

Analysis on the Development Process of Social Audit and the Promotion of Historical Events

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Abstract

Social auditing plays an important role in today's economy and society. Looking back on the development process of social auditing, we will find that its pace is basically consistent with the development process of economic society. In the process of economic and social development, many landmark events have promoted the development of social auditing. The article discusses the impact of typical events such as the Nanhai Company bubble incident and economic crisis on the development of social auditing, and finally draws the conclusion that there is a drop in the ocean. Among the various economic historical events in China, these events are just an accident in the development history of social auditing, but the driving force of self-innovation in the process of economic development is the inevitability of the emergence and development of auditing.

Keywords

Social Audit; Historical Events; Development Process.

1. Introduction

The modern audit system first appeared in the West. Due to the natural business culture in the West, the development of the business scale and organizational form of commercial companies is far ahead of the world, and its origin is the earliest. Early commercial activities were limited by science and technology and productivity, both from the scope of activities to the scale of activities are now within a relatively narrow range. At this time, there are not many personnel required for the company's internal operation management. In most cases, the company's investors directly participate in the company's production and operation activities, and the company's owner is the manager. However, with the development of commercial scale, the company's operations are gradually refined and scaled, and the business scope and distance are gradually extended. Originally, one person could hold multiple positions to one person, or even multiple people. The owner of the company is gradually unable to participate in all the business activities of the company, and the role of the owner of the company is gradually separated from the role of the manager. When the scale of the company expands to the extreme, a joint-stock company such as the Dutch East India Company emerges. The owner of the company is completely separated from the manager, and the investors of the company do not care about the operation of the company. They only need to regularly distribute dividends according to a certain percentage. This separation of company ownership and management has led to the fact that when the company distributes dividends, the managers issue accounts and distribute dividends to the owners of the company according to the accounts. However, if the company owner does not recognize the managers' accounts, and does not have the professional skills to review the authenticity of the accounts, the separation of company ownership and management rights will lead to losses due to managerial fraud when the company owner invests. The most famous is the South China Sea Bubble. The incident led to the introduction of public accountants by the UK government to audit companies, providing real accounting information to company owners, and also marked the beginning of the practice of certified public accountants.

The early research on social auditing is generally included in the research category of the world auditing history. Therefore, the origin of the literature on the origin of social auditing can be obtained from the relevant literature in the entire world auditing history category. In 2001, Zhang Yikuan raised several questions about the study of audit history, including the use of materialism and environmental theory as a guide to study the period and conditions of auditing. Generate conditions to discuss [1]. In the masterpiece "World Auditing History", Wenshuo also discussed that civil auditing, that is, social auditing, originated from the influential economic and social changes in the world [2]. In terms of social auditing, Liu Daxian analyzed the motivation of social auditing, mainly from the perspective of economic development [4]. Therefore, the research on the emergence and development of social audit is based on the development of the economy and society, and there is no detailed analysis and relationship description about the influence of the landmark events in the context of its specific generation and development. The research on the mutual influence of the promotion on the development process of social auditing has certain significance.

2. The Origin of Social Auditing - The South China Sea Company Bubble Incident

2.1. Background

Around 1860, machines gradually replaced handicrafts, productivity continued to increase, and Britain entered the period of the first industrial revolution. At that time, the British economy was prosperous for a long time, with the continuous development of productivity and the continuous application of new technologies, which led to the large-scale growth of the number of companies and enterprises, the continuous accumulation of private capital, and the continuous expansion of social savings, but the investment opportunities were correspondingly insufficient. Under this situation, the ownership and management rights of the company are gradually separated, and the joint stock limited company has gradually become the mainstream. Under the prevailing atmosphere of stock speculation, the vast majority of shareholders only have ownership rights and do not participate in operations. They are very concerned about the company's operating results out of their own interests, which marks a new type of economic responsibility between shareholders, creditors and enterprise management authorities. establishment. This responsibility relationship is the deepest internal driving force for the emergence and evolution of social auditing in the UK, and objectively produces the need for independent accountants to audit the company's financial statements to ensure the authenticity and reliability of the financial statements.

