

# THE HISTORY OF CHARTERED ACCOUNTANTS IN THE CITY

## Introduction

Mr President, Fellow Historians, you gave me reasonable warning that you wanted me to talk about "The History of Chartered Accountants in the City". But you gave me no warning that you were going to say in your circular to members that this was an almost impossible task.

Now I'm not sure what you mean by this assertion. It could be that you think accountancy so dry and dreary a subject that nothing of interest or humour can be derived from it. And in this view you would be supported by Mr George Carman QC who you will recall defended Ken Dodd in the case against him for tax fraud. Mr Hunter, his accountant, had pleaded guilty to 11 charges of false accounting and the disgraceful way he kept the accounts was the reason Mr Dodd was now in the mess he was. "One thing we have learned from this trial" said Mr Carman "is that comedians are not chartered accountants but sometimes chartered accountants are comedians".

Indeed, our cause has not been helped by entertainers generally. I spent many years as graduate recruitment and staff partner seeking methods to offset the baleful effect of John Cleese's infamous description in one of his films "In your report here, it says that you are an extremely dull person. Our experts describe you as an appallingly dull fellow, unimaginative, timid, spineless, easily dominated, no sense of humour, tedious company and irrepressibly drab and awful. And whereas in most professions these would be considered drawbacks, in accountancy they are a positive boon".

Now you might be excused for thinking that unrepresentative and over the top, but we find John Mortimer spreading similar poison. In "Two Stars for Comfort" he bemoans his lot "And what have I achieved - Three women in my life and one of them turned out to be a chartered accountant over thirty". We can't escape it - for years I travelled up underground escalators surrounded by that advertisement of a handsome cigarette smoking, trilby hatted man with the lovely girl on the Riviera "I was an accountant until I discovered Smirnoff". But give us our due - posters of that ad became best sellers in the profession, and one still hangs in our senior partner's secretary's office.

No, Mr President, I know of course that you are referring to the difficulty of condensing into this short talk the story of the extraordinary growth in size and influence of the profession of chartered accountancy. Starting with 587 members in 1880, there were some 40,000 when I qualified in 1963 and well over 90,000 now. Over 50% of the membership is under 35. Some 12.5% of all undergraduates going into employment do so with training contracts in firms of chartered accountants - more than do anything else and half are female. We have in our firm more than one husband and wife team as partners. My firm alone has more graduate students than there are undergraduates in a medium sized university. The average age of the 5,000+ in our City offices is 24.

And extraordinary growth in influence too. Not much over a hundred years ago Mr Justice Quain, a judge of the Queen's Bench, in the trial of a fraudulent bankrupt at Bristol Assizes, complained that the trustee, who was an accountant, had wasted the time of the Court. The learned judge referred to solicitors as gentlemen and gave it as his opinion that the encroachment into bankruptcy cases by "an ignorant set of men called accountants" as "one of the grossest abuses ever introduced into law". "Our social position was not enviable" agreed Ernest Cooper, a contemporary and one of the founders of Cooper Brothers & Co.

Today no enterprise would dream of operating without a senior accountant. The Chairmen and Chief Executives of many of our top 500 companies are chartered accountants by training. In recent years, two members of the Cabinet have been members of the profession. Government has leaned on accountants to spearhead their radical restructuring of public utilities and services - their name was used to send a chill down the back of opponents to change in national health. Even obituaries in The Times reflect this mood - only last week we read of Sir Robert Lusty, of Hutchinson's, who "was perhaps one of the last truly distinctive personalities in a book publishing trade that has sadly become increasingly the province of the accountant and the organisation man".

So, Mr President, against the background of that rather slow, irrelevant, typical-accountant's type introduction, and having used up most of my time, what can I usefully say. It seemed to me that what might just be of relevance and interest to members of the Association is a reflection on the formation of the Institute of Chartered Accountants in the City of London in the 1870's and a broad analysis of the pressures that the structure and work of the Institute faces just over a century later. Both, I think, are interesting to compare with our own operative Livery movement of several centuries earlier.

