

**THE REGULATION OF STATUTORY AUDITORS
IN ADVANCED CAPITALISM**

C. Richard Baker
Adelphi University
Baker3@Adelphi.edu

Jean Bédard
Laval University
jean.bedard@ctb.ulaval.ca

Christian Prat dit Hauret
University of Bordeaux IV
pratdit@club-internet.fr

THE REGULATION OF STATUTORY AUDITING IN ADVANCED CAPITALISM

This paper addresses the regulation of statutory auditing in advanced capitalism through a comparison of the regulatory structures for statutory auditing in the United States, France and Canada. Using publicly available documents and legal records, this paper seeks to understand how the regulatory structures for statutory auditing have evolved and are evolving through a comparison of regulation in the United States, France and Canada. These three countries were chosen for analysis because their regulatory structures were until recently quite distinct, whereas, following the US Sarbanes Oxley Act of 2002, the structures appear to be becoming relatively similar. We interpret the growing similarity among the regulatory structures to be the result of external pressures from global capital markets for standardized regulatory practices which transcend national boundaries. However, this apparent similarity in the regulatory structures may be a form of “decoupling”, whereby actors in the institutional field of professional regulation, under pressure from powerful external forces, seek to enhance their legitimacy in the field of professional regulation while maintaining internal flexibility and a certain capacity for resistance against pressures existing in the institutional field.

Key Words: statutory auditing, professional regulation, institutional theory

THE REGULATION OF STATUTORY AUDITING IN ADVANCED CAPITALISM

Introduction

Statutory auditing is defined as practice involving the organized production of judgments and opinions regarding the financial reports of certain companies by a person or persons officially recognized by a state or government as being competent to carry out such audits: “The statutory auditor has an essential role in providing credibility to company financial statements because users of financial statements regard the audit report as a guarantee of their reliability” (European Commission, 1998).

Increasingly, the institution of statutory auditing can be considered to be an integral part of advanced capitalism (Power, 1997), without which it would be difficult to envision the operation of capital markets, either nationally or globally. Statutory auditing is distinguishable from the overall practice of public accountancy in that statutory auditing deals with audits mandated by law and regulated by the state. Statutory auditing is performed primarily with respect to companies having securities listed on stock exchanges or other forms of public capital markets. While the avowed purpose for the regulation of statutory auditing is to protect the public interest, the way in which this purpose has been organized and articulated has varied from country to country.

In this paper we examine the regulation of statutory auditing in the United States, France and Canada. These three countries were chosen for analysis because until recently their regulatory structures for statutory auditing were quite distinct. Following the enactment of the United States Sarbanes Oxley Act of 2002, and comparable legislation in France and Canada, the regulatory structures for statutory auditing in these three countries appear to have become similar. We interpret this apparent similarity to be the result of external pressures from global capital markets for standardized regulatory practices which transcend national boundaries. We further investigate whether this apparent similarity represents a form of “decoupling”, whereby actors in the institutional field of professional regulation, under pressure from powerful external forces, seek to enhance their legitimacy while maintaining flexibility in their internal practices and retaining a certain degree of resistance to external pressures.

The remainder of this paper is organized as follows. In the first section we describe an analytical framework adapted from Puxty et al. (1987) which classifies modes of regulation in advanced capitalism. We also define the analytical focus of our investigation as being the regulatory structures themselves and not the accounting profession or professional auditors. In the second section, a discussion of Institutional Theory as applied to the regulation of statutory auditing will be presented. In the third section, changes in the regulatory structures for statutory auditing in the

United States, France and Canada will be discussed. A final section discusses and concludes the paper.

Modes of regulation in advanced capitalism

In this section we summarize the key elements of an analytical framework developed by Puxty et al. (1987), which theorized the regulation of professional activity as the expression of the combined forces of the state, the social community, and the market. Puxty et al. identified four modes of regulation under advanced capitalism: *Liberalism*, *Associationism*, *Corporatism* and *Legalism*. These modes of regulation are distinguished by the relative involvement of the state and the market in the regulatory structures. As illustrated in Figure 1, the modes of regulation are arranged according to the increasing (decreasing) role of the state (market).

*****Insert Figure 1 here*****

Liberalism -- Under Liberalism, the regulation of statutory auditing is defined by the market for audit services. Auditing is viewed as a service purchased by companies to enhance the credibility of their financial statements. The fee paid to the auditor is a function of the perceived value to the company of the credibility added by the audit. The greater the credibility added, the greater the fee earned. Fees may increase over time and thereby provide an on-going revenue stream for the auditor. The auditor is self-interested and wants to build a reputation for quality and avoid the loss that might occur if the financial statements were revealed to be false or misleading. Market forces exert pressures on auditors to maintain high levels of technical and ethical standards, to which they conform on a voluntary basis, and with respect to which they assume unlimited liability (Thornton, 1992).

Associationism -- At an intermediate level of regulation, falling between the market and the state, we find Associationism. Pursuant to this mode of regulation, regulatory activities are effectuated through professional institutes or associations that represent and defend the interests of their members. Membership in a professional institute or association is based on shared economic interests rather than a consonance of values (Puxty et al., 1987, p. 284). The coming together of individuals with similar economic and professional interests permits economies of scale to be realized with regard to entry level examinations and continuing professional education, as well as the creation and promulgation of professional standards. It also permits association members to make their qualifications known to potential clients. The association as a whole has an interest in building a reputation for honesty and integrity, so that membership in the association becomes a mark of quality. To accomplish this objective, the association establishes stringent admission criteria, promulgates technical and ethical standards, oversees the practices of members, and when standards are violated, excludes delinquent members from membership or exacts penalties to deter such behavior. Professional associations are often designated by the state as having certain rights or privileges pertaining to specific types of services (e.g. statutory auditing).

Corporatism- Pursuant to the regulatory mode of Corporatism, the state not only permits the creation of professional associations, it integrates these associations into its regulatory apparatus. In essence, the state co-opts the association to implement its policies and procedures. Corporatism permits the state to transfer the costs of regulating professional activities to the association while removing conflicts regarding monopoly practices from the sphere of public

debate (Richardson and McConomy 1992, p. 39). In exchange, the association accepts constraints while agreeing to maintain professional standards. The members of the association seek to enhance the reputation of the association because they recognize that their private interests must correlate with the public interest if the association is to maintain its favorable economic status (DTI, 1998, p. 4).

Legalism- Pursuant to the regulatory form of Legalism, regulatory power resides with the state, and the exercise of regulatory power functions according to the laws and regulations promulgated by the state. Legalism is sometimes found where markets fail to deter private interests from transferring economic costs to others against their will (e.g. financial fraud), or if there is a need to establish a balance of power between private interests due to an asymmetry of information and an inability on the part of one party to compel the other party to provide desired information. In certain countries, primarily in Continental Europe, Legalism has historically been the predominant mode of professional regulation. Under Legalism, professional associations function as virtual arms of the State.

According to Puxty et al., Liberalism and Legalism are situated at opposite ends of a continuum passing through Associationism and Corporatism. Empirically, one does not find pure instances of Liberalism or Legalism; these are ideal types. In addition, increasing levels of globalization and international economic integration have led to a reduction in the distinctions between these different modes of regulation (a trend that was envisaged by Puxty et al.). Nevertheless, it was the argument of Puxty et al. that certain modes of regulation tend to predominate in a particular country. Thus, in France the mode of regulation has been closest to Corporatism or Legalism. While in Canada the mode of regulation has been closest to Associationism. In the United States there has been a mixture of Associationism and Legalism. The dominant mode of regulation in a particular country is a function of the legal and economic history of the country, as well as various other influences such as: the power and prestige of the accounting profession and the degree of control of corporations and business activity generally.

The evolution of previously distinct modes of regulation into regulatory structures with similar features and aspects constitutes the primary focus of our paper. The increasing similarity among regulatory structures is hypothesized to be the result of external pressures from global capital markets. Before discussing the evolution of the regulatory structures, however, we feel that it is important to be reasonably precise about the level of analysis that we adopt in this paper. In the Puxty et al. framework, the level of analysis was the mode of regulation, not the accounting profession as a whole or accountants and auditors as social actors. In other words, Puxty et al.'s analytical focus was on role of the state in creating and animating regulatory structures, or permitting professional associations to create regulatory structures under the auspices of the state. Accordingly, under the mode of regulation known as Legalism, the state establishes regulatory structures through legislation and decrees, while in Associationism the state permits professional associations to establish regulatory bodies and structures (e.g. Canada). While we acknowledge that large international public accounting firms may be active agents which seek to resist or control the regulatory structures in which they are enmeshed (Cooper and Robson, 2006; Malsch and Gendron, 2009), the analytical focus of our paper is on the regulatory structures themselves and not the professional firms or individual accountants and auditors.

