

EXECUTIVE SUMMARY

Attempts at rationalisation have featured large in the history of the accountancy profession in the UK. Ever since the first organisations of professional accountants were formed in Edinburgh and Glasgow in 1853, on a local basis, and under charters which excluded non-public practitioners, the scene was set for a proliferation of other bodies representing accountants in other locations and engaged in other specialisms. By the late 1920s there were at least 17 organisations of accountants. During the late nineteenth century chartered accountants discovered that their incorporation did not secure complete professional monopolies. Subsequent attempts to close off public practice through state registration failed because of destructive quarrels between the multiplicity of competing organisations. This monograph reports on the most concerted and ambitious effort to achieve the unification and closure of the UK accountancy profession in modern times, that which culminated in its rejection by the ICAEW in 1970.

The Co-ordinating Committee, 1942-1951

In 1930 the Goschen Report concluded that the registration of the profession was not in the public interest. The issue resurfaced during the Second World War and a Co-ordinating Committee was formed comprising representatives of chartered, certified and incorporated accountants. The Co-ordinating Committee attempted to secure a statutory monopoly of practice through a Public Accountants' Bill. However, the framing of new companies legislation dominated the agenda of the relevant ministry, the Board of Trade. After the passing of the Companies Acts, 1947 and 1948, the major accountancy bodies did not secure registration but did achieve statutory practising rights in relation to corporate auditing. The experiences of the Co-ordinating Committee contributed to the formation of ICAS in 1951 and the

integration of incorporated accountants into ICAEW, ICAS and ICAI in 1957.

An incomplete reorganisation

The dust had not settled on the chartered-incorporated merger before those excluded from the agreement raised the question of the future organisation of the profession. Members of the ACCA in public practice desired integration with the chartered institutes. However, the advances of the ACCA were rejected because only 21% of certified accountants were engaged in public practice and the chartered bodies deprecated the standards of entry, training and examination of the Association.

New proposals for unification

Within the secretariat of the ICAEW a different view prevailed. A memorandum was circulated in November 1959 which suggested that the English Institute threatened in industrial accounting and should raise its standards of entry, qualification and conduct. In February 1962 the ICAEW appointed a Development Sub-committee to consider the future structure of the accountancy profession. In 1963 this subject was remitted to a Future Plans Committee (FPC). The appearance of the Robbins Report on higher education in Britain heightened concerns about future recruitment to the profession. Concurrent with these developments, discussions took place between the ACCA and ICWA about a possible merger though the Association declared a preference for union with the ICAEW.

The key report of the FPC, *The Future of the Profession*, was approved by the ICAEW Council in 1965. It proposed that the principal accounting bodies would merge into an enlarged chartered institute. Members would enter an upper tier of chartered accountants in public practice or industry, or a lower tier of licentiate accountants.

Admission to Tier I would be on the basis of higher standards of entry and qualification than Tier 2.

These proposals were based on three major assumptions: a statutory 'ring fence' should be established round the profession; unification of the accountancy bodies; and leadership of the new structures would be vested in the ICAEW. The 'ring fence' was considered as an essential prerequisite of the scheme. Its object was to close practice and prohibit the formation of new accountancy bodies. The ICAEW commenced discussions with the Board of Trade on the likelihood of government support for such a measure.

Establishing a statutory ring fence posed a dilemma for the profession. Legislative sanction was likely to be forthcoming if lesser accounting bodies were included within the statutory professional boundary. However, this prospect would also 'dilute the profession'. Senior members of the ICAEW answered that dilution was unavoidable and a price worth paying for a unified accountancy profession.

Discussions between the participating bodies

In the spring of 1965 preliminary meetings were held between the FPC and representatives of ICAS, ICAI, ACCA and ICWA on the future of the profession. ICAS delegates questioned the ring fence concept and demurred at the prospect of a single accountancy body. A second round of talks during summer 1965 identified a number of more detailed concerns regarding training and the status of overseas students. Although the ICAEW was determined to lead the accountancy profession, it became clear that this could not be accomplished within a single unified body for the UK. In order to accommodate Scottish and Irish sensibilities it was agreed that three separate but parallel unification schemes would be prepared.

