

# The Beginning of Independent Financial Control in Bulgaria – from the Influences of the Modern World towards a National Model

Received: 22.12.2022

Available online: 30.12.2023

**Ivan Roussev\*****Abstract**

The Bulgarian path in independent financial control has followed Western experience. It emerged in a later period, i.e. the period between the two World Wars (1920s-1930s). The major contribution in this respect is due to Prof. Dimitar Dobrev (1888-1961) - a researcher and public figure of a European dimension; a university lecturer who studied the European model and applied it to the conditions in Bulgaria. Prof. Dimitar Dobrev was the main initiator, founder and long-time first chairman of the Institute of Sworn Expert Accountants in Bulgaria (1931-1948) - the institution that for the first time carried out independent financial control in the country. This article aims to analyze the factors that led to the emergence of independent financial control in the Western world, to present the different models and on this basis to reveal the conceptual contributions of Prof. Dimitar Dobrev for organizing this type of activity in Bulgarian conditions. The paper analyzes

the scientific works of Prof. Dobrev from the 1920s and the early 1930s - the time when he developed the concept of the establishment of the institution of independent financial control in Bulgaria. On the basis of this analysis, the following conclusions are drawn: strong influence of the Continental School (that of Germany, in particular) on the emergence and initial development of Bulgarian independent financial control; the characteristics of the “Bulgarian model”; in Bulgaria (contrary to Western countries), first the institution, regulated by law, is established and only then the practice of the public accountant profession begins; strong state control over the activities of the Institute of Sworn Expert Accountants and the profession - something that has been lacking in other countries to date. The article offers explanations for these features of the “Bulgarian model”. The public accountant profession was an outstanding manifestation of Bulgarian economic and social modernization in the first half of the 20th century.

**Keywords:** independent financial control, Anglo-Saxon School, Continental School,

\* Professor, DSc, University of Economics – Varna, Corresponding Member of the Bulgarian Academy of Sciences; 77, Knyaz Boris I Blvd. 9002 Varna.

the Institute of Sworn Expert Accountants in Bulgaria (1931–1948), economic modernization

**JEL:** G28, H32, K22, N23, N24, N43, N44, N93, N94

### Introduction

Independent financial control is a modern economic and socially significant activity that emerged in the free market in a period that researchers today define as the beginning of globalization - the second half of the 19th century and the first decades of the 20th century. Civil society and modern state organization in the ever-expanding space of the Western European and North American world, based on the ideas of the Enlightenment and the “Declaration of the Rights of Man and of the Citizen” of freedom, equality and the rule of law, also imply the guarantee of private financial (and in a broader sense, economic) interest.

The Bulgarian path in independent financial control has followed Western experience. It emerged in a later period, i.e. the period between the two World Wars (1920s-1930s). The major contribution in this respect is due to Prof. Dimitar Dobrev (1888-1961) – university lecturer and academic, who studied the European model and applied it in Bulgarian conditions. Prof. Dimitar Dobrev was the main initiator, founder and long-time first chairman of the Institute of Sworn Expert Accountants in Bulgaria (1931-1948) - the institution that for the first time carried out independent financial control in the country.

This article aims to analyze the factors that led to the emergence of independent financial control in the Western world, to present the different models and on this basis to reveal the conceptual contributions of Prof. Dimitar Dobrev for organizing this type of activity in Bulgarian conditions. The paper analyzes

the scientific works of Prof. Dobrev from the 1920s and the early 1930s - the time when he developed the concept of the establishment and structural organization of the institution of independent financial control in Bulgaria.

### Independent Financial Control - Why and When

The factors that led to the emergence of independent financial control in Western Europe and North America can be explained in the context of the evolution of modern capitalism. The development of trade in the Mediterranean in the late Middle Ages and the need for greater capital led to the emergence of trading companies. The early “*commenda marittima*” of Venice and the “*compagnia*” of Florence very quickly found application in other European cities, especially in the port cities. The expansion of the European market towards the colonies led to the emergence of structures larger in terms of organization and capital - joint stock companies. Their early history goes back to the sixteenth and seventeenth centuries with the emergence of the English “*Muscovy Company*” and “*East India Company*”, the Dutch “*East India Company*”, the French “*Africa Company*” and “*East India Company*” (Katsarov, 1990, pp. 147–150; Sicard, 1953, pp. 341–348; Bonassieux, 1892, p. 102).

