



**THE POSTULATE SYSTEMS OF AUDITING IN THE EVOLUTION OF THE AMERICAN THOUGHT: A HISTORICAL INTERPRETATIVE APPROACH**

**OS SISTEMAS POSTULACIONAIS DA AUDITORIA NA EVOLUÇÃO DO PENSAMENTO AMERICANO: UMA ABORDAGEM HISTÓRICO-INTERPRETATIVA**

**LOS SISTEMAS DE POSTULADOS DE LA AUDITORÍA EN LA EVOLUCIÓN DEL PENSAMIENTO EN ESTADOS UNIDOS: UN ENFOQUE HISTÓRICO-INTERPRETATIVO**

DOI: <http://dx.doi.org/10.18028/2238-5320/rgfc.v5n4p149-170>

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**ABSTRACT**

From all the authors who most distinguished themselves in the development of the task of providing auditing with an adequate theoretical framework, Mautz and Sharaf (1961) and Tom Lee (1993) are considered to be the most important. The purpose of this study is to examine, the evolution of the American thought. To do so, we have used an appropriate methodology, based on a normative, interpretive and empirical basis, where we include the formulation of hypotheses which, duly contrasted, allow us to conclude that the postulate systems proposed follow a logic evolution and have a strong theoretical consistence and reflect the practices existing in the USA.

**Keywords:** Auditing. Conceptual structure. Accountability. Postulate system.

**RESUMO**

Dos autores que mais se distinguiram no desenvolvimento da tarefa de dotar a auditoria de uma estrutura teórica adequada Mautz e Sharaf (1961) e Tom Lee (1993) são considerados os mais importantes. Examinar a evolução do pensamento americano é o propósito deste trabalho. Para a sua concretização recorreremos a uma metodologia apropriada, baseada numa base normativa, interpretativa e empírica, na qual incluímos a formulação de hipóteses que, devidamente contrastadas, nos permitem concluir que os sistemas postulacionais propostos têm uma linha de evolução lógica, são dotados de uma forte consistência teórica e refletem as práticas existentes nos EUA.

**Palavras-chave:** Auditoria. Estrutura concetual. *Accountability*. Sistema postulacional.

**RESUMÉN**

Entre los autores que más se han evidenciado en la tarea de dotar la auditoría con un marco teórico adecuado, Mautz y Sharaf (1961) y Tom Lee (1993) están considerados como los más importantes. Examinar la evolución del pensamiento estadounidense es el objetivo de este estudio. Para concretarlo nos hemos socorrido de una metodología adecuada, partiendo de una base normativa, interpretativa y empírica, incluido el establecimiento de hipótesis que,

Recebido em 10.03.2015. Revisado por pares em 24.04.2015. Reformulações em 12.05.2015 e 17.07.2015. Recomendado para publicação em 01.08.2015. Publicado em 14.12.2015



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debidamente contrastadas, nos permitem concluir que los sistemas de postulados propuestos presentan un hilo evolutivo lógico, están dotados de gran consistencia teórica y espejan las prácticas teorizadas existentes en los EUA.

**Palabras-clave:** Auditoría. Marco conceptual. Accountability. Sistema de postulados.

## 1. INTRODUCTION

The postulate systems, hereafter PS, are an answer to accounting and auditing practices considered to be less correct. Between 1929 and 1959, the power of regulating the financial information provided by listed companies was attributed to the American standardization bodies – Securities and Exchange Commission (SEC), American Institute of Certified Public Accountants (AICPA), Certified Public Accountant (CPA), Auditing Practices Board (APB) –, due to the criticism made, at a technical level, to standards that were considered to be poorly drawn up, incomplete and often contradictory (AGRAWAL, 1987, p. 165-178; ARCHER, 1997, p. 224-249).

In this sense, AICPA, together with other bodies representing financial statements users, accountants and auditors, created an independent standardization body: the current FASB (Financial Accounting Standards Board). Its basic function was to create a theoretical framework able to promote the drawing up of solid standards and determine the nature, the role and the limits of the financial accounting and of the financial statements. It is within this line of thought that Mautz and Sharaf's (1961) postulate system emerges, and transposes to auditing the same type of worry, when it intends to produce a set of principles to serve as guidelines for the subject, through the conception of a standards generator or target standard (COLASSE, 2000, p. 94). The principles of Mautz and Sharaf (1961) and Lee (1993) are strictly connected to the American standardization history, and represent to auditing the same as the theoretical Framework of FASB or IASB (International Accounting Standards Board) represents to financial accounting, because there is, due to the great interdependence between both subjects, a large common area: the accounting standards.

Both proposed PS appear to be technical and theoretical solutions to comprise the soundness and the coherence of the auditing standards related to the problem of independence (KRIPKE, 1996), ethics, responsibility, and the auditor's status, as well as the conceptualization of the auditing process embodied in the collection of evidence (POWER, 1993; SOLOMON, 1986). They also take the role of a defensive framework regarding the production of standards that are not incompatible with its design. In this spirit, as stated by Colasse (2000, p. 95) a theoretical framework is not purely a technical instrument; it also has an institutional and political dimension.

As the theme is defined, we outline that the objective of this study is to compare the PS conceived by both authors to find out if there is an evolutionary line in auditing in accordance with the evolution of the Northern American capitalist system.

This research is of great interest to the auditing professionals as well as all the agents included in an accountability relationship, where auditing has a fundamental role in the validation of the financial information. It also provides the teachers of auditing with an important reference for the basis of auditing and its importance in society. It also offers the national and international audit bodies an important guideline to conceive and apply auditing standards in accordance with society. To reach this objective, we present in the second chapter the review of literature on this subject. In the third part, we enhance the applied methodology. In the fourth, we draw the evolution of Mautz and Sharaf (1961) and Lee's (1993) PS, taking into consideration the social, economical and political context within which they were produced, emphasizing the similarities and the differences. In the fifth chapter, we

discuss the results and, finally, we present the conclusions, the limitations of our work and the suggestions for future research.

## **2. REVIEW OF LITERATURE**

The teachers of American auditing schools rarely include in their pedagogical and didactic manuals direct references to the authors Mautz and Sharaf (1961) or Lee (1993). Whittington and Pany (2010, p. 1-31), Arens, Elder and Beasley (2010, p. 3-14), Messier, Glover and Prawitt (2012, p. 3-32), Louwers et al. (2013, p. 1-32). They do not present explicitly in the introductory chapters of their manuals the postulates of auditing. However, implicitly, they point out the problems the postulate systems intend to encompass.

