
Protecting the questionably knowledgeable user of accounting information: a defence of paternalism in the accounting profession

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Abstract: The accounting profession has drawn and continues to draw criticisms from the downsides of paternalism based on libertarian economic views and the false assumption of the ability of people to make rational choices that are in their best interest. The modest goal of this paper is to call for a rethink in views on the paternalistic characterisation of the accounting profession. We argue that the accounting professional possesses specialised skill, expertise, and training for which he/she is hired by the client. Second, we assert that a prerequisite for understanding and use of accounting information is 'reasonable knowledge of business and commerce'. The justifications for the paternalistic orientation of the accounting profession are overwhelmingly persuasive. The paper therefore asserts that the proto-paternalistic posture of the accounting profession is an ineluctable phenomenon. Contemporary demands for reporting complex transactions and the incessant calls for stringent oversight of accounting practice make paternalism compelling.

Keywords: agency; accounting practice; paternalism; professionalism.

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1 Introduction

The contemporary architecture of public economic life is structured in ways that encourage networking and interdependences (MacRAE, 1977). The physical and mental limits of the human conditions thus dictate that actors depend on others to perform duties for and/or on their behalf which they do not fully understand (Kultgen, 2013). This dependence may be in the form of a casual visit to the dentist for a check-up or the appointment of an expert to protect the interest of the appointing party. This may be in an area in which the appointing party is constrained in time, effort or knowledge or a combination of these. Whatever the reason may be, the person appointed is an agent who ordinarily ought to seek directions in furthering the principal's interest.

The appointment of auditors by shareholders falls squarely within this locale. The logic of principal-agent relationship will presume that the auditor, as an agent engaged by a client to perform some acts for the achievement of set goals will naturally look to the principal for directions and instructions (Jensen and Meckling, 1976; Watts and Zimmerman, 1983). The client (the shareholders in the case of a company) as the ultimate beneficiary or user of the audit work pays for the services rendered by the auditor. It will

perhaps, therefore be logical for the client to provide instructions, by having the opportunity to prescribe the type of information needed, the manner or form in which the needed information should be provided. The notion of the client having a say is expected (Previts, 1985).

However, in practice, this notion of the client having a say in determining the nature or the form of service delivery or both seems deeply discomforting and appears illogical to professionals and to adherents of the ideology of professionalism. This view seems deeply rooted in many of the professions that require technical knowledge and expertise, including the accounting profession. In the particular case of the accounting profession, the argument often made is that the auditor possesses special skill, expertise, and training for which the client hires him/her.

Therefore, the idea of allowing or even encouraging the 'less knowledgeable and less skilled' party to provide instructions on the nature and the form of professional services seems plainly untenable and is in fact counterproductive. Though this claim is defensible largely, it is inherently problematic. First, it tends to lead to self-interest perpetuation of the accounting profession in the name of the defence of the public interest. Second, the profession ostensibly encroaches upon the autonomy of its clients by making impositions on them. Their views or inputs on the service offerings are not sought, neither is their informed choice taken into account. Admittedly, this amounts to paternalistic behaviour, albeit, justifiable. According to the *American Journal of Public Health* (2008), paternalism is the usurpation of decision making power, by preventing people from doing what they have decided, interfering in how they arrive at their decisions, or attempting to substitute one's judgement for theirs, expressly for the purpose of promoting their welfare.

We argue in this paper that the proto-paternalistic posture of the accountancy profession is an ineluctable phenomenon. We elucidate some of the potential pitfalls that may ensue if the accounting information user is granted the power to dictate the scope and content of auditor's reports and provide justifications supportive of paternalism in the accounting profession in the positive sense of the word.

