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ONCE UPON A TIME: THE AUDITOR FOR AMERICA

*In colonial days, ethical standards for
auditors general were not quite so rigorous as ours*

THE UNITED STATES and Great Britain share in part a common history. The General Accounting Office and the National Audit Office similarly share a common audit heritage, at least until the events of 1776. The post of "Auditor for America" was at that time, as it had been for some 100 years, one of the network of appointments within the British Exchequer. Together with such posts as the Clerk of the Pells, the Surveyor of the Green Wax, the Foreign Apposer, and the Lord Treasurer's Remembrancer, it discharged responsibilities for the collection, care, and custody of the King's revenues and expenditures with roots running back to the 12th century and before.

Actually, the main functions of the Auditor for America were more accurately summed up in the post's original title: "Auditor General of the Plantation Revenues." As the colonies themselves were painfully aware, collecting taxes and fees and dues and remitting them to England were considered particularly important, and the post of auditor general was established in 1680 "for the purpose of bringing the Royal revenues in the plantations under a more certain method of account."

The main source of revenue was the 4.5 per cent creamed off the plantation receipts, although this was often significantly reduced by expenses incurred in America. It was supplemented by quitrents, escheats, forfeitures and fines, shares in prizes from captured shipping and shipwrecks, and seizures from illicit trading. The Auditor General's responsibilities covered not only the mainland colonies but also the West Indies, so the revenues included imports on strong liquor and export dues and fees on tobacco, sugar, and cocoa in Jamaica; on whale licenses in Bermuda; and on trade in Barbados and the Leeward Islands. Little seemed to escape attention, with revenue also claimed from port dues in Virginia, from customs receipts at the King's weighhouse in



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New York, on each hogshead shipped in Virginia and Maryland, and on proprietary payments due from certain settlers in the Jerseys and the Carolinas under the terms of their Royal charters. The revenues even included a tribute of beaver from Indian tribes, although this was personally taken by the Governor of Virginia as a perquisite of office.

Some of these revenues, such as escheats (property and estates impounded where there was no heir) and forfeitures from suicides and murderers were a continuation of procedures based on those of the medieval English Exchequer. Quitrents, too, were a reflection and development of feudal systems of land tenure and an exercise of main landlords' rights. And the tribute of beaver in Virginia echoes similar ancient "revenues in kind" to be found in England, such as the provision of falcons and dogs for the King's hunting, the appointment of a cook for a year to the King's kitchen, or the supply of "two barrels of wine and 200 apples" to his treasurer. Even today, the Comptroller and Auditor General still receives a haunch of venison each year from the culling of deer in the Royal Parks.

Although the Auditor General and his underlings in America were granted a wide variety of ways of getting their hands on the colonists' money, they apparently faced the classic dilemma of all auditors: trying to verify the presence and scale of receipts. How can you prove they exist? His modern counterparts will recognize the problem of the Auditor General who questioned the absence of any fees for licenses for wine and ale houses in Virginia, but was then faced with having to decide whether to accept the firm and confident—but perhaps implausible—explanation that "there are no wine or ale houses in Virginia."

Infighting and skulduggery

The first Auditor General appointed with a clear and comprehensive mandate over American revenues was William Blathwayt, who was the subject of the King's patent granted in 1680. For some 40 years before then, there had existed a variety of audit and quasi-audit appointments looking after specific kinds of revenue, with a good deal of infighting and skulduggery. Blathwayt's main predecessor was Edward Digges, a former Governor of Virginia, who seems to have broken the normal rules by combining his duties as auditor with the executive responsibilities of treasurer, collector, and manager. But Blathwayt introduced a vigorous and determined approach to bringing order to collection systems that were haphazard and loosely conducted, and whose revenues were heavily in arrears.

The main reform Blathwayt introduced was to call the colonial receivers to a sharp accounting, with regular statements and submission of audited accounts twice a year. All arrears were pursued and the reluctance of officeholders to surrender the revenues that had been collected was firmly, and to some extent successfully, tackled. It would be overstating his success to suggest that these initiatives quickly produced order and discipline out of long-standing muddle, but Blathwayt nevertheless secured significant improvements and demonstrated a commitment and professionalism that distinguished him from his predecessors and, it must be said, his successors. He produced reports, cleared accounts, advised on all petitions on American revenues and financial questions, corresponded extensively with Governors and other officials



throughout the colonies, and generally developed and deployed a broad and informed knowledge of the business of the Auditor General's office.

Under his regime, too, a more structured organization was created. In 1681, Blathwayt appointed his own deputy auditors and drafted firm instructions to guide their work. Based in America, his deputies carried out their responsibilities on his behalf and reported back regularly. They were important officials in their own right, and their appointments by Governors in the colonies had to be confirmed in due course by Blathwayt himself. Blathwayt held the post of Auditor General for 37 years, from 1680 to his death in 1717, at the same time occupying many other offices within the British administration.