Institutional theory

From its origin in Weber's (1947) metaphorical description of bureaucracy as an "iron cage," institutional theory has evolved into a theoretical research paradigm with a significant influence on a number of social science disciplines. Although institutional theory initially developed within the discipline of sociology (DiMaggio and Powell, 1983; Meyer and Rowan, 1977), it has also been used in various other academic disciplines such as political science (Lowndes, 2001), organizational behavior (Greenwood and Suddaby, 2006), and strategic management (Lounsbury and Glynn, 2001; Oliver, 1997). One of the more interesting aspects of institutional theory relates to its acknowledgement of the symbolic aspects of organizational structures and the notion of "decoupling" as a type of resistance to external institutional pressures (Meyer and Rowan, 1977).

Various features of institutional theory have provided a theoretical framework for research in accounting, including the accounting profession (Carpenter and Dirsmith, 1993; Dirsmith et al., 1997; Eden et al., 2001; Fogarty, 1992a, b, 1996; Fogarty et al., 1997; Hunt and Hogler, 1993; Suddaby et al., 2007), accounting regulation (Hines et al., 2001; Cooper and Robson, 2006); and the regulatory role of the Securities and Exchange Commission (Bealing, 1994; Bealing et al., 1996; Neu, 1991; Rollins and Bremser, 1997).

A basic premise underlying institutional theory is that "organizations" operate in accordance with both external and internal governance structures. All organizations are socially constituted, and they are subject to external pressures which influence the design and operation of their governance structures. These governance structures enable organizations to operate legitimately within a particular institutional field (Dillard et al., 2004; Scott, 1995 p. 136). In this paper we use the word "organization" to mean the "regulatory structures for statutory auditing", including the regulatory bodies created by the state or by professional associations acting under the auspices of the state. External pressures on the "organization" (i.e. the regulatory structures and the regulatory bodies) derive from the state and its regulatory powers. Therefore, the "organization" incorporates both the regulatory structures and the regulatory bodies created by the state and/or professional institutes and associations. The institutional field includes the legal framework pursuant to which the regulatory structures and regulatory bodies are created and under which they operate.

The use of institutional theory with regard to the regulation of statutory auditing, appears to have been contemplated by DiMaggio and Powell (1983) in the following quote:

Professions are subject to the same coercive and mimetic pressures as are organizations. Moreover, while various kinds of professionals within an organization may differ from one another, they exhibit much similarity to their professional counterparts in other organizations. In addition, in many cases, professional power is as much assigned by the state as it is created by the activities of the profession (p.152).

DiMaggio and Powell go on to say that "institutionalization" is a process whereby organization structures are created and transmitted in organizations. Institutional Theory is therefore primarily concerned with an organization's (i.e. the regulatory structures and the regulatory bodies) interactions with its institutional field (i.e. the legal framework), the effects of external expectations on the organization (i.e. the regulatory structures and the regulatory bodies), and the

effects of these expectations (Martinez, 1999). Many changes to regulatory structures are motivated by legitimacy-seeking behaviors, which are in turn influenced by socially constructed norms. If a particular type of organization (i.e. the regulatory structure) is to survive, it must interact with its institutional field in ways that are acceptable within that field. By creating a structure that adheres to the norms and expectations of the environment, an organization (i.e. the regulatory structures and the regulatory bodies) demonstrates that it is acting on collectively valued purposes in a legitimate way (Meyer and Rowan, 1977). The incorporation of institutionalized elements provides the rationale for structures and practices and protects the organization from having its conduct questioned (Meyer and Rowan, 1977, p. 349). Thus, conscious efforts are made to create, maintain and manage legitimacy in the eyes of powerful external forces in order to receive continued support (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Tolbert and Zucker, 1983). A highly institutionalized organizational field exerts pressures on the regulatory structures and regulatory bodies because of the power of the state and other external forces which influence the regulatory structures into adopting practices consistent with expectations (Greening and Gray, 1994, p. 471).

DiMaggio and Powell (1983) recognized the potential for of a “decoupling” between formal structures and actual practices within an organization. Decoupling is defined as a process whereby external structures are adopted by an organization in a ceremonial way but actual practices remain largely determined by local factors (Fourcade, 2006). Decoupling therefore refers to the discrepancy between formal structures and actual practices (Meyer and Rowan, 1977; Tilcsik, 2009). Organizational researchers have documented decoupling in a variety of settings, including schools (Meyer et al., 1978; Delucchi, 2000), corporations (Westphal and Zajac, 2001), government agencies (Tilcsik, 2009) and non-governmental organizations (Elsback and Sutton, 1992). Previous studies have advanced several explanations for the existence of decoupling. Some researchers have argued that decoupling enables organizations to establish legitimacy with powerful external constituents while simultaneously maintaining internal flexibility (Meyer and Rowan, 1977). It has also been suggested that decoupling may occur because it serves the interests of organizational leaders (Westphal and Zajac, 2001) or because it allows organizational decision-makers to avoid implementing policies that conflict with their established ways of acting (Tilcsik, 2009).

Recent changes in the regulatory structures for statutory auditing in the United States, France and Canada, appear to reflect the effects of external pressures from global capital markets for standardized regulatory practices which transcend national boundaries. However, there is also evidence of decoupling, in particular with respect to the changes in the regulatory structures in France and Canada. The changes in the regulatory structures are discussed in the following sections.

The evolution of regulatory structures for statutory auditing in advanced capitalism

This section analyzes the regulatory structures for statutory auditing in the United States, France and Canada. These three countries were chosen for analysis because until recently they had relatively distinct regulatory structures. In the United States, for example, the regulatory structure for statutory auditing includes elements of the federal and state governments, as well as structures created by the American Institute of CPAs (AICPA). In Canada, there is also a federal government, but the licensing of statutory auditors is primarily in the hands of professional

institutes in each of the Provinces. In France, the licensing of statutory auditors, as well as standards setting and practice regulation, are vested in a governmental body created and supervised by the French state.

Various changes have emerged in the regulatory structures for statutory auditing since 2001. The changes were the result of certain audit failures in the United States which led to the passage of the US Sarbanes Oxley Act of 2002 (SOX). This law fundamentally changed the regulatory structure for statutory auditing in the US. There were no similar audit failures in France or Canada that would have prompted changes in the regulatory structures for statutory auditing in those countries, nevertheless, there was legislation introduced in both countries to change the regulatory structures. The changes in France were largely mimetic with respect to the changes in the US, while the changes in Canada were more normative in that they increased the responsibility of the accounting profession with regard to the regulation of statutory auditing.

Changes in the Regulatory Structure for Statutory Auditing in the United States

Subsequent to the passage of the Sarbanes Oxley Act, the regulatory structures for statutory auditing in the US changed in significant ways. One of the primary aspects of this change was the creation of the Public Companies Accounting Oversight Board (PCAOB) which regulates “registered auditors” (i.e. statutory auditors). The responsibility for setting auditing standards, independence standards, ethical standards and practice reviews was removed from the AICPA and transferred to the PCAOB. These changes are summarized in Figure 2 and Appendix I.

****** Insert Figure 2 ******

Prior to SOX, the regulatory structures for statutory auditing in the US involved a mixture of Associationism and Legalism. The evidence for Associationism can be found in the key role played by the AICPA in several aspects of regulation including: the issuance of Auditing Standards through its Auditing Standards Board; control of practice reviews through the Public Oversight Board (a private sector body created by the AICPA during the 1990s which was dissolved after the creation of the PCAOB); and control of ethics and disciplinary procedures through the Code of Conduct and the Joint Trial Board. After the creation of the PCAOB, most of these regulatory structures were transferred to the PCAOB. Because the PCAOB is an entity created by law, the regulatory structure is now closer to Legalism than Associationism. These changes in the regulatory structures resulted from pressures imposed by the US Federal Government, which exerted its power to change the regulatory structures. As Canada et al. (2008) point out:

“the unveiling of another major financial scandal (i.e. WorldCom), and a Senate committee that placed heavy reliance on SEC Chairman Levitt’s corporate governance proposals created a storm that the accounting lobbies could not counter, and the result was a significant piece of legislation that almost by accident created one of the greatest protections in history for the public interest within the arena of the financial markets and related corporate behavior” (p. 987).

Many of the provisions of the Sarbanes Oxley Act had already been advocated by the then Chairman of the SEC Arthur Levitt and the SEC Chief Accountant Lynn Turner. When the law

was introduced on the Senate floor, Senator Sarbanes referred to Levitt's testimony before the Senate committee regarding a need for a PCAOB type of structure which would remove the regulation of statutory auditing from the auditing profession (Canada et al. 2008). Levitt was able to revive his agenda for audit regulation (particularly the creation of the PCAOB and the prohibition on non-audit services), which had failed less than two years earlier. Due to the political environment at the time, combined with business scandals and a growing economic recession, neither the professional accounting firms nor the business lobbyists could prevent SOX from passing. The accounting profession could not take a public stance in opposition to the law. Senator Corzine argued that SOX "may be the most important step" taken in corporate governance and audit regulation since the enactment of the securities laws in 1933 and 1934 (Canada et al. 2008)

Interestingly, despite various attempts by political actors to reduce or eliminate the provisions of SOX (Baker, 2008), there is little evidence of decoupling, whereby changes to the external structures are implemented but internal practices remain intact. Auditing standards, ethical standards, independence standards, and practice inspections are now in the hands of the PCAOB.

