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May 2009

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ABSTRACT

This article explores the manipulation of published financial reports in order to counter the potentially unfavourable impact of newly introduced regulation. In this case the reported capital ratio of a major building society was enhanced using a sale and leaseback transaction with a related party and a change in depreciation policy, methods which reflected limited alternatives. Analysis of the case is set in the context of the mid-term performance of the building society sector and addresses the questions of whether the manipulations involved were within then-prevailing generally accepted accounting principles and why, despite disclosure in the society's financial statements, these failed to attract public comment or concern, regulatory action or an audit qualification. In examining a major British mutual financial organisation we depart from traditional analyses of managerial discretion in accounting choices in manufacturing, mining and transport companies prior to the watershed Companies Act 1948.

Key words: Accounting manipulation; Creative accounting; Sale and leaseback; Depreciation; Building societies; United Kingdom.

This article investigates the response of a U.K. financial intermediary when regulatory change threatened to curtail its growth opportunities. The evolving inter-relationships between strategic decision-making, regulation and accounting practices are central to our analysis of this case. The key explanation of how and why those practices emerged in their historical context is managerial concern about the effects of changed regulatory requirements on stakeholder evaluation of the entity's performance.

Building societies are mutual organizations, owned by their members who are their customers - borrowers and depositors with ownership rights - described as 'shareholders'. There were 819 societies in 1950, although 10 per cent of these accounted for about 50 per cent of the total assets of the 'movement' (i.e. the building society sector). Among the large societies, a handful had transformed themselves from the typical small and local organizations into large national ones. This paper focuses on one such society, the Co-operative Permanent Building Society (hereafter the CPBS or the Society), whose rapid growth was driven both by amalgamations with other societies and organic growth. By the end of the 1950s this growth had left the CPBS with a strategic problem: a weakened capital position when explicit statutory capital and liquidity requirements were first imposed on societies, which had finally won a long-running argument that trustees should be allowed to invest in their deposits.

The paper addresses the question of how the CPBS, from an unpromising position, secured compliance with this new regulation when failure to meet the new capital requirements might have threatened the Society's status. There are two aspects to our discussion: the creative accounting solutions used and the acquiescence of various stakeholder groups in their use. The CPBS entered into transactions which may be regarded as ‘creative accounting’ in that they appeared to comply with the relevant regulation and prevailing generally accepted accounting principles (GAAP), but had a material positive impact on the Society’s reported financial position. The aggregate effect of these changes was clearly disclosed in the financial statements but failed to attract public comment from the auditors, the regulator, other societies or the press.

This article constitutes a compelling story for several reasons. First, we focus on one large institution, providing a rich account of the business strategy and operations typical of a large society. Little has been written about the business and accounting history of *individual* building societies, although the twentieth century history and performance of the building society movement in transforming retail deposits and ‘share’ investments into long-term mortgage financing for domestic house purchases has been well-documented (see, e.g., Davies, 1981; Boléat, 1986; McKillop and Ferguson, 1993; Jeremy, 1998; Bátiz-Lazo, 2004).

Second, this article examines an otherwise neglected area in the history of financial reporting, providing a detailed case study of ‘creative accounting’ in an industry and period not known for manipulative activity, and in an organization which survived and was not subject to investigation. Stolowy and Breton (2004, p. 6) describe ‘creative accounting’ as a journalistic term that represents the exercise of management’s discretion to make accounting choices or design transactions so as to modify apparent performance and enable transfers between the company and society (political costs), fund providers (cost of capital) or managers (compensation plans). The potential impact of these transactions will depend on the market context (Stolowy and Breton, 2004, p. 10). Much of the extant work on ‘creative accounting’ in Britain focuses on manufacturing, transport and mining companies and generally examines time periods before the ‘watershed’ Companies Act 1948 (CA48) (e.g., Napier, 1990, 1991; Arnold, 1991). Such studies pay close attention to the links between improved disclosure, fixed asset accounting, inner or secret reserve accounting and ‘profit smoothing’, and help to legitimize the rationale for the major changes in financial reporting requirements in CA48 (Arnold, 1997; Maltby, 2000). Arnold and Matthews (2002) and Arnold and Collier (2007) have demonstrated the impact of CA48 on corporate financial reporting. Banks, together with certain other types of company, enjoyed significant exemptions from this Act, with considerable impact on their financial reporting (Billings and Capie, 2009). But building societies, outside the scope of CA48 as mutual organizations, have not been subject to similar examination and had less opportunity to hold ‘hidden reserves’. Indeed, the CPBS case is unusual in that the accounting manipulations were clearly reflected in the Society’s published financial statements, but failed to arouse public interest.

Third, this article responds to the call by Stolowy and Breton (2004, p. 29) for more research on the motivations for manipulating accounts. We argue that the motivation in this instance was the desire to avoid an adverse regulatory outcome. The case can therefore also be placed in the context of the so-called ‘bond covenant hypothesis’ (Clinch, 1983, p. 141), whereby managers will wish to avoid the costs of violating restrictions, in this instance, the possible loss of a particular regulatory status.

The article proceeds as follows. The next section explains financial reporting and regulatory requirements for building societies and how these changed in 1959 and 1960. We then briefly describe the history of the CPBS and detail the business environment in which large building societies operated at the end of the 1950s. The next section shows how the CPBS responded to changes in the regulatory and business environment. The penultimate section discusses this response and the position of various stakeholder groups: other societies; the regulator; the CPBS's directors; and its auditors. The final section concludes.

THE CHANGING REGULATION OF BUILDING SOCIETIES

The Housing and House Purchase Act 1959

The Building Societies Act 1894 (BSA94) gave powers to the Chief Registrar of Friendly Societies (CRFS) to intervene in the affairs of societies and required full accounting disclosure and professional audits (Phillips, 1983, p. 4). Although subsequently amended, notably in the Building Societies Act 1940, BSA94 remained the main statute regulating U.K. societies until changes introduced in 1959 and 1960.

