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Accounting in the Public Interest

BY EDWARD B. WILCOX

IT IS an easy thing to write "Accounting in the Public Interest" as the theme of this conference. With the help of modern inventive genius, it would not be too difficult literally to emblazon those words on the sky in letters of fire. But it requires something more to answer a still small voice if it asks what we mean by accounting in the public interest. Definitely we do not mean to refer to some small portion of the field of public accounting which may be particularly tinged with the public interest. We do not refer exclusively to municipal accounting. We do not refer to those procedures, whatever they may be, which record the financial transactions of the Federal Government. Even more specifically, the word "interest" does not refer to annual percentage charges for the use of capital. When we speak of accounting in the public interest, we are speaking of a broad field of accounting, and we are referring to the fact that the public is directly and vitally affected by the manner in which the practice of accounting is carried on in that field. Many people still scarcely suspect the existence of accounting, and when they hear of it, they wonder vaguely what it is. Certainly, to many of them, it is like the unseen and unsuspected foundations of great buildings, and they enter and leave these buildings or walk in their shadows without giving thought to the foundations that hold them true and sound and make them safe places to enter. Surely these foundations are in the public interest even though they may not occupy a large place in the public consciousness. In the economic structure of the country, on which in

large measure the fiscal security of our people depends, accounting plays a part similar to that of these unseen foundations. King's Counsel must have had this in mind some years ago when he said with reference to accountants' reports, "Everything must be kept upright and square in the City of London."

RESPONSIBILITIES OF ACCOUNTING

It is in the public interest that our industries be managed efficiently; accounting provides a tool in the hands of management which it may use for this purpose. It is in the public interest that honesty of employees be recognized and not exploited, and that dishonesty be detected and prevented. Accounting provides the records by which honesty can be established and dishonesty apprehended. It is in the public interest that tax burdens be fairly distributed; accounting furnishes the procedures by which this is made possible. But more than any of these things, it is in the public interest that ownership of property, services, and income be informed and protected.

In the complex economic conditions of today, both public and private funds are increasingly administered by others than those having beneficial interests in such funds. Without the services of the accountant, it is impossible for the people to whom the wealth of the country ultimately belongs either to know for themselves that their funds are intact and honestly administered, or to inform themselves adequately as to the facts regarding those funds. Stuart Chase has said, "Once a business becomes too big for one brain to handle personally, accounting takes over the job." Businesses today are generally too big for one brain to handle personally, and the brains that handle them are generally not those of the men who own them.

NOTE.—This paper was presented as the keynote address at the Central States Accounting Conference, held June 1 and 2, 1939, at Des Moines, Iowa.

Investors place their funds in the hands of management, and know the competence and integrity of that management only by the financial reports they receive. As stated to the House of Representatives in connection with the securities-exchange act, "There cannot be honest markets without honest publicity." Creditors, including the depositors who make possible our great banking system, furnish funds to enterprise and judge the soundness of the loans they have made, largely by financial statements. Millions of our people provide for their futures or their dependents, or protect themselves from loss or liability, by insurance, and must rely on examinations and reports in appraising the soundness of the provisions they have made. Contributors to charitable and social causes, and these are many more than a few wealthy philanthropists, know only from reports that their contributions have been used as they intended. Taxpayers, and this includes everybody, know that the funds assessed against them to meet costs of government are properly used and accounted for only by the fact of honest, competent, and adequate examination of municipal accounts. Business and government today are characterized by trusteeship of other people's money. Competent and adequate ascertainment of the facts regarding this trusteeship and sound, honest, and impartial judgment in reporting them are the primary functions of accounting which are in the public interest. In the performance of these functions, the accountant assumes a position of highest public trust.

POPULAR MISUNDERSTANDING

One of the great difficulties in carrying out the duties of the independent certified public accountant, to whom the people look for assurance that financial affairs are being fairly and properly reported, is the widespread misunderstanding as to what the accountant can

do and what his reports intend to convey. It is still not well enough understood that accounting is an inexact science and that it can no more guarantee the accuracy of financial statements than can a doctor guarantee the outcome of an operation or a lawyer the outcome of a case. It is not well enough understood that an accountant's report is primarily an opinion—an expert opinion, to be sure, and one on which considerable reliance may safely be placed, but nevertheless basically an opinion. Recent events have focused more than ordinary attention on this fact, but have not seemed to bring about any great improvement in the public's understanding of accountants' reports. Rather, these recent events have emphasized that there is a lack of understanding. Accountants, therefore, and particularly independent public accountants, face a difficulty beyond that which is inherent in their work, in that they are responsible not only for accuracy and sound judgment, but also for such presentation of their work as will most easily and most generally be understood. The problem is similar to that of the artist who, if he really be an artist, must have an insight into the values of beauty or tragedy which he perceives, and then master a technique by which he may convey this insight to an audience who would otherwise not see what he has seen. The falling tree in the forest produces no sound if there is no ear to hear it; the painter creates no art if there is no audience to appreciate it; the accountant fails in his function if he does not convey true and sound reports which can be understood and used for the purposes for which they are intended. Thus, part of the responsibility for the fulfilment of the accountant's trust rests with the public. We are speaking of accounting in the public interest, but like the doctor, we need the coöperation of our patient. We may and we do attempt to educate the public, but we must urge that the

public enrol in a course in accounting appreciation in order that we may have an audience before whom we may speak and who will understand what we say.

