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L'évolution d'une profession comptable globale: Une étude comparative historique en quelques pays européens

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Résumé: Tandis qu'il est maintenant évident qu'une profession comptable globale évoluait en réponse à la croissance du capitalisme global, une étude historique de l'évolution de la profession comptable suggérerait que l'évolution de la profession n'était pas lisse ou constante, et que l'état jouait un rôle significatif dans cette évolution. Si le statut légal en ce qui concerne les audits externe des comptes annuels, qui ont trouvé son début au mi 19ème siècle, a présenté une occasion pour la croissance d'une profession globale, la concurrence économique parmi les nations et les conflits militaires pendant le 19ème et les 20èmes siècles empêchaient la création d'une profession comptable véritablement globale. D'ailleurs, les façons dont la profession émergeait et évoluait par le temps ont différé dans différents pays, et c'est seulement pendant des périodes récentes qu'il y a des efforts significatifs d'harmoniser les structures de normalisation de la profession dans différents pays. Une étude comparative historique de l'évolution de la profession comptable dans quelques pays européen constitue le but de cet article.

Mot clés: histoire de l'audit, profession comptable, France, Royaume Unis, Allemagne

Abstract: While it is now evident that a global accounting profession has evolved in response to the growth of global capitalism, an historical survey of the evolution of the accounting profession suggests that the evolution of the accounting profession has not been smooth or constant, and that the State has played a significant role in this evolution. The legal requirement for external audits of company financial statements, which found its inception in the mid-19th century, provided an opportunity for the growth of a global accounting profession, but economic competition among nation states and frequent military conflict during the 19th and 20th centuries inhibited the creation of a truly global profession. Moreover, the ways in which the profession emerged and evolved through time have differed in different countries, and it is only during recent periods that there have been significant efforts to harmonize the regulatory structures for the profession in different countries. A comparative historical survey of the evolution of the accounting profession in several major countries constitutes the primary focus of this paper.

Key words: history of auditing, accounting profession, France, United Kingdom, Germany

1. Introduction

Previous research in accounting history has demonstrated that the practice of accounting has existed as a central component of both public and private governance throughout recorded history (Mouck, 2004; Ezzamel and Hoskin, 2002). It is important to recognize, however, that the evolution of accounting as a global profession can be traced to more recent periods, perhaps beginning in the late 19th and 20th centuries. While it is now apparent that a global accounting profession exists, an historical analysis of the evolution of the accounting profession indicates that this evolution not been smooth or constant, and that the state has played a significant role in the development of the accounting profession.

Braudel (1985) maintains that capitalism can exist only where the state favors its development. He goes on to emphasize that the existence of a capitalist economy presupposes positive acts on the part of the state, because only the state can enact legislation to assure the rights of private property which are essential to capitalist activity. Thus, even though there was a significant need for capital during the industrial revolutions of the late 18th and early 19th centuries, legal impediments prevented the formation of limited liability companies and inhibited capital formation as well as the growth of the accounting profession (Johnston, 2005). Furthermore, during large portions of the 19th and 20th centuries, nation states were engaged in economic competition and military conflict. This economic competition and military conflict was often linked with capitalist expansion and ideological resistance to such expansion (Chavance, 2000). Removal of restrictions on the formation of limited liability companies, and various other positive acts on the part of the state (Braudel, 1985), provided linkages between political rationalities that favored economic liberalism and legal technologies which facilitated capital formation. The origins of professional accounting as an important component of corporate governance can thus be linked with the advent of the joint-stock company as a principal form of business enterprise (Roslender, 1992). Legal requirements for external audits provided an opportunity for the growth of the accounting profession, but the ways in which the profession evolved have differed in different countries. These differences constitute the primary focus of our paper. The remainder of the paper is organized as follows. The next section addresses several theoretical issues related to a discussion of the evolution of accounting as a global profession. The following three sections address the evolution of the accounting profession in the United Kingdom, France and Germany, respectively. As discussion and conclusion then follow.

2. Theoretical issues concerning the evolution of a global profession

The first theoretical issue which arises when addressing the evolution of accounting as a profession relates to definition of a profession, and more precisely, the definition of the accounting profession. The definition of what constitutes a profession has been the subject of a great deal of prior research and debate in the sociology literature (see for example: Abbot, 1983). It is largely beyond the scope of this paper to examine that literature in any detail. In a general sense, a profession arises when a particular occupation becomes recognized by a legal jurisdiction, such as a nation state, as having certain monopoly rights in a specific area of practice, accompanied by the establishment of formal qualifications for entry into the profession based upon education, apprenticeship, and/or examinations, along with the emergence of regulatory bodies with powers to admit and discipline members (Bullock and Trombley, 1999, p. 689). Various occupational groups have been recognized as professions through time, with law and medicine and the clergy being historically included among the recognized professions. Accounting has often been included among the recognized professions since the early to mid-20th century.

At the same time, the definition of what constitutes the accounting profession varies from country to country. For example, in the United Kingdom there are more than two hundred thousand members of recognized professional bodies who are considered to be professional accountants; but only a small number of those individuals are actually engaged in the practice of public accounting (Mikol and Standish, 1996). By contrast, in Germany, a *Wirtschaftsprüfer* can only function in the public practice of auditing. If a public accountant in Germany decides to leave the practice of auditing, he or she must resign the designation of *Wirtschaftsprüfer*. The number of professional public accountants in Germany is therefore considerably smaller than it is in the United Kingdom. In France, statutory auditors must be members of the *Compagnie Nationale des Commissaires aux Comptes* (CNCC). While nearly all members of the CNCC are also *Experts Comptables* (i.e. similar to a Chartered Accountant in the UK), most *Experts Comptables* are not auditors. The number of statutory auditors in France is therefore comparable to the number in Germany. In order to establish a reasonable scope for this paper, our focus will be limited to the segment of the accounting profession that provides auditing services, and in particular the provision of statutory audits (i.e. those required by law).

