

# **Nothing Like The Enron Affair Could Happen In France (!)**

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## **Abstract**

This article reviews the reactions of the French accounting profession and academia following the collapse of both Enron and Andersen. It considers policy statements and declarations on the part of the accounting profession, legislative changes, the general impact on University accounting education programmes and specific developments in accounting teaching at my own institution, HEC. It considers the value of using corporate scandals in the teaching process and claims that more accounting theory and ethical issues should be introduced in accounting educational programmes.

## **Kew words**

Enron; Accounting education; Ethics; France; HEC Paris

## **Résumé**

Cet article analyse les réactions en France de la profession comptable ainsi que des enseignants suite à l'effondrement d'Enron et d'Arthur Andersen. Il examine les déclarations de professionnels comptables, les changements législatifs, l'impact général sur l'enseignement de la comptabilité dans les études supérieures et des éléments spécifiques dans l'institution de l'auteur, HEC. Il met en avant la valeur pédagogique de l'utilisation des scandales comptables et estime que davantage de théorie comptable et d'aspects éthiques devraient être introduits dans les programmes d'enseignement de la comptabilité.

## **Mots clés**

Enron, enseignement de la comptabilité, éthique, France, HEC.

## **1. Introduction**

In the aftermath of the Enron disaster, the French accounting profession very much took the view that the scandal “does not concern us” or that “nothing like it could happen in France”. Academic accountants did not readily enter the public arena (e.g. by contributing critical articles in the press). However, some individual reactions gradually did emerge within academic spheres, notably within the Francophone Accounting Association (FAA - formerly the French Accounting Association<sup>1</sup>). This article reviews such reactions, considering policy statements and declarations on the part of the accounting profession, legislative changes, the general impact on University accounting education programmes and specific developments in accounting teaching at my own institution, HEC.

## **2. No Immediate Reaction From the French Academic Community**

When news of the Enron scandal broke in October 2001, there was no immediate reaction from the academic community in France. This was in considerable contrast to what happened in the USA at the Academy of Management congress, when a special session was devoted to this type of problem and the responsibility of academics. An unofficial resolution - never submitted to a vote at the Academy of Management congress, but circulated via the internet - sounded remarkably like a confession of guilt:

“As professors of business we recognize that we bear some responsibility for our contribution to the present crisis. (...) Our teaching has allowed far too much emphasis on notions of maximization, opportunity cost, present value, and the exploitation of externalities. (...) We have not placed enough focus on the societal effects stemming from decisions made based on these techniques. Instead, we (...) have placed too little of our attention toward the second and third order impacts of decisions - especially as they affect community, stakeholders, employees, suppliers, customers, family, and the society as a whole. Instead we have taught that such externalities can be exploited for

profit. We have spent too much time in the classroom teaching what can be done in grey areas and too little on the consequences of acting in grey areas. We have done far too little to teach business school students notions of boundaries beyond which they should not cross - in areas of ethics, values, responsibility, and integrity” (Faujas, 2002b, p. X)<sup>2</sup>.

The attitude initially taken by French academics may reflect a more general mindset in France, which has been influenced considerably by the reactions of the accounting profession.

### **3. Reactions From the French Accounting Profession**

The reaction of the French accounting profession, as expressed largely through its representatives heading up the two main professional bodies, the *Ordre des Experts Comptables* (Institute of Public Accountants) and the *Compagnie Nationale des Commissaires aux Comptes*<sup>3</sup> (Institute of Statutory Auditors), came in two stages. At first, the French profession considered that the Enron scandal and other such cases were not of great concern, as the French regulatory system was ‘better’. Then as time went by and further scandals kept coming to light in the USA, and partly in Europe, they adopted a different communication strategy: “there is room for improvement in our system”. The few dissenting voices heard were those of accounting professionals, with links to the ‘unions’ (to which all professional accountants can belong)<sup>4</sup>, opposing the leaders of the profession, or well-known personalities who as ‘elder statesmen’ in the profession could express their views quite freely (see below).