With the emergence of modern commercial legislation in the early 19th century, commercial companies became legally regulated. They are very clearly defined in the French “*Code de commerce*” of 1807, and subsequently in all commercial laws of the Western world, heavily influenced by the modern law of Napoleonic France. And although law required the correct keeping of company accounts and provided for mechanisms to protect the interests of shareholders and partners,

abuses still occurred and were even becoming more frequent. Some examples from French history would be sufficient. In the 1830s and 1840s, partnerships limited by shares were extensively established in the country. However, this process is accompanied by numerous cases of fraud, by the actions of fraudsters who “bypass the law”. Bankruptcies leave shareholders without the money they have invested. Even in newspapers, the victims of this phenomenon are being mocked - the media and literary image of the gullible shareholder is being created<sup>1</sup>. The July Monarchy (1830-1848), and the Second Empire (1852-1871), failed to achieve any substantial result, although serious attempts were made in that direction. The aim is to protect the depositor, but also to leave an optimum amount of freedom to the founders of joint stock companies, especially with regard to the sustainability of external competition. Meanwhile, as a manifestation of the liberal policy pursued in the country, in 1862, England exempted its joint-stock companies from any prior government authorization required under the commercial legislation in force until then. After two attempts with laws in 1856 and 1863, the French government finally succeeded, on 24 July 1867, in passing the “great” law. With this law the desired formula was found. Government authorization is no longer required for the creation of public limited companies, but strict rules are introduced to protect the public interest: mandatory general meeting, company account commissioners, control over administrators, warranties. The law introduced a system efficient enough to last for more than a century (Szramkiewicz & Bouineau, 1992, pp. 421–422).

In the middle and the second half of the 19th century, the market needs of the developed economic countries necessitated high-quality accounting services and public control over accounting and corporate governance. Independent financial control (audit) and the profession of public accountant emerged. In the case of large joint-stock companies, such as those that already dominated the world market in the 19th century, shareholders were led to rely on external auditors who had to monitor and ensure the good governance of the companies. The same need existed in the case of general and limited partnerships, especially large ones, whose management was no longer within the power and capabilities of the closed family circle. The role of accounting and the need for it to be conducted according to the two highest principles, i.e. fairness and clarity, grew immensely. And it is a man’s well-known weakness to commit abuses, to use accounting records to conceal dishonest transactions, to commit fraud that affects the interests of ever larger groups of society. In modern times, these essentially subjective phenomena, known since previous historical ages, go “hand in hand” with certain objective processes and contradictions, closely linked to the increasing proliferation of joint stock companies. The aspiration of the management of the companies to retain and use the good results of their activities (respectively the profits made) for the development of the companies is justified and appropriate. On the other hand, no less justified is the desire of shareholders to receive these profits in the form of more and more dividends. It is not uncommon for the managers and accountants of companies, taking advantage of the owners’ ignorance, to be tempted to

<sup>1</sup> The great French writer Honoré de Balzac did not fail to describe these vices of the time in his “La Comédie humaine” (1830–1856).

misuse the property. In the case of joint stock companies in such instances, the misled and deceived are hundreds of people (Djeni & Niedermayer, 1991, p. 11; Zhelyazkov, Bonev & Svrakov, 2016, p. 8).

All this led to the emergence in the second half of the nineteenth century of the profession of external controllers (auditors), who were a new economic actor on the market. In order to carry out their activities, they need a very good knowledge of accounting, finance and detailed knowledge of commercial and accounting legislation. These are the new accountants, rightly called “public (chartered) accountants”<sup>2</sup>.

### **The Models Established in the Modern World**

The leading economies in the second half of the 19th century - England, the USA, France, Germany and other Western European countries - were pioneers in the emergence and development of independent financial control. The first laws regulating the implementation of independent financial audit are adopted, the first professional organizations appear, and the publication of specialized literature is launched.

In England, the so-called “Companies Act” in 1862 legally regulated commercial companies and legalized the profession of the auditor as an independent expert and protector of public investments in these companies (Filipova, 1998, p. 60). As already mentioned here above, in France a similar law was passed on 24 July 1867. Auditors’

professional associations followed soon. In 1854, the “Institute of Chartered Accountants of Scotland (ICAS)” was established in Scotland (Zhelyazkov, Bonev & Svrakov, 2016, p. 20). England was also among the first - in 1880, the Institute of Chartered Accountants in England and Wales was established in the country, which took a leading place among the professional associations in the country and its colonies. (Dobrev, 1923, p. 9; Dobrev, 1928, p. 140).

Soon, the new profession also emerged across the Atlantic. In 1887, the American Institute of Certified Public Accountants (AICPA), an institution that has made a major contribution to the development of auditing worldwide, was founded in the United States. (Dinev, 2001, p. 109; Dinev, 2015, p. 182; Veysel, 2017, p.p. 22–23).

From the very beginning, two specific schools of independent financial control are distinguished - Anglo-Saxon and Continental-European, each of them having its own specific features in the pursuit of the profession. In the Anglo-Saxon world (England, USA), auditors are professionals whose priority is the faithful presentation of the financial position of the commercial company, while advising the client on the proper conduct of current accounting and on the optimization of taxation remain in the background. Clients of English and American auditors and audit firms are mainly large joint stock companies. In the Continental Europe school (represented mainly by France and Germany), independent financial control takes on a dual meaning -

<sup>2</sup> There is a significant difference in the way public (chartered) accountants and their profession are perceived in the Anglo-Saxon world and in Continental Europe. In England and the U.S. they are associated with being in public practice and this is the defining characteristic of this new profession. They are referred to as “chartered accountant” in England and “certified public accountant” in the US. In continental European countries they are mostly associated with their expert accountancy work, hence the term. The reasons are rooted in the greater respect that has traditionally been built up in Continental Europe for accounting, while for the Anglo-Saxon world accounting is seen as a business service activity; for Americans it is the “language” of business.

as an external check and as an aid for the benefit of the management of the controlled enterprise (the company). The difference is due to the cultural differences and traditions of Continental Europe, where in the late 19th and early 20th centuries family businesses and associations continued to have a strong position (Zhelyazkov, Bonev & Svrakov, 2016, pp. 7–12; Veyssel, Svrakov & Evlogiev, 2021, pp. 13–19).