Following the enactment of the Housing and House Purchase Act 1959 (HHPA59), societies gained two forms of government recognition: 'their deposits became authorized trustee investments and building societies became entitled, for the first time in their long history, to borrow from H. M. Government'.[1] A 1954 voluntary agreement had channelled £100 million from government through the societies to promote home ownership, but disadvantaged borrowers who wanted to buy a house built before 1919 (Registry of Friendly Societies (RFS), 1961, pp. 13-14; RFS, 1962, p. 357; Cleary, 1965; Boddy, 1980, pp. 17-19; Boléat, 1981, p. 153).[2] To continue to 'help people with moderate incomes … to fulfil their ambition of becoming home-owners',[3] the government proposed making further advances through societies, which agreed to take on the business in return for the designation of their deposits as suitable for investment by trustees.[4]

'Trustee investment status' was first sought by societies for investments in their 'shares' and deposits in the mid-1920s (Humphries, 1987, p. 335). Without it, trustees, including executors of estates of the deceased, were unable to invest in building societies in the absence of specific directions. Societies believed that this status would give them a competitive advantage and increase their loanable resources[5] but it rapidly turned into 'a seal of respectability … and all but a very few societies eligible for have sought and obtained such status' (Boléat, 1981, p. 32). Designated status had been achieved by 218 of the 732 registered societies in December 1960, whose assets of £2,994 million comprised 94 per cent of the total assets of all registered societies (RFS, 1961, p. 6). By December 1961 there were 255 designated societies, whose assets totalled £3,274 million, 95.3 per cent of the assets of all registered societies (RFS, 1962, p. 5).

Initial qualification for, or revocation of, trustee investment status was at the discretion of the CRFS (RFS, 1961, p. 7), with no requirement for automatic revocation when a society ceased to fulfil the requirements of the HHPA59. A later Statutory Instrument required that a society should have a minimum net reserve ratio (of 2.5 per cent of net assets at the end of 1960) and a minimum liquidity requirement (of 7.5 per cent of total assets at the end of 1960) to be granted this status (S.I. 1959 No. 1010). The Building Societies Association (BSA), the voluntary industry body, adopted these same requirements as a condition for renewal of membership, but did not require compliance until 1965, to allow smaller and less liquid societies time to meet them. The BSA's move was intended to give '… the public the same guarantee of security in the case of deposits and investments in smaller societies, [as] trustee status gave to the larger societies' (Cleary, 1965, p. 268).

Meeting the liquidity requirement was straightforward for most societies - for the sector as a whole cash and investments had exceeded 14 per cent of total assets for every year since 1945 (Cleary, 1965, p. 256) and were to remain above 15 per cent until at least 1973 (Greer, 1974, p. 11). The 'normal' range for liquidity ratios for individual societies within any one year was between 12 and 22 per cent (Perks, 1977, p. 62). Meeting the reserve requirement, however, was more challenging. Just as capital adequacy sustains confidence in banks, building societies need reserves to provide against various contingencies to maintain investor confidence: losses on the sale of mortgaged properties following borrower default; losses on the realization of investments in (mainly fixed income) securities; and to guard against the unknown.[6] Before the HHPA59, the BSA had long recommended that every society should aim for 'gross' (i.e. a less strictly defined level of) reserves of at least 5 per cent of total assets. In 1938 the average figure for all societies was 5.5 per cent and had fallen to 4.5 per cent by 1957, but this 'decline in the [gross] reserve ratio was not in itself regarded as serious' by the BSA.[7] The average gross reserve ratio for the major societies had dropped from 5.0 per cent in 1950 to 3.8 per cent in 1959 (Table 1, Panel A).

[Insert Table 1 around here]

In 1959 Sir Cecil Crabbe, CRFS, noted that some societies had increased their general reserves by abandoning the practice of making provisions for future liabilities. He also noted that some societies had revalued their office premises to increase general reserves, but such revaluations were disregarded in the assessment for designation, unless the society intended to realize the higher value in the foreseeable future (RFS, 1960, p. 8).

The Building Societies Act 1960

The collapse of the State Building Society in September 1959 hastened enhanced disclosure requirements in the Building Societies Act 1960 (BSA60) (Noguchi and Bátiz-Lazo, 2009).[8] These requirements, although expressed in general terms, made the BSA60 more prescriptive than the CA48. But there was still ample room for society directors and auditors to interpret whether certain accounting choices represented 'fair presentation'. There was, for instance, no specific guideline on depreciation, but disclosure was required of '… the method of arriving at the amount at which any office premises were shown in the society's Annual Return' (the Form A.R. 11).[9]

The BSA60 also changed the audit objective in respect of building societies from 'fraud detection' to 'statement verification', with auditors required to comment on whether the financial statements presented 'a true and fair view'. This shift aligned the treatment of societies with that of corporate bodies under the CA48 and was the culmination of a long process. In the late nineteenth century building society fraud had been an important factor in the change of the primary audit objective in England from 'statement verification' to 'fraud detection' (Kitchen and Parker, 1980, p. 55; Chandler *et al.*, 1993, p. 446). But in the late 1920s, and especially the 1930s, opinion shifted to place greater emphasis on 'statement verification' and this was reflected in the CA48 (Chandler *et al.*, 1993, p. 452). The BSA60 also represented the first legislation to introduce the auditors' duty to report on internal control, preceding similar requirements in, for example, Section 404 of the Sarbanes-Oxley Act in 2002.

The financial statements of building societies from 1960 onwards were thus drafted under a different regime to those of 1959 and earlier. Whilst the BSA60 constituted a major piece of legislation for building societies, it also marked a key success for the Institute of Chartered Accountants in England and Wales (ICAEW) which had made lengthy representations on behalf of its members to secure changes in building society audit requirements (Noguchi and Bátiz-Lazo, 2009).

Other Accounting and Auditing Requirements

Accountants readily accept that accounting principles allow scope for interpretation, but '[t]o be legal, interpretations may be in keeping with the spirit of the [accounting] standard or, at the other extreme, clearly stretch that spirit while remaining within the letter of the law' (Stolowy and Breton, 2004, p. 11). In the absence of codified GAAP, historians of 'creative accounting' compare and contrast transactions in a particular organization with practices in similar organizations in order to determine whether a group of transactions should be considered as 'fair presentation', manipulation or fraud (e.g., Arnold, 1991).

A number of sources other than legislation could have impacted on the practices of building societies. The ICAEW's Taxation and Financial Relations Committee, formed in 1942, issued 'Recommendations on Accounting Principles'. The new building societies legislation, and its role in it, led the ICAEW to issue its first auditing publication, a booklet entitled 'Audits of Building Societies' (ICAEW, 1960). This was concerned mainly with the system of internal control and verification of mortgage advances. Guidance on 'window dressing' addressed liquidity, not capital, and specific guidance on fixed assets and capital was lacking.

Another non-legislative source was the BSA's 'Financial Accounting Procedures'. These guidelines explicitly recognized that there were wide differences in accounting policies behind the apparent simplicity and uniformity in the financial statements of building societies. The 'Procedures' considered 'source[s] of great variability between building societies', such as labour costs within 'Total Management Expenses',[10] but did not address the depreciation of fixed assets.

The BSA60's statutory instruments left largely unaffected the choice of accounting policies by individual societies, and the ICAEW's Recommendations and audit guidance, and the BSA's 'Financial Procedures' offered room for interpretation in areas such as the depreciation of fixed assets. This apparent latitude created opportunities for creative accounting at the CPBS. The next section sets out a brief history of the CPBS and discusses the growth in assets of the largest building societies to establish the need for creative accounting at the CPBS.