They also add that the accountability relationship must lead to a diligent conduct in the application of the resources and, similarly to Lee (1993:73), they report that the accounting information, due to the agents “egotistical” behavior in most companies, does not have credibility without a formal and independent verification. Louwers et al. (2013, p. 587-598), Messier, Glover and Prawitt (2012, p. 57-66), Arens, Elder and Beasley (2010, p. 77-112), Whittington and Pany (2010, p. 63-103), Johnstone, Gramling and Rittenberg (2015, p. 114-155) report the problems of independence and ethics as vital aspects in an audit, arguing that the last attribute is necessary for the balanced development of society, and, for that, the ethical values must be included in the laws and codes of professional conduct. In relation to the auditing process as demonstrated by Arens, Elder and Beasley (2010, p. 173-206), the philosophy of the PS is implicit when they mention the management’s assertions to be confronted or validated, as well as the decisions taken by the auditor regarding the collection of evidence; situations which indicate the use of the philosophy inherent to the functional postulates conceived by the authors under analysis.

The American school, represented by Mautz and Sharaf (1961) and by Lee (1993), essentially sustain the financial auditing, but the concept of auditing proposed by American Accounting Association (AAA, 1973) comprises more specific forms of auditing, when referring that “the statements related to economic acts and events must be evaluated according to established criteria and communicated to the interested parties”. This concept suggests that the standards of reference may be financial – the accounting principles generally accepted – and not financial – referring to the aspects of value for money of organizations: economic, efficiency and effectiveness of organizations (PATERSON, 2015, p. 107). This wide scope in auditing is not however taken on by any of the authors of the American school. In fact, Lee (1993, p. 4) only refines and improves Mautz and Sharaf’s (1961, p. 431) postulates exclusively centered in the financial auditing, sharing therefore an identical view regarding the company’s going concern, the discovery of errors, frauds and omissions; tasks which, in their opinion, are not within the framework of auditing.

## **3. METHODOLOGY**

The methodology used consists of a set of procedural techniques which, due its systematic use, have led into method focusing, with respect to observable phenomena, certain specific areas. In this study we concomitantly use a mix of methods: the historical, the comparative and typological, the monographic, the interpretive and the functional. In reality, In the PS analysis we used the first procedure – historical method – assuming that those were created in the past, and, therefore, the search for their roots is important to understand their nature and function. Through this process, we studied the PS conceived in the past, aiming at verifying their influence today, taking into consideration the particular context of each time and their subsequent changes (LAKATOS, 1981; RYAN et al., 2001).

In its turn, the comparative method allowed us to research the similarities and differences, and concomitantly explain divergences, create typologies, representations and outline their typical characteristics (LAKATOS, 1981; WEBER, 1971). The monographic method and the functional method (MALINOWSKI, 1978) were also applied. The first deals specifically with a particular point of the history of an academic area (auditing) in a particular country (EUA). The functional method allows us to study auditing in collaboration with the development of capitalism, and draws our attention to the whole and structural character of the social reality.

As it is our objective to relate the emergence of PS with the development process of capitalism, which, in last resort, dictates the conception of the postulates by the different authors, we interpreted Mautz and Sharaf's (1961) postulates in the context of the evolution of the industrial capitalism, whereas Sherer and Kent (1983), Flint (1988) and Lee's (1993) postulates refer to a competitive environment in a context of uncertainty where the primacy of consumption and marketing emerges, and we witness the stepping down of the primacy of production that involved the conception of Mautz and Sharaf's (1961) PS. The comparison resulted in some quantification which provides this study with an empirical basis, even though it is minimalist.

Before we began the comparative analysis of the PS, we considered the following hypotheses:

- H1. The evolution line of auditing in the USA, which connects Mautz and Sharaf's (1961) PS to Lee's (1993) PS did not change and remained focused on financial auditing.
- H2. The role of the auditor in the American society stabilized during the period between 1961 and 1993.
- H3. The evolution from Mautz and Sharaf's (1961) postulate system to the one proposed by Lee (1993) does not present profound divergences when comparatively evaluated.
- H4. The scope and the reach of auditing proposed by Mautz and Sharaf (1961) are identical to those advocated by Lee (1993).
- H5. The significant influence of the audited criteria remains the generator criteria for the submission of a company financial statements to an exam provided by an independent auditor.
- H6. In this evolution line, the internal audit is merely an auxiliary of the external audit.

#### **4. COMPARATIVE ANALYSIS OF THE POSTULATE SYSTEMS**

To answer this set of hypotheses we used the comparative method, previously defining the content of the supportive, behavioral and functional postulates proposed by the American school, through the definition of a set of founding elements that give substance to each postulate, as shown in the following table.

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Table 1 – Basic postulates of Auditing

Basic Postulates of Auditing		
Supportive	Behavioral	Functional
<ul style="list-style-type: none"> <li>→ Reliability</li> <li>→ Accountability</li> <li>→ Distance/Complexity</li> <li>→ Agency theory</li> <li>→ Law</li> </ul>	<ul style="list-style-type: none"> <li>→ Relationship between the agents</li> <li>→ Legal Impositions</li> <li>→ Training/skills</li> <li>→ Independence</li> <li>→ Auditor's Opinion</li> </ul>	<ul style="list-style-type: none"> <li>→ Accounting reference: Evidence/Standard</li> <li>→ Cost-benefits</li> <li>→ Internal Control</li> <li>→ Ethics</li> <li>→ Projection</li> </ul>

Source: The Author.

The supportive postulates enclose contents with the following elements or attributes: reliability, accountability, distance/complexity, agency theory, law. This set of elements, partially or in fragments, explicitly or implicitly, are referred by Louwers et al. (2013, p. 1-32), Lee (1993, p. 93-100), Messier, Glover and Prawitt (2012, p. 3-23), Arens, Elder and Beasley (2010, p. 3-14), Whittington and Pany (2010, p. 1-31), Almeida (2014, p. 81-99).

The contents of the behavioral aspects of the financial information preparers, managers and auditors, refer mainly to the existence, or not, of conflict among agents, codes of ethics and other enforcement measures that affect the behavior of all actors included in this professional space as well as the auditor's independence, ethics of its behavior and the reflection of these constraints in the audit report.. These issues are referred to, among others, by Sherer and Kent (1983, p. 9), Lee (1993, p. 93), Flint (1988, p. 7), Almeida (2005, p. 39-50), Knechel (2001, p. 1-7), Messier, Glover and Prawitt (2012, p. 57-60), Whittington and Pany (2010, p. 63-103).