Generally, both local and international financial reporting legislative frameworks and the international standards on auditing (ISA 700) partly prescribe the content and scope of the auditor's report to a significant extent. The implication flowing from these regulatory provisions is that shareholders acquiesce in allowing auditors to exercise professional judgement on their behalf when they vote at annual general meetings to appoint or renew the appointment of the auditors. The right to appoint or disapprove is a power exercisable by persons whose autonomy in that regard is unquestioned. The exercise of that right by another person entrenches the capacity of the person appointed to act paternalistically towards the appointing authority. This justifies the fiduciary duty of the auditor to the shareholders in the collective.¹ Therefore, securing the informed consent of the user public/shareholders at each audit with the sole aim of making the accountancy profession seem less paternalistic could pose insurmountable legal and practical economic challenges.

The most effective way of allowing clients to have a greater influence in the professional work of auditors is the involvement of the user public development of standards. We suggest that the accountancy profession could effectively encourage user participation or assertiveness by giving higher weight to submissions made by the user public in the standard setting process (e.g., at the discussion paper and exposure draft

stages) as opposed to the situation where the process is dominated by technical submissions and lobbying by professionals in the field (Mason and Zaman, 1999).

First, the governing bodies of standard setting institutions should endeavour to stay alert to the changing nature of public expectations when fashioning out their codes of ethics. Second, publicity of disciplinary actions against deviant or errant members would engender public trust in the profession, while providing assurance that the social contract will be enforced. Third, the profession must take pragmatic steps at simplifying the terminologies and similar usages in financial reporting and the assurance delivery processes. In addition, the profession should endeavour to educate the user public on the meaning of some critical concepts used in the audit communication process.

The deployment of these steps could help demystify the work of the auditor. It could help reduce the concerns and accusations of monopoly of professional knowledge and make it more accessible and understandable to its clientele.

The rest of the paper is organised as follows. A review of the literature on professionalism and paternalism and a discussion from a functionalist viewpoint.² The public interest and the accounting profession are discussed next: outlining some of the most virulent criticisms of the accounting profession bordering on paternalism. Some proposed mechanisms for addressing the negative connotations of paternalism in the accounting profession are discussed in the penultimate section. The paper concludes with observations and concluding remarks on the repositioning of the accounting profession in the best interest of the reasonably questionably knowledgeable user of accounting information.

2 Literature review

This section discusses the theoretical underpinnings of professionalism, paternalism and public interest.

2.1 Professionalism

A critical issue that takes centre stage in debates on accounting in the public interest is whether accounting is a profession (Zeff, 1987). The earliest religious connotation of the term profession has given way to a secular significance with emphasis on having due qualification [Brown, (1992), p.18]. The shift in meaning is taken as a fair conspectus of the history of work in Western countries (ibid).

As a consequence, sociologists began paying critical attention to the organisation of professions and the active process of professionalisation of occupations in the mid-1970s (Evetts, 2013), when the libertarian and critical legal theories regimes were taking hold in public discourses (see, e.g., Abbot, 1988; Lieberman, 1970; Parson, 1939). Parson's work is arguably among the pioneering sociological investigations into the nature and value relevance of professions to a market economy. In his 1939 paper, Parson acclaimed the contemporary arrangements of professions, and compared them to the society of the Roman Empire. Parson (1939) underscored the critical importance of professions to the functioning of a normative social order by asserting that: "...many of the most important features of our society are to a considerable extent dependent on the smooth functioning of the profession."

To Parson, the professional type is the institutional framework in which many of our most important social functions are carried out. By this assertion, Parson envisages a functionalist orientation towards professions in which, professional bodies are regarded as fulfilling useful and stabilising functions in society (Traulsen and Bissell, 2004).

However, despite the intuitively appealing expositions of the functionalists' school of thought on professions and professionalism, they have been fiercely criticised. The fiercest of these criticisms are from the structuralists or marxists and other conflicting theorists who saw professions as interest groups seeking power and control over resources (Brown, 1992). The main argument of such scholars has been that professions are structured to disproportionately benefit the socio-economic elite (Kultgen, 1988). They further assert that professionals try to achieve status, prestige or power, on the basis of claims to specialised knowledge resulting from the mobilisation of resources (McCahery and Picciotto, 1995). The most critical of these was Lieberman. According to Lieberman (1970), professionals are in the business of defining human needs and creating opportunities over which to exercise influence. The point is amply captured in the following words by Lieberman, which has been widely quoted by various scholars in the discourses on professions:

“Professionals are dividing the world in spheres of influence and erecting large signs saying “experts at work here do not proceed further”. The public respects the signs and consequently misses the fact that what goes on behind them does not always bear much relation to the professed goals and activities of those who put them up. Professionals frequently say one thing and do another and assert that the layman’s inability to find consistency between talk and action is caused by his inherent lack of insight into the professional mysteries. But the gap exists, and it has important political, economic, and social consequences; the public is losing its power to shape its destiny.”

Lieberman was not only concerned about the expanding or even enveloping role of professionals over the terms of social life and their quest to occupy such spaces, but also with the alleged or actual encroachment on the freedoms and liberties of individuals. The public according to Lieberman (1970) has legitimatised the role of the professional, and thereby lost its power of self-determination.

Similarly, Illich (1978) described the character of society in terms he called “interdependent conglomerates of stigmatised majorities” whose imputed needs generate the kind of interdependences desired by professionals. Sikka et al., (1989, p.48) had expressed a related concern that the state legitimises the monopoly powers and privileges of professions under the guise of providing qualified labour. According to Abbot (1988), professionalisation was intended to promote professional practitioners’ own occupational self-interests in terms of their salary, status and power as well as the monopoly protection of an occupational jurisdiction. Others criticise professions for the use of professional jargons. In the view of Hudson (1978), the easiest and most effective way to kill a profession and remove its cohesion would be to forbid the use of its characteristic language. In agreeing with Hudson’s (1978) view, Illich (1977) opines that professions shroud out their activities in arcane language with the sole aim of mystifying what they do. Wilensky (1964) earlier shared a similar sentiment in which he quips that the basis of power of the professional consists of vocabulary that does not sound familiar to everyone.

While we recognise the political influence of professions in the market space, the altruistic motives, which often underlie and form the *raison d’être* of professionalisation could not be easily wished away. As stated by Traulsen and Bissell (2004), the principal

commitment to act on the part of the professional is most usually one of service rather than self-interest. When social goods (such as prestige, power, etc.) are conferred on the profession, they are often incidental, arising from a greater yield of good from the profession, and from the public's acceptability of its work.

The benefits enjoyed by the professions often exceed the cost to clients. After all, a rational utility maximising clientele will not confer a benefit on an agent, if the benefit so conferred costs more than they would benefit themselves. In addition, these goods are earned as legitimate rewards for the labour expended by the professional, and not extracted. As stated by Kultgen (2013, p.95), high compensation is justified on grounds of justice and fairness. The rewards to the professional are commensurate with the exceptional ability, effort, and service rendered.

However, examples exist (Arthur Andersen³) where professionals who failed to protect the public interest have had to pay the ultimate price of 'death', that is liquidation, criminal prosecutions and a relentless public opprobrium. Thus, the manifest functions⁴ arising from professional effort are often towards the service of altruistic ends as opposed to self-aggrandisement [Kultgen, (1988), p.35].

Other scholars set out to define what a profession is, and delineate the elements that distinguish professionals from non-professionals. For example, Downie (1990) puts forward the following criteria, to which an occupation must meet in order to qualify as a profession:

- 1 it must have at least five years training
- 2 it must have an appointed body supervising entry qualifications, negotiating pay and conditions of service for its members, and imposing discipline
- 3 it must have a code of ethics
- 4 It must have an annual conference.

Cox (2010) adds that a body of knowledge, ethical guidelines, and a professional organisation with a growing set of published papers and best practices defines a profession.

The regulation of professional bodies via rigorous pre-qualification training, continuous professional development, enforcement of code of ethics and disciplinary procedures are aimed at ensuring that, the public is protected from charlatans. In the opinion of Gallagher (1995), codes of ethics are the declared elements of the social compacts between the public and the professions, which enable the professions to exercise collegial control over members in the interest of the public. According to Darley (1961):

“The truly professional person is one, who, by virtue of intellectual capacity, education and moral outlook, is capable of the exercise of intellectual and moral judgment at a high level of responsibility ... the kind of judgment, which the professional person exercises cannot be standardised.”

