reliance on the US paradigm as a basis for understanding financial reporting, the heavy dependence on restatement and ratio analysis, and the absence of cases in the end-of-chapter material. While Parts I and III would be well suited for MBA students, Part II might be difficult without a strong accounting background. The inclusion of short cases in the end-of-chapter material would go a long way toward engaging the students and increasing their conceptual understanding of financial reporting and analysis.

Changes from the first edition include eliminating two chapters (“Financial Analysis: Further Considerations” and “Harmonization’s Future”), updating the examples and exhibits, replacing Brazil with Mexico throughout the text, and modifying of the end-of-chapter material. In the first edition, each chapter contained more varied types of end-of-chapter material. The second edition uses exercises only. Cases are available in a separate casebook edited by one of the authors of this text and also published by Irwin.

Although I feel that the analysis chapters focus too heavily on fundamental analysis, as a result of reviewing the text I am more convinced than ever that every student of accounting or finance should learn the material taught in Parts I and III of this text. Although the authors do concentrate on the financial statements, they also fully integrate the cultural aspects of businesses into the study of financial reporting. This promotes a better understanding of business practices, in general, and a comprehensive understanding of why just restating financial statements would not give a full picture of a company that operates in a foreign country. In other words, students are taught in Part III to look beyond the numbers in order to understand the company, the culture, and the country.

Although we offer an international accounting course at the undergraduate and graduate levels, we do not offer a course in international financial statement analysis. Therefore, based on the title, I would probably not have considered using this text. I hope that instructors will be motivated to look beyond the title and evaluate this textbook for potential adoption.

If I were to offer an international accounting course in an MBA program, I would exclude Part II, unless the students had an extremely strong financial accounting background, and I would supplement the remaining material with additional readings (international tax, managerial accounting, etc.). While the authors’ concentration on financial reporting and analysis is a bit heavy for an international accounting course, the presentation of the material in the text is compelling enough to warrant serious consideration as the primary text for this type of course.

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Continuous Quality Assurance—Statutory Audit in Europe, by Fédération des Experts Comptables Européens (FEE), April 1998, 44 pp., free.

Setting the Standards—Statutory Audit in Europe, by Fédération des Experts Comptables Européens (FEE), June 1998, 89 pp., free.
The Fédération des Experts Comptables Européens (FEE) represents 38 accountancy institutes in 26 countries with over 400,000 individual members, of which about 45 percent practice public accounting. Though comparable in size to the AICPA, FEE’s task is more difficult. FEE is charged with developing accounting and auditing standards to be applied by auditors in European Union (EU) Member States (in addition to their task of applying national laws and regulations). Member States represent a broad spectrum of accounting, capital market, and regulatory traditions, with some national laws facilitating information for investors and protection of investor interests, while others protect the interests of the government or large creditors such as banks.

FEE recently published three booklets discussing the statutory audit applied by auditors in the EU. All three booklets address the importance of credible financial information as an element for the proper functioning of a capital market. FEE’s efforts will facilitate development of a single capital market for Europe, and in particular, integration of European markets through the introduction of the euro as a common currency. In a sense, this parallels the US experience denominated in a single currency, but it is more difficult because FEE standards must function in combination with disparate national laws, which is not true for US standards. Thus, Europeans face questions of the role of FEE standards vis-à-vis international accounting standards and national standards.

The first booklet (Continuous Quality Assurance) outlines problems of maintaining quality control for the conduct of audits in any country throughout the EU. The idea is that a common level of audit quality control procedures across Member States will enhance investor confidence in financial reporting in the new market. The recommended procedures largely parallel US requirements for peer review as a means of quality control. Appendices survey the national audit quality control and statutory audit requirements of 15 Member States plus the Czech Republic, Norway, Romania, Slovenia, and Switzerland. The surveys include numbers of entities with statutory audit requirements and numbers of companies on listed stock exchanges, as well as numbers of individual auditors and audit firms that perform statutory audits, and the sizes of the audit firms. The range of these statistics across Member States is large and will be useful to researchers in considering different market structures for statutory audit services and their implications for stock price studies.

The second booklet (Setting the Standards) presents the results of a FEE study on the national auditing standards of 14 Member States (plus the five other countries listed above), compares them with international standards (International Standards on Auditing, or ISAs), and emphasizes areas in which they differ. As with the first booklet, the objective is to obviate the need for an investor to question whether the audit approach and quality in one Member State differ substantively from those in another. The areas of difference are primarily due to matters of local regulation and some differences of audit process.

