• INTRODUCTION

Jake presented a sweeping history of financial accounting, auditing and politics, drawing on a wealth of examples to reveal how accounting and auditing can be used to both build kingdoms, empires and entire civilizations, but also to undermine them.

Jake studied states by dissecting their archives. He found accounting to be a central element in early state building and also found resistance to internal audits, even when sophisticated control systems have been put in place. He found it in Italy, Spain and France.

PLEASE SEE THE WEB STREAMING FOR HIS PRESENTATION
• His research asked:

  • What makes states succeed or fail?
  • Are there elemental ingredients?
  • He wants to put auditing and accounting culture at the center of answering these questions.
  • Is it possible to judge the health and stability of a nation according to its accounting culture and standards?
  • His research concludes that, YES, it is, in part..
• Medieval Italy, audits for the catasto
• Libri segreti
• A balance in secret and public books for the civic good
• Cosimo de Medici uses double-entry, but his heirs fail
• This is the exact moment when the Medici bank accountant fails to keep up-to-date books and fails to effective audit the Bruges branch
• Leading to the collapse of the Medici Bank and eventually...

• THE FLORENTINE REPUBLIC
• Charles V and Philip II made remarkable accounting legislation, but they struggled to find accountants versed in double-entry and when they did get close to creating a central state ledger, Philip II misused audits to attack high nobles and officials
• While their legislation was innovative and sophisticated...
• Philip misused audits and let the control system collapse
• He did NOT WANT A CENTRAL LEDGER
• (through which HE could be audited)
• I found the same issue with Louis XIV
• Jean-Baptiste Colbert developed and instituted a sophisticated auditing and central ledger system
• And Louis, wary of being audited, destroyed it, leading to centuries of opacity, mismanagement, corruption and bankruptcy
• In spite of Colbert’s remarkable reforms,
• The Sun King did like the idea of being audited
• What makes states succeed or fail?
• Are there elemental ingredients?

Accounting = Accountability
Auditing is the central tool
• The Essential Tool?
• The Audit?
• What do we need for audits to exist?
• Auditors?
• Yes, but....
• We also need a **Culture** that understands what an audit is and how to use it
• That’s the hard part.
• Which nations’ internal audits do you trust?
• Are there cultures in which auditing is valued and understood?

• Research has shown: Effective audits are part of a larger culture of accountability and transparency
Part 1

• The Dutch Audit (1622) explains how through art, philosophy, religious and political culture, the Dutch create a society fluent in accounting, it’s pitfalls and in the idea of the audit and transparency in public finance

• Flemish and Dutch Art values and explains accounting and audits via what I call accounting **warning paintings**

• **They are unique in the world**

• Leaders of the Dutch Republic **strive** to create an **accountable society**

*Based on accounting literacy and the presence of accounting at all levels of society*
Accounting culture creates not only the trust to build complex capitalism but also open, proto-democratic societies that understand how to use audits as tools to make economics and politics sustainable.

Le Maire and a Number of Shareholders Demand an Audit

The Audit happens, under the supervision of Prince Maurice

In secret, but the public trusts

How much do these paintings reflect a society comfortable with audits?

A society *literate* in *accounting* has both the tools and the *language* to *reform* itself

& Good *liberal arts* educations teach *how to use language*
Part 2

• The British emulate Dutch accounting culture
• Britain becomes the center of accounting culture,
• And.. Political accountability
• The English do an audit of the South Sea Company
• The French do not. This allows England to reform and move ahead economically.
• The French lack of auditing culture cripples their financial and economic system for 70 years
• Great Britain creates a culture fluent in accounting
Part 3

• So what...?

• What history teaches us is the cultural fluency in auditing is essential to auditing
• My own work has strived to bring back the idea of culture as a part of auditing and accounting practice
• This means using history and culture to insert audits into political debate, as they had been in the 18th and 19th centuries
• Modern budgets, financial press, audits, the accounting profession, ratings agencies, regulations...
• Public debate?
• What is the modern public accountability and what role does auditing play?
IPSAS Standards per EU Law

- IPSAS is EU Law
- But saying one has IPSAS is not enough
- It is internal implementation and maintenance
- Not easy
- The EU has high standards
- Do individual European countries?
- DOES THE PUBLIC UNDERSTAND or KNOW
- ABOUT THE HIGH QUALITY OF EU AUDIT AND ACCOUNTING STANDARDS?

  - **Publicity is essential to auditing culture**
  - This is DEMOCRACY
• We have a societal crisis—or, at least, a majority of the US and other electorates think we do.
• People feel there is no accountability and they feel HELPLESS
• WHY?

• Further work with Portugal’s GAO on their internal auditing and reporting system.
• USING NEW ZEALAND AS THE ULTIMATE MODEL

• To better manage the wealth and liabilities of the people
• To build public and international trust and to maintain brain power and attract investment
• Audits are resisted even by the most transparent politicians

• Obviously

• Therefore there needs to be public awareness vis publicity and literacy
• Where are the accountants?

• Where is the public debate?

• Where are the accounts?

• What role does auditing play?

• Where are the audible world leaders in accounting???

Debt and financial fraud crises are produced in a breakdown in accounting, the auditing industry and the *culture of accountability*.

*And a lack of effective audits*