more earnings management there is, which is in accordance with the findings of Alves (2013) and Sun et al. (2014)) but contradicts our hypothesis, i.e., H2 is refuted. It seems that companies' directors use their experience to earnings manipulation, perhaps because they may not be really independent of the organization. Table I shows there is an average of 78% independence, but there are also companies that do not have independent members (minimum of 0%), which may indicate some decoupling, given that independence is required by the regulations (Meyer & Rowan, 1977).

This result seems also to be supported by a recent study on the Perception of Fraud in Portugal, which reports that 95% of respondents identify the middle and senior administrators of the organization as the main responsible for fraud occurrences (Deloitte, 2019).

As part of the enforcement system, the audit committee comes in with a significant role in monitoring accounting standards, being considered the first level of enforcement, although the results have shown that the experience of their members could lead to greater earnings management. Despite presenting a sign contrary to what was expected in H2, the experience of the members of the audit committee offers legitimacy to the effective performance of this enforcer. In turn, the audit committee, being experienced in the control of accounting standards, provides legitimacy to the company's performance in the market.

The relationship between Big 4 and the absolute value of the discretionary accruals is significantly negative. The results indicate that companies audited by Big 4 firms have a lower magnitude of discretionary accruals, increasing the QFR, so confirming H3. As noted by Van Tendeloo & Vanstraelen (2008), in countries where there is a high relationship between accounting and taxation, Big 4 auditors are more effective. In Portugal, statutory auditors have a very important role in the enforcement of accounting standards, as Guerreiro (2009) documented. Therefore, auditors have to be effective, to legitimize the market image and size of their companies. Thus, they seek to excel in ensuring compliance with IFRS, seeking to reduce earnings management, ultimately having a positive impact on the QFR.

As to the oversight system, although presenting the expected signal in H5, findings are not statistically significant, so it has no impact on the earnings management. In Portugal, CMVM is responsible for supervising the compliance of accounting standards (main enforcer at the political and economic level). It presents a supervisory model based on the ESMA's enforcement guidelines; however, despite this model being put into practice, our study indicates that it has no impact on companies' earnings management and, consequently, on the quality of financial information. Although the CMVM's enforcement system is implemented, one can say it is relatively new. Also, as we can see from the data collection, data on CMVM enforcement has only been published since 2017. Therefore, although it is being practiced, it appears not to be working properly yet, given that there is no statistic evidence of any impact on the quality of financial information reporting by companies. Indeed, we have frequently found CMVM's publications indicating new guidelines for strengthening supervision (e.g., CMVM, 2021). Apparently, although CMVM has its procedures legitimated by ESMA, the results show no statistical evidence of their impact on the quality of financial reporting. This result seems to be an indicator that the practices are in a very early stage and in constant development, and their impact on the quality of the financial reporting information is not perceptible yet.

The association between firm SIZE and discretionary accruals was significant and positive. This indicates that the largest companies are those that tend to manipulate results the most and, in turn, their QFR is lower (Alves, 2013; Alzoubi, 2019). The LEV and ROA variables have no impact on the discretionary accruals.

Table 4.4 shows the results of the estimation of Model II. The combination between the audit committee (independence and expertise) and a Big 4 firm (quality of the external auditor) has a negative and significant impact on the discretionary accruals. This result corroborates those obtained by Alves (2003) and indicates that the independence and expertise of the audit committee, when combined with a quality external auditor, seem to generate an enhanced effect to reduce the level of discretionary accruals, increasing the

QFR, thus validating H4. These results are also consistent with Alzeban (2020b), indicating that Big 4 firms have a significant impact on the QFR and that the audit committee can mediate that relationship. As established above, it is the audit committee that appoints the external auditor. As in Model I, the results suggest that the oversight system does not affect the level of earnings management. The control variables (SIZE, LEV and ROA) show the same behavior as the previous model, i.e., only size shows a positive effect on discretionary accruals, reducing the quality of financial reporting.

Table 4.4 - Regressions of determinants of absolute value of discretionary accruals – Model II

$$QFR = \beta_0 + \beta_1(ACBIG4_{it}) + \beta_2(OVER\_SIST) + \beta_3(SIZE_{it}) + \beta_4(LEV_{it}) + \beta_5(ROA_{it}) + \varepsilon_{it}$$

DAC_abs	*Expected sign*	*Coefficient*	*Standard error*	*t-statistic*	*p-value*	
(Constant)		-2,26746	1,19598	-1,896	0,0620	*
ACBIG4	**-**	-0,213424	0,113988	-1,872	0,0653	*
OVER_SIST	-	-0,000820636	0,000973455	-0,8430	0,4021	
SIZE	-	0,447394	0,207549	2,156	0,0345	**
LEV	?	-0,0530318	0,0592786	-0,8946	0,3740	
ROA	-	-0,000166423	0,000498564	-0,3338	0,7395	
R^2		0,147614				
F (p-value)		<0,0001				

Notes:
*, **, *** indicate statistical significance at the p-value ≤ 0.10, 0.05 and 0.01 levels, respectively.

Number of observations: 152, period: 2017-2018; **DAC_abs** is the absolute value of discretionary accruals (Kothari et al., 2005); **ACBIG4** represents the combination between independence and expertise of the audit committee and Big 4; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is the natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets.

4.6. Sensitivity analyses

To ensure the robustness of the results, we made several tests using different measures for variables. Firstly, we modified the form of measurement of the variables independence and experience of the audit committee. Both variables passed to be measured through a dummy. If most of the audit committee members are independent (>50 percent), the variable takes the value 1, otherwise it is 0. Similarly, if most of the members of the audit committee (>50 per cent) are experienced in accounting and/or auditing, the variable takes the value 1, otherwise it is 0. As a result of this estimation the results presented in Table 4.5 were obtained.

As can be seen, the results do not differ from the results obtained in Table 4.3, presenting more statistical significance than the model previously estimated. These results reinforce the results obtained in Table 4.3, showing that the independence of the audit committee and the quality of the external auditor have a positive impact on the QFR. Moreover, the more experienced the audit committee is, the greater the earnings management and, consequently, the lower the QFR. Also, for Model II, we found that the results are similar (Table 4.6), although the association between the audit committee and Big 4 has lost statistical significance.

