1929

Certified audit; Comment

Anonymous

Recommended Citation

Haskins & Sells Bulletin, Vol. 12, no. 02 (1929 February), p. 10-11

or loss may be determined. If David Harum had tried to express this thought he might have said, "You can't make money doing business with yourself."

Sooner or later, it seems safe to assert, all the parties who are interested in accounting will have to agree on that fundamental principle.

The Certified Audit

(A special editorial appearing in the December, 1928, Monthly Bulletin of the Robert Morris Associates.)

THE importance of having financial statements audited by Certified Public Accountants is being recognized more and more each year by both business men and bankers. An intelligent audit should be of direct benefit in the operation of a company's business through the detection of inordinate expense, waste, errors and fraud, and the introduction of speedier and more economical methods. The management should look upon the audit as a productive investment. Furthermore, a balance sheet certified to without qualification by accountants of ability and high standing is a strong confirmation of good credit standing, particularly when the management is not personally known. Many note-buying banks refuse to purchase the obligations of companies whose statements are not audited.

The value of an audit depends upon the quality and scope of the examination made by the accountants. Care should be used in the choice of accountants. There are a number of firms whose work and reputations are known generally to banks throughout the country; there are also many small firms and individuals highly regarded in their own localities who are capable of doing good work. There are other accountants whose certificates, because of careless and incomplete methods, weaken rather than strengthen the value of a report when used for credit purposes. The standing of accounting firms can easily be ascertained through interested bankers.

The work of accountants should not be unduly restricted. The scope of their examination should be such that they can give an unqualified certification. This is especially true in regard to the certification of and responsibility for inventories. The business man may well discuss with the accountant the proper verification of inventories before the audit is undertaken. A qualified certificate indicating that the accountant has not had free scope in his examination may do injustice to the borrower out of all proportion to the additional expense necessary to prepare a complete report.

An audit limited to an examination of cash, receivables and payables, and a checking of the footings and postings of the books may have a certain value to the management. A statement, however, in which a major item has not been substantiated can hardly be accepted unreservedly by those on the outside who are entitled to an independent expert opinion regarding the fairness of the balance sheet as a whole. Some accountants are reluctant to undertake a restricted audit, which can end only in a qualified certificate, believing that such service cannot in the long run be beneficial to borrowers.

In order to certify a balance sheet without reservations as to inventory, the accountant has to satisfy himself that the quantities on hand and the basis of valuation, as well as computations, are substantially accurate and reasonable. The accountant will not insist upon taking stock or even supervising the stocktaking if the company has a well organized system and adequate accounting records from which he can prove the essential accuracy of the inventory quantities. Manifestly, an accountant who makes a survey of the company's products, their distribution and the materials entering into them, as a foundation for his verification of the inventory, is better prepared to complete an intelligent audit of the other assets and of the liabilities.

Bankers have confidence in a financial statement supported by an unqualified certificate evidencing an unrestricted audit. A company cannot afford to have its credit jeopardized by the suspicions that may be aroused by qualified certificates or by employing accountants whose standards permit the use of an unqualified certificate with a careless or incomplete audit.

Comment

WE are pleased to reproduce the foregoing editorial, particularly inasmuch as it stresses the thought that an auditor should be free, untrammelled, and unrestricted in his work. Obviously, every certified public accountant dislikes to have his work circumscribed, or to have limitations placed upon his services. On the other hand, all business concerns requiring the services of auditors have not reached the point where they are able to appreciate the advantages of full review, regardless of what they consider the particular need for the auditors' services. Consequently, as long as this condition continues, it need not be thought strange if those who employ accountants, offer for credit purposes what they have on hand in the way of financial statements. Further, it is possible that those who so use certified financial statements may attempt to obtain their lines of credit with a minimum of expense for auditing services.

Bankers, figuratively speaking, are the consumers of a large volume of financial statements prepared or certified by accountants. The bankers have learned from experience that there are various kinds of reports issued by accountants, and that various reports represent different gradations of services. The bankers have learned, also, that it is incumbent upon them to read and examine all of a given report before reaching a conclusion as to the value of the report.

The editorial reflects something of an evolutionary order which has been going on in the field of bank credit in so far as the services and reports of certified public accountants are concerned. Having reached a conclusion as to what they require from borrowers as a basis for their judgment in passing on credits, the bank credit men have, with characteristic succinctness, said what they want. It has been well said. The burden of satisfying the bankers as well as the client, in cases where the client places no restriction on the work of the accountant, might appear to rest with the accountant.

Check Forgeries and Alterations

LOSSES from forgeries and alterations it has been estimated occur in the following proportions:

1. Forgery of signature, 45 per cent.
2. Forgery of endorsement, 50 per cent.
3. Alteration of instrument, 5 per cent.

There often is some question in cases of this kind as to who shall bear the loss, the bank or the depositor. The legal responsibility is covered by the Negotiable Instruments Law, which has been adopted in substantially the same form by all our states.

The general rule in the case of a forged signature of the maker of a check is that the bank is liable. A bank must know the