1977

People in H&S: Kenneth W. Stringer

Anonymous

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.
This is a fight for maintaining the quality of accounting standards, not for the survival of the accounting profession.

Summing up recent developments culminating in the proposals by the staff of the Senate (Metcalf) Subcommittee on Reports, Accounting and Management that the government take over the setting of accounting standards and require other sweeping changes affecting the practice of accounting firms, Ken Stringer, Executive Office partner in charge of Accounting and Auditing Services, admits to optimism. "I think the next twelve to eighteen months will be a critical period for the accounting profession. But I don't think any changes we may see in that period will be so drastic that the future of the profession will be impaired."

The very fact that the profession has been more in the public eye in recent years underlines a growing recognition of its key role in the country's economic structure, he contends. "Perhaps even more pertinent is the fact that most of the proposals that have been made are concerned with how to make the profession more effective, not with how to supplant it," Ken said. "No matter who sets the standards, the fact remains that it is the accountant who has to implement those standards."

Kenneth W. Stringer is a man as comfortable in the world of the political realities of accounting's role in the economy as he is in the conceptual areas of accounting and the application of advanced mathematical techniques to accounting and auditing problems.

Born in Birmingham, Kentucky, Ken received a BS degree from Western Kentucky University in 1938 before joining the accounting staff of the Kentucky Public Service Commission. He served with the commission for about two years, working on rate regulation affairs. In 1939 Haskins & Sells opened an office in Louisville, Kentucky, and Ken joined the staff there soon after.

"I found myself thinking more and more of the challenges offered to a CPA in public accounting, of the career possibilities offered by a national firm," he recalls.

While working in the Louisville office, Ken met Catherine Gatten, who was in training to become a registered nurse at a hospital in Murray, Kentucky, where Ken's mother had been hospitalized following an auto accident. Ken and Catherine married two years later.

"The medical genes seem predominant in our family," Ken said. Catherine has three sisters, all of whom are nurses, while Kenneth Robert Stringer, Ken and Catherine's elder son, is practicing as a specialist in internal medicine and younger son Warren has just completed his first year at medical school.

With the outbreak of World War II, the U.S. Army Ordnance Department issued a call for accountants, who were badly needed for procurement work. Ken resigned from the Louisville office and spent two years as a civilian employee of the Ordnance Department before entering military service. After basic training in Indianapolis, he served an additional two years in uniform with the Ordnance Department in Cincinnati.

Following his discharge from the military, Ken went into private practice in Danville, Kentucky. "The six years I spent in private practice gave me good insight into small business and tax work," he said. "I really enjoyed having my own practice - it was interesting and challenging. There was immense satisfaction in watching the practice grow."

Every professional has to set his own horizons, his own goals, and for Ken the inherent restrictions of a small-town practice eventually outweighed the satisfactions of a private practice. As the work became increasingly repetitive, the professional challenge dwindled. Ken found it difficult to recruit a first-rate staff in a city the size of Danville. He chafed at the lack of opportunity to grow professionally.

These factors triggered his decision in 1952 to rejoin Haskins & Sells in Cincinnati, where he served for five years before transferring to Executive Office.

Ken came to EO in 1957 to work on special assignments with Weldon Powell, who was then the senior technical partner in the Firm. "Executive Office was not quite as departmentalized then as it is today," he said, "and, in addition to Weldon, I worked closely with partners Oscar Gellein, Emmett Harrington and Everett Shifflett."

Ken was admitted to the Firm in 1959, appointed partner in charge of Accounting and Auditing Services in 1963, and named to the Policy Committee the following year. In his present position as the senior technical
his travel is considerably lighter now than in the 1960s, when he traveled frequently to the Philippines, Latin America and Europe.

Although Ken has long been active in professional societies, his efforts now are concentrated on three groups. His heaviest involvement is with the Commission on Auditors' Responsibilities, often referred to as the Cohen Commission, an independent study group organized by the American Institute of CPAs. His work with the commission, made up of three practicing CPAs and four members from other fields, requires an average of two or three days a month, he said. Public hearings were held recently in Washington, D.C. on the commission's report of tentative conclusions, issued earlier this year. The final report, due later this year, is expected to be controversial in its findings and conclusions and, according to Ken, will have a significant long-range impact on the question of the auditor's responsibilities.