A comparison between the origins of external independent financial control in England, on the one hand, and in France and Germany, on the other, based on a little more specificity, gives a clearer idea of the differences between the Anglo-Saxon and the Continental schools in this modern economic activity. The professional community of chartered accountants in England had humble beginnings, but in a very short period of time in the second half of the nineteenth and early twentieth centuries it achieved great effectiveness and its prestige grew enormously in the institutions of the Kingdom and the Commonwealth. Chartered accountants are spoken of with respect on the docks of London, Cape Town and Singapore, as well as in the councils of major English cities, in water companies and railways, among representatives of small and medium-sized businesses. Their prestige and legitimacy have been consolidated over time. During the First World War (1914-1918) they were called upon to co-operate with the English Ministry of Commerce. After the war some of them remained in the service of the government's key ministries - the Treasury, the Ministry of Coal, the Ministry of Munitions. The high public recognition of English chartered accountants was very soon materialized by receiving prestigious state awards (Reymondin, 1918, p. 15).

In France, expert accountants did not achieve the same status and prestige as quickly as in England. The first professional association in the country was founded in 1881 under the name "Academic Accounting Society" (*Société Académique de Comptabilité*). In 1916, a decree of the President of the Republic recognized it as an "association of public benefit", and the Council of State urged it to change its name to the "Accounting Society of France" (*Société de Comptabilité de France*). The "Accounting Society of France" introduced a comprehensive plan for accounting education with two main objectives - the first was to distinguish three hierarchical professional levels, respectively, "expert accountant", "accountant" and "bookkeeper" by the specific activity pursued, with the second objective being to distinguish between the communities of employee accountants (employed accountants) and independent accountants at a time when the distinction between the two communities was not yet clearly manifested. In 1905, the "Academic Accounting Society" developed a blueprint for an "Association of Certified Public Accountants", including a "Disciplinary Board of Control" (Degos, 2002, p. 2).

At the beginning of the twentieth century in France, the profession of independent expert accountants was gaining popularity and wider relevance, but with weaker results than in England. On the one hand, because of the lack of sufficient negotiating power and of sufficient political support in the Third French Republic, the opportunity was missed to create a "High Chamber of Accountants" in the manner of the "Institute of Chartered Accountants in England and Wales" (Pinceloup, 1993, T. 1, p. 69), but on the other hand, in Paris, in

the country and even in the colonies, many local associations of expert accountants were quickly established. Here are some of them: "Federation of the Associations of Expert Accountants, Founded in Paris in 1912" (Fédération des compagnies d'experts-comptables, fondée à Paris en 1912), "Association of the Expert Accountants of the Region of Paris" (Compagnie des experts-comptables de la région parisienne), "Syndicate Chamber of the Expert Accountants in Paris" (Chambre syndicale des experts-comptables parisiens), "Syndicate Chamber of Experts, Professionals and Lawyers" (Chambre syndicale des experts, professionnels et judiciaires), "Professional Association of Expert Accountants in France" (Compagnie professionnelle des experts comptables de France), "Association of Expert Accountants of Oran (Algeria)" (Compagnie des experts-comptables d'Oran, Algérie), "Association of Expert Accountants at the Courts of Rouen" (Compagnie des experts-comptables près les tribunaux de Rouen) etc. All these associations did not include employed accountants, so that the free practice of the profession could prevail through them, and at the time of their establishment they proved to be sufficient (expert lawyers working alongside expert accountants) in meeting the needs of commerce and industry in France. However, there were difficulties as well. The French society and the country's businesses found it difficult to navigate through all this diversity of societies and associations. Besides, the practice of the profession of expert accountant did not yet require a special diploma, and those obtained by the "Academic Accounting Society" were not always a guarantee of the high quality of the service offered. At the beginning of the 20th century in France, an expert accountant

could set up his own professional firm relatively easily and quickly, and then join a second or third. The example of Gogres Reymondin, cited here as an author, who was at the same time an expert accountant at the Paris Court of Appeal, vice-president of the "Accounting Society of France" and secretary of the "Society of Expert Accountants of Paris", is illustrative. There were also certain tensions in the work of French expert accountants, with difficulties being particularly serious during the war with high-profile public scandals involving this professional community (Degos, 2002, pp. 2–3).

An attempt to overcome the chaos in the practice of the profession of French expert accountants and to compensate for previous shortcomings was only made in the post-war decade, more precisely in 1927, when the Ministry of National Education of the French Republic introduced a requirement for a "Certificate of an Expert Accountant". However, more time will be needed, since according to the opinions of researchers, the first real exam for the professional certificate in France was only held in 1943 (Pinceloup, 1993, T. 1, p. 139).