THE CO-OPERATIVE PERMANENT BUILDING SOCIETY

Brief Business History

The CPBS (today Nationwide) was born as the Southern Co-operative Permanent Building Society in February 1884. The 'Southern' prefix was removed ten years later. This London-based society was formed to enable depositors, particularly members of the co-operative movement, to buy their own homes (Ashworth, 1980, p. 15; Cassell, 1984, p. 13). The Co-operative Congress, however, refused to give full backing to another financial institution developing alongside the banking arm of the Co-operative Wholesale Society (the CWS Bank - see Bátiz-Lazo, 2004; 2006), but many leading and rank and file members of the co-operative movement joined the CPBS and some became its agents, either personally or through their retail societies. The CPBS also sought business elsewhere, notably amongst railway employees (Cassell, 1984, pp. 24-5).

Mortgage advances of the CPBS and other building societies surged in the 1920s and accelerated further during the 1930s (Humphries, 1987). This growth was accompanied by the emergence and increase in the numbers of both agency contracts and retail branches.[11] By 1950 the combination of government policy antagonistic to private home ownership, the mortgage rate cartel,[12] together with inflation and low savings rates, had led most societies to accumulate substantial liquid assets. At this date about one-quarter of the CPBS's deposits was provided by the co-operative movement (Cassell, 1984, p. 86). Further growth followed the 1951 return of a Conservative government, more sympathetic to private home ownership.

Building society advances grew from 27 per cent of total mortgage transactions in 1920 to 38 per cent in 1936, to 50 per cent in 1958 (Cleary, 1965, p. 282). Growth among the societies was uneven. By 1958, the top five societies accounted for £1.029 billion in assets, 43 per cent of the total assets for all 755 societies,[13] and were growing at double the rate of those of all other societies. Most of this growth was organic, with little due to amalgamations with smaller societies, as the larger societies appear to have been more effective at capturing market share in the expanding retail mortgage market (Bátiz-Lazo and Billings, 2007). The largest five societies plus the Alliance Building Society maintained annual average growth in mortgage assets of 13 per cent per year from 1950 to 1967 (Table 2, Panel A), during which time mortgage assets averaged 83 per cent of total assets of these societies.

[Insert Table 2 around here]

Growth in the CPBS's mortgage assets during the 1950s exceeded the average for the top five societies (Cassell, 1984, p. 72; Table 2, Panel B). It peaked at 24 per cent in 1958, when the CPBS amalgamated with the Scottish Amicable Building Society (SABS), the largest Scottish society, which had assets of £22.5 million and 42,658 shareholders (14 per cent and 11 per cent of those of the combined entity respectively). After yields on gilt-edged securities reached 7 per cent in September 1957, the SABS's reserves of £997,792 at December 1957 were exceeded by the unrealized loss of £1.5 million on its investment holdings.[14] Deposit withdrawal notices followed publication of these figures, and amounted to £2.5 million by 23 April 1958, but most were cancelled after the merger was announced.[15]

Even before the SABS amalgamation, the CPBS had drawn the attention of managers of the Woolwich Equitable (WEBS), who appeared to believe that its capital position was under pressure and that non-recurring items flattered profits:

> The General Manager submitted orally to the Board a report on certain features of the Annual Report of the Co-operative Permanent Society for 1957. Reference was made, inter alia, to the small revenue surplus for the year, the low reserve ratio and an increase over the year in the extent of appreciation of Stock Exchange Securities shown in the Balance Sheet which apparently arose from investment transactions during the year, including the taking into the Profit of a capital surplus of £262,170 on investments realised during the year.[16]

WEBS directors returned to this theme a few months later, suggesting that the combination of organic growth and absorption of small societies had stretched the CPBS when they:

> noted that since 1939 [to 1957, the] transfers of engagements to the Co-operative Permanent had amounted to £6.1m (including £3.6m of the Exeter Benefit [1956]), compared to £294,000 for Halifax and £220,000 for Woolwich. There has been a marked rise in the management expenses ratio of the Co-operative Society over the period …[17]

Soon after the SABS amalgamation the CPBS was involved in a public exchange during its bid for the Sheerness and Gillingham Society, the sector's first-ever contested amalgamation.[18] After H. V. Wiles, chairman of the Hastings and Thanet Society, the original bidder, questioned publicly whether the CPBS, then the third largest society in terms of assets, would achieve trustee investment status, the CPBS responded that it 'would qualify for trustee status within the set time'.[19] W.W. Wetherhill, general manager of the Hastings, considered the CPBS's intervention 'unsolicited and unwarranted', but Herbert Ashworth, CPBS general manager, declared that it 'was justified by the strong reserve position and the well spread assets of the Sheerness society'.[20] After the Leek and Moorlands (LMBS) also made an offer for the Sheerness, the Hastings raised its offer and won control over the £3 million in total assets and 8,000 members.[21]

The Importance of Capital and Trustee Investment Status in Building Societies

How then did this period of high growth affect societies' reserve ratios? From 1959 to 1967 'gross' reserve ratios averaged 3.8 per cent and 'net' reserve ratios (i.e. after adjusting for unrealized profits or losses on investments) averaged 3.5 per cent for the top five societies and the Alliance (Table 1). The net reserve ratios for the Alliance (2.5 per cent in 1959 and 2.9 per cent in 1960) and the CPBS (2.3 per cent in 1959 and 2.7 per cent in 1960) stand out as relatively weak (Table 1, Panel B). Assets of these societies had grown particularly rapidly between 1950 and 1958 (Alliance: 128 per cent and CPBS: 166 per cent - Table 2, Panel B). These two, and the smaller LMBS, had enjoyed high rates of asset growth since 1945 (Cleary, 1965, p. 252). The BSA60 was enacted in June 1960 and at the CPBS's financial year end on 31 December its reserves ratios remained below those of other large societies (Table 1).

The CPBS's directors were closely associated with the virtues of an 'adequate' level of reserves. C.J. Dunham, CPBS's President from 1959 and a BSA Council member since 1950, became BSA Chairman in 1961.[22] Close links between the BSA Council and the CPBS dated from the appointment of Arthur Webb, then CPBS's Secretary, to the BSA Executive in 1903. Webb joined the CPBS in 1892 (when total assets were £25,000), became managing director in 1928 (when total assets were £7 million), Chairman in 1939 (when total assets were £30 million) and retired from the BSA Executive in 1946 and the CPBS Board in 1951 (when total assets were £66 million). Webb 'constantly urged the desirability of societies maintaining a 10 per cent reserve fund, and whenever he spoke his views merited attention' (Price, 1959, p. 381). The CPBS was among the first societies to be granted trustee investment status in June 1959 and for reputational reasons the CPBS's directors would have been reluctant to put at risk this status, which was dependent on maintenance of a satisfactory capital position and perceived as a hallmark of prestige as well as giving potential for competitive advantage. Loss of such status would have foreclosed growth opportunities and been regarded as a strong negative signal on the Society's management capabilities.