Table 4.5 – Regressions of determinants of absolute value of discretionary accruals – Model I (alternative measure for AUD_COMIND and AUD_COMEXP)

	Coefficient	*Standard error*	*t-statistic*	*p-value*	
(Constant)	-2,31657	1,04660	-2,213	0,0302	**
AUD_COMIND	-0,205952	0,0776472	-2,652	0,0099	***
AUD_COMEXP	0,333917	0,0929133	3,594	0,0006	***
BIG4	-0,303313	0,0974019	-3,114	0,0027	***
OVER_SIST	-0,000700697	0,000872485	-0,8031	0,4247	
SIZE	0,486068	0,179307	2,711	0,0085	***
LEV	-0,0467621	0,0490492	-0,9534	0,3437	
ROA	0,000162734	0,000433105	-0,3757	0,7083	
R^2	0,381597				
F (p-value)	<0,0001				

Notes:
*, **, *** indicate statistical significance at the p-value ≤ 0.10, 0.05 and 0.01 levels, respectively.

Number of observations: 152, period: 2017-2018; **DAC**_abs is the absolute value of discretionary accruals (Kothari et al., 2005); **AUD_COMIND** is a dummy variable which takes a value 1 if most of the audit committee members are independent (>50 percent) and 0 otherwise; **AUD_COMEXP** is a dummy variable which takes a value 1 if most of the members of the audit committee (>50 per cent) are experienced in accounting and/or auditing and 0 otherwise; **BIG4** is a dummy variable which takes a value 1 if the auditor is a Big 4, and 0 otherwise; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is the natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets;

Table 4.6 - Regressions of determinants of absolute value of discretionary accruals – Model II (alternative measure for AUD_COMIND and AUD_COMEXP)

	Coefficient	*Standard error*	*t-statistic*	*p-value*	
(Constant)	-2,74892	1,21025	-2,271	0,0262	**
ACBIG4	-0,0334411	0,0978123	-0,3419	0,7334	
OVER_SIST	-0,000645762	0,000993953	-0,6497	0,5180	
SIZE	0,515924	0,211240	2,442	0,0171	**
LEV	-0,0183912	0,0609220	-0,3019	0,7636	
ROA	-0,000207699	0,000509829	-0,4074	0,6849	
R^2	0,106998				
F (p-value)	<0,0001				

Notes:
*, **, *** indicate statistical significance at the p-value ≤ 0.10, 0.05 and 0.01 levels, respectively.

Number of observations: 152, period: 2017-2018; **DAC_abs** is the absolute value of discretionary accruals (Kothari et al., 2005); **ACBIG4** represents the combination between independence and expertise of audit committee and Big 4; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is the natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets.

Secondly, we estimated discretionary accruals across two estimation models that capture different aspects of earnings manipulation, i.e., the Jones (1991) model and the Dechow et al. (1995) model, using these alternative measures. In either of the models described above, the discretionary accruals are the model residuals.

The Jones (1991) model the author assumes that accruals depend on the change in revenues and the amount of fixed assets. The model is then the following:

$$\frac{TOTACC_{it}}{TA_{it-1}} = \alpha_1 + \alpha_2\left(\frac{1}{TA_{it-1}}\right) + \alpha_3\left(\frac{\Delta REV_{it}}{TA_{it-1}}\right) + \alpha_4\left(\frac{PPE}{TA_{it-1}}\right) + \varepsilon_{it}$$

Where:

TOTACC = total accruals in year t, calculated as the difference between net income and operating cash flows.

TA = total assets at the beginning of year t.

Δ REV = change in revenues.

PPE = gross property, plant and equipment.

Based on the Jones (1991) model, Dechow et al. (1995) proposed a modification to help the detection of manipulations in results through sales. Dechow et al. (1995) modified the Jones' model by eliminating errors caused when directionality is exercised over revenues through credit sales. Thus, the proposed model is as follows:

$$\frac{TOTACC_{it}}{TA_{it-1}} = \alpha_1 + \alpha_2\left(\frac{1}{TA_{it-1}}\right) + \alpha_3\left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}}\right) + \alpha_4\left(\frac{PPE}{TA_{it-1}}\right) + \varepsilon_{it}$$

Where:

TOTACC = total accruals in year t, calculated as the difference between net income and operating cash flows.

TA = total assets at the beginning of year t.

Δ REV = change in revenues.

Δ REV = change in accounts receivable.

PPE = gross property, plant and equipment.

The results of the new estimation are presented in Table 4.7. As we can see, most of the variables follow the same results of the estimation shown in Table 4.3, with the exception of the variables audit committee independence (AUD_COMIND) and ROA, which differ in significance and/or value.

Table 4.7 - Regressions of determinants of absolute value of discretionary accruals – Model I (alternative measure for AUD_COMIND and AUD_COMEXP) with different models to proxy the dependent variable

Dependent variable: **DAC_abs_ Jones (1991)**					
	Coefficient	***Standard error***	***t-statistic***	***p-value***	
(Constant)	-9,61011	1,48652	-6,465	<0,0001	***
AUD_COMIND	-0,118271	0,110285	-1,072	0,2873	
AUD_COMEXP	0,275420	0,131968	2,087	0,0406	**
BIG4	-0,641732	0,138344	-4,639	<0,0001	***
OVER_SIST	-0,00152228	0,00123922	-1,228	0,2235	
SIZE	1,81393	0,254677	7,122	<0,0001	***
LEV	0,0977666	0,0696665	1,403	0,1650	
ROA	-0,00796389	0,000615156	-12,95	<0,0001	***
R^2	0,816237				

F (p-value)	<0,0001				
Notes: *, **, *** indicate statistical significance at the p-value ≤ 0.10, 0.05 and 0.01 levels, respectively.					
Number of observations: 152, period: 2017-2018; **DAC**_abs is the absolute value of discretionary accruals (Jones, 1991); **AUD_COMIND** is a dummy variable which takes a value 1 if the most of the audit committee members are independent (>50 percent), and 0 otherwise; **AUD_COMEXP** is a dummy variable which takes a value 1 if the most of the members of the audit committee (>50 per cent) are experienced in accounting and/or auditing, and 0 otherwise; **BIG4** is a dummy variable which takes a value 1 if the auditor is a Big 4, and 0 otherwise; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is the natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets.					

Dependent variable: **DAC_abs_ Dechow et al. (1995)**					
	Coefficient	***Standard error***	***t-statistic***	***p-value***	
(Constant)	-8,33470	1,25299	-6,652	<0,0001	***
AUD_COMIND	-0,154344	0,0929592	-1,660	0,1014	
AUD_COMEXP	0,263716	0,111236	2,371	0,0205	**
BIG4	-0,626661	0,116609	-5,374	<0,0001	***
OVER_SIST	-0,000757801	0,00104454	-0,7255	0,4706	
SIZE	1,57948	0,214667	7,358	<0,0001	***
LEV	0,0906956	0,0587216	1,545	0,1270	
ROA	-0,00848649	0,000518513	-16,37	<0,0001	***
R^2	0,865603				
F (p-value)	<0,0001				
Notes: *, **, *** indicate statistical significance at the p-value ≤ 0.10, 0.05 and 0.01 levels, respectively.					
Number of observations: 152, period: 2017-2018; **DAC**_abs is the absolute value of discretionary accruals(Dechow et al., 1995); **AUD_COMIND** is a dummy variable which takes a value 1 if the most of the audit committee members are independent (>50 percent) and, 0 otherwise; **AUD_COMEXP** is a dummy variable which takes a value 1 if the most of the members of the audit committee (>50 per cent) are experienced in accounting and/or auditing and, 0 otherwise; **BIG4** is a dummy variable which takes a value 1 if the auditor is a Big 4, and zero otherwise; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is the natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets.					

