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From Legitimacy to Accounting and Auditing For Citizenship

Rute Abreu^{a*}

^a *Guarda Polytechnic Institute/UDI-IPG/CICF-IPCA, Av. Dr. Francisco Sá Carneiro, 50, 6300-559 Guarda, Portugal*

Abstract

This research deals with the relationship between accounting and auditing for citizenship. Indeed, the citizen as user of the financial information argues that the accountant and the auditor should take more responsibility for detection and dissemination of illegal acts to increase their legitimacy of the Annual Report. However, the citizen faces illiteracy. The goal is to struggle it. Through businesses, financial institutions and public entities, the multifaceted environment in which Annual Report is disclosure, must be linked to International Accounting Standards (IAS), as well as, the International Standards on Auditing (ISA) to diminish their complexity and increase transparency.

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1. Introduction

The citizen as user of the financial information argues that the accountant and the auditor should take more responsibility for detection and dissemination of illegal acts to improve the efficiency and effectiveness of the audit process (Guy & Sullivan, 1988). Also, it persuades them to search for errors and disclosure materially relevant effects to show citizens, that the nature and results of the audit process is more clearly and transparent (De Bellis, 2011). These are main reason for many authors share different opinions and strategies about legitimacy, such as: regulatory socio-political legitimacy (Kostova & Zaheer, 1999) or regulatory legitimacy (Scott, 2008). The legitimacy supports the strategy of business, financial institutions, public entities and organizations in order to legitimize their actions to the society.

* Rute Abreu. Tel.: +351-271-220-120; fax: +351-271-220-150.

E-mail address: ra@ipg.pt

Legitimacy is a concept that is in a scientific expansion and, therefore, its concept is not completely stabilized. Over the years, several authors have tried to substantiate the discussion, contributing to increase our perception about the concept of legitimacy. In this line of research, the accounting and auditor do not limit their performance to give credibility to the financial statements of the business, financial institutions, public entities and organizations. For example, Porter & Gowthorpe (2004) detailed that the audit profession has been troubled by charges and huge controversies on several aspects, such as: liabilities assumed by the auditors and the detection of fraud and error. This problem has reached unprecedented levels with the bankruptcies of businesses, financial institutions, public entities and organizations, such as: Enron and WorldCom.

Indeed, accounting and auditing has been used extensively by the businesses, the financial institutions, the public entities and the organizations. Moreover, several studies use the agency theory framework for examine the role of the auditor in society (Adams, 1994). Based on the above, information asymmetry varies between organizations and environments and to reduce it, there is the effect of strong regulation well establish on laws, norms and regulations to empower the protection and the well-being of the citizen (Helliwell & Putman, 2004).

On the one hand, the theoretical framework of this paper is based on literature about accounting, in general, and auditing, in particular (Newman, 2006). On the other hand, the empirical framework reflects the practices in this field of the disclosure of Annual Report of the firm (Patton, 2002). The structure of the paper is organized as follows. Section 2 gives an overview from legitimacy and the accounting context. Section 3 goes from legitimacy and the auditing context. Finally, the section 4 presents conclusions and promotes future research.

2. From Legitimacy to Accounting for Citizenship

This paper introduces the legitimacy within the accounting and auditing process and combining it over the time and the businesses, financial institutions, public entities and organizations. The results of this process have an increase of the accounting for citizenship that provides a public service made by accountant that produce and disclosure the annual report. However, threats to independence may still exist regardless of any statutory measures designed to protect it (Porter et al., 2008). A complementary example could be made by the cooperative relationship and interaction between several entities in the area of accounting, specifically with International Federation of Accountants (IFAC), International Accounting Standards Board (IASB), European Commission (EC), International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), International Accounting Education Standards Board (IAESB), Public Interest Oversight Board (PIOB), Asociación Española de Contabilidad y Administración de Empresas (AECA), Ordem dos Técnicos Oficiais de Contas (OTOC) and Ordem dos Revisores Oficiais de Contas (OROC), among others.

Despite the importance of the accounting process on the economy, the duties and responsibilities of accountants have never been well defined and the hybrid role of accounting is associated with the financial statements disclosure made on the annual report of businesses, financial institutions, public entities and organizations. More and more, the accountant takes legal responsibilities and, in addition, the climate of rising level of expectations of the citizen that use the annual report, which the accountant produce it. Further, the accounting quality management comprises more than the perceived quality (Taylor, 2005). Indeed, this is source of legitimacy (Kostova & Zaheer, 1999; Scott, 2008), because it is based on the idea that a particular type of industry may have more or less legitimacy, compared with others, and a new business can require industry standards and credibility to acquire its legitimacy.

It is important to note that legitimacy is in development. But, it is increasingly important for business, financial institutions, public entities and organizations, i.e., it realizes what society thinks about them and it can thus change its strategy, meeting several expectations and needs of the society. These crises are closely linked to the communication between citizens *versus* accountants and auditors. Hence the importance attached to the clear explanation of all work out and objectives of the accounting. Meeting the expectations of users of financial statements is an effective objective of the accountant contributes to positively evaluate the dynamic factors of competitiveness, which will add value to the business.

