The Problematical Nature of Auditor Independence: A Historical Perspective

Much of the utility of the external audit derives from a presumption that professional auditors are independent and will therefore provide impartial opinions – premises that have often been challenged in recent decades. Focussing initially on a nineteenth-century phenomenon, the 'continuous audit', this study provides a historical perspective for reviewing contemporary concerns with the audit function by revealing that failings in auditor independence date from the naissance of the professional. It is shown that the continuous audit served primarily the needs of management. That is, in modern parlance, it was a form of management consulting carried out under the guise of an independent service for the benefit of shareholders. Eventually this deception proved unsustainable as the emergent audit profession sought to strengthen its claim to independence and company managers sought more cost-effective means for the routine monitoring of operations. Lack of independence and conflict of interest persisted, however, continuing to be masked by a rhetorical discourse that protected the occupational territory and authority of the audit profession through to the present day.

Keywords: continuous audit; audit independence; auditing history; rhetoric.

Introduction

The British Limited Liability Act of 1855 paved the way for the rise of the modern business enterprise and the separation of ownership from management. It was not until 1947 that it became a requirement for limited companies to be audited by qualified accountants, though it is certain that the Companies Act of that year recognised arrangements already put in place by most companies (Parker 1986, 39). Indeed, as early as 1886, 725 (77 per cent) of the 943 companies listed on UK stock exchanges with known auditors had their books examined by professionally qualified accountants (Anderson et al. 1996, 366). A similar sequence of events occurred in the United States. In 1926, prior to the introduction of a statutory assurance requirement, 82 per cent of the companies traded on the New York Stock Exchange were already audited by CPAs. This proportion had risen to 94 per cent by the time that 'hearings on the Securities and Exchange Act of 1934' began (Wallace 1980, 9).

Watts and Zimmerman (1979) draw on evidence of the voluntary adoption of the external audit to theorise the nature of the financial reporting and auditing processes. For them, the rise of the external audit was a market-driven phenomenon and growth in the demand for this service a natural consequence of the operation of the agency model. The external auditor provides assurance concerning management's stewardship of shareholders' money and validates the provision of reliable information by management for purposes of performance assessment and decision making.[1] Watts and Zimmerman's analysis presumes that the external audit is valued because it is an expert, independent, service supplied by professional accountants. Critical accountants, by way of contrast, 'have been concerned to demystify the claims of accounting to facticity and neutrality, and so expose the manner in which it is implicated in articulating the power of capital' (Armstrong 1991, 5). For example, they point out that the supposedly independent third parties – i.e. the auditors – are themselves agents and subject to exactly the same temptations as are managers as agents; that is, to pursue their own best interests rather than those of their principals (Armstrong 1987; 1991; see also Maltby and Chandler 2020, 254-256). More specifically, a serious risk of conflict of interest occurs when firms of accountants also supply consultancy services to their audit clients.

The tensions which can arise from dual, and possibly conflicting, responsibilities towards shareholders and directors were addressed by the UK Competition Commission which, in 2013, conducted a wide-ranging study into the supply of statutory audit services to the London FTSE 100 and FTSE 250 companies. Amongst its findings was the conviction that 'Auditors have misaligned incentives, as between shareholders and company management, and so compete to satisfy management rather than shareholder demand, where the demands of executive management and shareholders differ' (Competition Commission 2013, 11). Anxiety surrounding auditor independence and conflict of interest spikes with the collapse of high-profile companies such as that of WorldCom and Enron at the start of the present century and, more recently, the failure of the UK construction company, Carillion plc.

Against this background, the purpose of the present study is to improve our understanding of the history of the professionally-conducted external audit and, thereby, provide a historical perspective for reviewing present-day concerns with the effectiveness of the assurance function. We do so by exploring the nature and role of a nineteenth-century phenomenon almost entirely overlooked by historians – namely, a more extensive version of the external audit supplied by professional accountants, labelled the 'continuous audit'.[2] The so-called continuous audit is exposed as a fluid device that could be captured by the directors to help them monitor the accuracy and honesty of employees, rather than to report on management's accountability for resources entrusted to it. As an extension of the continuous audit function, the professional auditor was sometimes also engaged to supply detailed reports designed to help managers run their businesses more effectively. The concept of a 'continuous audit' is therefore interpreted as an important rhetorical ploy; its alluring connotation of constant checking being grasped by company directors to redefine the external audit as a management service. Our research therefore reveals that problems of independence and conflict of interest, which are often portrayed as post-1970s phenomena associated with an increase in consultancy work, date from the advent of the professional audit.[3]

The study carries the themes of independence and conflict of interest through time by arguing that the professionalization project mounted by qualifying associations, beginning in the second half of the nineteenth century, successfully nurtured the idea of accountants as disinterested professional gentlemen partly by constructing an image of independence from management. One consequence of this process was the demise of the continuous audit. The reality of the directors rather than the shareholders as the auditor's principal client nevertheless continued and publicly reasserted itself in dramatic fashion in the late-twentieth century as a self-confident occupational group prioritised the commercial over the professional, as signalled by the more explicit focus on the provision of business advisory services. The enduring theme throughout the history of the professionally-conducted external audit is that, within a multifaceted trilateral relationship, auditors' obligations to directors have sometimes proved stronger than their contractual duty to shareholders. The audit profession has relied upon a rhetorical discourse to help mask this conflict.

Methodology and dataset

This research study employs an archival approach which collects data from sources capable of improving our understanding of the perennial problems surrounding issues of auditor independence and conflict of interest. Sources studied comprise: British parliamentary papers; contemporary newspapers, books and journals; and pertinent prior research. Relevant material is identified, contextualised and interpreted in the light of the stated objectives of this paper to establish their inter-connectedness and to reveal patterns of behaviour through time.

The sample of newspaper publications comprising *19th Century British Library Newspapers*[4] and the corresponding chronological content of *The Times Digital Archive* were interrogated using the search term 'continuous audit'. This revealed the introduction of an externally-conducted continuous audit at 67 companies at some stage during the second half of the nineteenth century, to which is added one company disclosed in the British Parliamentary Papers and one based on a study of its surviving business records. These companies (see Appendix) were spread over a range of industries: banks, 17; building societies, 6; discount companies, 1; friendly societies, 2; gas, 3; insurance/assurance, 7; manufacturing, 5; omnibus, 1; property, 2; railways, 22; shipping, 2; and stockbrokers, 1. Companies identified in this paper as subject to a continuous audit inevitably comprise a fraction of the total. The *19th Century British Library Newspapers* database covers little more than one per cent of the newspapers contained in the British Library archive. Also, there was no compelling reason why directors should refer to the fact that a continuous audit was conducted.

Furthermore, nineteenth-century archival records signal the widespread adoption of the continuous audit, at least in some industries. The directors of the Aberdeen Railway informed the shareholders, at the 1850 general meeting, that arrangements had been made for 'a continuous Audit of the Accounts to be made by a professional Accountant appointed by the Auditors for that purpose' and that 'Most Railway Companies are now adopting this course' (Aberdeen Railway 1850). Later in that decade, the Railway Department of the Board of Trade (BPP 1856, xv) reported that it was a not uncommon practice for railway companies to subject their accounts to 'a careful and continuous audit'. In 1891, the leading liberal politician, George John Shaw-Lefevre, informed the House of Commons that many Trustee Savings Banks 'carry out a system of continuous audit' (*Hansard* 1891, vol. 351, col. 1256).[5]

To provide relevant context for this study, the next section locates the continuous audit within in the history of auditing, and this is followed by a discussion of issues of auditor independence and conflict of interest, as portrayed in the literature, during the early stages of the professionally conducted external audit. Attention then turns to the business service that is the main focus of this paper – the continuous audit in nineteenth century Britain – which is followed by a discussion of disjunctures in the perceptions, claims and reality of auditor independence that persist through to the present day.

Locating the continuous audit in auditing's history

British- based chartered and statutory companies date, respectively, from the sixteenth and seventeenth centuries (Edwards 2019, 24-26), and it is known that these were sometimes the subject of some form of inspection or audit (Bryer 2000; Arnold and McCartney 2008). The number of joint stock companies took off, post-1844, given that the Joint Stock Companies Act of that year had both simplified and cheapened the process of their formation. Company audits were, before and after 1844, often conducted by shareholders based on the logic that they had a personal interest in verifying the security of their investment. Professional accountants were by no means entirely excluded from the audit function even very early on, however, with the Bristol accountant, Josiah Wade, signing an audit certificate with the words 'Examined and found right' in 1797 (Howitt 1966, 245).

Shareholder-dominated audit arrangements nevertheless persisted well into the nineteenth century, and they received a degree of encouragement from the content of the Companies Clauses Consolidation Act 1845 (8&9 Vict., c.16). This measure contained model clauses, for adoption by subsequently-created statutory companies, including one (clause 102) which required each of the two auditors to have 'at least one share in the undertaking'. The act also authorised these shareholder/auditors to engage, 'at the expense of the company', a professional accountant to help undertake their work (cl. 108). The remainder of the nineteenth century, during which time-period the continuous audit flourished, witnessed the 'public accountant' and, from 1880 in England and Wales, the chartered accountant successfully claiming 'jurisdiction' over the audit function in place of the amateur/shareholder auditor (Abbott 1988; Edwards et al. 2007, 82-83).