Changes in the Regulatory Structure for Statutory Auditing in France

Because of the worldwide publicity surrounding the American financial scandals, which led to the passage of the Sarbanes Oxley Act, the French government felt that it would be necessary to respond to the crisis by changing the French regulatory structure. In a speech to the National Assembly on 27 January 2003, Jean-Louis Debré, President of the Assembly noted that:

"It is necessary for us to react quickly to restore confidence in the functioning of enterprises and the reliability of financial markets. The Law on Financial Security will provide, I am convinced, a strong signal of the will of Government to restore healthy practices of corporate governance and transparency of financial information" (<http://www.Assemblee-Nationale.fr/12/DPR/dpr0010.asp>).

The French government's response to this proposal was the Law No. 2003-706 dated 1 August 2003 on financial security (LSF). Although it was less ambitious than the Sarbanes Oxley Act, the LSF contained 139 articles divided into four titles, focusing primarily on modification to the structures of regulatory bodies, modifications regarding permissible activities of statutory auditors, increasing investor protection, and various provisions dealing with insurance, financial law, banking law, accounting law, and company law. The reforms established by the LSF included the creation of a *Haut Conseil du Commissariat aux Comptes* (HC3). The French government charged the HC3 with two essential functions: monitoring of the auditing profession, and ensuring compliance with professional ethics and particularly the independence of auditors. In addition to the creation of the HC3 there were other changes to the regulatory structures for statutory auditing, including a more precise definition of the separation between consulting and auditing services and a 6 year maximum term as a statutory auditor for a specific company.

Prior to the enactment of the LSF, the auditing profession was concerned about the possible creation of a new regulatory body to supervise the French auditing profession similar to the PCAOB in the US. In order to forestall this possibility, the auditing profession (acting through the *Compagnie nationale des commissaires aux comptes* (CNCC)) initiated a dialogue with

French government authorities in 2002 in order to avoid regulation that might put the profession under the direct control of the government or under a regulatory body which the profession did not control. It is now generally agreed that the French auditing profession escaped the “American big-bang” and that the profession of auditing continues to be regulated much in the way that it had been before the LSF (Champetier, 2003).

However, it should be noted that the French auditing profession was already highly regulated. Thus, the LSF represented a sort of continuity in a process of change that had already been initiated between the French government and the French auditing profession. Even if the US financial scandals helped to initiate certain changes, the regulatory structure of the French auditing profession would have changed. In addition, various actors both inside and outside the government agreed that the regulatory structure for statutory auditing in France was already among the most developed among advanced capitalist countries. Dominique Perben, Minister of Justice at the time of the enactment of the LSF stated that:

“Even if we do not have the same pressures as in the USA, we do indeed intend to do something and we have discussed several solutions. The new law lies in the direction that the auditing profession has been pursuing and it is obviously not a sign of distrust in the profession. A separation of roles between consulting and certification of accounts has existed for a long time in France, which has probably allowed us to avoid the problems of the Americans. Furthermore, the auditing profession, and this corresponds to French legal culture, was already more regulated than in the Anglo-Saxon system. With the regulatory structures that have been added, we are, at the international level, at a good level of credibility. The creation of the H3C also allows French audit professionals to conduct audit engagements with respect to French companies listed in the US. It is through the LSF and the creation of the HC3 that we reinforce the ethics of the auditing profession in order to maintain the credibility of France on an international level. The credibility of our regulatory authority is a key point. We have had discussions, sometimes a little difficult, with the American regulators in order to allow French professionals perform audit engagements, especially for French firms in the United States. My goal is to ensure that French professionals can practice their profession, including for American subsidiaries of French companies.

<http://archives.lesechos.fr/archives/2002/LesEchos/18805-107-ECH.htm?texte=haut%20conseil%20du%20commissariat%20aux%20comptes.>)

Thus, contrary to the situation in the US where the federal government utilized its power to impose a significant change in the regulatory structures, the changes in the regulatory structures in France were primarily directed towards changing the names of certain regulatory bodies. The new law retained the former structure of regulation whereby statutory auditors are regulated through a legal framework which confers upon them the status of a regulated profession in which auditors participate actively by defining ethics rules and establishing practice monitoring mechanisms. The changes in the regulatory structures in France were focused around three main axes: creating an external supervisory authority for the profession (the HC3), reinforcement of independence rules, and creation of new powers for the Garde des Sceaux (Minister of Justice) and the securities commission (Autorité des marchés financiers). Figure 3 illustrates the regulatory structure for statutory auditing in France before and after the LSF. The members of

the H3C and the AMF are appointed by the French government, through the Minister of Justice). Appendix II lists summarizes the regulatory bodies which compose the regulatory structure in France.

*****Insert Figure 3*****

Since World War II, the French government has required all statutory auditors to belong to the Compagnie Nationale des Commissaires aux Comptes, which functions under the supervision of the Ministry of Justice. The 2003 law did not fundamentally change this regulatory structure. While the changes to the regulatory structures were made largely in response to the changes taking place in the regulatory structures in the United States, the operations of the underlying regulatory body (i.e. CNCC) did not change, and the establishment of auditing, ethics and independence standards, as well as practice reviews and disciplinary procedures, remain under the purview of the CNCC. Moreover, as the quote from the Minister of Justice illustrates, there was a conscious attempt on the part of the French government to provide the appearance of a regulatory structure which mimicked the American structure primarily to allow French auditors to be able to audit companies in the US. This is an example of decoupling in that there is a superficial symbolic change in the regulatory structures, but there is no significant change in the internal operating procedures of the regulatory bodies; indeed one apparent motivation for the change in the regulatory structures was the economic interests of the French auditing profession with respect to being able to continue to perform audits in the US.

Changes in the Regulatory Structure for Statutory Auditing in Canada

Pursuant to the Canadian constitution, the power to regulate professional activity as well as securities regulation is the responsibility of the Provinces. The ten Provinces of Canada regulate the practice of statutory auditing, acting in collaboration with the professional institutes in each Province. Figure 4 outlines the institutional structure of the regulation of statutory auditing in Canada.

*****Insert Figure 4*****

All of the Provincial governments, with the exception of Québec¹, have created bodies to regulate statutory auditing similar to the State Boards of Accountancy in the US. These bodies are charged with the responsibility for administering the public accountancy laws and regulations. In the all provinces, there are institutes (or *Ordre*) of chartered accountants that play a significant role in the regulation of statutory auditing in Canada. These bodies are responsible of the licensing of statutory auditors, establishing the rules of professional conduct, including independence rules, practice inspection, and discipline. Members of the Provincial institutes and *Ordre* are automatically members of the Canadian Institute of Chartered Accountants (CICA).

¹ In Québec, there is no regulator for the public accountancy profession. By law, the regulatory responsibility has been delegated to the Order of Chartered Accountants of Québec (OCAQ). This body, like other professional bodies in Québec, is supervised by the *Office of Professions* which assures that professional bodies act in the public interest. It can make recommendations regarding rules and regulations of the Order, and if the Order does not adopt such recommendations, the Office can impose them.

The primary function of the CICA is to develop and issue accounting and auditing standards. It also shares responsibilities with the provincial institutes with respect to the process of admitting new members and administering the code of ethics. The operations of the CICA are financed through fees paid by members of the Provincial institutes. The CICA has several committees and boards that are important in the regulatory structure (see Appendix 3). Thus before SOX, the regulatory structure for statutory auditing in Canada was primarily Associationism through the provincial Institutes and the CICA.

Because there were no major accounting or auditing scandals in Canada the pressure for regulatory reform was relatively weak. In addition, the decentralized regulation at the provincial level made changes more difficult to enact. In an open letter entitled “The Enron Situation” issued in February 2002, the CICA President and CEO stated that (Smith 2002):

“[I]n Canada, our profession operates differently than it does in the United States. Our discipline and oversight regimes are significantly different and our practice inspection systems also differ from the American peer review process.”

While the CICA president tried to provide assurance regarding the quality of the Canadian self-regulation process, the profession wanted to collaborate with the regulators in order to avoid direct regulation by the state. Thus, the CICA president added that “if change is needed in Canada, we have every confidence that we will be able to sit down together with the regulators and other stakeholders in the capital markets and get it done” (Smith 2002).

There was a significant degree of concern about the impact of SOX within the Canadian federal government (Howlett, 2003) and also within the Ontario Securities Commission (OSC). As indicated by the chairman of the OSC: “By coming to grips with the tough issues, the profession can avoid the Commission having to step in and use our rule-making power” (Brown, 2002). Consequently, there was some evidence of coercion being imposed upon the regulatory structure by external bodies such as the OSC. However, because there was little political motivation to place these issues high on the public policy agenda, it was understood that “Established ‘players’ will seek ‘measured’ reforms that do not threaten or disrupt established market positions and practices” (Waitzer, 2002).

