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Financial Reporting**

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REFLECTIONS ON THE EPISTEMOLOGY OF FINANCIAL
REPORTING**

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ABSTRACT

Concern has been growing recently that the modern commercial organisation is becoming less auditable. The volume and complexity of transactions and the opacity of computer-based information systems, coupled with the increased knowledge gap between auditors and clients, make the auditor reliant on evidence whose quality and reliability is open to broad challenges. At the same time, the changing nature of financial reports, from summaries of the past to images of the present and windows on the future, weakens the link between evidence of underlying activities and transactions and their representation in financial statements.

This exacerbates the epistemological challenge faced by accountants and auditors: how can financial statements be said to be a faithful representation of an entity, and how can auditors give a well-grounded opinion that the financial statements give a true and fair view? These issues are by no means unique to financial reporting. Similar problems arise in historical research, where historical theorists and practical historians have had to grapple with the nature and status of evidence of the past and the relationship between evidence and historical narratives. By examining contemporary debates within the literature of historiography, insights into comparable issues within financial reporting and auditing should be gained.

The paper concentrates in particular on the contribution to the historiographical debate made by Keith Jenkins. Through his books *Re-thinking History* (1991), *On “What is History?”* (1995) and *Why History? Ethics and Postmodernity* (1999), and his edited collection *The Postmodern History Reader* (1997), Jenkins has provocatively challenged more mainstream views of the historian’s relationship with evidence, indeed the nature of historical evidence itself, in ways that raise issues for the conventional understanding of evidence in the audit context. The arguments of Jenkins are contrasted with those of C. Behan McCullagh, whose *The Truth of History* (1998) explicitly explores the extent to which historical descriptions can be “true and fair”, and thus provides a direct analogy between the task of the historian and that of the auditor. The paper concludes that auditing stands or falls in an epistemological sense with history, in that the statements of auditors bear essentially the same relationship to audit evidence as those of historians bear to historical evidence. If, in a postmodern world, histories that claim to tell a unique “truth” are not just logically impossible but also ethically immoral, then so are financial statements and audit reports.

THE AUDITOR AS HISTORIAN: REFLECTIONS ON THE EPISTEMOLOGY OF FINANCIAL REPORTING

INTRODUCTION

“In practice most historians assume that when their statements about the past are adequately supported by available evidence, then it is reasonable to believe them true. Precisely what constitutes adequate support is hard to say” [McCullagh, 1984, p. 1]. In any practice that claims to make or critique statements about the way the world is or was, two fundamental epistemological questions arise. The first of these is: “by virtue of what factors are our statements true or false?” The second question is the one posed by McCullagh in the opening sentences of his study in the philosophy of history, and quoted at the beginning of this essay: “when is it reasonable to believe statements to be true or false?” These are not necessarily the same question, as it is possible to conceive of situations where it is reasonable to believe a statement to be true, but the statement is in fact false. Whatever criteria we have for deciding on the reasonableness of belief, these will inevitably be a finite set, and it will always be possible to identify a statement that satisfies the criteria but is nonetheless false. The only apparent way of avoiding the dilemmas that this creates is extreme scepticism, where we assert that we can *never* have sufficient reasons for believing any statement to be true.¹

However, as McCullagh notes, while anyone who rejects extreme scepticism will hold that there will be *some* circumstances in which it is reasonable to believe statements to be true, trying to give an adequate account of these circumstances is difficult. Philosophers make a sport of developing counter-examples to any such account [Lehrer, 1990, pp. 16-17]. In our everyday lives, we are likely to have a wide range of reasons for believing certain

¹It is often argued that this statement is self-refuting, as, if it is reasonable to accept extreme scepticism, then there is at least *one* statement that we have reasonable grounds to believe to be true, but then extreme scepticism must be false.

statements and denying others. Our standards are not necessarily the same from one person to another. We may label as “credulous” those who tend to accept as true many statements that we personally would doubt, and as “sceptics” those who tend to doubt many statements we would accept as true, but these are relative labels. Moreover, we will be aware of occasions when we have personally been too quick to accept, or too slow to deny, statements that later we come to believe not to be the case. While our individual standards for what philosophers call “justification” reflect our personalities, within the arenas of shared activity we might hope for common standards of justification. This applies in particular within professional domains where the making of statements is a fundamental activity, such as academe and the professions. The worlds of the historian and the auditor are two such domains.

In recent years, both historians and auditors have come under challenge. This challenge does not relate to particular instances of “bad” history or “bad” auditing, although there have been plenty of claims about both of these. The problem goes deeper: it is argued that historians can *never* be completely justified in believing that their accounts of the past are true, while auditors can *never* be sure that their audit opinion (that financial statements “fairly present” or “give a true and fair view of” the underlying financial position and performance of an entity) is valid. Michael Power in particular has pointed out how auditing, rather than being a “derived and neutral activity” [Power, 1996, p. 289], “actively constructs the legitimacy of its own knowledge base and seeks to create the environments in which this knowledge base will be successful” [Power, 1996, p. 291]. If auditing is essentially a constructed activity, then the criteria by which auditors feel justified in asserting their audit opinions are themselves constructed rather than given, and moreover are located in history rather than being ahistorical.

In the modern audit, the audit opinion is firmly grounded in the process of gathering evidence. “Auditors should obtain sufficient appropriate audit evidence to be able to draw

reasonable conclusions on which to base the audit opinion" [SAS 400.1: APB, 1995a, para. 2]. However, this requirement begs the questions of what is meant by "sufficient", "appropriate" and "reasonable", as well as the processes by which the auditor draws conclusions from the evidence and derives the audit opinion from the conclusions. Although Auditing Standards, textbooks and professional literature attempt to provide answers to these questions, these may be considered "internal", in the sense that they are heavily influenced by the current practices of auditors. If such practices are likely to be considered reasonable by "outsiders" precisely because auditors themselves consider them reasonable, then they can be taken as constituting a practical response to the question: "what must an auditor do to be justified in expressing an opinion that financial statements give a true and fair view?" But if outsiders are suspicious of auditors, then they may apply their own criteria in assessing auditors' judgements, and these criteria may lead to a conclusion that certain judgements are inadequately justified.