The individuals and firms that conducted continuous audits have been identified for 41 of the 69 companies covered by this study. The names of those auditors, for the purpose of constructing Table 1, are given for the first year in which they are known to have conducted a continuous audit. Where this date was after 1880, the professional auditors were invariably chartered accountants, though Joseph Gregson did not join the Institute of Chartered Accountants in England and Wales (ICAEW) until 1896. A number of the auditors achieved chartered status some time after the dates of their initial appointment identified in Table 1. For example, George Beech, who was appointed auditor of the Birmingham Wagon Company in 1868 and the Birmingham Gas-Light & Coke Company in 1871, was a founder member of the ICAEW**.** Similarly, a number of individuals who feature more prominently in professional accounting's early history such as Edwin Waterhouse – one of the founders of today's PricewaterhouseCoopers – who was President of the ICAEW 1892-1894. Each of the five largest accounting practices in 1886, measured by number of quoted company audits (Anderson et al. 1996, 368), are represented in Table 1: Turquand, Youngs, Weise, Bishop & Clarke; Quilter, Ball & Co.; Deloitte, Dever, Griffiths & Co.; Price, Waterhouse & Co. (through Edwin Waterhouse); and Harmood Banner & Son.

[Table 1 about here]

The fact that the continuous audit was a time-consuming, as well as lucrative, service can be judged from the fees charged for such work: F.T. Barnard was paid £200 for a continuous audit of the Bristol & Exeter Railway in 1857 (Bristol & Exeter Railway 1857); Turquand, Youngs, Weise, Bishop, & Clarke, £300 by the Capital & Counties Bank in 1883 (Capital & Counties Bank, Limited 1883) and James Harris £300 for continuously auditing the General Stock Exchange Company in the same year (General Stock Exchange 1883). A broader assessment of the cost of a continuous audit was offered by Mr. Drew, shareholder, at the extraordinary general meeting of the London General Omnibus Company held in 1859: 'large railway companies … got a continuous audit for 300*l* [i.e. £300]' (London General Omnibus Company 1859). This is equivalent to £30,720, today, based on movements in the retail price index and £221,500 based on movements in average earnings (MeasuringWorth 2021). Some were paid much more, for example £800 to the chartered accountants Welch & Parkinson and Harmood Banner & Son by the Royal Liver Friendly Society in the 1880s (BPP 1889 (304), minutes 2828, 2921). These were significant incomes for firms which, at that time, consisted mainly of sole practitioners or a couple of partners and when the average annual wage was less than £50 per annum.

The continuous audit was, therefore, a noteworthy episode in the early development of the accountancy profession in Great Britain. The term 'public accountant' was used to describe the private practitioner who became more visible in the larger British cities as the nineteenth century progressed (Edwards et al. 2007, 67). With the formation of professional bodies, by royal charter, in Scotland in the mid-1850s and England and Wales in 1880, the term 'chartered accountant' gradually superseded 'public accountant' to describe the elite practitioner. The rise of the accounting profession as the favoured supplier of a range of business services in the nineteenth century and beyond has been the subject of extensive study from both traditional and critical accounting and business historians (Edwards et al. 2007; Matthews et al. 1998; Poullaos and Ramirez 2020).

Auditor independence and conflict of interest in nineteenth-century Britain[6]

Independence has often been described as the 'cornerstone of auditing' (for example, Porter et al. 2014, 61; Reiter and Williams 2004, 355) with, in Britain, the Financial Reporting Council (2013, 8) summarising the roles of objectivity and independence as follows:

> Auditors are objective and provide impartial opinions unaffected by bias, prejudice, compromise and conflicts of interest. Auditors are also independent, this requires them to be free from situations and relationships which would make it probable that a reasonable and informed third party would conclude that the auditors' objectivity either is impaired or could be impaired.

The indispensable quality of auditor independence was recognised during the deliberations of two government Select Committees which met and reported at the dawn of the corporate audit in Britain. First, the Select Committee on Joint Stock Companies (Gladstone Committee), 1844, which led to the creation of the registered company later that year. Second, the Select Committee on the Audit of Railway Accounts (Monteagle Committee) which, following the exposure of serious audit weaknesses at a number of companies during the British 'railway mania', was required to decide 'whether the Railway Acts do not require Amendment, with a view of providing for a more effectual Audit of Accounts' (BPP 1849 (421), i). Witnesses, from a variety of different backgrounds, called to present evidence stressed the need for auditors to be independent from the directors, and they explained why. A leading accountant in the City of London, George Coryndon Begbie, insisted that the effectiveness of an audit depended upon the auditor being 'Perfectly independent of the party rendering the account, otherwise my audit might not be unimpeachable' (BPP 1849 (371), minute 1196). An anonymous merchant, C.D. Esq., argued that 'the auditors should not be chosen by the directors, because they become the tools of the directors' (BPP 1844 (119), minute 2048). A former chairman of the South Western Railway, Sir John Easthope, summed things up as follows: 'If the Auditor is not entirely independent of the Directors of the Company, I should consider it better to have no audit at all; it would be delusive' (BPP 1849 (371), minute 2668). Some witnesses went further and insisted on the need for auditors to be totally 'disconnected' from the company, by which they meant also the shareholders. For example, the public accountant William Quilter argued that 'a man can act more independently when he has no pecuniary interest in the subject than when he has' (BPP 1849 (371), minute 2282).

Contemporary commentators expressed serious concern that the appearance and, probably, the reality of auditor independence were undermined by existing arrangements. The proprietor of *Herapath's Railway Journal* maintained that 'the Auditors at present are practically appointed by the Directors, not by the shareholders, and in every case they are on the side of the Directors' (BPP 1849 (371), minute 658). William Frederick Spackman, who described his profession as 'an agency for the transaction of Railway business' (BPP 1849 (371), minute 1204), acknowledged the fact that auditors were *formally* appointed by the shareholders, but continued: 'I should say that the Directors generally have the selection of their own auditors, from the great influence which they can bring to bear in voting upon such matters' (BPP 1849 (371), minute 1218).[7]

Recognising the need to make better arrangements for the protection of shareholders, the Monteagle Committee devoted a full section of its report to an 'Improved and Independent Audit' (BPP 1849 (421), xiii-xx). The required characteristics of auditor neutrality and fidelity are explained:

> An Auditor should be selected for his skill, experience and trust-worthiness; and … as the Auditors are intended to act as a check upon the Directors, the more independent they are, and the less liable they are to be swayed by indirect influences, the more weight will attach to their judgments and recommendations. (BPP 1849 (421), xii)

Twenty or so years later, the significance of independence for the accounting profession's public image was emphasised by the inaugural president of the Institute of Accountants in London, William Quilter, who advised public accountants attending the first general meeting, in 1871, of the need to demonstrate 'something beyond mere professional knowledge and capability' when performing their professional duties:

> By that *something more* I mean the qualities of unswerving rectitude – fearless independence – and single mindedness in the conduct of the business entrusted to him … the due execution of which would be impossible in the absence of the moral qualities I have indicated. Without them, a man may be a clever accountant, but he will do nothing either to elevate his own individual status, or that of the profession to which he belongs. (quoted in Walker 1996, 12-13)

The virtue of independence was broadcast in the early columns of England's first professional accounting journal, *The Accountant* (Leading Article 1875c, 3), with the editor emphasising 'the necessity of his [the external auditor's] utter independence of any influences which may colour his conclusions'. McMillan's (1997, 17) study of the early professional literature caused him to conclude: 'Throughout the decade of the 1880's, the necessity of the *independence* of auditors resounded in the pages of *The Accountant*'. For example, one of the founders of Cooper Brothers, Ernest Cooper (1886, 647), listed 'Independence' first among the 'chief qualities demanded' of an auditor. However, in common with witnesses who presented evidence to Select Committees in the 1840s, Cooper (1886, 646) acknowledged 'The difficulty of [e]nsuring this qualification [i.e. independence] at once presents itself' given that the directors are inevitably influential in their appointment. Echoing the concerns of his contemporary, William Quilter, Cooper (1886, 646, emphasis added) concluded: 'the difficulty of making a satisfactory appointment surely emphasises the importance of the *quality* of independence'.

Existing accounting historiography recognises the potential lack of 'clear water' between the nineteenth-century auditor and corporate management, with Maltby (1999, 47) drawing attention to 'the way in which the [auditing] profession identified itself in late-Victorian Britain with the interests of company management and large investors, against [those of] "speculative" investors'. The alignment of auditors with the directors' priorities, which Maltby detects, could of course undermine their primary responsibility towards the shareholders even where it reflects a common concern to ensure a well-run business. As an early leader writer in *The Accountant* (A.E. 1883, 5-6) put it: 'A true auditor is in the confidence of his client. The latter most invariably consults him on matters far removed from the simple question of the balance-sheet and profit and loss'. The same sentiment is articulated by the chartered accountant John Mather (1898, 1003; see Maltby 1999, 43) in a paper presented to the Sixth Provincial Autumnal Meeting of the ICAEW:

> business men and company directors usually find it to their advantage to regard their accountant or auditor more as they regard their solicitor – not as a paid servant, or a shopkeeper, from whom they expect a given amount of time, labour, or goods at the lowest possible market price, but rather as a sort of 'guide, philosopher, and friend,' whose advice is always available, and whose expert knowledge they may utilise at any moment.

Nineteenth-century public accountants were not necessarily passive participants in this process. Whereas the image of the archetypal professional gentleman required the provision of services in response to urgings from an eager clientele, entrepreneurially-inclined accountants were often ready and willing to supply management with whatever non-audit financial services they might require. In a letter written to his nephew in 1902, the Bristol accountant James Grace described his firm's early marketing strategy as follows: 'We [the partners] threw our net for business wherever we thought it would catch fish, or I should say make money' (Grace, Darbyshire & Todd 1957, ch. 2).