Ken is also a member of the AICPA's Task Force on the Conceptual Framework for Accounting and Reporting and the SEC Advisory Committee on Replacement Cost Accounting.

In the past he served for three years as chairman of the AICPA Statistical Sampling Committee and as a member of its first Committee on Auditing EDP Records, its Long-Range Planning Committee, its first Account-

"...we had to start from the ground floor and develop a new system of statistical methodology tailored specifically for auditing purposes."
People in H&S: Kenneth W. Stringer

Photograph not included in the Web version

partner he oversees six key Executive Office departments that span the spectrum of the Firm's accounting and auditing practice: Accounting Concepts, Policies and Procedures, Practice Office Support, Special Engagements, Practice Review, and Mathematical Applications. The EO Research and SEC Departments are part of Practice Office Support.

Responsibilities of these departments include establishing the Firm's position on issues being considered by the Financial Accounting Standards Board, AICPA committees, the Securities and Exchange Commission, and others concerned with accounting and auditing standards; establishing the Firm's internal policies and procedures on such matters; resolving controversial or unusual questions referred to Executive Office by practice offices, which often involve meetings with clients and the SEC; analysis and evaluation of the Firm's technical position in cases of actual or potential litigation; monitoring the Firm's quality-control system and supervising peer reviews of such systems of other firms when engaged to do so; and developing mathematical applications and introducing them into the Firm's practice.

Despite his considerable responsibilities at EO, Ken still travels extensively, mostly to attend and speak at professional and Firm meetings and seminars. He admits, however, that

"...the question of just who will set accounting standards...is more crucial for American business than for CPAs."
ing Standards Executive Committee, and the Committee on Auditing Procedures.

During his five years with the Committee on Auditing Procedures, Ken was chairman of a subcommittee that developed the statement that is now section 320 of Statement on Auditing Standards No. 1, dealing with the auditor's study and evaluation of internal control. This is generally recognized as the definitive statement on this subject and on the broader philosophy of auditing of which it is a part. Legislation currently before Congress and regulations expected to be adopted by the SEC, requiring companies to maintain adequate internal controls, use the definition and concepts presently found in section 320.

Although Ken had intended to specialize in taxes when he rejoined H&S in 1952, he found that his interests lay in the broader accounting and auditing field, especially in the practical application of advanced mathematics to accounting and auditing techniques. Despite a somewhat limited background in statistics, by the 1950s Ken found himself growing more and more interested in sampling procedures, particularly as they were used in accounting and auditing.

In simple terms, statistical sampling is a mathematical technique for establishing the reliability of inferences or conclusions from a "population" by taking selected samples. Perhaps the most familiar forms are election polls and the popularity ratings of television programs, where answers from representative populations or groups are projected to predict the winner of an election or to estimate how many people have watched a TV broadcast.

"Statistical sampling certainly was not a new technique in the fifties," Ken pointed out. "It had been used for quite some time in a variety of areas, such as the medical field, social research, politics and economics."

In Ken's opinion, the technique commonly employed some twenty years ago was not satisfactory for auditing applications because it depended too much on the subjective decisions of the person making the sample.

"The basis of auditing rests on sampling," Ken said, "and I became impressed with the need for a better way." In 1958 Ken began an intensive investigation of the broad field of statistical sampling and its specific applications to accounting and auditing.

"One of the first things I found was that most of the sampling methods employed in other fields could not be used unchanged in accounting and auditing. Our problems are quite different and the accuracy of our results too important to permit the use of inappropriate methods," he noted. "Complicating the problem was the rather limited study that had been given to the use of statistical sampling in auditing at the time. In effect, we had to start from the ground floor and develop a new system of statistical methodology tailored specifically for auditing purposes."

To assist him in this project, Ken enlisted the aid of the late Frederick F. Stephan, then professor of statistics at Princeton University. A recognized authority on statistical applications, Professor Stephan had served as president of the American Statistical Association and as editor of the Journal of the American Statistical Association.

"Fred and I developed a solution to the problem after two years," Ken said. The result was the H&S Audit Sampling Plan, which Ken describes as "mathematically, a new development."

At this point John Queenan, then managing partner, appointed a committee consisting of partners Ralph Johns, Oscar Gellein, Malcolm Devore, Frank Fields and Frank McClelland. The committee spent two years reviewing the Audit Sampling Plan, making field tests and planning for its adoption before finally recommending its use by the Firm.