In Germany, the development of the profession began its journey from internal audits and business controls carried out by freelance auditors and forensic experts to qualified business bookkeepers who also worked on a freelance basis. Unlike the English version of the profession and the English language, in German the terms "Wirtschaftsprüfer" ("economic auditor") and respectively "Wirtschaftsprüfung" ("economic audit") are used. In the transition from the nineteenth to the twentieth century, the goals of this new profession were developed, primarily focused on the economic audit and

advice to large enterprises carried out by trust companies. The German word “Treuhand”, which in this particular case is to be translated as “trust”, is at the heart of understanding the nature of the work of economic auditors and consultants in Germany. This is the trust that their clients, the commercial companies, place on them so that they can do the work they are hired to do; this is why they are “fiduciaries” (trusted individuals) (Handbuch, 1985, pp. 2–3).

The German concept also means that the assignment must rest exclusively on trust, from which protection and patronage are also implied (Dobrev, 1923, p. 14). The late emergence of the unified German state (only after the Franco-Prussian War of 1871), which also led to the late accumulation of capital in the country, and the preservation of a predominantly family ownership form led to the late development of the profession in Germany, although the first professional associations appeared already in the last decade of the 19th century. Over time, two types of auditing firms were established in the country: “institutes that undertake services only at the request of their trustors and institutes that undertake transactions also on their own account” (Dobrev, 1923, p. 13; Dobrev, 1928, p. 145). At the beginning of the twentieth century, 4 types of auditors were emerging in Germany: expert forensic accountants who are permanently at the disposal of the judicial authorities to give an opinion in commercial court cases, for which purpose they take an oath before the court once and for all; sworn and officially appointed accountant-auditors from chambers of commerce to monitor and control the implementation of existing bookkeeping regulations; accountants-auditors under the Ministry of Finance and accountants-auditors

not belonging to any institution and not under oath (Dobrev, 1923, p. 15; Dobrev, 1928, p. 146). It is important to make this clarification because the development of the profession of Bulgarian sworn expert accountants in the 1930s and 1940s will broadly follow this path.

The final institutionalization of the economic auditor profession in Germany took place in the early 1930s. On 5 August 1930 the “Institute of Public Auditors and Trustees” was founded in Berlin. In December 1931, the economic auditor profession was formalized by a special act requiring that certain conditions be met in its pursuit. On February 15, 1932, the “Institute of Public Auditors and Trustees” was renamed the “Institute of Public Auditors”/ “Institute of Economic Auditors” (IDW) and under that name it has existed ever since. Originally based in Berlin, it moved to Düsseldorf in 1948. Despite the onset of National Socialism and the approaching war, the “Institute of Public Auditors” (IDW) managed to develop its activities and to establish itself as a state body that was a safe guardian of legality in the country’s economy. In 1938, the Fifth International Congress of Accountants was held in Berlin with delegates from over 30 nations from around the world (Svrakov, 2003, p. 23; Svrakov, 2008, pp. 44–47).

At the boundary between the 19th and 20th centuries, independent financial control also emerged and developed in other European countries. In Belgium, a “Belgian Chamber of Accountants” (“Chambre syndicale belge des comptables”) was set up to regulate chartered accountancy, protect professional interests and promote accounting education. For membership in the “Chamber” five years of practice as an accountant or auditor and an age of at least 30 years were required. Similar were the aims of the “Netherlands

Institute of Accountants” (“Nederlandsch Institut van Accountants”), founded in 1895. The union of auditors-accountants in Norway came into existence in 1911, that in Sweden in 1899, in Hungary in 1901, etc. (Dobrev, 1923, pp. 9–13; Dobrev, 1928, pp. 142–144).

The information presented so far outlines the development of independent financial control and the related profession of public accountants from their emergence in the second half of the nineteenth century to the interwar period of the following century. This development went through the following stages: the establishment of the community of public accountants and its distinction from the community of employed accountants (accountants on salary) in order to achieve the “externality” and independence of the public accountant profession; the emergence of professional associations (societies, associations, institutes) of public accountants, which advocate for the profession and aim to win it public and legal recognition; imposing the requirement of high professional quality of the activity practiced, guaranteed by passing special examinations and attested by a certificate (diploma); formalizing the role of the public accountant through statutory regulation (adoption of specific laws in the respective country); establishing international professional associations.

The economic crisis known as the “Great Depression” (1929-1933) and the Second World War (1939-1945) gave rise to serious crisis phenomena in business and society as a whole, which also affected independent financial control. Auditing standards emerged - initially only in some countries, and after the International Federation of Accountants became a reality in 1977, the “International Standards on Auditing” were set. According to some authors, the 1970s and 1980s emerged

as the most active period for the auditing profession worldwide (Dinev, 2001, pp. 109–110; Dinev, 2015, pp. 182–183).

How did independent financial control and the profession of public accountants emerge and develop in Bulgaria? What are the theoretical ideas that preceded the beginning?