In their turn, the functional postulates, which guide the auditing process and are a guideline to enclose the action, are enhanced by the problem of accounting standards, or any other standard measure that enables the proof and the appointment of responsibilities based on verifiable evidence submitted to an economic standard of cost/benefits. The control environment and the extrapolation of results are also part of this category of postulates. All these elements are referred to by the theorists on auditing; among those we emphasize: Louwers et al. (2013, p. 168-210), Messier, Glover and Prawitt (2012, p. 183-223), Arens, Elder and Beasley (2010, p. 289-332), Porter (2004, p. 363-406).

We also analyzed the existing studies in the international literature in both a normative and descriptive way and also with an empirical perspective.

The concept of postulate used by the authors we will analyze in this study, Mautz and Sharaf (1961) and Lee (1993), is based on the definition proposed by the former: hypothetical, assumptive table, created deductively, with the capacity to generate a conceptual structure that, together with the objectives and the role of auditing, provide a basis for the development of its theory and its practical approach. According to Mautz and Sharaf (1961, p. 43) the postulates are: essential to the development of any intellectual discipline; assumptions that, in themselves, do not lead to a direct verification; the bases that allow for the inference exercise; the starting point for the construction of a theoretical structure; susceptible of mutating and adapting according to the progress.

The assumptions allow us to create the support bases for the logical and integrated development of the auditing theory, considered to be hypothetical, that is, as a theory presented provisionally. Conceived a priori, they enable us to deduct that they can be directly

verified and therefore can be subject to the criteria of refutability, which is an essential condition to validate the truth contained in a postulate.

The first theoretical formulation of auditing was outlined in 1961 by Mautz and Sharaf. At that time, these researchers conceived a set of postulates considered to be vital for the scientific development and theoretical structure of the discipline which, for Taylor and Glezen (1994, p. 9), Almeida (2005, p. 39-50), Sierra and Orta (1996, p. 14-24), Porter, Simon and Hatherly (2008, p. 10-13) and Molina and Pérez (1996, p. 43-50), is an important theoretical framework in auditing, and they consider its conception, even though it is presumed, as fundamental to give it its own formal abstract object, based on inference and verifiability which are seen as crucial characteristics for the drawing up of a positive or normative theory of auditing.

Mautz and Sharaf (1961, p. 43-62) conceived the following eight postulates of financial auditing: (1) the financial statements and the accounting and financial data are verifiable; (2) There may not be any conflicts between the auditor and the management; (3) the financial statements and all the disclosed information subject to verification do not contain intentional errors and other irregularities; (4) An existing internal control eliminates the probability of irregularities; (5) the consistent application of generally accepted accounting principles leads to a reasonable representation of the company's financial situation and results; (6) In the absence of evidence to the contrary, what was considered to be valid in the company subject to an audit may be extrapolated to the future; (7) When examining the accounting and financial data with the purpose of expressing their independent opinion, the auditor strictly act as an auditor; (8) the status of an independent auditor imposes adequate obligations. This set of postulates allows building the technical and legal structure of auditing.

The first postulate leads to the financial statements audit and to the verifiability accounting data. This postulate is basic in the financial conception of auditing which refers to reliable data – despite the mere social representations – and, in this approach, if those are not sustained the audit is not necessary and must be withdrawn.

This postulate is also the support for the theory of evidence, the verification procedures, the application of the theory of probability to auditing (the sampling theory), and the establishment of limits to the auditor's social responsibility. All the auditing process is virtually based on this postulate and the auditor only takes responsibility for the veracity of the examined evidence which supports his opinion.

The fifth postulate is also related to this position, when it considers the consistency of accounting principles as a condition for a reasonable building of the financial situation and the results of the activity. In effect, within the generally accepted accounting principles, there is, as a basic assumption, the going concern assumption. However, there is a generalized reluctance among auditors to give an opinion on this principle.

This issue is nowadays an important aspect in the relationship between auditors and society because it asks them to consider with greater accuracy and thoroughness the issue of the going concern, under all circumstances and not exceptionally, as it is defended by the traditional currants of auditing.

When the sixth postulate of auditing considers, in the absence of clear evidence to the contrary, the past to be extrapolated into the future, it limits and inhibits the participation of the auditor in the output and the review of all the prospective financial information, based on its subjective character and therefore not verifiable. The acceptance of this postulate establishes important limitations in the scope and reach of auditing, by reducing it to the prospective analysis, not allowing it to analyze, for example, the company's going concern, which reflects on the limitation of the auditor's responsibilities. However, more recent studies

in auditing – Green Book of E.U. (1996) and the report of the Institute of Chartered Accountants of Scotland (ICAS, 1988) – include the so called more probable future to the area of auditing, which expand its field of performance. This postulate, which provides the auditor with a basis to give his view on the company's going concern, only by exception, does not adapt to the new tendencies that give the auditors the task of issuing an opinion, with exception, on the viability of the company.

As the quality of the phenomena recorded, reported and audited is the product of the existence of adequate internal control, it seems obvious that its operative maintenance reduces the probability of irregularities, although infringements may occur despite its existence and even though the quality is recognized. On the other hand, if it is not minimally reliable, the errors and the irregularities must be considered as something more than merely possible.

The importance of internal control, as the fourth postulate enhances, both in the preventive and the detective view, is fundamental in auditing and is considered imperative in the performance of any reasonable auditing service in terms of depth and extension of substantive testing (SOX, 2002; PCAOB, 2006).

The second and the third postulates reflect on the management ethical behavior. These postulates support an irreprehensible ethical behavior by the management. We presume therefore that there are no conflicts of interests between the auditor and the management of the audited company and, at the same time, we presume that the financial statements have no irregularities.

These two postulates are directly related to the matter that confronts auditors and financial statements users regarding the auditors work, and their accountability in relation to reporting frauds and illegal acts committed by the management. We presume that the management acts rationally when acquiring asset, leading the current and strategic management, performing adequately their duties, and, unless there is evidence to the contrary, it acts honestly and is not involved in fraudulent activities. In the planning of the audit, the auditor's activity is based on the doubt, which leads him to reflect, but we cannot rule out the possibility of, at a particular moment in time, an occasional direct conflict occurring when the auditor examines and evaluates the assertions made by the managers, some of which may have been tampered on purpose. The auditor's responsibility, towards the society in general and in particular towards the shareholders, imposes, in a democratic society, to denounce the fraudulent activities and illegal acts committed by the unethical behavior of individuals who are part of the companies.