Two main changes were made to the regulatory structure of the profession. First, an independent public oversight board, the Canadian Public Accountability Board (CPAB) was created in 2002. The CPAB was established as a co-operative national effort involving federal and provincial regulators along with the CICA. Similar to the PCAOB, CPAB is responsible for registering firms, practice inspections, and sanctioning firms. It does not have the power of establishing auditing and ethical standards. These responsibilities are still in the hands of the profession. The second change was the establishment in October 2002 of the Auditing and Assurance Standards Oversight Council (AASOC) to oversee the activities of the Auditing and Assurance Standards Board (AASB). While such a council was rejected in 1998 by the CICA Task Force on Standard Setting (CICA 1998), the transfer of the auditing standard setting responsibility to the PCAOB in the US seems to have made the CICA change its mind.

While there has been some movement towards structures which have a superficial correspondence with those established by the Sarbanes Oxley Act, the profession has maintained

ist power of self-regulation. Thus the changes to the regulatory structure for statutory auditing in Canada can be described mainly as a process of normativism. The professional institutes have made changes to the regulatory structures as a result of professional deliberations and consultations rather than through the coercive power of the state, thus retaining the essential features of Associationism.

Comparative Analysis and Discussion

There are apparent similarities in the regulatory structures for statutory auditing in the United States, France and Canada (see Table 1). In each of these countries, there are regulatory bodies created by the state, as well as involvement by professional associations or institutes. The number of bodies, their powers, and their responsibilities vary from country to country. In addition, depending on the political/legal structure, the number of regulatory bodies and their degree of power varies. With respect to capital market regulation, each of the countries has created a national, state or provincial authority charged with the responsibility of protecting the interests of investors. These entities are under the direct control of the state. Typically the majority of the membership of these bodies is named by governmental authorities; their powers and responsibilities are prescribed by law, and they are responsible directly to the state for their actions and their decisions.

*****Insert Table 1*****

In the United States, the laws surrounding the regulatory structure for statutory auditing have led to the creation of governmental or quasi-governmental agencies (i.e. PCAOB or Boards of Accountancy) which are responsible for certain aspects of regulation. In contrast, in Canada the regulatory bodies are controlled by professional associations. In Ontario, for example, the members of the regulatory body are named by the Canadian Institute of Chartered Accountants (CICA). In contrast again, in both France and Québec professional associations have been created by law. Pursuant to the regulatory mode of Corporatism, the state has integrated these associations into its regulatory structure by conferring certain responsibilities and powers on the association, while also establishing constraints on its behavior. The degree of constraint varies. In Québec, public representation on the Board of Directors of the OCAQ is required, while in France only statutory auditors can serve on the administrative bodies of the CNCC. However, after the creation of the HC3, the majority of the members of must now come from outside the auditing profession. Typically the members of the HC3 are magistrates or representatives of the French government. Overall, the constraints imposed on the regulatory bodies are perhaps greatest in Québec, where the powers of the OCAQ are stipulated by the Code of Professions. In contrast, the ICAO in Ontario probably has the least amount of constraint imposed by law. With the exception of mandated public representation on its Board of Directors, the CA Act of Ontario imposes few obligations and constraints on the ICAO.

After passage of the Sarbanes-Oxley Act, the regulatory structure for statutory auditing underwent a process of dramatic change in the United States whereby the self-regulatory powers of the American accounting profession were removed and transferred to the PCAOB. In France, a law enacted in 2003, renamed certain regulatory structures in a process of mimeticism, which symbolically copied the structures created in the United States, but did not fundamentally change the regulatory structures that had previously existed in France. In Canada, the auditing profession

was largely able to maintain self-regulation. See Table 2 for a graphic representation of the comparative evolution of the regulatory structures.

*****Insert Table 2*****

While it seems clear that there were mimetic tendencies taking place in France and normative tendencies taking place Canada, there is also evidence of “decoupling”, which refers to the discrepancy between formal structures and internal practices (Meyer and Rowen, 1977; Tilcsik, 2009). As discussed above, organizational theorists have suggested that decoupling enables organizations to establish legitimacy with powerful external forces while simultaneously maintaining internal flexibility (Meyer and Rowen, 1977). Decoupling may occur because it serves the interests of organizational leaders or because it allows organizations to avoid implementing policies that conflict with their values or established ways of acting (Tilcsik, 2009). In the case of France, it seems to have been important to have enacted a law which created a regulatory structure having similarities with the regulatory structure established in the US pursuant to the Sarbanes Oxley Act. At the same time, there was a desire to maintain established ways of acting. Consequently, the underlying regulatory structure in France (i.e. the CNCC) was not changed in any fundamental ways. In addition, because the French regulatory structure was essentially based on Legalism, the change in the US structure towards Legalism did not cause France to move further towards Legalism. Moreover, decoupling can be said to exist in the French regulatory structure in that while the regulation of statutory auditing is under the direct supervision of the Ministry of Justice, the day to day function of the audit profession is essentially in the hands of the audit professionals.

In Canada, because of the high proportion of Canadian companies that are listed in the US, it was important to acknowledge the changes taking place in the regulatory structure for statutory auditing in the United States. However, it was also important to Canadian identity and to the Canadian accounting profession to maintain its values of professionalism involving a high degree of self-regulation. Thus, there was little pressure to create a PCAOB type structure which would remove self-regulation away from the accounting profession and place the regulatory structure in the hands of a governmental authority. Instead, the accounting profession in Canada was able to maintain the key elements of self-regulation.

Summary and Conclusion

In this paper we have analyzed recent changes in the regulatory structures for statutory auditing in three advanced capitalist countries, specifically the United States, France and Canada. These three countries were chosen because historically they have had different legal/political structures which impact significantly on the ways in which regulation is structured and implemented. In the United States, the legal and political structure is federal, with each of the 50 States having the independent power to license statutory auditors. There is also significant power vested in the federal government with respect to setting audit standards and practice regulation. In contrast, in Canada there is also a federal structure, but the licensing of statutory auditors is in the hands of professional institutes. Standards setting and practice regulation is also in the hands of professional institutes. In France, the licensing of statutory auditors, as well as standards setting

and practice regulation is vested in a governmental body created and supervised by the government.

Institutional Theory has been used as a theoretical framework for this paper. There are several reasons for the choice of Institutional Theory. First, Institutional Theory recognizes the importance of professional regulation in the isomorphic reproduction of social structures (DiMaggio and Power, 1983; Suddaby et al., 2007). Second, Institutional Theory stresses the interaction between the evolution of professional regulation and the regulatory power of the state (Willmott, 1986). Third, the co-evolution of the institutions of the state and the institutions of professional regulation is a key factor in institutional change (DiMaggio, 1991). Fourth, Institutional Theory is increasingly used to understand the dynamics of globalization (Guillen, 2001). In effect, globalization appears to be leading towards an apparent similarity in the regulatory structures in advanced capitalism. These changes have been imposed by law in the United States, where the federal government has taken over large segments of the formerly self-regulatory aspects of professional regulation. In France the changes in the regulatory structure provide a symbolic appearance of mimicking the structural forms of the Sarbanes Oxley Act without actually changing the way that the regulation of statutory auditing in France is implemented in practice. Finally, in Canada the structural changes have resulted from normative pressures, where the public accountancy profession has largely retained its right to self-regulation based on an appeal to professional responsibility which is largely accepted by the Canadian public and government.

The question is whether, in the face of increasing globalization, advanced capitalist countries can maintain unique and distinct regulatory structures for professional regulation, or whether the regulatory structures for statutory auditing and other professions will become increasingly similar across countries, even if the underlying substance of the regulation remains distinct. In addition, it may also be important to raise the question whether the regulation of statutory auditing by the nation state is actually effective in protecting the public interest. The recent changes in the regulatory structures do not necessarily lead to the conclusion that the changes have been effective in protecting the public interest. Thus, future research should be directed towards an examination of which regulatory structures may be more effective in protecting the public interest.