Discussions with the Board of Trade

The Future of the Profession was revealed to the Board of Trade in February 1965. While there were no departmental objections to the proposals for unifying the professional bodies, reservations were expressed about establishing a ring fence. This attempt at monopolisation ran counter to the policy of the Labour Government in relation to restrictive practices and the accountants were advised not to proceed with their scheme on the assumption that the government would agree to a ring fence.

The FPC had been enlarged to include the IMTA in January 1966. A Joint Steering Committee (JSC) of the six major accountancy bodies was formed in April 1966 to progress the Future of the Accountancy Profession. The JSC envisaged that a definitive scheme would be presented to the participating bodies by the autumn.

The need for the accountancy bodies to resolve difficult issues surrounding *The Future of the Profession*, meant that the document was not formally submitted to the Board until April 1966. A reply was promised by the end of May. Meanwhile, the Board requested that additional evidence be supplied of the public damage caused by the activities of unqualified accountants. The ICAEW was unable to provide convincing documentation.

One official in the Board of Trade was sympathetic to the accountants' cause and this, together with a similar proposal in relation to estate agents, resulted in some indecision in Whitehall. This was resolved by suggesting that the Monopolies Commission investigate restrictive practices in the professions and thereby provide a 'wider context' for consideration of monopolies in individual occupations. The accountants were not made aware of these developments until December 1966. The decision by the Board of Trade did not incite accountants to consider the wisdom of continuing with their plans despite the fact that a central tenet – a statutory ring fence – was now in doubt. Neither did officials in the Board of Trade discourage attempts towards rationalisation. Hence, the accountants embarked on a revised strategy of unification.

Working out the details of the scheme

Working parties were established by the JSC to address a range of complex and difficult issues. These involved overseas matters; practice rights; reconciling an array of divergent positions on entry standards, examinations and experience; the status of 'other' accountancy bodies; and, the preparation of a draft constitution for the enlarged English and Welsh institute which revealed the deep rift between the public practice and industrial branches of the profession. The absence of information from the Board of Trade on the statutory ring fence made it impossible for many of the working parties to submit firm recommendations to the JSC and several thorny issues remained unresolved. As a consequence the ambitious timetable of the JSC could not be met and the preparation of a definitive scheme was postponed.

Official announcements

An official announcement to members about discussions on unification was made in March 1966. While the JSC and its working parties were attempting to perfect the scheme, the councils of the participating bodies expressed their reservations about a number of issues. ICAS was concerned at the JSC's tight timetable and the need to resolve an internal debate about a possible merger with ICAEW. The negotiating bodies also disputed the composition of the council of the enlarged institute. The inclusion of the IMTA in the discussions raised the possibility of the creation of a Tier 3 of accountants in public service.

In the absence of detailed disclosures about the scheme, members tended to focus on divisions within the profession rather than the principles on which unification might proceed. In March 1967 the rank and file were informed that the idea of a single-tiered institute for the UK had been supplanted by plans for three enlarged chartered institutes in England and Wales, Ireland, and Scotland.

A revised scheme

The reference to the Monopolies Commission removed the likelihood of gaining a statutory ring fence. Nevertheless, in February 1967 the JSC recommended that unification proceed. The ICAEW considered that the alternative was a union between the ACCA and ICWA and a consequential loss of its leadership of the profession in commerce and industry. The ICAEW was also anxious to protect the public practice arm of the vocation. The councils of the ICAI and ICAS also recommended progress toward unification though some concern was expressed at ICAS about dilution. The ACCA was concerned that licentiate accountants would be perceived as an inferior class. A vociferous and large minority of the ICWA Council objected to any form of unification with the chartered institutes. Doubts were expressed about the extent to which the interests of the commercial and industrial arms of the profession would be safeguarded under the schemes. The JSC threatened that delay by ICWA would result in progress without the cost and works accountants. The IMTA agreed to the schemes in principle subject to assurances about increased representation on the enlarged Council and promises of specialist examinations.

In October 1967 the accountancy bodies announced that definitive schemes would be presented by the end of the year. However, differences of opinion on practice rights and the inclusion of the junior 'BFI' bodies in the schemes continued. It was agreed that approval of the schemes 'in principle' by all the participating bodies was required before proceeding to a vote of members. The schemes would be published in July 1968, ending a long period of uncertainty for the memberships.

Opposition

A small number of members had expressed opposition to the unification proposals since the formal announcement in spring 1966.