Recently, Alexander [1999] has attempted to provide a "benchmark" by which the adequacy of published financial statements (rather than audit opinions) may be judged. Alexander is not clear as to what he means by "adequacy" in this context, although he is aware that it covers both of the epistemological issues mentioned earlier in this essay: "Our question, in its simplest form, is: what would make, and how can we go about establishing what would make, adequate financial *statements*?" [Alexander, 1999, p. 239, emphasis in original]. Alexander suggests three broad approaches: a general fundamental concept (such as the "true and fair view"); a set of concepts, rules or conventions (such as a "conceptual framework" or "statement of principles") to be applied consistently in all cases; and detailed specification of accounting practice for all expected situations. So the preparer of a set of financial statements might assert that the statements are adequate because they give a true and fair view, or that they have been prepared in accordance with a given statement of principles consistently applied, or that they comply with detailed provisions in all particulars. The role

of the auditor, however the audit report is worded, is essentially to come to a judgement on the preparer's assertion, and in Alexander's language, the auditor must be able to establish that the financial statements are "adequate" according to whatever criterion or criteria are used to define adequacy. At the same time, the auditor's judgement must itself be "adequate" by reference to criteria of justification within auditing. However, we characterise them, these notions of adequacy are likely to be different, giving rise to the situation that an auditor's opinion on a set of financial statements may be adequately justified even though the statements themselves do not satisfy the criteria for financial statement adequacy.²

Even if the criteria by which the audit opinion is in practice considered justified emerge from the activity of auditing, we can still ask a "meta-question": is it appropriate to look to such internal criteria for justification? Does this not simply protect current practice from criticism, in the sense that any audit properly conducted in accordance with current best practice *must* give rise to an adequately justified opinion? Indeed, is an attention to practice simply a mechanism by which auditors are able to shift attention away from the constructed nature of practice, and suggest that the audit approach is neutral and ahistorical [Power, 1996]? In order to understand the issues more clearly, this essay attempts to compare the questions that have been posed about the epistemological status of the audit process with those raised in an apparently different, but, as I shall argue, remarkably parallel, field, that of historical research. In the next section of the paper, the parallels between the audit process and that of the historian will be drawn out, and limitations of the comparison will be discussed. The third section of the paper explores current debates about the extent to which historical knowledge is possible, based on the work of two influential historiographers: Keith Jenkins and C. Behan McCullagh. The arguments raised by these writers are turned back on auditing and financial reporting in the fourth section, which leads to a short conclusion.

²A trivial example of this would arise where auditors disagree with the accounting treatment of a matter in the financial statements, the effect of which is so pervasive that the financial statements are seriously misleading [SAS600.8, APB, 1993, para. 74]. Here, if the auditors are justified in expressing an adverse

AUDITORS AND HISTORIANS

When historians want to discover what happened in the past, they feel constrained to find evidence which will enable them to draw inferences about the people and events which interest them. This constraint seems perfectly reasonable, because it has long been thought both the necessary and sufficient means of discovering the truth about the past [McCullagh, 1998, p. 20].

As McCullagh notes, statements made by historians have traditionally been considered as requiring a grounding in evidence to be admitted into the set of statements that can potentially be true. Without evidence, the historian is free to speculate, but such speculations cannot be claimed as true in the sense that they represent *justified* statements about the past. Historians are not, however, limited to a mere recitation of their evidence: they may use the evidence as the basis for drawing conclusions, so long as the latter are adequately argued from the evidence. Of course, what counts as an “adequate argument” may be open to debate, and what is accepted as such may change from period to period [Evans, 1997, pp. 93-94].³

INSERT FIGURE 1 ABOUT HERE

In Figure 1, the process of historical research is represented very schematically. At the bottom, forming the foundation for writing history, are the various occurrences that interest the historian. In some cases, the historian will have direct personal experience of certain occurrences, and may actually have participated in them. But in general, the historian is reliant on the traces that the occurrences have left: the documents and artefacts, and the memories of participants that can be obtained through oral testimony. The historian’s evidence is in general some form of record, but not every occurrence will be recorded, while

opinion on the financial statements, the statements *cannot* at the same time meet a criterion of adequacy as understood by Alexander [1999].

some apparent records may not reflect actual occurrences (they may have been created in error or with a deliberate attempt to misrepresent what had occurred). To the modern professional historian, such “primary” sources form the basis for historical narratives and interpretations, and gaining an understanding of where potentially relevant records may be found, how they may be read, and how reliable particular records may be in providing evidence of what happened, form a central part of the training of historians [Black and McRaid, 2000; Marius, 1999]. In practice, the primary records utilised by the historian have often already been put into structured form, usually in archives but also in published volumes.⁴ While the archiving process introduces structure and order to primary documents, it may also lead to the loss of certain documents that do not fit the archivist’s scheme of arrangement, or for which space may be deemed not to be available (to say nothing of the opportunity for documents to be deliberately retained or removed in order to emphasise certain aspects of the past and suppress others).

The upward-pointing arrows in Figure 1 indicate the increasing selectivity and abstraction in the move from the original occurrences to the historians’ narratives and interpretations. At each stage, detail may be lost and agreement between the documents and the underlying events may be blurred. The downward-pointing arrows in Figure 1 show the extent to which histories are based on the underlying evidence. In practice, much historical writing is grounded in the archive. Historians’ professional reputations may often be made by locating hitherto unused material that has been ordered in an archive, or even unstructured material (whether this is stored in an archive or not).⁵ However, access to the actual events

³ Page references to Evans [1997] relate to the “new edition with an extensive new afterword” published circa 2000.

⁴ The latter often applies in the case of original documents that modern scholars will find difficult to read without specialist training. Hence many medieval documents have been transcribed and historians may tend to use the transcriptions rather than the originals (for example, Noke [1981] in his study of medieval English manorial accounts, uses several sets of transcribed records). In his study of the records of the East India Company, Bryer [2000] makes use of the *Calendars of State Papers*, which transcribe, and on occasion summarise, original documents.