### **4. Initial Reaction: “This Doesn’t Concern Us”**

Although Cazes (2002), the president of the *Ordre des Experts Comptables*, declared, “we cannot (...) assert that an Enron-type scandal would be unthinkable in France” (p. 6), he believed that “the financial scandals that have shaken the finance

markets and the accounting profession in the US have caused no real upset in France. These scandals arose from serious defects in the protective system [of the quality of financial information] which are not found in Europe in general, and France in particular” (p. 6).

To highlight the ‘particularity’ of the situation, the French accounting profession’s initial reaction presented the advantages of the *exception française*<sup>5</sup> evident in its auditing system, seeking to demonstrate that it would have been difficult for such a scandal to have happened in France. The specificities of the French system are as follows:

- The statutory (external) auditor is appointed for a term of 6 years (even if there is a change of controlling shareholder during that time);
- Two joint auditors must be appointed if the company publishes consolidated financial statements;
- It is forbidden for an accounting firm to provide auditing and consulting services to the same client;
- The Minister of Justice must be informed if any misdemeanour and crime (or *faits délictueux*) is detected in the course of the audit;
- The company directors must be alerted when the statutory auditor, in the course of his/her duties, observes anything likely to compromise the company’s going concern status;
- Quality control requirements exist for statutory auditors, with greater controls for auditors certifying the financial statements of listed companies.

In defending the interests of the profession, Nahum (2002), the vice-president of the *Ordre des Experts Comptables* at the time and now its president, drew a parallel between the difficulties encountered by Andersen and those created by the mad cow disease epidemic: “The whole profession is not contaminated by the actions of just a few individuals and (...) the cure should not be of the type adopted for mad cow disease, when the entire herd is eliminated or declared unfit for use” (p. 3).

## **5. Dissenting Views**

Several voices were raised in response to the above declarations by the leaders of the accounting profession. The opposition to the prevalent discourse came partly from members of the minority French professional accounting union, the *Experts Comptables de France*. Curiously, their main argument was based on a defence of the French ‘exception’ (Helenne, 2002), which as we have seen was also put forward by the profession’s leaders. However, this is not the paradox that it appears at first sight: the dissenters reproached the profession’s leaders for not in fact respecting a number of the rules listed above, particularly the prohibition on performing both auditing and other services for a single client. Germond (2002), for instance, argued that “over the last eight years, under pressure from the *Comité Arnaud Bertrand* lobby group formed by international firms, there has been an organized, systematic relaxation of the rules and special arrangements” (p. 2). A past president of the *Compagnie Nationale des Commissaires aux Comptes*, Germond also raised an issue relating to the appointment of joint auditors, pointing out that the rule stipulating that both joint auditors could not belong to the same firm was still very much a new law, having only been in existence since 1993<sup>6</sup>. He pointed out that prior to this, some creative ways had been utilised to get around the joint auditor requirement - “the big firms (...) were in the habit of

having the firm as an entity, and an individual partner of the firm, appointed as joint auditors” (p. 3).

In response to the mad cow image, Eichel (2002), a well-known accounting professional, preferred to talk of the “the tip of the iceberg”, saying that the Enron/Andersen scandal concealed “accommodating arrangements, not to say amazing collusion, between the global American businesses, the largest commercial banks and the biggest audit and consulting firms” (p. 11). In terms of the USA, Eichel did not see it as a case of one mad cow but a general illness on the part of a profession contaminated by excessive collusion with corporate management. Interestingly, Eichel, possibly being concerned about making a direct attack against the big accounting firms, does not deal with the French case in his article and, consequently, does not consider a possible similar contamination in France.

## **6. Subsequent Reaction: “We Have to Acknowledge That It Does Concern Us”**

The rash of scandals emerging in the USA, particularly the WorldCom affair, then in Europe with Ahold (in the Netherlands) forced the French profession to revise its communication policy, especially once it became clear that France was going to enact a law equivalent to the Sarbanes-Oxley Act.