REFERENCES

- Baker, C.R. (1993, “Self-regulation in the public accounting profession: the response of the large, international public accounting firms to a changing environment”, *Accounting, Auditing, Accountability Journal*, Vol. 6, No. 2, pp. 68-80.
- Baker, C.R., Mikol, A. and Quick, R. (2001), “Regulation of the statutory auditor in the European Union: A comparative survey of the United Kingdom, France and Germany”, *European Accounting Review*, Vol. 10, No. 4, pp. 763-786.
- Baker, C.R. (2008), “Ideological reactions to Sarbanes-Oxley”, *Accounting Forum*, Vol. 32, No. 2, pp. 114-124.
- Bealing, W.E. (1994), “Actions speak louder than words – an institutional perspective on the SEC”, *Accounting, Organizations and Society*, Vol. 19, pp. 555-67.
- Bealing, W.E., Dirsmith, M.W. and Fogarty, T.J. (1996), “Early regulatory actions by the SEC: an institutional theory perspective on the dramaturgy of political exchanges”, *Accounting, Organizations and Society*, Vol. 21, pp. 317-39.
- Bédard, J. and Leblanc, L. (1991), “Prévenir plutôt que guérir”, *CA Magazine*, (November), pp. 40-45.
- Bédard, J. (2001), “The disciplinary process of the accounting profession: protecting the public or the profession? The Québec experience”, *Journal of Accounting and Public Policy*, Vol. 20, N° 4/5, (Winter), pp. 399-437.
- Bédard, J., Gonthier-Besacier, N. and Richard, C. (2001), “Quelques voies de recherche françaises en audit”, Teller, R. and Dumontier, P. *Faire de la Recherche en Comptabilité Financière*, FNGE – Vuilbert, Paris.
- Bédard, J., Baker, C.R. and Prat dit Hauret, C. (2002), “La réglementation de l'audit : Une comparaison entre le Canada, les États-Unis et la France”, *Comptabilité, Contrôle et Audit*, (May), pp. 139-168.
- Blij, I., Hassink, H., Mertens, G. and Quick, R. (1998), “Disciplinary practices and auditors in Europe: A comparison between Germany and the Netherlands”, *The European Accounting Review*, Vol. 7, No. 3, pp. 467-491.
- Brown, D. A. (2002), “Preventing Enron north: improving financial reporting and corporate governance in Canada”, *Conference Board's 2002 Business Outlook Briefings*, Ontario Securities Commission, Toronto (http://www.osc.gov.on.ca/en/About/News/Speeches/spch_20020307_conf-board-enron.htm)
- Canada, J., Kuhn, J.F. and Sutton, S. (2008), “Accidentally in the public interest: the perfect storm that yielded the Sarbanes-Oxley Act”, *Critical Perspectives on Accounting*, Vol. 19, pp. 987–1003.
- Carpenter, B. and Dirsmith, M.W. (1993), “Sampling and the abstraction of knowledge in the auditing profession: an extended institutional theory perspective”, *Accounting, Organizations and Society*, Vol. 18, pp. 41-63.
- Champtier, J-L. (2003, “Les actionnaires mieux protégés”, *La Vie Financière*, 25 July.
- Code Civil Du Québec (1991), *Lois du Québec*, Québec City, Québec.
- Code Des Professions (1994), *Lois refondus du Québec c26*, Québec City, Québec.
- Commission de Reduction des Formalites Administratives de l'Ontario (2001), *La Comptabilité Publique: Recommandations à l'Attention du Procureur Général*, (http://www.redtape.gov.on.ca/french/member/default.asp?action=show&article_id=209)

- Compagnie Nationale des Commissaires aux Comptes (2000), *Normes professionnelles et code de déontologie*, CNCC Edition, Paris.
- Compagnie Nationale Des Commissaires Aux Comptes (1999), *Guide*, Juillet, CNCC Edition, Paris.
- Cooper, D. and Robson, K. (2006), “Accounting, professions and regulation: locating sites of professionalization”, *Accounting, Organizations and Society*, Vol. 31, pp. 415-444.
- Décret 69-810 Du 12 Août (1969), Government of France, Paris..
- Delucchi, M. (2000), “Staking a claim: The decoupling of liberal arts mission statements from baccalaureate degrees awarded in higher education,” *Sociological Inquiry*, Vol. 70, 157-71.
- Demortain, D. (2008), “Institutional polymorphism: The designing of the European Food Safety Authority with regard to the European Medicines Agency”, *Centre for Risk and Regulation Discussion Paper No. 50*, London School of Economics, London.
- Department of Trade and Industry (DTI)(1998), *A Framework of Independent Regulation for the Accountancy Profession: A Consultation Document*, DTI, London, <http://www.dti.gov.uk/cld/framework>.
- DiMaggio, P.J. and Powell, W.W. (1983), “State expansion and organizational fields”, in R.H. Hall and R.E. Quinn (eds.) *Organizational Theory and Public Policy*, Sage, Beverly Hills.
- DiMaggio, P.J. (1991), “Constructing an organizational field as a professional project: US art museums, 1920-1940”, in W.W. Powell and P.J. DiMaggio (eds.) *The New Institutionalism in Organizational Analysis*, University of Chicago Press, Chicago, IL, pp. 267-293.
- Dillard, J., Rigsby, J.T., and Goodman, C. (2004), “The making and remaking of organization context: Duality and the institutionalization process”, *Accounting, Auditing & Accountability Journal*, Vol. 17, pp. 506-542.
- Dirsmith, M.W., Heian, J.B. and Covalleski, M.A. (1997), “Structure and agency in an institutionalized setting: the application and social transformation of control in the big six”, *Accounting, Organizations and Society*, Vol. 22, pp. 1-27.
- Eden, L., Dacin, M.T. and Wan, W.P. (2001), “Standards across borders: cross border diffusion of the arms length standard in North America”, *Accounting, Organizations and Society*, Vol. 26, pp. 1-23.
- Elsbach, K.D. and Sutton, R. (1992), “Acquiring organizational legitimacy through illegitimate actions: A marriage of institutional and impression management theories”, *Academy of Management Journal*, Vol. 35, pp. 699-738.
- European Commission. (1998), *Accounting: Commission Communication on the statutory audit in the European Union, IP/98/399*. European Commission, Brussels.
- Evans, L. and Nobes, C. (1998), “Harmonization relating to auditor independence: The Eighth Directive, the UK and Germany”, *The European Accounting Review*, Vol. 7, No, 3, pp. 493-516.
- Fogarty, T.J. (1992a), “Organizational socialization in accounting firms – a theoretical framework and agenda for future research”, *Accounting, Organizations and Society*, Vol. 17, pp. 129-49.
- Fogarty, T.J. (1992b), “Financial accounting standard setting as an institutionalized action field – constraints, opportunities and dilemmas”, *Journal of Accounting and Public Policy*, Vol. 11, pp. 331-55.
- Fogarty, T.J. (1996), “The imagery and reality of peer review in the US: insights from institutional theory”, *Accounting, Organizations and Society*, Vol. 18, pp. 243-67.

- Fogarty, T.J., Zucca, L.J., Meonske, N. and Kirch, D. (1997), "Proactive practice review: a critical case study of accounting regulation that never was", *Critical Perspectives on Accounting*, Vol. 8, pp. 67-87.
- Fourcade, M. (2006), "The construction of a global profession: The transnationalization of economics", *American Journal of Sociology*, Vol. 112, No. 1, pp. 145-94.
- Frumkin, P. and Galaskiewicz, J. (2004), "Institutional isomorphism and public sector organizations", *Journal of Public Administration Research and Theory*, Vol. 14, No.3, pp. 283-307.
- Greenwood, R. and Suddaby, R. (2006), "Institutional entrepreneurship in mature fields: the Big Five accounting firm", *Academy of Management Journal*, Vol. 49, No. 1, pp. 27-48.
- Guillen, M. (2001), "Is globalization civilizing, destructive or feeble ? A critique of six key debates in the social science literature", *Annual Review of Sociology*, Vol. 27, pp. 235-260.
- Howlett, K. (2003), "Appetite for regulatory reforms lacking, former OSC boss says", *The Globe and Mail* (February 17)
(<http://www.globeinvestor.com/servlet/ArticleNews/story/GAM/20030217/RWAIT>)
- Institut Canadien Des Comptables Agréés (1988), *Rapport de la commission sur les attentes du public (Rapport MacDonald)*. Institut canadien des comptables agréés, Toronto.
- Loi Du 24 Juillet (1966), French Government, Paris.
- Public Accountancy Act (1990), *Revised Statute of Ontario (R.S.O.) c. P.37*
(<http://www.canlii.org/en/on/laws/stat/rso-1990-c-p37/latest/rso-1990-c-p37.html>)
- Lounsbury, M. and Glynn, M. A. (2001), "Cultural entrepreneurship: stories, legitimacy, and the acquisition of resources", *Strategic Management Journal*, Vol. 22, No. 6/7, pp. 545-564.
- Lowndes, V. (2001), "Rescuing Aunt Sally: taking institutional theory seriously in urban politics", *Urban Politics*, Vol. 38, No. 11, pp. 1953-1971.
- Malsch, B. and Gendron, Y. (2009), "Independent audit regulators and the reproduction of conflicts of interests in the field of public accounting". Working paper, Université, Laval, Québec, Canada.
- Meyer, J. W. and Rowan, B. (1977), "Institutionalized organizations: formal structure as myth and ceremony", *American Journal of Sociology*, Vol. 83, No. 2, pp. 340-363.
- Meyer, J.W. and Rowan, B. (1978), "The structure of educational organizations", M.W. Meyer (ed.), *Environments and Organizations*, Jossey-Bass, San Francisco.
- Oliver, C. (1997), "Sustainable competitive advantage: combining institutional and resource-based views", *Strategic Management Journal*, Vol. 18, No. 9, pp. 697-713.
- Ordre Des Comptables Agréés Du Québec (1994). *Processus d'apprentissage permanent*. Ordre des Comptables Agréés Du Québec, Québec, Canada.
- PCAOB (2003), *Press Release*, Public Companies Accounting Oversight Board, Washington, DC.
- POB (2001), *Public Oversight Board Annual Reports*, American Institute of Certified Public Accountants, New York, (<http://www.aicpa.org/members/div/secps/pob/index.htm>).
- Power, M. (1997), *The Audit Society: Rituals of Verification*, Oxford University Press, Oxford.
- Projet De Loi No 87 (2000), *Loi modifiant le Code des professions et d'autres dispositions législatives*, chapitre 13. French Government, Paris.

