

Pittsburgh Chapter, January 27, 1939

Wherever accountants gather at this particular time there is one certain topic of conversation, the McKesson and Robbins case, and all its implications. For the first time in the fourteen years I have been working for the American Institute of Accountants, accounting and auditing is news. For more than a month there has not been a day in which newspapers and financial and business magazines have not devoted attention to some aspect of accounting.

One might expect that accountants, who are accustomed to relative obscurity in the public press, would have been panic-stricken or stampeded by the sudden outburst of criticism and question. It is to the credit of certified public accountants, with few exceptions, that they have kept their heads, have reserved judgment until they could know all the facts, and have refused to be put on the defensive until someone could bring forward proof that their professional procedures and professional standards have been faulty.

It should be remembered that this is not the first case in which reputable certified public accountants have been accused of having certified accounts which contained essential misstatements. There are several court cases with which most accountants are familiar, in which accounting firms, large and small have been deceived by fraud and forgery. The present case, however, is the first one, which because of the magnitude of the sums involved and the extraordinarily dramatic circumstances, has captured the headlines and the editorial pages in all parts of the country.

This case is distinguished from all others by the publicity which it has attracted. It is the publicity which makes it a matter of major concern to the accounting profession as a whole, because the publicity has reached the public at large, and the public reaction has surprised many accountants. We find that the public has believed that the certified public accountant is an

infallible superman; that the signature of a C.P.A. invariably meant that everything was okay; that it was unnecessary to read the accountant's certificate or the financial statements to which it was appended as long as the three magic letters were in evidence.

Some accountants have long suspected this public conception, and have realized that it was dangerous. Whether through its own fault or not, the accountancy profession seems to have been oversold. Its limitations have been overlooked, while its abilities have been emphasized.

Now, the public is disillusioned, and there is bound to be at least a temporary revulsion of feeling. The pendulum swings from one extreme to the other, but, fortunately, while the machinery is going, it doesn't stay in one place.

The spontaneous nationwide revulsion of feeling toward accountants manifests itself in a suspicious curiosity about everything related to the profession's methods and standards. This is not an unfortunate thing. Never before has the public been particularly anxious to find out about accounting and accountants. The profession has worked hard to improve its methods and standards, and it now has a pretty good story to tell. The opportunity to tell it to an attentive public should be welcomed.

The profession's story can be told without apologizing; without justifying. The reasons for present methods and procedures can be explained straightforwardly, while making it quite clear that the profession is ready to improve and strengthen its methods in every practicable way. At a time like this, public support can be found for every constructive proposal, whereas in the past there has been widespread apathy toward the problems of the young profession of accountancy.

All this is general comment. There are two specific questions in the minds of accountants to which immediate answers are desired.

The first question is, just what happened in the McKesson and Robbins case? For obvious reasons I am unable to discuss this question. No one is now able to say whether or not the audit of the company was in accordance with accepted accounting procedure. The Securities and Exchange Commission is holding (has just completed) hearings, designed to discover the answer to that question. Until the Commission's conclusions have been published, it would be inappropriate for the professional societies to express theirs. Civil suits have also been instituted, and while the case is sub judice, a professional society cannot properly act. At the present time, therefore, all I can say is that the American Institute of Accountants plans to send to its members, as soon as it can properly be done, a brief summary of the essential facts in relation to this case.

The second specific question is, what has been done and what can be done to protect the profession as a whole against unfavorable effects which may arise from the widespread publicity?

The case "broke" early in December, but it was not until December 28th that the Executive Committee of the Institute could acquire sufficient trustworthy information to warrant any public statement. At a meeting on that day the following simple and straightforward announcement was released:

(Take in)

Obviously, the major purposes of this statement were to inform the public that there was an organized profession which recognized a responsibility in the matter; that this profession had not neglected its responsibility in the past to set up standards of procedure, and to inform the public what those standards were; that, on the other hand, it was entirely willing to

review those standards and to strengthen them in accordance with any practicable suggestion; that standards built up as a result of careful thought and long experience should not be thrown out the window because one exceptional and extraordinary case had indicated that they were less than perfect.

This statement by the Executive Committee was criticized by some members on the ground that it was a defense of the particular members of the Institute concerned in this case. These critics read something into the statement which is not there. Every line of it is the truth, and in the long run no group and no individual will suffer by stating the truth frankly, even though some people don't want to hear it. As an example of the criticism to which I refer, let me quote a financial writer of a New York paper. He uses my name because the statement was released by me as the mouthpiece of the Executive Committee.