2.2. The Cause of the Incident

In 1720, the South Sea Company bubble burst, and the stock price of the South Sea Company plummeted. By the end of 1720, after several attempts to rescue the South Sea Company failed, market confidence was completely lost. The blind investment of the creditors and investors of the South China Sea Company under the deception of false information disclosure and deliberate exaggeration of the company's performance and operating conditions has led to the reverie of investors' frenzy to become rich, but it is only a dream in the end. In the end, the truth of the company's operation was revealed, and these investors woke up from their dreams, and they unanimously demanded the government's punishment and supervision. After the incident was revealed, the government organized a special committee of 13 people to investigate the origin of the South China Sea company bubble incident, and among them was an accountant "Snell" who was proficient in accounting affairs. Snell is a senior accountant with rich practical experience. After Snell accepted the entrustment, he carefully analyzed the background and reasons of the incident, investigated and punished the main person in charge of the company,

and compiled an audit report. The report he compiled was the first audit report prepared by a professional accountant in the world, and civil auditing has since kicked off in the UK in the world. Later, this practice of appointing third-party professional accountants was gradually accepted. This method successfully reduced the risk of fraud in enterprises, thus promoting the development of CPA auditing and the auditing industry.

3. The Development of Social Auditing

3.1. Driven by the Economic Crisis

Table 1. Historical events of audit development in China, Britain and the USA

Time	United Kingdom	United States	China
1720-1810	Snell commissioned by UK Parliament to complete first-ever company audit	independence war	No company during the Qianlong period
1812-1826	Britain's first economic crisis. Stocks fell sharply.	Second War of Independence. Anglo-American war again.	There was no company during the Jiaqing period.
1837-1842	Britain's second economic crisis. A large number of companies went bankrupt.	American Mexican War. U.S. Treasury bonds are traded.	There was no company during the Daoguang years.
1844-1850	The promulgation of the Joint Stock Company Law stipulates that listed companies must be audited every year. Deloitte is established.	The north began to industrialize, transforming from agriculture to industry.	The Opium War was defeated, and the five ports were traded.
1851-1857	Britain's third economic crisis. PWC was established.	Wall Street became the financial center of the United States.	The Second Opium War failed. Democracy capital hit hard.
1856-1860	It is stipulated that the balance sheet and the income statement shall be given opinions by the auditors.	It is stipulated that the company must prepare financial statements every year.	The Westernization Movement led to the formation of bureaucratic capital.
1869-1873	Britain's fourth economic crisis. The first world economic depression.	America catches up with Britain. Offer pre-emptive rights for new shares.	Issuance of shares to the private sector for the first time.
1872-1880	British capital outflows. All commercial banks must be audited.	American industrialization accelerates the unification of economic laws among states.	The first company limited by shares in China was established.
1914-1918	World War I saw the first application of internal auditing to the military neighborhood.	The biggest bull market in U.S. history. Ernst & Young was established.	Promulgation of "Provisional Regulations on Accountants"
1918-1927	All joint stock companies must be audited.	The American Accounting Institute is established.	The Shanghai Stock Exchange was established.
1929-1932	Britain's fifth economic crisis.	Great Depression in America. Establish accounting principles.	A large number of national capital industries went bankrupt.
1934-1945	Second World War. World War	II saw a large number of accountants join the army.	Business activity has come to a standstill.

The origin of social auditing is mainly in western countries, especially in the countries dominated by the United Kingdom and the United States, the development of auditing has always been at the leading level in the world. The history of the development of auditing in the world also changes with various events, large and small. Every event that has an impact on the development of auditing is like a sign in the long river of auditing history, marking the changes in auditing development. However, with the gradual rise of the third world, more colors and differences have been added to the world economic arena, and the development process of social auditing led by China also has a certain representativeness. The following table sorts out the audit development history and related historical events in China, Britain and the United States in the order of events.

From the above table, we can clearly see that every global stock market crash (economic crisis) will always force changes in laws, followed by changes in auditing, and then changes in accounting. Around 1800, a considerable number of auditors switched careers from lawyers, acted as bankruptcy executors as lawyers, and then liquidated claims and debts as auditors. Due to the increasing number of disputes in the bankruptcy economy of companies, especially listed companies, there are many lawyers specializing in this area of business, which promotes the development of the auditing industry. From this, we can see the impact of legal changes on the development of auditing. However, the major changes in laws are in the context of every economic crisis. Although it seems to have taken a detour, fundamentally the economic crisis is also an important factor to promote the development of auditing. Returning to the essence of social development, social development is brewing in the process of change. The outbreak of war leads to political changes. Political changes lead to changes in the direction of economic development. A series of economic changes promote the advancement of laws. The manifestation of social auditing is the emergence of a series of relevant policies and laws.