Darley's view seems to be that a professional is not only imbued with esoteric knowledge and skills but is also morally saturated and capable of exercising judgement under conditions of risk and uncertainty and guided by higher moral ideals enshrined in the social compact via the instruments of codes of professional conduct. As Evetts (2013) points out, “professionals are extensively engaged in dealing with risk, with risk assessment and, through the use of expert knowledge, enabling customers and clients to

deal with uncertainty.” The preceding analysis is ample evidence to suggest that the foundations and value relevance of professions in general and the accounting profession for that matter is intricately paternalistic as discussed in the immediately succeeding section.

2.2 *Paternalism*

The doctrine of paternalism has been the subject of rigorous scrutiny and can be traced back to the days of John Stuart Mill (Eunseong, 2016). Mill (1956) philosophically captured it in what has now come to be known as the Harm Principle as:

“The sole end for which mankind is warranted, individually or collectively, in interfering with the liberty of action of any of their number, is self-protection. [T]he only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant.” (p.251)

Writers of academic legal literature, judicial opinions, and legislative reports have extensively used paternalism but in spite of its pervasive use, the concept of paternalism lacks a clear and crisp definition. Eunseong (2016) suggest that paternalism is the exercise of power over an individual and an interference with an individual’s free will. The term paternalism has however often been associated with the exercise of coercive powers over persons against their will or without their informed consent. Kultgen (2013, p.403), defines paternalism as “any action in which an agent intervenes in the life of another for her welfare without regard to her consent. In this case, an appointed person is acting with the view to securing the welfare of another.” In the words of Kultgen (2013, p.401) “to the extent that the structure of a profession is designed to benefit those it serves, but limits their choice of providers and has been put in place without their informed consent, it is paternalistic.” A paternalistic act therefore is the usurpation of decision-making, either by preventing people from doing what they have decided or by interfering with the way in which they arrive at their decisions [Dworkin, (1988), p.123]. Several writers have disaggregated the term from different perspectives.

Dworkin (1983) distinguishes pure paternalism. On one hand, pure paternalism is the one in which those people who suffer interference are also those whose interest or well-being that interference is seeking to promote. Impure paternalism on the other hand, is the one which restricts the freedom of some people in order to protect others against acts to which they might consent and which may likely harm them. Pure paternalism therefore implies the condemnation of acts that affect a particular group only, whereas impure paternalism makes an individual who harms another, even with the other’s consent, criminally liable.

Feinberg (1986) posits that the theories of hard and soft paternalism are differentiated from each other through the weight each attaches to voluntariness and consent. He states that:

“Soft paternalism holds that the state has the right to prevent self-regarding harmful conduct but only when that conduct is substantially non-voluntary, or when temporary intervention is necessary to establish whether it is voluntary or not. In contrast to soft paternalism, he defines hard paternalism in the following terms: Hard paternalism will accept as a reason for criminal legislation that it is necessary to protect competent adults, against their will, from the harmful consequences even of their voluntary choices and undertaking.”

Kultgen (1988) categorised the term into justified and unjustified paternalism. Justified paternalistic activities are those that find expression within an overall structure of law or where there are prospects of greater benefits to the person, otherwise such paternalism is not justified [Kultgen, (2013), p.409]. Justified paternalism has been described in scholarly literature in other fields such as economics as libertarian paternalism. Here, paternalism is viewed as an approach that preserves freedom of choice but that authorises both private and public institutions to steer people in directions that will promote their welfare. Some kind of paternalism is likely whenever such institutions set out arrangements that will prevail unless people affirmatively choose otherwise. In these circumstances, the goal should be to avoid random, arbitrary, or harmful effects and to produce a situation that is likely to promote people's welfare, suitably defined. The financial reporting role of the auditor ineluctably puts her in a position in which certain decisions have to be made by her on behalf of others; some form of justified paternalism.

