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**RESPONSIBILITY TO INVESTORS
ON THE PART OF THE PUBLIC
ACCOUNTANT AND HIS CLIENT**

AN ADDRESS BY

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AT

The Accounting Clinic on Annual Reports
of Corporations, under the auspices of The
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RESPONSIBILITY TO INVESTORS ON THE PART OF THE PUBLIC ACCOUNTANT AND HIS CLIENT

I find this meeting is called an "Accounting Clinic." As I didn't know exactly what a clinic was I went to Webster. I find that in ecclesiastical history a clinic was a person who received baptism on his deathbed, or had postponed baptism until his deathbed in the belief that sins committed after the reception of the sacrament could not be atoned for. That definition does not fit this baptism of speech-making today. I would assume this Accounting Clinic is rather intended to be in the nature of free instruction of a number of people interested in the subject. If, however, this is intended to be a clinic for the cure of any ills I hope the ailment is nothing more than a healthy discontent over the present condition and a reasonable determination to do what can be done to improve it.

I have so many connections with industrial corporations and the Stock Exchange, not to mention my own firm, that it might be wise to emphasize that I am here only as an individual, speaking for myself only, limited by my own experience and attempting to touch only a part of the problem covered by the title assigned me. I can present only my own independent opinions, the result of my own experience, in the hope that you will test the soundness of my comment by your own experience, and that I may carry to you some conviction to carry out my suggestions if, happily, you should concur.

I am not going to attempt even to outline a summary of the legal responsibilities resting upon the auditor or his client. I plan to tell you what I think is owed to the stockholder, and how a complete meeting of that obligation will pay the auditor and

his client. I have no intention of presenting an inventory of all of the essential things that must be done by the auditor or his client as a part of his job as the public has come to view it today. I aim rather to tell my view of the purposes to which all concerned should work and of a few things that I hope will commend themselves to you.

There has been a wide public interest in this subject and I am sure that this interest has reached to all who are here. It would be all I could wish if those here would have their interest quickened in the subject and their determination increased to do something about it.

A few centuries ago the "mental gymnast" of the day used to theorize as to how many angels could stand on the point of a cambric needle. In these days the same kind of mind—possessing plenty of intelligence but lacking in judgment—seems to be busy in developing theories about all sorts of precise practices for improving accounting method and results. It is all interesting mental gymnastics, but, on the whole, the current discussions seem to me to over-emphasize the factual character attributed to an auditor's report.

One would be bold who would venture to say what security holders in the mass expect from the annual reports of corporations, or from the auditor's certificate in connection with the balance sheet, the income account, and the surplus account. It may be that the public wants the annual report and the auditor's certificate to be a cold mathematical calculation of fact. If that is what it wants, it cannot get it and it should be told so.

Whenever the public has lost money it is always willing to blame someone else for its errors of judgment and so it is only natural that any one who has had any relationship to the situation should be blamed. Few of the security holders in the event of

trouble will be inclined to look at their own responsibilities and consider whether they were not taking risk blindly. As long as human nature is as it is, and bears promise of remaining, and until the public understands what you do, we can expect the kind of attacks which have been made upon management and upon auditors during recent years.

As long as these attacks are to be expected it will be helpful for management to consider what it can do reasonably to protect itself against unwarranted attacks, or lessen their violence, just as it will be helpful for the accounting profession to consider what its duties are, what its obligations are, not only for doing its work up to the full measure of its responsibility, but for carrying to the general public some understanding of what it can expect from annual reports and some indication at least of the point beyond which it cannot place absolute reliance upon the mathematical accuracy of such reports.

The trend of developments in this field over the last six years seems to me to have placed a false emphasis upon the need and the value of auditor's reports. The trend has been toward a great mass of reports about the so-called facts of a business and to forget everything else. I recognize the great danger in making this statement because to the careless listener it might leave the impression that I attribute no need and no value to such reports. This is not at all the fact. I recognize both the need and the value in full measure, I hope, but I purpose to mention some other factors than those which can be covered by an annual corporate report. The difficulty, as I see it, is that the popular thinking has gone in the direction that if corporate reports were accurate, security holders would be able by analyzing them to tell the direction or the trend of future earnings of the company in question. This seems to me to be a fantastic concept. It represents the valor of ignor-