⁵ Evans [1997, pp. 87-88] tells of how, in working in the Hamburg state archives, he came across a catalogue entry for “Worthless Reports”. On investigating, he found that this entry represented some 20,000 unclassified police reports from the 1890s and 1900s, which provided a wealth of information about the

in which the historian is interested is a more problematic matter. The shadowy arrow linking histories with occurrences is intended to indicate that, on occasion, the historian has personal knowledge of and experience of events. But even here, the experience is mediated through the historian's memory, and in general this can be only a minor and accidental source of historical evidence.

Figure 1 does not reveal the extent to which histories are based not only on sources documenting the original events but also on the work of other historians. It is rare for a historian to be the first to investigate a particular set of occurrences, and histories are often critiques (implicit or explicit) of the work of prior historians. Evans [1997, pp. 93-94] suggests that the move from a heavy reliance on the work of "chroniclers and other secondary or derivative sources" to a "practice of always going to the primary or original sources" in the early 19th century has been widely associated with the emergence of history "on a professional or scientific basis". This means that each history does not stand alone, based entirely on original sources, but rather that histories form an ongoing "conversation" in which a new contribution may be offered as "a useful corrective to earlier historical interpretations" [Evans, 1997, p. 88]. The basis of such a "corrective" may range from hitherto unknown documents or other traces of the past to new interpretations of a common set of evidence. It may even involve a painstaking demolition of the historical claims of another writer.⁶ In order to undertake such critiques, historians need to appeal to standards of historical research and argumentation as well as to primary and secondary evidence. These standards change through time, and in their judgements of colleagues and predecessors, historians need to be careful not to suggest that previous historians were incompetent when, by the standards of

thoughts of "rank-and-file socialist workers . . . about almost every conceivable issue of the day". Evans notes that the records had survived by luck rather than conscious decision, and that the records became significant as evidence of the past only when historians became interested in the history of everyday life rather than of political organisations.

⁶ Evans himself provides one of the leading recent examples of this in his debunking of the use of historical evidence by the holocaust denier David Irving, arising out of Evans's work as the leading defence expert witness in Irving's unsuccessful libel action against Deborah Lipstadt (author of *Denying the Holocaust*

their own times, they were justified in reaching their conclusions (for example, if they used all the evidence then available, or at least everything that then *counted* as evidence).

It is important to stress again that historical research is not simply the identification, transcription and summarisation of original sources: it generally involves interpretation, taking the form of structuring the events evidenced by the sources into some narrative, and often seeking to explain why certain events (and not others) occurred how and when they did. It is not necessary to agree fully with Keenan [1998, p. 650, following Graham, 1983] that explanation is a logically necessary aspect of “giving a history” to note that it is an activity undertaken by many historians. Historians are likely to wish to give their readers the “best” explanation possible of the events they study, and various canons of “best practice” have developed among professional historians (see, for example, McCullagh, 1984). Often, these canons are taken together with core beliefs about the relationship of historical traces and the underlying occurrences that they purportedly document: that, in general, and allowing for some degree of error, the traces faithfully represent the underlying occurrences. If given the choice between two rival explanations, one taking most documentary evidence at face value (even if it is critical of some documents), and the other asserting that most documentary evidence is erroneous or even fraudulent (even if it accepts some documents), virtually all historians would almost instinctively reject the second explanation. They would assert that, if we must be sceptical as to the reliability of any documentary evidence, then historical research is simply impossible. However, historians are often open to persuasion, by providing them with broader supporting arguments, perhaps appealing to other evidence, that the second explanation may at least be tenable. Some historiographical debates centre on whether particular documents are genuine or not.

Just as the historian’s task is to make statements that are believed to be true, that are grounded in evidence but built up through argument, so the auditor also works with evidence

and argument. Alex. Arthur has recently proposed that “the audit argument (including the elements of the argument that support the evidential statements) is a more important focus of fundamental audit enquiry than the evidential process itself” [Arthur, 2001, p. 263]. Traditionally, much weight had been placed by audit theorists on the nature and quality of audit evidence, but Arthur argues that theorists, and practitioners, often adopt a “common-sense” epistemological framework. This typically involves a naïve “correspondence” theory of truth, where a statement is true because it states what is the case (and “what is the case” is understood directly and unproblematically), and may appeal to legal or scientific notions of evidence and inference.⁷ When auditors attempt to clarify the status of evidence and the processes of making inferences, their statements are often assertional and lacking in reasons (see, for example, SAS 400 [APB, 1995a]).

INSERT FIGURE 2 ABOUT HERE

Figure 2 has been constructed to bring out similarities between the audit process and the process of historical research. The upward-pointing arrows show the process by which the underlying transactions and events undertaken by and affecting an entity are transformed into the entity’s financial statements. Transactions and events are evidenced by unstructured traces, such as invoices. These will normally include all details about a transaction that the entity considers relevant, although they may need to be supplemented by other documents and by human memory. This closely parallels the situation for the historian, who is likely to wish to “triangulate” the information about occurrences and events given by one trace against that given by other traces. Unstructured traces are summarised in more structured form in the entity’s accounting records. Much detail is omitted (for example, the records may show only an invoice number and total amount, not the goods or services provided) or summarised (for example, only the daily total for cash sales may be recorded, rather than the individual sales

transactions). Finally, the financial statements are prepared from the accounting records (with some input from knowledge of external and internal events that may have an impact on numbers emerging from the accounting records, such as doubt about the collectibility of an account receivable). Accounting systems are often designed so that those charged with preparing the financial statements may do so on the basis of balances and totals automatically generated within the accounting records, and thus do not need to make much if any reference to the underlying “primary” evidence of transactions and events. One of the central purposes of the accounting records is precisely to facilitate the preparation of the financial statements. Here, the financial reporting process differs from the process of historical research. In the latter process, the historian makes use of materials that have not primarily been created to facilitate the writing of history. Although it is possible that the retention of materials, and their structuring in archives, is partially undertaken to make the historian’s task easier, the main purpose for keeping records (other than inertia) is to provide evidence of what an individual, group or organisation has done, perhaps in case of subsequent disputes. The latter is certainly *one* reason for preparing accounting records, but not the main reason.