The design of the auditing program, when the inherent risk coming from the analysis of the managers' ethical behavior is detected by the auditor, must comprise all the potential situations, and therefore it must go well beyond what is strictly necessary.

The third and last point deals with the auditors' behavior. The auditor's social function, his responsibilities, and his increasing public recognition, lead to the acceptance of greater professional duties, reflected in the progressive expansion of the auditing standards. Thus, the seventh and eighth postulates are related to the auditor's performance and the professional status, refer to independence as a basic pillar to exercise the profession. As a corollary, the auditors cannot take on responsibilities in other areas of the company that may impede them to perform freely in their exclusive profession of auditor. Therefore, the economic practices of joint production, so evident in the multinational auditing companies and that have been at the basis of so many scandals in auditing (ENRON and WORLDCOM)<sup>1</sup> –

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<sup>1</sup> American companies pointed out at the beginning of this century as business failures and, simultaneously, with great failures of auditing.

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just to name a few ones – are subject to laws that want to definitively deter the proximity of the auditing and accounting functions (SOX, 2002; PCAOB, 2006).

The statement above referring to the history of auditing in the United States, allows us to consider Mautz and Sharaf's postulate system by highlighting particular characteristics. See the table below:

Table 2 - Synthesis of Mautz and Sharaf's postulate system

	Relevant points	Characterization	Notação
1	Business environment	Stable, growing and predictable.	MS1
2	Auditing scope	Financial approach of auditing.	MS2
3	Auditing conception	Strictly technical based on the verifiability of the financial statements and reliability of the financial information.	MS3
4	Interest in auditing	Private Interest: shareholders.	MS4
5	Information as an economic asset	Private Assets.	MS5
6	Auditor's accountability	Technical.	MS6
7	Form vs. Substance	The agreement with the legal form overlaps the economic substance.	MS7
8	Relationship between agents	Does not consider the opportunistic behavior of the agents, that is, the existence of conflict. It does not however assume its impossibility.	MS8
9	Company's going concern	Its approach only develops by exception.	MS8
10	Detection of errors, omissions and frauds	They are not considered in the scope of auditing.	MS10
11	Most important characteristic of the financial information	Reliability of the accounting procedure system.	MS11
12	Auditing Risk	Based on the risk of the transactions.	MS12
13	True and fair view	It is managed the rigorous compliance to the accounting principles.	MS13
14	Linearity vs. Uncertainty	The past may be extrapolated to the future.	MS14
15	Auditors' responsibilities	Strictly technical related to the veracity of the facts: private responsibility.	MS15
16	Independence, professional status and ethical conduct	Vital attribute to audit: without Independence the audit is not valid.	MS16
17	Need to resort to external audit	Without exceptions and always in view of reliability.	MS17

Source: The Author.

The second theoretical system recognized, among others, by Almeida (2014, p. 29-35), Sierra and Orta (1996, p. 14-24), Molina and Pérez (1996, p. 43-50) was created, thirty two years later, by Lee (1993, p. 4) who refers to the existence of three groups of postulates to justify the theoretical structure of auditing: the supportive, the behavioral and the functional.

The first group of postulates is considered to be an anchor to justify the assumptive framework on which the existence of auditing is based on. The second highlights the auditor's performance and the behavioral aspects of auditing, and the last is related to the functional aspects of auditing, that is, with its technical matrix.

Let now see the group of supportive postulates (PJ):

Table 3 – Lee's postulates

PJ 1.	The quality of the accounting information shown in the financial statements in most of the companies does not have enough reliability without being verified and validated, so that it may be used with complete confidence by the shareholders and other users in the accountability process and the attribution of responsibilities.
PJ 2.	The function of auditing, as part of the accountability process and the attribution of responsibilities, in its function of verifying and validating the quality of the financial statements, is the most frequently sought in most business situations.
PJ 3.	In most situations the quality of the information shown in the financial statements reported to shareholders and others users may be tested and validated by an external audit.
PJ 4.	The verification and validity of the quality of the financial statements reported to shareholders and others users are better done through regulation in most of the business situations.
PJ 5.	In most of the business situations the shareholders and other users are not in a position to personally verify and validate the quality of the financial statements.

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Source: Adapted from Lee (1993, p. 75-78)

PJ 1 is considered, within the five under analysis, as the most important to anchor the theory of business auditing. However, it must be observed with some relativity in its application. In effect, it presupposes significant external interests, and therefore the justification for audits in small companies must be seen with a critical perspective. On the other hand, large organizations, within the concept of corporate governance, like the one advocated by Sherer and Kent (1983, p. 9), that promote and enhance its internal audit at a high level, may not need auditing outside, as it is suggested in this postulate. Despite this, for most of the companies the postulate is valid.

PJ 2 suggests that the use of the financial statements in a large spectrum of business decisions is developed to the benefit of all of those who have interests in the company, and that, in a cost/benefit analysis, the audit provides more advantages than its intrinsic cost. The economic argument to justify an audit (Flint, 1988) refers that the economic consequences of potential conflicts, generated within the framework of the agency theory, exceed the costs of the audit, due to the fact that the issued information is considered a public asset.

PJ 3 refers that the quality of the financial information can be audited, which is implicitly accepted by the auditors when performing their functions. However, the size, the volume and the complexity of the multinational organizations may be so great that use of a wide range of auditing procedures may not clear all the doubts regarding the truth and fairness of the disclosed information. In this case, Lee (1993, p. 78) suggests the internal audit as a subsidiary to deter the doubts of the external auditors.

PJ 4, in respect of the economic and social argument for the existence of auditing, refers to the need of having a formal regulation of the function and the profession. The social function of auditing presupposes its absolute need for regulation, but not only the voluntary one. Consequently, giving the characteristic of public asset to the financial information, as mentioned before, generates the need to protect the financial statements users and that is why an external audit is imposed to public companies. In relation to this matter, Wallace (1985, p. 53) refers that the market pressure, in the context of the theory of agency, induces the voluntary search for an external audit service.

PJ 5 recognizes the impossibility of the shareholders to control the company management because they are out of the business life and because of the complexity of the operations, and consequently, they do not have the opportunity of controlling the quality of the disclosed financial information. There is, *ipso facto*, the need to trust the functions of validating the financial statements to a third party in benefit of all those interested in the company.