During the 19th century, emerging accounting professions began to evolve in many industrialized countries; however, this evolution differed in different countries. In Great Britain, the accounting profession was organized through private sector institutes. While these institutes were able to obtain state recognition through royal charters, they were not formally regulated by the British state. In France, the regulation of professional accountants and auditors has been divided between the *Ordre des Experts Comptable* (for professional accountants) and the *Compagnie Nationale des Commissaires aux Comptes* (CNCC)(for statutory auditors), with both bodies being strictly regulated by the state. In Germany the regulation of professional accountants and auditors has been conducted through quasi-governmental bodies (e.g. the *Wirtschaftsprüferkammer*) which operate pursuant to law and regulation.

A second theoretical issue that arises in a discussion of the evolution of accounting profession relates to the definition of an audit, and in particular, a statutory audit. While certain forms of auditing (tax audits) have existed throughout history, financial statement audits are of more recent origin, dating perhaps to the beginning of the 19th century. Financial statement audits were originally focused on the balance sheet, and they were not conducted by professional accountants; instead a subset of shareholders was appointed to act as auditors on behalf of other shareholders. The requirement for financial statement audits began to be incorporated in various company laws enacted in Great Britain, France and Germany during 19th century, but in many cases these laws did not specify that the audits had to be performed by professional accountants. However, this type of legislation provided an opportunity for the development of an accounting profession focused on the provision of auditing services (Lefebvre-Teillard, 1982; Micklethwait and Wooldridge, 2003).

A third theoretical issues that arises in a discussion of the evolution of accounting as a global profession, involves the classification of financial reporting systems in different countries. A great deal of prior research has compared differences in financial reporting systems among countries (see for example: Bloom and Naciri 1989; Douppnik 1987; Hopwood 1989; Hopwood, et al. 1979; Nobes and Parker 1995; Taylor, et al. 1986; Willmott, et al. 1992). Nobes and Parker (1995), for example, state that two types of financial reporting systems have developed through time, the “micro/professional” system (Model A) and the “macro/uniform system” (Model D). In the micro/professional system (Model A), the primary providers of capital are individuals, while in the macro/uniform system (Model D), the primary

providers of capital are banks and governments. In the micro/professional system, corporate governance is delegated to professional managers and directors, while in the macro/uniform system, corporate governance is the responsibility of supervisory boards comprised of representatives of shareholder and creditor groups, trade unions and government. In the micro/professional system the legal framework is provided by common law, while in the macro/uniform system the legal framework is based on codified law derived from Roman antecedents. Model A represents the extreme end of the micro/professional system, and Model D represents the extreme end of the macro/uniform systems. There are also intermediate Models B and C which can be placed between these extremes (see Figure 1). Nobes and Parker have used their classification scheme to categorize the financial reporting systems of the United Kingdom and Germany, among other countries (see Figure 2).

FIGURE 1 NATURE OF THE ENVIRONMENT				
FACTOR	MODEL A	B	C	MODEL D
1. Providers of finance	Individual/institutional investors		→	Bank/state/family
2. Corporate governance	Managers/directors		→	Supervisory board/state
3. Legal system	Common law		→	Codified/Roman
4. Taxation	Little influence		→	Larger influence
5. Profession/state	Large/powerful Profession		→	State dominance

Pursuant to the Nobes and Parker model, the United Kingdom and Germany stand at opposite ends of a spectrum, with the classification of France being closer to that of Germany. The differences between the financial reporting systems of countries can be traced to various factors, including differences in: legal systems; traditional sources of capital; roles played by commercial banks; standards setting; corporate governance; and the impact on financial reporting of laws regarding income taxation and dividend payments (see for example Mueller 1967; Nair and Frank 1980; Nobes 1983, 1992; Gray 1988; Perera 1989; Evans and Nobes 1998 a, b).

FIGURE 2 CLASSIFICATION OF COUNTRIES BASED ON ENVIRONMENTAL FACTORS					
	FACTORS				
COUNTRIES	1	2	3	4	5
United Kingdom	A	A	A	A	A
France	C	D	D	C	D
Germany	D	D	D	D	D

The primary argument of this paper is that the historical factors that have led to differences in financial reporting systems have also led to differences in the regulation of professional accountants and auditors. Shareholders are the traditional providers of capital in the United Kingdom. Long before state involvement in the regulation of statutory auditing, shareholders in the UK demanded the issuance of financial statements audited by external auditors (Benston, 1973). Consequently, professional accounting and auditing in the UK developed in the private sector under the aegis of professional accounting institutes. In Germany, banks and insurance companies are the traditional providers of capital. These entities have been granted legal rights to representation on the supervisory boards of major companies. Consequently, the regulation of professional accountants and auditors in Germany evolved in response to the needs of large institutional investors such as banks and insurance companies. The experience in France has been mixed, with historical periods in which the French government encouraged capitalist development and periods in which the state nationalized major enterprises. Consequently, the regulation of professional accounting and auditing in France evolved largely as a result of national legislation and government decrees.

In summary, differences in the underlying historical factors, which have led to differences in the development of financial reporting systems, have also led to differences in the regulation of professional accounting and auditing. In the United Kingdom, the regulation of accounting has been conducted through private sector professional bodies. In both Germany and France the regulation of professional accountants and auditors has been conducted pursuant to law and regulation.