In Figure 2, it is important to note that the upward arrows do not go all the way to the topmost level, the audit report. This is because, in modern practice, the audit report is an opinion *about* the financial statements, not a summary *of* the statements. The role of the auditor is not to prepare the financial statements, and corporate law makes it clear that preparation is the responsibility, in the case of companies, of the corporate officers (in the UK, the directors). In practice, auditors may well become involved in preparation work, but this leads to problems of independence, as auditors are then required to give an opinion on financial statements for which they are partially responsible. Figure 2 does, however, make clear the parallels between the audit process and that of historical research in the shape of the downward-pointing arrows. The main source of evidence on which the audit report is based

⁷ This is an argument developed by Power [1992] for the use of statistical sampling techniques in

is the financial statements themselves. With the increasing use of analytical review [Dunn, 1996, pp. 133-135; Gray and Manson, 2000, pp. 333-343; Porter *et al.*, 1996, pp. 165-169; SAS 410, APB, 1995b], much audit work concentrates on ensuring the internal “coherence” of the financial statements, rather than their “correspondence” with some external state of affairs. Auditors also examine the accounting records, but to a lesser extent the primary documents evidencing underlying transactions. In the modern audit, reliance on systems of internal control allows the auditor to assume that, as long as the control system may be taken as reliable, the entries in the accounting records, and the documents underlying these entries, accurately reflect real transactions. With the increasing use of computer-based accounting systems, the underlying “documents” may only exist in virtual form anyway, or may be destroyed once they have been reflected in the accounting records.

As was the case in Figure 1, there is a shadowy arrow in Figure 2, linking the audit report to the underlying transactions and events. Auditors rarely observe routine transactions (and the evidential status of observation is open to question, as the presence of the auditor may distort the behaviour of those involved in the transaction, making it unrepresentative of transactions in general). It is more likely that the auditor will be aware of external events that may affect entities in general, such as natural disasters, changes in tax and interest rates, and insolvency of major businesses, and can bring this awareness to bear on a particular entity’s financial statements. However, as for the historian, the auditor does not in general have direct personal access to the underlying activities and occurrences that feed ultimately into the financial statements. For some activities, this may not matter too much, as the written traces may actually *constitute* the activity to all extents and purposes. For example, the mailing of a cheque to a supplier *is* the making of a payment, and the cancelled cheque, corroborated by an entry on the bank statement and the supplier’s statement, will be

considered by any auditor as convincing evidence that the payment has been made and has been received by the appropriate recipient.

The audit process is, as Gray and Manson [2000, p. 333] note, a “search for evidence”. Auditing standards, as well as audit theorists, provide criteria for judging the status of different types of evidence.⁸ Certain types of evidence, and evidence from certain sources, will be considered more reliable than other types of evidence. Auditors’ judgements as to the reliability of evidence are quite similar to those made by historians. In particular, auditors start from the presupposition that the accounting records have been compiled with the basic purpose of accurately recording genuine transactions so as to facilitate the preparation of the financial statements. Although auditors will assess the extent to which the internal control systems are operating effectively, the presumption is that this is the case, just as historians presume that primary documentary records correctly record genuine occurrences. These presumptions may be rebutted if other evidence suggests that they are difficult to support, but at least auditors have both longstanding judicial authority and more recent support in auditing standards for their approach. As long ago as 1896, the famous dictum of Lord Justice Lopes in *re Kingston Cotton Mill Company (No. 2)* ([1896] 2 Ch. 279)⁹ made it clear that:

[The auditor] is a watch-dog, but not a bloodhound. He is justified in believing tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest, and to rely upon their representations, provided he takes reasonable care. If there is anything calculated to excite suspicion he should probe it to the bottom; but in the absence of anything of that kind he is only bound to be reasonably cautious and careful.

⁸ See, for example, SAS 400 *Audit Evidence* [APB, 1995a], and, for a summary and review of the theoretical literature, Arthur [2001, pp. 252-255].

More recently, the responsibility of the auditor has been stated as being to “carry out procedures designed to obtain sufficient appropriate audit evidence . . . to determine with reasonable confidence whether the financial statements are free of material misstatement” (SAS 100.1 [APB, 1995c]). This indicates a point where the analogy between the auditor and the historian needs to be moderated. One of the qualities by which professional historians are judged is the care with which they address their primary sources. Historians who are content that their histories “are free of material misstatement” are likely to be criticised by their peers on the basis that carelessness with sources makes it difficult to lend credence to their conclusions.¹⁰ However, the auditor will be prepared to overlook immaterial errors in financial statements and in underlying records. Financial statements may “give a true and fair view” even when they are known to contain errors.

There are areas where the analogy between the auditor and the historian is less strong. The audit report itself, as already noted, is an opinion on financial statements, not the statements themselves. It is thus more like the criticism of the work of other historians that might be contained in a historical book or paper. The auditor is in this context more akin to the historiographer than to the historian. Moreover, the audit report follows a stylised form, while the writings of historians are many and varied in style. The importance of being able to justify the audit opinion is also different. Auditors are increasingly being sued for negligence [Napier, 1998], and need to be able to show that the audit was properly carried out and that the opinion was properly based on evidence. What constitutes a proper audit is increasingly determined by auditing standards, but whether a particular audit has been properly undertaken is a matter for the courts to decide in the light of expert evidence of acceptable auditing practice. If the auditor is held to have conducted the audit negligently, then

⁹ See Napier [1998] for a review of this case and others that determined the bounds of the auditor’s duties and liabilities in the UK.