### **Prof. Dimitar Dobrev and the Bulgarian Way**

The modern economic development of the Bulgarians is a long process, the beginnings of which can be traced back to the Ottoman rule, more noticeable in the second and third quarter of the 19th century. It was during this period that paid accounting services and the profession of the accountant (“bookkeeper”) first became established in Bulgarian conditions, and it should be emphasized that at that time this was one of the professions with high monthly and annual remuneration on the domestic market - Ottoman and Bulgarian (Roussev, 2015, pp. 617–625; Roussev, 2018; Roussev, 2019).

The profession of the public accountant appeared much later in Bulgaria, only in the early 1930s. Its emergence follows general European patterns, but there are certain specificities, which will be discussed in the following lines. The concept for this activity/profession belongs to Prof. Dr. Dimitar Dobrev. Who was Prof. Dobrev?

Prof. Dimitar Dobrev (1888-1961) belonged to the first generation of Bulgarian economists. He was born in Kotel in an environment that preserves the traditions of the Bulgarian National Revival; he graduated from the Svishtov High School of Commerce - one of the best secondary schools in Bulgaria at the end of the 19th and the beginning of the 20th century providing economic education; he studied at the Higher Commercial School in



Leipzig and in 1911 took his doctoral thesis at the Friedrich-Alexander University in Erlangen (Germany) on “Agricultural Credit Cooperatives in Bulgaria”. Upon returning to Bulgaria, he worked as a teacher in the commercial high schools in Plovdiv and Sofia before focusing on economic science and university teaching. In the 1920s and 1930s he was a professor at the Free University in Sofia; from 1940 to 1947 he was a professor and director of the State Higher School of Financial and Administrative Sciences in Sofia, subsequently a professor at the Faculty of Economic and Social Sciences at Sofia University (1947-1952) and a professor at the Karl Marx Higher Institute of Economics in Sofia (1952-1959)<sup>3</sup>. Prof. Dimitar Dobrev was the initiator, the founder and the long-standing first chairman (until the autumn of 1944) of the Institute of Sworn Expert Accountants in Bulgaria (1931–1948) (Roussev, Stoyanov & Savova-Simeonova, 2022, pp. 92–175).

A closer look at the publications of Prof. Dobrev, presented in a recently published monograph (Roussev, Stoyanov & Savova-Simeonova, 2022, pp. 131-143) shows that in the 1920s the researcher engaged in developing and advocating the idea of the economic and social benefits of the public accountant profession in Bulgaria. As early as 1923 he published a report on the organization of the audit institute (Dobrev, 1923); the concept was set out in most detail in his book “Principles of Balance Sheets”, published in 1928 (Dobrev, 1928, pp. 136-152) and subsequently republished; followed by a series of articles on the same topic in periodicals from the early 1930s, mainly in

the “Bulletin of the Institute of Sworn Expert Accountants in Bulgaria”.

There are two starting points in the concept of Prof. Dobrev on why it is necessary to establish the public accountant profession in Bulgaria<sup>4</sup>. The first is based on the lack of sufficient guarantees in Bulgarian legislation for the prosecution of accounting (respectively financial) crimes of companies. Pursuant to Article 202 of the Commercial Code in force in the country at that time, every joint stock company must have a “Supervisory Board” which periodically reviews and supervises the correct keeping of the company’s accounts. According to Prof. Dobrev however, this structure was not efficient and “...far from justifying its appointment, either (because) the persons who entered the Supervisory Board were directly interested in the company’s affairs despite the provisions of Article 203 of the same (Commercial) Law, or, more significantly, because the persons elected as supervisors did not always possess the qualities of expert auditors familiar with accounting techniques to be able to effectively review and examine the books and records of the company” (Dobrev, 1928, p. 138). Prof. Dimitar Dobrev is clear: “...the efficiency of the audit, carried out by specialized auditors, proficient in the art of accounting and tested in their honesty will be much greater and more reliable. Owing to his moral qualities, his knowledge and authority, and having won the confidence of the public, the expert auditor will be able to be one of the most valuable advisers of the merchant and industrialist who will be able to place on him his precious trust

<sup>3</sup> Prof. Dimitar Dobrev was one of the leading personalities of the “Society of Academic Economists in Bulgaria”, which was founded on 11 June 1926 and existed during the interwar period (Zlatinska, 2021, p. 161).

<sup>4</sup> In the 20s of the 20th, century Prof. Dobrev used the terms “expert auditor” and “specialist auditor” (Dobrev, 1928, p. 138).

confiding the deep secrets of his property” (Dobrev, 1928, p. 138).

