

**The state and the profession:  
Initiatives and responses to the organisation  
of the accounting profession in South Africa, 1904–1951**

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**Introduction**

The formation of the Union of South Africa in 1910 signified the emergence of a single political and economic entity from two predominantly British colonies and two British colonies with a predominantly white Afrikaner population. Economic progress based on the rationality of a single market constituted a powerful motive for the constitutional union. In promoting economic cooperation, markets were liberalised to allow the free movement of capital, labour and goods. The South African economy was largely a primary economy by 1910, dependent on agricultural and mining production for foreign exchange revenue. Domestic business linked to the mining sector created demand for small industrial enterprises and financial institutions. After the discovery of diamonds and gold in the last quarter of the nineteenth century, international interest in the South African economy exploded. Together with foreign mining entrepreneurs, exploration and digging activities gave rise to urban centres where business enterprises increased rapidly.<sup>1</sup>

One important element of the new economic environment was the entrance of business professionals to provide expert advice and services. In the wake of fortune-seekers, diggers, farmers and manual labourers, professional accountants followed to participate in new business opportunities.<sup>2</sup> Numerous financial deals, amalgamations, flotations on the Johannesburg Stock Exchange and in London, the formation of limited liability companies, coupled with the need for protection of the public, made the services of accountants and auditors indispensable. The mining companies in particular soon developed a need for the professional services of accountants and auditors. There were no professional accountants, as they were known in Britain, in the Zuid-Afrikaansche Republiek (ZAR, or South African Republic) at the time of the mineral discoveries. Big business with substantial overseas capital began to set themselves up for business in the ZAR. These business entities needed the services of accountants, as they were known in Britain. Soon these accountants immigrated to the South African Republic. They organised themselves into professional bodies to protect their “profession” and to ensure adherence to standards they complied with in the countries of origin.<sup>3</sup> Accountants in the South African Republic described their professional role in the following way:

Whereas the profession of Public Accountants in the South African Republic is of a very extensive nature and their functions are of great and increasing importance in respect of their employment in the capacity of Liquidators acting in the

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1. C.G.W. Schumann, *Structural Changes and Business Cycles in South Africa, 1806–1936* (London, Longman, 1938); C.G.W. Schumann, “Suid-Afrika as Landbou-Mynbouland 1870–1909: ’n Oorsig”, in A.J.H. van der Walt, J.A. Wiid en A.L. Geyer, *Geskiedenis van Suid-Afrika, Deel 2* (Nasionale Boekhandel, Kaapstad, 1951), pp 240–256.
2. C.W. de Kiewiet, *A History of South Africa: Social and Economic* (Oxford University Press, London, 1968); M.H. de Kock, *Selected Subjects in the Economic History of South Africa* (Juta, Cape Town, 1924).
3. G.E. Noyce, “The History of the Profession in South Africa”, *The South African Chartered Accountant*, March 1954, p 4.

winding-up of Companies, and of receivers under decrees, and of Trustees in Bankruptcies or arrangements with creditors, and in various positions of Trust under Courts of Justice, as also in the auditing of accounts of public Companies, and of partnerships and otherwise.<sup>4</sup>

In this document, which requested official incorporation into the South African Republic, professional accountants presented themselves as the promoters and protectors responsible for a sound business environment to serve the nascent emerging economy of the ZAR.

The reasons for the formation of professional societies constituted a strategy to mobilise collectively to achieve goals (in this instance, legal goals) that would secure a more stable social and economic environment. The outcome would contribute to the building of group identity and putting argument in relevant forums, both public and private.<sup>5</sup> The significance of this process was that it mobilised elite members of society and stressed the importance of the links they had developed with other professionals in society (in the Scottish case, with the legal fraternity) and the higher strata in society in order to achieve recognition and acknowledgement of their social status and specific interests. As Poullaos put it: “Also involved was a more general desire to dominate lucrative markets. The interplay of economic class and social status, collective mobility and market control, and social closure and professional closure, are all evident.”<sup>6</sup> The professional societies of accountants in the four British colonies organised themselves to promote professional standards of accounting and auditing. This development resulted in various persons who had practised as accountants in the public sphere, but who were not all members of the relevant societies, gradually becoming marginalised from the profession represented by the influential “chartered accountants’ societies”. Strategies of professional closure were utilised to protect the “profession”.<sup>7</sup> This led to the exclusion from the mainstream accountants’ organisations in South Africa of other persons who also called themselves “accountants”.

In the mid-1930s, government initiated legislation to effect the statutory regulation of the profession in South Africa. Why did the South African government want to establish statutory regulation of the accountancy profession? What was the direction of the state–profession nexus? Was the state the driving agent or did the profession seek state sanction? Certain organisations within the profession were convinced that they had performed self-regulation to preserve the professional standards and prestige of the profession, but then the state intervened to take over this regulatory

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4. National Archives of South Africa, Pretoria (hereafter NASA), Transvaal Archives (hereafter TAB): Tweede Volksraad (hereafter TVR), 148/98: Draft Bill Incorporated Accountants and Auditors in the South African Republic, 18 July 1898.
  5. C. Poullaos, “Professionalisation”, in J.R. Edwards and S.P. Walker (eds), *The Routledge Companion to Accounting History* (Routledge, London, 2009), p 250.
  6. Poullaos, “Professionalisation”, p 247.
  7. K.M. Macdonald, “Social Closure and Occupational Registration”, *Sociology*, 15, 4, 1985, pp 541–556; M.J. Kedsle, “Mutual Self-interest: A Unifying Force: The Dominance of Societal Closure over Social Background in the Early Professional Accounting Bodies”, *The Accounting Historians Journal*, 17, 2, 1990, pp 1–19; W.F. Chua and S. Clegg, “Professional Closure: The Case of British Nursing”, *The Theory and Society*, 19, 2, 1990, pp 135–172; R. Collins, “Changing Perceptions in the Sociology of the Professions”, in M. Burrage and R. Torstendahl (eds), *The Formation of Professions, Knowledge, State and Strategy* (Sage, London, 1990), pp 11–23; R. Collins, “Market Closure and the Market Theory of the Professions”, in Burrage and Torstendahl (eds), *The Formation of Professions*, pp 24–43; C. Poullaos, “Making Profession and State, 1900 to 1914: The ACPA’s First Charter Attempt”, *Abacus*, 29, 2, 1993, pp 196–229.

role. How can this intervention by the state be explained? Did the profession aspire to exclusivity with the assistance of the state; or did the state attempt to engineer professional inclusivity? This article explores the forces behind the introduction of statutory regulation of the accountancy profession in South Africa in 1951.

The methodology applied is qualitative critical analysis of primary and secondary material and a reflection on the discourse between the relevant theories and the actual history of the profession in South Africa.

### Regulation, professional closure and autonomy

Regulation of accounting can be interpreted as the regulation of the allocation of “scarce resources” by accountants, on the one hand, and, on the other hand, control by corporations to which accountants report in their financial reporting, which might have adverse effects on the community at large to whom those resources belong. As Alexander and Sevalli put it:

It is axiomatic that the need for accounting regulation arises from the necessity for business entities (in the widest sense of both the words business and entities) to report to the community at large. It can be seen as an important subset of the more modern concepts of corporate governance.<sup>8</sup>

The literature on regulation of the accountancy profession as well as regulation in financial reporting reflects on the central role of the accounting profession in society, economy and the nation state as related directly to the historical context of the state. Miller argued: “The differential national development of accounting has been shown to be linked to differences in legal systems and state structures”.<sup>9</sup> The importance of the legal system has been illustrated in the work of La Porta, Lopez-de-Silanes, Schleifer and Vishny.<sup>10</sup> The core of La Porta et al.’s analysis is their emphasis on the differences between legal systems based on British common law versus Roman civil law. They argue that countries with legal systems based on British common law offer greater investor protection relative to countries with legal systems based on civil law. La Porta et al. argue from this historical position to examine the causal effect of the strength of legal rules that protect investor rights in relation to financial development. In the context of South Africa, it is important to notice the urgency of acquiring statutory recognition under British common law, rather than under Roman-Dutch civil law. While the profession had undertaken intra-professional self-regulatory initiatives, it was also regulated by the state to promote external accountability. Alexander and Servalli emphasise that the notions of the “state” and “legitimacy” can “... only be conceived and interpreted via contextual relationships which are informed and understood by a rigorous historical and spatial awareness.”<sup>11</sup> The historical context of state initiatives to regulate the accounting profession is therefore of paramount significance.