The French Financial Security Law (FSL), adopted by the government on February 5, 2003 and passed by parliament on July 17, 2003, came into effect on August 1, 2003<sup>7</sup>. The FSL mainly focuses on the modernisation of the statutory audit, including a new, compulsory disclosure item, in the form of an auditor’s report on the state of the audited company’s internal control systems and strict rules against performing audit and consulting services for the same client<sup>8</sup>.

Officially, the FSL is not directly modelled on the Sarbanes-Oxley Act, although the latter Act is mentioned as an element of the environment (Marini, 2003, p. 15). The FSL is technically the result of a reflective review process that started a few years earlier (Marini, 2003), i.e. in the pre-Enron period, when it was aiming at reforming French company law. However, the law's promoters acknowledge that it does originate in the dysfunctions of the financial markets and a loss of confidence in the quality of financial information. In this context, it is hard to believe that the adoption of the Sarbanes-Oxley Act and the FSL, about a year after, constitutes a pure coincidence.

For statutory auditors, the principal change is the introduction of a *Haut Conseil du Commissariat aux Comptes* (Statutory Auditing High Council or *H3C*<sup>9</sup>) to act as a watchdog and monitor the auditing profession, in liaison with the *Compagnie Nationale des Commissaires aux Comptes*. The *H3C* has, in particular, to monitor the enforcement of ethical rules and the respect for independence within the auditing profession. As auditors are in the minority on this council (just 3 out of 12 members), this move in fact represents a significant loss of power for the profession, given that, before the adoption of the FSL, the profession was not subject to any form of external control (Marini, 2003, p. 28). Evidence of this loss of power is a decision taken by the *H3C* in July 2004 concerning the development of an auditing standard on 'services related to the statutory audit' prepared by the *Compagnie Nationale*. The *H3C* issued an unfavourable opinion on this draft standard, arguing namely that another approach should have been taken.

The recent legal evolution in France is difficult to explain and understand. If 'nothing was wrong', why was a new law adopted and why was there no strong reaction from the accounting profession? It might be assumed that this situation



reflects the government's deep lack of confidence towards the profession in general, and the big accounting firms, in particular. It might also represent the inability of the profession's leaders to oppose a major reform. For example, Tudel, the President of the *Compagnie Nationale*, declared in an interview given before the adoption of the LSF, that the new law, the creation of the H3C and other elements of the reform process "will not generate a decrease in the autonomy of the *Compagnie*... We are in a shared self-regulation" (Tudel, 2003, p. 31). The very positive tone of the interview contrasts with the above-mentioned criticisms of the above-mentioned draft auditing standard by the *H3C*.

## **7. French Scandals and the French Courts**

France has had its share of domestic scandals<sup>10</sup>, but two court cases in 2003 stand out as indicators of French judges' reluctance to convict management and auditors. In the first case, concerning Crédit Lyonnais and its financial statements for the years 1991-1993, the statutory auditors were discharged on all counts, as the court considered that they had not been in a position to appreciate the scale of certain risks (for which insufficient provisions had been recorded in the company's accounts) (Bohineust, 2003). French Treasury officials were also found not guilty. The Pallas-Stern case, raised similar questions, but here the Appeal Court discharged all the defendants (management, directors and statutory auditors), overturning their initial conviction. Neuville (2003), a representative of a not-for-profit organization in charge of the defence of minority shareholders, could not help observing that these affairs are in stark "contrast to the severity of American rulings against white collar criminals" (p. 8).

## **8. Impact of the Enron Scandal on Financial Accounting Education**

### *Improving The Image Of Accounting*

In France, in recent years there has been a tremendous improvement in the image of financial accounting in introductory courses, as well as an increase in the number of students choosing the Accounting and Auditing Major in several business schools. As Faujas (2002a) notes, “the auditing departments of top French business schools [we could add, and universities] are breathing a sigh of relief. The directors of these courses were wondering how the Enron and WorldCom scandals would affect students, fearful that they might shun what some considered a corrupt discipline. In fact, the opposite is happening, and Auditing majors have never been so popular”. Baudet (2003) makes the same observation in an article provocatively entitled: “Arthur Andersen is dead, long live accounting...”.