## The Granting of the Charter

The accounting profession, like those of engineering and modern surveying, grew with the industrial revolution. Confidence in the proper use of funds was indispensable to the raising of investment capital in business, and this the accountant progressively provided. The work of accounting and audit had of course been undertaken from time immemorial. In the City the annual appointment of auditors by the Mayor, Aldermen and Commonalty is recorded from 1298 and the livery companies invariably had their accounts audited. But the work was done by members not independent accountants.

It was the huge demand for capital and the growth of joint stock companies, particularly during the age of railway mania, that led directly to the growth of accountancy as we understand it. Large amounts of capital and complex operations required improvement both in the nature and quality of book-keeping. For example, how to depreciate rolling stock and the permanent way was crucial in ascertaining the profit from which dividends could be paid. More companies inevitably meant more bankruptcies and liquidations. The law controlling the resulting distribution of assets was poor, and many accountants, some dubious, practised in this area.

This surge of work led to unscrupulous men taking advantage of the opportunity. As Frederick Whinney, one of the profession's founders said there was a great influx of persons "who thought they had nothing whatever to do to become accountants but to put up a plate and designate themselves as such, in order to become rich men". The better practitioners recognised the need to combine to improve the status of accountants by the introduction of rules of professional conduct and a required standard of skill. The first steps towards combination were taken in 1870 when the Institute of Accountants was formed in Moorgate Street in the City. All the leading accountants of London (in number 63) were summoned to a meeting at the City Terminus Hotel, Cannon Street and the object of the Institute defined as follows:

"To elevate the attainments and status of professional accountants in London, to promote their efficiency and usefulness, and to give expression to their opinions upon all questions incident to their profession".

From the beginning the Institute was exclusive. It was agreed that membership should be confined to professional accountants in London and no provision was made for practitioners in the provinces for several years. The stipulated entrance fee of 50 guineas for Fellows and 25 guineas for Associates operated as an effective bar to the admission for many struggling but reputable and competent practitioners. Maintaining that these financial conditions were arbitrary, unfair and deliberate a group of accountants

formed the Society of Accountants in England which for a number of years competed with the Institute.

The progress to incorporation was interesting. Initially the Institute had sought, in 1870, to form an Association of Accountants to be incorporated by Royal Charter. However, the Minister approached informed the Institute that the Privy Council was declining to grant Charters and he went on to suggest that for the sum of five guineas a Memorandum of Association could be registered with the Board of Trade under Section 23 of the Companies Act 1867. "For all practical purposes" he wrote "there seems to be no difference between the old 'Charter' and the present 'Memorandum of Association' ". The Institute was properly disappointed and agreed to form a voluntary body and bide its time.

At the second attempt, some years later, the Institute determined in the light of its earlier experience to obtain a specific Act of Parliament. This time Ministerial advice had turned turtle and was that they should petition the Queen in Council for a Royal Charter of Incorporation. An important factor in this change of heart seems to have been increasing pressure on parliamentary time as the legislative zeal of the 1870's and 80's grew.

Prior to petitioning, the Institute merged its interests with the various other accounting bodies. Interestingly, the Society of Accountants, during negotiations, prepared a memorial which they proposed as an alternative to present to the Lord Mayor and Corporation of London, asking them to constitute a body of sworn accountants.

So accountancy moved forward to recognised professional status under charter. It was duly granted to the Institute of Chartered Accountants in England and Wales on 11 May 1890. As no doubt in earlier centuries with livery companies, motives were mixed. The application for Charter announced that the Institute was "not established for the purpose of gain nor do the members thereof drive or seek any pecuniary profit from their membership but the Institute aims at the elevation of the profession of public accountants as a whole and the promotion of their efficiency and usefulness by compelling the observance of strict rules of conduct as a condition of membership and by setting up a high standard of professional and general education and knowledge and otherwise".

On the other hand, members would of course benefit commercially. The Accountant, in a leading article, agreed that it was impossible to prevent the assumption by quacks and rogues of the designation of accountant but that the public would, for the future, be well advised to employ only the services of members of the Institute of Chartered Accountants and to look for the initials FCA OR ACA after their names.