The legitimacy of socio-political regulation (Kostova & Zaheer, 1999) or normative legitimacy (Scott, 2008) derives from norms and values of the society or a relevant social environment to the new business. The businesses, the financial institutions, the public entities and the organizations are appropriate when they use the desired standards and values that respect the employees and the community, among others. The cognitive legitimacy

(Kostova & Zaheer, 1999 and Scott, 2008) derives from the beliefs and assumptions that governing a model of daily routine.

Parsons (1956) was one of the first authors to relate the idea of legitimacy in the organizational context, detailing that organizations are defined as a social system geared a specific goal, which should contribute to a larger system, which is usually the society. Thus, if organizations are seen as immersed in the social context, then they must also be understood in context of their environmental values, as well as, their set of beliefs, norms and laws. Meyer et al. treat legitimacy as an organizational concept that it refers to the degree of cultural support for an organization extended a set of factors culturally established that it provides explanations for its existence, functioning and jurisdiction. In these circumstances, the legitimacy refers primarily to the adequacy of an organization on a theory point of view (Meyer & Rowan, 1977; Meyer & Scott, 1983).

Lehman states that is necessary a sufficient level of social information disclosure to evaluate the organization. Thus, if the organization has a corporate behavior in legitimizing their actions through disclosure, then ultimately the organization promotes the dissemination of information to justify its existence (Lehman, 1983). This principle predominantly defended by Suchman states that social practices are guided by maxims or accepted rules as binding, which, in turn, are seen as socially acceptable by economic agents (Weber, 1991). Scott (2008) and Suchman (1995) argue that legitimacy is the central concept of organizational institutionalism, once its importance derives from the principle that business, financial institutions, public entities and organizations, as part of the social system, require technical resources and information from the environment, as well as the acceptance and credibility. Thus under the same perspective, Suchman (1995) presented a definition of legitimacy more widely accepted: “generalized perception that the actions undertaken by an organization are desirable, proper and appropriate within a system of social norms, values, beliefs and definitions”.

Suchman (1995) distinguishes legitimacy as: pragmatic, moral and cognitive. The pragmatic legitimacy implies satisfy stakeholders, and this legitimacy is attained only by the exchanges that occur between the business, financial institutions, public entities and organizations and its stakeholders. The moral legitimacy depends on the decisions that are taken about the suitability of the h businesses, financial institutions, public entities and organizations performance. Finally, cognitive legitimacy is the legitimacy more difficult to achieve, once it may derive from the beliefs and assumptions. Moreover, it states that organizations seek for the legitimacy for many reasons, but it essentially needs to establish goals with this quest for legitimacy; otherwise the results of their efforts may not be as expected.

However, some overlap about the quality of best practices needs specific criteria to ensure this classification. In this context, the authors agree with Krek et al. (2012), each best practice needs to accomplish several criteria, but without the need to reach all:

- Definition of objectives, activities and budget to be carried out by stakeholders and groups of citizens;
- Consistency between planned and implemented objectives, activities and budget;
- Participation of citizens as a democratic decision, making processes and shared responsibility;
- Collaboration between different business, financial institutions, public entities and organizations;
- Ability to make use of or include new technologies and new media to give more visibility to the best practice promoted by business, financial institutions, public entities and organizations;
- Level of interest on the influence of the outcome and their impact as a result of the assessment process;
- Exploitation of the disclosure information on outcomes and assessments at local, regional, national and international levels;
- Promotion of values of democracy, human rights, social cohesion and tolerance.

Accounting is a specialized knowledge with an explicit code promulgated by various entities (OTOC, 2014). In fact, the duties and the responsibilities of the accountant have remained as one of the most controversial issues (Martinez-Ferrero et al., 2013).

3. From Legitimacy to Auditing for Citizenship

Throughout the years, several authors have sought to substantiate the discussion about the perception of the accounting for citizenship to increase the legitimacy (Mitchell et al., 1997; Knechel et al., 2007; Rittenberg et al., 2010). Indeed, the legitimacy supports the strategy of the businesses, the financial institutions, the public entities and

the organizations in order to legitimize their actions to the society. Legitimacy is a concept that is in a scientific expansion and, therefore, it is a concept not completely stabilized (Scott, 2008). Yet, no one disputes this tendency. But, this paper researches the civic engagement as a theoretical approach and comparative analysis of other similar experiences to reflect critically on the relationship between auditing, democratic deliberation, public sphere and civil society, through the businesses, the financial institutions, the public entities and the organizations (Humphrey, 1997). For example, the regulatory legitimacy is endorsed on the setting of global standards, such as: international accounting standards (IAS) and international standards for auditing (ISA) that has become increasingly significant due to globalization (De Bellis, 2011).