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8. D. Alexander and S. Sevalli, “The State and/of Accounting Regulation”, Paper presented at the 6th Accounting History International Conference, Wellington, 18–20 August 2010, p 10.
  9. P. Miller, “On the Interrelationship between Accounting and the State”, *Accounting Organizations and Society*, 15, 4, 1990, pp 315; R.H. Parker, *The Development of the Accounting Profession in Britain to the Early Twentieth Century* (Academy of Accounting Historians, San Antonio, 1986).
  10. R. la Porta, F. Lopez-de-Silvanes, A. Schleifer and R. Vishny, “Legal Determinants of External Finance”, *Journal of Finance*, 52, 1998, pp 1131–1150; R. la Porta, F. Lopez-de-Silvanes, A. Schleifer and R. Vishny, “Law and Finance”, *Journal of Political Economy*, 106, 1998, pp 1113–1155.
  11. Alexander and Sevalli, “The State and/of Accounting Regulation”, p 38.

Self-regulation by the profession constitutes one dimension of this regulatory environment. The organisation of professionals into “professional organisations” serves to “define occupational territory”,<sup>12</sup> to develop “high-grade skills”; to lay down “rules that govern conduct of members and thus influence the deployment of human capital”; and establish “monopolies” or “privileges for members” and thus limit the availability of substitutes for their professional services. This notion was then developed by Max Weber as “social closure”, which refers to the process of subordination whereby one group monopolises advantages by closing off opportunities to another group of outsiders beneath it that it defines as inferior and ineligible. It does this because “... material monopolies provide the most effective motives for the exclusiveness of a status group”.<sup>13</sup> Murphy described this “power position” as the way a profession monopolises the opportunities for that group.<sup>14</sup> Larson identified the organisation of the profession as a strategy to secure the production of a monopoly of standardised skills. Although Larson did not refer to “closure” directly, the mechanisms of “registration and licensing” emerged as the essence of modern professional organisation.<sup>15</sup> Larkin found empirical support for the theory of social closure,<sup>16</sup> while Berlant identified the emergence of professional monopolisation as occurring in a “climate of anti-monopolistic liberalism”. The value of Berlant’s contribution is that it offered an understanding of how occupations and society (or the state) interact to achieve mutually supportive goals. Berlant explained that even in liberal societies, parties other than the profession may have an interest in working towards the monopolisation of professions, e.g. the state.<sup>17</sup> Parkin takes the materialist view of professional closure by describing credentialism as a form of exclusionary social closure comparable to the institution of property in class formation. He argued that:

... the professions ... generally seek to establish a *legal monopoly* over the provision of services through licensure by the state ... Their conflict, concealed beneath the rhetoric of professional ethics was, if anything, with the lay public. It was a struggle to establish a monopoly of *certain forms of knowledge and practice* and with legal protection from lay interference.<sup>18</sup>

The course this strategy followed in Britain was that the profession sought a Royal Charter, obtained by petitioning the Privy Council, which granted considerable prestige to the holders of such charter. State approval of the occupational body was obtained as well as the right of members to use a particular title. The ultimate form of professional recognition was statutory recognition by the passing of an act in the legislature which registered the members and specified that professional services of a specific nature may only be performed by accountants on the register, as determined by the act.<sup>19</sup> Registration emerged as the second step after the incorporation by Royal

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12. C.L. Kronus, “The Evolution of Occupational Power”, *Sociology of Work and Occupation*, 3, 1, 1976, p 3; K. Robson, H. Willmott, D. Cooper and T. Puxty, “The Ideology of Professional Regulation and the Market for Accounting Labour: Three Episodes in the Recent History of the UK Accountancy Profession”, *Accounting, Organizations and Society*, 19, 6, 1994, pp 527–528.
  13. M. Weber, *Economy and Society*, 2 volumes (Bedminster Press, New York, 1968), p 342.
  14. R. Murphy, “The Structure of Closure: A Critique and Development of the Theories of Weber, Collins and Parkin”, *British Journal of Sociology*, 35, 3, 1986, p 23.
  15. M. Larson, *The Rise of Professionalism* (University of California Press, Berkeley, 1977).
  16. G. Larkin, *Occupational Monopoly and Modern Medicine* (Tavistock, London, 1983), p 171.
  17. J.L. Berlant, *Profession and Monopoly: A Study of Medicine in the United States and Great Britain* (University of California Press, Berkeley, 1975), pp 145–167.
  18. F. Parkin, *Marxism and Class Theory: A Bourgeois Critique* (Tavistock, London, 1979), pp 58–59. Emphasis added.
  19. Macdonald, “Social Closure and Occupational Registration”, p 343.

Charter to ensure legal registering of the membership.<sup>20</sup> The broad application of accountants' activities in industry and commerce soon made state recognition equally important as the regulation of the professional activities in industry and commerce generally.

In South Africa, the Treasury became involved in the regulation of the profession, since the state was concerned with the auditing of public accounts. The "public" engaged with public accountants and the "public" interest in sound financial reporting constituted two different, but not isolated, stakeholders. The nature of accounting knowledge and the interests of the clientele of accountants soon made statutory regulation desirable. This article is concerned with the regulation of the profession of accountants in South Africa, especially the right of the profession to practise in all parts of South Africa. The initial steps towards professional regulation were taken by the professional societies. When difficulties developed with professional closure, as explained by K.M. Macdonald<sup>21</sup> and T.A. Lee,<sup>22</sup> the assistance of the state was sought.

In South Africa, by the 1950s regulation by the state emerged as additional regulation to that already exercised by the chartered societies.<sup>23</sup> State regulation was indicative of the growing sophistication of the South African economy and the desire of the state to direct accounting professionals' expertise towards the contribution of a healthy economy. State regulation also emerged as a strategy by government to protect the public interest. The accountancy profession was key to support, develop and strengthen good business practice, accountability of business practitioners and disclosure of information to protect stakeholder interests. It is interesting to observe that the regulation of the profession took on two dimensions: First, the regulation by the professionals themselves; and secondly, the regulation from outside the profession by the state. Professional solidarity did not exist and needed to be managed while seeking stability in the profession–state relationship.

#### **Professional initiatives: self-regulation**

While the social and political instability of the South African Republic roped in those with a vested interest in securing an environment conducive to economic and business development into political activities, accountants as stakeholders in the ZAR economy embarked on strategies to organise themselves as a profession. As indicated in the court proceedings of those involved in the Jameson Raid, accountants were members of professional organisations in Britain. George Richards, both Woollan brothers and F.W. Diamond were fellows of the Society of Accountants and Auditors. In the ZAR, accountants realised the need for professional organisation, not for gain

... but the Institute aims at the elevation of the profession of Public Accountants as a whole, and the promotion of their efficiency and usefulness by compelling the observance of strict rules of conduct as a condition of membership, and by setting

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20. Larkin, *Occupational Monopoly*, pp 10–11.

21. Macdonald, "Social Closure and Occupational Registration".

22. T.A. Lee, *The Closure of the Accounting Profession* (Garland, New York, 1990); and T.A. Lee, "A Systematic View of the History of the World of Accounting", *Accounting, Business and Financial History*, 1, 1, 1990, pp 73–107.

23. Robson et al., "The Ideology of Professional Regulation", p 527.

up a high standard of professional and general education and knowledge, and otherwise.<sup>24</sup>

In 1894, there were 65 members of the accounting profession who formed the Institute of Accountants and Auditors in the South African Republic (IAASAR). The establishment of this organisation was an expression of the desire of those involved in professional accountancy, to protect the integrity of their profession. As reflected in several studies on the professionalisation of accountancy, professional accountancy bodies placed strong emphasis on closure strategies.<sup>25</sup> It became important to accountants practising in the ZAR to organise themselves with the explicit aim of promoting and protecting their profession. A branch of the Society of Accountants and Auditors (SAA) established a South African Committee in 1895 after the ZAR and Natal was visited by their secretary, a Mr Martins.<sup>26</sup> Professional contestation was bound to develop.