3. United Kingdom

Roslender (1992) indicates that the origins of professional accounting and auditing in the United Kingdom can be traced to the rise of the joint-stock company. Joint-stock companies originated in Great Britain during the reign of Elizabeth I. These companies obtained royal charters granting monopolies to exploit trading opportunities in the Americas and other parts of the world. One of the oldest British joint-stock companies was the *Honorable East India Company*, formed to trade with India and China. In 1600, this company was granted a Royal Charter by Elizabeth I under the name the *Governor and Company of Merchants of London Trading into the East Indies*.

While the *East India Company* had a monopoly of trade with east Asia, it also governed large parts of the Indian subcontinent, exercising military powers and functioning as a virtual arm of the British state. Effectively, the *East India Company* ruled India until 1855, when the British crown assumed direct control. Hence, while the original focus of the British state was on revenue generation, this evolved over time into a political rationality which advocated military competition and territorial expansion of the British Empire. The legal innovation of the joint-stock company, combined with a monopoly in certain areas of trade granted by royal charter, was used repeatedly by the British state to facilitate the commercial exploitation of colonial territories. An example of this form of legal technology with wide ranging consequences was the founding of the Massachusetts Bay colony as a joint-stock company in 1622, thereby making it the first corporate entity in British North America (Morison, 1930). During the American colonial period, many similar entities were formed both for private and public purposes as joint-stock companies, including toll roads, canals, and other types of enterprises.

Watts and Zimmerman (1983) indicate that the practice of using professional accountants as external auditors did not become common in the United Kingdom until the latter part of the 19th century. The *Joint Stock Companies Act 1844* was the first piece of British legislation to include a requirement that limited liability joint-stock companies must issue audited financial statements to their shareholders. However, there was no specified form for the audit, nor that the audit had to be carried out by professional accountants. The most common practice was for the shareholders to elect an auditor from among their ranks. Moreover, the *Companies Act 1856* actually removed the requirement to have an audit,

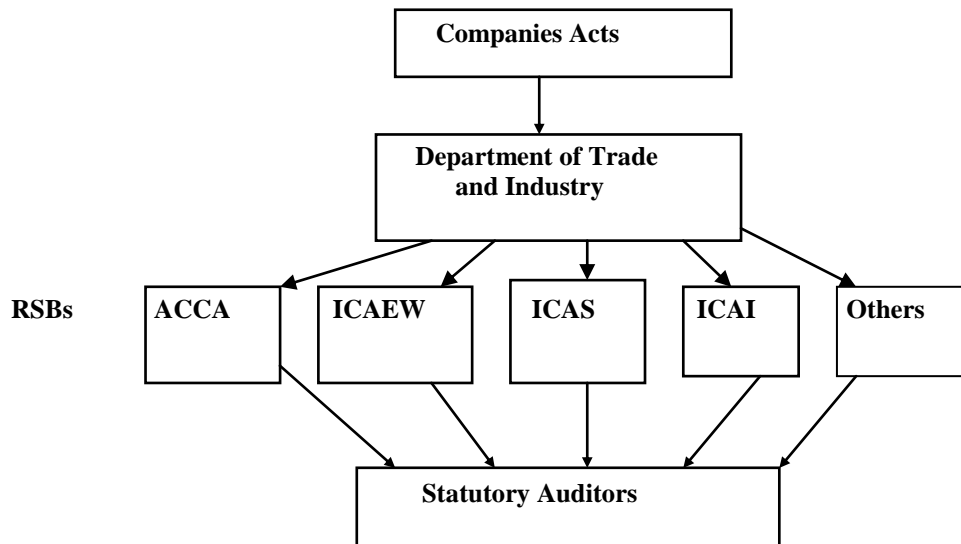
replacing this requirement with a model set of articles of incorporation which included a balance sheet format and a series of audit requirements. The provisions of the 1856 Act facilitated the development of professional accounting and auditing in the UK; however, it was not until the *Companies Act 1948* that external audits were required to be performed by qualified professional accountants, and it was not until the *Companies Act 1976* that the three primary institutes of Chartered Accountants (England and Wales, Scotland, and Ireland) and the Association of Chartered Certified Accountants (ACCA), were mentioned by law as the only bodies whose members were recognized as competent to perform statutory audits (Roslender, 1992).

The implementation of the Eighth European Directive on Company Law into UK law prompted the enactment of the *1989 Companies Act* which conformed UK law to the EC directive. The *1989 Companies Act* included provisions designed to “ensure that only persons who are properly supervised and appropriately qualified are appointed as company auditors, and that audits are carried out properly, with integrity and with a proper degree of independence” (Sherer and Turley, 1991). The manner in which this was implemented in the UK was to designate certain established professional bodies as Recognized Qualifying Bodies (RQBs) and Recognized Supervisory Bodies (RSBs). The recognized professional bodies were: the Institute of Chartered Accountants in England and Wales (ICAEW); the Association of Chartered Certified Accountants (ACCA); the Institute of Chartered Accountants of Scotland (ICAS); and the Institute of Chartered Accountants in Ireland (ICAI). The Association of Authorised Public Accountants (AAPA), a fifth, relatively small professional body was also recognized. The Department of Trade and Industry of the British government delegated the responsibility for determining who was authorized to be a statutory auditor to the recognized professional bodies (see Figure 3).

Thus, it can be seen that the evolution of accounting as a profession in the United Kingdom occurred primarily in the private sector, with education and admission requirements, disciplinary practices, professional standards, auditing and ethics being conducted through several recognized professional institutes who have been authorized by law to carry out statutory auditing. Effectively, it was not until the implementation of the Eighth European Directive on Company Law that the notion of a statutory auditor became enshrined in UK law. The evolution of professional accounting through recognized private sector institutes contrasts quite

sharply with the evolution of the accounting profession in France and Germany, as will be seen in the following sections.

