Even though France displays a certain number of specialities that are appreciated outside its borders, it has never been renowned for its being outstanding in the field of auditing! Thus, it may appear as a paradox that a French member of the profession has been asked to deal with the subject „Harmonization of auditing concepts”. In fact, however, there are several reasons which, in the French context, attribute a particular aspect to this matter:

- In France, two categories of professional accountants are entitled to perform audit jobs: the „Commissaires aux Comptes” and the „Experts Comptables”. It would be improper to say that there exists a close harmony between these two categories.

- In France, international auditing firms are very active. One cannot ignore that there is no harmonious coexistence between the „national” and the „international” members of the profession.

- Of the industrial countries France is among the last ones that, either practically or formally, introduced auditing as a general practice in business circles; unlike its Anglo-Saxon colleagues the French audit profession was not in a position to develop „progressively and with pragmatism”. As soon as practicable, clear and generally excepted concepts of accounting and auditing will have to be developed, to serve as a frame of reference.

- Lastly, as France is the home country of DESCARTES, the deductive approach is particularly prevalent. Thus, for the French, a lack of basic concepts in a well-defined field of activities is a more serious handicap than for peoples who are more conversant with an inductive approach.

A primary inventory of literature in the fields of accounting and auditing quickly confirmed that the search for „concepts” and „principles” is particularly evident in the field of accounting, whereas in respect of auditing one is still confronted with a mixture of concepts, principles, standards, methods and approaches, techniques and procedures.

As reference to a „generally accepted” basis is as yet impracticable, it was felt that the subject had to be developed along the following lines:

I. THE NOTION OF BASIC CONCEPTS OF AUDITING
   1) what is understood by „auditing”;
   2) what is understood by „concept”.

II. TRIAL SEARCH FOR THE MAIN BASIC CONCEPTS OF AUDITING
   1) concepts of auditing in general;
   2) concepts of auditing of financial statements.
I. The notion of basic concepts of auditing

10. What is understood by „auditing”

100. Auditing in general
We shall proceed from the definition proposed by PORTER AND BURTON\(^1\): „Auditing is the examination of information by a third party, other than the preparer or user, with the intent of establishing its reliability, and the reporting of the results of this examination with the expectation of increasing the usefulness of the information to the user”.

Owing to its general terminology, this definition seems to be suitable as a basis for arriving at the basic concepts of auditing: it covers the examination of various kinds of information, made by various categories of third parties.

101. Auditing of financial statements
In our search for harmonization sources, we start from an American and a French definition:

The SAS\(^2\) states that „the objective of the ordinary examination of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles”.

According to the standard of the „Ordre des Experts Comptables”\(^3\) „auditing is the examination made by a qualified and independent professional with a view to expressing a reasoned opinion on the trueness and fairness of the balance sheet and profit and loss account of a certain firm”.

By comparing the three afore-cited definitions, we shall try and identify a number of basic concepts that underlie auditing in general, as well as some salient features of these concepts, governing the audits of financial statements.

11. What is to be understood by „concepts”
Without entering into tenuous discussions about semantic research, it is felt proper to indicate in what sense the term „basic concepts” will be used below.

110. Basic concepts of accounting versus basic concepts of auditing
A. It should be realized that in the fields covered by this paper the idea of

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\(^1\) PORTER (W. T.) and BURTON (J. C.) - Auditing: a conceptual approach (Wadsworth Publishing Co. - Belmont 1971).


\(^3\) Ordre des Experts Comptables et Comptables Agréés: Recommendation du 6-7-1966 „Normes de Révision comptable”.

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"concept" was particularly developed in respect of accounting and no more than incidentally in respect of auditing. Without in any way confusing accounting and auditing, I, would start from existing literature in this search for "basic concepts of accounting" for two reasons:

a. a search for basic concepts of accounting evinces that, even in a field where pragmatism and empiricism prevail, it is possible to develop such concepts, albeit that they cannot be as rigorously enforced as in the field of the "exact sciences".

b. a number of basic concepts of accounting are directly related to the auditing of financial statements as well; in some cases, this relation may lead to accounting concepts and auditing concepts becoming confused, as is the case in respect of the concept "materiality" which, although defined as a basic concept of accounting, also underlies the application of all auditing standards.

Another example of the relation between accounting and auditing concepts comes to the fore in connection with the concept "specific business entity". This concept has not achieved general acceptance; other experts accept the "proprietor's theory". These diverging concepts of accounting directly affect the auditor's approach to his duties; according as to whether one bases oneself on the one concept or on the other, the positions of both the management and the auditor differ:

- based on the first acceptance the auditor has a social function (cf. the so-called "confidence theory" of the Amsterdam School);
- based on the second acceptance, the auditor is the confidential agent of the shareholders for the benefit of whom he performs his task.

