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Editorial

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A. P. RICHARDSON,

Editor

EDITORIAL

Holding the Accountant Responsible

THE JOURNAL OF ACCOUNTANCY has frequently urged the desirability of placing upon the shoulders of the accountant full responsibility for his work. Because of the lack of court decisions in this country on the subject of the accountant's responsibility there is a wide difference of opinion as to how far the accountant may be liable for errors of judgment or errors of intent.

The general opinion seems to favor the theory advanced in several English cases to the effect that the accountant must exercise reasonable care in the preparation and certification of reports, and beyond that point he may not be held responsible. This, however, does not indicate to what extent an accountant may be liable when he does not exercise due care or when he is guilty of gross carelessness. This point will not be settled until some accountant is charged with neglect of his professional obligations and damages are assessed. The sooner such a case is decided the better it will be for the entire profession.

This must not be interpreted as expressing a belief that there is any widespread attempt to avoid the responsibility which should rest upon the profession. In the great majority of cases the accountant is quite impartial and does carry on his labors with a care and diligence which fulfill the accepted meaning of the word "reasonable."

When the American Institute of Accountants was founded one of the principal arguments in favor of the new organization was the disciplinary power which would be created by a change from indirect to direct membership. Representatives of the institute informed government departments that discipline would be swift

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and severe whenever cases of malpractice were discovered and tried. The record of the institute indicates that this undertaking has been carried out.

The great difficulty, however, is to induce persons who have knowledge of wrong-doing to make complaint to the institute. Every member owes a debt to the organization to report matters which may come to his attention and would reflect upon the good name of the profession. A mere statement of facts may be presented to the executive committee which will see that the necessary investigation follows. The person reporting the facts may, if he desires, remain in the background, although this is certainly not advisable.

One of the principal ways in which professional evils may be brought to light is by action of government departments before which accountants appear. For example, the bureau of internal revenue has become something of a supreme court before which accountants practise. The bureau might well act to disbar practitioners found guilty of wrong-doing, and, if notice of such disbarment were given the institute, there would be prompt trial and action in the case provided the persons disbarred were members of the organization.

It is evident that the importance of high professional morality is recognized by the bureau of internal revenue. In the course of a speech by Commissioner Daniel C. Roper before the National Association of Manufacturers this point was quite strikingly emphasized. The daily press carried extracts from the speech, but it is likely that the matter did not receive the attention which its significance deserves.

The following excerpt from the address may well be taken to heart by every accountant:

"The bureau holds an open door to every taxpayer and to the authorized representative of any taxpayer for the presentation of claims and appeals and for the argument of cases under consideration. At the same time it has been discovered that in this kind of legal and accounting practice certain abuses have developed. Taxpayers have suffered in some instances as the result of unethical conduct on the part of tax advisors and consultants who have sought their own advantage in the mystification of their clients and in the delay inevitably incident to the pro-

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cedure of the bureau. Our plan is not to question the intentions and procedure of representatives of taxpayers until such representatives by their own conduct forfeit such confidence and thus debar themselves from future practice before the department."

It will be eminently salutary if the threat contained in the foregoing quotation is carried out—and we believe that there will be no hesitancy in putting the threat into execution. The American Institute of Accountants certainly will support every proper effort to prevent unprofessional or dishonest conduct on the part of persons describing themselves as accountants.

The extent to which this control may finally be carried is indicated in another part of the commissioner's address wherein he suggests the establishment of a tribunal resembling the customs court.

"The attitude of the bureau toward taxpayers who are disposed to appeal from the official decisions in their cases is considerate and open minded. We wish to entertain and give full consideration to appeals and claims in specific cases, as well as to general suggestions for improving the policies and procedure being followed. If the final action of the bureau is not acceptable to the taxpayers, we have within the bureau a separate and impartial appellate body known as the advisory tax board, composed of specialists in economics, law, accounting, business and government administration. It is hoped that the functioning of this board will eliminate a large number of cases which otherwise would be taken directly to the courts. By thus reducing litigation, the course of tax cases in the federal courts will be expedited. This result is greatly to be desired by the taxpayers and by the bureau. Further to expedite the cases which are taken to the courts, it is thought that a separate and permanent internal revenue division should be created in the department of justice, similar to the customs court."

While on the subject of professional dishonesty it may not be amiss to suggest that there be some kind of regulation prohibiting persons from describing themselves as income tax experts. There are, no doubt, many accountants who can qualify as experts in income tax practice, but we frequently hear of men who have been revenue officers or lawyers or accountants or engineers or what not setting up in business as income tax advisors. If they

have not a fair working knowledge of income tax law and procedure they may deceive the public, defraud the government and generally bring into disrepute the administration of the income tax law and may injure the fair name of those professional men who have the knowledge required properly to advise the bewildered taxpayer.

National Budget

It really begins to appear that the United States is about to enter upon a great and much needed reform. The national budget, which has been a kind of will-o'-the-wisp pursued by practical men in congress but eluding actual capture, now seems to have become an almost tangible reality. Both houses of congress express themselves in favor of the adoption of a budgetary system, and the measure if passed will probably not be vetoed.

The extraordinary thing about the whole affair is the necessity to debate the adoption of such a system. In the twentieth century, which certainly may be called the era of business, it is incomprehensible that any body of ordinarily intelligent men should find it necessary to discuss the approval of an elementary factor of business procedure. The practical business men in congress are a minority—not necessarily the minority party—but the professional men who preponderate might be expected to have sufficient knowledge of the rudiments of business to recognize the necessity of counting the cost before building. We have scriptural authority for the fate which will befall the man who starts to build without a budget. We have the example of every other civilized nation before us. But the United States has floundered along the entire course of its national career without any definite idea of what it would spend, how it would spend it or whence would come the money to be spent.

The labors of the economy and efficiency commission appointed by President Taft were instrumental in impressing upon the public, even if not upon official Washington, the necessity for a national budget; but, probably because of interested motives, there has been no realization of the proposed reform. It therefore remains for the present congress to demonstrate its superiority over its predecessors and its appreciation of fact by promptly enacting a law providing for a budget.

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It is of primary importance that the budget act should be so worded as to call for a budget prepared upon sound business principles, not upon vague and possibly interested ideas of theorists.

What we have said does not imply in any way that congress should rashly enact the first budget bill presented to it. We cannot understand how there can be any difference of opinion as to the need for a budget, but it is obvious that the details of the bill must be prepared with great care.

Perhaps the major problem in working out a budget plan concerns the audit machinery. Some authorities think that under a budget plan this responsibility and authority ought to continue to rest, where it was placed by Alexander Hamilton, under the supervision of the secretary of the treasury. If congress undertakes to set up an audit machine subject to its control, the results are not likely to be satisfactory, and certainly the authority should not be vested in any spending department. To be effective it must be lodged in the hands of a cabinet officer, as otherwise the audit administration would be too weak.

Here is an opportunity for the United States to show itself a practical nation. Such opportunities should not be allowed to pass.