In the four British colonies which formed the Union of South Africa in 1910, separate professional organisations of accountants were formed. The first was the Transvaal Society of Accountants (TSA), incorporated into the Transvaal Colony in 1904 by Ordinance No 3 of 1904. Similar accountants' organisations were formed in the Cape Colony in 1908 with 81 members; in the Orange River Colony in 1907 with 12 members; and in the Natal Colony in 1909 (the Accountants' Act, No. 35 of 1909, Natal) with 159 members.<sup>27</sup> In Natal, the course of development of the professional society was similar to that in the Transvaal. In the Cape and the Orange Free State, professional organisations were established, but without statutory recognition.<sup>28</sup> These societies were open to accountants who qualified according to the bye-laws of each separate society – irrespective of language, race or creed. The TSA and NSA explicitly required residence in the respective colonies as a condition for membership – a matter that caused tension with the accountancy profession in the “home” country, Britain. The TSA was the leading organisation with 594 members in 1905 and the driving force behind initiatives to promote and protect professional accountants' interests. Other accounting associations were formed as branches of existing British associations, such as the Society of Accountants and Auditors, South African Branch (ZAR); and the Institute of Accountants in Natal. The formation of the Union of South Africa, led to initiatives by the TSA to amend the Private Ordinance No. 3 (Private) of 1904 to provide for national incorporation. The TSA entered into negotiations with the accountants' organisations in

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24. Institute of Accountants and Auditors in the South African Republic (IAASAR): Articles of Association and Bye-laws, 1894.
25. Murphy, “The Structure of Closure”, p 548; D.J. Cooper and J. Robson, “Understanding the Development of the Accountancy Profession in the United Kingdom”, in D.J. Cooper and T.M. Hopper (eds), *Critical Accounts* (Macmillan, London, 1990), pp 366–390.
26. *Incorporated Accountants' Journal (IAJ)*, April 1895, pp 107–108; T.J. Johnson and M. Caygill, “The Development of Accountancy Links in the Commonwealth”, *Accounting and Business Research*, Spring 1971, p 157.
27. Institute of Chartered Accountants of England and Wales (ICAEW) Archives: 06.055.5(684) A281400061245; Natal Society of Accountants (NSA): Proceedings of the Institute of Accountants in Natal, 1907–1908.
28. The focus of this article is not to explain the processes of professional society formation in full detail, but only to allude to the fact of statutory incorporation or not. In the case of the TSA the inclusive consensus nature of the formation of the TSA as well as its acquisition of statutory incorporation, is important to understand the large and dominant membership of the society and its controlling position throughout the various attempts to gain statutory recognition. The focus of the article is on explaining how the government became involved in professional closure and regulation.

the other provinces about unification of the profession. A conference of representatives of these four professional accountants' societies held in Cape Town in January 1911, discussed unification of the profession.<sup>29</sup> Representatives succeeded in achieving some consensus on a Draft Union Accountant's Registration Bill (1912). The draft bill was considered by a Select Committee of parliament, but objections were raised to the preamble, as well as to the principles of "compulsory registration".<sup>30</sup>

The proposed private bill encountered opposition in parliament. It is important to note that the accountants in the professional societies had taken the initiative of seeking statutory sanctioning of the status of their profession. The profession did not request state intervention in regulating their professional affairs. The profession had structures to ensure professionalism in training and conduct and were only seeking nationwide sanction of their status. The First World War disrupted further endeavours to pass legislation to formalise the unification of the profession of accountants in South Africa.<sup>31</sup> The debate among the accountants' societies led to a special general meeting of the provincial bodies on 20 November 1920 in Pretoria. It was decided to postpone the efforts to secure statutory sanctioning, since education was of primary importance for the profession. The delegates decided to take steps to bring about "... as far as possible a common standard of qualification if not by Ordinance then by agreement amongst the Societies themselves".<sup>32</sup> The meeting established the South African Accounting Societies' General Examining Board (GEB). Representatives of the four provincial societies as well as of the Rhodesian Society of Accountants agreed on uniform conditions of admission, examinations and regulations for service under articles of clerkship. The meeting also recognised qualifications acquired outside the Union. Delegates of the SAA (SA Branch) and the Institute of Accountants in Britain, attended the meeting. Agreement was reached that the British institute would no longer conduct examinations in South Africa or register articled clerks in the Union. However, the institute acknowledged the standing of the societies in the Union, as well as the high standard of their examinations, thus abiding by the examinations taken by them in respect of the qualification of articled clerks in the Union. Articled clerks of the British institute would only be required to complete a special final examination set by the institute to qualify as accountants in South Africa.<sup>33</sup> This agreement recognised the standing of the accountants' societies in their professional conduct and training of articled clerks in South Africa. (This was the so-called reciprocity agreement.) It served to bolster the societies' confidence in calling for uniform statutory registration of the profession under their auspices. The agreement on the GEB also served to extend the marginalisation of other associations of accountants.

The GEB commenced its functions on 6 May 1921. This constituted the first efforts towards a unified profession of accountants in the Union and Rhodesia.<sup>34</sup> The success in establishing the GEB promoted cooperation among the professional societies on matters of statutory recognition, admission and standards. In 1927, the accountants' profession achieved another milestone when the Chartered Accountants' Designation (Private) Act of 1927 was promulgated. Only accountants who had acquired their professional qualifications by succeeding in the examinations prescribed by the chartered

29. M.J. van Rensburg, *Presidents I have Known*, (South African Institute of Chartered Accountants (SAICA), Johannesburg, 1990), p 22. See also Noyce, "The History of the Profession", p 7.

30. Transvaal Society of Accountants (TSA), Minutes of Council, 7 March 1913.

31. Van Rensburg, *Presidents I have Known*, p 28.

32. TSA Minutes, 2 November 1920.

33. Noyce, "History of the Profession", p 8.

34. General Examination Board (GEB), Minutes of Council, 6 May 1921.

societies and who had completed the required years of articled clerkship were entitled to designate themselves “chartered accountants, CA (SA)”.<sup>35</sup> The 1927 Act provided the first statutory recognition of the professional representivity of the four provincial accountants’ societies, and was the first professional closure success of the chartered societies in the Union of South Africa.

However, not all the accountants’ societies in the Union had statutory sanction. In the Transvaal the Private Ordinance No. 3 of 1904, and in Natal the Natal Society of Accountants Act No. 35 of 1909 gave statutory sanctioning to the profession. In the Cape Colony and the Orange River Colony no statutory recognition of the profession was acquired. These ordinances and statutes were acknowledged in 1910, but since no statutory provision had existed before 1910 in the Orange River Colony or the Cape Colony, the void was perpetuated after 1910. Some bridging was arranged through the close collaboration of the accounting profession in those colonies with the incorporated accountants’ societies. The attempts by members of the different societies to pass Union legislation to the effect of establishing uniform statutory recognition only came to fruition in 1951.

The 1927 Act seemed to legislate and protect only the designation of professional accountants who were members of the chartered societies. The different societies still administered separate registers of qualified accountants in each province, albeit after 1921 by a single GEB-examined qualification. The TSA members then moved “... in order to place the profession in South Africa on a satisfactory foundation – taking into account the question of unity and control – a reorganisation in the machinery was necessary”.<sup>36</sup> Various alternative organisations of accountants in the Union, among them the Institute of Incorporated Accountants, were dissatisfied with the privilege bestowed upon the chartered societies while, in the institute’s opinion, equally deserving accounting organisations were excluded from practising in the Transvaal.<sup>37</sup> A private member’s bill, on behalf of the Institute of Accountants of South Africa, was therefore tabled in parliament in 1934 by the MP for Jeppe, Dr Hjalmar Reitz, proposing the registration of all accountants in the Union. This bill failed to proceed to the second reading.<sup>38</sup> The GEB expected that the matter of “... the registration of Accountants would be referred to a Government Commission”.<sup>39</sup> On 23 October 1934 the government appointed the Accountancy Profession Commission to investigate the qualifications and registration of professional accountants in South Africa. The commission was tasked to investigate whether it would be

advisable to place the profession of accountancy and auditing in the Union on a qualified basis by the incorporation of a representative body having control over the whole profession and keeping a register in which should be inscribed the names of all qualified members of the profession.<sup>40</sup>

35. Noyce, “History of the Profession”, p 7.

36. TSA Minutes, 29 November 1921.

37. NASA, Treasury (hereafter TES): /536/1/F33/263/4, Correspondence, Institute of Incorporated Accountants – Minister of Finance, 5 April 1934; 27 June 1932; 17 July 1934; 27 July 1934.

38. *Parliamentary Debates* (hereafter *Hansard*), 26 January 1934 to 4 June 1934; TES/536/1/F33/263/4 Memorandum Minister of Finance, 5 August 1937.

39. General Examination Board (hereafter GEB) Minutes, 18 May 1934.

40. NASA, TES: /536/1/F33/263/4, Correspondence, W.J. O’Brien – Minister of Finance, 30 June 1934; Minister of Finance – H.G. Galbraith, 15 August 1934; Report of the Commission of Inquiry into the Accountancy Profession, 1934, p 1.

The report of the Accountancy Commission was delivered in April 1936. The four societies met in Johannesburg on 27 May 1936 to discuss its findings.<sup>41</sup> The Commission reported that the establishment of a Registry of Accountants "... has become a practical and urgent necessity ..." (paragraph 26) and declared:

Your Commission is satisfied that the Societies referred to in the Chartered Accountants' Designation Act have reached and maintained the professional status of a high order comparable to the best Societies overseas and that any measure failing to recognise this fact or tending in any way to lower that status would be contrary to the interest of the public and the profession.<sup>42</sup>

The report advocated that the senior members of the profession should make a concession if a final and comprehensive organisation of the profession were to be achieved, and admit as practising accountants certain persons under suitable terms and conditions "... provided they are not admitted to chartered rank".<sup>43</sup> The four chartered societies, the Rhodesian Society and various other organisations of accountants and auditors made representations to the Accountancy Commission, but without reaching consensus. As suggested in other literature,<sup>44</sup> professional solidarity was elusive in South Africa and remained a source of contention between the chartered societies and the state, which offered a sympathetic ear to the other organisations of accountants outside the statutory sanctioned societies.