3 Public interest ethos and the accountancy profession

Ever since a small number of accountants formed the first professional society of accountants in Scotland in 1853 (Brown, 1905), the accountancy profession the world over has espoused the unique principle of protection of the public interest as the sine qua non of its practices.

The mission statements of most of the premier accounting standards setting-bodies are premised with the desire to giving practical impetus to promoting the public interest, and habituating same. For example, the following is a paraphrase from the charter of IFAC.⁵ "...IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies...." A plethora of other charters of like bodies are couched in similar terms and language. Therefore, public interest and its defence feature prominently in both micro and macro level discussions of the accountancy profession and service offerings (Noreen, 1988; Lev, 1988; Hope and Langli, 2010; McGuire et al., 2012; Preston et al., 1995).

The justifications are embedded in the overarching nature of the accounting and reporting function of activities and transactions of reporting entities. In addition, both the intended and unintended implications and consequences from accounting successes and failures have wide-ranging ramifications. This is in view of the extended nature of the users of accounting information to include those with direct and indirect financial interests in reporting entities.

Though the definition of 'public interest' has been subject to substantial debate since there is no general agreement on its meaning (Baker, 2005; Sikka et al., 1989), the accounting profession through several of its professional bodies have maintained that it serves the 'public interest' (Anderson-Gough et al., 2002).

However, various scholars such as McGuire et al. (2012) and Preston et al. (1995) have questioned the authenticity of the accountancy profession's claim to the pursuit of the public interest. Yet, others have described this claim as a mythical concept created by the profession itself. For example, Sikka et al. (1989) assert that the public interest and the profession's obligation towards it have been articulated in a disorganised and confused manner. They summed their views thus: "our experience suggest that the

profession takes less than serious its obligation to serve the public interest by providing information relevant for the pursuit of research into elements of its knowledge base which has been acknowledged by its own spokesmen...to be lacking in requisite quality” (ibid).

Huber (2015) supports the view of Sikka et al. (1989) by observing that inconsistencies and contradictory claims of advancing accounting and auditing knowledge for the service of the public interest are only found in the internal documents of the profession. This situation according to him is further compounded by the conflicting understandings of what the public interest is (Huber, 2015).

Sikka et al. (1989), express a related view that there are varieties of competing conceptions of the public interest. The fluidity in its conceptualisation therefore makes its evaluation on the basis of an objective criteria uncertain, difficult and subject to the whims of its authors. Huber (2016, p.252) opines that the assumption that the public interest exists in the public accounting profession is a myth that disguises what interest the public accounting profession actually serves and blinds the public from understanding what is meant by serving and protecting the public interest.

The critical exegesis of the charters of the profession, evidenced by the works cited above may have played a critical role in reshaping the perspectives of standard setting bodies and drawing attention to the importance of hermeneutics in accounting discourse. Llwellyn (1993) recognises that the critical hermeneutics regimes have revealed important issues in accounting research, which were otherwise viewed, as unproblematic and peripheral.

Notwithstanding, the vital importance of clarity of language is in the communication process, especially when expounding on concepts as fluid as the ‘public interest’. It bears stating however that, the arcane exegesis of mission statements and charters may place a poor second to the purposes, intents and social functions performed by the professions at any particular time. The due process and review mechanisms embodied in the works of most professional bodies tend to engender more public confidence than any Shakespearian exposition of charters.

4 Impracticability of securing informed consent of shareholders

Taking into account the normative powers and obligations of the principals and agents which were set out in the introduction within the context of auditor-shareholder relationship, it would seem that the nature and role of the organs of a company and the abiding powers conferred on each by law, renders this suggestion untenable. For example, the power of a shareholder to direct the application of company’s assets by its directors is significantly limited except in exceptional circumstances.

