Auditor Independence: Its Historical Development
And some Proposals for Research

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A 1950 publication of the AICPA, written primarily for readers of audit reports, stated “Independence, both historically and philosophically, is the foundation of the public accounting profession.”¹ More recently the same idea has been restated as follows: “Independence has always been a concept fundamental to the accounting profession, the cornerstone of its philosophical structure.”² Auditors and the users of audit reports then and now would strongly support the above assertion. Independence has been a developing concept, as evidenced by shifts in position as to what constitutes an independent status for the auditor. For example, “strong” rules on independence have been adopted only recently.

The sections that follow review the historical development of auditor independence and note the need for the presence of its various aspects in connection with the attest function. Specific proposals for research are developed, with emphasis being placed on user perceptions of independence.

English Backgrounds

An early concern for independence is noted in the English Companies Clauses Consolidation Act of 1845, Section 102, which stated:

Where no other Qualification shall be prescribed by the special Act, every Auditor shall have at least One Share in the undertaking; and he shall not hold any Office in the Company, nor be in any other Manner interested in its Concerns, except as a Shareholder.

The requirement of shareholding, however, has not been retained in Britain as an auditor qualification as evidenced by the Companies Act of 1862, which permitted but did not require shareholding, and by subsequent Companies Acts. The provision against auditors serving as officers or employees of their auditees appears to have been maintained continually in the British system. The English Companies Act of 1948 in Section 161 provided that no person who is “... an officer or servant of the company”; or is “... a partner of or in the employment of an officer or servant of the company”; is qualified for appointment as auditor of such company.

The relationship of the auditors to the shareholders was established in the same 1845 English statute noted above. At the first meeting of a company after passage of that 1845 statute, the auditors would be elected by the shareholders.

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