The potential hazards associated with the provision of services for management will be effectively neutralised, one assumes, only if the auditors' commitment to serve the public good outweighs any temptation to pursue their own private interests. Here the public standing of the auditing profession, which was much different in the late nineteenth century compared with one-hundred years later, was important. Put starkly: the late-nineteenth-century accountant was not yet fully recognised as a professional. For example, the president of the ICAEW, in 1887 (Whinney 1887, 388), judged accountancy to occupy the status of a 'semi-profession'[8] despite the fact that a series of organizations designed to enhance the professional identity and public perception of their members had already been established. Practising accountants were therefore earnestly engaged in a professionalization process designed to enhance their status in the public domain. The existence of dual and, sometimes, conflicting responsibilities towards shareholders and directors remained a recurring issue throughout the century that followed, though in diminished form as qualified accountants successfully pursued a professional project designed to portray themselves as independent professional gentlemen. By the late twentieth century, in contrast, qualified accountants were, as we shall discuss later in this study, in a position to exploit the formidable public image that had been painstakingly created over a period of one hundred years.

The role of rhetoric

Throughout these episodes in the history of the British accounting profession, lack of independence and conflict of interest were masked by a rhetorical discourse which served as a strategic weapon to protect both its occupational territory and authority. For auditors, it aligned with their professional claim, positioning them apart from and superior to their clients, as well as distinguishing them from other ('non-professional') service providers who were beholden to their customers. From the perspective of company directors and managers seeking to placate prying shareholders, an auditor claiming to be 'independent' would be preferred, although their ideal might be an auditor who would make such a claim while in fact being compliant. For shareholders, an 'independent auditor' would necessarily be viewed more favourably than one who admitted a partisan interest. Within the complex trilateral relationship between auditors, company directors, and shareholders, an auditor's *claim* of being independent would appeal to all; but the principal benefits from actually *being* independent might accrue to the shareholders.[9] 'Independence' would thereby emerge as a rhetorical term *par excellence* within the emergent professional auditing milieu: a term of persuasion rather than description.

Similarly, 'continuous audit' is a term laden with favourable connotations as it implies constant checking and monitoring. Other forms of audit are implicitly rendered 'discontinuous' – that is, partial, episodic and fragmented. However, as will be shown in subsequent discussion, what actually constituted a continuous audit was often uncertain, and its only universal implication pertained to some audit work – very broadly defined – being done progressively rather than undertaken exclusively after the year-end. The nature, frequency and extent of interim checking required to constitute a 'continuous' audit remained unsettled, as was its role *vis-a-vis* the financial statement audit. On the contrary, 'continuous audits' often involved a departure into an early form of what would now be called management consulting. In sum, the ambiguous parameters of a 'continuous audit' meant that company managers who arranged such a service could exploit it at their discretion. However, the term had an immediate and widespread appeal. For managers, it signalled that they had subjected themselves to constant monitoring and thereby had nothing to hide. For shareholders, it provided the impression that their investment was under constant and independent guardianship. And it allowed auditors to position themselves as the suppliers of an ostensibly comprehensive, valuable and specialised 'professional' service.

In the remainder of this paper we argue that it is necessary to look beyond the surface meaning of the terminology employed. Whether pertaining to the technical practice of auditing ('continuous' auditing) or the conduct of such practice ('independence'), auditing terms sometimes need to be viewed and analysed as rhetorical claims rather than unproblematic descriptions of what was actually done.

The next section reveals how, in nineteenth century Britain, the 'continuous audit' was used to redefine the objective of the external audit. Operating as a mechanism for delegating management's responsibility to monitor the accuracy and honesty of employees, the continuous audit positioned auditors as agents of management perhaps to the detriment of their responsibilities as guardians of shareholders' interests.

The continuous audit

The existing literature reveals major changes in the principal objective of the company audit during the nineteenth century. Chandler et al. (1993, 444-446), drawing on evidence presented to government committees between 1837 and 1853, detect an early emphasis on financial statement verification which is consistent with the model articles of association attached to the Joint Stock Companies Act 1856 (19&20 Vict., chap. 133, Table B, cl. 84[10]). By the time a professional literature on auditing emerged in the latter decades of the nineteenth century, the declared focus had changed to the detection of error and fraud. For example, Dicksee's pioneering text on auditing (Dicksee 1892, 6; see also; Spicer and Pegler 1914, 5; Watson Sime 1892, 426; de Paula 1915, 3-7[11]) stated:

> The object of an audit may be said to be three-fold: –
>
> (1) THE DETECTION OF FRAUD.
>
> (2) THE DETECTION OF TECHNICAL ERRORS.
>
> (3) THE DETECTION OF ERRORS OF PRINCIPLE.

One explanation for early textbook pre-occupation with fraud detection may be inferred from the following observation by Jones (1981, 56): 'Fraud was a disease endemic in the Victorian economy, and public accountants were the physicians employed to drive it out'. A second explanation is offered by the author of the 18th edition of *Dicksee's Auditing*, Robert S. Waldron (1969, 27):

> For many years, probably largely as a result of legal decisions in the Courts of Great Britain during the formative years of the accountancy profession and when limited companies increased in numbers so quickly, the theory arose that the principal object of auditing, especially the statutory auditing of companies, was the detection of fraud, and it was by this means and the correction of errors and omissions, that the objects of auditing were to be achieved.

These explanations for change in the purpose of the external audit ignore the role of the 'continuous audit'; a term which dates from the mid-nineteenth century but whose meaning has undergone significant transformations. The nineteenth century continuous audit focused on the detection of error and fraud whereas, in the twentieth century, it often served as a synonym for 'interim audit' whose purpose was to get some of the routine audit work out of the way before the year end (Matthews 2006, 31-32). Today, the term is used to describe a device which enables internal or external auditors 'to monitor a company's systems over the Internet using sensors and digital agents' (Searcy and Woodroof 2003, 46). The remainder of this section focuses on the nineteenth-century conception of the continuous audit.

The first mention of the term 'continuous audit' in the digitised newspaper archives surfaces at the 26th half-yearly general meeting of the South Eastern Railway held on 20 September 1849 (South Eastern 1849). As noted above, this was a time when corporate audit arrangements were the subject of intense debate following revelations of misleading and fraudulent reporting practices during the British 'railway mania'. Public outcry resulted in the appointment of the Monteagle Committee which made recommendations for an independent 'government' audit (BPP 1849 (421), xiv-xv) that were successfully resisted by railway management and representatives of the 'railway interest' in Parliament (Edwards 1985, 37). For example, a gathering of railway company directors chaired by Lord Lonsdale of the Whitehaven & Furness Railway instead favoured 'two auditors appointed by the shareholders with a competent salary, and that they shall employ a professional accountant independent of the directors' (Audit of Railway Accounts 1849). This model proved popular with other companies. For example, the chairman of the London & North Western Railway (LNWR), George Carr Glyn MP, insisted that the directors of his company 'were desirous of a purely *bonâ fide* proprietary audit of the accounts, [and] the proposal of a continuous audit month by month met with their perfect approval' (Audit of Railway Accounts 1849). Consistent with this philosophy, the prominent public accountant James Edward Coleman, whose engagements included work for the Bank of England, was appointed to fulfil that role at the LNWR (London & North Western 1850a).[12]

Compared with an audit conducted after the year-end, a continuous audit was judged to have the advantages of revealing irregularities earlier than might otherwise have been the case and reducing the likelihood of fraud due to constant checking and supervision. It also enabled year-end audit work to be completed more quickly and, therefore, speeded up the publication of the accounts and the payment of dividends (Spicer and Pegler 1914, 23). These benefits might be considered sufficient in themselves to explain why this assurance practice gained in popularity during the nineteenth century. Certainly, it is possible to portray it as a market-driven development. It is known that railway directors were resistant to government plans to impose an external audit on railway companies. It is also known that shareholders were uncomfortable with the way in which railway companies were managed. The voluntary acceptance by executive management of an improved system of corporate governance based on the continuous audit might therefore be depicted as a natural response designed to maintain access to financial markets and avoid government regulation. That is part of the story, but the remainder of this section reaches below the surface to achieve a fuller understanding of the role of the continuous audit within the trilateral relationship between auditors, shareholders and executive management.

Not all company directors initially favoured the introduction of audit arrangements that could, in theory, expose their performance to greater scrutiny. The following are three examples. At the London & South Western Railway, in 1850, a committee of shareholders critical of audit arrangements then in place proposed the introduction of a continuous audit where a 'professional accountant' might be engaged to assist the auditors and 'have the fullest and most unlimited power of requiring the production of all accounts, books, vouchers, and other documents' (London & South Western 1850). But the committee also reported that 'the appointment of an auditor nominated by the shareholders was strongly opposed by the directors' (London & South Western 1850). Second, the report of a meeting called by a shareholder of the Great Ship Company, in 1859, reveals that the directors had initially 'conceded' to a continuous audit but then refused access to the books required to carry it out (Great Ship Company 1859). Third, the chairman of the London & Westminster Bank insisted that 'the continuous audit such as had just been suggested would be impossible, and involve an enormous amount of extra labour without producing any practical result' (London & Westminster Bank 1879).

Although management opposition to the continuous audit persisted in some quarters, more often than not the directors were instrumental in this apparent strengthening of corporate governance arrangements. How can this conundrum be explained? The rationalisation offered here is that directors realised that they could use the continuous audit to gain a degree of control over the external audit function through the employment of strategies examined below. The first sub-section reveals that the continuous audit was recognised as a service supplied by the auditors for executive management rather than for the shareholders, while the second shows that this outcome was achieved by constructing the continuous audit as an activity that focused principally on employee fraud rather than management fraud. Third, it is shown that the bond between auditors and top management could be reinforced where the continuous audit was connected with the provision of non-audit services contracted for by the directors.

Directors as clients

Evidence of external auditors treating the directors as either their joint (with the shareholders) or sole client is readily available. For example a 'continuous audit' report from two auditors, which included the professional accountant George Beech, is addressed 'To the directors and shareholders of the Birmingham Wagon Company, Limited' (Birmingham Wagon Company 1868). Similarly, the professional accountant Howard C. Parkes addressed his report: 'To the Directors of The Old Union Mill Flour and Bread Company' (Old Union Mill Flour & Bread Company 1872). The involvement of directors in defining the responsibilities of professional auditors is signalled in the 1857 directors' report to the shareholders of the Manchester, Sheffield & Lincolnshire Railway (1857): 'The transfer and share department will also be placed under an altered system of continuous audit, under the special inspection of the auditors, who have cheerfully accepted this addition to their duties and responsibilities'.