ance. I recognize that when I sketch some of these other elements the factual character of the report and the auditor's certificate may seem relatively unimportant. So I want to stress again that no one recognizes more than I, I hope, both the need and the value of the best kind of corporate reports primarily as an accounting for a stewardship rather than as forecasting or attempting to forecast or even indicating a future trend of earnings. I think that the accountant or the management official attempting to dip into the future can do little good, and more often will do only harm to himself and the stockholder aimed to be served. Rather the function of management and the auditor too should be to give the security holder their honest, conscientious judgment as to the year's operations and the position at the end of the year. There is no need to stress to anyone in this room the impossibility of absolute factual certainty existing in such reports. There is no need to emphasize to you that these reports at best are historical and that they are based in large measure upon accounting convention. At best they do not govern the valuation placed by the public upon the security of the company in question. They are important but they are only one of several important factors. Their importance to the investor lies in their being honestly stated as the result of careful effort and a conscientious attempt to present the best judgment that can be brought to bear upon the facts. Their importance lies also in the fact that a good judgment about the overall soundness of the figures is reasonably possible in the field of accounting. It can never be more than a judgment; it can hopefully be a sound judgment. It ought to be a conscientious judgment and every step should be taken to insure that it be this.

It is obvious folly to assume that an adequate picture of a business can be given in an annual

report. One can learn no more from a report, even a perfect one, than he can learn about a man by seeing his picture with possibly a photostat of his tax return, or by reading a biographical sketch from "Who's Who" or the Congressional Directory. This general understanding of the nature of annual reports exists on the part of all men who have worked on the problem, and yet our laws relating to the problem, many of their authors and even their administrators, seem to proceed on the assumption that there is need for much more precision in accounting practices. I am ready to agree that there will always be need for more competence on the part of management and of auditors. There will be need for better judgment, there will be need for more courage to face the facts and to present them in simple, clear, understandable language, but I doubt there is any warrant for devoting working time to a consideration of many of the finely spun arguments striving for absolute accuracy of annual reports. Until we repeatedly point out the true nature of an annual report, that it purports to be only the best judgment of management and that such judgment has been independently checked, we may expect the public in some measure to misunderstand.

There are enough major problems in presenting this judgment of management or auditors to warrant a lot of time and effort but the attempt to get so precise and to present great masses of figures, in my opinion, is not worth while.

Certainly when difficulties arise the public asserts that it has placed great reliance upon management, directors, accountants, and, of course, I could not overlook the fact that they seem sometimes to place reliance upon investment bankers. There will always be an element of human frailty which will induce unfair attacks as well as fair attacks upon those I have mentioned, but that is not the whole situation.

I think it is the job of all of us to assume those responsibilities which we reasonably can assume—to strive for a definition of the responsibilities, and then for public understanding of what the responsibilities are. Along with that could well go a statement of what a stockholder's responsibilities are so that he might understand what he can reasonably expect from an annual report and particularly so that he will understand what he cannot expect from such a report. Unless this is done those of you who have come up to now, without coming directly under Governmental control, should look at the situation in the investment banking field if you have any doubts about what will happen to you if this job is not done. Doing it may not prevent the same thing from happening to you but unless it is done the present temper of political opinion may be expected to bring about the same result as has occurred in the investment banking field.

I think we need not concern ourselves tonight about the degree of responsibility owed by management, by directors, or by auditors, to the security holders. That problem can better be left to lawyers. They will certainly handle it and I can only hope that the lawyers who have the final decision on these questions will not be the kind of lawyers who provoked the Saviour to say some nineteen centuries ago:

“Woe unto you lawyers; for ye have taken away the key of knowledge; ye entered not in yourselves and them that were entering in ye hindered.”

“Woe unto you also, ye lawyers! for ye lade men with burdens grievous to be borne, and ye yourselves touch not the burdens with one of your fingers.”

I believe the stockholders are the backbone of American business. I believe that the management which places their interests first in a truly enlightened

self interest with the long range view will do the best job for all concerned and gain the greatest reward for themselves. I think stockholders are entitled to better corporate reports than they are getting today from many companies. I believe that if industry will see that stockholders get better reports they will have served the purpose of industry in general. I believe that industry in general, and particularly the managements of corporations in which the public is widely interested, have had their consciences quickened by the developments of late years. That part of the legislative and regulatory work is all to the good. My difficulty is that I believe the benefit of a state is best served by a sound healthy business life and that some of this legislation hampers or prevents this sound healthy business life. Much of the legislation is claimed to be justified by the public's rights to the “facts.”

This so-called public demand for the facts creates a danger if it is met only by only the facts asked for. As long as the “facts” are not the only important thing, people are going to allege that they were misled by statements of facts. It is a long, slow, painful process to educate people to understand the limitations in so-called factual statements and there is the nub of the responsibility upon management and auditors to be careful in their public statements not to say anything which is reasonably subject to misconstruction.