The Accountants Profession Bill was never introduced to parliament for a second reading, because of strong opposition by the Transvaal Society of Accountants.<sup>45</sup> Dr Hjalmar Reitz introduced another private member's bill on behalf of the Institute of Accountants of South Africa in 1936 for registration of accountants in South Africa. This bill was again unsuccessful. The government was aware of the lack of professional unity, but insisted in several communications with the profession that the state would refrain from intervention:

... the Minister, N.C. Havenga, replied that Government was not prepared to bind members to support any particular bill, but that any Society or group of societies were at liberty to proceed in the matter by means of a private members bill.<sup>46</sup>

Yet another attempt was made in 1938 by a Mr Pocock, the MP for Sunnyside, on behalf of the chartered societies in the Cape and the Orange Free State, to secure the right of registration of accountants in those provinces. The bill was referred to a Select Committee in August 1938. The committee was commissioned "... to take evidence and call for papers, to bring up an amended Bill, and to consist of Messers Broome, De Kock, Hirsch, Hooper, Pocock, Trollip and Warren".<sup>47</sup> The Select Committee heard evidence that the Cape Society of Chartered Accountants changed its bye-laws to prevent

41. GEB Minutes, 14 May 1936.

42. Report of Commission of Inquiry, 1934, para. 37. See also Noyce, "History of the Profession", pp 8–9.

43. Report of Commission of Inquiry, 1934, para. 28, p 29.

44. G.D. Carnegie, "The Development of Accounting Regulation, Education and Literature in Australia, 1788–2005", *Australian Economic History Review*, 49, 3, pp 282–289.

45. NASA, TES: /536/1/F33/263/4, Letter, Secretary of Finance –J.E. Holloway, 6 August 1937; Public Accountants' and Auditors' Board (hereafter PAAB), 2001, p 6; Noyce, "History of the Profession", p 9.

46. NASA, TES/536/1/F33/263/4, Aide Memoire, Secretary of Finance, 7 September 1937.

47. Select Committee (hereafter SC) 12/38: Report of the Select Committee on Subject of Accountancy Bill, 1938, p 1.

accountants from registering as chartered accountants unless a period of five years' articulated clerkship had been completed under the supervision of a member of that society. The committee was told that the students of the Institute of Accountants of South Africa were disadvantaged because despite the fact that they had successfully completed the examinations of the institute, they were not allowed to practise in the Transvaal or Natal, as the chartered bodies refused them registration in those provinces. The anomaly was that the Cape and Free State Societies had admitted as members accountants who had completed "service with articles or continued service without articles", thus accountants who had never passed an examination in accountancy.<sup>48</sup> The objection of the chartered societies was that the Institute of Accountants of South Africa maintained a much lower standard, which would compromise their status, and this would play into the hands of those who had the distinction of being overseas chartered accountants.<sup>49</sup>

The Accountancy Bill, No. 26 of 1938, lapsed because the session of parliament ended. The bill was reintroduced in 1939, with yet another Select Committee being appointed to take further evidence.<sup>50</sup> The most contentious issue before the 1939 Select Committee was still the use of the designation "chartered accountant". The chartered societies argued:

To admit to the Societies persons with qualifications lower than those who have already obtained membership would affect the status of the Societies, and to render admission easier for those who have not found it worthwhile to obtain it by the recognised means already provided would be a breach of faith to those who have sacrificed much to obtain their qualifications and maintain the status of the Societies.<sup>51</sup>

The chartered societies felt strongly about the fact that the admission to their ranks of unqualified persons would prejudice the position of South African-qualified accountants. They would be placed at a disadvantage to qualified overseas by societies whose status had been maintained by admitting only highly qualified accountants. It was apparent that the notion of a superior South African qualifications had entered the discourse about the registration of accountants. The bill was introduced in the House of Assembly on 23 February 1940, but the Second World War disrupted this initiative.<sup>52</sup>

#### **Accountability and national interest**

In 1945, the four Societies of Chartered Accountants formed the Joint Council of the Chartered Accountants of South Africa (hereafter referred to as the 'Joint Council' or abbreviated to JC),<sup>53</sup> which was authorised "... to represent the societies in negotiations with Government Departments, Provincial Administrations regarding legislation affecting the profession".<sup>54</sup> A copy of the constitution of the Joint Council was sent to the Minister of Finance,<sup>55</sup> signifying two significant developments. It showed that the

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48. SC 12/38: Report of the Select Committee, 1938, pp 4–10; NASA, TES: /536/1/F33/263/4, Letter G. Hartog – Secretary of Finance, 16 July 1934.

49. SC 12/38: Report of Select Committee, 1938, p 32.

50. SC 8/39: Report of Select Committee on the Subject of the Accountancy Bill, 1939, p iv.

51. SC 8/39: Report of Select Committee, 1939, p v.

52. *Hansard*, 23 February 1940.

53. Joint Council of Chartered Societies of Accountants (hereafter JC), Memorandum of Understanding, 30 August 1945.

54. JC Minutes, 31 March 1945.

55. JC Minutes, 10 January 1946.

professional societies of chartered accountants were making progress towards unity. It also indicated a readiness to collaborate with the government in positioning the profession in South Africa. Despite the fact that several other organisations representing practising accountants and auditors existed in South Africa, the four chartered societies were the only associations legally authorised to use the CA designation. It remained a concern that some practising public accountants in South Africa were excluded from formal registration and statutory recognition. Despite the stated government policy not to facilitate unity in the accountancy profession, the rationale for regulation of practitioners engaged in such a vital professional service became increasingly imperative.

The state wanted the profession to organise its own affairs, but was prepared to intervene if the contestation and disagreement continued to compromise public interest. In February 1945, the Minister of Finance, J.H. Hofmeyr, wrote to the secretary of the Treasury observing that while the accountancy societies were left to solve their own disagreements, they had failed to do so. He noted that the Auditor-General protected the interests of tax payers, the Registrar of Insurance and the Registrar of Banks protected the respective stakeholders' interests and the auditor of a company protected the interests of the shareholders of a company. He stated:

Many auditors are of the "tick-and-turn-over" variety and are dependent on Directors for re-appointment. This weakens their independence. Should not the Treasury be empowered to intervene at the interest of dissatisfied shareholders? Must the Treasury continue to remain aloof towards the registration of accountants? Please discuss the matter with Arndt and Beak<sup>56</sup> and let me have your prompt views on these two matters.<sup>57</sup>

An Interdepartmental Commission was formed to advise the minister on the regulation of the accountancy profession. Concerns about professional independence and the protection of the public interest led to a decision to intervene.

On 27 November 1946 the Treasury announced in the press its intention to introduce a bill in parliament providing for the registration and control of accountants and auditors in South Africa. All the different societies and associations of accountants and auditors were invited to collaborate in preparing draft legislation to that effect. The announcement read:

The Treasury wishes to announce that it has been decided that a Bill should be introduced into Parliament in the near future to provide for the registration, qualification, designation and control of accountants and auditors and for related matters.<sup>58</sup>

The JC had been informed of the press announcement in advance and expressed its full support for such a public bill. The JC was optimistic about the prospects of this initiative, with the chairman, Mr Francis Dix stating: "Now is the time for the South African Chartered Accountants' Societies to pull together and present a united front." It was apparent at that meeting that the JC was prepared to depart from where the earlier initiative had stopped, i.e. at the draft bill contained in the Accountancy Profession Commission's report of 1934 and the Accountants' Bill that had reached the Select

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56. Dr E.H.D. Arndt was the Registrar of Banks and Building Societies; G. Beak was the Registrar of Insurance.

57. NASA, TES: 2258/9/349/2, Note from Minister – Secretary, 19 February 1945.

58. *Hansard*, 74, 24 November 1951, col. 4100; JC Minutes, 2 December 1946.

Committee stage in 1938 and 1939. Soon the demands of the Institute of Accountants of South Africa and of the Association of Certified and Corporate Accountants to receive equal CA status with members of the chartered societies would be a potential deal-breaking issue. The Treasury press release indicated that if the various professional accountants' representative organisations failed to submit a consensus draft bill to parliament, Treasury would do so without such consensus. Departure from where the initiative faded in 1934 and 38/39 seemed the intended JC strategy.<sup>59</sup> The problem was that those proposals failed to rally all accountants in public practice in South Africa into a consensus position.

