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The erosion of jurisdiction: Auditing in a market value accounting regime☆

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A B S T R A C T

In recent years, accounting standards worldwide have been modified so as to render them more heavily based on fair or market value. This paper explores the behavioural and jurisdictional consequences of the normative drift towards fair value. Being informed by Giddens' work on late modernity, trust and expertise and drawing on a series of interviews with Canadian professional accountants, we argue that fair value accounting makes it increasingly harder for auditors to feel and actually be in control of their own expertise. That is, auditors' system of expertise is now considerably more reliant on a "secondary" – but perhaps in actual fact primary – layer of expertise revolving around market valuation techniques and principles. In so doing, the auditors' job is increasingly transformed as the involvement of valuators now represents a recurrent and pervasive phenomenon in audit processes. The auditor's role nowadays resembles that of an arbiter having to mediate discrepancies over subjective values – a number of which being produced by highly specialized valuators. Important implications ensue from a system of expertise in which the experts' degree of control over their own jurisdictional work is increasingly eroding.

1. Introduction

> Generally speaking, [. . .] the auditor's job is becoming harder and more complex. We're asking our people to do increasingly complex tasks, standards are becoming more complex, and clients are extremely demanding. It's a tough profession, a lot tougher than when I became a partner about thirty years ago. [. . .] I'm beginning to wonder whether the profession will be able to attract the best students, and whether the latter will stay in the profession once they pass the CA exam. (Big Four partner)

> When it was implemented [fair value accounting], I didn't understand a thing. It went against everything I had learned in school and put into practice for 20–25 years. [. . .] Jeez, it goes against all the concepts we were taught. [. . .] We

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> scrapped all these highly influential concepts; from one day to the next, we scrapped them all. I've been turned upside down by this. (Big Four partner)

Change is a key feature of society and it is often understood that the pace of change has accelerated significantly over the last decades. The above quotes are certainly consistent with the claim of accountancy going through important transformations, not just in the periphery of the field but within the core of its expertise foundations. Many of these substantive transformations relate to the increasing influence of the notion of fair value on accounting standards and practices – to the detriment of what was, not so long ago, often seen as the unquestionable core of accounting standards, that is to say historical cost. This paper explores the impact of this substantive shift relying on Giddens' (1990, 1991) work on late modernity, trust and expertise. Our aim is twofold. In a behavioural sense, we seek to better understand how real-life auditors have experienced, been affected, and reacted to the normative transition towards fair value. In a jurisdictional sense, we examine how this shift has led auditors to increasingly rely on the expertise of financial valuators in the conduct of their day-to-day activities.

Drawing on Giddens' views on expert systems and trust in late modernity, Jones and Dugdale (2001) articulate the concept of accounting regime – as sets of discourses and social practices that aim to govern economic life through calculations and inscriptions that allow linkages to develop between the global and the local. Jones and Dugdale especially propose that accounting regimes constitute pertinent objects of study: "There is the task of mapping a single regime at a one point in time and space. [. . .] Although this would be a 'snapshot' view, since accounting regimes are constantly changing, it would be a blurred print of an object in motion" (Jones and Dugdale, 2001, p. 58). Our paper lies in the scope of this proposition. Its purpose is however less grandiose, at least at first glance. We focus on the increased prevalence of fair value accounting standards as a key component of accountants' body of formal knowledge, paying particular attention to their impact on practitioners' work in terms of the production and audit of financial statements. This is no triviality since the activities of professional accountants and auditors play a key role in society (Abbott, 1988), if only as manufacturers of ways of thinking regarding organizations' economic life. Furthermore, accountants are deeply involved in globalizing processes (Arnold, 2005; Suddaby et al., 2007), not least through the continuous promotion of international accounting and auditing standards (Humphrey et al., 2009; Loft et al., 2006), which are claimed to facilitate economic progress worldwide. Fair value accounting, from which investors allegedly benefit in terms of greater comparability and usefulness (Broadley, 2007; Penman, 2007), is intertwined with these globalizing tentacles. Our work therefore relates to a significant and timely matter, whose pertinence is far from being constrained to the realm of technicalities.

From the start, we wanted our study to be predicated on the experiences of real-life accountants on the front lines of jurisdictional work. Our interest is the backstage (Goffman, 1959) of professional work in times of significant change in standards of practice. Accordingly, our investigation is informed by a series of interviews in Canada with partners and managers, past or present, from accounting firms and government audit offices, in order to get a sense of the realities by which they operate under a growing fair value accounting regime. The picture that we obtained is often a blurry one, as shown in the two interview excerpts above where a sense of complexity, overwhelmingness, powerlessness and even anxiety characterizes the interviewee's thoughts. Such quotes provide a rare glimpse onto the impact of normative changes on professional work. Furthermore, in light of the globalization of professions, including accountancy (Barrett et al., 2005; Suddaby et al., 2007), it is our belief that the views and experiences expressed by interviewees are not constrained to the local – in that they are likely to reflect a number of patterns relevant to the life experiences of professional accountants in other jurisdictions, who are increasingly subjected to the normative power of fair value.

We feel that one of the main contributions of our work consists of its numerous interview excerpts, thereby providing a channel for practitioners to voice in the accounting literature experiences, viewpoints and preoccupations which matter to them. It is our hope that this channelling may in turn have an impact in terms of future research. As stressed by Bricker and Previts (1990), researchers should strive to examine concerns and issues experienced by practitioners.

One of the main patterns ensuing from our analysis is that a layer of non-accounting/auditing expertise – often associated with finance – is increasingly indispensable for auditors to audit financial data. While in the hierarchical context of accounting firms – which employ different types of valuation practitioners such as chartered business valuators or financial engineers – valuators may appear to be accountable to accounting partners, our study indicates that we are in many ways confronted with a reversal of disciplinary authority. Indeed, accountants to a significant extent are increasingly dependent on a domain of expertise which most of them only understand superficially, that is to say financial valuation. This bears the question: is the pervasive reliance of accounting on other experts to be feared? At the very least, our interviews indicate that fair value has significantly transformed auditors' role and the process is experienced with difficulty by a number of auditors – while others seem content in reaping the additional stream of work and revenue which fair value accounting generates.

It is worth noting that fair value accounting and auditors' reliance on "alien" experts are not new (Power, 1996, 2010). Early requirements to provide current cost information in footnotes can be traced back to the late 1970s. Fair value measurements have been required for a while with regard to accounting for intangibles, pension and leases. But until recently, fair value requirements certainly did not prevail over historical cost imperatives (Power, 2010). However, the situation significantly evolved in recent years:

> By 2007, just prior to the financial crisis, the status of fair value measurement had changed entirely, having acquired both an expanded significance and position of controversy within the financial accounting policy process. Indeed, the