With the groundwork laid and the basic working structure ready, Ken called on Charlie Steele and Jim Kusko to lend assistance during the introduction of the Audit Sampling Plan at the practice-office level and to oversee the initial implementation of the program. Although refinements were made later, the basic system was perfected and in use in H&S offices by the early 1960s.

Ken's attention then turned to the computer, already solidly established as a key tool in almost every aspect of American life and one whose growing use by business and industry demanded major changes in accounting and auditing procedures.

"The problem became quite clear rather early," Ken said. "It was becoming increasingly difficult to perform audit procedures using traditional techniques because of the growing use of computers. While statistical sampling is a technique that can be applied to records kept either manually or on computer, the question arose: How do we gain access to the information we want to sample from a client's computer records?"
Recognizing that any system to be developed would only be practical if it met the needs of the practicing auditor, Ken called on James F. Dunn, Jr., of Houston and Joseph D. Wesselkamper for help. Joe, with our Cincinnati office at the time, transferred to EO (Jimmy Dunn worked out of Houston) and later was named to his present post as partner in charge of the EDP Development Department.

The result of their work was the Auditape System, a broad system of computer programs or routines that permits the auditor to obtain the desired data directly from the client's computer records. Bill Rowe, Ev Johnson, Bill Meister and Dick Snyder, presently with our New York, Los Angeles, Atlanta and Executive offices, respectively, made major contributions later in improving the system and training people to use it.

The development of the Audit Sampling Plan and Auditape put Haskins & Sells in the forefront of the profession in the practical applications of these advanced techniques, a position the Firm still holds.

Comparing his work on statistical sampling and Auditape, Ken points out that sampling has been improved substantially since its introduction in the early sixties and no further refinements appear necessary at this time.

Auditape, a most useful and versatile system, also has been improved since its introduction. "But for Auditape the frontiers lie ahead," he said. "The computer field is still quite dynamic, new developments are constantly expanding the use of a computer, increasing its flexibility and capability. As a result, it's imperative for the Firm to keep abreast of these developments so that we can produce the more sophisticated techniques that will be necessary for use with the computers of tomorrow."

Has the development of the Audit Sampling Plan and Auditape been of benefit to H&S clients? Ken points to several interesting parallels and differences. "The Audit Sampling Plan did not produce any significant reduction in working time. But then it never was intended to do this," he noted. "What it did do, however, was to improve substantially the overall reliability of our work. Auditape, on the other hand, has brought about major savings in the time required to do audits and other procedures when a considerable amount of client data is on computer. Obviously, any time reduction will be reflected in service fees. Frankly, I don't know how it would be possible to do really efficient audits today if systems such as Auditape were not available. The problems would be almost overwhelming."

About the time he was first looking into the potential of statistical sampling, Ken also became intrigued with the possibilities of employing the mathematical technique of regression analysis in audit work. He came back to regression analysis after the Audit Sampling Plan and Auditape projects were completed.

His work ultimately led to the Firm's STAR program, an acronym for Statistical Technique for Analytical Review, a computer program that employs regression analysis in audit procedures. EO's Maurice Newman, Jim Kirtland and Jim Kusko, and Denny Fox, presently in the Cincinnati office, provided the principal mathematical, computer and implementation support for STAR.

"One could describe STAR as an improved mathematical approach to analytical review, that is, the identification and investigation of unusual fluctuations in results. Or to put it another way, it could be termed auditing by exception." Ken explained. "One of the key questions facing any auditor is determining just what is unusual, which prior to STAR had been done largely on a subjective basis."

"What we tried to do was establish an audit interface for the technique of regression analysis. This lets us establish various relationships - such as sales of a client versus expenses, or sales compared with the overall economy - to see if these relationships appear reasonable. Then the results can be compared with the client's latest figures, and unusual fluctuations can be investigated."

Extensive use of the STAR program has improved our review techniques and enables our people to reduce the amount of detail testing necessary on most audits while maintaining the desired degree of assurance, Ken said.

Ken admits to being a part-time and not-too-expert small-boat sailor, bridge player and bowler, and his interests outside the office also include reading mathematical and financial journals and books dealing with topics that may be useful to the accounting profession.

"I enjoy my work," he said. ©