**FIGURE 3
REGULATION OF STATUTORY AUDITORS
IN THE UNITED KINGDOM**



4. France

Miller (1990) provides an extensive analysis of interrelationships between accounting and the state during the Colbert (1661-1683) period in France. The legal technologies employed during this period focused on the regulation of company accounts pursuant to the *Ordinance of 1673*. An official publication of instructions explaining and commenting on the *Ordinance* was issued by the French state in order to instruct merchants on the proper presentation of accounts. In addition, there was an enhancement of the role of intendants (i.e. auditors) appointed by the King, as well as the inception of systematic and detailed accounting information flows from the provinces to the center (Miller, 1990). The keeping of exact books of account (Savary, 1676) was required not only to promote the success of business enterprises, but also to enhance control over companies and promote commercial order within the French state. Miller (1990) maintains that the Colbert period (1661-1683) was a significant time of innovation in the calculative practices of accounting and for a wide range of other practices of government. He also argues that it was through a particular political rationality of creating “order” that distinct sets of accounting and governmental practices were linked (p. 315). At the same time, it is important to acknowledge that

throughout much of Louis XIV's reign, France was the leading European military power, engaging in three major wars and two minor conflicts. Thus, an important political rationale based on military competition cannot be discounted with respect to this period. In other words, the creation of economic order and a unified set of commercial practices throughout France facilitated economic prosperity which enhanced the military power of the French state.

4.1 Historical background of statutory auditing in France

Hilaire (1989) indicates that when the *Compagnie des Indes* was reorganized in 1723 during the Regency Period, '*inspecteurs*' were designated by royal authority, and '*syndics*' were elected at the general meeting of shareholders to review the stewardship of the directors. Lefebvre-Teillard (1985) states that during the 19th century '*censeurs*' were given the task of checking the operations of an enterprise, visiting locations and examining books. The same author indicates that before 1863 the organizing documents of companies provided for the appointment of '*commissaires*' or '*commissions*' whose role was to examine the accounts. The key legislation pertaining to statutory audits in France is as follows:

- *Law of 23 May 1863*: created the role of '*commissaire*' usually called '*commissaires de surveillance*' or '*censeurs*';
- *Law of 24 July 1867*: confirmed the title '*commissaire*';
- *Decree of 8 August 1935* : required competence and independence of statutory auditors and specified incompatible occupations;
- *Law of 24 July 1966* and the *Decree of 12 August 1969*: specified the organizational structure for the profession of *commissaires aux comptes*.

The *Law of 23 May 1863* provided protection for shareholders for the first time in French history. The 1863 act specified that:

“The annual general meeting designates one or more *commissaires*, members or not, who are given the responsibility of preparing a report to the annual general meeting of the following year on the situation of the company, on its balance sheet and on the accounts presented by the administrators. The resolution approving the balance sheet and accounts is null if it has not been preceded by the report of the *commissaires*” (art. 15).

“The *commissaires* have the right, to be exercised whenever they think it appropriate, in the interests of the members, to review the books, to examine the operations of the company and to call for a general meeting” (art. 16).

Standards of independence and competence, and a requirement for the exercise of professional secrecy were not included in 1863 act. The act specified only that: “the extent and the effects of the *commissaires*’ responsibility towards the company are determined according to the general rules of the mandate” (article 26). This article was subsequently repeated word for word in article 43 of the Law of 24 July 1867. The *commissaire*, usually referred to at that time as ‘*commissaire de surveillance*’, or ‘*censeur*’ (Houpain and Bosvieux, 1935), could be chosen from among the shareholders, relatives of the directors, or even from the employees of the company. Members of the board of directors could not be appointed as *commissaires*. No knowledge of accounting was required. Education in accounting was not officially recognized by the French government until the ‘*brevet d’expert comptable*’ was created in 1927 by the Ministry of Public Instruction, and the ‘*brevet professionnel de comptable*’ in 1931 (Boqueraz, 2000; Degos, 2004). Leduc (1982) indicates that with respect to the appointment of *commissaires* that:

“There were flagrant cases where the job was entrusted to an ageing, and particularly incompetent, shareholder, from which derives the image which is found too often, of the *commissaire* signing a report prepared by the accounting department of the company”.

Bouteron (1953) wrote that: “as far as the *commissaires* were concerned, it was clear that they lacked both technical training and independence from the management”. Hémard et al. (1974) noted:

“if it is to be fulfilled in a satisfactory manner, the task entrusted to auditors requires that the individuals who undertake it should have two essential qualities: on the one hand competence, and on the other independence from those who manage the company, qualities to which one should naturally add intellectual and moral probity. Unfortunately these prerequisites completely escaped those who drafted the law”.