One other thought which seems to pervade the entire writings of men interested in this subject today has been expressed by one writer who says: “The time has come, in my opinion, to exact uniformity in the reporting of gross revenues.” I am in entire disagreement with that concept of further compulsion as to such matters. I do not believe in any such kind of compulsion as an effective remedy for when the attempt comes to state the degree of

compulsion, or the standard of disclosure to be adopted, the standard will be a low one or else the compulsion will not work nor will not be uniformly applied. This is the question which has been under discussion in the form of the public reporting of gross sales. I wish every company could be in the position where no harm would come to it if it were to reveal this information. On the other hand, I am not ready to argue that this information should be public *in all cases*. That is the demand of those writing most about this question. Let us assume that I am a stockholder of a company which does not report its gross sales, and that I have come to the conclusion that I have a right to this information in the annual report. Would I be wise to disregard the opinion of a management that this figure if publicly revealed would be injurious to my interests? Wouldn't I be wise to find out whether, in my opinion, it would be harmful to me to have the fact revealed? If I come to that conclusion, and if a majority of my fellow stockholders feel the same way about it, I see no right anywhere else—nor should there be power—to compel management to reveal this fact not only to stockholders but to the whole world. On the other side, if I am not a stockholder and I claim that I have a right to buy any company's stock on my own terms as to the information which I must be supplied with, then am I not also bound to assume that the owner of the stock or his representative has the right to say whether he wants to sell and on what terms? Hasn't the owner the right to say he does not choose to sell to the man who demands certain information be given to the world? If this information is so important then I believe the prospective buyer should not buy if he cannot get the information he wants. I see no reason for anyone to step in and demand that the owner who doesn't want to sell shall give up informa-

tion to someone who is not an owner and who in all probability wouldn't be able to use the information if he had it. Isn't it more in the tradition of America to shun compulsion in the case of a holder who desires to punish himself by limiting the number of those who are willing buyers in the event he should wish to sell? That is all I have to say about compulsion for the moment.

The subject assigned to me refers to the auditor and his client, without stating who the client is, or who he should be. I believe the client—the employer—of the auditor should be the Board of Directors rather than the operating management or any operating official. This comes from the concept that the first purpose of the auditor is to afford a check, a validation if you will, of the judgment of the operating management. It will be more fitting to have the auditor for a corporation chosen by the Board of Directors rather than by the management whose judgment is to be reported upon. If this is accepted then it seems to follow that the Board of Directors, or a committee of the Board consisting of directors who are independent of management—outside directors as they have come to be called in recent years—should employ the auditor, agree with him upon the scope of his work, arrange for his appointment as auditor for the coming year, and plan so that if differences of opinion arise between the auditor and the management which are beyond reconciliation there shall be a freedom of presentation of the issue on the part of the auditor and the management. In that way it ought to be possible to arrive at a sound conclusion. I would not venture to assert that the opinion of the outside directors should govern in every case because they too are human and might be subject to some extraneous influences and also might not be qualified to judge about the controversy. However, the Board as a whole is responsible

and the Board, depending upon its personnel in each case, should adopt that procedure which will work to the ultimate good of the stockholder and protect all parties in the wise and fair discharge of their responsibility. Obviously, I make no attempt to outline a detailed procedure for there is no adequate reason to have a uniform procedure among American corporations. If we recognize the purposes of the audit, the responsibilities of the auditor and of the management, this skeleton outline ought to afford the basis for a sound procedure in each case. In summary, the duty of the Board as distinguished from the management is to select a competent, disinterested auditor, able to make a selection of the information he desires and able to give a sound and acceptable judgment as to the information he is to certify to the board or the stockholders, and to provide the conditions which will assure the presentation of an untrammled judgment.

I have said that the Board should agree with the auditor upon this scope of his audit. I believe beyond this that this scope should be stated as accurately as possible and made a part of the corporate records. I think it is worth considering whether the stockholder should not be informed more specifically about it than has been the custom with corporations generally. One of the purposes of having the work done by the Board of Directors as distinguished from the management is to have the auditor recognize his responsibility as being to the Board, and through them to the stockholders. One aspect is that under this procedure the auditor will not be subjected to undue strain in discharging his responsibility. He cannot hope to have an independent judgment and to express it if he is not free to express his considered judgment. He may lack the courage to go into public controversy for fear of the possible harm he may do to the company itself. It seems to me conducive to

the best situation if the auditor is protected against undue strain such as might arise on occasion if he were to become convinced that he would lose his position if he didn't surrender his independence of judgment. This isn't the kind of a situation against which boards have to guard themselves ordinarily. It shouldn't be regarded as any reflection on management if a board decides to protect the company and its stockholders by establishing some such procedure; in fact, it seems to me clear that some such procedure is the best protection so far devised for all those having responsibility.