Colleagues teaching on executive programs often report that participants have been ‘sympathetic’ to accounting. One seminar attendee explained that before the Enron scandal, the accountant in the medium-sized company where he worked was considered as ‘an irrelevance’. Now, he is almost an *eminence grise* behind the corporate manager, who dares not take a single step without ‘his accountant’... Executives are coming to realize that financial accounting cannot be reduced to notions of debits and credits and are recognising the importance (and relevance) of financial accounting issues for (strategic) decision-making.

### *Changes In Academia*

Many French accounting academics felt personally concerned by the Enron scandal and started to think about how to incorporate the issue into their teaching. With this in mind, the FAA took two significant steps:

- At its annual meeting in Louvain-la-Neuve (Belgium, May 2003), the Enron scandal was one of the topics for the ‘doctoral session’ (in fact open to all members). More than 200 French academics attended this session.
- At the annual ‘teacher training day’, organized by the FAA in September 2003 in Paris, four ‘hot’ issues were addressed, one of which being ‘creative accounting’. About 250 participants were present.

The big question, however, with respect to French accounting education, was whether the content of French accounting courses should be changed to incorporate issues raised by Enron, and other such scandals? Several aspects of the accounting educational process can be considered in this respect, including the critical question of a principles vs. rules orientation. This question is not easily resolvable (Schipper, 2003) but particular problems in making any developments in this respect in France are that (a) little time is devoted to financial accounting in many French institutions – and teaching principles takes time! and (b) French professional accounting exams, although not yet at the level of multiple-choice questions (MCQs) (which, in my opinion, do not readily encourage a principles-based approach) are always very technical and heavily rules-based. That said, the Enron case, (notably through the use of Special Purpose Entities (SPEs) - (see Benston and Hartgraves, 2002) provides a good illustration of how rule-based standards can be mis-used and we should at least pay more attention to their fallibility and the significance of ethics.

## **9. How to Approach Accounting Scandals and Ethics in Teaching**

There are several issues currently attracting attention in French academic accounting circles:

- Should ethics be taught? If so, should there be a separate ethics course or should ethical issues be explicitly included in all management courses, including those related to financial accounting?
- Are there any fundamental dangers in teaching students about ‘accounts manipulation’ (creative accounting, earnings management, etc.)?
- Should accounting scandals be covered in the first financial accounting course, at a more advanced stage, or at both levels?

The debate on such issues is currently ongoing in French academic circles, albeit in a largely informal way, and each proposed solution has its relative advantages and disadvantages. For example, putting accounting scandals into the first level accounting course certainly makes the course more attractive, but it requires a certain level of understanding on the part of students. There is also the risk that students might begin to think that accounting means that “you can do anything you like” – such cynicism coupled with a lack of technical and theoretical knowledge can be a counterproductive combination in any educational process.

At HEC School of Management, where I currently teach, the following compromise solution has been adopted. First of all, it was decided not to set up a separate specific course to cover ethics. In 2002-03, as a reaction to the wave of scandals, a special session on accounting scandals and ethics was added to HEC’s introductory accounting course (which in total comprised 18 sessions of 1 ½ hour, i.e. 27 hours over 9 weeks)<sup>11</sup>. To make it a significant event, this session took place in the main lecture theatre and all students (close to 400) attended - all the other sessions on the course are taught in a workshop format, in 10 groups of 40. The special session on accounting scandals and ethics covered topics such as: the objectives of financial accounting, the image of accounting in the financial press, the accounting profession’s

share of responsibility in some scandals (AOL, Enron, Qwest, Tyco, Xerox, WorldCom...), economic and social consequences of accounting policy choices and financial accounting at the interrelation of different social actors. The session was very well received by the students, a point reinforced by their comments in the evaluation forms filled after the end of the course, and was replicated in 2003-04.