Other societies also associated themselves with the importance of strong reserve ratios. In the mid-1950s the Halifax, the largest society, experienced internal conflict over the issue, which cost it growth to the benefit of other societies, and led to that society's temporary departure from the BSA (Barrow, 2006, pp. 38-49). The Halifax's conservative attitude to reserves and liquidity was long-standing (Hobson, 1953, pp. 129-130; Barrow, 2006, pp. 23-24). Societies such as the Bristol and West had traditionally placed a high priority 'on the maintenance of healthy reserve and liquidity ratios, and there was never any question that growth would be allowed to diminish either' (Harvey, 1988, p. 258).

In his annual report for 1960 the CRFS attempted to raise awareness among depositors and the general public of the good business and sound financial standing of designated societies, cautioning investors to guard against societies 'of doubtful financial standing, and ... to enquire whether [a society] has been designated as one in which trustees may deposit trust funds'.[23] The challenge for the CPBS was clear and the following section details its responses.

THE CPBS'S RESPONSE TO THE HOUSING AND HOUSE PURCHASE ACT 1959

Controlled Growth, 1959-63

By 1959 the Society's directors had decided to curb its expansion. A policy of restraint was announced at that year's Annual General Meeting and reported in the *Building Societies Gazette*: 'In presenting the society's remarkable figures for 1958 - total assets have now reached £204,522,500 - it was emphasised [by Dunham, deputising for H.L. Score, the President] that the society's policy was one of *controlled expansion*'.[24] The significance of the new policy was evident to some observers: 'The Co-operative must build up its reserves, for it would not wish to jeopardise the prospect of trustee status under the government's housing bill.'[25]

The period of controlled growth was initially expected to last a couple of years,[26] but the need to maintain trustee investment status required that it continue for longer than anticipated. The CPBS relaxed its period of restraint in 1963, when annual growth of mortgage assets returned to double-digit rates and the net reserve ratio rose, to remain well above 3 per cent. Several measures had been taken during this period: branch network expansion was halted; a £500 ceiling was imposed on new advances, at a time when the average mortgage loan in the U.K. was £1,112, virtually the same as the CPBS's own average loan of £1,139 (RFS, 1961, p. 2; CPBS Annual Return, 31 December 1960); and the flow of new business and commission payments was curbed by terminating the contracts of more than 1,000 agents. Branch numbers fell a little from 119 in 1958, only climbing back to 120 in 1964 (Cassell, 1984, p. 121). A major review of strategy found that half of the 1,159 remaining agencies in 1963 generated deposits amounting to less than £2,000. The Society replaced those agents with employees and moved to a branch structure wherever possible (Cassell, 1984, pp. 82-3).[27] The success of the self-restraint policy was reflected in mortgage asset growth of 158 per cent between 1958 and 1967 for the CPBS, compared to an average for the major societies of 208 per cent (Table 2, Panel B).

Improving the Reserves Ratio, 1960

The longer-term success of the controlled growth policy was not assured in 1960 when the Society's directors concluded that it might be insufficient to allow the reserve requirement to be met. The result was that the Revenue and Appropriation Account for 1960 showed three items which lifted the net reserves ratio: the sale and leaseback of a property involving a related party, changes in the basis of depreciation, and the release of a taxation provision. We now describe these three areas in turn and in the next section discuss them in greater detail.

A 'Surplus on the sale of premises' of £424,484 was recorded in a transaction with the Co-operative Insurance Society (CIS), whereby the CPBS sold and leased back its head office (New Oxford House) and eight retail branch premises, all of which 'stood in the books below their present worth'.[28] These freehold properties were transferred to the CIS for £500,000 and the CPBS entered into a 99 year agreement to lease them back, with the option to repurchase at no more than 10 per cent above the sale price. The freehold of the head office was, indeed, bought back after a short interval (Cassell, 1984, p. 80).[29] The second item recorded in the Revenue and Appropriation Account was a drop of £71,288 in the total charge for depreciation and the third item was the transfer to the Society's General Reserve of a balance of £255,716 described as an 'Amount set aside for Future Taxation'. The Finance Committee:

> had been impressed by the argument that if the whole of the £53,145 required by the depreciation formula were provided, it would no longer be possible for the society to give an assurance that a net reserve ratio of 2.5 per cent would have been attained whether or not New Oxford House had been sold or, alternatively, whether or not the basis of provision for income tax had been changed. They had therefore reached the conclusion that is was desirable for all adjustments already agreed by the Board to be made so that the accounts would indicate a net reserve ratio of 2.677 per cent.
>
> [The Board were advised, however, that] since the Committee had considered the accounts, the Auditors had decided that it would be necessary for a note to appear on the Revenue and Appropriation Account if no depreciation were

> provided on freehold premises in 1960. The Board was informed that, if an amount of up to £13,000 were provided on freehold premises, the note would not be needed, and it would still be possible to give the assurance mentioned above.[30]

The Minutes of the Board and of the Finance Committee detailed neither the depreciation formula nor the calculations supporting the difference between the £53,145 required by the formula, the £13,000 charge acceptable to the auditors, and the actual charge for depreciation on premises of £24,254 shown in the Form A.R. 11 for 1960.

The combined effect of these three measures was to raise the net reserve ratio of the CPBS to 2.7 per cent in 1960 (Table 1, Panel B), above the required minimum of 2.5 per cent. These actions proved timely, as continued growth in mortgage advances for the movement as a whole after 1959-60 reduced the reserve ratios of many societies, although not for the largest, all of whose net reserve ratios remained above 3 per cent (Table 1, Panel B). By 1963 some other societies were near the point of having to decide between continued growth and loss of trustee investment status or maintenance of this status with slower growth (Cleary, 1965, p. 258), a dilemma which the CPBS had already addressed.[31]

DISCUSSION

Creative Accounting at the CPBS

The definition of 'creative accounting' is much debated. Clarke *et al.* (2003, pp. 25-31), for example, stress the inadequacies of contemporary GAAP with particular reference to the Australian context. The parallel with this case is the ease with which the CPBS was able to shift from a position of likely non-compliance with the regulatory requirements to compliance, suggesting that prevailing GAAP were sufficiently loose to allow a wide range of accounting outcomes. Alternatively this may imply that the CPBS's creative accounting was not unusual, but we have found no evidence to support this view, and will argue that the environment in which building societies operated created strong incentives for all parties to accept the CPBS's situation.