The debate in the JC pointed to a number of important dimensions to the new discourse reopened by the Treasury press release. The first was that the societies named in the Designation Act of 1927, perceived themselves to be the gatekeepers to the profession. Professor Galbraith, representing the Cape Society, was negatively disposed towards a conference with the representatives of the Institute of Accountants of South Africa "... as this would put them on an equal footing and in view of their requirements would prove a waste of time".<sup>60</sup> The Natal representative, Mr Lance Horne, argued that "... any insistence that admission to a Union Register should be considered on an individual basis only would arouse strong opposition". He considered more appealing the Association of Certified and Corporate Accountants' (ACCA) request for admission to a Union Register as a body, rather than for its members as individuals.<sup>61</sup>

This "chosen people" role of the chartered societies was reinforced by the request to the TSA to submit details about the societies' organisation and constitutions. Professor Raikes of the University of the Witwatersrand called on the TSA in his capacity as the person requested by the government to make submissions about the control of scientific and technical professions in the Union. The TSA was regarded as the representative of the professional organisation of accountants, an organisation based on prescribed examinations, membership fees and maintaining a register of members. The South African government had commissioned Raikes to compile submissions on the establishment of a council representing all scientific and technical professions in the Union, similar to that of the medical and dental profession, which had already been organised in terms of the Medical, Dental and Pharmacy Act of 1928.<sup>62</sup> This recognition supported the stand of the accountants' societies to stand on their leadership position in the negotiations on the future of accountants' registration.

The debate in England on the Public Accountants proposed bill, submitted in June 1946, was also lingering in the minds of the Joint Council representatives. It was anticipated that "... the provisions of the English Bill were far-reaching and that the Union Government might use the English Bill extensively for any departmentally prepared draft ... therefore we should placate the Association".<sup>63</sup> The English legislation signalled attempts by the British government to bring different interests in the public practising accountancy profession together. This notion loomed among some members of the chartered societies, but the members of the Natal Society were eager to put the 1934 draft bill forward as a point of departure in future negotiations, since "... by

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59. JC Minutes, 2 December 1946.

60. JC Minutes, 2 December 1946.

61. JC Minutes, 2 December 1946.

62. JC Minutes, 2 December 1946; Letter from Raikes – TSA, 17 January 1947.

63. JC Minutes, 2 December 1946.

adhering to the provisions of the draft Bill, outside bodies will, in time, die out”.<sup>64</sup> The societies’ aim was to secure a leading position in the anticipated process leading to statutory recognition.

The JC wanted to protect its leading position, but also feared that the inclusivity in the English draft bill might echo in the South African environment if the path towards the new legislation called for by the Treasury was not inclusive and comprehensive. The JC wanted a sympathetic ear with government; it agreed that consultation with the other “bodies of accountants” as required by the Treasury announcement was essential if the societies wanted to dispel the idea that the other bodies “... were fighting for the rights of South Africans against foreigners”.<sup>65</sup> The contestation of professional recognition loomed large. Mr Galbraith from the Cape Society stated:

... a Conference of all bodies should be held at an early date and that should emphasise that we are representing the interests of South Africans. If we are prepared to recognise the members of anybody en bloc, we should insist that their Clerks be Articled and trained under the regime of the Chartered Societies, further, that any proposed Bill must not deprive anybody of existing rights and that whilst members of bodies so recognised shall be entitled to use their own designations, they shall not be permitted to use the title CA (SA).<sup>66</sup>

The notion of “South African” or national interests as opposed to foreign interests emerged central to sustained recognition of the chartered societies’ professional leadership and designation. The possibility of securing access to the South African CA designation by foreigners who had passed examinations in Britain, or to “any other outside bodies”, was of grave concern to the Select Committee in 1938 and 1939.<sup>67</sup> The TSA and NSA residency requirements of the pre-Union period remained a non-negotiable condition to the societies and a bone of contention to the foreign associations. The JC called, for the first time, for statistics on “South African-born members and clerks”. Therefore the JC decided to call a conference of all the accounting associations. These included the Joint Council of the Societies of Chartered Accountants of South Africa (2 062 members); the South African branches of the Society of Incorporated Accountants and Auditors (520 members); the Association of Certified and Corporate Accountants (104 members); the Institute of Accountants of SA (106 members); and the Association of Practising Accountants of SA (54 members).<sup>68</sup>

The chartered societies wanted the 1934 draft bill of the Accountancy Profession Commission to be the point of departure. Constituting societies were requested to obtain authority from their members to

agree to the recognition of members of other bodies as such for admission to the Registrar in terms of Section 11 of the Bill ... provided that they may not agree to the admission of *any* such person to the Chartered Societies other than as provided in the Commissioner’s Bill or the use by such persons of the designation CA (SA).<sup>69</sup>

64. JC Minutes, 2 December 1946.

65. JC Minutes, 2 December 1946.

66. JC Minutes, 2 December 1946.

67. SC12/38: Report of Select Committee, 1938, p 2; SC 8/39: Report of Select Committee, 1939, p iv.

68. JC Minutes, 2 December 1946.

69. JC Minutes, 2 December 1946.

The professional closure strategy thus entailed preservation of CA(SA) exclusivity, but inclusion of all public accountants in a national register as “registered accountants”.

The conference was held on 16 and 17 April 1947 in Bloemfontein. The JC met prior to the conference and appointed Mr G.E. Lance Horne as the JC spokesperson. The five invited organisations representing accountants were represented by 27 delegates, plus one representative of the Institute of Administration and Commerce of SA. Mr K. Lamont Smith presided as chairperson. The delegates moved that the draft bill of 1934 had been prepared in the interests of the accountancy profession in general and therefore deserved to be the draft bill to be submitted to the Treasury. The JC asked for unanimous support for the motion, because “... it was desirable that the Profession should be under the control of its leaders and not under the control of the Government or other body”.<sup>70</sup> Where the market for accountants failed to rationalise the supply and demand for accountants, state intervention through statutory regulation was often motivated with reference to the “protection of the public interest”. It was not the number of accountants that made professional closure elusive, but the contestation for the right to engage in public practice. The TSA was the staunch protector of such practising rights by insisting on the conditions for membership as stipulated in the Chartered Societies’ bye-laws and sanctioned by the 1927 Designation Act.

The role of the Treasury in finalising the draft bill reflected the changing conditions in South Africa after the war. Whereas the government had stated categorically in the 1930s that it would not intervene in the accounting profession’s organisational matters, the Smuts government changed its opinion after the war. An observer and adjudicator role of the 1930s was replaced by a more interventionist state desirous to effect professional closure in an optimally inclusive manner. Chua and Poullaos noted that the state tended to intervene when the profession failed to arrive at inclusive closure.<sup>71</sup>

The Smuts government and Minister of Finance J.H. Hofmeyr, explained its change of policy as motivated by its responsibility to protect the public interest. After agreement was reached on most elements of professional registration and regulation, Treasury informed the JC in February 1948 that the government was not yet satisfied to submit the draft bill to parliament. With N.C. Havenga back as Minister of Finance, the Interdepartmental Committee comprised influential civil servants who were steering the course of action. Treasury stated that “as a Public Bill, it makes insufficient provision for the protection of the public interest”.<sup>72</sup> The closure of the profession was thereby for the first time complicated by the regulatory concerns of the state.

The representatives of the Association of Practising Accountants of SA (APA) objected to the draft bill, because they insisted on admission to the chartered societies. The APA refused to reconsider their view and left the conference. The sheer number of individuals involved was not the only reason why the accountants failed to agree – the societies and associations representing 2 792 accountants agreed on the draft bill, and only the APA representing 54 accountants, disagreed. The APA wanted the CA (SA)

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70. JC Minutes, Minutes of Bloemfontein conference, 16 and 17 April 1947.

71. W.F. Chua and C. Poullaos, “Re-Thinking the Profession-State Dynamic: The Case of the Victoria Charter Attempt, 1885–1906”, *Accounting, Organizations and Society*, 18, 7/8, 1993, pp 694–695.

72. JC Minutes, 5 August 1948.

designation for its members without having to comply with the ordinary membership requirements of the chartered societies. This was the great cause the TSA had championed since 1904 and it was not prepared to compromise. In responding to the APA's dismay at being requested to leave the Bloemfontein conference after rejecting the 1934 draft bill, M. Edward, secretary of the JC, noted that the APA's continued presence might just have affected the "... Spirit of harmony which otherwise prevailed throughout".<sup>73</sup> When the JC objected to the proposed en bloc inclusion of the Institute of Accountants of SA members in the Register of Accountants and Auditors, the draft was changed to specify their inclusion as "... individuals who had passed the Institute's Final Examination".<sup>74</sup> Despite the APA's objection to the bill, its name was entered in Section 25(5) of the act, as an organisation whose diploma would enable holders thereof to obtain exemption of some papers in the prescribed compulsory examinations. It was apparent that the accountancy profession was prepared to seek consensus.