- Puxty, A.G., Willmott, H.C., Cooper, D.J., and Lowe, T. (1987), "Modes of regulation in advanced capitalism: locating accountancy in four countries", *Accounting Organizations and Society*, Vol.12, No.3, pp. 273-291.
- Richardson, A. and Mcconomy, B. (1992), "Three style of rules", *CA Magazine*, pp. 40-44.
- Robson, K., Willmott, H.C., Cooper, D.J. and Puxty, A.G. (1994), "The ideology of professional regulation and the markets for accounting labour: Three episodes in the recent history of the UK accountancy profession", *Accounting, Organizations and Society*, Vol. 19, No. 6, pp. 527-553.
- SEC (1997), *Policy Statement: The Establishment and Improvement of Standards Related to Auditor Independence, Financial Reporting Release No. 50*. Securities and Exchange Commission, Washington, D.C.
- Securities Exchange Act of 1934*, Securities Exchange Commission, Washington, D.C.
- Smith, D. W. (2002), *The Enron Situation: an open letter from CICA President and CEO David W. Smith*, FCA, Canadian Institute of Chartered Accountants, Toronto
- Streeck, W. and Schmitter, P.D. (1985), *Private Interest Government: Beyond Market and State*, Sage, New York.
- Suddaby, R., Cooper, D. and Greenwood, R. (2007), "Transnational regulation of professional services: governance dynamics of field level organizational change", *Accounting, Organizations and Society*, Vol. 32, No. 4/5, pp. 333-362.
- The Chartered Accountants Act (1956), *4-5 Elizabeth II, Ch. 7 of the Statutes of Ontario*, (http://www.icao.on.ca/public/handbook/ca_act.html). Ottawa, Ontario.
- Thornton, D. (1992), "L'intervention de l'état dans les marchés de l'expertise comptable – Réquisitoire", *Finéco*, Vol. 2, No. 1, pp. 1-8.
- Tilcsik, A. (2009), "From ritual to reality: Demography, ideology, and decoupling in a post-communist government agency", *Academy of Management Journal*. <http://ssrn.com/abstract=1494035>.
- Weber, M. (1947), *The theory of social and economic organizations*, Free Press, New York.
- Willmott, H. (1986), "Organising the profession: a theoretical and historical examinations of the development of the major accountancy bodies in the UK", *Accounting, Organizations and Society*, Vol. 11, pp. 555-580.
- Westphal, J.D. and Zajac, E. (2001), "Explaining institutional decoupling: The case of stock repurchase programs", *Administrative Science Quarterly*, Vol. 46, pp. 202-28.

Appendix 1: Regulatory Bodies for Statutory Auditing in the United States

- *Securities and Exchange Commission (SEC)* – The SEC is an agency of the US federal government, created by the *Securities Exchange Act of 1934 (1934 Act)*. The SEC can establish both accounting and auditing standards as well as the qualifications of auditors (Securities Act of 1933). The SEC delegates this authority to FASB and the PCAOB. The SEC can institute legal proceedings against auditors.
- *Public Companies Accounting Oversight Board (PCAOB)*. The PCAOB is a private-sector, not-for-profit corporation, created by the Sarbanes-Oxley Act of 2002 (SOX). The PCAOB began operations in April 2003. The PCAOB includes five members chosen by the SEC. The majority of the five members must come from outside of the accounting profession. All accounting firms that perform statutory audits in the United States must register with the PCAOB. The PCAOB establishes auditing standards, independence standards, and performs practice reviews (i.e. inspections).
- *State Regulation*- The regulation of the accounting and auditing profession is carried out at the state level through *Boards of Accountancy (Boards)*. These Boards are governmental entities. They administer laws dealing with the practice of accounting and auditing. The Boards are responsible for issuing licenses to practice as a CPA. The members of the Boards are chosen by the governors of each state. The powers of the Boards include admission to practice as a statutory auditor. The financing of the boards comes from fees paid by statutory auditors.
- *AICPA*- CPAs are organized nationally into the *American Institute of Certified Public Accountants (AICPA)*. Membership in the AICPA is voluntary. Previously, the AICPA had a great deal of power and influence over the regulation of both accounting and auditing. Among the current activities of the AICPA are the preparation and marking of the *Uniform CPA Exam*, which is required to become a statutory auditor, and facilitating the activities of the *Professional Ethics Executive Committee*, which sets the ethical standards for accountants and auditors who do not audit public companies.
- *Auditing Standards Board (ASB)* – The ASB was formed in 1978. Until recently, the ASB had the responsibility of establishing Generally Accepted Auditing Standards (GAAS). The ASB is composed of fifteen members. The operations of the ASB are financed through the general budget of the AICPA. The ASB continues to establish standards for non-statutory audits.
- *Ethics Division* – The Ethics Division of the AICPA is responsible for administering and enforcing the AICPA’s Code of Professional Conduct. The Ethics Division operates under the supervision of the *Professional Ethics Executive Committee (PEEC)*. The PEEC has 21 members. Since October 2001, 25% of the members represent the public.

Appendix 2: Regulatory Bodies for Statutory Auditing in France

- *Autorité des Marchés Financiers (AMF)*. This entity was created by the Loi de sécurité financière du 1er août 2003, through a merger of the Commission des Opérations de Bourse (COB), the Conseil des Marchés Financiers (CMF), and the Conseil de discipline de la gestion financière (CDGF). The mission of the AMF includes overseeing the functioning of the securities markets. The CNCC operates in close collaboration with the AMF. Like its predecessor, the AMF must be informed of proposals to appoint or reappoint the auditors of public companies and it may make a comment on such proposals. It may also request information about auditees from statutory auditors. The Loi de sécurité financière also gave power to the AMF to initiate an inspection of a statutory auditor and to request the assistance of the CNCC.
- *Compagnies des Commissaires aux Comptes*.² Statutory auditors are organized at the regional level into *Compagnies Régionales de Commissaires aux Comptes (CRCC)* and at the national level into the *Compagnie Nationale des Commissaires aux Comptes (CNCC)*. The CNCC operates under the supervision of the Justice Minister (Garde des Sceaux). The CNCC is responsible for establishing requirements to become a statutory auditor; for establishing auditing standards; and for establishing the disciplinary practices of the profession. The CNCC is administered by a national council whose members are elected by representatives from the regional CRCCs. Members of the CNCC include all statutory auditors, as well as auditing firms (Art. 25). The CNCC also establishes the ethical standards for the auditing profession. The regional CRCCs are responsible for maintaining the list of members, supervising the practice of auditing, and determining the annual fees of members.

The Loi de sécurité financière modified the status of the CNCC. It is now a public corporation with legal personality instituted under the Minister of Justice and directed to serve the public interest (Loi 2003-706 du 1er août 2003, Art. 100). This status does not change its mission or structure, but as a public corporation, it has the power to defend the public interest by being a civil party against persons who commit infringements of rules or regulations.

- *Haut Conseil du Commissariat aux Comptes (H3C)* - The Loi de sécurité financière created the High Council for Auditors (H3C) to provide supervision for the profession with the support of the CNCC and to ensure respect for professional ethics and the independence of auditors (Code de commerce, Art. L821-1). The H3C is composed of 12 members and includes legal experts and judges, persons qualified in the areas of economics and financial affairs, as well as representatives from the securities exchanges, along with certain academic accountants. Statutory auditors are included, but they constitute a minority of the members (3 members). The H3C is charged with reviewing and providing an opinion on the auditing standards issued by the CNCC prior to their approval by the Minister of Justice. The H3C has assumed the responsibility for audit quality reviews that was previously assumed by the Comité d'Examen National d'Activité (CENA). This program is directed towards the review of audit practices including: defining the scope of reviews; analysis of audit quality; conformity with ethical standards; and any other matters

² There is also an *Ordre des Experts Comptables*, whose members serve as advisors to companies regarding accounting and tax matters. Legally, the professions of Expert Comptable and Commissaire aux Comptes are distinct, but they are practiced simultaneously by many accountants in France, provided that the auditing function and the accounting advisory function are not carried out at the same time for the same client

requested by the Minister of Justice in situations having public importance. The H3C also serves as an appeal board for disciplinary decisions of the regional CRCCs.