Accounting literature distinguishes between 'real' and 'accruals' aspects of creative accounting i.e. decisions reflecting economic decisions (such as cutting discretionary expenditure or changing the timing of particular transactions) and accounting decisions (e.g., relating to depreciation or provisioning) (Stolowy and Breton, 2004, p. 24). In the CPBS's case, the three main elements, with both real and accruals aspects, allowed the Society to report an improved capital position.

The Property Sale and Leaseback

This transaction had most significant immediate impact on the capital ratio, generating a £424,000 surplus compared to the £71,000 total reduction in the annual depreciation charge, but the latter would have had a significant cumulative impact over time. The counterparty to the transaction, the CIS, was owned jointly by the Co-operative Wholesale Society and the Scottish Co-operative Wholesale Society, both of whom nominated representatives to the CPBS's board from the mid-1940s to the mid-1960s (Cassell, 1984, pp. 65 and 86).

The interpretation of this transaction most favourable to the CPBS is that it was able to crystallize a rise in property values without losing control of the properties concerned, when it was known that a straightforward revaluation would have been unacceptable. This might be considered reasonable had the transaction been undertaken on ‘arms-length’ terms i.e. the price paid by the CIS was that which an independent buyer would have paid and the leaseback rentals were at a market level. Unfortunately, the available evidence does not allow us to say whether this was the case. A less favourable interpretation is that the transaction simply represented ‘warehousing’ of these assets with a related party until the CPBS was in a position to exercise the buy-back option. However interpreted, this was an unusual transaction - we have not found evidence of any comparable transaction among the larger societies, but, unlike the CPBS, they did not need such a transaction. The CPBS was also unusual in that its roots in the co-operative movement provided a natural counterparty.

Fixed Asset Reporting and Depreciation

It is not possible to judge what an appropriate depreciation charge for the CPBS would have been - to do so would require detail of the composition and condition of fixed assets, for example the balance between freehold and leasehold properties and the maintenance or obsolescence of equipment. We examined the Forms A.R. 11 for the big six societies and the LMBS for the ten years to 1960. Analyses of fixed asset totals and depreciation charges are either not provided at all in the Forms A.R. 11, or, if provided, on bases which are not obviously comparable across the different societies, but it is possible to make some comparisons over time and across societies. Table 3 shows the societies’ effective depreciation rates and reveals considerable variations from society to society, and from year to year for some societies. The Halifax depreciation charges were round sum figures, typically

£50,000 per year. The Leeds Permanent charged no depreciation, but in the years 1958-60 recorded significant expenses for 're-equipping and renovating head office and branches' and in the years 1959 and 1960 expensed motor vehicles - we treat these items as 'depreciation' in the table. In keeping with its cautious attitudes, the Halifax's depreciation policy appears relatively conservative.

[Insert Table 3 around here]

These findings imply that there was little consensus on depreciation among large societies. The CPBS's changed treatment of depreciation, although material in its overall impact on the financial statements, was arguably not out of line with the practice of other societies, and indeed more conservative than some. The CPBS's depreciation charge in 1959 appears to have been relatively high by comparison to other major societies and also its own recent standards, so the reduced charge in 1960 could be argued to have aligned it more closely with other societies.

In deciding the charge for depreciation the CPBS's directors were also acting upon the advice of the auditors, and the Board Minutes of 19 January 1961 [32] suggested that the auditors had discussed fully the question of depreciation, and thus auditors and directors could therefore claim that the working lives of the buildings had been properly assessed and that '… correct principles had been acted upon, and that the provision made in the accounts appears to be reasonable and sufficient' (de Paula, 1957, p. 99). The depreciation decision could also have been defended on the grounds of materiality in the overall context of the financial statements. With reserves of £6,418,160 and 'Office Premises and Equipment' of £3,683,959 in 1959, the difference between the £13,000 charged and the £53,145 required by the depreciation formula could be regarded as immaterial.

Directors and auditors could argue that they followed 'best practice' in 1960 (as described by de Paula, 1957, pp. 98 and 145), as depreciation was charged on freehold properties, albeit a lower amount than previously. Faced with the impossibility of estimating the working life of fixed assets that were actively maintained, and largely ignoring the ICAEW's Recommendations IX and VX, the joint-stock clearing banks, with their much larger high street branch networks, chose not to depreciate freehold property at all (Capie and Billings, 2001, p. 238). Perks (1977, pp. 177-81) claims the situation was similar at building societies in the early 1970s. Pack (1959) argued that, as building societies were subject 'to the burden of a true and fair view' (p. 864), they should revalue office premises annually. But the CRFS had signalled his unwillingness to accept revaluations of premises and it was not established practice among financial institutions - the first revaluation among the major banks did not occur until 1964 (Capie and Billings, 2001, p. 248).

Overall, we conclude that, in exercising discretion in changing depreciation policy, the CPBS changed an aspect of its financial statements in which: a) 'best practice' was not well-established; b) disclosures were variable; c) the Society had appeared previously to make greater provision for depreciation than some other large societies; and d) it would be difficult for the auditors to form a judgement as to the appropriateness of the charge made.

Taxation

The uncertainties associated with taxation have contributed to creative accounting in other organisations (see e.g., Arnold, 1991, and Napier, 1990). The tax reserve 'Amount set aside for Future Taxation' was identified as a pre-printed caption on the Form A.R. 11 only in the years 1959 and 1960 and appears to relate to changes in the basis of Income Tax in 1958. Other specific taxation provisions shown in the

Form were for Income Tax and Profits Tax. We examined the other societies' balances on this reserve at the end of 1959 and 1960. For four of these (Alliance, Abbey, LMBS, WEBS), the balance was nil in both years. Halifax had year-end balances of £770,000 and nil in 1959 and 1960 respectively and Leeds Permanent £763,000 and £892,500 in these two years. Although the CPBS's capital ratio benefited from release of this reserve, its elimination was not obviously out of line with the treatment of other major societies.

Creative Accounting in Other Societies

We do not claim that the CPBS was alone in its practice of creative accounting, although our examination of the Forms A.R. 11 of the major societies revealed no apparently obvious examples. But some transactions relating to investments could be considered to represent earnings management. Some societies recorded significant realized profits on investments and write-downs of investment values in various years. The timing of investment disposals could represent 'real' earnings management and the write-downs 'accruals' earnings management, with both classes of transaction at the discretion of management.

Acceptance of the CPBS's Creative Accounting

In the case of the CPBS creative accounting achieved its objective - the desired regulatory status was maintained. There was clear intent to use specific changes in accounting practice or particular transactions to ensure compliance with the capital requirements, but the question remains why this failed to attract public attention or criticism.