Table 4.8 shows the results of the robustness analysis of the Model II estimation results. They are similar to those obtained in Table 4.4, with the exception of the ROA variable, which acquires statistical significance.

Table 4.8 - Regressions of determinants of absolute value of discretionary accruals – Model II with different models to proxy the dependent variable

Dependent variable: **DAC_abs_ Jones (1991)**					
	Coefficient	***Standard error***	***t-statistic***	***p-value***	
(Constant)	-10,0536	1,65610	-6,071	<0,0001	***
ACBIG4	-0,241862	0,133847	-1,807	0,0750	*
OVER_SIST	-0,000609037	0,00136013	-0,4478	0,6557	
SIZE	1,80759	0,289061	6,253	<0,0001	***
LEV	0,113644	0,0833657	1,363	0,1771	
ROA	-0,00815987	0,000697651	-11,70	<0,0001	***
R^2	0,753689				
F (p-value)	<0,0001				

Notes:
*, **, *** indicate statistical significance at the p-value ≤ 0.10, 0.05 and 0.01 levels, respectively.

Number of observations: 152, period: 2017-2018; DAC_abs is the absolute value of discretionary accruals (Jones, 1991); **ACBIG4** represents the combination between independence and expertise of audit committee and Big 4; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is the natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets.

Dependent variable: **DAC_abs_ Dechow et al. (1995)**					
	Coefficient	***Standard error***	***t-statistic***	***p-value***	
(Constant)	-8,81097	1,45468	-6,057	<0,0001	***
ACBIG4	-0,259284	0,117567	-2,205	0,0307	**
OVER_SIST	5,45316e-05	0,00119470	0,04564	0,9637	
SIZE	1,57788	0,253904	6,214	<0,0001	***
LEV	0,102873	0,0732263	1,405	0,1644	
ROA	-0,00866198	0,000612798	-14,14	<0,0001	***
R^2	0,804376				
F (p-value)	<0,0001				

Notes:
*, **, *** indicate statistical significance at the p-value ≤ 0.10, 0.05 and 0.01 levels, respectively;

Number of observations: 152, period: 2017-2018; **DAC**_abs is the absolute value of discretionary accruals (Dechow et al., 1995); **ACBIG4** represents the combination between independence and expertise of audit committee and Big 4; **OVER_SIST** is a variable obtained from Quagli et al. (2020) measure, by transforming the year 2017 into the base 100, which was then calculated for 2018, then the average of the four components was computed; **SIZE** is the natural logarithm of total assets; **LEV** is total liabilities divided by total assets; **ROA** is the return on assets.

All in all, the outcomes shown in Tables 4.5 to Table 4.8 suggest the robustness of the main findings as reported in Tables 3 and 4.

4.7. Conclusion

In this study we have empirically investigated the impact of the three levels of enforcement: corporate governance (represented by the independence and expertise of the audit committee), quality of the external audit (represented by the Big 4) and oversight system (represented by the Portuguese Securities Market Authority) on the quality of financial reporting, in the Portuguese context. We found that about 78% of audit committees are composed of independent directors and about 50% of audit committees are composed of experienced accounting and/or auditing directors. We also found that 65% of companies have one of the Big 4 firms as an external auditor.

Our results have shown that the independence of the audit committee (first level of enforcement) increases the QFR. However, their experience can lead to more discretionary accruals, diminishing the quality of financial information. Although this finding this against what is stated in the literature, it seems to be supported by recent studies on fraud in Portugal, since most of the frauds come from the administrators of the company itself. Furthermore, enforcement via (quality) external auditors, as measured by Big 4, shows that it has a significant impact on the quality of financial information. This result finds support in the literature, since auditors are considered enforcers and Big 4 firms are considered to lead to higher quality financial information reported.

In Portugal, the oversight system is the responsibility of the CMVM. According to its statutes, this is the entity responsible for supervising the compliance of accounting standards (main enforcer at political and economic level). In practice, it follows ESMA's indications, legitimizing its action in the market. However, our results have shown that, in practice, it has no impact on the level of accruals. Although the recommendation for the implementation of enforcement of accounting standards has already occurred since 2005, only in the last few years we have verified information about this implementation. It seems to us that enforcement by oversight entities is now starting to be implemented and, as such, there is no empirical evidence of its true impact on the QFR.

Another very important conclusion is the joint impact of the audit committee (independence and expertise) and the quality of the external auditor on the quality of financial information. In Portugal, there is a very close relationship between these two enforcers. The audit committee is the body that in the company chooses the external auditor and then follows their advice and opinions. The results have shown that when these two enforcers work together, they have an eventually enhanced positive impact on the quality of financial information.

While Richardson (1987) had designated *"accounting as a legitimating institution"*, our findings in this paper evidence that the enforcement of accounting standards serves as a real legitimizing institution, since those responsible for enforcement act to ensure compliance with the accounting standards and consequently the quality of financial reporting. Thus, enforcing accounting standards is considered essential to legitime the quality of financial reporting.

This study is innovative and presents contributions on several levels. It first uses institutional theory to understand the effect of enforcement on the quality of financial information. It then presents itself as a study that is useful for understanding the real impact of enforcers on the quality of financial information in a particular country.

Nevertheless, the research also presents some limitations. One is related to the small number of companies, which may influence the results. However, this limitation is justified by the fact that the Portuguese capital market is very small. Another limitation concerns the short number of years of analysis, which was due to the lack of available information/data for the calculation of the enforcement oversight system variable.