- *Comité de déontologie de l'indépendance (CDI)*. In 1999, the Commission des Opérations de Bourse (COB) and the CNCC established a consultative committee on independence, referred to by its French acronym as the CDI. The mission of the CDI was to provide advice and recommendations concerning the independence of statutory auditors, particularly with regard to auditors of companies with publicly traded securities, and also to enhance the objectivity of audit findings. The CDI was composed of 11 persons designated jointly by the CNCC and the AMF, of which the majority cannot come from the auditing profession. Since 2003, the H3C is the highest authority invested with the duty of regulating statutory auditing, whether the auditee is a public company or not.

Appendix 3: Regulatory Bodies for Statutory Auditing in Canada

- *Provincial Securities Commissions* – Each Province has a Securities Commission or Autorité des marchés financiers which regulates, among other things, companies issuing securities (common shares and bonds) to the public, including companies with shares listed on stock exchanges. The operations of the Commission are financed through fees paid by the issuers of securities. The provincial securities commissions act together with the Canadian Securities Authority to establish uniform rules and regulations throughout Canada.
- *Canadian Institute of Chartered Accountants (CICA)* - CAs are organized nationally into the CICA. As soon as a CA is a member of a provincial institute or *Ordre*, s/he becomes a member of the CICA. The CICA coordinate rules which are of provincial jurisdiction but need to be uniform at the national level (e.g. national entrance examination, uniform code of ethics, and requirements for Continuing Professional Development and Professional Liability Insurance). The CICA has been given the authority by the various Corporation Acts and other regulations to set auditing standards and accounting standards. This is done by stating that the financial statements should be prepared and audited in accordance with the CICA Handbooks.
- *Auditing and Assurance Standards Board (AASB)* – The AASB has the responsibility of establishing Generally Accepted Auditing Standards (GAAS). The AASB comprises twelve persons, all members of the CICA, with a majority who are practicing public accountants, along with a minority representing other spheres of activity such as industry, commerce, finance and academia. The operations of the AASB are financed by the CICA.
- *Provincial Institutes and Ordre* – The provincial institute the qualifying and regulatory body of the CAs. They are responsible of the entrance examination, qualifications, Continuing Professional Development requirements, code of ethics, practice inspection, and enforcement of Rules of Professional Conduct.
- *Auditing and Assurance Standards Oversight Council (AASOC)* - AASOC is an independent body established in October 2002 by the CICA to oversee the activities of the Auditing and Assurance Standards Board (AASB). AASOC members include users, preparers of financial and other reports and auditors. The responsibilities of AASOC include to appoint members to the AASOC and the AASB and be satisfied that the standard setting process is appropriate and responsive to the public interest;
- *Canadian Public Accountability Board (CPAB)* – CPAB is a private-sector, not-for-profit Corporation created by Federal and provincial financial and securities regulators, as well as Canada's chartered accountants. It is governed by a Board composed of 11 directors including at least four, but no more than five professional accountants. All board members are appointed by the Council of Governors. While its creation was announced in July 2002, its operation began in October 2003. Firms' participation to CPAB is mandate through Canadian Securities Administrators (CSA) rule 52-108 (2004) which require auditors of reporting issuers to be members in good standing with the CPAB. Its mandate include to establish and monitor participation requirements, perform practice inspection of firms that audit reporting issuers in Canada, and disciplinary action against firms or individuals that CPAB has determined did not perform audits in accordance with professional standards.