There are examples of shareholders acquiescing to management control over the continuous audit function even when voicing concerns about the way in which their company was run, for example at the London Joint-Stock Bank (1879). In a similar vein, the Report of the Committee of Investigation into the affairs of the Glasgow, Paisley, & Greenock Railway, despite lamenting 'the extravagant and injudicious proceedings of the Directors', recommended: 'that such particular parties as they [the shareholders] may point out shall be *employed by the directors* to exercise a continuous audit, and to make the necessary report and statement to the shareholders at the half-yearly meeting'

(Glasgow, Paisley, & Greenock Railway 1850, emphasis added). But not all shareholders were comfortable with this kind of arrangement.

Sir Josiah Wilson welcomed the engagement of leading contemporary practitioners, Quilter, Ball & Co., as auditors of the South Eastern Railway in 1849, but not their method of appointment: 'What he desired was that the accounts should be audited by accountants, who felt that they were acting on behalf of the proprietors [shareholders], and not of the executive merely'. Another shareholder, Mr Gilbertson, 'was strongly impressed with the necessity of a continuous audit, but he should like to see the auditors appointed by the shareholders at large'. Returning to Wilson: 'With regard to the present mode of audit, it was worse than useless. The directors appointed their own auditors ...' (South Eastern 1849).

The shareholders' natural concern was that the external audit function would be captured by management. At the February 1850 meeting of the LNWR, Mr J.S. Tartt complained of disingenuous behaviour on the part of railway directors who had: (i) successfully resisted the Select Committee on Audit of Railway Accounts' plans for a government audit by promising to bring in their own bill designed to ensure an efficient audit; and (ii) reneged on that promise and, instead, argued that it was best 'left to the proprietary body of railways throughout the kingdom the task of providing for an audit of their own accounts' (London & North Western Railway 1850). For those who believe that improvements in accountability are best achieved through market forces, such action might be justified on the grounds that shareholders possess the power to take whatever action they deemed necessary to protect their interests. A quite different, and probably more realistic, scenario is described by Tartt:

> The directors must have known the body of proprietors was a scattered and disunited body, and that to leave the matter in their hands was, in effect, to devise a most ingenious expedient for playing into the hands of the directors. (London & North Western Railway 1850)

As time went by, early (c. 1850) concerns with management control over delivery of the continuous audit function subsided. Moreover, later generations of top managers appear to have considered the visualisation of the external audit, *per se*, as a service provided for themselves as totally unproblematic. The following assessment made by the author of the first textbook on auditing (Pixley 1881) is instructive in this context:

> Many directors are under the impression that it is the duty of the Auditors to look after their interests and protect them against any misdeeds of the employees of the company, and express great surprise when they are informed that the real duty of the Auditors is to look into the accounts of the Directors in the interests of the shareholders. (Pixley 1922, 69)

The characterisation of the continuous audit as an interrogation of the actions of employees rather than those of management is next described.

Audit of employees

The nature and purpose of the continuous audit are explained in Coleman's report to the shareholder-auditors of the LNWR in August 1850:

> In accordance with your instructions, I have during the last six months made a continuous examination and audit of the accounts of this company, in the course of which I have carefully checked every item of receipt and expenditure, and, in addition to examining the general books and documents at Euston Station, I have had an opportunity of testing the system in operation at Wolverton and Crewe, the principal stores depots. The result of the whole has been to fully confirm the opinion that I gave in my last detailed report to you, that the system of account adopted by the board of directors, and carried out under the responsibility of the committees, is calculated to secure a correct and efficient control throughout this vast establishment. (London & North Western 1850b)

The dichotomy between these procedures and those employed by suppliers of the so-called 'biscuit and sherry audits'[13] (Robb 1992, 129) is made by the directors of the Capital & Counties Bank (1885) when advising shareholders attending the annual general meeting that the auditors 'did not simply run through them [the accounts] just before the meeting, but they made a continuous audit, so to speak. The books were open to their inspection daily'. In practice, the regularity with which auditors attended clients' premises varied a great deal. For the audit to comprise a truly continuous assessment of the accuracy and honesty with which employees performed their duties, the auditor would need to be in attendance throughout the period under review. More usually, visits were made weekly, monthly or even quarterly (de Paula 1915, 15).

Edward William Bradbrook, Assistant Secretary of Friendly Societies, informed the Select Committee on Trustee Savings Banks 1888, that the 'auditor should attend, according to the size of the bank, once a week, or once a month, or once a quarter, as the case may be, and conduct an [continuous] audit in addition to the annual audit' (BPP 1888 (406), minute 624). The shareholders of the Agra & Masterman's Bank (1866) were told that the auditors' 'visits were frequent and long'. At the Chester & Holyhead Railway (Chester & Holyhead 1853), the directors desired 'a continuous audit from month to month, to have the accounts closely examined, and any points of importance brought under *their* consideration'. John Jones, professional auditor of the Chester Savings Bank, conducted a continuous audit comprising 'a weekly examination of the cash book, comparing every entry as made therein and certified by the managers in attendance, with the corresponding entries made in the depositors['] accounts in the ledgers' (Local and District News 1857). At the Liverpool Savings Bank (1888), J.C. Stead attended 'twice a week … Last year 11,226 [passbooks] were examined, out of a total of some 81,000 odd' where 'that proportion [of checking] gave a very fair indication of the whole'. At the Birmingham Joint-Stock Bank it was a quarterly arrangement which, in common with some of the above, hardly seems 'continuous', but that term was of course employed as a rhetorical instrument designed to signal the work was thoroughly done. The chairman informed the meeting:

> The most private keys were given up to him [the auditor], the bills were placed in his hands, everything was disclosed to him, and they published the result every quarter, so that there was not much opportunity of going wrong except from that absolute fraud against which no audit and no care could provide. (Birmingham Joint-Stock Bank 1888)

It is evident that the main focus of audit work and, therefore, the principal source of audit fees payable to suppliers of the continuous audit was the detailed checking of the accuracy and honesty with which non-executive employees performed their duties. In sum, it may be seen principally as a mechanism of social control designed to make 'subordinates accountable' to top management (Bryer 2006, 687).

The positioning of the auditor as the 'guide, philosopher and friend' (Maltby 1999) of the directors is examined in the next subsection.

Managerial information

The independent character of the continuous audit function was sometimes further compromised through its association with the provision of management information for purposes of performance assessment and decision making. The following comment from the professional accountant and sometime Secretary and General Manager of the Milford Haven Shipbuilding and Engineering Company Ltd, Francis G. Burton, indicates that it was not unusual for the auditor to supply management information services as part of the continuous audit function: 'Where an accountant sufficiently skilful and reliable cannot be obtained by a firm, it will be well to employ the auditor on continuous audit, and insist on his completing *the costing accounts* monthly' (Burton 1894, 252, emphasis added). A similar chord was struck by a Committee of Investigation into the affairs of the Coventry Machinist Company which reported that, in addition to the traditional periodic audit, 'there shall be a continuous audit with a monthly report from the auditors', and that these 'reports will enable your directors to see at a glance the state of affairs of the business, and will also act as a check upon the manufacturing as well as the other departments' (Coventry Machinists Company 1894, issue 11112).

Edwin Waterhouse, who took over the LNWR audit from Coleman in 1867, worked with the company's accountancy department at Euston to facilitate 'the compilation of operating statistics which were used, in turn, to assess performance and [assist in] the allocation of resources' (Jones 1995, 53).[14] When the huge iron and steelmaker, Bolckow, Vaughan, & Co. Ltd, was incorporated in 1864, the articles of association named the company's promoter David Chadwick together with John Adamson of Chadwick Adamson & Co. as auditors (National Archives, BT31/30734/1705C). They were engaged to advise the directors which books should be kept and to help define the duties of the following key officers of the company: the general manager, secretary, and chief cashier. Two years later the directors resolved:

> Mr Chadwick be instructed to send a clerk to examine into the system of account keeping at the outlying works and collieries and report thereon to this company at the next meeting with a recommendation to adopt what improvements may be thought necessary. (quoted in Matthews et al. 1998, 115)

The Staveley Coal & Iron Company was another of Chadwick's promotions and, on 29 July 1867, he made proposals designed to improve the way the books were kept, including a recommendation that 'the London accounts be audited monthly' (Derbyshire Record Office, D3808/1/2/2, 97). Some years later Staveley's chairman informed the 1881 annual general meeting that 'the audit of the accounts is a *continuous one*. I have confidence that no irregularity could creep into our accounts without its being brought before us at once by the auditors' (Derbyshire Record Office, D3808/1/4/2, 71, emphasis added).

In 1872, just before Pilkington Brothers, the glassmakers, embarked upon a large-scale capital expenditure programme, it was decided 'to call in an outside accountant "to put the accounts upon the best commercial footing"' (Barker 1960, 170). They engaged Arthur W. and Reginald A. Wenham, partners in the London firm of Wenham, Angus & Company, who 'presented twice-yearly balance sheets from 1874 and began to undertake a continuous audit ten years later' (Barker 1960, 170). The fact that Pilkingtons was a partnership further supports the hypothesis that a 'continuous audit' might be put in place solely to meet management needs.

