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Accountant's responsibility for disclosing bribery: An historical note

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THE ACCOUNTANT'S RESPONSIBILITY FOR DISCLOSING BRIBERY: AN HISTORICAL NOTE

Abstract: In the late nineteenth century *The Accountant* reported on a case where the auditors looked at the mattery of bribery "straight in the face" and disclosed the illegal payments in the audit certificate. However, subsequent discussion of the accountant's responsibility for disclosing bribery in an 1899 lecture, "Secret Profits," showed that there was no unanimity of opinion on the accountant's responsibility in this area. The problem is obviously a continuing one.

Recent scandals involving political payoffs and international bribery have raised questions concerning the accountant's responsibility for disclosing illegal payments. These questions are not a recent phenomena. Since the dawn of civilization, accountants have been confronted with this fundamental problem of human nature.

Long ago Aristophanes (450-385 B.C.), in his comedy "The Clouds," attacked Pericles for financial statements in which an item of ten talents was shown as "expended for necessary purposes." Apparently, the payment "had been allowed by the auditors because the sum was known to have been used for a bribe to a person with connections in high places."[1]

Skipping quickly through several thousand years of history, to the early industrial age, a less passive approach was taken by the auditors of Bell's Asbestos Company, Limited, in 1890. Their action was reported in a note on "Tips" that appeared in the March 8, 1890 issue of *The Accountant*.

> A limited company has obtained great notoriety recently in connection with its reprehensible practice of tipping. The auditors looked the matter straight in the face, when, after passing the accounts, they appended to them the following certificate. "We have examined the above balance sheet with the books, accounts, and vouchers of the company, and certify the same to be correct, *subject to the non-*

> *production of vouchers for gratuitous payments*." The company referred to is, of course, "Bell's Asbestos Company, Limited." It will be remembered that at the recent meeting of the company, a motion was passed "That this meeting disapproves of the system of giving money or making presents to the servants of the customers of this company, *unless with the sanction of the employers*, and requests that the practice may be discontinued." Our contemporary, "*Money*," referring to the *italicized* portion says, this would be tantamount to a burglar asking a policeman to hold his bull's-eye for him while he "cracked his crib."

The subject also was discussed by a correspondent in the March 14, 1891 issue of *The Accountant* under the heading, "What is Bribery?" Again, Bell's Asbestos was under attack.

> The Chairman then went on to refer at great length to the serious question of "tipping" foremen and other members of the concerns with which they did business. It will be remembered that, as we mentioned last year, upon the systematic observance of this custom being made public, much unfavourable criticism was evoked, and the Admiralty in consequence removed the name of one Company from its list of contractors. The Chairman waxed righteously indignant over the remarks which had been made upon this custom, which he called "backsheesh," and asseverated that they had never given a penny to any man to cover defect of quality, short weight, or measurement, and distinguished between "bribery and corruption" and what he called mere "gratuity-giving."

Several years later a lecture, "Secret Profits," was reprinted in the *Lectures and Transactions of the Incorporated Accountants' Students' Society of London for the Year 1899*. The speaker was A. E. Woodington, who had a sense of history about this basic human condition.

> It must remain, I suppose, for ever a matter of speculation as to whom was first given or who first received a secret commission, or who was the first agent who abused his fiduciary relationship to his principal. To follow this train of thought would take us too far back into the world's history and might involve us even into theological controversy which I prefer to spare both my hearers and myself.

Woodington's paper dealt with legal and economic aspects of the subject and his remarks provide an interesting background for studying the attitude towards bribery in those days. The lecture also made reference to Macaulay's oft-quoted remark that he knew of "nothing more ridiculous than the spectacle of the British public in one of its fits of periodic morality" (p. 49).

As was the custom at meetings of the Society, the paper was commented on by its members and one discussant described a particularly notorious example of a bribe.

> A rather gruesome secret commission which I read of the other day, was that which an undertaker paid to a doctor, where, in consideration of the doctor introducing business to him, the undertaker lent the doctor a brougham to take him on his rounds (p. 55).

Aside from containing "humorous" examples of this sort, the discussion indicated an agreement among the membership that accountants should not receive or pay "private commissions" except, possibly, "in connection with the promotion of companies" (p. 53). But there *was* disagreement over the question of the accountant's responsibility for disclosing bribery.

At one extreme, E. W. E. Blanford said flatly that "As accountants we have nothing to do with the principle of the items we find in the books, but we cannot help recognising the fact that they are not always described very explicitly" (p. 51). However, Woodington took the opposite position.

> As to the duty of an auditor who finds that a secret commission has been paid to the servants of his clients, I think he should disclose it to the client. If he finds secret commissions have been paid to the servants of a company he should disclose it to the directors, and if (not) to the directors, then I think he ought to bring it under the notice of the shareholders (p. 55).

On the other hand, another member, H. de Rusett, was less certain about the auditor's duty.

> . . . an auditor would be placed in an awkward position if he became aware that a secret commission had been paid, and I should like to know what would be the duty of an auditor in such circumstances (pp. 54-55).

A similar question was asked more recently (*The New York Times*, May 3, 1977): "What happens when a certified public accounting firm disagrees with its clients over the need for disclosing the results of an investigation into questionable payments?" In this case the accountants seem to have upheld Woodington's position because they

> insisted over management's objections that the company's financial statements could not be given a "clean," or unqualified, opinion unless this payment information was revealed, or . . . outside legal counsel concluded that disclosure was unnecessary. The latter condition was not met. . . .

Several months after the payment information was made public, the auditors were replaced and the firm's managing partner was quoted by *The New York Times* as saying, "We were not aunaware (sic) that this might happen."

We can look at this glimpse into the past as partly anecdotal and partly instructive. In any event, it is clear that the debate over the accountant's responsibility for disclosing bribery is a continuing one.

FOOTNOTES

[1]H. P. Hain, *The Ausralian Accountant* (April 1965), p. 202. The author thanks Professor Gary Previts for this reference.