B. In spite of all the endeavours made to harmonize the terminology in the field of accounting, different authors are still using different denominations which stand in the way of a proper understanding. Thus, according to different authors the "going-concern-concept" is either a "basic postulate of accounting", a "basic accounting principle", or a "basic concept of accounting".

C. Below, the following meanings shall be attributed to the various ideas:

Basic concepts : underlie the accounting principles;

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4) Reference is made in particular to A.P.B. Statement no. 4 and to the following publications which preceded the issue of that statement:
- ASR 1 The basic postulates of Accounting by M. MOONITZ (A.I.C.P.A. - New York - 1961 - 61 pp.).
- ASR 7 Inventory of generally accepted accounting principles for business enterprises by P. GRADY (A.I.C.P.A. - New York - 1965 - 469 pp.).
5) A.I.C.P.A. Statement on Auditing Standards p. 6
Accounting principles: state the directives for accounting;  
Methods and procedures: apply to the implementation of accounting principles.

The distinctions offered by this kind of hierarchic enumeration are inadequate as appears from both actual practice and the writings of some authors; however, they may be conductive to explaining my views on basic concepts of auditing.

111. Approach used in the search for basic concepts of auditing

A. As stated earlier, although the literature on auditing is prolific in manuals or treaties dealing with auditing principles, methods, techniques and procedures, the contents of most, if not all of these terms is still appreciably heterogeneous. As this heterogeneity appears to be one of the main obstacles for arriving at a harmonization, it is felt to be advisable first of all to agree to which matters harmonization efforts should be devoted to. Indeed, when „basic concepts“, upon which one cannot compromise, have been clearly distinguished from „techniques“, which can be used alternatively, the field of misunderstandings between members of the profession shall indeed be reduced appreciably.

B. Well-known members of the profession have stressed the necessity of an agreement on fundamental bases for auditing:
   a. Mr. I. Kleerekoper stated in a paper rendered before the Jerusalem Congress on Accountancy 1971:
      „a mutual understanding is a prerequisite for arriving at a uniformity in approach to and execution of the audit procedures“;
   b. M. H. Ross, in his synthetic report to the 9th International Congress on Accountancy stressed the necessity of arriving at a harmonization at the level of general principles of auditing as a primary step towards a nearly automatic harmonization of techniques and procedures without even the necessity of having them formally regulated.

C. It is felt that the first steps towards harmonization should be an inventory of and a differentiation between:
   a. „basic concepts” relevant to the very nature of an audit as well as to what this activity can achieve within the framework of Economics, Law and business life;
   b. „auditing principles” based on the basic concepts; these principles should govern all audit activities. In this respect a linguistic error should be avoided: common conventions and techniques are often indicated by the word „principles”. Thus, without venturing an opinion on the book of H. F. Settler

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it must be admitted that it deals with much more than "principles" only, to wit with auditing methods, techniques and procedures as well;
c. sets of auditing methods, techniques and procedures. Whereas methods list the steps leading to the pursued objective, the techniques and procedures are put into use and developed while applying the method.

II. Trial search for the main basic concepts of auditing

This search is intended to highlight what seems to constitute the basic concepts of auditing. It does not pretend to achieve definitive results, but to contribute to arriving at what is felt to be the first stage in the harmonization of auditing concepts. Further stages will be:
- an inventory of how the basic concepts are being interpreted in the various countries, with due recognition of the differing statutory requirements, the position of the organs supervising the financial markets, the recommendations of professional bodies, etc. . . .;
- financial markets, the recommendations of professional bodies, etc. . . .;
- a precise formalisation of what, at an international level, might become generally accepted basic concepts of auditing.

It is also felt that the effort of harmonization should affect both the basic concepts and principles of auditing. Elaboration of this would however go beyond the subject-matter of this paper.

20. Concepts of auditing in general

From the definition of auditing, proposed by PORTER and BURTON and quoted under 100 above, a number of basic concepts of auditing in general can be deduced (irrespective of whether financial statements or other information is involved). The two other definitions, quoted under 101 above, furnish additional elements for characterizing the basic concepts of financial auditing.

200. (i) Professional examination of information

By its very nature this first concept seems to characterize auditing: it includes two terms which, in our opinion, can not be disconnected: an examination of some information, or another to be carried out by a professional man.

201. (ii) Engagement of a third party

This second concept, too, is fundamental: it refers to the general idea of division of labour.

202. (iii) The existence of a criterion for the quality of information

This third concept is related to the requirement of a yardstick for measuring the appropriateness of the information involved.

203. **Expression of a justifiable opinion**
This fourth concept is inherent to the nature of a testimony. Here again two criteria can not be dis-associated:
- the expression of an opinion;
- acceptance of responsibility by a person for his attestation ("justifiable").