For the academic year 2004-05, due to a major reform of the course structure, the duration of the introductory financial accounting course was increased from 27 to 39 hours (26 sessions of 1½ hours, over 13 weeks)<sup>12</sup>. Given this increase, the above-mentioned special session has been cancelled and the topic of accounting scandals has been integrated into the syllabus – being studied in a workshop format by all 10 workshop groups<sup>13</sup>. It now covers two sessions, i.e. 3 hours. The first session is an introduction to ‘accounts manipulation’ on the basis of a case study that simulates a meeting between different corporate managers (the CEO, the CFO and the Investors relations manager) who disagree on what actions to take with regard to certain end-of-period accounting entries (depreciation, provision, adjustments). The second session (which is the last session of the whole course) is a case study on Vivendi Universal<sup>14</sup>. Based essentially on the cash flow statement, this study shows the changes in the group’s acquisition strategy and more importantly, the difficulties in financing such a strategy. The ‘moral’ of the story, from a student’s point view, is that a rather ‘simple’ financial statement analysis can provide a lot of useful information.

An optional course unit at HEC has also been created (entitled ‘Grey Areas in Financial Reporting’) for Masters’ students specializing in international management. Such specialist students are mostly overseas exchange students, with just a minority of French students taking such a specialism. The duration of the course unit is 39 hours (13 sessions of 3 hours). Relying solely on real-life case studies (put together from

publicly available material - annual reports, press articles...), the course unit addresses: 'Revenue recognition' (Enron and Merrill Lynch, MicroStrategy, Xerox, Ahold), 'Cost recognition and classification' (Ahold, André-Vivarte, Coca-Cola), 'Long-lived asset recognition and valuation' (AOL, WorldCom, Ryanair, Renault, Delta Airlines, Vivendi Universal), 'Mark to market accounting' (Freddie Mac), and 'Related party transactions' (Ford, Enron). I run the course with my colleague Yuan Ding and we have prepared all the above-listed case studies. As it is given on a Community of European Management Schools (CEMS) Master's program, it had first to be 'accredited' by a special Board of the CEMS. The course had to meet several conditions to obtain this approval, including:

1. A broad scope. In our case, we demonstrated that we covered several topics: financial accounting, financial reporting, auditing and corporate governance.
2. The agreement of a 'corporate' partner who provides a 'professional' validation of the course content and who can also take part in some of the sessions on the course. Procter & Gamble France was our corporate partner.
3. The agreement of an 'academic' partner, a member of the CEMS, to provide additional seminar material on a topic related to the course content. This was provided by a colleague, Eusebi Nomen, from ESADE (Spain), who gave a seminar on 'Intangibles'.

The course unit was given for the first time in 2003-04, but its success was 'relative', if I may use this understatement, for the following reasons. Although I ensured that all the students had taken one financial accounting course beforehand, I underestimated the high level of accounting knowledge required in order for students to grasp all the elements of the case studies. Another problematic issue was the use of case studies themselves. As the students were coming from different countries where

teaching methods are different, some of them were not used to working with case studies, especially those constructed from, and involving the need to read, real-life accounting documents. Finally, the amount of work required was considerable and probably beyond what was reasonably possible. One solution to overcome these difficulties would be to restrict the course unit to those students specializing in Financial Accounting<sup>15</sup>.

It is still early days to judge the impact that any such curriculum changes have had on the accounting educational process, both at HEC and, more generally, in France. My own personal experience suggests that the study of accounting scandals (or 'grey areas', as we prefer to call them) is both important and valuable but to work properly it does require students to have good, prior background knowledge in accounting. In particular, I found that the students really needed a good knowledge of the following topics: definition of the balance sheet and income statement and the link between the two documents, concepts of revenue recognition, end-of-period entries (including depreciation, provisions and adjusting entries), the concept of capitalization and how to account for capitalized assets such as development expenditure.