Even if we are imperfectly understood, and perhaps all the more because of that, we have on our own shoulders a heavy duty to fulfil a public trust. It may seem pertinent to ask if we dare feel assured that accounting is loyal to this trust and is actually carried on in the public interest. This question, considered for the first time, would come as a shock to most public accountants. It is like questioning an axiom or a basic doctrine of accepted faith. The practising accountant knows that there is only one answer. His fundamental training is to ascertain and analyze facts and to evaluate and present them truly, correctly, and intelligibly. The nature of these facts has little emotional content, and the habits of thought which are developed from dealing with them are logical and objective. This is why accountants are sometimes caricatured as unresponsive, cold, and heartless. By habit and acquired instinct, the accountant hews to the line and lets the chips fall where they may. Without artificial pressure, there is no more incentive to distort a financial statement than to shade the answer to a mathematical problem.

When the accountant has progressed in his profession to the point where he assumes a high degree of personal responsibility, efforts to influence him to deviate from his independent judgment are apt to encounter tough going. Typically he has grown into a rugged individualist. He likes to think for himself, and when we experience seemingly unsurmountable difficulties in getting accountants to agree with one another on anything we may reflect with some comfort that this very difficulty is a symptom of fitness for accountancy. The habits of thought of the accountant and his attitude toward his work have become fixed in the direction of an ideal

of accuracy, rather than compliance. His pride in his work is in its soundness, not in its popularity. He dreads a mistake as some men dread a rebuff, and he typically opposes and denies the wishes of his own client who has employed him and who, he knows, may cease to do so. It would be even more gratifying if all this could be said without exception, but it is enough that it can be said as typical of the accountant. He is that kind of an animal and, whether it be to his credit or a result of the circumstances in his training, it is essential to sound and impartial presentation of financial statements and it is definitely in the public interest.

Even if he were not typically objective, the public accountant would know that his good name was his best stock in trade. He knows that he cannot continue to enjoy a good name after a succession of failures. He knows he cannot long endure if he is a disgrace to his client. He knows that he can be of greatest service if his name meets with respect wherever his client takes it. He does not limit his own liabilities by incorporation, because he knows that no corporate form can save for him his most valuable asset. And he knows the value of that asset too well to sell it, knowingly, for a mess of pottage, however tempting the pottage may be and however hungry he may be. He knows these things, and that knowledge reinforces the habits of thought and action which his training has given him. He could scarcely be bright enough to be a public accountant without being bright enough to understand this. It is indeed seldom that so strange a case appears, and it is in the public interest that it should be so.

In view of this combination of acquired instinct and enlightened self-interest, it is not difficult to understand why accounting has earned a place of respect in a society which has had an increasing need of it. This development has taken place in spite of the fact that

accounting makes practically no appeal to the imagination, nor any direct contribution to the physical comfort of the people or to their romantic yearnings. Neither has it been sold by any great national advertising campaign, but rather has been inclined to hide its light under a bushel. What might have resulted from a nationwide ballyhoo similar to that adopted in the higher reaches of the cosmetic trade is staggering to contemplate. What has actually occurred is enough to restore confidence in the old maxim about building a better mouse trap. There has been a need, and it has been met.

PUBLIC TRUST

It is customary to relate the rise of accountancy to the establishment of the income tax, but there is, I believe, as much or more weight to be attached to the increasing complexity of general business and economic affairs. Increasing reliance and responsibilities have been heaped on the accounting profession by bankers and stock exchanges. The Securities and Exchange Commission has turned to the independent public accountant for the assurance which its purposes require. The impartiality and the abhorrence of special pleading, so typical of the accountant, have been recognized by industry in turning to accountants for arbitration, by the Treasury Department in its confidence in the representations of accountants practising before it, and even more notably by the Comptroller of the City of New York who accepts, without further examination, reports certified by public accountants. This type of reliance on accounting and accountants is found among especially skilled and informed groups of people. You can fool a part of the public part of the time, but trained credit men and competent public officials are not of that part. Even though the general public still knows lamentably little about accounting, there is cause for gratification in the reflection

that that part of the public which knows the most about it has great respect for it. And there is justification in this fact for the conclusion that accounting is actually carried on in the public interest.

The extent to which growing responsibilities have been met is an outstanding credit to the profession. Accountants have figured prominently in public service; they have fostered the growth of schools and the development of education in the field of accounting; they have labored not to exclude newcomers from their field, but to encourage the entrance into the profession of men of the highest type; they have continually elevated the standards of ethics and performance which they impose on themselves; and they have assumed the endless task of continual re-examination of their own procedures and standards, that they may ever be adequate to changing conditions and to increasing responsibilities. These have come so rapidly that some doubt as to the dependability of accountants and the adequacy of their procedures was inevitable. In the face of this situation, accountants have not been blinded by a mass of tradition, but have considered their problems on their merits. They have regarded their methods and procedures, not as fixed and perfect, but as growing and evolving things. As in a testing laboratory, they regard the breaking point, not necessarily as an indication of weakness, but as a measure of strength. They have not drawn generalities from exceptional cases, but have studied them in full recognition of their importance. They have not been stampeded into either evasion of responsibility or the overburdening of industry with prohibitive costs. In recent months they have given even more freely than ever before of their time and effort in studying the problems before them in order that they may as wisely as possible continue to deserve the respect and the responsibilities which they have earned.