Thus, to be granted the power to determine the scope of work of the auditor and prescribe the content of the auditors’ report would amount to an indirect encroachment on the powers of the directors of the company. In such an environment, directors will necessarily have to gauge all their decisions to the forthcoming audit whose agenda was initially set at the previous annual general meeting. This will create a rather overburdening deterrent effect and limit innovation and creative risk taking on the part of directors. In addition, shareholders imbued with such power will always exercise it having their expectations in mind. Since expectations tend to change with circumstances, shareholders’ instructions to auditors will not remain the same.

Consequently, the prescriptions on the content of auditor's report in the legal texts of most jurisdictions would become superfluous and of no effect. Another potential problem with the proposal for the shareholders to prescribe the scope of the auditors' work borders on consistency. The changing expectations of existing shareholders could create inconsistencies in auditors' reports overtime and between entities. Therefore, the comparability essence of financial statements, which is so vital to potential users, may be defeated. Potential investors whose economic decisions would be based on the audited financial statements would be subject to the preferences of existing shareholders. Therefore, to acquiesce to this suggestion would amount to substituting the attenuated paternalism of a recognised professional body for the unjustified paternalism of an unregulated body of shareholders.

Additionally, the stark reality is that shareholders may not necessarily possess the appropriate expertise to prescribe the content of the audit report, there would be no need for the engagement of the auditor if that were to be the case.

5 The role of education and learning of the user

The hallmark of the professional is the ability to eclectically evaluate unstructured and complex situations and to proffer reasoned solutions to them. The inculcation and acquisition of these abilities lie at the heart of the pre-qualification training and certification processes of professional bodies. The continuous professional development programmes are designed to improve these abilities and to help the practitioner to stay abreast with current developments in the field. Given that the auditing profession describes their purpose as providing reasonable assurance that financial statements are free from material misstatements, the profession is obliged to educate the public regarding the profession's use of the concepts of reasonable assurance and materiality (Roberts and Dywer, 1998). They assert further that demystifying the concepts of reasonable assurance and materiality, and expanding auditor communications in general, is a way the accountancy profession could improve its ability to meet its public interest ideals.

Kultgen (1988) comments that professions should recognise their obligation to educate the public and collaborate with society. Taking the time to educate clients has the tendency to engender confidence in the professions. Professionals must somehow interpret, translate, or mediate the results of their work in order that the public, their clients, may appreciate its value. Clients cannot make effective judgements as to the quality of professional work when they are utterly removed from the institutional context in which that work is performed, and when the professional work-product is vague and diffused.

This proposition finds expression in International Accounting Standards Board (IASB) conceptual framework for financial reporting. One of the enhancing qualitative characteristic of useful accounting information is understandability (IASB 2015, IAS 1 Paragraph). This quality provides that financial information should be prepared and presented in such a manner that it is capable of being understood by users who have reasonable knowledge of business and economic activities and financial accounting, and those who are willing to study the information with care, skill and diligence. This presupposes that financial information is prepared and presented not for use by

uninformed users. Thus, it becomes inevitable for third party facilitation especially to users who are less sophisticated.

6 Critiques of the accounting profession

Most of the criticisms of paternalism appear to have taken their roots from philosophy, law, political theory, ethics and sociology (Dworkin, 1971; Freeman et al., 2004; Marinetto, 2007; Roberts and Dwyer, 1998; Tremblay, 1987). Opponents of paternalism argue that it is only through the full exercise of autonomy and liberty that individuals can live as nature intends. In particular, the liberty to deliberate autonomously is necessary, because free deliberation allows individuals to find the truth. As such, paternalism is incompatible with human excellence. To them, any paternalistic argument justifying constraint on individual liberty would rob individuals of the opportunity to exercise their individuality and autonomy, both of which are indispensable to the deliberative process and the perfection of their faculties.

The second reason for rejecting paternalism is the fallibility of paternalistic interference. There is always the possibility that the interference of society against the exercise of individual liberty will result in unexpected and undesirable outcomes. The fallibility of paternalistic interference has been the subject matter of criticism in many disciplines, including the accounting profession from both within and outside the profession. Arguably, one of the most vocal critics of the accounting profession seems to have come from members and trailblazers of the accounting profession itself. Notable among the critics of the last century was professor Briloff.

