Chairman's view: Why do we concentrate on rutabagas?

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In the supermarket business, we offer a variety of products, but when we advertise and display them, we try to remember what is important to our customers—meat and potatoes, not rutabagas.

All of the words written, all of the conferences held, all of the thought given to auditing and controls in corporate life today are not the meat and potatoes of our business. We must be careful to maintain our perspective. Excessive concentration on controls will detract from the most important business functions—the development of people and the productive employment of human and financial resources.

I wonder if we would be in the difficult position that we are in today with respect to foreign competition if the SEC and others in Washington spent as much time worrying about the creation of corporate assets as they do about auditing them. I wonder if we'd have as much of a problem with business credibility in our country today if managements and boards gave as much attention to the auditing of human attitudes and individual development as they do to the auditing of income statements and balance sheets. We are in danger of losing our perspective—of concentrating too much on rutabagas and too little on meat and potatoes.

To me, one of the ironies of the recent suggestions by the SEC regarding internal controls is that at virtually every audit committee meeting I have attended, committee members have asked external and internal auditors for their up-to-date evaluations of the company’s accounting talent and control systems. Please notice that the word talent precedes systems. When weaknesses exist, they become a topic for discussion. When weaknesses persist, they lead to changes in people. That sort of inquiry and follow-up fulfills the stewardship responsibility of a corporate director without inviting the legal battles that are likely to ensue if we go public with a statement that implies more perfection than human beings can realistically achieve.

If it ever should be appropriate to report weaknesses in internal accounting controls, such reporting should have two attributes: the weaknesses should be both material and uncorrected at the time of reporting. Otherwise, the discussion might be described as an overreaction to what most companies perceive as a nonproblem.

Should independent auditors be asked to comment on the adequacy of internal controls? If any member of a board or audit committee is required to represent the adequacy of accounting controls, the independent auditor’s opinion will be solicited and included in the minutes of the meeting. Such questions are being asked and answered regularly.

I personally like rutabagas, but in the world of business, it seems wise to maintain a healthy perspective about the relative importance of auditing assets compared with that of creating them, as well as to maintain a healthy perspective regarding the importance of people in relation to controls in the building of a successful enterprise.

A lack of meaningful letters of recommendation from the auditor concerning the audit process. This could mean an inhibition or a fear to criticize.

Failure by the auditor to assure that unique, significant, and/or controversial matters are on the agenda of audit committee meetings.

A particularly close relationship between the auditor and any member of the top management which could compromise the auditor’s ability to judge performance.

Conclusion

Clearly, no single factor is responsible for an effective audit process. Rather, there is a number of interrelated forces that combine to form an environment conducive to an audit and reporting process characterized by integrity, candor, and forthrightness.

I suggest that the audit committee process is effective when the external auditor uses the process as a vehicle for discussing what management and the auditor have accomplished and how important issues have been treated and resolved. On the other hand, if the external auditor is not satisfied with the resolution of significant matters and issues, the audit committee provides the vehicle through which he must discharge his professional responsibilities.