¹⁰ Evans [1997, pp. 116-122] gives extensive discussion to a case involving a book by David Abraham *The Collapse of the Weimar Republic* [Abraham, 1981], which was strongly criticised for misusing its sources. Abraham claimed that his archival abuses did not affect his overall conclusions, but Evans [1997, p. 121]

substantial legal damages will be payable. For historians, however, the risks of carelessness or negligence in undertaking research are almost certainly going to be limited to effects on their careers, and will rarely result in litigation.¹¹ Yet even here there remains a parallel between auditors and historians. If auditors are able to demonstrate that the conduct of the audit, in the form of evidence-gathering, meets the standards of an adequate audit, then attention will be given to how well their conclusions are supported by the evidence. Similarly, if historians cross the threshold of using their sources in accordance with current professional practice, then they will be judged by the quality of their arguments. If the evidence-gathering process is adequate and the conclusions and interpretations drawn are well supported by arguments, then auditors and historians alike will be able to resist criticism that the outcome of their work (the audit report or the history) is unjustified. This is so even if subsequent work, perhaps using different evidence and forming different arguments, undermines the conclusions reached.

Despite some differences, the parallels between the auditor and the historian are strong, and this suggests that arguments about the foundations of historical research may be transferable to the context of auditing. In the next section of this essay, I shall consider two types of argument about historical research. These are the relationship of historical evidence to the underlying occurrences and events, given that the historian in general does not have direct access to the latter; and the nature of historical argument and interpretation. The arguments will be explored by reference to the work of two leading writers on the philosophy of history: Keith Jenkins and C. Behan McCullagh.

expresses the view that “while Abraham did not deliberately falsify evidence, he was extremely careless with it, far more so than is permissible in a work of serious historical scholarship, or indeed in any work of history”.

¹¹ The David Irving case referred to in note 6 is one of the rare examples where history is litigated.

ARGUING ABOUT HISTORY

Keith Jenkins's most widely-read writings are his books *Re-thinking History* [Jenkins, 1991], a brief and clear exposition of important philosophical and methodological issues in historical research and the post-modern response to these issues; *On “What is History?”: From Carr and Elton to Rorty and White* [Jenkins, 1995], a more extensive study that juxtaposes E. H. Carr and Geoffrey Elton, as representatives of a more “modern” and traditionalist conception of history, with Richard Rorty and Hayden White (neither of whom is, strictly speaking, a historian) as representatives of the post-modern challenge; *Why History? Ethics and Postmodernity* [Jenkins, 1999], a conscious polemic aimed at showing “that postmodern ways of thinking probably signal the end of history” [p. 1], not in the sense of writers such as Fukuyama [1992] that the major conflicts that defined the historical development of the world were now over, but rather in the sense that history, as an attempt to discover the unarguable truth about the past, was now conceptually impossible; and the edited collection *The Postmodern History Reader* [Jenkins, 1997].

Because much of Jenkins's writing is presented as a critique of the work of others, it is not always straightforward to gain a clear sense of what he is saying. His early book [Jenkins, 1991] is the most accessible of his writings, and contains some fairly uncontroversial claims as well as others more open to debate. Jenkins emphasises that there is a difference between “the past” (“all that has gone on before everywhere” [Jenkins, 1991, p. 6]) and “history” (“that which has been written/recorded about the past” [Jenkins, 1991, p. 6]), and that history in the latter sense is a discourse (or series of discourses). History exists as writing, and its sources are basically documentary, so there is a fundamental *ontological* distinction between “the past” and “history”. Moreover, “the past and history are not stitched into each other such that one and only one reading of any phenomenon is entailed” [Jenkins, 1991, p. 8]. However, traditional historians wish to “stitch together” the past and history, so it is necessary to investigate what are the limits to the claims made by historians as to

whether, and if so how, they know that they have achieved an adequate “stitching together”. Jenkins argues that it is necessary to consider issues of epistemology, methodology and ideology in conducting such an investigation.

Epistemologically, Jenkins notes the difficulty (indeed the logical impossibility) of actually “knowing” the past when we are not presently experiencing it and all our evidence comes in the form of texts (understood widely). He suggests that historical knowledge “is therefore likely to be tentative, and constructed by historians working under all kinds of presuppositions and pressures which did not, of course, operate on people in the past” [Jenkins, 1991, p. 10]. Jenkins concedes that what historians can say is constrained by “the sources”, he asserts that “the same events/sources do not entail that one and only one reading has to follow” [Jenkins, 1991, p. 13]. Interestingly, Jenkins suggests that, if there *were* only one reading of the past, then, once this had been discovered, history as a practice would indeed come to an end, as there would be no point in simply repeating over and over again this one reading. But one important factor that prevents this is that “through hindsight, we in a way know more about the past than the people who lived in it” [Jenkins, 1991, p. 13]. We can apply insights from the present to reinterpret the past, discovering what was forgotten and putting things together in different ways.

Overall, Jenkins rejects a simple correspondence theory of historical truth, but he must also address the other epistemological question of what, if anything, *justifies* the historian in making certain statements. He notes how a wide range of writers on history – he quotes Geoffrey Elton, E. P. Thompson and Arthur Marwick as representing the diversity of positions – argue that historical knowledge is possible, and ground the possibility of such knowledge in rigorous application of “historical method”. Yet Jenkins demonstrates that there is no unique method on which all historians agree, not even a core of shared methodological concepts. Finally, Jenkins argues that the key question is not “What is history?”, but rather “Who is history for?”. History means different things for different

people, and is mobilised for ideological purposes. Even an appearance of neutrality and objectivity may mask an ideological position – Jenkins makes great play of the conclusion to Richard Evans's *In Defence of History*¹² as representing a bourgeois standpoint by advocating bourgeois virtues [Jenkins, 1999, p. 100].

Jenkins does not deny that there are “facts about the past” that we can definitely know (for example, dates of well-attested events), but considers that “such facts, though important, are ‘true’ but trite within the larger issues historians consider” [Jenkins, 1991, p. 32]. The larger issues are “not only what happened but how and why and what these things meant and mean” [Jenkins, 1991, p. 33]. It is this unavoidably interpretive aspect to historical writing that Jenkins considers central, but interpretation is utterly discursive. It is not the “brute facts” but how they are arrayed and located within historians’ narratives that matter. Moreover, even the documentary sources that historians, in Jenkins’s view, “fetishise” do not have significance *as evidence* until they are mobilised as evidence *for* or *against* particular interpretations.