While there was general agreement about the incompetence and lack of independence of *commissaires* under the 1863 act, the regulation of statutory auditing in France was not fundamentally changed until the *Decree of 8 August 1935* which required publicly traded companies to select at least one of their *commissaires* from a list maintained by the Courts of Appeal. The 1935 Decree also introduced several changes to audit regulation which remain in force today:

- a definition of conflicts of interest prohibiting any employee of the company or relative of the directors from being appointed as an auditor;
- a requirement that the *commissaire* receive no income from the firm other than that arising from the audit engagement;
- a prohibition against the *commissaire* becoming a director of the company within five

years of the expiry of the audit engagement;

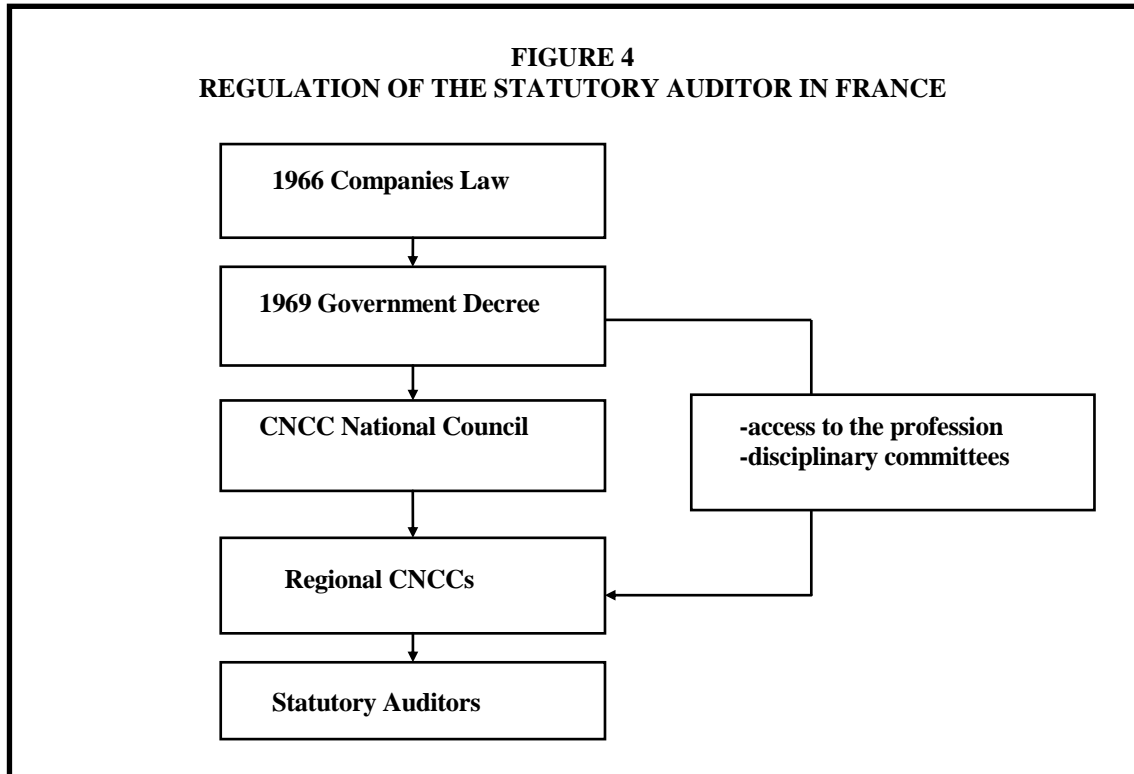
- an obligation for the *commissaire* to observe professional secrecy;
- any breaches of the law on the part of audit clients were to be reported to the public prosecutor;
- any publication of false information by the *commissaire* would be a criminal offence.

The concept of a *co-commissariat* (i.e. two auditors for each annual audit) was also established in 1935 with respect to financial institutions accepting savings from the public. The 1935 decree mandated that there should be two auditors, including one who was considered to be competent in that he was registered with the Appeal Court. It was possible, therefore, for a company, to have one, two, three *commissaires* or more. It was only with the law of 24 July 1966 that listed companies were explicitly obligated to appoint two qualified *commissaires*. However, that was already the practice of most big French companies (Bennechib, 2004).

It was with the *Law of 24 July 1966* and the *Decree of 12 August 1969* that the role, duties, and status of the statutory auditor in France were significantly modified. The requirement to preserve professional secrecy was retained, independence was reinforced, entry to the profession was made conditional upon passing exams of a very high level, and the purpose of the audit was clearly defined. In short the Act of 1966 marked the end of amateur auditors. As far as competence and independence were concerned, the Decree of 12 August 1969, and the modifications of the Law of 24 July 1966, anticipated the Eighth European Company Law Directive of 1984 concerning the qualification of statutory auditors. The Law of 24 July 1966 maintained the obligation to have two *commissaires* for listed companies and for limited-liability companies with a capital of more than five million francs.

In 1967, beginning with the creation of the *Commission des opérations de bourse* (the French equivalent of the US Securities and Exchange Commission, now replaced by the *Autorité des Marchés Financiers*), discussions emerged regarding the competence of auditors and the effectiveness of the *co-commissariat*. Those who were in favor of the *co-commissariat* believed that it provided a higher level of audit quality. In addition, elimination of the *co-commissariat* might lead to a loss of audit engagements by French auditors in favor of the large international accounting firms. Consequently, even though the idea of a *co-commissariat* arose initially in 1935 because of a perceived lack of competence among

auditors, the requirement was maintained because removing it would be detrimental to French audit firms, particularly with respect to large audit clients.



In summary, the evolution of the accounting profession in France has been associated with legal requirements for the appointment of various types of inspectors and auditors, ranging from *inspecteurs*, to *syndics*, to *censeurs*, and finally to *commissaires*. The law of 23 May 1866 required limited liability companies to appoint a *commissaire* to audit the accounts and report to the shareholders, however, there were no requirements concerning who could be appointed to this position, nor any education and experience requirements. It was not until 1935 that a legal requirement was issued that two commissaires had to be appointed, at least one of whom had to be enrolled in a list professional auditors maintained by the Court of Appeal. Finally, the law of 1966 marked the end of the amateur auditor, with commissaires being required to be enrolled in an organization that subsequently came to be named the *Compagnie Nationale des Commissaire aux Comptes*, and operating under the direct supervision of the Ministry of Justice. Consequently, the evolution of the accounting profession in France has been closely associated with political rationaGies and legal technologies related to the ends of the state.

