Bean Counters

'The Triumph of the Accountants and how they broke capitalism'

Richard Brookes.
Atlantic Books 2018 £18.99 Buy it here

How could an accountant resist the title?

The author has written for Private Eye for many years and so its readers will be familiar with some of the themes running through the book: financial scandals of one sort or another, failures of the accounting profession to spot them, collusion in tax evasion on an industrial scale and the way in which an overly cosy link between politicians, industry, financial services and the accountancy profession has meant the public has been short changed while intermediaries have escaped with the cream.

What attracts me however is not the attention to the episodes of bad practice dotted throughout the book but the overall picture that emerges.

The book is well written and well-paced so that the unfolding story is built up slowly and with care for history on a grand scale, filled by the telling detail but whose full significance is only revealed later as the reader reflects on the book as a whole.

What's it got to do with the NHS ?

It casts light on the forces promoting "commercialisation", the penetration of the healthcare market place by international companies , PFI , the "transformation/innovation/ change " industry, the importance of new technology to the process etc. It does not take a great deal of imagination to see the application but it may be uncomfortable reading for those with a rather more trusting nature to see the links drawn.

From History, we learn that one theory for the fall of the Roman Empire was the difficulty of accounting using Roman numerals.

It was only when Florentine merchants and mathematicians, familiar with the Arabic numbers system, combined that double entry bookkeeping developed.

And, it was as late as 1494 before it was popularised and published for general application.

It became vital in the burgeoning of world trade and in the development of manufacturing on a larger scale.

Britain was an early adopter and the expansion of the industrial revolution and empire was made possible by the proper accounting of its ventures, attracting investment, credit and trust.

Various famous figures from UK history and world history were avid bookkeepers.
It was when the boom in the railway industry took off though and transatlantic trade expanded that the auditing industry grew in the mid-19th Century. Each of the large accountancy firms we have known of over the last forty years and which are now merged to form the Big Four accountancy and consultancy practices arose in this era and are given a pencil sketch with a biography of their founders.

The big money now is in ensuring governments don't kill the golden goose

Without exception they were men of integrity and dynamism that helped oil the wheels of commerce and efficient financial administration upon which our civilisation rests.

As a reward the auditing profession was granted legal status and much autonomy. Their growth so that today they are world leaders networked across the world as advisers to the worlds largest companies is a UK (predominantly) success story

So far, so good.

It all started to change however when after achieving a trusted position of authority and wisdom the auditors branched out to sell ancillary services and realised that this was where the big money was.

So much so that McKinsey's stopped being an accountancy company altogether, although most others used their position of auditors as a bridgehead upon which to build their consultancy and advisory services, from which they derive the majority of their income.

Where things really started to take off was only in relatively recent years with the development of the large multinational company based in many countries, requiring sophisticated control systems able to minimise taxes and to minimise political risks.

This is the scandal as accountants have gradually inveigled their way into government through direct payments to political parties and offers of "free" advice to politicians and jobs for those with big contacts lists (see pages 207,208).

The big money now is in ensuring governments don't kill the golden goose.

The golden goose for the accountancy firms is the income they earn from tax advice (the biggest single source) and lobbying on behalf of their clients. Some of the biggest earners for them in the UK have been;

- HS2 (£60bn),
- Ronan Point Nuclear power station (7% of UK electricity supply at over twice the normal price over 35years),
- The Olympic games (£10bn)
- The PFI programme (£60bn),
- The NHS IT project(£10bn)
- Replacement of a fleet of in-flight refuelling planes (£10bn).

They are also making a nice return on advising on Brexit negotiations.

...some accountants need to be taken down a peg or two

It's in this context we must view the introduction of "accountable care" and "new models of care".

New models of care introduces "intellectual property" owned by the holding company based in a tax haven which will bill for its services at a high rate, effectively syphoning off profits from a public service.

That's what the mumbo jumbo about risk modelling, data mining and fancy apps is all about, probably.

The author is an ex-tax inspector, and it obviously pains him to see the large companies avoid paying taxes and public services starved of resources. He blames the large Auditing firms who have turned not only a blind eye to the issue but actively marketed tax avoidance to their clients and advised governments at the same time.

The term conflict of interest doesn't quite cover the scale of the problem.

The financial crash of 2008 is in recent memory but the accountants involved have escaped scot free.

It takes the breath way to read of the clean bills of health given by the big Audit companies to the likes of Enron, RBS, AIB, etc.

The same accounting practices making this possible are largely intact, building problems for the future.

There is a sneaking suspicion that the same companies may have had a hand in promoting Brexit as a way of avoiding EU pressure to regulate and tax financial intermediaries and fairly tax multinational companies.

Perhaps that will be the next book.

As for now, I thoroughly recommend this book to the general reader.

Most will not be interested in accountancy or the technical issues that lie at the root of the discussion: the principal-agent problem; the true and fair view versus the legalistic method of accounting; when to recognise income and when to account for costs etc.

My guess, however, is they will not avoid the conclusion from reading this book that such issues are important and the people providing advice to governments

should not have conflicts of interest or too much power.

I hope they will agree that some accountants need to be taken down a peg or two (excepting myself of course).

It's happened before in economic history (examples are usefully supplied) when the accountant starts to enjoy the trappings of power too much.

Unfortunately it tends to be after the event and as an afterthought.
This book calls for action sooner. I agree with it.

My only criticism is that it targets to an unjustifiable extent the accountants who took advantage of the trust, hard earned, placed upon them.

My criticism would be targeted at the politicians who allowed this system to develop on their watch.

Tony Blair has more than Iraq to answer for and it is only in the last 20 years the problem has got much worse.

Roger Steer
6th August 2018