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# **Discussant's Response to "Accounting and Auditing History: Major Developments in England and the United States from Ancient Roots Through the Mid-Twentieth Century"**

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## **Summary**

Professor Stettler's paper on accounting and auditing history is a fascinating historical account. I believe it should be required reading for any business student; particularly those specializing in accounting. In fact, as a frequent lecturer and part-time faculty member, I would use this paper in my classes. This historical account is very well written. And, unlike many academic and research oriented papers, the grammar and terminology is very reader friendly.

I really liked this paper. It made me feel proud to be a member of the accounting profession. Indeed, the reader comes away with a rich understanding of the origins of the profession. However, while the paper certainly gives a thorough historical account through the 1970's, it does not develop the significant environmental changes facing the profession in the 1980's and 1990's. As a result, the student may be left wondering how this historical account relates to a current environment which looks so different.

Many believe, and I agree, that our profession is at a crossroads. With the dramatic changes in the environment in which we practice, accountants and auditors have little choice but to change their historical behavior described in this paper. Students will benefit greatly from a strong link of the historical base to the current environment. To do so gives the student an appreciation for the past, an enriched understanding of the present, and the tools to face the significant challenges that lie ahead.

This is an excellent historical account. Yet, there is an opportunity to make it even richer by expanding the discussion, bringing the historical account current, and linking the historical account to the challenges and opportunities of the profession. This will ensure the relevance of the paper to the business and accounting student.

## **A Fascinating Historical Account**

The first known commercial records came from the Mesopotamian Valley around 4000 B.C. Some were scratched into stone; others were recorded on Egyptian papyrus. These records evidence the development of writing which evolved from a need for a record of economic goods. The "scribes" of the day were the forerunners of today's accountant. Later, financial statements were used by the Greeks. And, double entry bookkeeping emerged, attributed by many to Pacioli.

All of this, along with the many historical facts thoughtfully developed in this paper add a richness to the student's understanding of the roots of the accounting and auditing disciplines. Reading this paper helps to give a student perspective, a perspective that includes the role of the accountant in the capital formation process, the

elements of public trust and professionalism, and how accountants and auditors help to satisfy the need for financial information.

### **Must Reading For Business Students; Particularly Accounting Students**

I would encourage any business student to read this paper. As mentioned above, it brings perspective to the role of accounting and auditing in today's business environment. In particular, it thoroughly develops the relationship of auditing to accounting. In my experience, this relationship is one that business students often struggle with. Many students have told me that their auditing classes are amongst their most demanding. In particular, students have difficulty relating auditing, which involves the examination of someone else's work, to accounting, which involves only original performance. The historical account helps to bridge this gap by developing the historical link between the two. Once a student gains an improved understanding of this link, the role of auditing in modern society is easier to put into perspective.

### **This Paper Is Very Well Written**

Many academic papers are written in very technical terms. Often their audiences are other academics or specialists with appropriate credentials to understand the technical presentation. This paper, however, is written in a way that is suitable for the layman and the student. Professor Stettler does an outstanding job of writing this paper using a very readable style. In fact, the writing style develops the historical account much like a well written novel. This style significantly enhances the ability of this paper to be used in a classroom setting.

### **I Really Liked This Paper; It Made Me Feel Good, Maybe Too Good**

In addition to being easy to read, this paper inspires a very positive feeling towards the accounting profession. The descriptions of the important role of accounting and auditing in the capital formation process are eloquent. As I read this paper it made me feel proud to be an accountant. For students, the paper is motivational. The positive spin on the importance of accounting and auditing will no doubt encourage students to consider the accounting profession as an attractive career opportunity.

Yet, I found that the paper made me feel a bit too good. After all, I was aware of the enormous litigation problem facing the profession. And, I was aware of a somewhat diminished stature of the auditor in the public's mind. Also, the expectations gap, despite sincere efforts to narrow, continues to be a challenge. I knew that there were many needs and expectations of users of financial information that were going unmet. Relatedly, I knew the relevancy of historical-cost financial statements and the value of an audit to credit and investment decisions is on the decline. But, I also knew that the profession was taking important measures to begin addressing these critical issues.

Importantly, none of this awareness came from this paper, but from my own research and experience. It made me wonder if the feeling you get from studying this paper was consistent with the realities of the environment in which the profession operates today. I concluded that it was not. Yet this made sense to me since it was clear that Professor Stettler's paper was not intended to venture into the present. But, would this satisfy the curiosity and information needs of a student? In my opinion, the student would react very positively to the historical account, but would immediately

wonder how that relates to the current environment. To be most relevant, students will want to understand how the history of accounting and auditing links to the present; and where appropriate use that linkage to point to the future. I believe there is a significant opportunity to expand this paper to bring the historical account current, provide the linkage from past to present and set the stage for the future. And, there is an opportunity to identify how the profession has responded to past expectation or performance gaps.

### **An Opportunity To Expand the Discussion**

Most business students, particularly accounting majors, will be aware of some of the significant challenges facing the accounting profession. They will have learned of the expectations gap, the litigation problem and diminishing value of traditional financial statement information and the related auditors' report. By picking up where the paper presently leaves off, it would be possible to explore the roots of the problems now facing the accounting profession. In particular, the consolidation of the big firms could be examined, the litigation explosion considered, legislative developments could be discussed, the expectations gap could be further developed and the profession's response to these issues described. And, the further development of the historical account could be linked to the challenges facing the accounting profession in the future.

#### *I suggest expansion of this work in the following areas:*

1. Consolidation – The paper could discuss how the Big 8 became the Big 6, the failure of several large firms and expansion into broader consulting services in the midst of a “mature” audit business.
2. Litigation – The litigation explosion should be explored, including how it is affecting the profession and capital formation, why it occurred and how the profession is responding. For example, such a discussion could include consideration of the accounting profession's role in the S & L crisis in the U.S.
3. Legislative – The discussion of legislative developments could be expanded to include the only significant enacted legislation affecting auditors, the FDICIA and how it has impacted practice. It could also mention the various proposals in Congress to further regulate the profession.
4. Expectations Gap – The expectations gap should be explored, including what it is, how it arose, how it has broadened over time and how the profession has responded.
5. Profession Activities – The profession has been involved in numerous activities addressing many of these issues. They include the issuance of new accounting and auditing standards, tort reform efforts, the AICPA's Special Committee on Financial Reporting, the McFarland report in the U.K., the Cadbury Committee on corporate governance, responses to the POB report including the Kirk report, and the AICPA's Special Committee on Assurance Services.

Truly, the profession is at a crossroads. A very significant chapter in the history of the accounting profession has been written in the last fifteen years. The changes in the environment have been dramatic. To expand this paper to include this period and deal with these changes will greatly enhance its relevancy to today's business and accounting students.

## **Concluding Remarks**

I believe “Accounting and Auditing History....” is an important paper. It gives the student a sense of history that helps put the role of the accounting and auditing disciplines in perspective. It is both thoughtful and well written. However, I see a significant opportunity to broaden its scope, to delve into the last fifteen years, to link the past with the present, and to leave the reader with a sense of what all this means to the future of the accounting profession.