The second strong argument in the concept of Prof. Dobrev why the Bulgarian market and society need the public accountant is based on the experience of economically developed countries in the world. The researcher studied this experience very carefully and presented it in detail and critically, making comparisons with ease and proving which practices are best applicable in Bulgarian conditions. Prof. D. Dobrev describes in detail the emergence and development of independent financial control in 11 different countries: England, USA (“America”), France, Belgium, Netherlands, Norway, Sweden, Hungary, Austria, Switzerland and Germany. He observes that in England “auditing reached a state of perfection in its development” as early as the middle of the nineteenth century and rose to the level of a powerful economic factor; in the United States, according to him, auditing has progressed even better than in England, because there are joint stock companies of the largest scale; in France, expert auditors receive the specific training they need, provided by bodies set up for that purpose; a similar institution in Belgium aims to protect professional interests and regulate expert accountancy activities; the situation is similar in the Netherlands; “the accounting profession as a professional trade in its own right is weaker in Norway”, while “the auditing profession is better off in Sweden”; in Hungary, the profession gained great public importance, albeit relatively late, and in Austria it is not at the same high level; in the 1920s, Prof. Dobrev notes that it is yet to be legislated in Sweden and Germany (Dobrev, 1923, pp. 9–18; Dobrev, 1928, pp. 140–148).

As a German graduate D. Dobrev pays most attention to the German experience,

but he notes at the outset that the German audit work differs from that of other countries. Great detail is provided on the development of the profession in the country - how the professional structures emerged over time, how and where the oath is administered, the full text of the regulations for the examinations of accountants-auditors is published, how the examinations are conducted and the important role of chambers of commerce in this process is set out, public sentiment and expectations of the profession are explained. With the skill of a profound researcher, Prof. Dobrev explains the difficult path of the profession even in a disciplined society like the German one. The existence of independent accountants-auditors and companies with the same activity (“trusted companies” in Dobrev’s translation, which is actually the literal translation of the term) on the German market gave rise to different attitudes towards them. The great advantage of companies is that they can take on a larger volume of work, that in most cases they are supported by banking institutions and therefore provide a greater guarantee for their clients. However, many “trustors” treat the companies with some degree of reserve because “their interests are made known to a multitude of persons - often the entire clerical staff - especially as regards family property relations”. However, the companies were the preferred choice because “...by working together in a well-organized institute, through the critical and independent discussion of issues by trained specialists, a guarantee is given for the proficient execution of the awarded assignments” (Dobrev, 1923, p. 13–18; Dobrev, 1928, p. 144–148).

There is no doubt that the issue of external financial control and the public accountant profession is not a subject of spontaneous interest on the part of Prof. Dimitar Dobrev,

but is a topic to which he devotes a significant part of his research efforts. This is a topic that in the 1920s he brought to a complete concept of the need for this type of modern economic activity in Bulgarian conditions. At the same time the researcher already had the clear idea and intention to establish such an institute in Bulgaria. This is how D. Dobrev outlines the usefulness of this institution in the harsh conditions after the end of the First World War (1914–1918): “... one cannot but note with bitterness that among the many negative consequences which the unfortunate war has left us are the weakening of the sense of responsibility and the weakening of commercial morality. The notion of duty and honour seems to remain only a memory of the “good old days”. Control is therefore needed in all areas of economic life. Control, but of course not of the nature to hinder the free manifestation of any economic activity; control preventive, educational. As the physician is called upon to heal the diseased human organism; as the lawyer is called upon to uphold legal and equitable interests, so also the task of the accountant-expert-auditor must be to heal and restore to health the diseased organism of a business enterprise” (Dobrev, 1923, p. 2).

What a strong sense of statesmanship, what a sense of the need for morality in economic activity the economist demonstrates in these reflections, shared years before the emergence of the Institute of Sworn Expert Accountants in Bulgaria. Even then, however, Dr. Dimitar Dobrev was aware of the difficult Bulgarian conditions in which the Institute would be established, as well as the model to be followed - the continental, mainly German one: “Above all, it should not be

overlooked that our Institute is the offspring of our not-yet-so-developed economic conditions, and as such it will have to work at first very much in the field of theoretical clarification and popularization of accounting science. In this respect it is similar to the leading auditing organization in France, the *Société académique de comptabilité*, and the *Chambre syndicale belge des comptables*, the association of expert accountants in Belgium, and in terms of its practical objectives - to the German “trusted hand societies”. (*Treuhandgesellschaften*). The establishment of an auditing institute in Bulgaria, as in Germany, should be carried out with the assistance of the institute of accountants and the Chambers of Commerce” (Dobrev, 1923, pp. 19–20).

And so it happened. In the early 1930s Prof. Dr. Dimitar Dobrev was the editor-in-chief of the journal of the Union of Accountants in Bulgaria. It was in the midst of the crisis that unfolded at the beginning of the 1930s that the concrete plan for the creation by law of a state-public body to assist companies in the proper keeping of their accounts, to check and guarantee the quality of their closing balances, the compliance with the regulations on the charging and payment of taxes, deductions, etc., emerged in his entourage. A draft had been drawn up, which after coordination with the Minister of Finance Prof. Vladimir Mollov (1873-1935), was submitted to the National Assembly to be voted and promulgated in the State Gazette in April 1931 (Spasov, 2001, p. 53). In an address to the Second Annual General Meeting of the Institute, held at the end of January 1933, Prof. D. Dobrev himself notes that he was one of the initiators and

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a participant in the parliamentary committee that drafted the Law<sup>5</sup>.