The bill was sent to the Treasury immediately after the Bloemfontein Conference. Treasury submitted a revised bill to the JC on 30 November 1949. In his response, M. Edmund, secretary of the JC, expressed the dismay of the JC at the fundamental nature of the changes made by Treasury:

A comparison of the content of the two drafts revealed immediately that they are fundamentally different, and your draft cannot be said to be our draft suitably amended ... [the amended draft] in some cases ignores, and in other cases does not deal adequately with, principles which it [the JC] considers to be essential, further the Bill is fundamentally unsound and wrong in its conception of the practice of accountancy and auditing.<sup>75</sup>

The JC remained eager to have a public bill introduced to parliament, but considered it impossible unless agreement could be reached between the profession and government on key principles.

Furthermore, the JC objected to the proposed regulation only of auditors' work. In objecting to the simplistic superficial distinction between accounting and auditing, it emphasised the distinct nature of the profession:

In the mind of the public the word "Accountant" is associated with a person well qualified in accounting matters and a person who, because of such qualifications, has attained a prestige higher than that of a bookkeeper. It is not in the public interest that the title "Accountant" should be used by unqualified persons and the Bill should provide a measure of protection.<sup>76</sup>

The JC insisted that the existence of the four societies of chartered accountants and the Designation Act (1927) be recognised and secured, but that the opportunity be granted to members of the other associations in the Union to qualify as chartered accountants. The JC claimed to protect the Designation Act (1927), with particular emphasis on the preamble, stating,

... whereas by the combined efforts of the said four Societies a large body of highly qualified persons has been created throughout the Union possessing a

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73. JC Minutes: Letter JC – Association of Practising Accountants, 23 April 1947.

74. JC Minutes, 22 July 1947.

75. JC Minutes: Letter JC – Secretary of Treasury, 6 February 1950.

76. JC Minutes: Letter JC – Secretary of Treasury, 6 February 1950.

status warranting the conferring upon the individual members of the said four Societies of statutory designation.<sup>77</sup>

The JC also objected to the composition of the Public Accountants' and Auditors' Board, which would give non-accountants a majority on the board. The pride taken by the profession in building the accountancy profession and maintaining "... its present high and honourable status" was seen to be sufficient argument to acknowledge and sustain such control. Edmund stated: "My council knows of no other profession controlled by a combination of government officials and other persons not actively engaged in the profession. It should be stressed that no rights conferred on a minority are equivalent to control."<sup>78</sup> An unequivocal stance was taken by the JC on the matter of admission into the profession. Suggestions under the new Treasury proposals hinted at the acknowledgement of practical experience of "long standing". The JC insisted that the principle of admission after completion of service under articles of clerkship, and passing of examinations, including a final qualifying examination set by the Accountancy Board, was non-negotiable.

Finally, the JC insisted that existing rights and duties of accountants and auditors had to be honoured. These included the recognition of the preservation of the existing relationship between client and accountant. It rejected proposals to the effect that information about irregularities identified in the accounts of clients would have to be disclosed. Such disclosure was seen as a breach of the confidentiality agreement between client and accountant.<sup>79</sup> Urgent meetings were held to attempt to ensure the promulgation of a public act. The new government after 1948 put renewed emphasis on its accountability responsibility and proposed measures to facilitate state intervention in the regulation of the profession. The organised profession resisted non-professional control.

Intense debate ensued at conferences held in Cape Town from 15 to 17 March 1950.<sup>80</sup> The JC met with representatives of the Society of Incorporated Accountants and Auditors; the Institute of Accountants of South Africa Ltd; the ACCA (SA Branch); and the Institute of Administration and Commerce of SA. The profession succeeded in agreeing on matters of principle and met with the Minister of Finance on 20 and 21 March 1950. This gathering included representatives of the chartered societies, other accounting bodies and the registrars of companies, banks, co-operative societies, insurance companies and a representative of the Board of Trade and Industry.<sup>81</sup> The contentious issues were the source of authority of the new statutory board (individual accountants and auditors, or the individual societies and associations); the composition of such a board; the conditions which persons registered with the board needed to comply with to become members of the societies; and the nationality of authorised registered accountants. Despite some disagreements the conference concluded with two representative bodies waiving their objections to two matters. The desire to reach consensus and to proceed towards a draft bill was more important than the minor differences.

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77. JC Minutes: Letter JC – Secretary of Treasury, 6 February 1950.

78. JC Minutes: Letter JC – Secretary of Treasury, 6 February 1950.

79. JC Minutes: Letter JC – Secretary of Treasury, 6 February 1950.

80. JC Minutes, Special Meeting, 15 March 1950; Minutes, Conference of JC and other bodies, 17 March 1950.

81. JC Minutes of Ministerial Conference, March 1950.

Subsequent meetings were organised in Cape Town on 23 and 24 November 1950 to finalise details of the draft bill and on 12 February 1951 the Public Accountants' and Auditors' Act, No. 51 of 1951, was introduced in parliament.<sup>82</sup> Promoters of the legislation referred repeatedly to the inclusivity and comprehensive nature of the process. When introducing the bill in parliament, the Minister of Finance noted that it was not the intention to create a monopoly of any class whatsoever but to open the profession to all persons complying with conditions set out in the bill.<sup>83</sup> Persistent endeavours to be more inclusive manifested regularly in the meetings of the JC.

The accountancy profession had to develop consensus and agreement on what constituted a reputable profession. It was assumed that regulation of access to and of the practising of accountancy was embedded in a rational social order characterised by a social benefit to all, or a balance of competing/contending interests. Professional exclusivity to protect the status of the profession was balanced with individuals' own ambitions and expectations as well as the broader interest of the commercial community in good governance and sound business practice. Agreement in terms of a single act would deliver social benefits, both to the profession and to society.

### The 1951 Act

The protracted process of statutory professional recognition finally reached fruition in the promulgation of the Public Accountants' and Auditors' Act, No. 51 of 1951. Fifteen years had passed since the Accountants Profession Commission advised the minister to set up a single register for public accountants. Concern about the relationship between the accountancy profession and the state, and intra-professional closure issues, had been driving the protracted deliberations since 1934. The 1951 bill introduced a more interventionist state and a consensus-seeking profession. The state intervened to promote professional inclusivity, notwithstanding the charterists' almost 50 years of attempts to close professional ranks. The urgency on the side of government to bring the matter of accountants' professional registration to conclusion is underlined by the fact that the PAA Bill was introduced in parliament in the House of Assembly on 12 February 1951, where it was read for the first time. Then the unique intervention occurred: the bill was immediately referred to the Senate, because that house could attend to the bill immediately. The urgency of the matter made the Minister of Finance decide to route the bill via Senate first to ensure a third reading before the end of the parliamentary session in June 1951.<sup>84</sup>

The 1951 PAA Act introduced statutory regulatory capacity to non-accountants. The chartered societies had to give up professional self-regulation to gain statutory sanctioning of their closure strategy. The Public Accountants' and Auditors' Board (PAAB) was a corporate body entrusted with the registration of accountants and auditors in South Africa, based on compliance with requirements for examinations and articles of clerkship of trainee professionals (Section 3). In Section 3(1) the newly established PAAB was constituted. Four representatives of government were appointed by the Minister of Finance. The four members were selected from the following government offices: the Commission of Inland Revenue; the Chairman of the Board of Trade and Industries; the Registrar of Co-operative Societies; the Registrar of Companies; the Registrar of Insurance; and the Registrar of Building Societies. In terms of Section 3(1) (b), the

82. *Hansard*, 74, 12 February 1951: col. 4100.

83. *Hansard*, 74, 12 February 1951: col. 4101.

84. *Hansard*, 74, 12 February 1951: cols 482, 2350, 4099, 9376.

minister also appointed “...two professors or lecturers in accounting or accountancy matters at any university in the Union ...”. The first six members of the PAAB thus represented the state and were seen to represent interests outside the profession, but in society were closely affected by the conduct and training of the profession. This was the first time in the history of the professional organisation of accountants and auditors in the Commonwealth that external stakeholder were granted regulatory supervision of the profession.

Professional accountants were recognised by including a majority (eleven) of members representing the professional organisations of accountants. Section 3(1) (c) authorised each chartered society to nominate one member, and an additional member if the society’s membership exceeded 250. The Society of Incorporated Accountants and Auditors was allocated in terms of Section 3(1) (d), one representative for all the members in the branches of that organisation in South Africa. The desire to be all-inclusive was taken a step further by allowing each of the following organisations the opportunity to nominate one person to the PAAB: South African branches of the Association of Certified and Corporate Accountants of South Africa; the Institute of Accountants of South Africa Ltd; and the Association of Practising Accountants of South Africa. The last four organisations thus had at least one representative on the PAAB. The chartered societies’ almost unilateral control of the profession in terms of the Designation Act of 1927 was terminated. Government intervention secured a broad-based representative composition of the PAAB, ending the exclusive chartered societies’ control.