There are several possible future extensions of this study. Empirically, it may be extended to other European countries in order to make comparative analyses between the levels of enforcement. Theoretically, development in institutional theory maybe extended to assume *enforcement as a legitimating institution.*

References

Abdul-Baki, Z., & Haniffa, R. (2019). The impact of accounting reform on accounting quality: Evidence from Nigeria. *Journal of International Financial Management and Accounting*, *October*, 1–22. https://doi.org/10.1111/jifm.12112

Agyei-Mensah, B. K., Agyemang, O. S., & Ansong, A. (2020). Audit Committee Effectiveness, Audit Quality, and Internal Control Information Disclosures:An Empirical Study. In *Corporate Governance Models and Applications in Developing Economies* (pp. 1–22). https://doi.org/10.4018/978-1-5225-9607-3.ch001

Al-Rassas, A. H., & Kamardin, H. (2016). Earnings quality and audit attributes in high concentrated ownership market. *Corporate Governance (Bingley)*, *16*(2), 377–399. https://doi.org/10.1108/CG-08-2015-0110

Alexandre, H., & Clavier, J. (2017). Adoption of IAS/IFRS, liquidity constraints, and credit rationing: The case of the European banking industry. *Quarterly Review of Economics and Finance*, *63*, 249–258. https://doi.org/10.1016/j.qref.2016.05.001

Alves, S. (2013). The impact of audit committee existence and external audit on earnings management. *Journal of Financial Reporting and Accounting*, *11*(2), 143–165. https://doi.org/10.1108/jfra-04-2012-0018

Alzeban, A. (2020a). Influence of internal audit reporting line and implementing internal audit recommendations on financial reporting quality. *Meditari Accountancy Research*, *28*(1), 26–50. https://doi.org/10.1108/MEDAR-12-2018-0409

Alzeban, A. (2020b). The impact of audit committee, CEO, and external auditor quality on the quality of financial reporting. *Corporate Governance*, *20*(2), 263–279. https://doi.org/10.1108/CG-07-2019-0204

Alzoubi, E. S. S. (2019). Audit committee, internal audit function and earnings management: evidence from Jordan. *Meditari Accountancy Research*, *27*(1), 72–90. https://doi.org/10.1108/MEDAR-06-2017-0160

Anagnostopoulou, S. C. (2017). Accounting Quality and Loan Pricing : The Effect of Cross-country Differences in Legal Enforcement. *International Journal of Accounting*, *52*(2), 178–200. https://doi.org/10.1016/j.intacc.2016.11.001

Badolato, P. G., Donelson, D. C., & Ege, M. (2014). Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting and Economics*, *58*(2–3), 208–230. https://doi.org/10.1016/j.jacceco.2014.08.006

Ball, R., Jayaraman, S., & Shivakumar, L. (2012). Audited Financial Reporting and Voluntary Disclosure as Complements: A Test of the Confirmation Hypothesis. *Journal of*

Accounting and Economics, *53*(2), 136–166. https://doi.org/10.2139/ssrn.1626195

Barth, M. E., Landsman, W. R., & Lang, M. H. (2008). International Accounting Standards and Accounting Quality. *Journal of Accounting Research*, *46*(3). https://doi.org/10.1111/j.1475-679X.2008.00287.x

Bédard, J., Chtourou, S. M., & Courteau, L. (2004). The effect of audit committee expertise, independence, and activity on aggressive earnings management. *Auditing*, *23*(2), 13–35. https://doi.org/10.2308/aud.2004.23.2.13

Bilal, Chen, S., & Komal, B. (2018). Audit committee financial expertise and earnings quality: A meta-analysis. *Journal of Business Research*, *84*, 253–270. https://doi.org/10.1016/j.jbusres.2017.11.048

Brown, P., Preiato, J., & Tarca, A. (2014). Measuring Country Differences in Enforcement of Accounting Standards: An Audit and Enforcement Proxy. *Journal of Business Finance and Accounting*, *41*(1–2), 1–52. https://doi.org/10.1111/jbfa.12066

Cai, L., Rahman, A., & Courtenay, S. (2014). The effect of IFRS adoption conditional upon the level of pre-adoption divergence. *International Journal of Accounting*, *49*(2), 147–178. https://doi.org/10.1016/j.intacc.2014.04.004

Caria, A. A., & Rodrigues, L. L. (2014). The evolution of financial accounting in Portugal since the 1960s: A new institutional economics perspective. *Accounting History*, *19*(1–2), 227–254. https://doi.org/10.1177/1032373213511319

CESR. (2003). *Standard No.1 on Financial Information –Enforcement of Standards on Financial Information in Europe*. *1*, 1–11.

Chen, Y., Che, L., Zheng, D., & You, H. (2020). Corruption culture and accounting quality. *Journal of Accounting and Public Policy*, *39*(2), 106698. https://doi.org/10.1016/j.jaccpubpol.2019.106698

Cho, K., Kwon, K., Yi, H., & Yun, Y. (2015). The Effect of International Financial Reporting Standards Adoption on the Relation Between Earnings Quality and Information Asymmetry in Korea. *Emerging Markets Finance and Trade*, *51*, 95–117. https://doi.org/10.1080/1540496X.2015.1039905

Christensen, H. B., Hail, L., & Leuz, C. (2013). Mandatory IFRS reporting and changes in enforcement. *Journal of Accounting and Economics*, *56*(2–3), 147–177. https://doi.org/10.1016/j.jacceco.2013.10.007

Christensen, H. B., Lee, E., Walker, M., & Zeng, C. (2015). Incentives or Standards : What Determines Accounting Quality Changes around IFRS Adoption ? *European Accounting Review*, *24*(1), 31–61. https://doi.org/10.1080/09638180.2015.1009144

CMVM, C. do M. de V.M. (2021), PRIORIDADES CMVM - 2021, Lisbon.

Daher, M. (2017). Creditor control rights, capital structure, and legal enforcement. *Journal of Corporate Finance*, *44*, 308–330. https://doi.org/10.1016/j.jcorpfin.2017.04.002

Daske, H., Hail, L., Leuz, C., & Verdi, R. (2013). Adopting a Label: Heterogeneity in the Economic Consequences Around IAS/IFRS Adoptions. *Journal of Accounting Research*, *51*(3), 495–547. https://doi.org/10.1111/1475-679X.12005

De George, E. T., Li, X., & Shivakumar, L. (2016). A review of the IFRS adoption literature. In *Review of Accounting Studies* (Vol. 21). https://doi.org/10.1007/s11142-016-9363-1

De Vlaminck, N., & Sarens, G. (2015). The relationship between audit committee characteristics and financial statement quality: evidence from Belgium. *Journal of Management and Governance*, *19*(1), 145–166. https://doi.org/10.1007/s10997-013-9282-5

DeAngelo, L. E. (1981). Auditor size and audit fees. *Journal of Accounting and Economics*, *3*, 183–199.

Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. *The Accounting Review*, *70*(20), 193–225.

Defond, M. L., & Jiambalvo, J. (1991). Incidence and Circumstances of Accounting Errors. *Accounting Review*, *3*(66), 643–655.