In my view, all French universities and business schools should be carrying out an internal review process to consider whether changes to the curriculum are necessary, particularly with respect to including an ethical perspective, and any such changes should be carefully discussed, promoted, and defended by academics.

An interesting, indirect, consequence of the rise in accounting scandals has been the increased usage for teaching purposes of on-line and CD-Rom resources. Given the existence of numerous materials in various formats (pdf or txt files for annual reports, excel files for corporate financial statements, html files for extracts from websites, word files for research papers etc.), several French academics have

implemented websites or created CD-Roms covering one or more corporate scandals. At HEC, we have created one website for use in teaching about Enron and one CD-Rom to cover the 'grey areas in financial reporting'.

## **10. The Link Between Accounting Education and Professional Exams**

In France, the *Expert Comptable* professional qualification is obtained after several steps<sup>16</sup>. The first step, which leads to the DESCF (Degree of Higher Accounting and Finance Studies), includes 16 credits. However there are different routes to prepare for the professional exams, some of which make it possible to bypass some of these credits.

The first possibility is to obtain a University Master's degree in accounting (*MSTCF - Maîtrise des Sciences et Techniques Comptables et Financières*). Holders of this degree are exempted from 14 out of the 16 credits constituting the DESCF above-mentioned. The second possibility can be to study at University in another program (such as a Master's degree in Management) or in a business school. In this case, depending on the final year's specialization, the student will benefit from more or less exemptions. In practice, students specialising in accounting will be exempted from several credits. Finally, various training centres offer courses leading to the various credits needed by students who choose not to follow one of the first two routes.

On successfully completing the theoretical educational stage, the next step towards professional qualification is the undertaking of a full-time, three-year internship usually in a public accounting firm located in France. At the end of this period, the third step to qualification takes the form of the 'final exam' which includes the writing and the defence of a dissertation (approximately 100-page long) on a



subject related to the professional domain and two examinations: a written test on the statutory and contractual auditing of financial statements, and an oral test with a jury relating to the internship and covering professional knowledge in general.

In summary, it will take approximately seven years after the *Baccalauréat* (high school degree) to get an *expert comptable* qualification (including four years to obtain the DESCF, a three-year training period and the final exam). It takes even longer to students having a scientific background who get no exemption and must start their accounting studies from the right beginning (credit No. 1).

In order to get the above-mentioned stage one exemptions, a Ministry of Education commission, staffed by officials from the Ministry, academics and representatives of the profession, must approve the content of the respective courses. Consequently, in all the cases referred to above, even for the MSTCF (which is heavily influenced by the professional accounting exams), the content of the courses is not approved by the profession but by the Ministry of Education. As such, within the approved framework of course units/structure, French academics still have a relative flexibility to determine what they teach and adapt the content of their courses to their environment and accounting educational preferences.

## **11. Conclusion**

There are several possible outstanding issues to consider for French accounting academics. In terms of the teaching of accounting in French universities and business schools, I anticipate that increased coverage of corporate accounting and auditing scandals will prove essential, whether as part of general or specialist courses. Ethical behaviour and issues also require more emphasis. The management of Enron were graduates of the best American schools, starting with Jeffrey Skilling who had

an MBA from Harvard: this led to headlines such as “From Harvard to Enron...” We need to make sure that there are no more headlines such as the one recently seen in a Geneva newspaper: “Is an MBA the passport to fraud?” It remains a real cause for concern that Jean-Marie Messier, when at the height of his glory as CEO of Vivendi Universal, could be a highly-praised guest on popular television programmes while simultaneously following a suicidal acquisitions policy which could have been deduced as being so from a very simple examination of the cash flow statement<sup>17</sup>. However, it is also absolutely necessary to convince students they must not ‘throw the baby out with the bathwater’ and take the view that accounting information is of no value. On the contrary, the case studies that I have used on accounting scandals course clearly show that financial statements contain several valuable indicators, and, carefully handled and analysed, can lead to the right questions being asked.