The PAA Act incorporated the fundamental professional requirements as developed, enforced and administered by the chartered societies as the basis for registration and qualification as accountants in South Africa. In order to facilitate the registration of accountants and auditors in South Africa, a two-tier process was introduced. First, in terms of Section 13, an Accountants’ Registration Advisory Committee advised the Minister of Finance on the registration of all accountants and auditors in South Africa on a single central register. Within eighteen months of the promulgation of the act, all accountants and auditors in South Africa had to register accordingly. The Advisory Committee investigated all applications for registration as a temporary measure, since potentially contentious applications could only be assessed for a bridging period of eighteen months. The act clearly attempted to ensure inclusion in the Register of Accountants and Auditors of all persons regarding themselves qualified to do so, provided that the PAAB accepted the standing of their qualifications.

The newly formed PAAB registered all accountants and auditors in South Africa in a single Accountants’ Register and established the first national register of article clerks in the Commonwealth. Section 23 required all accountants practising in South Africa to submit written applications for inclusion in the national register. The criteria, as laid down in Section 23(1) (a) and (b) of the act, were the following: a person had to be at least 21 years of age, ordinarily resident in the Union of South Africa; they had to have served under articles of clerkship for a period of five years (university graduates were granted two years’ exemption); and have passed the prescribed examinations. The act also provided for the recognition of formerly registered accountants and auditors with reputable professional societies. In Section 23(3) (a), explicit reference was made to former members of good standing or who had qualified to become a member of one of the following professional accountants’ societies: a branch of the Society of Incorporated Accountants and Auditors established in the Union; members of the South African

branch of the Association of Certified and Corporate Accountants of SA Ltd; or members of the Practising Accountants of South Africa.

The PAAB was also entrusted with the administration and registration of articles of clerkship (Section 24); and Section 25(5) (a) of the act gave the PAAB, as guardian of examinations, the authority to exempt persons who had passed examinations outside the Union provided that such examinations were passed “... in the law of the Union as the board may determine”. Exemption was also granted for degrees obtained in respect of parts of the examinations sanctioned by the board, and persons who had obtained a diploma in the accountancy branch of the Institute of Administration and Commerce of South Africa were also exempted – provided, as laid down in Section 25 (a) and (c), the Board was satisfied that suitable training and proficiency of accounting had been acquired. The exemptions and inclusions of various organisations’ and bodies’ qualifications or examinations in the past, illustrated the broad intention of government to acknowledge de facto practising accountants and auditors beyond the original limited professional chartered societies recognised in the 1934 Accountants’ Bill. The future control was placed firmly in the hands of the PAAB. The 1951 PAA Act also took the exceptional step of enacting membership of the societies: Section 29(1) stipulated that accountants and auditors registered in terms of the act, and who had passed the final qualifying examinations and acquired six years’ practical experience, as well having complied with the admission requirements of the society, would be “entitled upon application to be admitted to membership of that society”.

Full responsibility for the examination of articled clerks also shifted to the PAAB. The functions of the Chartered Accountants’ General Examining Board (GEB) were thus transferred to the statutory body. In terms of Section 21(1) (h), the PAAB was given the responsibility of maintaining the integrity of the profession, enhancing its status and were to improve “the standards of professional qualifications of accountants and auditors”. This was a fundamental shift in the profession’s conceptualisation of its responsibility to protect the standing of accountants and auditors. Representation of the chartered societies on the PAAB was the only comfort to them. In actual fact, the chartered societies did not constitute a majority on the PAAB; they had a maximum of seven representatives on a board comprising seventeen members. Depending on the nature of the relationship with the representatives from universities, chartered accountants might be able to count on the principled support of universities, but not necessarily from the four government officials. The closer allies seemed to be the representatives of the branches of foreign accounting organisations in South Africa. The inclusion by the Joint Council of representatives from the Society of Incorporated Accountants and Auditors; the Association of Certified and Corporate Accountants; and the Association of Practising Accountants, in their submission to the Bloemfontein conference of accountants in 1947, helped to nurture intra-profession collaboration, which proved to be valuable in protecting the standards and status of the profession after state intervention.

Although the legislative process at the time of the PAA Bill going to parliament had been as inclusive as never before, there were still vigorous debates in the House of Assembly about the explicit exclusion of the members of the Society of Commercial Accountants (South African branch) from registration in the statutory Accountants’ Register.<sup>85</sup> The members of that society were looked upon with little appreciation or

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85. *Hansard*, 74, 12 February 1951: cols 4112, 4125, 9333–9334.

recognition. One member remarked that it had been said that the Society of Commercial Accountants had admitted members without requiring the successful completion of examinations, and that they “sold” titles!<sup>86</sup>

Two contentious matters in the PAA Act illustrated the concerns of the state. The first was professional responsibilities of auditors regarding irregularities in business conduct. This aspect reflects the state’s concern with reliable auditing and the public interest. The PAA Act was also intended to promote sound business practices and prudent business governance. Section 26 of the act set out the powers and duties of auditors, emphasising the conditions for issuing an unqualified certificate of accounts. Standard principles of auditing applied, including unrestricted access to books and accounts; documentation to exhibit a true and fair value of the business’ affairs; access to all information; existence of all assets; and non-participation in the business of the concern being audited. A new aspect of the act, Section 26(3), was the additional responsibility on the part of auditors detecting “material irregularity” to report such conduct to the person in charge of the audit, who was obliged to report the matter to the PAAB. This section was criticised repeatedly and in the strongest terms by MPs when the bill passed through its second and third readings.<sup>87</sup> The argument was that Section 26(3) infringed on the professional conduct and confidentiality between the professional auditor and the client. Opposition MPs (amongst others, M.V. Pocock, the member for Sunnyside and Mr Bloomberg, the member for Brakpan) acknowledged the professional responsibility of accountants and auditors to report inappropriate practices or misrepresentation in financial statements, but rejected the procedure to report such matters to the PAAB. By not issuing an unqualified certificate of audit, it was argued, the accountant had publicly declared the existence of inappropriate conduct. A further report to the PAAB exceeded professional responsibility and could place the firm conducting such an audit at risk of losing future contracts.<sup>88</sup> The representatives of government argued that it was in the interest of shareholders and the public at large to be notified of irregularities. The issue of a qualified audit certificate was insufficient.<sup>89</sup> The tone of the Opposition members was significant: such prescriptions transgressed the professional conduct of accountants and auditors. Consensus could not be reached and the Opposition was defeated by a majority vote during the committee stage of the bill.

The other contentious matter was Section 30, concerning professional fee income transfer or profit sharing with persons registered as accountants or auditors, or practising as accountants or auditors outside the Union. According to the stipulation of Section 30(1) (c) and (d), accountants and auditors were not permitted to practise under the name of the firm which included the name of a person “who is not or was not during his lifetime ordinarily resident in the Union”. A grace period of three years after the commencement of the PAA Act in 1951 was allowed to terminate arrangements with foreigners referred to in Section 30 (a). The opposition argued that accounting and auditing services rendered by professionals constitute a personal service based on trust and capacity. The standing of the name of the individual and the firm carries inherent value and instils trust and confidence. Many non-South African accountants had practised in the country and did so as members of overseas firms. The “brand” name of the professional and the firm had become entrenched and should not be discarded for limited nationalist aims. The opposition compared the exclusion of non-resident

86. *Hansard*, 74, 12 February 1951: col. 9334.

87. *Hansard*, 74, 12 February 1951: cols 4127, 4137, 4140.

88. *Hansard*, 74, 12 February 1951: cols 4405–4420.

89. *Hansard*, 74, 12 February 1951: col. 4424.

accountants with the exclusion of overseas lawyers of non-South African origin from practising in South Africa. The latter was not done – why exclude non-resident accountants? In an attempt by government to place the accountancy profession in South Africa on a sound uniform statutory basis, foreign professionals (and their firms) should therefore be included in professional practice as it constituted the typical modern society with free movement in international markets of human capital, goods and finance.

A further argument was that the decision of whether or not to collaborate with foreign professionals should be the prerogative of the profession, who should decide who may practise as professionals, not the state.<sup>90</sup> At the committee stage of the third reading of the bill in parliament, the minister accepted as a compromise an amendment to the bill providing for a period of five years to allow persons not residing in the union, who were claiming professional fees, shares in profits or whose name was included in the firm's name, to continue practising before the matter would be reconsidered by the PAAB. Amendments would then be proclaimed in the *Government Gazette*.<sup>91</sup> This matter signalled the intention of the state to protect South African national interests and, in the opinion of the Minister of Finance, the professional accountants and auditors of South Africa. Given the growing international criticism of domestic political policies and South African nationalism promoted under National Party government after 1948, this matter created serious difficulties for the accountancy profession.