The National Assembly of the Kingdom of Bulgaria adopted the “Law on the Institute of Sworn Expert Accountants”, published in the State Gazette on 17 April 1931.<sup>6</sup> The law marks the official beginning of independent financial control in the country. It consists of 30 articles divided into seven sections. The first section regulates the act of incorporation of the Institute and the admission of its members. The structure is established as a separate legal entity under the control of the Ministry of Finance - the Management Board (MB) includes ex officio a representative of the Ministry of Finance (Art. 1, 15, 16, 17, 18, 29, 30). The Law regulates in detail the requirements for its members: they “must have a university degree in business, finance, law and mathematics with a certified diploma and six years of managerial government, public or private service in institutions or enterprises of a commercial, banking or financial nature, which service requires a solid accounting background, or they must have secondary commercial education, with a diploma for final examination and 10 years of managerial government, public or private service in institutions or enterprises of a commercial, banking or financial nature, which service requires a solid accounting background” (Art. 2 (a)). The high public prestige of the public accountants is guaranteed by several important additional requirements: to be 30 years of age, to be Bulgarian citizens, not to have been convicted or deprived of rights under the Criminal Code. Members of the Institute of Sworn Expert Accountants are admitted by the Management Board on the

basis of information and documents collected on the moral qualities of the candidate and after the candidate has successfully passed a professional entrance examination (Art. 3). The high criteria set for acquiring the title of a public accountant, the requirements for excellent professional education and managerial experience, for personal maturity and for high moral characteristics suggest the heightened state and public expectations towards this profession from the very moment of its emergence in Bulgarian economic life. Only one exception is made: “full professors of accounting in higher education institutions, recognized as such in accordance with the established procedure, shall be statutory public accountants by law” (Art. 2, Note). Let us remind, however, that at that time only three university lecturers in the whole country were professors and taught accounting sciences - Prof. Dr. Dimitar Dobrev and Prof. Georgi Yonkov at the Free University in Sofia and Prof. Feodor Belmer at the Higher School of Commerce in Varna, so this exception was fully justified and well deserved. All three professors are already present in the first list of the Institute of Sworn Expert Accountants<sup>7</sup>. In the coming years, other qualified academics will also benefit from the privilege set out in Article 2.

The Institute of Sworn Expert Accountants Act had been drafted so that the public accountant profession is put to good use from its inception. Emphasis is placed on its presence and benefits in the development especially of large joint stock companies (600-700 in total at the date of establishment of the Institute of Sworn Expert Accountants), banks (between 50 and 100), and the courts

<sup>5</sup> Proceedings of the Institute of Sworn Expert Accountants in Bulgaria, Vol. II, 1933, issue 2–3, p. 22.

<sup>6</sup> State Gazette, No. 11 of 17 April 1931.

<sup>7</sup> Proceedings of the Institute of Sworn Expert Accountants in Bulgaria, Vol. I, 1931, issue 1, p. 20.

in the country. By the end of the first year (1931), 333 people joined the Institute, by the end of 1934 the membership had grown to 583 to exceed 750 in 1947. Among the members of the Institute are some of the prominent representatives of the university circles, the economic and political elite of the country. The Institute of Sworn Expert Accountants led an active organizational life, especially in the 1930s and until the mid-1940s, when its chairman was Prof. Dimitar Dobrev. A “Bereavement Support Fund” was established to assist the families of deceased members; a periodical of the Institute was published regularly, in which scientific articles were made public and important information about organizational life was placed. Problems however were not lacking - far from all joint stock companies, banks and courts, designated under the Act, engaged sworn public accountants, and this resulted in limited opportunities to practice the profession; from the very beginning a conflict between the Institute of Sworn Expert Accountants and the Union of Accountants in Bulgaria arose and was maintained over time; during the Second World War, the Civil Mobilization Act exempted joint-stock and limited joint-stock companies with paid-up capital up to and including BGN 1,500,000 from the obligation to appoint public accountants to their supervisory boards, which further limited the opportunities for practicing the profession; the difficulties facing the Bulgarian economy in the inter-war period and during the war resulted in many members of the Institute of Sworn Expert Accountants not being engaged as experts in any bank or company and this gave rise to their discontent; the coup of 9 September 1944 and the radical political and economic changes that followed marked the end in 1948 of the public accountants’ organization and

profession (Roussev, Stoyanov & Savova-Simeonova, 2022, pp. 23–91).

## Conclusion

The discussion presented here provides grounds to draw some conclusions and summaries.

1/ The emergence and the initial development of the Bulgarian independent financial control are strongly influenced by the experience of the developed economic countries. The influence of the continental school, in particular the German one, was the strongest. This happened at the very beginning of the 1930s - a fact which in itself clearly shows that Bulgaria ranks among the first countries to emerge in this modern economic sphere. Huge is the credit of Prof. Dr. Dimitar Dobrev, who in the 1920s thoroughly studied foreign experience and prepared the theoretical basis for the implementation and practice of independent financial control in Bulgarian conditions. The analysis made here of his publications from this period confirms this claim. With the key participation of Prof. Dobrev, the Institute of Sworn Expert Accountants Act, promulgated on 17 April 1931, was prepared, the Institute was established and its views were promoted for a decade and a half. This new profession established itself in the Bulgarian economic reality, in which during the interwar period “coexisted” both established industries and services and industries and services which were completely new for the local conditions (Berov, 2020; Krivoshieva, 2021).