5. Germany

The commercial history of Germany can be traced to the origins of the Hanseatic League which emerged in the 13th century when the cities of Hamburg and Lubeck formed an agreement to protect their merchants against Baltic pirates (Funnell and Robertson, 2011). The state in this case constituted the various cities that joined together for trading and military protection purposes, rather than a nation state *per se*. The Hanseatic League eventually came to include city states located throughout Northern Europe. A common language (low German) and a common set of trading laws and regulations prevailed throughout the Hanseatic League. Merchants conducted their trading businesses through agents located in member cities, but they operated for the most part through sole proprietorships or short-lived partnerships rather than forming limited liability companies or corporations (De Roover, 1956). Thus corporate governance and external auditing were not required due to the close internal control exercised by owner/traders.

Germany remained a dispersed and divided political entity until the 19th century, when it was unified under Chancellor Bismarck in 1871. During the next forty years leading up to World War I, Germany quickly surpassed Great Britain in terms of industrial power. The focus of Germany's industrial entities was on manufacturing, primarily in metallurgy, chemicals and machinery. In addition, the form of capitalism that developed in Germany during this period was quite different from that of Great Britain, France and the United States. Four distinct differences can be identified (Micklethwait and Wooldridge, 2003).

First, German law did not prohibit monopolies, as in Great Britain and the United States. In fact, German law explicitly allowed contractual agreements regulating prices, production output and market sharing. Consequently, the number of cartels in Germany increased from four in 1875 to 385 in 1905. The second difference in German capitalism was the unique system of corporate governance which involved a two tier system of corporate control. The 1870 law that introduced the ability to form corporations also required joint-stock companies to have two levels of control: management boards, responsible for day-to-day decisions, and supervisory boards, made up of large shareholders and other interested parties. The third difference related to the role and influence of big banks, which continues to this day. Instead of stock markets, the major banks provided most of the capital for industrial

expansion. These were universal banks combining aspects of commercial and investment banking as well as investment trusts. Bankers sat on the supervisory boards of all of Germany's largest industrial companies. The fourth distinction was the emphasis on the social role of corporations. This was influenced by the German guilds which had survived much longer than their counterparts in other parts of Europe. The Guilds had preserved the system of apprenticeships. Beginning in the 1880s, a comprehensive system of social insurance developed which required companies to pay pensions, and provided representation for labor unions on the supervisory boards of companies.

The modern structure of corporate governance in Germany, which developed after World War II, is based on the *Aktiengesellschaft* (AG), which is the German term for "public stock company." *Aktiengesellschaften* (the plural form), are corporations with publicly traded shares listed on stock exchanges. An AG is one of two major forms of business organization prevalent in Germany. The second organizational form, which is more common than the AG, is the *Gesellschaft mit beschränkter Haftung* (GmbH), which translates as "company with limited liability." GmbH comprise approximately 95 percent of German companies because the GmbH structure is more easily created than the AG. The AG requires a specified minimum amount of capital, the annual issuance of audited financial statements, and a two-tiered corporate governance structure which includes a supervisory board and a management or executive board.

The supervisory board is charged with establishing the corporation's overall goals and objectives, while the management board focuses day-to-day operations of the company. The supervisory board must include among its members representatives of the corporation's employees to insure that employees are directly involved in the direction of the corporation's activities. This requirement derives from the fact that until the 20th century, many German companies were family owned and therefore privately held, with no involvement of the company's employees in the direction of these companies. As the concept of the corporation was being developed in Germany socialist parties sought to "democratize" the corporate structure by requiring AGs to have representatives from the employees. The supervisory board of large corporations must include 20 members, 10 of which are elected by the shareholders, the other 10 being employee representatives. The supervisory board oversees and appoints the members of the management board and must approve major business

decisions. The minimum of members a board is three, the maximum 21. The number of members must be divisible by three.

5.1 The role of the statutory auditor

The role of the statutory auditor in Germany has been different historically from that in the UK, where all limited liability companies are required to be audited, and also different from France, where all incorporated entities are required to be audited. In Germany, only AGs and some GmbH are required to be audited. Another difference, as compared with the UK, is that German companies primarily obtain capital from banks and insurance companies, and the banks and insurance companies are often important shareholders. This entitles them to participate in the general meetings of the companies in which they own shares and also to obtain private information. In addition, a system of proxy voting allows banks to vote on behalf of smaller shareholders in the annual general meeting of shareholders.

Historically it was the task of the supervisory board to audit the financial statements. The demand for external audits was prompted by the failure of the supervisory boards to perform proper audits. The basic function of the statutory auditor in Germany has therefore been to assist the supervisory board. The audit report is addressed to the supervisory board. The statutory auditor is engaged by the supervisory board and is formally elected by the general assembly of the shareholders of the company. Since the supervisory board supervises the activities of the board of management, the German statutory auditor may feel less role conflict than the auditor in the UK. This is because the German statutory auditor is less beholden to the management of the company for their appointment.