Auditor independence was challenged by the provision of non-audit services at other companies, though it is not certain that their auditors undertook a *continuous* audit. The valuation of transfers of goods between production departments was a matter of debate at the Shelton Iron, Steel & Coal Co. Ltd, in the 1880s, where the company's joint auditors (Deloitte, Dever, Griffiths & Co. and John Adamson & Co.) recommended that transfers be made at cost rather than market price because the latter 'precludes the possibility of ascertaining' the cost of stock (quoted in Boyns and Edwards 1997, 19). The appropriate method of transfer pricing was also an issue at the Consett Iron Co. Ltd where the company's auditors, the professional (later chartered) accountants G. E. Swithinbank and F. R. Goddard,[15] were required by the board to draw up two sets of accounts from 1873: one valuing inter-departmental transfers at cost and the other at market price (Boyns and Edwards 1997, 19).

An investigation of the auditor-director interface at the pottery manufacturer Mintons Ltd, covering the last quarter of the nineteenth century, revealed that audit reports 'very frequently far exceeded this [audit] brief and contained detailed discussion of and recommendations concerning production strategy' (Popp 2000, 357). The purpose of this expanded role was to help improve the company's profitability in a period of severe financial difficulties. The need for uniform costing systems within a firm increases with the number of plants operated, especially where these are geographically separated. Thus, in 1898, the directors of the South Durham Steel & Iron Co. Ltd instructed the company's auditors, W.B. Peat & Co., chartered accountants, to develop a scheme of uniform cost accounts for each of the company's works (Matthews et al. 1998, 115).[16]

Decline of the continuous audit

Searches of digital newspaper archives suggest that firms of accountants focused less on the continuous audit towards the end of the nineteenth century. Of the 289 references to that function during the period 1849-1900, just 45 are dated in the 1880s and 31 in the 1890s. A search of *The Times Digital Archive* post-1900 produced 38 more 'hits', of which just 10 appear to relate to continuous audits conducted for companies by professional auditors. None of these are after 1928.[17] There are two possible reasons, whose relative importance is impossible to quantify, for the apparent decline of the externally-conducted continuous audit. Corporate managers, probably in response to cost considerations, realised that it was better for routine checks on book-keeping practices to be performed by the company's employees. Secondly, elite professional auditors, recognising the possible threat to the desired image of independent expert, may have decided to distance themselves from the continuous audit function. When the directors of C. Arthur Pearson Ltd decreed 'that a Chartered Accountant should be in attendance at the counting-house, not perhaps constantly, but so that he might be able to give his close attention to the details of the financial management' (Weekly Notes 1897, 806), the auditors, Price, Waterhouse & Co., advised the company that none of their 'principals' could devote sufficient time to that role. Writing in 1912, Dicksee (1912, 14) observed that, although the continuous audit service was sometimes provided externally, it was 'more frequently' performed by '"staff" Auditors, or by the client's ordinary employees under a good system of internal check'.

The next section moves forward in time this study of audit independence and conflict of interest.

Auditor independence: perception versus reality

There is widespread agreement among accounting regulators, academics and practitioners that auditor independence enhances auditor credibility (Dopuch et al. 2003, 84) though, not automatically, audit quality (DeFond and Zhang 2014). To operationalize the independence requirement, regulators have drawn a distinction between independence in fact and independence in appearance (Auditing Practices Board 2011; Financial Reporting Council 2013). It is generally accepted that each is essential if auditors are to perform their role effectively, but there is the risk that rhetorical discourse will be employed to privilege perception above reality. The reality of independence depends on the auditors' state of mind, where the key question is: Will he or she behave with integrity and objectivity when conducting an audit irrespective of the relationship with management? The problem here, of course, is that it is impossible to peer directly into any individual's mental state, which is why the regulatory focus has to be on 'the appearance dimension in defining auditor independence' (Dopuch et al. 2003, 84).

The true nature of the relationship between auditors and management is difficult to discern from readily available public sources but, as Carnegie and Napier (1996, 22, emphasis added) point out, 'Evidence such as personal diaries, memoirs and correspondence may provide insights into the mentality of the subject'. Insights are provided, in the context of the present study, by the 'manuscript memoirs and family papers' of a leading professional figure of the second half of the nineteenth century, Edwin Waterhouse (Jones 1988, 13), and by the series of interviews conducted by Matthews and Pirie (2001) with 68 professional accountants during the 1990s.

The joint-founder partner of Price Waterhouse, who served as President of the ICAEW between 1892 and 1894, had a long-term professional association as auditor and professional advisor to the LNWR. Waterhouse clearly developed a close relationship with the officers of that company, noting in his memoirs that he 'grieved to think, and to be told [in 1891], that Sir Richard Moon's advancing years' caused the LNWR's chairman to 'give up control of the company' (Jones 1988, 132). Waterhouse recounts two letters received from Moon 'referring to the use which my half-yearly books of account were to him' (Jones 1988, 132).

Further testament to an intimate relationship with LNWR's top management surfaces in Waterhouse's recollections of 10 August 1894 (the company's half-yearly general meeting was held on the following day) when he hosted visitors to his country mansion, Feldemore, in the Surrey hills. Among the 'L.&N.W. Railway friends' who travelled by special train to Dorking were 13 directors, the general manager and the company's solicitor (Jones 1988, 146). Moon's successor, Lord Stalbridge, joined them for dinner. These friendships continued. Waterhouse recounts: 'In June [1905] I was the guest of the directors of the L.&N.W. Railway and the L[ancashire] & Y[orkshire] Railway in a little trip to Norway' (Jones 1988, 177-178). It was clearly a meeting of the great and the good of the business world, with Waterhouse reporting: 'All the company turned up, except Mr Ismay, Mr [E.] Nettlefold, and Sir G. Pilkington among the directors, and Mr Thornhill and Mr R. Turnbull among the officers' (Jones 1988, 178). Lord Stalbridge 'kindly' acceded to Waterhouse's request to take with him his son Nicolas who was to become a Price Waterhouse partner the following year (Jones 1988, 178). No doubt this helped the young Waterhouse to nurture, within a social setting, influential professional contacts of benefit to the firm.

Moving further into the twentieth century, many of the accountants interviewed by Matthews and Pirie (2001) emphasised the importance of a close association with top management. Tellingly, interviewees repeatedly used the term 'client' to describe that relationship. According to Ian Plaistowe of Arthur Andersen, who served as President of the ICAEW in 1992-1993, 'Auditors have to be reasonably close to their clients, because they have to understand what their client is thinking, and in order for a client to talk to you, you have to have some form of personal relationship' (Matthews and Pirie 2001, 365). The potential risk to independence is considered by some to be neutralised by the ability to remain objective irrespective of how things might appear to the outside world. According to Colin Sharman (Matthews and Pirie 2001, 355; see also Denza at 201 and Plaistowe at 365-356), when chairman and senior partner of KPMG International: 'objectivity is a state of mind, and it is objectivity which underwrites professional services rather [than] independence. You could be very objective, and give better advice for not being completely independent'. James Carty of Robson Rhodes agreed that the provision of non-audit work might, in theory, create a conflict of interest, but insisted that 'it doesn't normally happen' (Matthews and Pirie 2001, 370). And although he confirmed that 'Add-on services are the biggest way of expanding the practice', he did not believe, as of course he could not, 'there is any case where the amount we do would prejudice our audit work' (Matthews and Pirie, 2001, 370).

There is evidence of auditors arguing that the reality of independence is guaranteed based on the concept of 'Economic Man' (Reiter and Williams 2004, 356). Whereas at the beginning of the twentieth century in the United States (and earlier in Britain) the auditor, as 'Professional Man', needed to display the characteristics associated with the professional gentleman, this was later considered unnecessary, by some, as 'economic self-interest' was believed to ensure independence '*in fact*, even though they may not be independent *in appearance*' (Reiter and Williams 2004, 356, 357). Indeed, there is a body of research which suggests that 'economic incentives generally produce independent behaviour' (Beattie and Fearnley 2002, x; cf. Bazerman et al. 1997). Consistent with these notions, Michael Carey of Peats confirmed that the reality of integrity is guaranteed because 'without it we lose the credibility which enables us to earn fees' (Matthews and Pirie 2001, 260, see also 262). For an ICAEW past-president, Brian Currie (at 337), the threat of 'Litigation is undoubtedly a very powerful deterrent to bad work … Because people in professions value their reputation above all financial considerations they fight very hard to maintain it'. While for Scicluna (at 391) of Deloitte: 'All of us hold that [professional] qualification close, dear to our hearts, because the last thing we ever want to do is to lose it. To us it is the passport to continue working in practice'.

The question of whether auditors can *know* whether they are behaving in an independent manner has been researched, with Bazerman et al. (1997, 89) claiming that it is 'psychologically impossible' for auditors 'to remain impartial and objective' due to what they describe as 'self-serving bias' and Moore et al. (2006, 10) label 'moral seduction'. This applies to the economic bonding inherent in the audit contract itself, but is intensified when the auditor also supplies non-audit services (Blay and Geiger 2013, 579). This greater risk of 'moral seduction' in those circumstances receives recognition from the U.S. Securities and Exchange Commission (2000):

> Under any circumstances, it can be difficult for an auditor to make a judgment that works against the audit client's interest. Where making that judgment may imperil a range of service engagements of the firm, of which the audit is a fairly small part, it may be unrealistic to expect that an auditor can ignore completely what the firm stands to lose by the auditor's action.

In this way, the notion of rhetoric in auditing may extend beyond just persuading others, such as shareholders, regulators and the general public. Instead, auditors engage in an internal rhetoric of self-deception, persuading themselves that they can remain 'objective' – a claim that is difficult to disprove – despite evidence which implies a lack of independence. Consistent with these concerns, a more critical assessment of auditor-management relationships is provided by Patrick Spens (Matthews and Pirie 2001, 158, see also 159) who had seen things from both sides of the fence, working in the City for Morgan Grenfell and Henry Ansbacher after qualifying as a chartered accountant: 'I think closeness to management is a difficult problem. You can never get away from it as long as auditors are paid by the company – and that means by management'. Sir John Grenside (Matthews and Pirie 2001, 309), senior partner of Peat, Marwick, Mitchell & Co. 1977-1986, agreed: 'You had to draw a slightly thin, difficult line between the independence of the auditor and participation in the company's activities'. He admitted that Peats might have got a little too close to one of its major clients, the Rank Organisation:

> I suppose by modern standards we did over step the mark there, because he [the then senior partner, Ronald Leach] did an enormous amount as a consultant to them which was very close. But we never thought there was too much conflict of interest. I suppose because perhaps in a way we were arrogant enough to think we could act independently.

