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Balance Sheet Audits

The notions, even of accountants, as to the purpose, scope, and method of a balance sheet audit are so varied that we believe a short discussion of the subject may be of interest.

While the discussion is entirely technical and may naturally be expected to appeal particularly to accountants, it is not without the range of possibility that a definite statement on this important subject may contribute something to the information and ideas which clients may have concerning it.

The comparatively slight extent to which the corporations of this country utilize the services of public accountants may be attributed, to a marked extent, probably to the fact that many corporation officials are not cognizant of the many and varied functions of professional accounting work and the particular ways in which accountants serve their clients.

It is important and desirable, we believe, that the business public generally should be familiarized with the services which public accountants are prepared to render. Anything should be regarded as helping along such work which assists the client in differentiating as to the kind of service required and enlightens him as to his part in the relations in case of retaining a public accountant.

With the thought in mind of disseminating information, we make public the following discussion of a balance sheet audit showing our conception thereof.

A balance sheet audit contemplates the verification of assets, liabilities, capital and surplus (or deficit), at a given date, without investigation of the causes responsible for the financial condition disclosed by a balance sheet further than is necessary to substantiate the accuracy thereof.

The procedure calls for an examination of the books, records, documents, and minutes (scanning the latter as far back as they are likely to bear on the financial condition in question) together with oral inquiry addressed to certain officers and employes of the organization, for the purpose of verifying the value, accuracy, propriety, completeness, or adequacy of all items on the balance sheet, with inspection and proof of securities and such current assets, except inventories, as are susceptible to physical examination.

While such an engagement relates to the verification of balance sheet items and hence to a given date, it is necessary to make cursory examination of the recent substantial additions to property and on the occasion of a first engagement to extend the period covered by such examination, within reason, back to the inception of the property accounts; to investigate the surplus account as to the composition thereof; and in all cases to review the operating and profit and loss accounts for the recent preceding period with a view to detecting improper additions or omissions in balance sheet items, errors in principle, or leads to substantial accruals or deferred proportions, such as interest, rent, taxes, royalties, guaranties, advertising, etc. The extent to which such review is carried should depend upon the adequacy of the accounting system and the correctness of practices and methods employed by the organization under review, particularly in the system of internal check.

More than passing attention should be given to maintenance accounts and wasting assets. Regarding the former it may be necessary, where question as to the adequacy of depreciation arises, to extend the investigation of maintenance back over a considerable period, sometimes to the inception of such accounts. Wasting assets should be examined with regard to prospective useful life and as to whether or not reserves are being created or they are being written off in conformity with such life.

A balance sheet audit does not involve the verification of receipts and disbursements or the performance and integrity of employes acting in a fiduciary capacity.

The scope of the examination should not be restricted to items which appear on the books but should include all items, including contingent liabilities, which affect financial condition, with a view to making a complete statement thereof in the report.

Our report should show true financial condition according to our ideas and so far as it is practicable to give them effect, reserves, but where important adjustments affecting property, wasting assets, etc. cannot be made from available information or with the client's concurrence, proper qualification covering such items should appear in the certificate, or comments, or both.

Recent Changes

Announcement is made of the withdrawal from the firm, effective June 1, 1921, of Mr. John N. Patton, formerly resident partner, Cleveland Office. Mr. Elijah Bates will continue as manager.

We have pleasure in announcing that, effective June 1, 1921, Messrs. J. F. Pflug and E. B. McGuinn have been appointed joint managers of the Chicago Office. Mr. Pflug will continue to give his attention to general accounting matters, while Mr. McGuinn will remain in charge of tax accounting.

The appointments of Mr. T. R. Young as manager of the Denver Office, and Mr. F. M. Weaver as manager of the Kansas City Office, are also announced, effective June 1, 1921.

We announce also the appointment of Mr. L. L. Tompkins, of the New York Office, as manager of the Havana Office, effective August 1, 1921, or from such date prior thereto as Mr. Tompkins is able to proceed to Havana.

Announcement is also made of the withdrawal of Mr. W. M. McKendrick as manager of our office at Salt Lake City, and the appointment of Mr. N. K. Vincent, C. P. A., formerly of the Denver Office, to succeed him as manager.

The Idea of the Budget

IT is almost inconceivable, but nevertheless true, that this great country has up to the present time had no means of determining the total amount of appropriations authorized until the adjournment of Congress and until a canvass has been made of all bills carrying appropriation provisions. And the comment has frequently been made that this is very unbusinesslike.

Alexander Hamilton recognized the necessity for better business methods when he advocated a budget which would embrace provision for the collective financial needs of the government and offer an opportunity for the consideration of means with which to provide for the expenditures to meet such needs.

Many other financiers of astuteness since Alexander Hamilton's time have recognized the same need. Government officials and members of Congress here