

Auditing – profession or business?

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I became a member of the Institute of Chartered Accountants in 1955, when I was 21. Last week I cancelled my membership.

When I was 16 my headmaster told my father “this lad has school certificate and higher school certificate; you want him to be a chartered accountant; so don’t waste his time going to university, get him articled straight away.” Typical of the time, my opinion was not sought, after all I was a schoolboy.

That was fifty years ago. I was articled to a chartered accountant in Coventry, Phil Mead, whom I now realise, was a remarkable man. A director of Coventry City Football Club, he was also a partner in Daffern and Co., a five partner firm of Chartered Accountants. In retrospect, I learned more from him of real value than I subsequently learned at Oxford University and Harvard Business School.

Preparation for the examinations of the Institute of Chartered Accountants, in those days, was by correspondence course and practical experience. Phil Mead was a great principal to his articled clerks: he personally supervised our work and our learning. He continually gave us just a little more responsibility that we were ready for, but watched over the results closely. At eighteen I was preparing and explaining the accounts to a workingmen's club; at 19 was responsible for auditing the subsidiary of a public company, and the year I qualified, I presented the accounts to the directors of a listed company.

Now, so many years later, I contrast that early experience with the state of audit and accountancy today. Post Enron some call for auditors not to undertake consultancy work for clients; others argue that auditors should be changed regularly or that the lead audit partner should rotate every few years. I suspect that the issues go deeper. The real question is whether audit and accountancy is a profession or a business.

In the 1950s ours was a professional practice. It provided service for a fee. The number of partners was limited. Globalisation was for the future, though we did have one client with a subsidiary in Australia. The phrase corporate governance had yet to be coined. In those days the accounting profession consisted mainly of relatively small firms. Of course, our partners were keen to be successful. They did not want to lose clients to other firms. In their community they were respected and well to do; but they were not rich. Neither would they compromise their principles. They would not sign an audit report, stating that the client’s account’s showed a true and fair view, unless the partner was personally convinced that they did. Better to lose a client than your integrity. This was a profession, after all. The audit process demanded absolute objectivity of thought and independence from the client.

How different today. The big accounting firms have become vast, international and concentrated. Today's 'big few' are actually the colossal few. They are major businesses, with products and market shares, business solutions and profit performance as watchwords. Partners are judged by fee generation and growth. Client income from consultancy and other non-audit work often matches or exceeds the audit fee. Moreover, the finance directors of many client companies graduated through the ranks of their auditor.

Partners' rewards, though seldom published, reflect those of their 'fat cat' clients. But auditing is not astro-physics. True, the work demands detailed, intense and up-to-date work, but it is not actually difficult. True, too, these days the risks of litigation and forced resignation are higher. But the real challenge lies in determining standards and living up to them, as it always did.

When I began my accounting career, the Institute of Chartered Accountants was at the head of a self-regulating profession. Today, as the world-wide Anderson saga shows, the market place regulates, not the profession. Indeed, auditing has ceased to be a profession: it has become a business.

Of course the business world has changed too. Nostalgia has no place in strategic thinking. There is no going back to the profession of half a century ago. But I suspect that, unless auditing rediscovers what it means to be a profession and returns to its roots, state regulation of the audit process will have to be imposed to protect creditors, investors and the wider community.

Last week I decided that the auditing profession I joined no longer exists, so I cancelled my membership of the Institute. Fortunately, I no longer need to be part of the market place that has replaced it.

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