3.2. The Promotion of British Company Law

Britain was the pioneer of the bourgeois revolution and the industrial revolution, and it was also the first country to create a social audit. In the nineteenth and early twentieth centuries, British social auditing was a world leader. The prosperity of British social audit has its economic and political objective conditions, but the guarantee and promotion of legislation is also an extremely important factor. In the UK, there are chartered accounting firms, auditing companies and chartered accountants (certified accountants) engaged in social auditing. Professionals engaged in auditing work are called accountants. Their main task is auditing, and they also provide consulting services in accounting, tax auditing, and financial management.

In the world, the United Kingdom belongs to the first country to start the industrial revolution, and it is also one of the earliest members of the modern economic development group. Therefore, a series of economic legislations carried out by the United Kingdom due to social changes and rapid economic development are world-wide. It is of reference and research significance. Specifically reflected in the following case analysis: With the deepening of the industrial revolution again and again, the scale of the industry in the United Kingdom has become larger and larger, and the demand for capital concentration has been further strengthened. After the South China Sea Company Bubble Incident, the "Bubble Company Banning Law" was issued to prevent fraud by limited companies. It is already unable to meet the demand for capital supervision. Later, Britain repealed the old "Bubble Act" in 1825, and then in 1834 and 1837 promulgated the new king-chartered bills for the establishment of joint-stock companies. For a limited company that is entrusted to operate, the company owner needs a third party to evaluate the company's operating conditions fairly and objectively, and to implement independent external control, which is private auditing. The first economic crisis in British history occurred in 1815, and economic crises have occurred every 10 years since then. In view of the economic disaster that is expected to occur every time in the future, in order to

reduce its destructiveness, in 1844, the United Kingdom specially promulgated the "Joint Stock Company Law" to maintain the stability of the capital market. The main stipulation of the Act is that "the company's account books must be reviewed by a third party other than the directors", and new provisions were added later: the conduct of the company's audit business can be assisted by externally hired accountants with professional bookkeeping skills. These series of regulations have a positive role in promoting the emergence of modern social auditing.

The UK is the pioneer of the national auditing neutrality legal model of auditing. The promulgation of the above series of laws, some are the government's macro-control measures to prevent and control risks under the economic crisis, and some are to avoid some bad behaviors that may affect the entire economic order in the future against the background of rapid economic development. All of these situations are the product of economic development, and the emergence and continuous reform of company law has further promoted the innovation of the audit industry to keep pace with the times.

4. Conclusion

Fundamentally speaking, the emergence of auditing is due to the change in the separation of company management rights and ownership, which leads to the risk of financial fraud. In order to avoid the loss of economic benefits caused by fraud, people have the need to supervise the economic activities of operators. Social auditing came into being is the product of the demand at that time. Under the circumstances of the economic development at that time, the South China Sea Company bubble incident pierced the first window of fraud and made the whole society realize the huge harm of fraud and the urgent need for economic supervision. A company limited by shares based on the separation of ownership and management rights must have a third party who understands and is familiar with accounting language to conduct an independent inspection of the financial statements from a fair and objective standpoint. Therefore, the auditing industry has entered the stage of history. Of course, the occurrence of audits caused by the Nanhai Company bubble incident is accidental, but the occurrence of audits is inevitable due to the occurrence of similar Nanhai Company bubble incidents. The development of the entire social audit industry is inseparable from the economic crisis. The emergence of social auditing was caused by the Nanhai Company Bubble Incident, which was also an economic crisis fundamentally. Every outbreak of an economic crisis will lead to chaos in the economic order, and it must be controlled by the state or the market. The most important way for the state to control is through legal means. Each legislation is an update and supplement to the previous law, improving supervision out of place. Through the manifestation of the economic crisis, the improvement and progress of the law is promoted, and then the reform of the development of social auditing is affected. From this, it can be seen that the innovation and progress brought about by the emergence of the economic crisis are only brought about by an economic and social disease. It is a manifestation of its symptoms, and what really drives the continuous development of social auditing is the internal driving force of economic and social self-innovation. The wheel of history is rolling forward, and the new vitality of the human economy and society is just self-innovation with internal motivation again and again, and the development of social auditing is only a member of the drama of change on the stage of economic, social and history.

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