## Early days in the City

In 1877, the first president, William Turquand, took a 21-year lease on the ground floor of Copthall Buildings in Moorgate but within 7 years the Institute was looking for more substantial premises. In 1888 a lease of 999 years was obtained on a site described later by one member as "a back yard in Moorgate Street on the outskirts of a costermonger slum". John Belcher, who had been responsible for the Mappin & Webb building opposite the Mansion House was commissioned to design Chartered Accountants' Hall which was opened in 1893. The total cost of the new building was £37,684. The Accountant declared that the laying of the foundation stone was "the actual and visible embodiment of the astonishing growth of a profession, young, but already of commanding power, and capable of practically unlimited extension". Chartered Accountants' Hall is still the Institute's headquarters and to this day, accountants are the only learned profession with their headquarters in the City of London. Most nineteenth century professions chose to locate near Parliament in the Westminster area. The City was the obvious choice for the accountants because of the proximity to the financial organisations to which investment and trade were linked. Lloyd's, the Bank of England, the Stock Exchange and the Baltic Exchange were all situated within walking distance of Moorgate.

Two of the most influential men in the early days of the profession were the founders of what is now the largest firm in the UK - Coopers & Lybrand Deloitte.

William Welch Deloitte set up in practice at the age of 27 as a public accountant in the City of London in 1845, eight years after Queen Victoria had ascended the throne. Sir Robert Peel was Prime Minister and a rising young member of Parliament, William Ewart Gladstone was President of the Board of Trade. The steel pen was gradually supplanting the quill; envelopes were practically unknown and letters were sealed by wafers; public execution was a form of entertainment; most Londoners walked to their offices and it is stated that in 1837, 90,000 persons crossed London Bridge daily.

William Cooper set up a practice on his own in the City of London in 1854, taking two rooms at 13 George Street, Mansion House. His brother Arthur joined the staff in the first year and two other brothers, Francis and Ernest, joined later. The Cooper family consisted of 13 children! Appropriately enough, the name of the firm was changed to Cooper Brothers & Co. in 1861.

The work described in 1855 by William Cooper in response to an enquirer who wished to have his son instructed in accountancy was as follows - "the business of an accountant comprises the investigation and arrangement of all kinds of intricate accounts. The acquirement of a thorough knowledge

of what is called the "double entry" system of accounts is the chief requisite. The duties of the young man would at first be very light. His salary after the expiration of his term would depend upon his age and capacity but might probably commence at £50 for the first year. A good handwriting would go far to recommend him".

It is interesting to reflect what office work and auditors were like in the early days of the Institute. There were no taxis or cabs; no typewriters or typists; no telephones or electric light; the letter press the only means of copying letters; and top hats were worn when visiting a client's office. The Victorian believed in public service and hard work and ruled their offices with autocratic aloofness. Frederick Whinney was one of the founders of the Institute and noted for his gruff austere front. One night, at the moment he stooped behind his desk to pick up something on the floor, a clerk poked his head round the door - "Has the old blighter gone?" Whinney stood "No, the old blighter's still here". The clerk went back to his work and no more was said.

### **The developing profession**

The growth of Victorian investment overseas provided the catalyst for the spread of accountants to every corner of the globe; wherever capital went, chartered accountants followed. Much of the investment was directed towards the land of opportunities, America, and Deloitte's set up their first overseas office in New York in 1890. A Buenos Aires office was set up in the 1890's and the first office in Africa was opened in Johannesburg in 1904.

Ernest Cooper recalls making his first business journey abroad to Hamburg in 1874 where he encountered his "first and only conscious experience of an attempt to bribe, but it failed and I returned to London".

Even in those early days there were international conferences which were attended by the Institute. In 1905, F.W. Pixley represented the Institute at the International Congress of Accountants at St. Louis, USA, where a paper read by Robert Montgomery of Cooper's on the use of public service corporation accounts to determine prices was an early call for standardisation in accounting matters.