Dhaliwal, D., Naiker, V., & Navissi, F. (2010). The association between accruals quality and the characteristics of accounting experts and mix of expertise on audit committees. *Contemporary Accounting Research*, *27*(3), 787–827. https://doi.org/10.1111/j.1911-3846.2010.01027.x

Dillard, J. F., Rigsby, J. T., & Goodman, C. (2004). The making and remaking of organization context Duality and the institutionalization process. *Accounting, Auditing & Accountability Journal*, *17*(4), 506–542. https://doi.org/10.1108/09513570410554542

DiMaggio, P. J., & Powell, W. (1983). The iron cage revisited: institutional isomorphism in organizational fields. *American Sociological Review*, *48*(2), 147–160.

Duru, A., Hasan, I., Song, L., & Zhao, Y. (2018). Bank accounting regulations, enforcement mechanisms, and financial statement informativeness: cross-country evidence1. *Accounting and Business Research*, 1–35. https://doi.org/10.1080/00014788.2017.1415801

ESMA. (2017a). Peer Review on Guidelines on Enforcement of Financial Information. In *ESMA 42-111-4138* (Issue July).

ESMA, E. S. and M. A. (2017b). ESMA recommends improvements in financial information enforcement. In *Press release July 18, 2017*.

ESMA, E. S. and M. A. (2018a). *Enforcement and Regulatory Activities of Accounting Enforcers in 2017* (Issue April).

ESMA, E. S. and M. A. (2018b). ESMA continues to focus on convergence in enforcement of IFRS across the EU. In *Press release April 3, 2018*.

ESMA, E. S. and M. A. (2019). *Enforcement and regulatory activities of European enforcers in 2018* (Issue April). www.esma.europa.eu

ESMA, E. S. and M. A. (2020). Enforcement and regulatory activities of European enforcers in 2019. In *European Securities and Market Authority* (Issue April). www.esma.europa.eu

Eutsler, J., Nickell, E. B., & Robb, S. W. G. (2016). Fraud risk awareness and the likelihood of audit enforcement action. *Accounting Horizons*, *30*(3), 379–392. https://doi.org/10.2308/acch-51490

FEE, F. des E. C. E. (2001). *Enforcement Mechanisms in Europe EU: A Preliminary Investigation of Oversight Systems* (Issue April).

Florou, A., & Pope, P. F. (2012). Mandatory IFRS adoption and institutional investment decisions. *Accounting Review*, *87*(6), 1993–2025. https://doi.org/10.2308/accr-50225

García, L. S., Barbadillo, E. R., & Pérez, M. O. (2012). Audit committee and internal audit and the quality of earnings: Empirical evidence from Spanish companies. *Journal of Management and Governance*, *16*(2), 305–331. https://doi.org/10.1007/s10997-010-9152-3

Ghosh, A., Marra, A., & Moon, D. (2010). Corporate Boards, Audit Committees, and Earnings Management: Pre- and Post-SOX Evidence. *Journal of Business Finance and Accounting*, *37*(9–10), 1145–1176. https://doi.org/10.1111/j.1468-5957.2010.02218.x

Glaum, M., Schmidt, P., Street, D. L., & Vogel, S. (2013). Compliance with IFRS 3-and IAS 36-required disclosures across 17 European countries: Company-and country-level determinants. *Accounting and Business Research*, *43*(3), 163–204. https://doi.org/10.1080/00014788.2012.711131

Gonçalves, R. (2000). Enforcement - O que é? Qual a importância do ROC? *Revisores & Empresas*, *Jul/Set 20*, 56–59.

Gramling, A., Maletta, M., Schneider, A., & Church, B. (2004). The Role of the Internal Audit Function in Corporate Governance. *Journal of Accounting Literature*, *23*, 194–244.

Gros, M., & Nevrela, A. (2020). Revisiting the effectiveness of the German accounting enforcement reforms: a replication study. *Management Review Quarterly*, *70*(1), 135–164. https://doi.org/10.1007/s11301-019-00162-9

Gu, Z., Ng, J., & Tsang, A. (2019). Mandatory IFRS adoption and management forecasts: The impact of enforcement changes. *China Journal of Accounting Research*, *12*(1), 33–61. https://doi.org/10.1016/j.cjar.2018.09.001

Guerreiro, M. (2009). *Enforcement - Como Garantir a Correcta Aplicação Das Normas Internacionais De Contabilidade?* Revista TOC. http://www.otoc.pt/fotos/editor2/RevistaTOC114.pdf

Guerreiro, M., Rodrigues, L. L., & Craig, R. (2020). Institutional theory and IFRS : an agenda for future research. *Spanish Journal of Finance and Accounting*, *00*(00), 1–24. https://doi.org/10.1080/02102412.2020.1712877

Hail, L., Tahoun, A., & Wang, C. (2014). Dividend Payouts and Information Shocks. *Journal of Accounting Research*, *52*(2), 403–456. https://doi.org/10.1111/1475-679X.12040

Hayes, R. M. (2014). Discussion of "Audit committee financial expertise and earnings management: The role of status" by Badolato, Donelson, and Ege (2014). *Journal of Accounting and Economics*, *58*(2–3), 231–239. https://doi.org/10.1016/j.jacceco.2014.08.005

Hitz, J.-M., Ernstberger, J., & Stich, M. (2012). Enforcement of Accounting Standards in Europe: Capital-Market-Based Evidence for the Two-Tier Mechanism in Germany. *European Accounting Review*, *21*(2), 253–281. https://doi.org/10.1080/09638180.2011.641727

Horton, J., Serafeim, G., & Serafeim, I. (2013). Does mandatory IFRS adoption improve the information environment? *Contemporary Accounting Research*, *30*(1), 388–423. https://doi.org/10.1111/j.1911-3846.2012.01159.x

Houqe, M. N., van Zijl, T., Dunstan, K., & Karim, A. K. M. W. (2012). The Effect of IFRS Adoption and Investor Protection on Earnings Quality Around the World. *International Journal of Accounting*, *47*(3), 333–355. https://doi.org/10.1016/j.intacc.2012.07.003

Hung Chan, K., & Wu, D. (2011). Aggregate Quasi Rents and Auditor Independence: Evidence from Audit Firm Mergers in China. *Contemporary Accounting Research*, *28*(1), 175–213. https://doi.org/10.1111/j.1911-3846.2010.01046.

IPCG, I.P. de C.G. (2020), Código de Governo Das Sociedades, Instituto Português de Corporate Governance.