For instance, in his first book, *The Effectiveness of Accounting Communication*, Briloff (1965) noted the need for crisp, precise writing in financial reports so that the communication by management to the investment community is clear and unambiguous. In that book, he demonstrates how the term 'generally accepted accounting principles' is imprecise and fraught with multiple interpretations. From there, Briloff points out a variety of other breakdowns in the communication process.

A similar view is expressed by Roberts and Dwyer (1998), on the auditing profession's use of the terms *materiality and reasonable assurance* to describe and disclose important audit judgements as not being consistent with the profession's alleged public interest orientation. The audit report does not identify materiality ranges that were applied with respect to specific audit engagements. Similarly, the report sheds no light on the question of whether or not the report user would consider the assurance provided 'reasonable'. The profession's refusal to disclose information about materiality judgements and risk determinations is concluded to represent unjustified professional paternalism (Roberts and Dwyer, 1998). They conclude that current technical performance and reporting standards regarding materiality and reasonable assurance cannot withstand criticisms of mystification and professional paternalism.

Another key topic explored by Briloff (2001) is that of auditor independence (or lack of independence thereof). This issue is certainly of considerable interest and relevance in the light of the US SEC's recent hearings into this contentious area. However, one should appreciate that Professor Briloff has championed this cause for decades (e.g., Briloff, 1990, 1993). Briloff emphasises the crisis of confidence and the *GAAP in credibility* that currently confronts the accounting profession. He has been acknowledged as reserving

special mention for “our commitment to the independent audit of publicly owned corporations” in the accounting, auditing and accountability literature.

The significance of Briloff’s critiques was recognised when a special issue of CPA was devoted to one of his articles rejected by Accounting Horizons. The article proposed a critical analysis of a report written by COSO on fraudulent reporting. In the article, Briloff showed in particular that the report’s dubious methodological choices allowed COSO to present the big five in a positive light (Briloff, 2001). Some commentators suggested that this positive position accorded to large accounting firms and professional organisations might be explained chiefly by the importance of these institutions in terms of financing.

Since the launch of CPA, regularly occurring scandals especially in the financial sector have prompted claims that the accounting profession has abdicated its responsibility to act in the public interest (Briloff, 1990), siding with their clients (Briloff, 1993) and promoting their own and their clients’ self-interest over public interest (Dellaportas and Davenport, 2008; Mitchell and Sikka, 1993). Briloff’s (1973, 1981, 1990, 1993, 1994, 1997) claim that the accounting profession over the past several decades has behaved in such a scandalous manner that it has desecrated its sacred covenant with society (Tinker, 2005). Before it is too late, Briloff warns the profession must purge and revive a moral order in which accountants engender truth and provide the world with true and fair representations of enterprises’ financial and economic transactions and events.

Briloff grounds “the existence of a covenant” in the statutory monopoly granted to CPAs by most states, such as New York:

“The practice of the profession of public accountancy is defined as holding one’s self out to the public, in consideration of compensation ... services which involve signing, delivering or issuing ... any financial, accounting, or related statement or any opinion on, report on, or certificate to such statement if, by reason of the signature, or the stationery or wording employed, or otherwise, it is indicated or implied that the practitioner has acted or is acting, in relation to said financial, accounting or related statement, or reporting as an independent accountant or auditor or as an individual having or purporting to have expert knowledge in accounting or auditing.” [2 New York State Statute (Sec. 7401) quoted in Briloff (1990, p.5)]

The critical accounting project has equally descended on the accounting profession with its fair dose of criticisms. In particular, the issue of the professional values of accounting practice is widely debated. From its origins, critical research has strongly contested the idea that the accounting profession is neutral, apolitical, and geared to the common good (Tinker et al., 1982; Cooper and Sherer, 1984) – an orientation it shares with interdisciplinary perspectives (e.g., Burchell et al., 1980).