### Conclusion: regulation of a profession

The PAA Act was an act of consensus. The PAAB was constituted on its first meeting on 24 October 1951 and consisted of seventeen members – seven representatives of the chartered societies; four representatives of other organisations of accountants; two representatives of universities; and four full-time employees of the state.<sup>92</sup> The Minister of Finance, N.C. Havenga, addressed the board and stated that the act brought the profession to an important point in its history because it would "... provide uniform control throughout the Union of South Africa and South West Africa". He was sensitive to the fact that the "satisfactory position of a uniform platform of control had not been created without difficulties". The divisions that prevailed in the profession on the grounds of what constituted "public practice" were put to rest by focusing on the achievements of the 1951 Act. These achievements were not the "... establishment of a closed shop in the profession" or the

... privileges of the newly established monopoly", but improved faith by the public and parliament in the profession "... not to abuse power granted to it, not to fail to perform duties laid down to it ... [But] by virtue of the accountancy profession, will bring a more ample reward in the recognition by the public as well as by the Government of the profession's status and importance."<sup>93</sup>

Explicit reference was made to the long drawn-out attempts since the Designation Act of 1927 to acquire statutory recognition. He acknowledged the disappointment and dissatisfaction caused by the proposals in the 1934 Accountancy Profession Bill, as justification for government intervention in the process of professional consolidation.<sup>94</sup>

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90. *Hansard*, 74, 12 February 1951: cols 4128–4130; 4136–4137; 4434–4457; 9365–9366.

91. *Hansard*, 74, 12 February 1951: cols 9365–9366.

92. PAAB Annual Report, 2001, p 8.

93. PAAB Minutes, 24 October 1951.

94. PAAB Minutes, 24 October 1951.

The government succeeded in establishing some form of regulation over the profession – a win for government. The profession succeeded in statutory recognition and compulsory registration as a prerequisite for public practising rights – a win for the profession. The accountancy associations excluded from the act lost out and remained outside statutory sanctioning.

The interventionist nature of the state since the end of the 1940s was apparent in the minister's identification of the most important aspect of the act, namely, the statutory responsibility of accountants to report "material irregularities" to the PAAB. He said:

To my mind the most important aspect of this piece of legislation is Parliament's recognition of the principle that an auditor owes a duty not only to his client, but also to the public. For many years auditors have been in doubt as to their responsibility to the public. Parliament has now given a clear and unequivocal answer. I wish in this connection to refer particularly to subsection 3 of Section 26. Although it is not claimed that the provision of this subsection will give complete protection to the interest of creditors and local and overseas investors advantages as yet unforeseen will undoubtedly accrue from the recognition of the principle embodied in that subsection, namely that the auditor should, if his client fails to satisfy him, report material irregularities to the statutory body, the Public Accountants' and Auditors' Board.<sup>95</sup>

The government used its responsibility to ordinary citizens to claim the regulatory responsibility of the accountancy profession.

The minister justified the strong role of government by referring to "... the grave responsibilities entrusted to us [the PAAB] by Parliament, in the spirit of loyal public service" and "... in the best traditions of being our brother's keeper". It is apparent that the government was concerned about governance of the profession. He called on the profession to consolidate the achievements of the act by taking the "... necessary steps considered expedient for the maintenance of the integrity, the enhancement of the status and the improvement of the integrity of professional qualifications of accountants and auditors".<sup>96</sup> It was this concern with the public responsibility of government towards society which resulted in government's insistence on the reporting of potential irregularities to the PAAB. The minister conceded that the act made reference to the "minister" 46 times, but that the intention was not to over-regulate, but rather to exercise its responsibility towards the public. He stated that such ministerial position did not constitute "unwarranted interference of the Minister or Parliament in the affairs of the profession", but should be interpreted as wide powers of the minister which proved the "... great importance attached to the profession and consequently, to the activity of the Board".<sup>97</sup> The opening address by the minister signified the government's perception of its responsibility to facilitate professional consolidation and cooperation.

This was a conciliatory speech, which recognised the long drawn-out battle to obtain statutory recognition by the professional societies of chartered accountants in the Union. As in all settler societies, the emerging "nation" in the four former British colonies was slowly creating a new identity and context for development. The accountancy profession was no different. Similar to the professionalisation strategies of the medical profession and the legal fraternity which organised themselves into

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95. PAAB Minutes, 24 October 1951.

96. PAAB Minutes, 24 October 1951.

97. PAAB Minutes, 24 October 1951.

professional societies to promote and protect their distinct professions, the accountant and auditor profession also organised itself. All the professional initiatives in the former colonies, and later in the Union of South Africa,<sup>98</sup> were path dependent on the professional developments in the countries of origin, especially Britain.<sup>99</sup> The state was not the driving force of regulation. The profession had sought professional closure through statutory regulation since 1912. The profession submitted private bills to parliament in an attempt to secure exclusivity and closure on the terms of the membership requirements of the chartered societies. The state maintained an observer role and adjudicated the evidence before the Select Committees of the Accountancy Profession from the perspective of the “public interest”, fair representation of all practising accountants and the needs of the growing South African economy. The interests of investors could potentially be compromised by the conduct of accountants and auditors and thus state intervention was justified. When the Smuts government stepped in in 1946, it was the minister responsible for the Treasury, J.H. Hofmeyr who followed the advice of professional civil servants in the Interdepartmental Committee on this matter. The *tour de force* by the state was not driven by nationalistic motives, as could be suggested by reflecting on N.C. Havenga as the responsible minister at the time of the promulgation of the PAA Act in 1951. The state under National Party rule in 1934 and after 1948 was not the initiator of the regulation of the accountancy profession. Professional failure to succeed and concerns over governance resulted in Hofmeyr’s decision to intervene.

The state intervention was primarily motivated by concern over governance of the profession. The inability of the accountancy profession to arrive at professional consensus on registration had jeopardised professional self-regulation. This opened the door for the state to step in. The chartered societies developed a high professional standard through the GEB, but other accountants were still practising in the public sphere outside those parameters. The profession did not seek state regulation, but state statutory sanctioning via a private act. When that strategy failed, the state used its capacity to “regulate and rule” to address both concerns: quality of professional work in the public interest, as well as control over access to the profession. The PAA Act of 1951 then afforded the state an opportunity to foster national interests, such as the protection of the national sphere for professional accountants. The National Party government after 1948 only entered the discourse on the accountancy profession when most of the draft legislation was completed by the Interdepartmental Committee. The two contentious sections in the 1951 Act probably reflect the local interests of the post-1948 government. A symbiosis emerged between the accountancy profession and the statutory body, the PAAB. This was an entirely new development in the imperial accountancy arena. Further research into the relationship between the state and the profession after 1951 is required to explore the impact of the new government on professional development in South Africa.

#### Abstract

This article investigates the disagreement among accounting professionals in South Africa, the strategies developed to acquire professional exclusivity and the protracted state involvement in the process. Government intervention influenced aspects of professional closure and the interference by British bodies in the organisation of the profession in South Africa. The emergence of an “imperial arena” for professional

98. SC12/38: Report of Select Committee, 1938, p 13.

99. Poullaos, “Professionalisation”, pp 247–259.

accountants developed alongside growing national interests. This was not limited to South Africa only, but also manifested in the developments of the accounting profession in Canada and Australia.

**Key words:** Accountants; professional closure; statutory recognition; chartered societies; professional association; regulation; public interest; state intervention.

### Opsomming

#### **Die staat en die professie: Inisiatiewe en reaksies op die organisasie van die rekenkundige professie in Suid-Afrika, 1904-1951**

In hierdie artikel word die onderlinge verskille tussen professionele rekenmeesters in Suid-Afrika ondersoek en word die lig gewerp op die strategieë wat gevolg is om professionele eksklusiwiteit te verseker. Die artikel wys ook op die uitgerekte en onwillige betrokkenheid van die staat by die proses. Regeringsinmenging het aspekte van die professionele sluitingstrategie en die inmenging deur Britse organisasies in die Suid-Afrikaanse sluitingstrategie beïnvloed. 'n Imperiale "rekeningkundige arena" vir professionele rekenmeesters het gelyklopend met plaaslike nasionale belange beslag gekry. Hierdie ontwikkeling was nie tot Suid-Afrika beperk nie, maar het in effens gewysigde vorm ook in die rekenmeestersprofessie in Kanada en Australië ontplooi.

**Sleutelwoorde:** Rekenmeesters; professionele sluitstrategie; statutêre erkenning; geotrooierde verenigings; professionele verenigings; regulering; openbare belang; staatsinmenging.