It is not only non-audit work that threatens auditor independence; so can the fact that a particular audit client contributes a significant proportion of fee income. Robin Atkins left Harmood Banner to move into industry following the firm's refusal to qualify the accounts of London and County Securities in the early 1970s. In Atkins' estimation, failure to qualify might be attributed to an unwillingness to risk losing a client that accounted for 'perhaps 10% of the London office fees' given the upcoming merger with Deloitte (Matthews and Pirie 2001, 168). Atkins provided the following further general assessment (Matthews and Pirie 2001, 169):

> Honesty has gone down dramatically in the profession, in the widest sense. You look at the big firms now, they charge ridiculous fees – £300 an hour. It is just not

> acceptable and it drives them to bend over backwards to manipulate their own opinions to justify things, do the thing as quickly as possible and make the biggest profits, rather than actually sit down and ask whom are you trying to protect. Because money drives them, the big firms haven't got the independence. I don't think they see themselves as having a public duty.

These issues are examined further in the next sub-section which focuses on the following concern expressed in the European Commission's (2011, 3) proposals for regulating the statutory audit of public-interest entities: 'Independence is neither assured nor demonstrable in a paradigm where audit has effectively become one of a plethora of commercial services'.

Commercial pressure and conflict of interest

Twenty-first-century financial reporting debacles such as Enron, WorldCom and Tyco highlighted an apparent lack of independence 'as a key reason for the auditors concerned not providing warning of falsified financial statements and impending financial disaster' (Porter et al. 2014, 100, see also Cooper and Neu 2006). For many, 'audit failure' arises because the legal requirements for the auditor to be appointed by the shareholders and to report to the shareholders are satisfied in form but not in substance. Porter et al. (2014, 103), for example, point out that politicians, regulators and 'various commentators' (e.g. Mitchell and Sikka 1993, 34-37) have noted that, 'in practice, auditors are hired, fired and paid by their clients' management'. The Competition Commission (2013, 8) confirmed that, as was the case at the early days of the professionally-conducted external audit, 'shareholders, despite their legal rights, played very little role in any decision to appoint an auditor, while in contrast executive management was very influential'. As shown above, this weakness is exacerbated when the services supplied by accounting firms extend beyond audit.

The latter decades of the twentieth century witnessed an 'ensemble of events' (Miller and Napier 1993, 635) which transformed the role played by accounting practices within corporate society. The change which took place in the auditing landscape is described by Michael Carey, then a partner with KPMG:

> When I joined the profession [in the 1970s], it was very much a gentleman's business and there wasn't much outright competition, it was very quietly done. When I joined Peats, Coopers were by far the most commercial and aggressive organisation, and they were considered to be – not cowboys because that would be the wrong expression, but rather fly for the profession, if that's an appropriate way of describing it. Now everybody has recognised that is the way of the world and has followed suit in some way, shape or form. (Matthews and Pirie 2001, 260)

Among the factors which transformed the character of accounting firms was the Companies Act 1967 (ss. 120-121) which repealed the 20-partner size restriction. Whereas it remained possible for the partners to sit around a table to make policies and reach decisions, in the mid-1960s, soon a formal organisational structure was required to manage firms growing exponentially in size. As the number of partners quickly grew, fee-generating activities required rapid expansion. With leading firms already enjoying almost monopoly control of the large quoted company audit market, 'the greatest opportunities for growth in terms of demand and profitability were presented by management consultancy work' (Jones 1995, 294, see also 19). For example, between 1976 and 1990 Price Waterhouse's management consultancy fees as a proportion of total fee income rose from 3.2 per cent to 28.8 per cent (Jones 1995, 409).

Further impetus for the commercialisation of the auditing profession was provided, in 1984, by removal of restrictions on advertising that had been considered central to the creation of the image of the professional gentleman by the profession's early leaders. Conditions within the auditing profession during the Thatcherite era were graphically described by David Tweedie when chair of the UK Accounting Standards Board: 'I think the 1980s were an absolute disaster [for the profession], and that's really the reason the ASB exists. I saw some weird things that made you ashamed. I think the auditors of the 1980s lost it. That was a bad time' (Matthews and Pirie 2001, 381). A similar concern with the impact of commercialisation on auditing practices in the 1980s is provided by Richard Wilkes of Price Waterhouse, President of the ICAEW 1980-1981: 'Now maybe in the 80s, were they [the auditors] so robust? I don't know. It was the aggressive era of league tables, market share and so on' (Matthews and Pirie 2001, 328).

Despite the commercialisation of accounting practices, the proportion of non-audit fees earned by professional firms from audit clients has not risen continuously since 1970. A growing anxiety that highly profitable non-audit work might compromise the required quality of independence caused interested parties to question, time and again, whether auditors should be permitted to supply such services, particularly to their audit clients. Arthur Levitt (2000, 8; see also European Commission 2011; Mitchell and Sikka 1993, 30, 34-37), then chair of the U.S. Securities and Exchange Commission, addressed the National Association of State Boards of Accountancy as follows:

> This morning as I walked through Logan Airport I could not help but notice the many advertisements for the big accounting firms. They seem to always extol their IT talents, corporate finance capabilities, and financial planning tools. But rarely do I see an advertisement that conveys to the public and their clients their passion for living up to their public mandate of keeping the sanctity of the numbers inviolate – never a mention of the public interest.

The tension between private and public interest receives particular attention when things go wrong, with the collapse of Enron a relatively recent example of things going very badly wrong within the Anglo-Saxon financial world. There, concerns that Arthur Andersen's allegedly cosy relationship with the energy giant's managerial hierarchy had undermined the firm's independence and competence led to the Sarbanes-Oxley Act of 2002 which prohibited auditors from performing eight specified non-auditing functions for US-listed clients. However, much non-audit work continues to be performed by accounting firms whose commercial orientation is trumpeted on their websites. PwC UK, for example, describes itself as: 'One firm – a powerhouse of a commercial enterprise that does the right thing for our clients, our people and our communities' (PwC 2017). The accounts published for the UK operations of the 'Big Four' in 2020 are testament to their 'commercial enterprise', revealing income from 'other work' undertaken for non-audit clients of £8,881 million (73.7 per cent of total fees) and for audit clients of £721 million (6 per cent) compared with audit fees of £2,445 million (20.3 per cent) (Financial Reporting Council 2021, 41). The figures are much larger and the proportions quite different from those reported soon after the demise of Enron. In 2004, the 'Big Four' income from 'other work' for non-audit clients amounted to

£2,456.1 million (52 per cent) and for audit clients £1,020.2 million (21.6 per cent) compared with audit fees of £1,244 million (26.4 per cent) (Financial Reporting Council 2006, 38). The 'Big Four' have clearly reigned in the supply of non-audit services to audit clients but the amounts remain significant.

If the auditor does not possess an independent voice, the audit report cannot add credibility to published financial reports. We have seen that some of the British professional accountants interviewed by Matthews and Pirie (2001) insisted on the reality of the objective mind. This type of rhetoric held no appeal for a mid-twentieth century leader of the US accountancy profession, Carman G. Blough (1960, 60): 'one's usefulness as an auditor is impaired by any feeling on the part of third parties that he is likely to lack independence'. And it is for this reason that 'he has the responsibility of not only maintaining independence in fact, but of avoiding any appearance of lacking independence'. The reality of the objective mind is itself based on subjective judgement, of course, and this anxiety is articulated by John L. Carey (1956, 20-21; see also Bazerman et al. 1997) who held a series of senior posts at the American Institute of Certified Public Accountants: the auditor should be '*independent of any self-interest which might warp his judgement* even subconsciously in reporting whether or not the financial position and net income are fairly presented'.

Concluding remarks

'Though auditors *should* regard the investing public as their client, they tend to kowtow instead to the managers who choose them and dole out their pay. ("Whose bread I eat, his song I sing.")'. (Warren Buffett 1999)

Maltby and Chandler (2020, 254) acknowledge parallels between how auditing is done now compared with past practices, but also recognise important differences. Humphrey (2008, 187) encourages researchers to challenge and re-write 'understandings of, and accepted or taken-for-granted assumptions about, auditing practice ... through detailed (institutional and historical) analyses of significant shifts in audit work and the context in which audit work is undertaken'. Consistent with these ideas, the purpose of this study has been to explore a new arena in the endeavour to improve our understanding of the history of the professionally-conducted external audit function and, thereby, to provide a historical dimension for reviewing present-day concerns with the nature and effectiveness of the assurance function.

This study has uncovered a significant and previously unexplored episode in the history of assurance, namely the continuous audit. We have located our analysis of that phenomenon within a history of the professionally-conducted external audit where companies' managers rather than its shareholders are sometimes prioritised as the auditor's principal 'client'. This is not to suggest that the external audit has not played an important role in helping to ensure adequate corporate accountability. But, as critical research has demonstrated, the portrayal of the external audit as a natural outcome of the principal/agent relationship between shareholders and directors requires significant elaboration if its role in society is to be properly understood. Today, this is a message that has penetrated professional institutions. The conventional explanation for the rise of the external audit in nineteenth-century Britain is summarised as follows by the ICAEW's Audit Quality Forum (2005, 8):

> There were significant developments in financial reporting in the nineteenth century as the UK economy grew and the capital markets were transformed through the expansion of banks and investment. This resulted in a separation of ownership and control within companies and audits developed as a means of protecting shareholders' interests.

