

4-1929

Editorial

A. P. Richardson

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Richardson, A. P. (1929) "Editorial," *Journal of Accountancy*. Vol. 47 : Iss. 4 , Article 5.

Available at: <https://egrove.olemiss.edu/jofa/vol47/iss4/5>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

The JOURNAL of ACCOUNTANCY

Official Organ of the AMERICAN INSTITUTE OF ACCOUNTANTS

A. P. RICHARDSON, *Editor*

EDITORIAL

Auditor's Responsibility to the Public

The unprecedented activity of the public in the arena of investment and speculation, which has been enormously stimulated by the recent bull market, revives the whole question of the accountant's duty to the investing public. If one turns to the published announcements of the offer of securities by industrial or mercantile concerns it is now unusual to find an advertisement which does not contain a statement to the effect that the accounts have been audited by certain specified accountants. Only a few years ago the conditions were quite opposite and it was a rarity to find the name of an accountant associated with the published accounts. This indicates clearly that the public is demanding an impartial investigation of conditions prior to the flotation of securities. Many companies which submit to audit submit reluctantly and only because they feel that the chances of selling securities will be slim unless the name of a reputable accountant supports the statements which are to be made. Most business corporations recognize the advantage derived from investigation conducted by accountants, but the number of concerns induced to submit to audit only for the sake of establishing their credit is sufficient to be considerable. Whether by choice or in strategy, therefore, the name of the accountant be included, the fact that it is so generally included is undeniable evidence that the accountant owes a sacred duty to the investing public.

Misuse of Accountant's Name

One of the most important discussions of the subject conducted at any recent meeting of accountants was that which occurred at the annual meeting of the Dominion Association of Chartered Accountants held in Toronto last fall, when R. J. Dilworth, a past president of the Ontario Society of Chartered Accountants, read a paper which has since been published in *The Canadian Chartered Accountant*. Mr. Dilworth said many things

which should be taken to heart by all accountants and we commend to our readers the article to which we have referred. One of the vital points with which the paper was concerned was the use of an accountant's name. Misuse is a peril to which we have often referred in these columns and it is, therefore, a pleasure to support our contentions by so excellent an authority as Mr. Dilworth. He said

"There are, of course, certain issues with the sale of which the public accountant should have nothing to do. I refer to those securities marketed by high-pressure salesmen in receipt of high commission rates, where the purchasers must be found among the very smallest of investors. The promoter of this type of security is shrewd enough to know that he can not hope to sell it to the ordinary investor. Whatever merits the investment may possess, and they may be excellent, we should make it a rule to refuse to let our names appear on the circular of any issue that is to be sold to the small investor by high-pressure methods, even though no earnings certificate or balance-sheet is to be included. This class of investor knows little if anything as to the relation of the auditor to the company and is very apt to consider the auditor's name as a guaranty of interest return and capital safety."

This is indeed sound doctrine. Many an announcement has mentioned the name of the auditor of the company and allowed the inference that the published statement of accounts was that approved by the auditor, when in point of fact the auditor may not have approved it at all.

Accountant's Duty in Salvage Operations

The speaker then went on to point out that the accountant should do nothing to encourage the small investor to buy securities of an undesirable class, but he argued that thereafter—in other words, after the flotation—there is a distinct difference. "It will be clear to you," he said, "that in such cases there is a very marked difference in the position of the accountant as auditor for the company after it has been launched and that of allowing his name to be used as a means to secure the investors' money. While his name appearing in the circular might prove to be a real disservice to the investor, his assistance later as auditor might be of the greatest value. The auditor in such cases will feel more at ease if he has not been used as a factor in influencing the investor—if later as auditor for the corporation he can render needed service to the investor, he can do so with a clear conscience." But we are not sure of that. It is, of course, perfectly true that the auditor who undertakes to protect those who have invested is in very much better case than is he who

allows the use of his name to encourage investment in shady companies. But there is another side of the question. It is not altogether incontestable that the accountant who consents to act as the auditor of an unworthy company is doing much good. Under the British and Canadian laws the auditor has a status differing from that of the auditor in the United States, but we are rather inclined to believe that under American practice and procedure it is better for the accountant to refuse to have anything to do with a company which is not all that it should be, lest his very association with the company be construed as a testimony to merit. Mr. Dilworth was speaking of the work which an accountant could do to safeguard the interests of the stockholders, but if he had been speaking on this side of the border he might have added that the best course of all would be for every accountant of standing to refuse to accept the auditorship of any doubtful company. The very absence of any known and respected name under the certificate would be warning to the intelligent public that conditions might be unhealthy. Only a few days ago a group of accountants at luncheon discussing the question of ethics discovered that every firm represented at the table had been requested by an industrial company to undertake certain accounting work which had not seemed altogether desirable. Every accountant at the table reported that his firm had refused the engagement. This, in a small way, is an illustration of the principle which might be adopted, and perhaps often is adopted, when doubtful companies ask the services of accountants.

**Soliciting with
a Vengeance**

Decidedly improper persuasive methods of obtaining clients seem to be spreading to the profession. Every remotely prospective client is now liable to receive an intimation that he should stand and deliver. If clients can be obtained fairly all is well, but if not they must still be obtained. At least we are led to believe so by two or three recent instances of pressure which have been attempted in the name of accountancy. The fashion of the pressure varies, but in several letters may be found statements from which proposed clients are expected to infer that conditions in their business are leading to losses which could be avoided, or that the integrity of certain employees is sufficiently a matter of doubt to justify investigation. And the suggestion

is that it would be advantageous to send for the writer and avoid further loss. It will be noted that there is no mention in these communications of losses due to supposed over-payment of taxes. Apparently the disciplinary tactics of the committee on enrolment and disbarment of the bureau of internal revenue have been effective in discouraging attempts to solicit clientele by that particular method. The writers, therefore, become vague and endeavor to leave the impression that something very serious is the matter with the organization. The patient does not know whether the ailment is due to taxation or theft or embezzlement or any of the other ills the company flesh is heir to. What the writer of the letter intends is to terrify the recipient and to be called in as the savior of a dying concern. It is difficult to believe that any business man would be greatly impressed by such a general and vague statement, but it may be that some timorous citizen has been misled and the profits derived from that instance of fear encourage the hope to induce other business men to be flim-flammed. It does not seem that there is any way in which the practice to which we refer can be checked until it has run its course. The foolishness of it all will soon appear and the profits, if there have been profits, will not continue.