We have noted that the CPBS's financial weakness had been recognized by at least one other major society, but none of these societies made public comment on the

CPBS's difficulties, although the Hastings society had criticized the CPBS in the context of the battle for the Sheerness. Given the nature of the movement it is unlikely that other major societies would have believed they could have gained from publicly discrediting the CPBS. The societies had struggled to secure the prize of trustee investment status. The failure of one of the largest societies to meet the requirements for this would have been damaging for the movement as a whole and arguably would have discredited the new regulation. From a commercial point of view, other societies may have judged it better to have a weak competitor, which, indeed, conceded growth to them during its period of controlled expansion, rather than to shake confidence in the movement.

The movement has had a long-standing tradition for the rescue of societies suffering from financial weakness or scandal by merger with larger societies.[33] During the 1950s the CPBS had 'rescued' two societies, the substantial SABS, seventeenth largest society (*BSA Yearbook* 1957), and the much small Exeter Benefit (with assets of £3.4 million versus the CPBS's £123.4 million at the end of 1955). But at the end of 1960 the CPBS was the third largest society, and there would have been considerable obstacles to its merger with another large society - its financial position, the co-operative movement links and issues such as the overlap of branch networks and dealing with the large number of agents. To have drawn attention to the problems of a society 'too big to fail' would have created real difficulties for the movement.

In the absence of documentary evidence we are obliged to speculate as to why the CPBS's creative accounting did not attract the attention of the regulator responsible for the protection of shareholders and other depositors. It is possible that the measures taken by the CPBS were accepted by the CRFS as a 'quid pro quo' for the CPBS's rescues of the SABS and the Exeter. There would also have been embarrassment for the CRFS in criticising the CPBS, or even withdrawing its trustee investment status so soon after it was granted. An extreme outcome could have been a 'run' on the Society, which would not have benefited the regulator or other societies, and undermined the new regulatory regime and discredited the movement. This could have led to disruption of the provision of mortgage finance and the housing market, and possible damage to the co-operative movement. The CRFS may therefore have hoped for the outcome that transpired - that the procedures adopted by the CPBS would allow it to 'buy time', and coupled with the slowdown in its asset growth, the Society was able to improve its reserves ratio.

Possible Audit Report Qualification and the Auditors' Relationship with the CPBS

The question arises as to whether the auditors' report on CPBS should have been qualified. Prior to the regulatory changes in 1959-60, auditors would qualify building society accounts based only on evidence of fraud or deceit, that is, when there were specific transactions relating to wealth transfers between stakeholders outside the letter of the law. The BSA60 required auditors of building societies to state, by way of a note to the Revenue and Appropriation Account or a letter to the CRFS, any items affected in every material respect by either (a) transactions of an exceptional or non-recurrent nature; or (b) by any change in the basis of accounting.[34] Financial reports (i.e. Forms A.R. 11) of the top five building societies in the period 1951 to 1970 were often accompanied by notes or letters regarding extraordinary matters, but none criticised or otherwise disagreed with the directors of these societies. We have already noted the wide variations in the practices of asset depreciation in financial institutions, and it is debatable whether auditors of building societies might have been expected to draw attention to changes in depreciation formulae.

In this period: 'Societies were audited by local accountants with whom they had connections and a relationship of trust'.[35] The Society's auditors were both partners in the firm Edward Myers, Clark & Co., which continued to provide its auditors until after 1970.[36] By 1960 the auditors had known the Society for some years and would have been aware of the integrity of the Board and of the long-term steps already taken to reduce growth to allow capital reserves to build up to ensure compliance with the minimum net reserve requirement.

Audit fees were not separately disclosed in the Annual Returns, so it is not possible to comment on fee dependency, but later evidence suggests that audit fees were a very small proportion of total management expenses (Perks, 1977, pp. 111-112). Nor do we have any evidence as to whether the auditors undertook other types of business for the CPBS which may have exposed them to conflicts of interest.[37]

It is unclear whether qualifications resulting from doubtful depreciation practices were widespread or whether such qualifications would have been regarded as serious. Kettle (1954b, p. 277) cites an auditor's report describing improper depreciation of fixed assets as an exemplar of the consequences of obscure qualifications and empirical evidence has shown mixed results depending on the nature of the qualification and whether or not it was anticipated (Ball *et al.*, 1979, p. 27; Clinch, 1983, p. 143; Craswell, 1986, p. 32). Inconsistencies in the requirements of paragraphs 3 and 4 of Schedule Nine of the CA48 were identified as sources of difficulty in distinguishing auditors' comments (i.e. amplifications) from outright qualifications (Kettle, 1954a, p. 250).

Auditor performance must be interpreted in its historical context and this case arose in a period before the development of comprehensive auditing guidelines and standards. The CPBS's auditors were in a difficult position and would have had to rely heavily on their judgement in forming their opinion. There was a new audit regime, the ICAEW's guidance on building society audits did not address the aspects at issue, and the ICAEW's Recommendations on Accounting Principles and the BSA's guidelines were not binding and had failed to produce uniformity among societies or other financial institutions. The concept of materiality, although explicitly recognized by auditors in the 1950s, remained ill-defined, not featuring in audit textbooks until the 1970s (Matthews, 2006, pp. 125-6).

CONCLUSION

This article has taken an historical perspective to analyse managerial discretion in financial services organizations in the context of a changing regulatory environment by combining secondary sources with original archival material. The case of the CPBS highlights problems in accounting for fixed assets, materiality and, more generally, the nature of the audience for financial statements and to whom auditors are accountable. The case offers unusual insight into accounting practice where there was a material effect on the reported position of a financial intermediary, where accounting for fixed assets had been a minor consideration.

This paper is not a comprehensive study of financial reporting practices among building societies, but the CPBS case does not appear to be representative of creative accounting amongst other large building societies.[38] But there is perhaps some irony that a mutual building society should have used techniques of accounting manipulation given the apparent nostalgia with which such institutions have been viewed in the current financial crisis. However, we have shown how, as in other sectors, financial reporting interacts with the external environment. We have also extended the creative accounting literature by demonstrating that practice varied in important areas of financial reporting in the relatively neglected mutual sector, outside the CA48 reporting framework, and that this provided opportunities for creative accounting. A notable difference between this and other British cases of creative accounting is the association of lack of transparency and creative accounting with the use of hidden reserves. This was true in companies generally before CA48, and until at least 1970 in banking, but the CPBS case was relatively transparent and involved no use of hidden reserves.