But the Forum (2005, 4) accepts that 'this simple model of the role of audit, depicted through agency theory', where the directors are the agents of the shareholders, 'is complicated by other factors ... . For example, auditors are also agents of principals, which can lead to further concerns about trust, [and] threats to objectivity and independence'.

Maltby and Chandler (2020, 262) draw attention to the fact that 'The development of the professional auditor's role in the late nineteenth century can be understood as a social process rather than a project aimed at aligning nineteenth-century audit with a timeless "best practice"'. This investigation seeks to promote such understanding by revealing that corporate managers in Victorian Britain could gain a degree of control over the external audit function by pursuing one or both of the following strategies: by shifting its focus to the audit of employees rather than management; and by engaging auditors to do non-audit work. The continuous audit was an efficacious vehicle for implementing these strategies, as its rhetorical allusion to constant checking and monitoring endowed it with universal appeal. This enabled the professional auditor to provide services that helped executive management control employees and run companies more effectively as they grew in size (Armstrong 1987; Matthews et al. 1998) and, of course, such arrangements generated significant professional fees. Thus, a professional audit was put in place, but one whose independence was potentially compromised. Certainly, it seems that the philosophy underlying the continuous audit permeated the character of the external audit, in general, well into the twentieth century judging from Pixley's (1922, 69) previously-cited observation: 'Many directors are under the impression that it is the duty of the Auditors to look after their interests and protect them against any misdeed of the employees of the company'.

The formation of professional bodies in England in the 1870s, and particularly the construction of a prestigious national body – the ICAEW – by merger in 1880, had a major impact on the image that the professional accountant sought to project in the public domain. The prevailing delineation of the audit function in late-nineteenth-century corporate life was undoubtedly problematic with John Mather, drawing on the words of Alexander Pope, describing the auditor as the directors' 'guide, philosopher, and friend' (Mather 1898, 1003). To counter the implication of commonality of interest between an aspiring professional class and the management function, the emerging professional press of the 1870s and 1880s emphasised the importance of auditor independence, as did the leaders of accounting institutions that sprang up in London and the provinces during those decades (Chandler and Edwards 1996). The editor of *The Accountant* insisted: 'One of the most essential qualities in an auditor should be a stern determination to fulfil his obligation in a free and unfettered manner' (Leading Article 1875b, 4). The required mind-set was elaborated upon as follows:

> If [the auditor] considers himself, as he, in fact, is, the delegate of the shareholders, chosen to protect them and to act entirely in their interests, if he looks upon

[company] officials as his natural enemies and pursues his task of investigation with fearless thoroughness, no harm can arise. (Leading Article 1875a, 3)

The role of independence in constructing the late-nineteenth-century professional auditor required serious attention because of its centrality to the image of the professional gentleman. That is, the quality of independence was sought as part of a "professional project" designed to access enhanced social and economic rewards (Larson 1977, xvii, 5). Therefore, during the decades that followed, practising accountants sought to cultivate a disinterested and independent stance towards business affairs and, thereby, cleanse themselves of the 'taint of trade'. The prime foci of the independent professional accountant's work became the external audit and taxation. It is certainly not the case that accountants abandoned all other work (Matthews et al. 1998), but such assignments became incidental to the core elements of a respectable professional practice. That practising accountants were willing to become less dependent on management for lucrative engagements can probably also be attributed to the fact that there were plenty of external audit assignments available as the number of companies spiralled upwards.

The emphasis given to independence by the early leaders of the profession, together with a willingness to recognise and confront other criticisms of the audit function which featured prominently in the professional press, paved the way for what has been described as the 'golden age' of auditing (Chandler and Edwards 1996, 5); certainly there followed a significant time-period when the external audit was rarely the subject of major public criticism[18] or auditors the target of litigation (Chandler and Edwards 1996, 8).

Moving forward to the latter decades of the twentieth century, the professional status of the qualified accountant had become firmly established and, with leading firms having captured virtually all large company audits, new income streams were required. Cooper Brothers, under the inspirational leadership of Henry Benson and Sydney Pears led the way in pursuing a policy of rapid expansion during the 1950s and 1960s. Perhaps tellingly, in his later years, the then Lord Benson (1989, 53) expressed some regret that the firm's commercial strategies were inadequately aligned with existing professional norms:

> In the years of growth after the War the firm was at times unpopular. I think it was thought that we were growing too fast which gave rise to some tinges of jealousy among some of our competitors. We were partly to blame for this and were not as sensitive as we should have been to the attitude of colleagues.

But the focus on practice expansion and profit spread throughout a profession which, by the 1970s, was sufficiently self-confident to prioritise work areas that strengthened ties with business. This paper has therefore revealed that, throughout the history of the professional audit, the tension between the professional commitment to serve the public interest and the temptation of auditors to privilege their own private interests has remained, for the most part, centre stage.

Our research also draws attention to how a rhetorical dimension has permeated auditing discourse and mediated tensions within the trilateral relationship between auditors, shareholders and management. Auditors are confronted by the need to appear independent to shareholders but are largely dependent on executive management for their on-going appointment and for access to lucrative non-audit services. In this setting, the term 'independent auditor' is positioned as being essentially rhetorical; that is, it represents a problematic and unverifiable claim rather than an apodictic description. This finding adds to the contention that the history of the external audit is underwritten by far more than rational economic incentives. Auditing discourse invokes rhetorical ploys to favour outcomes that would be beneficial for auditors and to mask any duplicity involved in achieving that outcome. Shareholders nodding with approval at the appointment of an 'independent auditor' were rarely in a position to see this as a claim to be viewed with scepticism; nor were they likely to comprehend the possible intricacies behind the conduct of a 'continuous audit'. Further, as the professionalization project of the accounting profession progressed, its authority in shaping the rhetorical discourse of auditing (and accounting) was enhanced. It takes accounting and auditing debacles of the magnitude of the Enron Corporation and Carillion plc to cause serious questioning of that authority.

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Appendix

Known companies subject to externally conducted continuous audit
Aberdeen Railway (*Aberdeen Journal*, October 23, 1850, issue 5363).
Agra & Masterman's Bank (*Daily News*, March 19, 1866, issue 6199).
Birmingham & Staffordshire Gas Company (*Birmingham Daily Post*, September 27, 1871, issue 4117).
Birmingham Freehold Land Society (*Birmingham Daily Post*, November 6, 1889, issue 9787).
Birmingham Gas-Light & Coke Company (*Birmingham Daily Post*, September 19, 1871, issue 4110).
Birmingham Incorporated Building Society (*Birmingham Daily Post*, February 16, 1886, issue 8622).
Birmingham Joint-Stock Bank (*Birmingham Daily Post*, February 16, 1888, issue 9248).
Birmingham Wagon Company (*Birmingham Daily Post*, February 17, 1868, issue 2987).
Bradford Third Equitable Benefit Building Society (*Bradford Observer,* September 19, 1873, issue 3348).
Bristol & Exeter Railway (*Morning Post*, March 6, 1850, issue 23787).
Capital & Counties Bank (*Southampton Herald,* July 25, 1885, issue 4081).
Chartered Bank of India, Australia, & China (*Morning Chronicle*, September 26, 1860, issue 29239).
Chester & Holyhead Railway (*Morning Chronicle*, March 10, 1853, issue 26898).
Chester Savings Bank (*Cheshire Observer*, January 3, 1859, issue 139).
Cornish Bank (*Royal Cornwall Gazette*, February 5, 1886, issue 4306).
Coventry Machinists Company (*Birmingham Daily Post*, January 30, 1894, issue 11112).
Coventry Savings Bank (*Coventry Herald*, December 16, 1892, issue 4397).
Devon & Exeter Savings' Bank (*Exeter & Plymouth Gazette*, January 29, 1887, issue 12560).
Dundee Savings Bank (*Dundee Courier & Argus*, June 24, 1898, issue 14038).
East Lancashire Railway (*Morning Post*, August 5, 1852, issue 24541).
Eastern Counties & Norfolk Railway (*Daily News*, August 20, 1851, issue 1635).
Eastern Counties Railway (*Daily News*, August 19, 1850, issue 1322).
Eastern Union Railway (*Norfolk Chronicle,* August 31, 1850, issue 4169).
Exeter Freehold Land & Benefit Building Society (*Western Times*, February 17, 1882, issue 9927).
Friendly Benefit Building Society (*Birmingham Daily Post*, July 7, 1891, issue 10308).
General Stock Exchange Company (*Morning Post*, October 30, 1883, issue 34742).
Glasgow Savings Bank (*Dundee Courier & Argus,* January 9, 1888, issue 10764).
Glasgow, Paisley, & Greenock Railway. (*Glasgow Herald*, September 13, 1850, issue 4969).
Great Northern Railway (*Morning Chronicle*, August 21, 1851, issue 26423).
Great Ship Company (*Daily News*, December 14, 1859, issue 4239).
Great Western Railway (*Bristol Mercury,* August 17, 1850, issue 3152).
Hull Savings Bank (*Hull Daily Mail*, December 19, 1894, issue 2891).
Lancashire & Yorkshire Railway (*Manchester Courier,* March 9, 1850, issue 1502).
Lancaster Gas Company (*Lancaster Gazette*, August 29, 1863, issue 3987).
Leicester Savings' Bank (*Leicester Chronicle*, December 30, 1865, issue unstated).
Life Association of Scotland (*Caledonian Mercury*, July 25, 1860, issue 22099).