Jackson, H. E., & Roe, M. J. (2009). Public and private enforcement of securities laws: Resource-based evidence. *Journal of Financial Economics*, *93*(2), 207–238. https://doi.org/10.1016/j.jfineco.2008.08.006

Jia, C., Ding, S., Li, Y., & Wu, Z. (2009). Fraud, enforcement action, and the role of corporate governance: Evidence from China. *Journal of Business Ethics*, *90*(4), 567–576. https://doi.org/10.1007/s10551-009-0061-9

Jones, J. J. (1991). Earnings Management During Import Relief Investigations. *Journal of Accounting Research*, *29*(2), 193. https://doi.org/10.2307/2491047

Kabir, H., & Laswad, F. (2015). The Impact of Improvements in Institutional Oversight on IFRS Accrual Quality in Europe. *Australian Accounting Review*, *25*(4), 428–444. https://doi.org/10.1111/auar.12084

Kavanagh, M. (2017). An overview of accounting enforcement in Europe. *Accountancy Ireland*, *49*(June), 42–43.

Key, K. G., & Youn, J. (2020). IFRS and accounting quality : Additional evidence from Korea. *Journal of International Accounting, Auditing and Taxation*, *39*, 1–12. https://doi.org/10.1016/j.intaccaudtax.2020.100306

Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics*, *33*(3), 375–400. https://doi.org/10.1016/S0165-4101(02)00059-9

Kleinman, G., Lin, B. B., & Bloch, R. (2019). Accounting enforcement in a national context: an international study. *International Journal of Disclosure and Governance*, *16*(1), 47–67. https://doi.org/10.1057/s41310-019-00056-y

Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance matched discretionary accrual measures. *Journal of Accounting and Economics*, *39*(1), 163–197. https://doi.org/10.1016/j.jacceco.2004.11.002

Kury, K.W. (2007), “Decoupled earnings: An institutional perspective of the consequences of maximizing shareholder value”, Accounting Forum, Vol. 31 No. 4, pp. 370–383.

Kusnadi, Y., Leong, K. S., Suwardy, T., & Wang, J. (2016). Audit Committees and Financial Reporting Quality in Singapore. *Journal of Business Ethics*, *139*(1), 197–214. https://doi.org/10.1007/s10551-015-2679-0

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, *106*(6), p1113, 42p. http://amr.aom.org/content/23/3/393.short%5Cnhttp://www.researchgate.net/publication/50313187_Not_So_Different_After_All_A_Cross-Discipline_View_of_Trust/file/e0b495224ede519d7a.pdf

Landsman, W. R., Maydew, E. L., & Thornock, J. R. (2012). The information content of annual earnings announcements and mandatory adoption of IFRS. *Journal of*

Accounting and Economics, *53*(1–2), 34–54. https://doi.org/10.1016/j.jacceco.2011.04.002

Lazzem, S., & Jilani, F. (2018). The impact of leverage on accrual-based earnings management: The case of listed French firms. *Research in International Business and Finance*, *44*(January 2017), 350–358. https://doi.org/10.1016/j.ribaf.2017.07.103

Li, S. (2010). Does Mandatory Adoption of International Financial Reporting Standards in the European Union Reduce the Cost of Equity Capital?. *Accounting Review*, *85*(2), 607–636. http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=48750137&lang=ja&site=ehost-live&scope=site

Lin, J. W., & Hwang, M. I. (2010). Audit Quality, Corporate Governance, and Earnings Management: A Meta-Analysis. *International Journal of Auditing*, *14*(1), 57–77. https://doi.org/10.1111/j.1099-1123.2009.00403.x

Lisic, L. L., Myers, L. A., Seidel, T. A., & Zhou, J. (2019). Does Audit Committee Accounting Expertise Help to Promote Audit Quality? Evidence from Auditor Reporting of Internal Control Weaknesses. *Contemporary Accounting Research*, *36*(4), 2521–2553. https://doi.org/10.1111/1911-3846.12517

Lopes, P. T., & Rodrigues, L. L. (2007). Accounting for financial instruments: An analysis of the determinants of disclosure in the Portuguese stock exchange. *International Journal of Accounting*, *42*(1), 25–56. https://doi.org/10.1016/j.intacc.2006.12.002

Mantzari, E., & Georgiou, O. (2019). Ideological hegemony and consent to IFRS: Insights from practitioners in Greece. *Critical Perspectives on Accounting*, *59*, 70–93. https://doi.org/10.1016/j.cpa.2018.06.003

Meyer, J.W. and Rowan, B. (1977), “Institutionalized Organizations : Formal Structure as Myth and Ceremonyl”, *The American Journal of Sociology*, Vol. 83 No. 2, pp. 340–363.

Morais, A. I., & Curto, J. D. (2008). Accounting quality and the adoption of IASB standards: portuguese evidence. *Revista Contabilidade & Finanças*, *19*(48), 103–111. https://doi.org/10.1590/s1519-70772008000300009

Moura, A. A. F. de, & Gupta, J. (2019). Mandatory adoption of IFRS in Latin America: A boon or a bias. *Journal of International Financial Markets, Institutions and Money*, *Article in*. https://doi.org/10.1016/j.intfin.2018.12.016

Nurunnabi, M. (2014). The role of the Securities and Exchange Commission in a developing economy: Implications for IFRS. *Advances in Accounting*, *30*(2), 413–424. https://doi.org/10.1016/j.adiac.2014.09.018

Oliveira, J., Azevedo, G., & Oliveira, B. (2018). Impairment Losses: The Impact of First-time Adoption of the Accounting Standardisation System in Portugal. *Australian Accounting Review*, *28*(4), 556–576. https://doi.org/10.1111/auar.12221

Oliveira, L., Rodrigues, L. L., & Craig, R. (2010). Intangible assets and value relevance: Evidence from the Portuguese stock exchange. *British Accounting Review*, *42*(4), 241–252. https://doi.org/10.1016/j.bar.2010.08.001

Oz, I. O., & Yelkenci, T. (2018). Examination of real and accrual earnings management: A cross-county analysis of legal origin under IFRS. *International Review of Financial Analysis*, *58*, 24–37. https://doi.org/.1037//0033-2909.I26.1.78

Paananen, M., & Lin, H. (2009). The Development of Accounting Quality of IAS and IFRS over Time: The Case of Germany. *Journal of International Accounting Research*, *8*(1), 31–55.

Peña, H. F. P., & Franco, J. B. (2017). Impact of IFRS on the quality of financial information in the United Kingdom and France: Evidence from a new perspective. *Intangible Capital*, *13*(4), 850–878. https://doi.org/10.3926/ic.939

Preiato, J., Brown, P., & Tarca, A. (2015). A Comparison of Between-Country Measures of Legal Setting and Enforcement of Accounting Standards. *Journal of Business Finance & Accounting*, *42*(1–2), 1–50. https://doi.org/10.1111/jbfa.12112

Quagli, A., Avallone, F., Ramassa, P., & Motta, L. (2018). Measuring the Effectiveness of National Enforcers in the IFRS Context: A Proactive Approach. *International Business Research*, *11*(6), 151. https://doi.org/10.5539/ibr.v11n6p151

Quagli, A., Lagazio, C., & Ramassa, P. (2020). From enforcement to financial reporting controls (FRCs): a country-level composite indicator. *Journal of Management and Governance*, *0123456789*. https://doi.org/10.1007/s10997-020-09518-w

Richardson, A.J. (1987), “Accounting as a legitimating institution”, Accounting, Organizations and Society, Vol. 12 No. 4, pp. 341–355.