The scandals also reveal some quite poor performance and ethical standards on the part of corporate accountants/directors and external auditors. As such, I believe it is crucial not to teach accounting and auditing in purely normative terms but also to give students a critical perspective and an informed historical standpoint on the way in which accounting/auditing responsibilities and concepts have developed over time. This is the ‘principled’ education that many think professional accountants need, although it is not reflected in the present professional exam structure which still has a highly technical and rule-based approach. Furthermore, at French universities and business schools, such ‘accounting theory’ courses are almost non-existent, the only exception being the first year of doctoral studies in financial accounting which often covers such a topic. Such positions could be set to change as the Ministry of Education, under the direction of Prof. Alain Burlaud, has launched a major review of the content of professional accounting exams. According to the information currently

available (Anonymous, 2004-2005, p. 15), the new program of financial accounting education should stress notions of deontology (doing the right thing regardless of the consequences) and also the relationship between accounting and finance.

I believe that French educators in universities and business schools could put more emphasis on ethics in management in general but also on the ethical behaviour which should prevail in the 'strategic' use of financial accounting information. They also have the capacity to develop financial accounting theory courses and/or strengthen the theoretical content of other accounting courses, including those delivered on programmes closely linked to the professional exams (such as the MSTCF).

In terms of accounting and auditing research, we should be challenging rather more the scientific validity of articles which have demonstrated that auditors from the Big firms provide better quality work and reduced earnings management on the part of client management (Becker *et al.*, 1998), or that companies audited by Big firms have lower amounts of estimated discretionary accruals (Francis *et al.*, 1999). The Becker *et al.* article's principal regression had an adjusted  $R^2$  of 1%, and included two very ill-matched samples, with 10,397 observations for Big Six auditors, but only 2,179 for non-Big Six auditors. Selection bias was clearly possible here, since Big Six auditors are quite capable of choosing more 'reliable' clients, where they will expect less manipulation of earnings. There has been much research into the North American environment, which as we know is built on institutional factors that can differ from those in other countries, especially European countries. In short, in the current context it is not that easy to 'sell' studies purportedly demonstrating the higher quality of the largest auditing firms. Current research should better integrate the specificities of countries other than the USA and also refine the statistical methodology, to avoid the

above-mentioned caveats. Cultural aspects also need to be brought more into the picture. In addition to some ‘traditional’ (Hofstede, 2001) but criticized cultural values (McSweeney, 2002; Baskerville, 2003), researchers could integrate alternative values: including conservatism, autonomy, hierarchy, mastery, egalitarian commitment and harmony (Schwartz, 1994; see also Inglehart and Baker, 2000).

We also need to promote the value and importance of financial reporting and the responsibilities of directors and auditors to ensure that financial reports are fairly and accurately presented. Such improvement could help to bolster the perceived usefulness of corporate financial statements and reduce managerial temptation to act unethically by manipulating such reports. As an illustration, in preparing the above mentioned corporate case studies, I found several ‘basic’ mistakes in the balance sheets, income statements or cash flow statements of the companies concerned, including: typos in the captions (e.g. ‘charges’ instead of ‘changes’) or even in the title of the statement (e.g., wrong year); wrong captions (e.g., ‘financing cash flow’ instead of ‘investing cash flow’); errors in the footings (sub-totals) found when transferring the statement into excel to prepare a case study. Large accounting firms had audited all these statements - which does suggest that they had not put much emphasis on the financial reporting aspects of their job. This spirit needs changing and real attention given to improving the quality of corporate annual reports.

Overall, France may have been relatively untouched by scandal, but there is one residing reason for this which must be noted: namely, that the French government plays a significant protective role, being a major shareholder, in many large companies (e.g., Crédit Lyonnais in the 1990s and Alstom more recently). We cannot be certain that French companies will always enjoy that kind of financial and political

protection, and, educationally in accounting, need to act now to ensure that nothing like the Enron affair ever happens in France...