204. **Increasing usefulness of information**
This fifth concept indicates what the management of an entity is entitled to expect from an audit of accounts.

21. **Concepts of audits of (published) financial statements**
This section will deal with the salient features of audits of financial statements, albeit that the limited scope of this paper does not permit a detailed treatment of the application of the five aforementioned basic concepts.

210. **Professional examination of financial information (ref. 200 above)**
Although "professional" should not be taken as being identical with "competency", the following concepts can be connected with this basic concept:
- a professional examination of financial information implies the existence of methods and techniques which evolve according to the development of financial information;
- the examination is carried out by qualified professionals. The significance of the qualification will be recognised as much by the basic requirements set down for registration as by the improvement of them that is required;
- the existence of a profession is a prerequisite for there being a professional; the significance attributable to and the duties of professional organisations should be judged from this point of view.

The following example aims at illustrating the relationship between basic concepts, principles, methods and techniques:
- **basic concept**: professional examination of financial information;
- **principle**: the audit is affected by the accounting system and internal organization of the audited entity;
- **method**: according to how the systems of providing the necessary information evolve, particularly by the development of EDP, the required auditing steps change: they start from an evaluation of the system of information rather than from outgoing monies, goods and services.
- **techniques**: internal control questionnaires and flow-charts are technical means within the framework of the selected method. If one holds that an examination of the system of internal control is at least as important as the verification of the correctness of the balance-sheet, such a statement, in my opinion, does not refer to a basic concept but to a modification of the approach to audits in general as a sequel of the evolution in the system of financial information.

Lastly, I would note that a discussion on the really "professional" nature of an examination of financial information will have to leave room for differing ideas in the various countries.

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For example, it is only recently that the French Law acknowledged the "professional" nature of activities performed by "Commissaires aux Comptes". As yet, however, it is uncertain whether this profession is generally recognised in business circles. Does not the currently existing official tariff for fees provide ample proof that this "professional" nature is not fully recognised?

211. Engagement of a third party (ref. 201 above)
One might be tempted to identify this concept with the idea of "independence". It is felt, however, that, although, naturally, independence is an element of this concept, it also explains other basic principles e.g. those determining the conditions underlying the use of work performed by internal auditing departments or by other independent auditors.

It is to be expected that a discussion on the conditions under which public accountants are really independent of those preparing the accounts and of those using them, will be conducive to a better understanding between the various categories of members of the profession.

212. The existence of a criterion for the quality of financial information (ref. 202 above)
Similarly, a comparison of the various forms by reference to a common yardstick for judging the quality of financial information may also be expected to reduce considerably the still prevailing reasons for misunderstandings.

In theory, the quality of financial information is related to the extent to which the enterprise adheres to "generally accepted accounting principles". But current discussions on the actual meaning of wordings such as: "present fairly in conformity with G.A.A.P."\(^{10}\), "true and fair view", "régularité et sincérité", demonstrate that, intrinsically, the yardstick for measuring the quality of information has yet to be clearly defined.

213. Expression of a justifiable opinion (ref. 203 above)
Above it has been pointed out that this concept covers two interrelated criteria, viz.:
- the expression of an opinion (note: every person is in a position to express his opinion on a precise piece of information), and
- the responsibility inherent in practising the profession is what in fact characterizes the position of the auditor and attributes significance to his opinion.

The concept "justifiable opinion" is often widely discussed between members of the profession of various countries. Essential differences in statutory professional responsibility and liability appear to cause marked difficulties in achieving harmonization.

\(^{10}\) DR. CARMICHAEL - What does the independent auditor's opinion really mean - The Journal of Accountancy November 1974 pp. 83-87.
214. Increasing usefulness of information (ref. 204 above)
It is felt that this concept is directly related to the increasing significance attributed to information in general and to financial information in particular. This development is also likely to affect the other concepts. We would note, however, that in some countries, such as France, the increasing usefulness of information brought to light by an audit is not generally accepted. Moreover, some business circles do not hesitate to consider as excessive the means that auditors wish to implement, with regard to the usefulness of the services rendered. It is conceivable that the same situation exists in other countries...

Before concluding this paper I would note that I'm fully aware of its imperfection and incompleteness. I hope that these deficiencies will give rise to a more profound consideration of the basic concepts and principles of auditing.

It seems in particular that only a true cooperation between professionals of various countries is likely to contribute materially to an effectuation of a harmonization that would be more than just a formal and academic one.

In any case it should be borne in mind that the main objective of this kind of research is not to define definite concepts and principles, but only to contribute to a greater confidence in and a better understanding of the significance of audit reports issued by auditors in the various countries.