Rodrigues, L. L., Tejedo-Romero, F., & Craig, R. (2017). Corporate governance and intellectual capital reporting in a period of financial crisis: Evidence from Portugal. *International Journal of Disclosure and Governance*, *14*(1), 1–29. https://doi.org/10.1057/jdg.2015.20

Robu, L. B., Carp, M., Popescu, C. C., Pavaloaia, L., Istrate, C., & Georgescu, I. E. (2016). The country risk influence on accounting quality in the case of romanian listed companies. *Transformations in Business and Economics*, *15*(3C), 597–616.

Saona, P., Muro, L., & Alvarado, M. (2020). How do the ownership structure and board of directors’ features impact earnings management? The Spanish case. *Journal of International Financial Management and Accounting*, *31*(1), 98–133. https://doi.org/10.1111/jifm.12114

Suchman, M.C. (1995), “Managing Legitimacy : Strategic and Institutional Approaches”, The Academy of Management Review, Vol. 20 No. 3, pp. 571–610.

Sun, J., Lan, G., & Liu, G. (2014). Independent audit committee characteristics and real earnings management. *Managerial Auditing Journal*, *29*(2), 153–172. https://doi.org/10.1108/MAJ-05-2013-0865

Tokar, M. B. (2016). ‘IFRS – ten years later’: A standard-setter’s view. *Accounting and Business Research*, *46*(5), 572–576. https://doi.org/10.1080/00014788.2016.1182708

Van Tendeloo, B., & Vanstraelen, A. (2008). Earnings management and audit quality in Europe: Evidence from the private client segment market. *European Accounting Review*, *17*(3), 447–469. https://doi.org/10.1080/09638180802016684

Velte, P. (2018). Is audit committee expertise connected with increased readability of integrated reports: Evidence from EU companies. *Problems and Perspectives in Management*, *16*(2), 23–41. https://doi.org/10.21511/ppm.16(2).2018.03

Zalata, A. M., Tauringana, V., & Tingbani, I. (2018). Audit committee financial expertise, gender, and earnings management: Does gender of the financial expert matter? *International Review of Financial Analysis*, *55*(March 2017), 170–183.

https://doi.org/10.1016/j.irfa.2017.11.002

Zeghal, D., Chtourou, S. M., & Fourati, Y. M. (2012). The Effect of Mandatory Adoption of IFRS on Earnings Quality: Evidence from the European Union. *Journal of International Accounting Research*, *11*(2), 1–25. https://doi.org/10.2308/jiar-10221

Conclusion

"It always seems impossible until it's done"

Nelson Mandela

The importance of the enforcement of accounting standards has been largely recognized, as only through compliance with accounting standards can the quality of financial information be achieved. Nevertheless, the problem has been the lack of studies analyzing the actual enforcement practices of the countries.

This thesis makes a contribution to fill this gap, aiming to know how Portuguese enforcers act to ensure compliance with accounting standards, and to realize the impact of this enforcement on the quality of financial information. Accordingly, considering three research questions established at the forefront, it begins by identifying the current state of research on the relationship between IFRS enforcement and accounting quality; then, it follows to understanding how the Portuguese enforcers act to ensure compliance with accounting standards (IFRS and SNC); finally, it analyzes the impact of three levels of enforcement (audit committee, external audit, and oversight system) on the quality of financial reporting.

This final chapter summarizes the main findings of the thesis, answering the research questions established in the introduction. In addition, it also presents the core contributions and practical implications of the research, as well as limitations and perspectives for future research.

Conclusion

1. Main findings

Paper 1 aimed to answer *RQ1 – What is the current state of research on the relationship between IFRS enforcement and accounting quality?*, using a structured literature review, whereby we identify, recap and analyze the state of the art of the research, providing a critical overview of published trends in this field and identifying future areas of interest.

We concluded that there is a shortage of studies analyzing IFRS enforcement practices in individual countries and, in turn, on the impact these practices may have on the accounting quality. The study also demonstrated that most studies use quantitative methodologies, evidencing a lack of qualitative studies to understand the level of enforcement in each country.

With the above in mind, in order to fill the gap in the literature concerning the lack of studies about countries' enforcement practices, papers 2 and 3 answer *RQ2 – How Portuguese enforcers, at different levels, act to ensure compliance with the business accounting standards, either national or international?*. Overall, the two papers sought to understand how IFRS enforcers and SNC enforcers respectively act to ensure compliance with accounting standards.

In paper 2 we found that CMVM is the central enforcer. Signification and legitimation structures required CMVM to adopt the guidelines on enforcement of financial information published by ESMA. With this legitimacy, the actor (CMVM) exercise structures of domination (capacity to organize and coordinate the activities of social actors) and significance (semantic codes, interpretive schemes, and discursive practices) across the various institutional levels (OROC and statutory auditors of public-interest entities), allowing them, too, to gain legitimacy in their actions. However, regarding OCC, due to bidirectional pressures between the levels of action, there is a significant part of the control of compliance with IFRS which, although provided for by law, is not being exercised. Pressure from certified accountants on the OCC to eliminate accounting quality control has been made possible by the lack of economic and political pressures over the OCC. Thus, decoupling seems to exist between criteria and practices, leading to a deinstitutionalization of the practice of enforcement (Oliver, 1992). Considering several recent scandals with Portuguese banks and the empirical data collected, the study shows that, although the enforcement mechanisms are provided for in the Portuguese legislation, they may not be working in practice.

On the study of SNC enforcement in Portugal, paper 3 showed that, although the criteria are defined at the economic and political levels, control is not being effective. The CNC is the body responsible for the elaboration of the national accounting standards (SNC) and responsible for the control of its implementation. However, although the enforcement criteria and procedures are defined, they have not been put into practice (decoupling), as CNC is not fulfilling its duties to control the application of accounting standards. At the organizational field level, although the quality control system for statutory auditors is being applied, this is not the case for the quality control of certified accountants, having led to the suspension of an important part of the control. Currently, companies that are not required to have audited accounts are not being subject to enforcement of accounting standards. This means that, for a vast majority of Portuguese companies, there is not any direct control of the accounting standards (SNC) implementation. Only indirectly the Tax Authority (AT) exerts some control over the implementation of SNC. This calls into question the enforcement system of the country and the true and proper view to be offered by the companies' financial statements.