## Notes

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<sup>1</sup> This association, created as the French Accounting Association in 1979, was renamed in 2002. As an academic organization, its main objective is to promote research and teaching in the field of accounting (see [Hwww.afc-cca.comH](http://www.afc-cca.com)).

<sup>2</sup> At the time of the first writing of this article, the full text of this resolution could be found at the following address: [Hhttp://www.isce.edu/wwwboardmessages/138.htmlH](http://www.isce.edu/wwwboardmessages/138.html). It has now been removed and is apparently not available anymore on the Internet.

<sup>3</sup> The public accountant, who must be a member of the *Ordre des Experts Comptables*, is freely designated by the managers of the company, and will work on the preparation of financials statements. The statutory auditor needs to belong to a *Compagnie Régionale des Commissaires aux Comptes* and is appointed by the shareholders, on the basis of the Company Law of 1966. He will certify the financial statements. If a vast majority of the professionals are members of both institutes, strict legal rules prohibit the same professional being the accountant and the auditor of the same company. The reader interested in the French statutory auditor profession can refer to Baker, Mikol and Quick (2001).

<sup>4</sup> French professionals can become members of two “unions”: the *IFEC (Institut Français des Experts Comptables)*, to which the majority of practitioners belong, and the smaller *Experts Comptables de France*. Both unions have as one of their major objectives the requirement to organize the defence of the profession and act as a counter power to the two professional accounting institutes: the *Ordre des Experts Comptables* and the *Compagnie Nationale des Commissaires aux Comptes*. However, the relationship with these two institutes, which are the only official representatives of the profession, is rather ambiguous as the executive committees of both institutes are elected on the basis of lists of candidates ... presented by the two unions. In practice, the smaller union having almost always been ‘in opposition’, is the only one acting as a counter weight to the power (and views) of the two professional institutes.

<sup>5</sup> A phrase borrowed from the field of the arts meaning the French difference or exception, often used to defend a French specificity. Over the years, the status of the ‘French exception’, has moved on to be recognised as having established ‘French-style auditing’, based on the specificities mentioned above.

<sup>6</sup> Official bulletin of the *Compagnie Nationale des Commissaires aux Comptes* (Institute of Statutory Auditors) (Bulletin CNCC), No. 90, June 1993, p. 181.

<sup>7</sup> There was a short delay between its adoption by the Government (February 2003) and its publication in the Official Journal of the French Republic (August 2003).

<sup>8</sup> The statutory auditor will present a report, attached to the general report certifying (or qualifying) the financial statements, detailing his/her observations on the internal control procedures related to the preparation and treatment of accounting and financial information (Commercial Code, art. L. 225-235).

<sup>9</sup> H3C because of the three Cs: *Haut Conseil du Commissariat aux Comptes*.

<sup>10</sup> As have other European countries - for example, the Parmalat affair in Italy.

<sup>11</sup> This introductory course is the only required financial accounting course. The students can follow an optional course on intermediate accounting in their second year at HEC (and approximately half of the students do so).

<sup>12</sup> This increase has been obtained with no real difficulty, thanks to two concurrent phenomena: the implementation of international accounting standards and the rise of accounting scandals.

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<sup>13</sup> The reform does not change the split between one compulsory course in the first year and one optional course in the second year.

<sup>14</sup> This case study was created by my colleague (Yuan Ding) and I.

<sup>15</sup> In France, a financial accounting ‘specialist’ would typically take the following courses: introduction to financial accounting and financial statement analysis, intermediate accounting (consolidation, mergers, increase in share capital, bond accounting...), advanced accounting (especially advanced consolidation), financial statement analysis, corporate finance, managerial accounting and management control.

<sup>16</sup> The following description is partly based on the website of the *Ordre des experts comptables* (<http://www.experts-comptables.fr/html/countries/gb/index.html>).

<sup>17</sup> See above, about the case study we created on Vivendi Universal.

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