The behavioral postulates (PC) developed by Lee (1993, p. 79-83) refer to the behavioral characteristics the auditor must have in the development of his function of verifying and validating the quality of the disclosed financial information; these are basically the following:

Table 4 – Lee's Behavioral Postulates

PC 1.	There is no conflict of interests between the auditor and the company's management that prevents the verification and the validation of the quality of the financial statements presented to the shareholders and other interested users.
PC 2.	There are no legal or other restrictions that are not reasonable regarding the auditors, or that may impede the performance of their function of verifying and validating the financial statements.
PC 3.	The auditor is sufficiently qualified and experienced to proceed with competence in the verification and validation of the financial statements.
PC 4.	The auditor carries out his functions totally independently, both mentally and physically, to verify and validate with sufficient objectivity the quality of the financial statements.
PC 5.	The auditor is responsible, as a qualified professional, for his work and for giving an opinion on the true and fair view of the reported financial statements.

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Source: Adapted from Lee (1993, p. 79-83)

These postulates refer to the issue of cooperation with the management, the absence of restrictions, the free search for evidence, the auditor's independence, the knowledge, the experience, and the responsibility in the performance of his duties.

Especially related to auditing, the functional postulates (PF) support the technical procedures of the profession:

Table 5 – Lee's functional postulates

PF 1.	The primary quality of the financial statements from an auditing perspective is mainly interpreted in terms of relevance.
PF 2.	There is sufficient and credible evidence that may be gathered and evaluated in reasonable time and at reasonable costs and allows supporting an opinion regarding the quality of the financial information disclosed to the shareholders.
PF 3.	The financial information disclosed to the shareholders is exempt of materially relevant errors and frauds.
PF 4.	The relevance and reliability of the financial information disclosed to the shareholders and others users may be communicated by an auditor.

Source: Adapted from Lee (1993, p. 83-87)

These functional postulates report to the qualitative characteristics of the financial information, based on the reliability and relevance, defined by the conceptual structure of the Financial Accounting Standards Board (FASB, 1985), and represent the first concrete benchmark for comparison and reference. To evaluate the reliability of the financial statements, in terms of present fairly or true and fair view, the existence of standards is fundamental; therefore generally accepted accounting principles are used (MAUTZ and SHARAF, 1961, p. 47).

The detection of materially relevant errors or frauds is not seen by Lee (1993, p. 86) as an important objective of the financial auditing either.

Finally, the auditor's report presents the results of his work to the shareholders and other users of the financial information. The interpretation and the understanding the users have of it is a great issue in the current debate in auditing (CARCELLO, 2012, p. 22-27; STEPHENS; SMITH, 2010, p. 767-769; BELL; MACALLISTER, 2011, p. 12-15; ASARE; WRIGHT, 2012, p. 193-217; CIESIELSKI; WEIRICH, 2012, p. 11-14; PCAOB, 2011). The monographic analysis permits us to highlight seventeen relevant points.

Table 6 – Synthesis of Tom Lee's postulate system

	Relevant points	Characterization	Note
1	Business environment	Unstable, unpredictable, uncertain.	TL1
2	Auditing area	Essentially financial approach.	TL2
3	Conception of auditing	Social: social control instrument.	TL3
4	Interests in auditing	Public Interest: stakeholders' theory.	TL4
5	Information as a economic asset	Public asset.	TL5
6	Auditor's accountability	Technical/social.	TL6
7	Form vs. Substance	The agreement with the legal form overlaps substance.	TL7
8	Relationship between agents	Conflict between the agents and the principals: agency theory.	TL8
9	Company's going concern	By exception.	TL9
10	Detection of errors, omissions and frauds	This task is not within the scope of auditing.	TL10
11	Most important characteristic of the financial information	Relevance / reliability.	TL11
12	Auditing risk	Risk: corporate, business or strategic.	TL12
13	True and fair view	Compliance to the conceptual bases of the financial information and the accounting standards and principles.	TL13
14	Linearity vs. Uncertainty	The linearity and the extrapolation lack meaning taking into account the business environment.	TL14
15	Auditing responsibilities	Wider than those merely technical: the auditing responsibility is social.	TL15
16	Independence, professional status and ethical conduct	Fundamental to develop the auditing process: without Independence auditing is worth nothing.	TL16

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17	Need for external auditing	The financial auditing must be mandatory when there are significant external interests. The internal auditing is subsidiary.	TL17
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Source: The Author.

## 5. RESULTS OBTAINED

Taking into account the anchors defined in 4, we obtained the following comparative tables:

Table 7 – Supportive Postulates of SP

	Mautz and Sharaf (1961)	Lee (1993)
Reliability	*	- The quality of the financial/accounting information shown in the financial statements do not have sufficient credibility, without verification and validation, to be used with total confidence by the shareholders and other users in the process of accountability and attribution of responsibilities.
Accountability relationship Agency theory Law	*	- The function of auditing, as part of the process of accountability and attribution of responsibilities, to verify and validate the quality of the financial statements is required in most business situations.
	*	- In most of the companies the quality of the annual rendering of accounts to the shareholders can be satisfactorily validated by an external audit.
	*	- The verification and the certification of the quality of the financial statements, presented to the stakeholders, must be regulated.
Removal/ Complexity	*	- In most of the business situations the shareholders and the users are not in a position to verify and validate the quality of the financial statements.
*Aspects not referred by Mautz and Sharaf (1961).		

Source: The Author.

Table 8 – Behavioral postulates of SP

	Mautz and Sharaf (1961)	Lee (1993)
Relationships	- There are not necessary any conflicts between the auditor and the managements of the audited company.	- There are no conflict of interests between the auditor and the company's management that impedes the verification and the validation of the financial statements presented to the shareholders and other interested users.
Legal framework	*	- There are no reasonable regular legal situations or others in relation to the auditors that may impede the verification and validation of the financial statements.
Independence and Integrity Training / skills	- The status of the independent auditor imposes adequate obligations.	- The auditor is sufficiently qualified and experienced to skillfully perform the verification and validation of the financial statements.
		- The auditor performs his duties totally independently, both mentally and physically, to verify and validate objectively the quality of the financial statement.
Auditor's opinion	- When examining the accounting and financial data with the purpose of giving his opinion, the auditor acts only as an auditor.	-The auditor is responsible, as a qualified professional, for his auditing work and for issuing an opinion on the quality of the reported financial information.
* Anchors not referred to by Mautz and Sharaf (1961).		

Source: The Author.