More and more, the auditor takes legal responsibilities and the degree of confidence is supported on the climate of rising level of expectations of the citizen that use the statutory audit report, which the auditor is confronted daily (OROC, 2014). In certain circumstances, the economic activity itself is source of legitimacy (Kostova & Zaheer, 1999; Scott, 2008), because it is based on the idea that a particular type of economic activity may have more or less legitimacy compared with others. Also, it is possible to identify insights of new business that can require specific standards and this enhance the credibility to enhance the overall audit quality (Fazdly & Ahmed, 2004). Despite the importance of the audit function in the current economy, the duties and the responsibilities of the auditors have never been well defined (Alleyne & Howard, 2005). During long time, economists and planning researchers are interested extensively in the study of the process of buying and selling. Today, the battle for truth, it is progressively more important for the businesses, the financial institutions, the public entities and the organizations that have led to study the legitimacy of the audit process. It shows the change on the process of thinking of the society, through the transformation of the strategy to meet the expectations and the needs of the each citizen (Parson, 1956; EC, 1996).

The battle has never been greater, than in the field of communication and it is closely linked to empowering citizens to find good practices between the auditor and the businesses, the financial institutions, the public entities and the organizations (Kek et al., 2012). Hence the importance attached to the clear explanation of the audit process and their objectives (Arens & Loebbecke, 2010). Meeting the expectations of users of financial statements is an effective means of auditors contribute positively to the dynamic factors of citizenship, adding value to the auditor report. In general, the auditor report is an opinion performed by auditors based on the financial statements of the business, financial institutions, public entities and organizations. There are different types of auditors, this project will assess this difference, because it is essential attract talent due to the fact that auditing is a higher demanding intellectual activity (Creswell & Plano Clark, 2007). Also, to increase trust to the citizen, due to several discreditable acts that damage or impinge on the reputation and integrity of the auditor profession, then this project will develop the litigation environment to minimize the auditor failure which will increase the number of stakeholders interested in them as result of the interaction with them and are affected by them too.

Mitchell et al. (1997) argue that the legitimacy as the generalized perception of actions of the businesses, the financial institutions, the public entities and the organizations are desirable or appropriate and in accordance with the socially constructed context, it can be individual, institutional or social. Organizations exist while the society believes that they have legitimate and, if necessary, society gives to them that state of legitimacy. Thus, the survival of an organization may be threatened, if the society becomes aware that organization has infringed its social contract.

According to Dias-Filho (2007), the theory of legitimacy is something like a social contract, made between the organization and the society, representing a set of implicit or explicit expectations of its members about how they should operate. As regards Barros (2008), this theory believes that society allows the existence of organizations and his rights, but they hoping in return that they have the expectation about how their operations should be conducted. So, for the survival of an organization, as Jackson et al. (2008) argue about auditor rotation, this must ensure that the activities are carried out in accordance with values and norms of the society.

As Scott (2008) says, the acceptance of forms of social actors conduct also involves organizations, taking into account that they are agents working within a social network. Eugénio (2010) states that the theory of legitimacy was built based on the theory of economic policy, which means the businesses, the financial institutions, the public entities and the organizations, are part of the social system. Thus, these businesses, the financial institutions, the public entities and the organizations exist in society, which regards them as legitimate, i.e., they give them a status of legitimacy. In turn, the idea of legitimacy is directly related to the concept of social contract (Eugénio, 2010). From the institutional theory, organizations are more than means to produce products and services; they are also social and cultural systems (Judge, 2008). Notably, legitimacy is one of the means by which nations can regulate and exercise

the direct power to efficiently create economic value and equitably distributed economic wealth. In other words, when the governance system is viewed as legitimate, national wealth is generated and the economic system is generally perceived as being fair (Judge, 2008).

4. Conclusion and Future Research

All over the world...banking scandals, financial crisis, chronic Deficit of the State Budget of several countries and their negative impacts brings concerns on the sustainable life of the citizen, because it influences the legitimacy and the stability (Martinez-Ferrero et al., 2013). These examples illustrate the raising awareness of accounting and auditing for citizenship. The review of the literature have promoted the legitimacy as a theoretical approach and it analyzed the good practices drawn from the annual report as the outcome of the accounting information system in which is based the empirical research analysis.

Between the findings and results, it is important to conclude that accounting and auditing for citizenship has been used extensively by businesses, financial institutions, public entities and organizations (Bonney et al., 2009). But, the need for compromises might leave several options toward a transparent annual report with an enormous progress that likes accounting and auditing.

Consequently, it is essential to transfer knowledge to the society and to business, financial institutions, public entities and organizations, to consolidate the accounting and auditing for citizenship (Cosserat, 2004; Knechel et al., 2007; Arens & Loebbecke, 2010). So, the stakeholders, in general, and to the citizen, in particular, can legitimize the principles towards its stakeholders: integrity, objectivity, professional competence and due care, confidentiality and professional behavior which justify the true and fair view of ISA and IAS (IFAC, 2014; OTOC, 2014; OROC, 2014).

As future research, the author aims to create and to maintain a platform that integrates a significant set of accounting and auditing services that goes from Ethics, Values and Attitudes to Audit Process and Quality Control Procedures or Public Affairs (IAASB, 2014). It is more than Information and Communication Technology platform that is web located, because it is composed by a set of software and hardware elements that are necessary to execute the accounting and audit process. It is assumed as a true strategic tool that promotes knowledge to the citizen about a businesses and public entities.

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