Much of this, expressed in less polemic language, is accepted by many of the historians that Jenkins seeks to criticise. Evans [1997], for example, is happy to concede some of these points (earning further criticism from Jenkins [1999, pp. 104-105] as effectively trying to have things both ways, while merely exposing the inadequacies of the “traditional” view of history still further). It is Jenkins’s more radical conclusions that pose stumbling blocks for historiographers such as Evans. At the core of these conclusions is the claim that “we don’t need a history in order to ‘place ourselves’ in present times, or for thinking about our future or . . . for articulating identities and programmes for a reflexive, emancipatory politics ‘without foundations’ ” [Jenkins, 1999, p. 202]. Jenkins goes beyond the view he attributes to some post-modernists “that after the end of modernity (and

¹² “I will look humbly at the past and say despite them all: it really happened, and we really can, if we are very scrupulous and careful and self-critical, find out how it happened and reach some tenable though always less than final conclusions about what it all meant” [Evans, 1997, p. 253].

modernity-styled histoies) we might well expect to see as a constituent of postmodernity, postmodern histories” [Jenkins, 1999, p. 10], to suggest that “to move into the future in radical, emancipatory ways, postmodern imaginaries *sans histoire* are all we need” [Jenkins, 1999, p. 10].

So the conclusion reached by Jenkins is a literal end of history, not in the sense that the one and only true history has been written (so historians have achieved their goal and can close down their operations), but that a postmodern age is an age with no need for history. This does not exclude the possibility of “imaginaries of the past”, but these make no claim to be valuable because of their “truth”. Does this leave us with simply the interplay of a myriad of interpretations, in which “anything goes”? Although Jenkins has stated that some (indeed most) potential interpretations would be ruled out as inconsistent with “brute facts” or involving failures of reasoning, this can only be so for histories that, despite their postmodern pretensions, share many of the epistemological, methodological and ideological positions of “modernist” history. An “imaginary” may not excite or move us, but it can scarcely be ruled out on the ground that it is not true – truth simply does not enter the equation. Thus Jenkins is quite correct to argue that a genuine post-modern history is impossible, so a post-modern world would be a world beyond history. This is because history cannot avoid making truth-claims, no matter how epistemologically problematic these are. History involves making assertions that certain things did, and other things did not, happen in the past, that they happened in certain ways and not in others, and that they can be better understood using particular interpretations rather than alternatives. This is essentially the argument that Arthur [2001, p. 265] puts forward for auditing: “doing auditing properly means being prepared to ultimately justify one’s methods, and . . . although the details of this justification may be negotiated, there is an ultimately non-negotiable discursive framework within which this can be done.” If the arguments put forward by Jenkins lead to the

conclusion that history (post-modern and *a fortiori* modernist) is impossible, then it is likely that auditing will be impossible as well.

But are we obliged to accept the views of Jenkins? One philosopher of history who believes we need not is C. Behan McCullagh, whose most recent book, *The Truth of History* [McCullagh, 1998] refers briefly to Jenkins, but goes further in defending the view that “historical descriptions can be true of the past” and that “historical interpretations . . . are not entirely subjective” [McCullagh, 1998, pp. 1-2]. McCullagh’s significant contribution, which makes his work particularly appealing in the context of a study of auditing and financial reporting, is that he considers that the issue is not just whether historical descriptions and interpretations are “true” but also whether they are “fair”. He argues that historical statements are constrained by evidence, there is no disagreement in practice about many historical statements for which the evidence is “large and unambiguous” [McCullagh, 1998, p 22]. His conception of the practice of historians is that:

The conclusion which historians generally adopt is that if an historical statement is well supported by abundant evidence, and much better supported than any alternative account, then the statement can be rationally accepted as very probably true. It is always logically possible that the evidence is misleading, or that their beliefs about it and the other beliefs on which they base their inference are mistaken. Indeed sometimes there is reason to think that this is not just a logical, but a real possibility. At any rate, even when it is entirely rational to believe an historical description is very probably true, historians must admit that it could possibly be false. Historical knowledge, like all our knowledge of the world, is fallible [McCullagh, 1998, p. 23].

It is only if we want guarantees that our statements and arguments can never be refuted, not just practically but logically, that we will claim that accepting any fallible historical statement is irrational, and that without certainty there can be no truth and hence no

history. McCullagh would regard this position of extreme scepticism as untenable. He recognises that our perceptions, our modes of argument and inference and our methods of checking our conclusions are culturally shaped, but he does not see this as fatal to the possibility that historical statements may be true. He concedes that history is in this sense subjective, but rejects the view that this implies that there is no truth (or falsity) in history, and no way of assessing different historical interpretations. Finally, historical statements are expressed in language and are thus constrained by language, but the different conceptual frameworks imposed by different languages do not prevent historical statements from being true or false merely because they might have been expressed differently.

As regards historians' claims that they aim at the discovery of the truth, McCullagh concludes that, without such a concern, history would largely be pointless:

Why search for evidence of an historical period if it cannot reveal the truth?

Why weigh alternative implications carefully and rationally? Why distinguish plausible conjectures from well-supported facts? What is the significance of the carefully "constructed" accounts of the past which historians produce, if they cannot be regarded as largely true descriptions of what happened?

[McCullagh, 1998, p. 57]

In a sense, McCullagh reaches a similar conclusion to Jenkins, although while Jenkins sees such a conclusion as cause for celebration, McCullagh views it more as a *reductio ad absurdum* of the view that historical practices cannot lead to the generation of knowledge. However, he adds a qualification to the view that the goal of historical research is to make true statements. He notes that "descriptions are meant to be, not just literally true, but also fair representations of their subject" [McCullagh, 1998, p. 57]. McCullagh has written more extensively about the issue of fairness in historical narratives in a self-contained essay [McCullagh, 1987], and in *The Truth of History* he provides only a brief account. Essentially, historical statements are "fair" if they are not "misleading", and one instance of

this is where statements “ignore major features of the property being described, and thus give a misleading impression of the whole” [McCullagh, 1998, p. 58]. An implicit aspect of fairness is avoidance of bias, particularly through omission of important facts: “A fair representation is a balanced one, and historians are frequently at pains to correct the imbalance of previous histories” [McCullagh, 1998, p. 58]. A fair description is also a complete one, and McCullagh explains how this can be achieved without having to mention absolutely everything about a historical subject, through ensuring that descriptions maintain a consistent level of generality and detail, rather than placing the general and the particular on the same level.