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Table 9 – Functional Postulates of SP

	Mautz and Sharaf (1961)	Lee (1993)
Accounting bases Substantiation/ standards	- The consistent application of the generally accepted accounting principles creates a reasonable representation of the financial position and the results of the company.	- The primary quality of the financial statements, from an auditing point of view, is mainly interpreted in terms of relevance and reliability, as there are standards that permit the auditor to determine if this quality exists.
	- The financial statements and the accounting and financial data can be verified.	- The relevance and reliability of the financial information disclosed to the shareholders and others users can be communicated through an auditor, in acceptable time and at acceptable costs.
cost-Benefit	*	- There is sufficient and reliable evidence that may be gathered and evaluated to support an opinion in relation to the quality of the financial information disclosed to the shareholders
Ethics	- The financial statements and all the public information is subject to verification, and are free of intentional errors and other irregularities.	- The accounting information comprised in the annual accounts is free of frauds and errors.
Internal Control	- The existence of an internal control system removes the probability of irregularities.	**
Extrapolation	- In the absence of evidence in the contrary, what was considered valid in the audited company was extrapolated to the future.	_____
*Anchors not referred to by Mautz and Sharaf (1961). ** Anchors not considered by Lee (1993).		

Source: The Author.

In comparative terms, we noted the absence in Mautz and Sharaf (1961) of any postulate to substantiate auditing in the American society. In his turn, to give substance to the content of the supportive postulates, Lee (1993) mainly fills in the anchors defined earlier: reliability, accountability relationships, agency theory, law, and removal/ complexity.

In the category of behavioral postulates we found a thought identity regarding the statement saying that auditing cannot be hindered by conflicts between the auditor and the company: the relationships between auditor and audited are assumed in a relational stability framework. Lee (1993), however, is more complete in his statement, and admits the lack of legal regulations, unless they are considered reasonable, susceptible of impeding the verification and validation.

Regarding independence, both authors recognize that this attribute is the essential foundation of auditing and that one does not exist without the other. Still, Lee (1993) is more precise in the design of his postulate, and recognizes that this attribute is a necessary condition but is not sufficient. The author relates independence with the auditor’s training, competence and professional experience; without these attributes the independence, in an abstract sense, lacks meaning.

The ethical behavior of trainers and those responsible for the presentation and disclosure of the financial information is taken on by Mautz and Sharaf (1961), but is not highlighted by Lee (1993). It is an important loophole, especially in the training/ skills area, referred to in the previous point, the former author does not refer to integrity as important for the activity of the auditor.

Concerning the report, both authors agree that when the auditor gives his review on the company’s financial statements, he should be free of any constraints susceptible of

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influencing his opinion: independence is, once more, a converging point in the American school.

When we observed the functional postulates, we noted that both authors focus their analysis on the accounting/financial basis of auditing and they admit that the application of the US GAAP's creates a reasonable representation of the financial position and the results of the company. Mautz and Sharaf enhance the reliability of the financial statements, where as Lee (1993) points out, first of all, relevance and disregards reliability. Both, however, agree that the statements are verifiable. Yet, Lee (1993) limits it to cost/benefit analysis, which is not found Mautz and Sharaf (1961). The internal control environment in companies was already considered, by these authors, as an important instrument in the corporate governance system of any organization. The extrapolation to the future is not admitted by Lee (1993) because his postulates were conceived in a more unpredictable and uncertain climate.

Based on the PS, we drew up the following summary table:

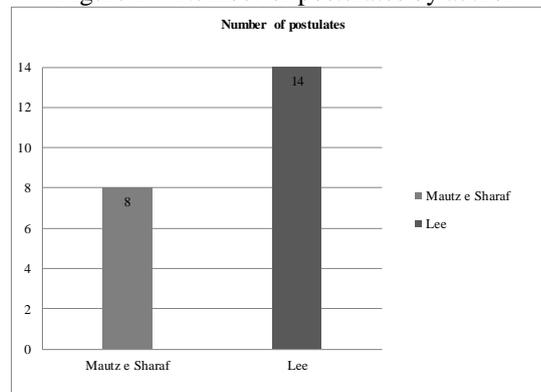
Table 10 – Summary of the postulate systems by author

<b>Mautz e Sharaf</b>		
Support postulates	0	0,00%
Behavioral postulates	4	50,00%
Functional postulates	4	50,00%
	8	100,00%
<b>Lee</b>		
Support postulates	5	35,71%
Behavioral postulates	5	35,71%
Functional postulates	4	28,57%
	14	100,00%

Source: Research data.

The graphic representation is as follows:

Figure 1 – Number of postulates by author

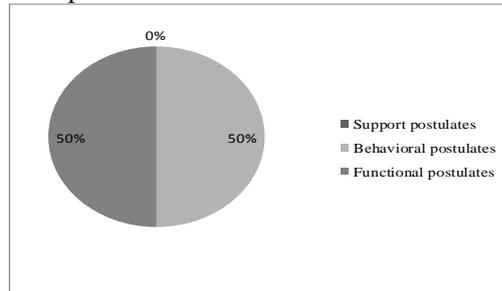


Source: Research data.

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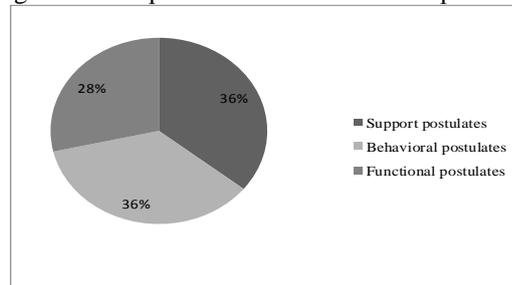
In graphic terms, the visualization is as follows:

Figure 2 – Graphic visualization of Mautz and Sharaf’s postulates



Source: Research data.

Figure 3 – Graphic visualization of Lee’s postulates



Source: Research data.

Introducing the aggregate, we obtained:

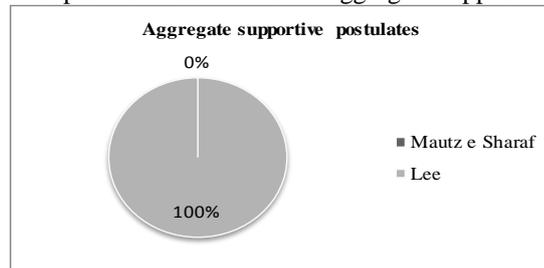
Table 11 – Aggregate summary of the postulate systems

Authors	N° of postulates	Aggregate supportive postulates		Aggregate behavioral postulates		Aggregate functional postulates	
Mautz e Sharaf	0	0	0%	4	44%	4	50%
Lee	0	5	100%	5	56%	4	50%
Total	0	5	100%	9	100%	8	100%

Source: Research data.