2/ The Bulgarian way in independent financial control has one important feature, which is without analogue in other countries, where this profession was already practiced at that time. As already pointed out, in North America and in the countries of Western

Europe, the activity of public accountants (auditors, economic examiners) emerged in the natural course of the economic development in the second half of the 19th century and the beginning of the 20th century; modern market relations imposed it to ensure the integrity of business and to preserve private interest. And only after the business entity “public accountant” has made its presence known, countries regulated it by law and the communities of public accountants established their structures (institutes, associations, societies) to promote their professional interests. In Bulgaria, independent financial control developed in a different sequence. The project of Prof. Dr. Dimitar Dobrev and his associates actually started with the Act of April 1931, only after which and on the basis of which the activity of the sworn expert accountant commenced on Bulgarian soil. Under these circumstances, all the difficulties accompanying the beginning are easily explained: the reluctance of joint stock companies to appoint members of the Institute to their supervisory boards (it took time for private businesses themselves to realize that there was a need for such well-trained professionals); the courts’ unwillingness to engage experts from the Institute of Sworn Expert Accountants, the reaction of the accounting community to the prospect that only their fellow public accountants would receive fees. There were also accusations that the Institute Act had created an organization that is only interested in the material welfare of its members

(Roussev, Stoyanov & Savova-Simeonova, 2022, pp. 60–76). Despite all this, however, the “Bulgarian way” in the public accountant profession has defended its position and developed successfully. It even served as an example to the neighboring Balkan countries. The Institute of Sworn Expert Accountants in Bulgaria originated before its counterparts in Yugoslavia, Greece and Turkey (Spasov, 2001, p. 56), and in 1934 from Belgrade were even interested and wanted to borrow from the Bulgarian experience<sup>8</sup>. In the 1930s in the three neighbouring Balkan countries “there was no trace of legislative regulation and no professional trade”<sup>9</sup>.

3/ Another feature of independent financial control in Bulgaria also distinguishes it from other countries where this profession was then known. It is about the strong state control over the activities of the Institute of Sworn Expert Accountants, respectively over the profession - something that is lacking in other countries. As already mentioned, it lies in the direct involvement of the Ministry of Finance in the organizational activities of the Institute from its very beginning<sup>10</sup>. A kind of culmination of this process was reached in 1945-1946, when the second chairman of the organization, Prof. Dr. Stancho Cholakov, was at the same time the Minister of Finance. A possible explanation is related to the above-mentioned characteristic - since only the 1931 Act “gave” the start to the profession, additional guarantees were needed that the activity of the Bulgarian public accountant would be developed for public and state benefit and insofar as private-business

<sup>8</sup> Proceedings of the Institute of Sworn Expert Accountants in Bulgaria, Vol. VI, 1937, issue 5, p. 19.

<sup>9</sup> Proceedings of the Institute of Sworn Expert Accountants in Bulgaria, Vol. III, 1934, issue 2–3, p. 22.

<sup>10</sup> In this respect is one of the differences with the German model, where the similar structure of the independent financial control in the country is more closely related to the Ministry of Justice and not to the Ministry of Finance, as in Bulgaria. Obviously, during the period the Bulgarian state sought to link accounting and legal rules and their implementation to the state’s fiscal interests (Svrakov, 2019, p. 170).

interests were concerned, the Ministry of Finance would be the most reliable guarantor of this.

4/ Another possible explanation for the existence of stronger state control over independent financial control in Bulgaria at the time of its inception can be given through the historical context of the time in which the Institute was established - the global economic crisis and the “Great Depression” (1929-1934), which also affected Bulgaria, and the increased government intervention in the economies of the countries in the conditions of the crisis. The tendency towards strong state regulation manifested itself in Bulgarian economic life during the interwar period; especially pronounced in the 1930s (Dimitrov, 2020; Stoyanov, 2020; Dimitrov, 2021; Andreev, 2021; Dimitrov, 2022), it also has an impact on accounting legislation in the period (Svrakov, 2019, pp. 132–176).

Independent financial control in Bulgaria began its journey from the influences of the Western world and quickly reached its own model of development. Defining in this process is the contribution of Prof. Dr. Dimitar Dobrev - a researcher and public figure of a European dimension. There is no doubt that the public accountant profession was an authentic manifestation of Bulgarian economic and social modernization in the first half of the 20th century.

### Acknowledgements:

I owe the professional translation of this article to the Institute of Certified Public Accountants in Bulgaria, chaired by Mr. Boyko Kostov, Certified Public Accountant, and in clarifying the specific topics and concepts I have used the advice of Dr. Anton Svrakov, Certified Public Accountant, for which I thank them!

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