Paper 4 addresses *RQ3 – How enforcement, considered at different levels, impact the quality of companies' financial reporting?*, by empirically testing the impact of three levels of enforcement: corporate governance (audit committee), external audit (statutory auditor) and the oversight system (CMVM) on the quality of financial reporting, in the Portuguese context. Major conclusions were:

- The independence of the audit committee, in addition to conferring legitimacy to its actions, has a positive impact on the quality of financial reporting, i.e., more independence implies better quality and vice versa.
- Contrary to what we have expected, the more experienced the audit committee's members are, the more earnings management there is. Thus, more expertise implies lower quality financial reporting, indicating experience may be used to increase earnings manipulation. The experience of the members of the audit committee offers legitimacy to the effective performance of this enforcer. In turn,

the audit committee, being experienced in the control of accounting standards, provides legitimacy to the company's performance in the market.

- Auditors have a very important role in the enforcement of accounting standards, given that companies audited by the so-called BIG4 have a lower magnitude of discretionary accruals, increasing the quality of financial reporting. Indeed, auditors have to be effective, to legitimize the market image and size of their companies.
- Considering that there is a great proximity between the company's audit committee and the external auditor, our results show that the association of the two enforcers (audit committee and BIG4 auditor) has a negative and significant impact on the discretionary accruals, hence increasing the accounting quality.
- Finally, we found no evidence that the supervisory system, represented by the CMVM as a security market regulator, has impact on the quality of financial information. In addition to being recent (as there is only data published since 2017), although the CMVM accounting enforcement system is being practiced, as shown in paper 2, it does not yet seem to be working properly, as there is no statistical evidence of any impact on the quality of companies' financial information reports.

2. Contributions and implications for practice

This thesis is composed of a set of four research papers. By using a variety of methodologies (qualitative and quantitative), as well as different perspectives of the institutional theory in the research process, the study contributes to a better understanding of the enforcement of accounting standards in Portugal and of its impact on the quality of financial information.

Throughout the various papers, relevant contributions to knowledge and practice have been made in the areas of accounting.

The first paper identifies a clear gap in the literature – the shortage of studies analyzing enforcement practices of each country and, in turn, the impact these practices may have on the accounting quality. This gap calls for further research on the effectiveness of the IFRS-related enforcement mechanisms implemented by each country, namely, to understand the existing bodies (enforcers), in particular those which, in the country, are responsible for enforcing IFRS and the procedures that have been adopted to exercise such control. This understanding is also important to analyze the impact of enforcement practices on IFRS implementation and ultimately on accounting quality.

The second and third studies provide interesting addition to the theory, by using the model of Dillard et al. (2004) and the concept of deinstitutionalization of Oliver (1992) to explain the behavior of accounting enforcers, which has never been done before, contributing to expand the power of explanation of the institutional theory.

As to contributions for practice, we underline the leading role of ESMA but, at the same time, we show evidence from Portugal, that enforcers in member states may not be working as they should, so the quality of IFRS-based financial information ultimately published may not be as expected. Therefore, our research is of particular interest to standard-setting bodies, regulators, enforcers, and users of financial information, especially in Europe, inasmuch as it may support policy-making in terms of accounting standards enforcement regulations.

Another important implication for practice to derive from this study is that, in countries such as Portugal, where the standard-setter (CNC) ends up to have weak enforcement power, tax authorities need to ensure the control of implementation of national accountings standards, hence safeguarding that accounting and financial reporting quality is attained.

Moreover, while highlighting that enforcement mechanisms are provided for in the Portuguese legislation, but they may not be working in practice, this research points out the need of Portuguese authorities to establish policies to make IFRS enforcement more effective, particularly regarding banks and insurance companies, and unlisted companies that are using IFRS.

Finally, our fourth paper also presents contributions at several levels. It firstly uses institutional theory to understand the effect of enforcement on the quality of financial information. It then presents itself as a study that is useful for understanding the real impact of different levels of enforcers on the quality of financial information in a particular country.

3. Limitations

Limitations are presented in this section associated with each of the papers developed, considering that a research study is always an ongoing work that we hope to resolve in future research.

For paper 1 the main limitation to be pointed out concerns the fact that only the journals listed by JCR were used, which may have led to ignoring important papers on the subject. Another limitation concerns the use of the term "accounting quality" in a broad sense, which may have prevented a greater focus on the quality of financial reporting.

As to paper 2, one the main limitation was that no interview was obtained from the *Banco de Portugal*, one of the main enforcers for the financial sector, so the analysis on this enforcer action was carried out using documentary sources only. As in paper 3, the fact that it is a study of a single country may be also a limitation. In addition, all the drawbacks pointed to qualitative studies may also be present in both of these papers.

Regarding paper 4, one limitation may relate to the small number of companies, which may influence the results. However, this limitation is justified by the fact that the Portuguese capital market is very small. Another, perhaps more important, limitation relates to the small number of years include in the analysis. This was impossible to overcome at this stage, due to the lack of available data for the calculation of the variable representing the oversight system enforcement. Despite robustness tests, the main findings may have been compromised.

4. Opportunities for future research

The model presented in Figures 2.1 and 3.1 of the enforcement systems can be considered as a theoretical contribution, since it can be easily adapted to other countries. Future research could use the adaptation of the Dillard et al. (2004) model derived in this thesis and replicate this study in other countries to allow international comparisons of the institutional dynamics between different national states. Such studies would help to increase knowledge about the actual enforcement practices of each country, linking up with different institutional levels.

Furthermore, theoretically, development in institutional theory maybe extended to assume *enforcement as a legitimating institution*.

In addition, there are some possibilities of future research related to the fourth study. Empirically, it may be extended to other European countries in order to make also comparative analyses between the levels of enforcement. A total of 15 years have meanwhile elapsed since the mandatory adoption of IFRS in the EU, recommending the implementation of enforcement mechanisms to ensure that accounting standards are applied correctly. However, this neither means that these mechanisms have been implemented, nor, if implemented, that they are working properly. Further empirical data are needed to be gathered to assess the degree of the oversight systems enforcement across EU countries, allowing for more elaborated quantitative analysis of impact on accounting quality.

All in all, we believe that this thesis will serve as a basis and inspiration for future research, in the sense that it will increase knowledge on this important subject useful in other countries.

References

Dillard, J. F., Rigsby, J. T., & Goodman, C. (2004). The making and remaking of organization context Duality and the institutionalization process. *Accounting, Auditing & Accountability Journal*, *17*(4), 506–542. https://doi.org/10.1108/09513570410554542

Oliver, C. (1992). The Antecedents of Deinstitutionalization. *Organization Studies*, *13*(4), 563–588.