Figure 1: Modes of regulation in advanced capitalism



Figure 2: Regulatory Structure for Statutory Auditing in the United States

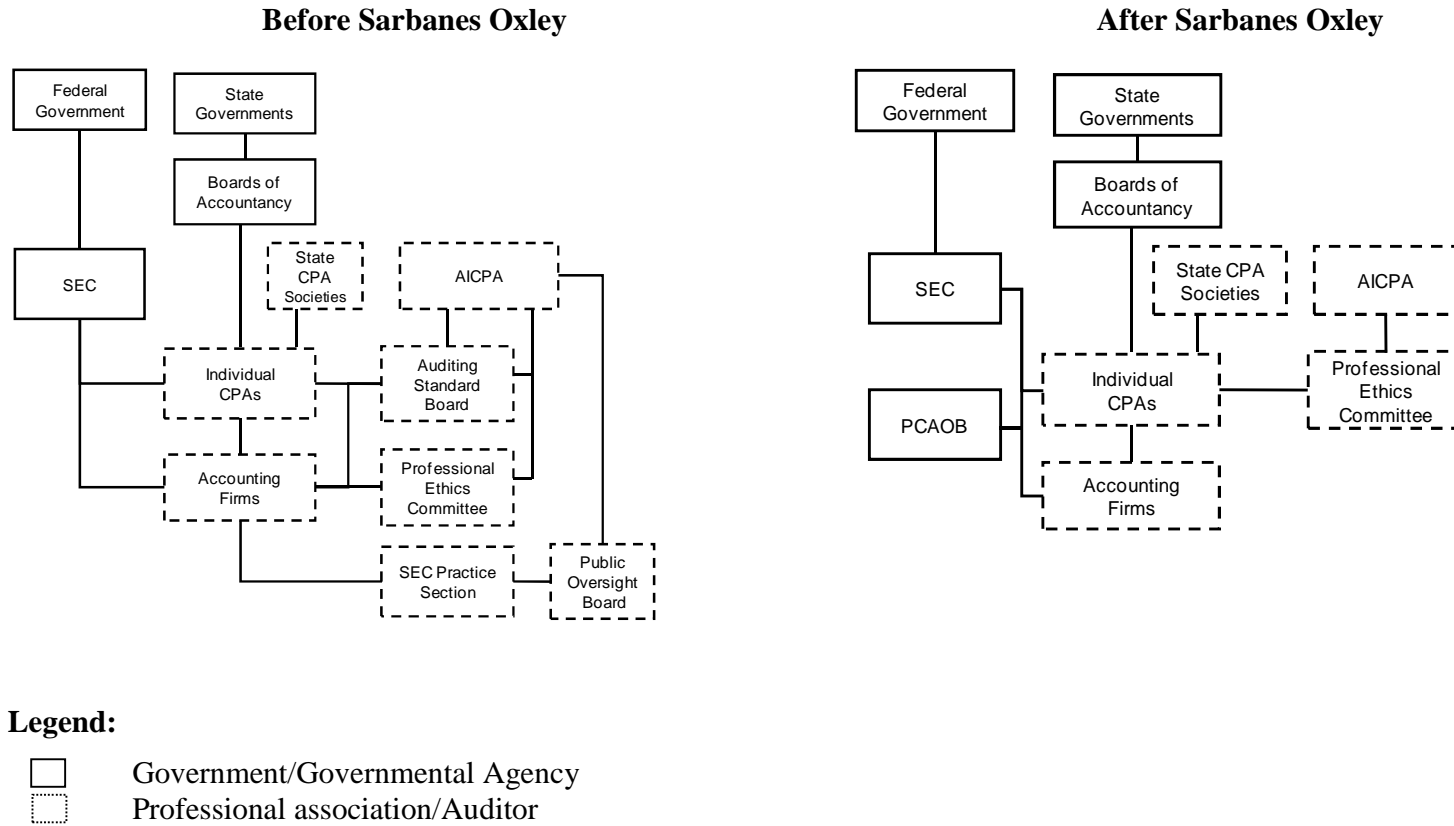


Figure 3 Regulatory Structure of Auditing in France

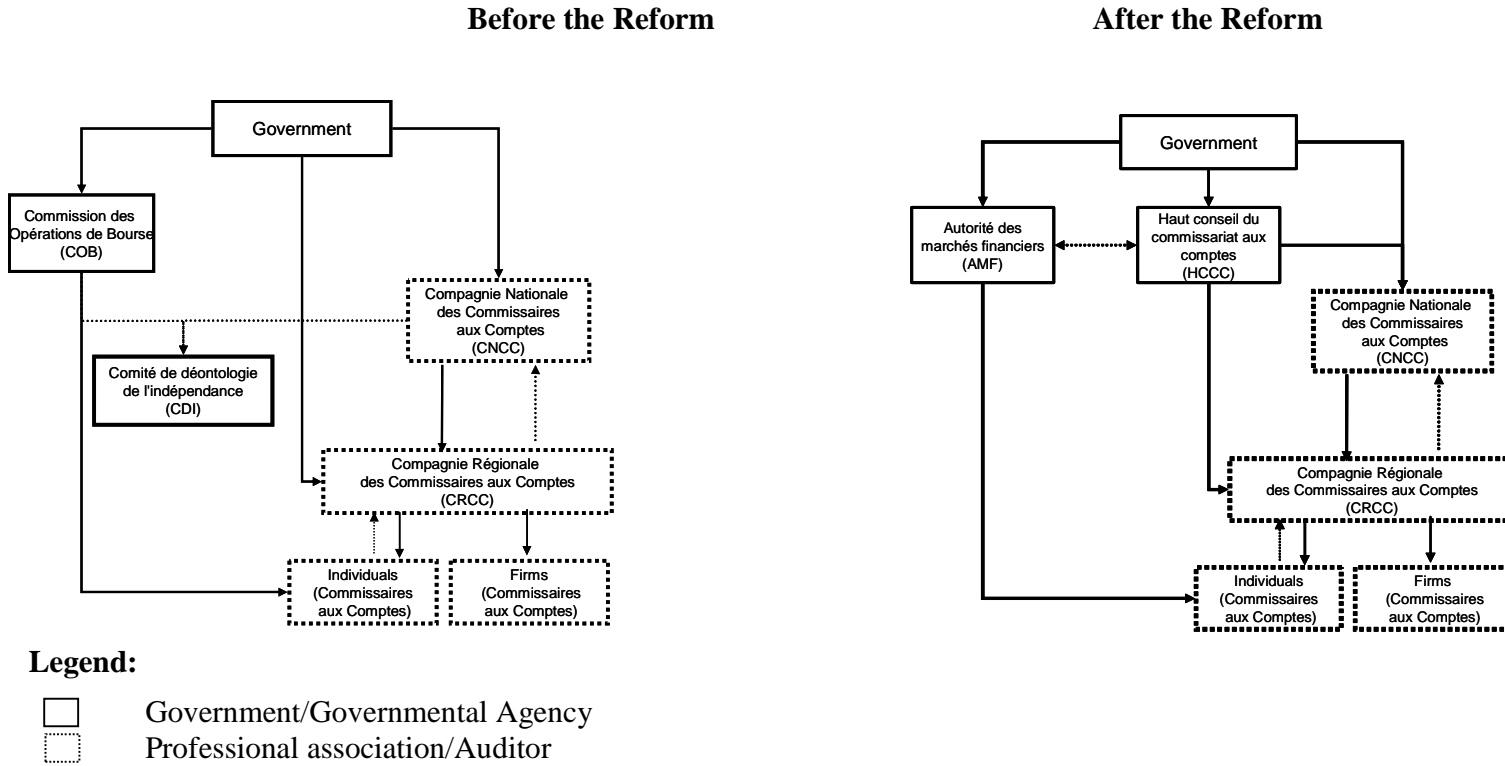
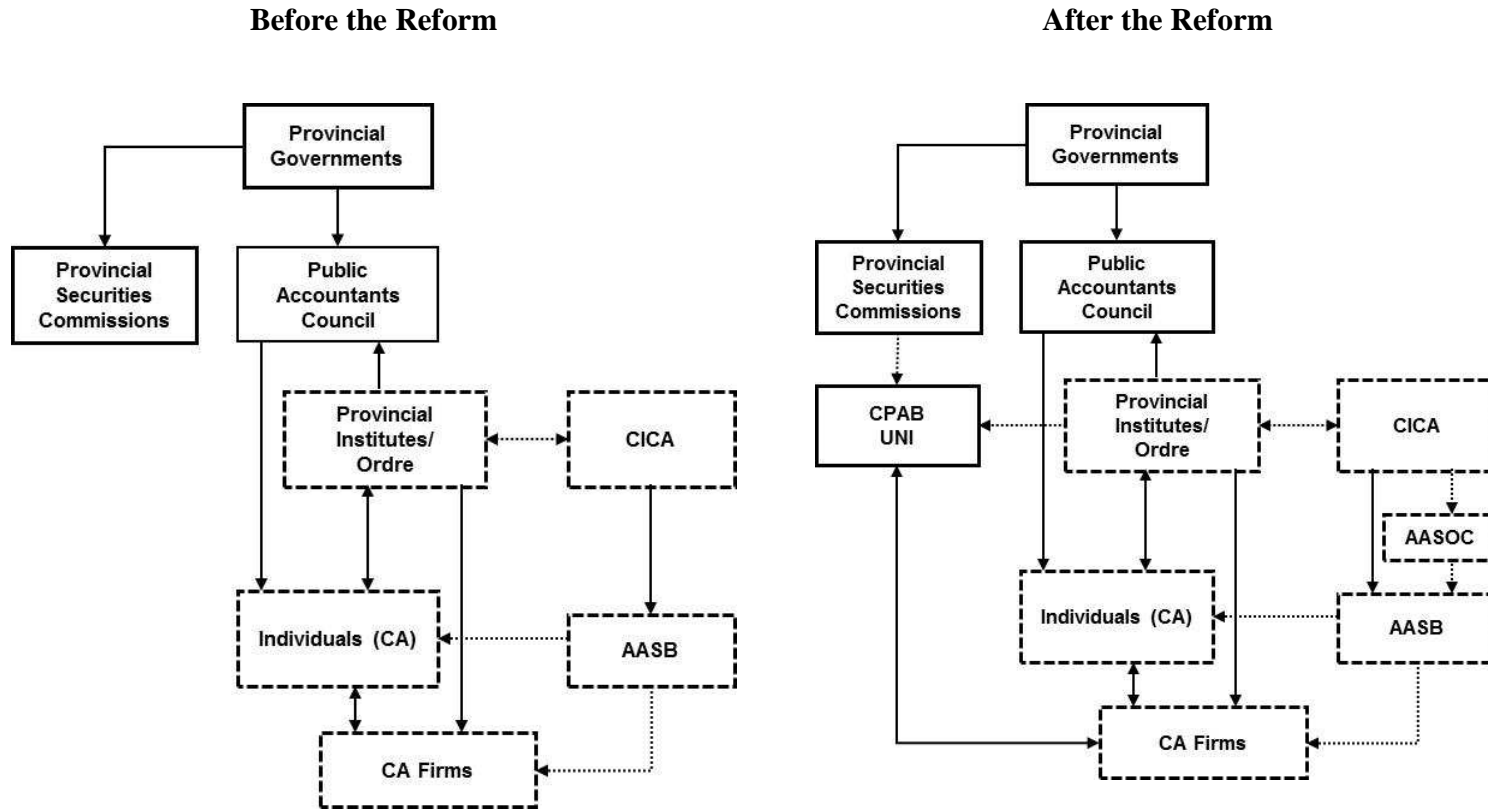


Figure 4 Regulatory Structure of Auditing in Canada



Legend:

- Government/Governmental Agency
- Professional association/Auditor

Table 1: Comparison of Regulatory Structures

ASPECT OF REGULATION	UNITED STATES	FRANCE	CANADA
<i>Licensing of Auditors</i>	Associationism/ Legalism	Corporatism/Legalism	Associationism
<i>Standards Setting</i>			
• <i>Auditing</i>	Legalism	Corporatism/ Legalism	Associationism
• <i>Ethical</i>	Associationism/ Legalism	Corporatism/ Legalism	Associationism (Ontario), Corporatism (Québec)
<i>Practice Regulation</i>	Legalism	Corporatism	Associationism (Ontario) Corporatism (Québec)
<i>Preponderant Mode</i>	Associationism/ Legalism	Corporatism/ Legalism	Associationism (Corporatism in Québec)

Table 2: Evolution of regulatory structures

ASPECT OF REGULATION		Market	Association	Corporate	Legalism
UNITED STATES OF AMERICA					
<i>Licensing of Auditors</i>	▪ <i>Individuals</i>		B, A		
	▪ <i>Firms</i>		B	→	A
<i>Standards Setting</i>	▪ <i>Auditing</i>		B	→	A
	▪ <i>Ethical</i>		B	→	A
	▪ <i>Ethical - Independence</i>				B, A
<i>Practice Regulation</i>	▪ <i>Practice Inspection</i>		B	→	A
	▪ <i>Enforcement</i>			B →	A
<i>Preponderant Mode</i>			B	→	A
CANADA					
<i>Licensing of Auditors</i>	▪ <i>Individuals</i>		B, A		
	▪ <i>Firms</i>	B	→	A	
<i>Standards Setting</i>	▪ <i>Auditing</i>		B, A		
	▪ <i>Ethical</i>		B, A		
<i>Practice Regulation</i>	▪ <i>Practice Inspection</i>		B	→	A
	▪ <i>Enforcement</i>		B	→	A
<i>Preponderant Mode</i>			B	→	A
FRANCE					
<i>Licensing of Auditors</i>	▪ <i>Individuals</i>			B, A	
	▪ <i>Firms</i>	B, A			
<i>Standards Setting</i>	▪ <i>Auditing</i>		B, A		
	▪ <i>Ethical</i>		B, A		
	▪ <i>Ethical - Independence</i>				B, A
<i>Practice Regulation</i>	▪ <i>Practice Inspection</i>			B, A	
	▪ <i>Enforcement</i>			B, A	
<i>Preponderant Mode</i>				B, A	