The graphic representations take different configurations:

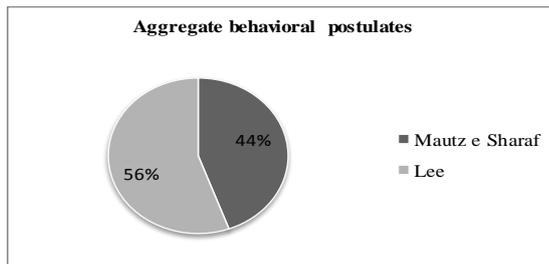
Figure 4 – Graphic visualization of the aggregate supportive postulates



Source: Research data.

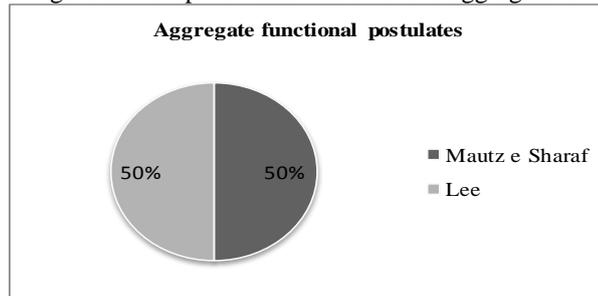
Figure 5 – Graphic visualization of the aggregate behavioral postulates

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Source: Research data.

Figure 6 – Graphic visualization of the aggregate functional postulates



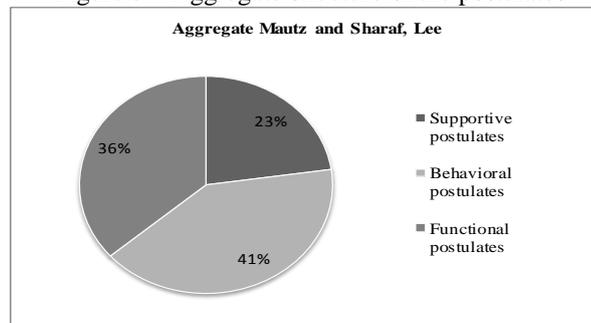
Source: Research data.

Table 12 – Aggregate structure of the postulate systems

Aggregate Mautz and Sharaf, Lee		
Supportive postulates	5	22,73%
Behavioral postulates	9	40,91%
Functional postulates	8	36,36%
	22	100,00%

Source: Research data.

Figure 7 – Aggregate structure of the postulates



Source: Research data.

By synthesizing in seventeen points the most important issues coming from the PS, we are now able to make comparisons line by line, point out and quantify the number of similarities and divergences whose analysis is fundamental to develop the discussion of the work.

Table 13 – Evaluation of the comparisons

Order	Mautz and Sharaf (1961)	Tom Lee (1993)	Evaluation	
			Similar	Divergent
1	MS1	TL1		X
2	MS2	TL2	X	
3	MS3	TL3		X
4	MS4	TL4	X	
5	MS5	TL5		X
6	MS6	TL6		X

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7	MS7	TL7	X	
8	MS8	TL8		X
9	MS8	TL9	X	
10	MS10	TL10	X	
11	MS11	TL11	X	
12	MS12	TL12		X
13	MS13	TL13	X	
14	MS14	TL14		X
15	MS15	TL15		X
16	MS16	TL16	X	
17	MS17	TL17		X
TOTAL	17	17	8	9

Source: The Author.

## 6. DISCUSSION

In accordance with the results obtained, and the mix of the methods used, we are able to discuss the development of the auditing PS in the evolution of the American regarding accounting and auditing matters. In global terms, we noted that Mautz and Sharaf (1961) conceived an axiomatic theory to substantiate auditing, constituted, as we saw, by eight postulates, without presenting any dividing line between them. These statements, by forging the evolution of auditing until 1961, theorized the practice of the Americans in terms of behavior and auditing process. There is, in its self-evidence, an absence of any supportive theory to substantiate auditing in society, except the vague allusion to its contribution to make the financial information presented and disclosed by the companies more credible. Mautz and Sharaf's theory (1961), which is the basis of the American school, mainly based financial audit. However, the concept of audit proposed, in 1973, by AAA, which still exists today, permits to incorporate other branches of auditing. This way, Mautz and Sharaf's (1961) vision can only be considered as restrictive. In interpretative and in historic terms, we must enhance that, at that time, the generally accepted accounting principles based on the explicit attribute of verifiability in the formulation by Mautz and Sharaf (1961), were the only standards relatively accepted by professionals, to corroborate, validate and hold responsible in audit terms. Subsequently, in their genesis, Mautz and Sharaf's (1961) postulates incorporated the well rooted ideas of the American society.

The design of this PS is consistent with the evolution of the American accounting lone of thought, which developed a set of postulates for accounting (MOONITZ, 1961, p. 1; CHAMBERS, 1963, p.15) to serve as references standards to practices considered to be inconsistent; Mautz and Sharaf's (1961) philosophy followed the same principles. However, at that time, auditing did not have, yet, the social dimension it acquired in subsequent days, because it was considered to be, by those authors, an exogenous variable to society. In fact, they did not perceive the existing contract network in the American business society, nor the existing conflicting climate between agents. Moreover, the 60's economic climate was stable and incrementalist, and was based on an industrial production economy, which was easily predicted and based on forecasting mathematical models where the extrapolation was seen and recognized as a quite rigorous technique.

Verifiability and transaction risks were seen through a strictly accounting point of view; in their turn, the reference frameworks are in accounting and, in turn, the reference frames are accounting and, in this situation, axiomatic of Mautz and Sharaf (1961) absorbs all this problem, which is reflected in four behavioral postulated and as many functional. The auditors' behavior is the main concern of Mautz and Sharaf (1961), and the reference to their independence and their ethical behavior is an axel of great importance, that conditioned and influenced, from that date on, the concerns of these matters by theorists, educators and

practical audit. The approach to the internal control was also considered to be of crucial importance, and it continues to be so nowadays.

The importance of these postulates is later recognized by Taylor and Glezen (1994, p. 9) as appropriate to justify the existence of auditing. This thought is also shared by Molina and Pérez (1996, p. 15-25) and Lee (1993, p. 9), when they state that it is a coherent body of propositions aiming at justifying the existing practices and techniques of audit, and that its learning is essentially done through case studies. The statements, according to Mautz and Sharaf (1961, p. 44), do not require demonstration, nevertheless they may be contrasted in order to assess the validity enclosing. Gwilliam (1987, p. 49), in turn, refers that the postulates must be subject to criticism and considered as potentially valid assumptions. The breakdown of the PS of Mautz and Sharaf (1961), at an implementation level (table 2), is illustrative in respect to the private interest of the audit – shareholders – of its classification as a private asset, the merely technical responsibility attributed to auditors, and the recourse to external audit considered to be without exceptions and always in the perspective of credibility and subsidiarity.