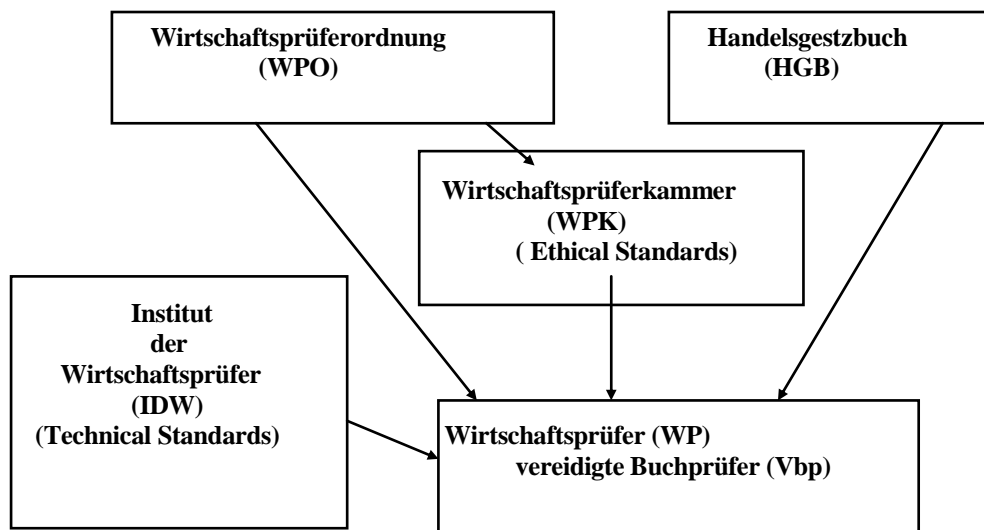
5.2 Structures regulating the statutory auditor in Germany

Statutory auditors in Germany are required to be members of the Wirtschaftsprüferkammer (WPK), a public law body created pursuant to the Wirtschaftsprüferordnung (WPO) (law regulating the profession of auditors). The WPK is supervised by the Ministry of Economics of the German government. There are two professional qualifications in auditing. These are the Wirtschaftsprüfer (WP) and the vereidigter Buchprüfer (vBp). The vBp is a lower qualification. A vBp is allowed to audit only medium sized, private limited liability companies (GmbH). Both the WP and the vBp must be members of the WPK. Certain aspects of the auditor's role and responsibility in Germany are

also defined by the Handelsgesetzbuch (HGB) (similar to the company laws in the UK and France).

In Germany audits can be performed by audit corporations (i.e. firms of auditors incorporated with limited liability). Audit corporations must also be members of the WPK. Members of the WPK therefore include: qualified individuals (WP and vBp sole practitioners, partners or employees of audit firms), and auditing firms (Wirtschaftsprüfungsgesellschaften and Buchprüfungsgesellschaften)(see Figure 5) .

**FIGURE 5
REGULATION OF THE STATUTORY AUDITOR IN GERMANY**



The function of the WPK is to regulate statutory auditors in accordance with the provisions of the Wirtschaftsprüferordnung (WPO). The WPK enforces standards prescribed by law and participates in disciplining auditors who violate those standards. If the violations are serious then the special chambers and senates of the German courts dealing with WP matters become involved in the disciplinary process. In addition to the WPK, there is also an Institut der Wirtschaftsprüfer in Deutschland (IDW). Membership in the IDW is voluntary and is restricted to WPs. The IDW is involved in training, continuing professional education and the establishment of auditing standards. In comparing the roles of the WPK and the IDW, the WPK is responsible for ethical standards and the IDW is responsible for technical standards.

It can be seen that the regulation of statutory auditors by the German government is more direct and evident than it is in the UK, but probably comparable to that of France. This observation supports the classification scheme proposed by Nobes and Parker. In Germany, the education and training of auditors are prescribed by law. Disciplinary actions for violations of professional standards are also prescribed by law, but most disciplinary actions are conducted in an administrative manner. One aspect of the regulation of auditors in Germany that is also quite different from that of the UK is the idea that the auditor is viewed as having a public function under law. Various German commentators have suggested that the auditor has a political responsibility (Lutter, 1975) or that the auditor exercises certain functions under public law (Schulze-Osterlow, 1976). Taupiz (1991) has suggested that the auditor is an agent of the state. These ideas would be quite foreign to the UK context, but would probably be better understood within the French context. Another noticeable difference between Germany and the UK is in the area of self-regulation. In Germany self-regulation occurs only within the strict boundaries of the law.

5. Discussion

Table 1 summarizes the regulatory structures for statutory auditors in the United Kingdom, France and Germany. Based on the discussion of the historical evolution of the accounting profession in these three countries, it can be seen that the regulatory structures differ in substantial ways. However, during the last twenty years there have been efforts made to harmonize the regulatory structures for statutory auditing throughout the European Union.

5.1 Initiatives to Harmonize the Regulation of Statutory Auditors

The regulation of statutory auditors was affected by the Eighth Directive of the European Commission (European Commission 1984; Evans and Nobes 1998a) issued in 1984. The purpose of the Eighth Directive was to harmonize regulation within the EU, in particular with regard to access to the accounting profession and pre-requisites to become a statutory auditor. In response to the Eighth Directive, the member states of the EU modified their company laws or state regulations (i.e. government decrees) to comply with the provisions of the Directive (Evans and Nobes 1998a; Cooper et al. 1996; Buijink 1996). However, compliance with the Directive does not mean that regulation of statutory auditors is the same in every country (Buijink et al. 1996; Margerison and Moizer, 1996). Moreover, the Eighth Directive did not cover all aspects of audit regulation; it focused primarily on reducing barriers to intra-

European trade in audit services. A subsequent Council Directive of 21-12.88 required mutual recognition of higher education accounting diplomas and mandated professional training of at least three years' duration.