"Light duties and large pay"

After Blathwayt, the post of auditor general degenerated quite rapidly into the sort of money-earning sinecure then plentiful in English public affairs. It was secured immediately by Horace Walpole, the younger brother of British Prime Minister Robert Walpole. The value of the auditorship "as a post of light duties and large pay" was reflected by the fact, not only that Walpole held it tenaciously for 40 years until his own death in 1757, but also that almost from the time he took it up, a reversionary grant was obtained by the Earl of Cholmondeley to ensure that his own successors would inherit the post upon Walpole's death. The financial rewards clearly made it a post worth waiting 40 years for, and in expectation of the potential inheritance, it was willed up and down within the Cholmondeley family before finally being settled on the grandchildren as a provision "sufficient to render all further assistance to the grandchildren unnecessary."

The auditorship passed to one of those grandchildren, the Honorable and Reverend Robert Cholmondeley, in 1757. Having waited for it expectantly for 25 years, he enjoyed the fruits of the office in full until effectively deprived of it by the events of 1776. With the profits of the auditorship, together with the income from two religious livings and other benefits, Robert Cholmondeley lived in affluent circumstances and spent heavily and freely. He quickly allocated the duties of the office to his few clerks. Well-known in London social circles, and mentioned in Boswell's *London Journal*, Cholmondeley's taste for high living exceeded even his generous income, and on more than one occasion he was "disgracefully broke." He had to flee the country to avoid his creditors, and indeed at one stage signed over the profits of his auditorship to pay off his debts.

Cholmondeley was already in financial trouble in 1774 when the rumblings in America started to deprive him of much of the profits of his office, but his spending continued unabated in the fond hope that matters would soon return to normal. Bankrupt in 1780, he again had to leave the country, but returned in 1784 to try to salvage something from the wreck. Unabashed at having profited shamelessly from the sinecure of the auditor generalship for some 20 years, he promptly submitted a demand for compensation to the commission set up to examine and settle claims from American loyalists for damages suffered as a result of the War of Independence. Not only that: He succeeded in his claim and, one of life's survivors, enjoyed compensation of 400 pounds a year until he died in 1804 at the age of 77.



The scale of the benefits available from such sinecures may be determined from the fact that Cholmondeley claimed an income from all aspects of his post as Auditor General for America of some 1,800 pounds a year, representing in present day terms at least 120,000 pounds, or at the current rate of exchange, more than \$200,000. Other posts paid very much more.

Oversight at last

The fact that the post of Auditor for America was swept away by the War of Independence anticipated the likely result of an investigation started shortly afterwards by the Commissioners for Examining the Public Accounts, who were established by statute in 1780. The Commissioners mounted a fierce examination of the justification for the various sinecure offices remaining within the Exchequer, particularly the enormously profitable posts of the Auditors of the Imprests, and made scathing public reports that exposed overmanning, high costs, excessive fees, duplication of work or no work at all, and outdated and cumbersome procedures. The posts concerned were shortly afterwards discontinued, the incumbents bought out, and a more modern structure of appointed officials substituted. The post of Auditor for America would probably have gone the same way, had not the Americans beaten the British to it.

The Commissioners of 1780-85 were in the direct line of development leading via the Board of Audit and the Exchequer and Audit Department to the present National Audit Office of the United Kingdom. They were also the last body of auditors who were in with a shout on matters affecting British expenditures in North America. For they published in 1782 a report on their examination of fraud, misappropriation, bad management, and poor value for money from military expenditures by British forces in the War of Independence. They took evidence from the generals and others involved, criticized poor accounting systems and inadequate contracts, identified conflicts of interest and risks of corruption, and pointed out waste and inefficiencies and opportunities missed in the provision of supplies and transport. On this and a series of other reports, their work was firmly recognizable as using, for its time, a modern and innovative approach. They were independent and forthright, with a clear grasp of the broader and more constructive approach to audit that growing resources, a developing administration, and wider responsibilities required.

The work of the Commissioners has been described—rather grandly—as “the dividing line between the ancient and the modern. Before their work began, the clumsy hand of the Middle Ages is found still laid heavily on the financial system: before they had finished their work the enormous task had been commenced of freeing the system from its anachronistic and injurious elements. The good work continued upon the road they had mapped out until the past had little further power to harm, and the accepted standards were the needs of the present.”¹

Clearly, the Commissioners arrived on the scene too late for the quality of British audit in North America. But perhaps in the background, the shade of William Blathwayt was silently applauding. •



1. Binney, J. E. D., *British Public Finance and Administration 1774-92* (London: Oxford University Press, 1958), p. 282.