The twentieth century, particularly since the second world war, has seen a huge uninterrupted growth in the accounting profession. The use of financial information in business and the technology to provide it have developed in a myriad of ways. This growth, much of it driven by the great City firms, is an interesting story but not one for today. Our theme is how the late nineteenth century, professional framework, the Institute, drawing very heavily on earlier livery example, has stood up to these developments.

## The current attacks on the profession

Success and influence contained the seeds of difficulty. On the one hand the growth of practitioner firms has reduced the importance and relevance of the professional Institute in their activities. A growing proportion of the partners and staff in our larger firms are no longer chartered accountants but a mix of economists, engineers, and statisticians. In recent years many of the large firms can count as chartered accountants only some 50% of their total complement. At the same time the larger firms have become far more international, operating in some cases in over 100 countries. Their structure differs but at least one international firm is effectively controlled from the United States. These developments may threaten the authority of the Institute.

The Institute examines and admits individual members and has no direct relationship with, or authority over, firms. Neither can it really enforce its discipline outside the United Kingdom. When I was President I lived in continual fear that our rules would be flouted by a firm controlled from overseas. Such a confrontation might well have revealed the lack of real power residing in a traditional self-regulatory professional body in the face of modern business power.

At the same time the whole notion of self-regulatory professions came under intellectual attack from the radical Thatcher administration. The Government started from the presumption that the great professions were, in many ways, none other than effective trade unions, exercising monopolies and restrictive practices for the exclusive benefit of their members. Although I believe the accounting profession genuinely developed its high standards in the public interest, there was no doubt that it often had difficulty fixing suitable standards that really fitted the needs of clients and customers. I recall Professor David Solomons, one of the great gurus of education in the profession, stating quite categorically at our Centenary Conference in 1980, that to be competent, a chartered accountant should speak at least one foreign language and that this should become a requirement in our examinations. With commentary in this vein, it became increasingly difficult to resist the Government's claim that accountants were over-qualified, to the detriment of many aspirants - a view probably substantiated by the fact that in the late 1970's and early 1980's nearly two-thirds of candidates (mainly graduates) were failing our examinations.

As with other professions, the Government spearheaded its attack through the Office of Fair Trading headed by Sir Gordon Borrie. During this period, the opticians lost their monopoly over spectacles and the solicitors their conveyancing rights. Our monopoly lay in audit and that has not been challenged. However, we were required to relax significantly our ethical rules, and in particular permit promotional activities and advertising of our services. Everything moved very fast in professional terms. In 1982, I was

drafting the obvious reasons why advertising by chartered accountants would be wholly against clients' interests. By 1984, as Deputy President and Chairman of the Institute's Public Relations Committee, I was quoted in the Financial Times as favouring the introduction of quarter page advertisements to the fury of many of my members. By 1985, firms were advertising on television - an experiment that was not widely repeated or continued in the profession. In practice, the relaxation of promotional activities and advertising has clearly acted to the great advantage both of the profession and the public. As in so many ways the Government appeared to see through the perceived wisdom of many Victorian business ethics and question their underlying value.

The great surge of deregulation in the early years of the 1980's led inevitably to scandals and malpractice in the financial services markets. As a result, the Government was obliged to intervene. Perversely, the new rules brought in by the Financial Services, Building Societies and Banking Acts were more interventionist than previous regimes. The Government sought to make use of existing professional bodies and regulatory agencies to undertake vetting and monitoring procedures on its behalf. Thus the Institute has now assumed the task of regulating the competence and performance of its members on behalf of the Government. As the President of the Institute said last year it is becoming increasingly difficult to reconcile this regulatory role of the Institute as a Government agency with its more traditional role as trade association often against the Government.

So the last ten years have seen very significant changes in the relationship of the accounting profession with its members and with Government. It is unclear whether the traditional professional structure, which is derived essentially from the old livery companies, can survive the commercial imperatives that are driving forward the businesses of practitioners. Strangely, at the height of these developments, the chartered accountants in 1977 formed a livery company which has proved both popular and effective. I would like to think that is a good omen; that the great professions, including in particular my own of chartered accountancy, will survive as we know them and develop, practising all that is best in British business life, as we always have from the days of the great livery companies.

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