**This Golconda of the
Professions**

Several accountants have recently received letters to the effect that they can make handsome commissions by reporting to the writers the necessity for financing or reorganization of concerns the information as to which has been gained through the confidential services performed by accountants. How easy it is to make money. All that one has to do is to relinquish his ethical notions and the profits will roll in. At least one would think so. And the lure of commissions without labor is expected to chloroform the professional conscience. For the benefit of persons without the profession who may have overlooked the professional nature of accountancy, it may be appropriate to quote the rule of conduct which the Institute has adopted with reference to commissions. It reads as follows:

“No member or associate shall directly or indirectly allow or agree to allow a commission, brokerage or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage or other participation for professional or commercial business turned over to others as an incident of his services to clients.”

Rules of Obligation In the recently published *Memories and Reflections* of the Earl of Oxford and Asquith, K. G. appears most interesting comment upon what the author describes as two categories of rules, namely, those of obligation and those of prudence. The formulation of these rules grew out of the celebrated Marconi episode, in which certain ministers of the crown were accused of having profited by transactions in the stock of companies which were said to have been favored by the government. After the case was heard, the ministers accused were completely exonerated, but the lesson which the incident taught was taken to heart by many men in public office, and the author thus formulates the rules which seem to him vitally important. Under the heading of rules of obligation, he says:

- “The first, of course, and the most obvious is that
- (1) Ministers ought not to enter into any transaction whereby their private pecuniary interest might, even conceivably, come into conflict with their public duty. There is no dispute about that. Again,
 - (2) No minister is justified, under any circumstances, in using official information, information that has come to him as a minister, for his own private profit or for that of his friends. Further,
 - (3) No minister ought to allow or put himself in a position to be tempted to use his official influence in support of any scheme, or in furtherance of any contract, in regard to which he has an undisclosed private interest. That again is beyond dispute. Again,
 - (4) No minister ought to accept from persons who are in negotiation with or seeking to enter into contractual or proprietary or pecuniary relations with the state, any kind of favor. That, I think, is also beyond dispute. I will add a further proposition, which I am not sure has been completely formulated, though it has no doubt been adumbrated in the course of these debates, and that is that
 - (5) Ministers should scrupulously avoid speculative investments in securities as to which, from their position and their special means of early or confidential information, they have, or may have, an advantage over other people in anticipating market changes.”

Rules of Prudence But that is not all. He goes on to other rules less definite but equally important and these he describes as rules of prudence. On that subject he says:

“I think that in addition to those rules, which I have described as rules of obligation—because it seems to me that they have an ethical value and sanction, as well as being based on grounds of expediency and policy—there are, or there certainly ought to be, rules of prudence specially applicable to ministers and to persons in positions of official responsibility, rules which perhaps never have been formulated, and which it would be very difficult to formulate in precise or universal terms. One of those rules is that in these matters such persons should carefully avoid all transactions which can give color or countenance to the belief that they are doing anything which the rules of obligation forbid. It was that rule, which I call a rule of prudence, which in my opinion and in the opinion of

my right honorable friends and colleagues, was not fully observed, though with complete innocence of intention, in this case. It has always been my opinion, and it is their opinion, as they told the house quite frankly in the fullest and most manly way.

"I have been as frank as my right honorable friends were frank in acknowledging what both they and I think was a mistake in judgment. But their honor, both their private and their public honor, is at this moment absolutely unstained. They have, as this committee has shown by its unanimous verdict, abused no public trust. They retain, I can say this with full assurance, the complete confidence of their colleagues and of their political associates."

It appears to us that if we were to substitute for the word "minister" throughout these rules, both of obligation and of prudence, the word "accountant" we should have what would be a fairly comprehensive code of professional ethics. It is conceivable that a minister or an accountant could do some of the things which are forbidden by the rules quoted and still be reasonably honest, but the truth is that no one who properly understood the burden of public trust would place his name and future in jeopardy by contravention of such rules. Both minister and accountant, and every other recipient of public trust as well, must be above suspicion. Few would break the so-called rules of obligation. Many are in danger of overlooking the equally important rules of prudence.

The Accountant Deserves a Desk

In the editorial columns of a New England paper appears comment upon the low estate of the town accountant. We

are told:

The amount asked for this department was the same as last year. It was brought out, however, that at present the accountant has to use, in common with the selectmen, certain office equipment. Although not absolutely essential, still it is practically imperative that a desk be purchased for his use. Such a desk would eliminate the present confusion and difficulty of keeping records of the selectmen and the town accountant separate. We do feel that it is a necessary addition to the town equipment.

Apparently the idea of this board that the town accountant act as clerk for several of the different boards has not worked out as anticipated. It has been quite evident that the activities of the town accountant in keeping close tabs on the appropriations and expenses of the different departments have tended to eliminate the tendency of any of the boards to spend more money than they have been granted.

By all means let the accountant have a desk. One hates to think of him keeping his books on the floor and running on hands and knees from journal to ledger. It doesn't seem quite dignified.