Concerns emanating from accounting failures have also made their mark in calling the accounting profession into question. These concerns about audit failures cannot be dismissed as ‘Monday-morning quarterbacking’ as there were plenty of straws in the wind regarding the subprime crisis (Sy and Tinker, 2009). Studies by Briloff (1990) and Mitchell and Sikka (1993) of recent accounting and auditing failures come to a similar conclusion. According to them, client interests supersede the public interest, thus leading to concerns that the accountancy profession fails to make the powerful accountable, and itself remains unaccountable. Sy and Tinker (2009) amply echo these concerns by asserting that “today, there is a popular mantra that we should ‘move on’ and avoid

recriminations for past mistakes.” Therefore, it might appear a little unseemly to suggest that auditors and regulators need a proper understanding of past audit failures for clues for handling the future (Sy and Tinker, 2009).

7 Concluding remarks

There is an ever-widening gap between the common man and the social realities created on the back of new technologies. The vast majority of people are grappling to keep afloat with the pace of technological innovation, and the ever-dependent culture created as a result. A nexus is therefore required in order to mediate this gulf. Professionals imbued with the requisite training, knowledge, skills and high moral responsibility and independence, are the necessary agents whose efforts could be employed to protect the public interest. This assertion is much more compelling in the circumstances of the developing economies of the world. The accounting function as performed by the accounting professional within the financial reporting supply chain falls squarely within this sophisticated services regime.

The increased complexities in financial reporting and the gravity of the consequences of accounting failures make the dependence on expert knowledge unavoidable. Stakeholders rely on the expert opinions of accounting professionals in view of the ineluctable structural realities of the industrial society. The rigorous training, continuous professional development and the profession’s reliance on high moral principles place accounting professionals in a position to exercise judgement with higher responsibility and objectivity. We therefore propose a consensual paternalism that takes into account the concerns and needs of accounting information users while recognising the premier role of the expertise of the accounting professional in the assurance provision regime. For instance, when an audit is undertaken, the opinion formed must be explained to the interested user in terms that help gauge the degree of reliance or assurance and the associated implications in decision making.

Support in favour of the preceding calls for limited paternalism should be anchored on a clear elaboration of the usability options of every assurance and review service. However inexhaustible these may be, a best professional judgement is required in opening the options and their associated costs and benefits, together with their probable implications, taking into account the subtleties and limitations of the decision alternatives.

Shareholders are among the most important direct financial interest holder user group of the auditor’s report for instance. They have the power to appoint and/or remove the auditors. As the appointing principals, they ought to ordinarily prescribe the form and content of the information required. However, this normative situation creates some insurmountable legal and practical challenges. Shareholders’ power to direct the day-to-day application of company resources is significantly curtailed unless exceptional circumstances under which the courts may permit a derivative action. Because the auditor’s report tends to attest to the stewardship function of management and those in charge of governance of the reporting entity, granting the shareholder the power to determine the scope and content of the auditor’s report would create an overburdening deterrent effect and cripple innovation and creativity.

The realisation of the modest goal of this paper will call for increased user education, training, assertiveness and active participation in the financial reporting supply chain. User education for instance will play a critical role in diffusing the allegations of monopoly of knowledge by the accounting profession. Thus, the tendency or potential for using the claims of paternalism as a mechanism for self-perpetuation would be greatly curtailed. Similarly, standard setting bodies should endeavour to educate users on the meanings of the salient concepts and terminologies frequently applied in the accounting practice and communication processes.

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Notes

- 1 As in the case of *Caparo Industries Plc v. Dickman* [1990] 2 AC 605.
- 2 The functionalist perspective is based largely on the works of Herbert Spencer, Emile Durkheim, Talcott Parsons, and Robert Merton, which views society as a system of interconnected parts that work together in harmony to maintain a state of balance and social equilibrium for the whole.
- 3 Arthur Andersen is an American holding company and formerly one of the 'Big Five' accounting firms among PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young and KPMG.
- 4 Manifest functions according to Merton (1968) are consequences that are intended and commonly recognised.
- 5 International Federation of Accountants.