A resolution was submitted to the agm of ICAEW in May 1968 calling for the withdrawal of the Institute from all negotiations with the non-chartered accountancy bodies. The motion was lost but its appearance caused uncertainty among the office bearers of the ICAEW. The ensuing public debate on unification was not conducted with much civility. Most correspondents objected to 'dilution' in terms that were disparaging of 'lesser' accountants. The ICAEW compounded concerns among the rank and file about dilution by proposing to include the BFI bodies in the schemes.

Following district and local meetings of members in autumn 1968, the executives of the institutes considered that no further major changes to the proposals were necessary. The attendance and voting statistics at the meetings of ICAS members demonstrated a significant degree of hostility and opposition, particularly in Glasgow, where the largest concentration of CAs resided. At special meetings of the participating bodies in spring 1969 the members approved the unification proposals 'in principle'. The resolutions included a caveat that all the participating bodies gave approval to the schemes.

A crisis at ICAS

In May 1969 members of ICAS voted for the scheme in principle by only a slim majority. The Council concluded that there was little prospect of achieving the required majority for constitutional change and withdrew from unification. Notwithstanding the 'one out, all out' clause the other accountancy bodies decided to proceed without ICAS with schemes covering England and Wales, and Ireland. It was hoped that Scottish participation would resume later. A number of ICAEW members commented that the 'one out, all out' caveat had been ignored by the JSC.

ICAS faced a crisis. Its Council was almost unanimously in favour of the scheme. The President of ICAS embarked on a propaganda campaign and the Council decided to hold a further postal ballot on the question: 'If the English scheme is to be implemented should

the Scottish scheme be implemented at the same time?’ In January 1970 76% of voting members answered yes. ICAS re-entered the scheme.

Rejection in England and Wales

Although dilution had long been identified by ICAEW as a significant issue no convincing counter argument to this fear was formulated. The issue was downplayed and a mantra was pronounced that dilution should be conceded as a one-off event, with no serious long-term implications for members. At the ICAEW’s agm in 1968, the Council downplayed the extent of opposition to the scheme. Its attitude was bolstered in April 1969 when 66.2% of the votes at a special meeting were cast in favour of the scheme in principle. However, the turnout was only 42%.

The temporary withdrawal of ICAS from the scheme in 1969 encouraged dissenters within the ICAEW. Two opponents, Nicholson and Sutherland, pursued a postal campaign, and based on their shared experience in fighting corporate takeover bids, they sought proxy votes against the scheme. At a special meeting of the ICAEW on 24 June 1970, by which time the members of the other participating bodies had voted in favour, 121 voted for integration and 81 were against. A transcript of the special meeting was sent to ICAEW members together with a voting card. The result of the ICAEW poll was announced on 14 August 1970. The turnout was the highest in the history of the Institute, but the result was not as the Council had expected. The resolution seeking approval for the integration scheme attracted only 44.8% support. The ICAEW office-bearers were stunned at this outcome. A decade of discussion to address the future of the profession had culminated in the rejection of the scheme. The JSC was wound up in September 1970.

Observations

The primary sources utilised for this investigation suggest that there were three underlying reasons for the failure to unify the profession during the 1960s. These, together with the findings of our earlier study (Shackleton and Walker, 1998) offer points of caution in any future attempts to pursue rationalisation.

Firstly, the manner in which leaders of the profession engaged with government. This relates to the failure to recognise the power of mandarin civil servants, to align plans for the profession with prevailing government policy, and, to persuade policy makers that schemes for the profession are in the public interest. Secondly, the integration schemes were not pursued on the foundation of a widespread desire for change. Unification was based on attempts to reassert the hegemony of a particular organisation and fears about the consequences of the merger of other bodies. This encouraged the emergence of particularist-driven schemes for the profession; attempts to impose tight timetables even though disagreement continued to exist on important issues; scorn for dissent; a limited consideration of why previous attempts at unification had failed; limited discussion of alternative plans; and, the continued pursuit of schemes even though central components become unattainable. Thirdly, the detachment of office bearers from their memberships. This was evident in the often disdainful behaviour of the profession's leaders towards the rank and file manifest in the partial attempts to elicit members' opinions; a reluctance or inability to convincingly address deep-seated concerns expressed by the members; the determined pursuit of plans in the face of evident opposition; and, efforts to control debate. This detachment of office bearers was surprising given that the memberships have the ultimate authority to accept or reject constitutional change.