From the 70's on there is a growing perception in society that the must rely on the analysis of audited financial statements carried out by an independent professional, regarding the solvency and company's viability. It begins thus to develop the problem of audit expectation gap. It related with the issues of objectiveness, value, nature and purpose of the audit. Thus, for Humphrey, Moizer and Turley (1992, p. 137-161) the audit expectation gap may be attributed: to the very nature of the audit, to ignorance, to unseasonable expectation of society, and the business crisis, whose effects multiply new expectations.

Audit, as an endogenous variable, became part of the core of relations with society and became responsible for the criticism environment regarding auditors accountability and performance. The auditors, in this framework, developed defensive and constructive answers. The defensive response emphasizes the need for public education and exposes repetitively the auditors' ideas. A constructive response suggests broadening the scope and audit function (SWEENEY, 1997, p. 20). Liggio (1974, p. 27-44), meanwhile, admitted that a failure in mitigating the audit expectation gap will result inevitably in an increase in litigation against auditors and in an accentuation of the criticism of society in relation to audit function. The going concern assumption, detection of fraud and illegal acts, the performance of auditors, the standards framework, constitute the central body that gives content to the "differences between what the public and users of financial information believe that are the responsibilities of auditors and auditors think is their responsibility" (GUY; SULLIVAN, 1988, p. 36; HARRIS; MARXEN, 1997, p. 160). This discussion refers to what the public expects from the auditor's work and to the perception people have of it. The auditor's responsibilities to detect errors and frauds (BARON et al., 1997, p. 243-250; JENNINGS; RECKERS; KNEER; 1993, p. 489-507), the auditor's overall responsibility (HUMPHREY; MOIZER; TURLEY, 1993:359-411), the evolution of auditing (CHANDLER; EDWARDS; ANDERSON, 1993, p. 443-450), are matters where auditors have great difficulties in meeting the public expectations. In his turn, McEnroe and Martens (2001, p. 345-358) concluded that the expectation gap are a reality, and that financial information users have very high expectations regarding the safety an audit should provide in various areas, among which we highlight: the auditor's report, the internal control, fraud and illegal acts.

It is in this climate that the postulates in auditing proposed by Lee (1993) emerged. Their analysis allows us to conclude that there are five postulates to justify the audit in society which can be considered as an answer to the existing litigation environment. These statements are based on the agency relationship concept, the audit as a control mechanism, and on the

view that the financial information is a public asset, which is what raises the need for consumers' protection. Lee's (1993) behavioral postulates, when related to those of Mautz and Sharaf (1961), suggest an approach which is similar in nearly everything to the first author, and this also occurs with the functional postulates, whose anchors, although with slight changes way, are practically the same.

In short, in terms of behavioral and functional postulates, we do not find significant differences in the content, although the narrative is formally different. In terms of evaluation, expressed in table 13, we notice more differences than similarities – nine to eight in the following points: audit is considered a public asset, the auditor's social responsibility, the audit public interest, the existing conflict between the agents and the need for the financial audit be conditional upon significant external interests. It remains; however, despite the criticism mentioned above, the idea that the audit should not expand its scope to the detection of errors, of omissions or frauds, and to the analysis of the going concern assumption.

In view of the discussion made:

- We validate H1: as we show that the evolution line of the American conceptual systems remains focused on financial auditing, which is supported by the functional postulates of Mautz and Sharaf's (1961) and Lee's (1993), when they admit that the consistent application of accounting principles generates a fair representation of the company's financial position and results.
- We validate H2: in effect, both postulate systems point to the fact that the company's going concern and the detection of errors and frauds are not considered in the nature and scope of the audit.
- We reject H3: the comparison line points to the existence of differences than similarities.
- We validate H4: the financial approach validated in H1 and the scope and reach of merely financial audit are similar in both SP.
- We reject H5: Lee (1993) adds the significant influence criteria as a generator audit criteria, whereas Mautz and Sharaf (1961) do not mention this criteria.
- We validate H6: internal audit is considered an auxiliary of external audit and, in any case, is never considered as sufficient.

## 7. CONCLUSIONS

The logic and deductive structure of Mautz and Sharaf's (1961) and Lee's (1993) conceptual systems is based on the idea of creating a financial audit theory that defines a basic orientation to justify the audit in society and the behavior of auditors and agents, as well as the auditing process. The reasoning is based on standards and sets basic guidelines for national and international bodies that issue mandatory standards in auditing. The theoretical audit evolution in the USA must not be considered linear, in so far as their evolution line reflects very different concerns: Mautz and Sharaf's (1961) environment is completely different from Lee's (1993), the latter being clearly influenced by the ongoing litigation environment that the audit function has been suffering since the 70's in the last century. Both postulate structures converge on key points: auditor independence, not broadening the scope and the reach of auditing to errors, frauds and illegal acts and to the going concern assumption. This shows, in the USA, that the defensive approach of the audit has very deep roots in the class profession, as it happens, by the way, in all other countries.

Nonetheless, Lee's (1993) postulate system represents an upgrade in relation to Mautz and Sharaf's (1961), by considering the various aspects of the social dimension of auditing:

social control instrument, the characteristic of public good attributed to financial information and social responsibility of the auditor.

The few references in the American auditing manuals to the postulates of Mautz and Sharaf's (1961) and Lee's (1993) drastically limits the axiomatic discussion. Furthermore, the submission of the postulates of Mautz and Sharaf's (1961) to the postulates proposed by Lee (1993) does not exactly correspond to Mautz and Sharaf's (1961) original idea which might lead to some materially limitations. The comparison between the evolution of the thought on the American conceptual structures and the English ones and other proposals would enrich the content of this study by enabling the contrast between divergent views based on societies with different social-political framework.

It should be noted that this is an innovative research on audit conceptual structures. Indeed, to the best of our knowledge, we didn't found in the international literature, a comparative analysis on this issue, structured in an evolving and contextualized way.

Furthermore another uniqueness: are designed seventeen relevant points that after analysis, serve to refute or not the assumptions designed allowing an exhaustive comparative analysis. Finally, the article is important in a pedagogical point of view because it allows, to students, teachers and professionals a quick perception of the need for audit in modern society as well as the behavioral patterns of auditors and their functional references.

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