The motivations for accounting manipulation in this case do not fall wholly conveniently within usual classifications. In Stolowy and Breton's framework the target of manipulation was a regulatory ratio to prevent a loss of status which would not have benefited 'shareholders' or other depositors due to the absence of equity shareholders. The sale and leaseback related party transaction and depreciation changes appear to have been designed to overcome the inability to use revaluation to improve the regulatory ratio. These fall into Stolowy and Breton's category of 'specially-designed transactions' (2004, p. 12), as well as the practices discussed by Clarke *et al.* (2003, p. 31). Another perspective is to place the case in the context of Clinch's 'bond covenant hypothesis' (1983, p. 141). This view suggests that covenants will affect management choice of accounting methods since managers will seek to avoid the costs of violating restrictions. Such costs may relate to the renegotiation of a debt contract, possible bankruptcy arising from technical default, or, in this instance, the costs which would likely have arisen from the loss of a particular regulatory status, that of being eligible for investments by trustees.

The case also highlights difficulties in interpreting problems in a service business. If a firm in a sector such as manufacturing, transport or mining faced a situation of excessive growth, management's shortcomings would become evident as either inventory would grow, plant would remain idle, fixed assets would be poorly maintained or replaced at the wrong time and the audit fee would increase substantially. In a service firm stakeholders are obliged to place greater reliance on the financial accounts and hence consistency and transparency are important. Financial intermediaries can signal that there might be problems ahead by, for example, changes in provisions or in dividend policies. The CPBS signalled the end of a period of high growth and the start of one of consolidation, but did not articulate fully the implications of this change.

A broader implication of the article is that during the 1950s and early 1960s, directors of building societies, and perhaps even banks, had limited regard for financial considerations when making expansion and capital expenditure decisions. But accounting for fixed assets was to become much more important to the history of financial service organizations because 'tax policy and depreciation profoundly influenced the timing of when companies acquired large computers, which were capital-intensive investments' (Cortada, 2004, p. 23). This indicates that future studies on capital-intensive investments in U.K. retail finance (such as computerization and retail branch network expansion in the 1960s and 1970s) will need to explore the interaction between strategic and financial considerations in the selection and timing of those investments.

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673: Leeds Permanent.

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TABLE 1

GROSS AND NET RESERVES, 1950-67, SELECTED YEARS

Year	Abbey National	Alliance	Co-operative Permanent	Leeds Permanent	Woolwich Equitable	Halifax	Average
Panel A - Gross Reserves = Total reserves / total assets %							
1950	5.4	2.2	4.6	6.7	5.4	5.8	5.0
1955	3.9	2.1	3.2	5.3	4.2	4.5	3.9
1958	3.6	2.7	2.7	5.1	4.3	3.5	3.6
1959	3.7	3.1	2.9	5.2	4.3	3.6	3.8
1960	3.6	3.5	3.4	5.4	4.0	3.5	3.9
Average 1959-67	3.5	3.3	3.3	5.0	3.8	3.6	3.8
Panel B - Net reserves / net total assets %							
1959	3.6	2.5	2.3	5.2	3.2	3.6	3.4
1960	3.2	2.9	2.7	5.2	2.9	3.5	3.4
Average 1959-67	3.4	3.0	3.1	4.7	3.4	3.6	3.5
Panel C - Other information							
Established	1944	1863	1884	1848	1847	1853	1857
Incorporated	1944	1879	1884	1875	1875	1875	1878
Achieved national branch coverage	1948	1959	1952	1961	1948	1937	1951

Source: *Building Societies Yearbook*, 1950 to 1968 and authors' calculations.

Note: Financial year-ends: Leeds Permanent and Woolwich Equitable: 30 September; Abbey National, Alliance, Co-operative Permanent: 31 December; and Halifax: 31

January. Abridged balance sheets were reported in the *Building Societies Yearbook* published in the following June, that is, the same year in which the Halifax closed its books. The Abbey National was created in 1944 through the union of two large and long standing societies, the Abbey Road (established 1874) and the National (established 1849).

TABLE 2

ASSET GROWTH AT THE MAJOR BUILDING SOCIETIES, 1950-67

Year	Abbey National	Alliance	Co-operative Permanent	Leeds Permanent	Woolwich Equitable	Halifax	Average
Panel A – Mortgage asset growth per year (%)							
Average	12.7	14.5	12.5	12.2	11.4	14.2	12.9
Panel B - Cumulative mortgage asset growth, various periods (%)							
1950-1967	568	730	585	448	442	534	551
1950-1958	108	128	166	92	87	91	112
1958-1967	221	263	158	185	190	231	208
1960-1965	53	69	37	50	52	55	53

Source: as Table 1.

TABLE 3

EFFECTIVE DEPRECIATION RATES (%), 1951-60

Year	Abbey National	Alliance	Co-operative Permanent	Halifax	Leeds Permanent	Woolwich Equitable	Leek and Moorlands	Minimum	Maximum	Unweighted average
1951	2.18	2.75	2.84	10.19	0	2.49	0.98	0	10.19	3.06
1952	2.11	3.23	3.83	9.99	0	2.66	1.91	0	9.99	3.39
1953	2.19	3.22	3.15	9.13	0	4.42	2.45	0	9.13	3.51
1954	2.42	2.51	2.75	7.72	0	3.18	2.18	0	7.72	2.97
1955	2.85	2.13	3.31	6.89	0	2.38	2.29	0	6.89	2.84
1956	2.81	2.16	3.32	6.40	0	2.57	2.88	0	6.40	2.88
1957	2.55	1.36	3.20	5.42	0	1.89	3.03	0	5.42	2.49
1958	3.31	1.20	3.19	n/a	7.87	2.99	2.47	1.20	7.87	3.50
1959	2.98	1.24	4.11	9.23	6.09	2.39	3.48	1.24	9.23	4.22
1960	3.06	0.97	2.24	3.97	4.88	2.80	3.18	0.97	4.88	3.01
Average	2.64	2.08	3.19	7.66	1.88	2.78	2.49	1.88	7.66	3.25

Source: authors' calculations from TNA, Forms A.R. 11.

Note: The effective depreciation rate is expressed as a percentage, and calculated as the total charge for depreciation shown in the Revenue and Appropriation Account divided by the total year-end net book value for fixed assets shown in the Balance Sheet. Year-end dates are as shown in Table 1. n/a = Form A.R. 11 missing for this year.

NOTES

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[1] BSA Council Report, 1959-60, paragraph 1, p. 5.

[2] *The Times*, 6 November 1958, p. 16.

[3] *Building Societies Yearbook 1960*, Editorial, 'House Purchase and Housing Act 1959', p. 36.

[4] The HHPA59 gave trustee status only to deposits in the societies but the Trustee Investments Act 1961 then included 'share' investments.

[5] 'Building Society Deposits Given Trustee Status', *The Times*, 6 November 1958, p. 16; 'Trustee Status for 130 Societies', *The Times*, 19 June 1959, p. 19.