A critic of McCullagh might argue that the concept of historical truth he advances is not immune from scepticism and relies heavily on the assertion that “It is not irrational to believe certain things true of a subject just because there is a slight chance that those beliefs are false” [McCullagh, 1998, p. 61]. Such a critic might argue further that the concept of historical fairness is only sketched out, but even so appears to appeal to notions such as balance, completeness, and absence of any tendency to mislead, that themselves are highly subjective and may even be considered (*à la* Jenkins) to exemplify bourgeois ideology. However, McCullagh’s analysis seems consistent with much of the so-called “new accounting history” writing, which is perhaps less post-modern than it claims to be.¹³ Its appeal to both “truth” and “fairness” has obvious resonances to the auditor, and it is to this that I now turn in the concluding section.

HISTORIANS, AUDITORS AND FINANCIAL REPORTING

If we accept the position of Keith Jenkins, then, except at the trite level, there is no unique historical truth. If a search for truth is constitutive of history, then history is impossible and, in a post-modern world, we need to move to “imaginaries”. It is immoral to

¹³ A suggestion also made by Funnell [1998, p. 157].

attempt to impose a single view of the past as definitive, if there is no unique view of the past that is superior to others (although there may be views that are inferior to others). Jenkins bases this argument in part on a claim that history is inevitably ideological, but mainly on the epistemological disjuncture between the subject matter of history – the past – which is simply inaccessible to us in the present, the infinite scope for interpretation of the texts that represent the historian’s sources, and the lack of consensus as to the methodological practices of the historian that are supposed to grant security to the historian’s interpretations and conclusions.

If we accept Jenkins’s arguments, then these seem equally to apply to auditing. There is again the disjuncture between the underlying transactions and events that are allegedly being represented in financial statements and the traces that these transactions and events may or may not be leaving. Whether or not the traces count as persuasive audit evidence depends on practice, but there is a lack of consensus over what best audit practice is, and audit practice is not static but has changed dramatically over time. This implies that any particular set of audit practices is historically contingent rather than necessary, and there are no grounds for believing that practices are “improving”. There are many different accounts that can be based on a given set of traces and accounting records, just as there are many different “accounts” that the historian can give. Although some of these accounts can be ruled out as incoherent given agreement on the underlying traces, there is no one “true” account. Thus far, the analogy between historical research and auditing seems strong, but if we accept Jenkins’s conclusion that, in a modernist world, history lacks foundations and, in a post-modern world, there can be no history, then the analogy seems to imply that auditing lacks foundations and, in a post-modern world, there can be no auditing.

McCullagh’s position is more favourable to auditing. He concedes that historians can “get it wrong”, but he argues that the practices of historians are likely, if properly carried out, to “maximise the chance of arriving at the truth” [McCullagh, 1998, p. 57]. The view that truth-seeking is constitutive of history, a stumbling-block to Jenkins, is an article of faith to

McCullagh. But truth needs to be tempered by fairness: mere correctness is not enough. And judgements of fairness cannot so easily be reduced to matters of practice and method. Drawing out the analogy between history and auditing, the practices of auditors, which are constantly developing, are likely, if properly carried out, to maximise the chance of reaching a valid audit opinion. It makes sense to argue, in the context of financial reporting, that not only can the choice of accounting methods lead to different numbers, but that such a choice can be deliberately made with a view of misleading. Hence the motives of the preparers of financial statements need to be critiqued, not just the statements themselves. “Arguments to the best explanation” may be valid within history, but where no single viewpoint emerges as the “best explanation”, then it would be unethical for the historian to present a single position as the *only* position. Similarly, in financial reporting, if there is no single “true” accounting (though there may be many “false” accountings), then it would be unethical for the auditor to claim that a particular accounting represents “the truth”. It is often forgotten that the British audit report (and those of countries following this wording) states that financial statements give *a* true and fair view, not *the* true and fair view.

Auditing, then, faces similar epistemological and methodological difficulties to history. If history is logically impossible, then so must auditing be. If, however, there are arguments that allow us to decide when historical statements are justified (even though we concede that there is always the remote chance that they are not true), then similar arguments may be used to justify auditing. Hence this essay supports the view of Arthur [2001] that, while the concept of audit evidence is important, the arguments used to convert traces into evidence and evidence into conclusions are perhaps more important. Perhaps, as Arthur [2001, p. 262] points out, that “statutory auditing, as it is currently conceived and required, is impossible”, but this does not make *all* auditing impossible. The challenge to fundamental theorists of auditing will be to learn from theorists of history as to which discursive arguments are likely to vindicate *some* form of auditing. In practice, just as historians rely on

a core supposition that most traces of the past were not prepared to mislead but genuinely correlate with occurrences and events, however open to interpretation they may be, so auditors rely on a core supposition that accounting records are not prepared to mislead but genuinely correlate with underlying transactions and events. Sometimes historians are deceived. So are auditors, but only the extreme sceptic would argue that this makes both history and auditing logical impossibilities.