(Take in Hendershot excerpts)

Some of our members were alarmed because of this attack, and said we would have been wiser to have kept silent until the case blew over. One of my friends remarked sardonically, "if the Institute waits for the thing to blow over it might find it gone with the wind". To me, it is unthinkable that in weeks of public discussion about accounting and accountants the Institute should remain silent. It would have been inexcusable weakness in my opinion if the national professional organization had failed to make some statement of its position in a matter of such importance to the public.

As justification of the Executive Committee's policy, I offer quotations from other articles which are of inestimable value to the profession, for example, the following statement from Business Week:

(Take in)

A similar comment appeared in an editorial in the Springfield, Massachusetts ____ as follows:

Early in January, the president of the Institute appointed a special committee, constituted of the acting chairman of the Executive Committee, a member of the Committee on Accounting Procedure, who was chairman of the committee which wrote the bulletin "Examination of Financial Statements by Independent Public Accountants", and the secretary, to keep careful watch of developments of importance related to the profession arising from the McKesson and Robbins case, and empowered that committee to appear at a public hearing and to discuss with other interested groups the matters which required discussion. The New York State Society appointed a similar committee of three, and from the first the two groups have worked closely together. One of the first acts of the special committees was to seek a conference with the chairman of the Securities and Exchange Commission and some of his associates. The meeting was held at Washington on January 4th. The discussion was unquestionably of great value. The accountants' committees made it clear that the Commission would have full cooperation of the profession in its announced intention to study commonly accepted standards of auditing and accounting procedure to determine whether or not improvements should be recommended. As a direct result of that offer, the Institute was invited to suggest three witnesses to testify as experts at the S. E. C. hearings held in New York. Those selected for this purpose represent a good cross-section of the profession's ____ and they rendered a great service both to the profession and to the Commission by their appearances.

The accountants' committees also conferred with Senator O'Mahoney of Wyoming, who is chairman of the Temporary National Economic Committee, and one of the sponsors of a federal corporation law. An exchange of views occurred at this conference which

was mutually enlightening and resulted in an invitation from the Senator for suggestions relating to methods of appointment of auditors by corporations.

In the meantime, the Attorney General of the State of New York had invited the Institute and the New York State Society, as well as representatives of the New York Stock Exchange, New York Credit Men's Association, and other groups, to attend a public meeting at which there might be a discussion of ways and means of improving accounting and auditing procedure. The Institute and the New York State Society prepared a joint statement, which was read at the meeting, and was published in full in *The Certified Public Accountant* for January 15th. This statement outlined the powers of the professional societies and the nature of their activities. It recited their efforts in the past to improve the standards and the procedures followed by practicing certified public accountants. It outlined the legal and moral responsibilities of public accountants, and discussed a number of constructive suggestions for improvement to which the professional societies had committed themselves to give careful consideration. These constructive suggestions dealt with

Examination of inventories and accounts receivable;

Election of auditors by stockholders;

Relations of auditors with directors, and appointment of auditors at the beginning of the year, with right of access to the accounts during the year for which the audit is to be made;

Possible improvement as a result of wider adoption of natural business year;

Improvement of method of internal control, specifically by making the controller or chief accounting officer directly responsible to board of directors.

This general statement was also released to the press, and the following quotations from various articles indicate the favorable reaction:

(Take in selection)

In addition, the secretary and assistant secretary of the Institute, with the approval of the special committee, have discussed these and other broad questions informally with members of organizations representing management; with newspaper reporters and magazine editors, and numerous other persons. At our suggestion the chairman of the Natural Business Year Council has issued a news release emphasizing the importance of adoption of natural business years in facilitating effective auditing.

As a result of the Attorney General's meeting, a special report has been released by his office in which a number of suggestions are set forth.

(Take in)

Among other important echoes of the case are a speech by the chairman of the Securities and Exchange Commission on the responsibility of directors, in which he recommends the use of professionally paid directors in public companies, proposed broad studies of corporation management and financial practices by important organizations representing business, and numerous efforts by individual companies voluntarily to improve their management, financial, accounting, and auditing procedure.

The accountancy profession, in my view, has the best opportunity in its history to bring about changes which is _____ with the full support of clients of the government, and of the public. If frankness and sincerity underlies everything we do in this situation, I cannot believe that the profession will not benefit by all this discussion. If a substantial number of accountants permit themselves to be influenced by selfish motives, by jealousy, by insincere desires to appear favorably in the public eye, it may be unfortunate for all concerned.

The profession may congratulate itself on the fact that it is well organized. It can present a united front. It has the machinery through which constructive work may be performed rapidly and effectively. It has a fundamentally good reputation which will survive the swing of the pendulum.