

YOU AND YOUR ACCOUNTANT

THERE IS hardly a large accounting firm that has not been subjected to litigation because of alleged or actual errors in the course of their practice. The cause of these difficulties is stated in a current report of the Attorney General of the State of New York as follows:

“Our experience has shown that altogether too much of the audit is performed by employees, oftentimes underpaid and unqualified, and that the principals of audit firms have taken little or no part at all in the program of the audit. Contracts for audits are awarded on the strength of the reputation of the principal and not of the staff of the firm.”

It is certainly of basic importance whether or not the accountant merely checks the correctness of the books as they balance among themselves, or whether he goes back of the books and actually verifies and, in detail, audits the entries to see that they conform to the actual facts. In the absence of such an actual verification and audit, the task of a

dishonest employee in defrauding his employer is a simple one.

The business man should insist that his accountant be able not only to report to him on a monthly basis, but that he be capable of making comparisons not only between a given monthly report and similar periods in the past, but also with business trends in the particular industry and all business in general, so that the business man may be able to judge more accurately the direction in which his affairs are traveling.

In extending substantial credit the business man should insist that the financial report be certified by a certified public accountant, and that the certification be addressed directly to him. It has been held that in the absence of downright deliberate misrepresentation or reckless disregard of the truth, an accountant is not responsible for an honest mistake, no matter how grievous, except to the person to whom his report is addressed. Thus if a business man receives a certification and passes it on to a prospective creditor, and the re-

port is erroneous, the creditor has no remedy against the accountant in the absence of proof of a deliberate falsehood. Thus the certificate should be addressed directly to the business man who is relying on it. He should also be careful to read the letter of transmittal to see what reservations are made by the accountant and to see to what extent the certification is based on direct and detailed audit and verification, and to what extent it is merely a recapitulation of what is found upon the face of the books of account of the concern.

Some contracts provide for the settlement of disputes by an accountant, or they provide that if an individual retires, his stock shall be purchased at a price to be fixed by an accountant. The danger of such a contract is that the courts have held that an accountant acting in that capacity is not subject to control of any kind; that the parties are bound by his conclusions, even if erroneous, and are without remedy. It is much better to fix values by agreement and alter them by agreement from time to time, rather than to leave the evaluation up to an accountant who is beyond any effective control, and who in turn may

find himself forced to rely on information supplied by other persons, which information he cannot effectively verify.

A comparison between English and American accountants is enlightening. In England the chartered accountant is deemed akin to a public accountant, and if the revenue office itself inspects the books of a taxpayer, this is treated by the taxpayer, the accountant and the general public as a grievous reflection on the parties involved. On the other hand, in the United States the Government inspection and verification of books is taken as a matter of course. This difference of attitude is, of course, not entirely chargeable to American accountancy as a profession, since it is largely comprised of men of good intentions, high ideals, and splendid training; but it would seem that the situation would be better if the accountant could be instilled with the thought he occupies a position of highest public trust rather than merely a position which gave him the opportunity of obtaining a certain amount of private gain.

The practice of accountancy in its ultimate sense is of the very highest import, since it is a sub-

stitution of principle for person and relies on a statement of facts in place of blind personal confidence. The accountant should ever adhere to principle, not person, and his mission in our business world really should be viewed from that point or vantage by both the accountant and the business man.—*Gustave Simons, condensed from The Christian Science Monitor.*

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THE VERMIN OF STATE

And so I fear, my country, not the hand
That shall hurl might and whirlwind on
the land.

I fear not titan traitors that shall rise
To stride like broken shadows on
our skies;

I fear the vermin that shall undermine
Senate and school and citadel and shrine;
The worm of fraud, the fatted worm
of ease

And all the crawling progeny of these.

I fear the vermin that shall honeycomb
the towers

And walls of state in unsuspecting
hours.—*Edwin Markham from The
Bell Tower of Venice.*

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