[6] BSA Circular 664, paragraph 26. For a detailed discussion see Perks (1977, pp. 79-82).

[7] BSA Circular 664, paragraph 26.

[8] The State had made mortgage advances, without proper security, for bridging finance in takeover bids made by a company of which the State's directors were also directors. Other changes in the BSA60 reinforced requirements for the valuation of collateral for mortgage loans, prevented directors from valuing property for mortgage loans and introduced the disclosure by directors of interests in potential conflict with the running of their society's business. Section 40(2) gave the CRFS, with the consent of the Treasury, the power to determine, by statutory instrument (S.I. 1960 No. 1826), the particulars to be included in the balance sheet and revenue and appropriation account of individual societies. Section 50(3) made similar provisions regarding the contents of the Annual Return (S.I. 1960 No. 1827).

[9] S.I. 1960 No. 1827, part 6(e).

[10] BSA Circular 671, paragraph 5.

[11] Between 1925 and 1935, CPBS's retail branches grew to 19, with the first Scottish branch in 1930. Between 1936 and 1945 the number of retail branches grew to 46, surpassing the rate of growth in agencies. Between 1946 and 1955 agency numbers grew faster (from 577 to 2,016 agencies) than branches, which grew to 93 (Cassell, 1984, p. 121). Agency numbers peaked at 3,165 in 1958, but many of these were not effective sources of mortgage referrals (Bátiz-Lazo, 2004).

[12] The mortgage rate cartel was a system of forced customer loyalty built around the BSA (Bátiz-Lazo, 2004).

[13] BSA Circular 664, page 4, table II.

[14] 'Drop in Building Society's Reserves', *The Times*, 2 May 1958, p. 17; 'Building Society Merger Terms', *The Times*, 24 April 1958, p. 5.

[15] 'An Exceptionally Active Year', *The Times*, 9 March 1959, p. 58. The SABS directors retired without compensation but, with the transfer of CPBS's business in Scotland, became the CPBS's Scottish board.

[16] WEBSA, 1023/49, Board Minutes, 'Co-operative Permanent Building Society', 18 March 1958.

[17] WEBSA, 1023/1249, Development Committee papers, ' "Notes on Statistics relating to Financial Structures" of Halifax, Co-operative Permanent and Woolwich', 19 August 1958. In 1939 the CPBS amalgamated with the Wellingborough Investment Building Society and its 5 offices and with 15 small societies from 1942-7 (Cassell, 1984, p. 48). WEBSA, 1023/1249, Development Committee papers, ' "Notes on Statistics relating to Financial Structures" of Halifax, Co-operative Permanent and Woolwich', 19 August 1958.

[18] 'Co-operative Offer "Unwarranted" ', *The Times*, 6 January 1959, p. 4.

[19] 'Building Society Dispute', *The Times*, 9 January 1959, p. 5.

[20] 'Building Societies' Take-Over Dispute', *The Times*, 3 January 1959, p. 6.

[21] 'Another Bid for Building Society', *The Times*, 7 January 1959, p. 10; 'Building Society Taken Over', *The Times*, 10 January 1959, p. 6.

[22] 'New Chairman for the Building Societies Association', *The Times*, 15 July 1961, p. 13.

[23] 'Affairs of the State B. Society', *The Times*, 12 June 1961, p. 21; RFS, 1961, p. 1.

[24] 'Controlled Expansion', *Building Societies Gazette*, Vol. 80, March 1959, p. 177. Italics added for emphasis.

[25] *Economist*, 'The Co-operative Consolidates', 31 January 1959, pp. 437-8

[26] 'Co-operative B.S. to Consolidate', *The Times*, 29 January 1959, p. 5.

[27] The move to replace agents was not unique to the CPBS. From 1948 there was growing realization amongst directors of building societies that retail branches 'promised control, co-ordination and continuity in a way that commission agents, however special, could not' (Harvey, 1988, p. 257). As a result, national retail branch networks mushroomed during the 1960s and 1970s (Davies, 1981; Bátiz-Lazo and Billings, 2007).

[28] CPBS, Confidential Minute Book, 27 October 1960.

[29] Cassell's corporate history of the Nationwide cites a value of £550,000 for the sale and leaseback contract and makes no reference to the retail branches or the depreciation issue (1984, p. 80). Property sale and leaseback transactions, particularly by retailers with insurance companies as the typical counterparty, had become common in the 1930s. Such transactions were preferable to overdraft or mortgage finance as a higher percentage of a property's market value could be realized. They were widely used again in the 1950s as part of Britain's postwar takeover boom,

allowing companies to raise finance when the Capital Issues Committee still controlled capital-raising (Scott, 1996, pp. 52-3, 122).

[30] CPBS, Minutes of the Board, 19 January 1961, 4.I.a.

[31] The CRFS relaxed the reserve ratio requirement in 1964, requiring reserves of 2.5 per cent for the first £100 million of assets, but reserves of only 2 per cent for assets above this. In 1967 a committee chaired by Sir Charles Hardie recommended lower reserve ratios for larger societies, a suggestion which would have saved the CPBS much trouble had it been implemented earlier (Cassell, 1984, p. 81). New reserve requirements took effect in 1968 and remained unchanged until the mid-1980s (Boléat, 1986, pp. 57-8).

[32] CPBS, Minutes of the Board, 19 January 1961, 4.Ia and 5.I.

[33] This tradition has continued during the current financial crisis.

[34] S.I. 1960 No. 1827, part 5 (a and b).

[35] 'Stricter Checks Pose Audit Problems for Small Building Societies', *The Times*, 12 October 1978, p. 27.

[36] The Annual Returns (Forms A.R. 11) show that J.A. McGilchrist CA became junior auditor in 1956 and J. Heaford FCA senior auditor in 1957 (TNA, FS 14/559) after J. B. Prentice FCA '… was compelled to resign the office of members' auditor which he had held for the past 17 years because of ill health' ('Good Progress in Spite of Unfavourable Conditions', *The Times*, 3 March 1958, p. 17). The partnership of Edward Myers, Clark & Co. dissolved in the early 1970s while the practice based at 56/61 Moorgate (the last known address for Heaford and McGilchrist) was amalgamated with 'one of the top twenty firms' (information supplied by Richard Driver, 2 February 2006).

[37] In the 1960s large auditing firms undertook consultancy work in the computerization of several societies including the CPBS, LMBS and WEBS (Bátiz-Lazo and Wardley, 2007).

[38] Archives for WEBS are available at Barclays Group Archives (Manchester) and those of Abbey National at the London Metropolitan Archives. At the time of writing, the archives of the Halifax and Leeds Permanent were in storage and yet to be catalogued. The Board of Alliance and Leicester plc has decided to keep closed its holdings of building societies' archives.