In October 1996, the European Commission issued a Green Paper entitled *The Role, The Position and The Liability of the Statutory Auditor Within The European Union* (European Commission, 1996). Green Papers of the Commission provide the basis for discussion of issues among the member states of the EU. Following the issuance of the Green Paper, a conference on the Role, the Position and the Liability of the Statutory Audit within the EU was held in Brussels in December 1996. The objective of the conference was to discuss the regulation of statutory auditors in Europe and the regulatory role of the EU. There was general agreement that the EU should provide a common regulatory framework (European Commission, 1998). Among the topics discussed in the Green Paper and at the conference, were the following: the definition of the statutory audit; contents of the audit report; the competence of the statutory auditor; the independence of the statutory auditor; the role of the statutory auditor in corporate governance; auditor's civil liability; and the freedom of establishment and the freedom to provide services across national border.

TABLE 1 COMPARISON OF THE REGULATION OF STATUTORY AUDITORS			
	UNITED KINGDOM	FRANCE	GERMANY
WHAT STRUCTURES REGULATE THE STATUTORY AUDITOR?	Private Sector Professional Bodies.	Government decree and CNCC.	Wirtschaftsprüfer-ordnung (WPO) and -kammer (WPK).
WHAT IS THE ROLE IN CORPORATE GOVERNANCE?	To provide a true and fair view opinion of financial statements.	As an adjunct to government regulation of corporations.	As an advisor to the supervisory board.
WHO CAN BECOME A STATUTORY AUDITOR? -EDUCATION	3 yrs. University. No accounting required.	5 yrs. University or Business School. Pass a series of examinations in accounting.	6 yrs. University. Accounting, Economics, or Business required.
-TRAINING	3 yrs. Under a RQB.	3yrs. To become an expert comptable. Then admission To CNCC.	4 yrs. under supervision of a WP.
-EXAMINATION	Set by each Professional body.	Set by a national curriculum.	Set by each German state.
WHO DISCIPLINES THE STATUTORY AUDITOR?	Private Sector Professional Bodies.	The regional CNCC.	The WPK and disciplinary courts.

One important point contained in the first paragraph of the Green Paper was as follows:

The requirement to have the annual and consolidated accounts of certain companies audited by a qualified professional which was introduced for the Community as a whole by the Accounting Directives, is designed to protect the public interest (European Commission 1996, 4).

It is precisely in defining what constitutes the public interest that the regulation of statutory auditors comes to be of great importance. The protection of the public interest is viewed somewhat differently in the three countries investigated. In the United Kingdom the public interest is defined primarily in terms of a well-functioning capital market, while in Germany the statutory auditor is deemed to assist the supervisory board with respect to the proper functioning of corporate governance. In both Germany and France the statutory auditor is deemed to act on behalf of the state in certain circumstances.

In late 2010, the European Commission entered into this discussion in a more direct manner by issuing another Green paper which called for consultation on the role of statutory

audit as well the wider environment within which statutory audits are conducted (European Commission, 2010). The purpose of the Green Paper was to question whether the role of auditors could be enhanced to mitigate future financial crises. Apparently, the EU Commission believes that the financial crisis highlighted weaknesses in statutory auditing. In particular, the Commission is wanted to address whether audits provide the right kind of information for participants in capital markets, whether there are issues around the independence of audit firms, whether there are risks linked to a concentrated market for audit services, whether supervision at a European level might be useful and how best the specific needs of small and medium sized businesses may be met.

The EU Green Paper also made several specific statements about statutory audits which may or may not be correct or generally accepted. The Green Paper defined statutory audits as audits of company accounts as required by EU law. Auditors are entrusted by law to conduct statutory audits. The aim of an audit is to offer an opinion on the truth and fairness of the financial statements of the companies audited in complete independence of the audited company. To this extent, the independence of auditors should be the bedrock of the audit environment. In the wake of the banking crisis of 2008-2009, questions have arisen on whether the role of auditors can be enhanced to mitigate financial risk in the future. There are a number of areas which the Commission believes need to be explored, in particular:

- *the independence of auditors* - it is unclear if auditors are truly detached and critical when examining the financial statements of a company when that same company is an existing or potential client for non audit services;
- *the reliance stakeholders can place on audited financial statements*. Does an 'expectation gaps' exist amongst stakeholders with regard to the scope and the methodology of audit;
- *the potential for systemic risk because of the strong concentration in the audit sector* (what consequences might there be for the wider financial system if one of the big audit firms failed);
- the role played by national regulators, and whether national supervision is fully effective;
- *the potential for a competitive internal market for audit* and the removal of barriers which currently make audit primarily a national market.
- *the specific needs of small businesses* – ensure proportional application of rules to SMEs;
- *the global context*- audit firms operate as global networks; to this extent it is important to co-ordinate our efforts at an international level.

6. Conclusion

The purpose of this paper has been to survey the evolution of professional accounting and auditing in several European countries. In order to understand the evolution of accounting as a profession it is first necessary to understand how accounting evolved as profession in different ways in major countries. The focus of the paper has been on the regulation of statutory auditors and the way in which the regulatory structures differ among the countries. The importance of this topic lies in its implications regarding increased regulatory harmonization. If the differences in regulation are based on established laws and historical traditions relating to the training of statutory auditors and their role in corporate governance, then the expectations for increased harmonization may be difficult to achieve. As long as the definition of what constitutes the public interest differs between countries, then it may be expected that the regulatory structures will be different. As the importance of the global capital market increases the definition of what constitutes the public interest may change as well, thereby increasing the perceived need for regulatory harmonization. Perhaps the involvement of the EU Commission in this topic will improve the regulatory structures for statutory auditing in an international sense; however, given the propensity for political actors and motives to enter into the regulatory process, it seems unlikely that improved regulatory structures will emerge in the near future.

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