Liverpool & London & Globe Insurance Company (*Liverpool Mercury*, May 14, 1884, issue 14468).
Liverpool Savings Bank (*Liverpool Mercury,* July 25, 1888, issue 12649).
Lleyn & Eifionydd Building Society (*North Wales Chronicle*, February 14, 1891, issue 3296).
London & North Western Railway (*Morning Post*, February 16, 1850, issue 23772).
London General Omnibus Company (*Morning Chronicle*, December 13, 1859, issue 28992).
London, Chatham, & Dover Railway (*Morning Post*, February 28, 1868, issue 29397).
Manchester & Southport Railway (*Morning Chronicle*, August 31, 1854, issue 27359).
Manchester, Sheffield, & Lincolnshire Railway (*Daily News*, January 14, 1857, issue 3327).
Metropolitan Railway (*Daily News*, August 29, 1872, issue 8218).
National Bank (*Freeman's Journal*, July 28, 1882, issue unstated).
National Discount Company (*Daily News*, July 28, 1858, issue 3807).
Old Union Mill Flour & Bread Company (*Birmingham Daily Post,* April 29, 1872, issue 4301).
Oxford, Worcester & Wolverhampton Railway (*Morning Post*, August 5, 1852, issue 24541).
Patent Shaft & Axletree Company (*Illustrated Police* News, September 6, 1879, issue 812; Daily *News*, September 2, 1879, issue 10412).
Provident Permanent Building Society (*Western Times*, January 11, 1893, issue 13350).
Prudential Assurance Company (*Morning Post*, March 7, 1879, issue 33289).
Queen Insurance Company (*Liverpool Daily Post,* October 22, 1863, issue 2607).
Royal Liver Friendly Society (BPP 1889 (304), minute 2922).
Royal London Friendly Society *(Sunderland Daily Echo*, March 2, 1877, issue 990).
Scottish Provident Institution (*Edinburgh Evening News*, March 31, 1885, issue 3709).
Shrewsbury & Birmingham Railway (*Times*, March 20, 1850, issue 20441).
Shrewsbury & Chester Railway (Chester *Chronicle*, August 31, 1850, issue 40017; *Morning Chronicle*, September 11, 1851, issue 26440).
South Devon Railway Company (*Western Times*, March 3, 1868, issue 2676).
South Eastern Railway (*Daily News*, September 21, 1849, issue 1037).
Staffordshire Joint-Stock Bank (*Birmingham Daily Post*, January 25, 1884, issue 7977).
Staveley Coal & Iron Company (Derbyshire Record Office, D3808/1/4/2, p. 71).
Thames & Mersey Marine Insurance Company (*Morning Post*, August 9, 1869, issue 29849).
Truro Savings Bank (*Royal Cornwall Gazette*, July 5, 1888, issue 4432).
Union Bank of Scotland (*Glasgow Herald*, April 24, 1879, issue 12274).
United Realization Company (*Morning Post*, December 18, 1896, issue 38855).
Universal Non-Tariff Fire Insurance Company (*The Standard*, April 1, 1871, issue 14560).
West India & Pacific Steamship Company (*Liverpool Daily Post*, November 22, 1864, issue 2927).
York & North Midland Railway (*Times*, August 24, 1850, issue 20576).

Table 1. Auditors conducting continuous audits from known dates

Company	Auditors	Year
Aberdeen Railway	J. Smith and R.R. Notman	1850
Birmingham & Staffordshire Gas Company	Edwin Laundy	1871
Birmingham Freehold Land Society	C.A. Harrison & Co., chartered accountants	1889
Birmingham Gas-Light & Coke Company	George Beech	1871
Birmingham Incorporated Building Society	Laundy & Co., chartered accountants	1886
Birmingham Joint-Stock Bank	Quilter, Welton & Co., chartered accountants	1888
Birmingham Wagon Company	George Beech	1868
Bristol & Exeter Railway	Thomas Seccome	1850
Capital & Counties Bank	Turquand, Youngs, Weise, Bishop, & Clarke, chartered accountants	1883
Chester Savings Bank	John Jones	1857
Cornish Bank	Harding & Whinney, chartered accountants; Thomas Chirgwin	1886
Coventry Machinists Company	Baker, Gibson, & Co., chartered accountants	1894
Coventry Savings Bank	Edward Thomas Peirson & Son, chartered accountants	1892
Eastern Counties Railway	J. Reeves & W. Mayhew	1850
Exeter Freehold Land & Benefit Building Society	Salter & Ellis	1882
Friendly Benefit Building Society	C.A Harrison, Barratt, West & Thorley, chartered accountants	1891
General Stock Exchange Company	James Harris, chartered accountant	1883
Glasgow Savings Bank	John E. Watson, chartered accountant	1887
Great Northern Railway	John Chapman & John Cattley	1851
Great Western Railway	William Welch Deloitte	1850
Hull Savings Bank	Joseph Gregson	1894
Lancaster Gas Company	Michael Harrison & William Welch	1866
Leicester Savings' Bank	J.H. Williams	1865
Life Association of Scotland	William Wood	1860
Liverpool & London & Globe Insurance Company	Stead, Taylor, & Stead, chartered accountants	1884
Liverpool Savings Bank	J.C. Stead, chartered accountant	1888
London & North Western Railway	James Edward Coleman	1850
Metropolitan Railway	Edwin Waterhouse	1872
Old Union Mill Flour & Bread Company	Howard C. Parkes	1872
Patent Shaft & Axletree Company	Joseph Slocombe	1879
Queen Insurance Company	Harmood W. Banner	1863

Royal Liver Friendly Society	Welch & Parkinson, chartered accountants; Harmood Banner & Son, chartered accountants	1886
Royal London Friendly Society	Richard Fairbairns	1877
Shrewsbury & Chester Railway	Samuel E. Cottam	1851
South Eastern Railway	Quilter, Ball, & Co.	1849
Staveley Coal & Iron Company	Chadwick, Adamson & Co.	1867
Truro Savings Bank	B. Williams & J.C.R Crewes	1877
Union Bank of Scotland	James Haldane, chartered accountant; William MacKinnon, chartered accountant.	1879
United Realization Company	Deloitte, Dever, Griffiths, & Co., chartered accountants	1896
West India & Pacific Steamship Company	Harmood W. Banner	1864
York & North Midland Railway	Samuel E. Cottam	1850

Notes

1 Other motivations for voluntary audit arrangements include the desire to avoid the threat of regulation (Edwards 1985) and to shift the risk of financial loss through litigation from the directors to the auditors (Wallace 1980, 2004).

2 Sometimes the independent audit was structured from the outset as a continuous audit; on other occasions it was introduced as an extension of existing external audit arrangements.

3 This paper does not examine the history of the continuous audit when conducted internally by companies, such as those supervised by the Finance Committee of the Second Freeholder Building Society and by the Audit Committee of the London Joint Stock Bank (Second Freeholder Building Society 1873; Meetings of Joint Stock Banks 1879).

4 The *19th Century British Library Newspapers* digital archive provides a full run of 48 British newspapers from 1800 to 1900, comprising roughly two million pages of the British Library's newspaper holdings available digitally as a fully searchable database.

5 The Select Committee on Trustee Savings Banks (BPP 1889 (301), vii) recommended that banks should have the power to appoint 'professional accountants as auditors … to secure a continuous audit and a continuous examination, at uncertain times, of the pass-books and their comparison with the ledgers'. A bill (BPP 1890, s. 12) requiring savings banks to appoint a public accountant to undertake a 'continuous audit' was presented to parliament the following year but did not survive the legislative process.

6 It is acknowledged, consistent with DeFond and Zhang's (2014) review of archival auditing research, that no conclusive evidence exists to show that lack of auditor independence – for example, because of the provision of non-auditing services – necessarily impacts negatively on audit quality.

[7] See also the comments of Mihill Slaughter, statistical officer at the London Stock Exchange, at BPP 1849 (371), minute 1056, minute 1079; James Foster, stockbroker, at minute 2389; John Swift, solicitor to the London & North Western Railway, at minute 2510.

[8] See also: Kemp 1875, 4; Pixley 1882, 4; Leading Article 1875c, 3; and the following comment from the President of the Manchester Chartered Accountants Students' Society in 1902: 'those who have the best opportunities of judging will admit that the public do not as yet greatly believe in us' (Crewdson 1902, 216).

[9] The auditor can also benefit, of course, by avoiding audit failures that lead to loss of reputation, and possible litigation costs, while management benefits from lower cost of capital and higher share prices if investors believe the firm has higher financial reporting quality.

[10] 'The Auditors shall make a Report to the Shareholders upon the Balance Sheet and Accounts, and in every such Report they shall state whether, in their Opinion, the Balance Sheet is a full and fair balance sheet, containing the Particulars required by these Regulations, and properly drawn up so as to exhibit a true and correct View of the State of the Company's Affairs …'

[11] All of these authors were partners in firms of auditors. Pixley was President of the ICAEW in 1903-1904.

[12] The founder of Deloitte, William Welch Deloitte, was appointed in the same year to assist the shareholder auditors at the Great Western Railway (Great Western Railway 1850).

[13] These were superficial audits where shareholder auditors might spend the morning simply comparing figures reported in the accounts with the balances in the books before lunching with the directors.

[14] He conducted other engagements on behalf of LNWR, such as the examination of the affairs of the Cambrian Railway in 1868 (Jones 1988, 84).

[15] Partners, respectively, in the firms George Swithinbank & Co. and Monkhouse, Goddard & Co.

[16] Moving beyond Britain, Dattin (2014) reveals that the auditors of two major French companies – Pont-à-Mousson from 1886 and Saint-Gobain from 1907 – functioned principally as advisors to the boards of directors rather than as guardians of the shareholders' interests.

[17] The remainder focused on continuous audits conducted in the public sector, by companies internally, or referred to developments overseas.

[18] One notable exception was the famous prosecution of the chief executive (Lord Kylsant) and auditor (Harold Morland of Price, Waterhouse & Co.) of the Royal Mail Steam Packet Company in 1931 (Edwards 1976).