As to matters of local regulation, a primary set of differences concerns national standards that differ from ISAs and differences in accounting for related parties. Audit process differences are mainly due to matters not covered by individual country regulations. Some of these differences will become more important as audit outsourcing...
increases in Europe. (Outsourcing problems across national borders are more pronounced than exist across states in the US or across provinces in Canada.) Finally, there are differences due to differing legal responsibilities of auditors across countries and local audit requirements. Important differences relate to the “expectations gap” (similar to that in the US in the late 1980s), including the auditor’s responsibility for detecting and reporting lack of compliance with business laws and regulations, fraud, and illegal acts, and doubt about a company’s ability to remain a going concern. Since national laws differ, auditors’ reports (even unqualified audit opinions) must be interpreted differently across national borders. All of these differences provide areas for cross-cultural research in international accounting and auditing.

A major part of the second booklet is an overview of national standard-setting processes across Member States. For scholars, this comparison will be useful for evaluating the environment and impact of auditing standards on financial reporting. It also outlines ISAs and a standardized Audit Process. Perhaps the most useful part of the second document is the results of a survey (Part E). In this section, researchers list the ISAs and report whether compliance with the ISAs also ensures compliance with European national auditing standards in the areas of auditors’ responsibilities, planning, internal control, audit evidence, using the work of others, and audit conclusions and reporting. This section comprises 60 pages of the 89-page text. Researchers will find Part E useful as a reference for evaluating auditing practices across countries.

The third booklet (Statutory Audit Independence and Objectivity) is perhaps of the broadest interest to those outside of Europe (especially to North Americans). It provides a useful document for comparing concepts of independence in the US (especially the Independence Standards Board’s conceptual framework document) versus those in Europe. While many things are the same, such as the apparent definition of independence and its relation to integrity and objectivity, a primary difference in the FEE document is its focus on a list of threats to independence and how the threats might be mitigated or overcome. The list of threats is divided into the following elements: self-review, advocacy, familiarity or trust, and intimidation. In general, these threats are to be mitigated by internal steps taken by the audit firms and monitored by professional regulatory authorities, by publicly visible steps taken by the individual firms, and by a refusal to act when there are no other appropriate courses of action to abate the perceived problems.

More than half of the 22 pages (in English) in this booklet are devoted to describing particular threats to independence and how they might be resolved as well as requirements for their resolution. These are divided into eight categories. The first addresses personal, business, or financial links between statutory auditors and their clients. Included are business or personal relationships between the parties, financial relationships (for example, ownership of stock in clients), and employment relationships. The solutions offered are largely consistent with those in North America. A second major category is holding a managerial or supervisory role in an audit client, and a third is performance of other services by the auditor (an area with substantially different laws across borders). The other services include consulting, accounting record-keeping services, valuation of assets or liabilities for recording in the financial statements, acting as an advocate in litigation, and recruiting senior personnel. The solutions will be familiar to most North American readers, but the reasoned approach is refreshing.
Audit fees comprise a fourth category of threats to independence, again paralleling problems in North America. The mix of consulting and auditing fees is considered, as are uncollected fees and “loss leader” pricing. In contrast to US and Canadian standards, the fifth category considered is “acting for a client for a prolonged period of time,” pointing out the need for rotation of auditors because of close relationships that otherwise develop between persons.

The last three categories are actual or threatened litigation with the client, seeking a second opinion from other statutory auditors, and the role of audit firms. One unusual feature of the FEE recommendations is a requirement for communication between the two audit firms when a second opinion is sought. If this communication is not permitted, then the second auditor should decline to act.

Overall, I believe that the three FEE booklets provide an extremely useful review of current auditing standards and standard-setting in Europe. The summaries of current practices should be valuable to any researcher interested in conducting cross-cultural studies in accounting and auditing. These studies would include analyses of auditing procedures, the effects of audit reporting, and the effects on auditing and reporting (and capital market reactions) of country-specific laws and regulations as well as market practices.

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This compact book introduces basic international tax principles and selected significant issues. It is easy to read, provides useful numerical examples, and includes copies of many relevant tax forms for reference purposes. The book also summarizes international tax research findings from the academic literature. Hence, the book provides an effective, quick overview for casual readers who desire to know the basic principles of international taxation. It is not geared for readers who desire in-depth insights into significant current issues.

The first two chapters of the book introduce international tax principles, including the philosophies of international taxation and the role for tax treaties. The explanation of the US foreign tax credit system in Chapter 2 is especially clear. For academic researchers, the most useful part of these two chapters is Appendix 1.B, which reproduces the literature review by Louise E. Single and John L. Kramer, “Tax Policy and the Location of Plants and Profits,” published in the 1996 number of Journal of Accounting Literature.

Chapters 3 through 5 then each addresses a significant international tax issue. Specifically, Chapter 3 clearly and concisely summarizes tax transfer pricing regulations and related documentation requirements. Chapter 4 introduces foreign sales corporations and other tax incentives for exports. Chapter 5 explains value-added taxation systems in Europe, providing detailed numerical examples. All three chapters are ideally suited for international tax novices, who require basic introductions to fundamental concepts.