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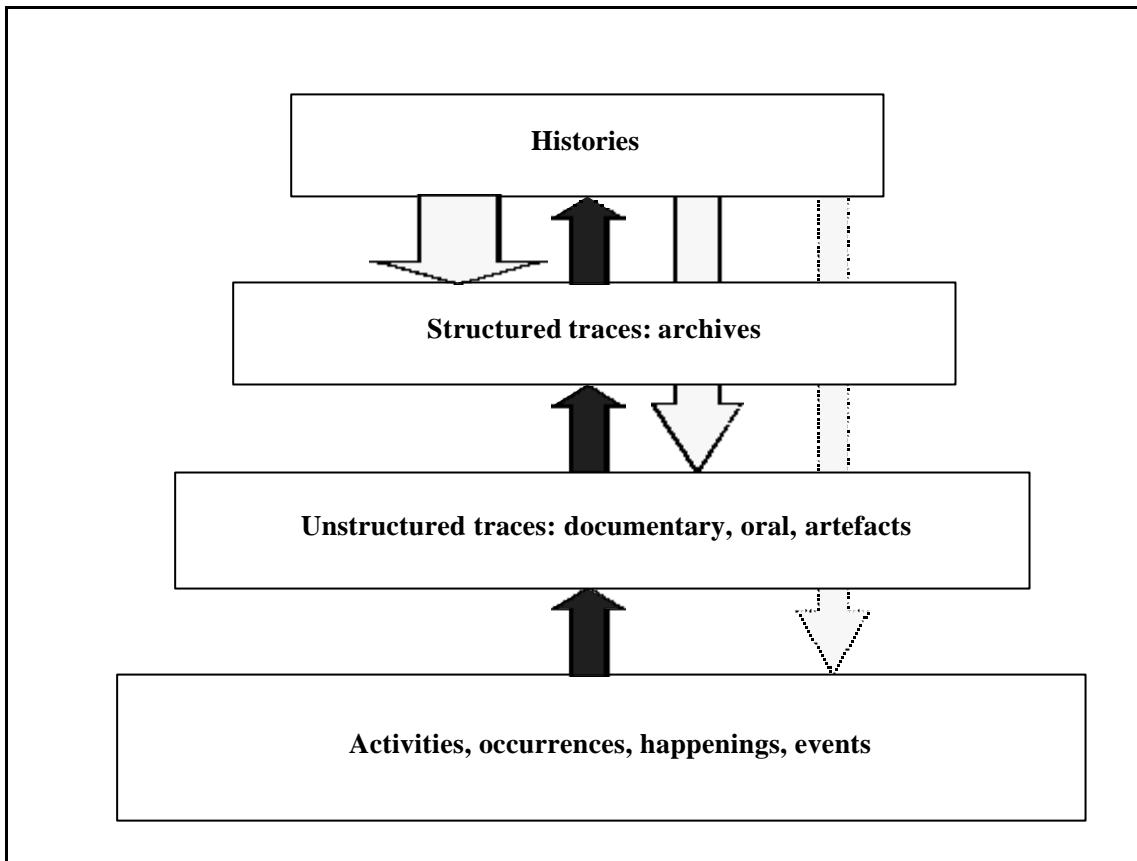


FIGURE 1: THE PROCESS OF HISTORICAL RESEARCH

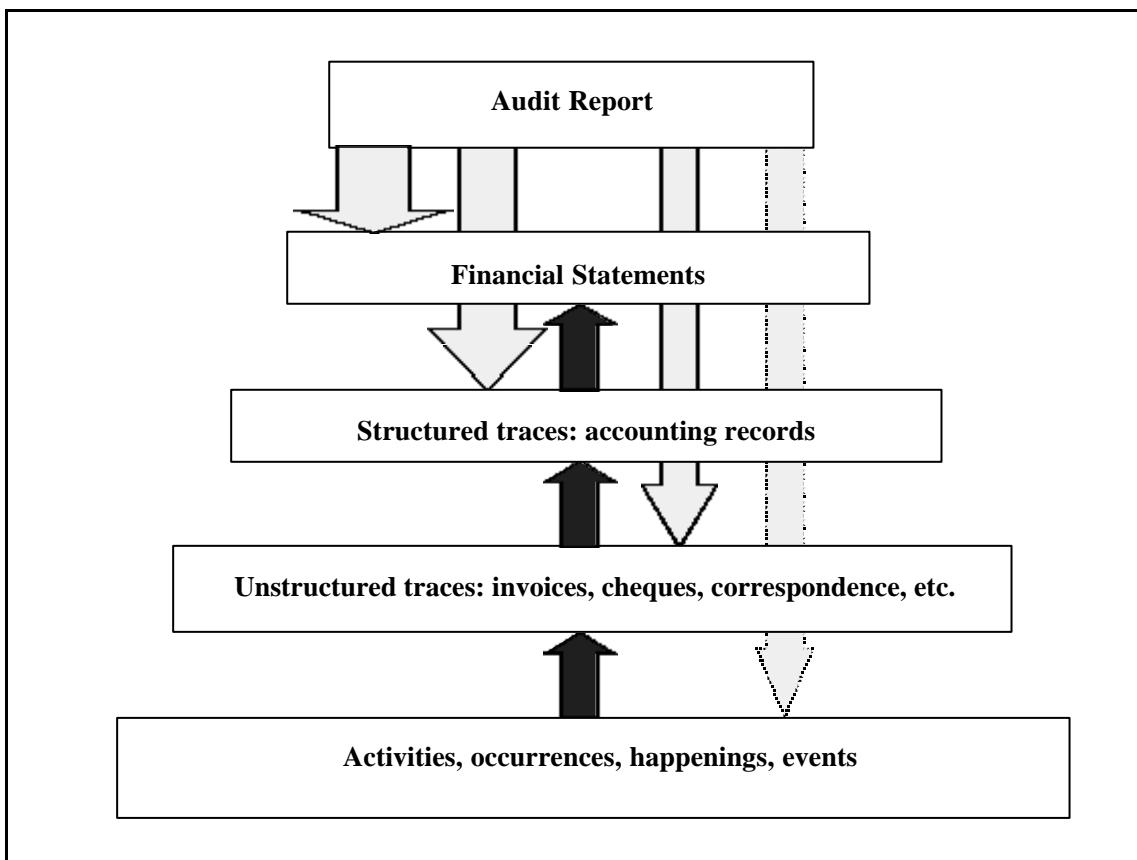


FIGURE 2: THE PROCESS OF FINANCIAL REPORTING AND AUDITING