It is a symbol of this relationship of the auditor to the corporation as a whole and to the employing body if the auditor's report is addressed to the Board of Directors or the stockholders. I think it is not enough to have the report merely addressed to the Board but I think a copy of the report should be furnished to each director. If in addition to this procedure the Board has met with the auditor before the annual report is finished and has been made acquainted with the auditor's view in detail about all matters concerning which differences of opinion have arisen, or if, happily, the auditor is able to give his approval without reservation, general understanding has resulted and no one is carrying an undue share of the responsibility.

I have said that I have no question about the need or the value of the auditor in general terms. In order to make the auditor's work of value in any individual case we cannot emphasize too much the need on the part of the Board to select a man who is independent in his thinking and not subservient to any other interests than his own responsibility as an auditor. The counterpart of this is that the auditor should not accept a position in which he cannot be truly independent and where he will not feel able to present his independent judgment and fight for it

down to the last trench if the matter is of sufficient importance reasonably to warrant such action. Obviously, the work of the auditor will be better if it represents the accumulated practical and professional experience of a competent man. No individual auditor can be blamed for not having had a rounded professional experience, but the Board of Directors should be responsible if they place their reliance in any other type. Bearing in mind that the auditor is to present his independent judgment based upon his objective analysis of the facts, and that he is expected to report his carefully considered judgment not as a statement of exact facts but of carefully considered approximations, we see that the competent auditor should provide for the security holders not only his carefully considered judgment of the results attained, but in doing so he should provide a protection against over-enthusiasm or over-conservatism of the operating management.

While it may appear to be little more than a gesture to arrange for the auditor to be present at the annual meeting of stockholders when we consider the inability of stockholders to attend such meetings and their general lack of interest in them, I believe it is worth while to have this arrangement made as a general matter of corporate practice. Possibly one of the best features of it is that the management which lets stockholders know that it is willing to have the auditor present thereby gains the confidence of the stockholders as having nothing to hide and being willing to subject its statements to analysis and review by an independent judgment. I would not make this a requirement but I believe it is a step well worth considering.

In making these suggestions I make no reflection upon American corporate management or the public auditors. The public today gets in the great majority of cases the honest and best opinion of the manage-

ment, uninfluenced by any shade of self-interest or by any extraneous consideration, and it receives the honest judgment of competent auditors. Unhappily, some notorious exceptions have occurred but, in my opinion, the records of American corporations justify reliance on the integrity, probity, ability and judgment of the men responsible for the company's affairs and, in addition to this, I am convinced that these good human qualities will not be injected into a situation where they do not exist through the operation of any Act of Congress or regulation based thereon.

While the Board should develop in cooperation with the auditor a reasonably definitive scope of audit and outline the extent and character of test checks, this is not the kind of job which can be done once and then allowed to remain unchanged for a time. It should have occasional review to determine whether the scope is broad enough, whether the cost of more work is warranted, and it should not be allowed to be comparatively static.

Not only the Board but the management as well should protect the employees by adequate checking of their work so as not to expose them to temptation which is increased in the presence of loose financial controls.

Quite obviously it is also the duty of the management in its operations to make the best possible use of every fact and opinion developed by either the internal or external audit.

The men who have risen to positions of importance and responsibility in American corporations do not need much checking in so far as their integrity is concerned, and the great mass of these men deserve no public reproach for the failure of the very few. It is so easy to provide for more controls with attendant higher costs if we forget that a corporation is a living thing and that no business grows in an atmosphere

of open suspicion on the part of directors toward management.

While it is the duty of both management and auditor to see that the requirements of regulatory bodies are complied with, they have a superior duty. They must comply with the law but they still must have their reports reasonably informative to stockholders. The present laws have not been applied to annual reports and I think that affords a great opportunity to American business to show that a better job is being done in the unregulated field than in the field covered by regulation. The uniform tendency for law or regulation is to set up either unworkable standards or low standards with the attendant result in America that they become maximum standards and not minimum standards as they should be.

While it seems to be the popular conception that it is the duty of management and auditors to protect the shareholders, I think it is better expressed that it is their duty to put the shareholders into a position to protect themselves. It is their duty to make such a disclosure of the corporate affairs that the disclosure will get easily into the minds of the stockholders. It is not their duty to give stockholders such a great mass of material that most will be deterred from reading it, few will understand it, and all will be deterred from taking action.

The auditor should assume the responsibility that the management adopts principles of sound accounting procedure. It is his job to bring a failure to the attention of the people who can correct it, and he may not discharge his duty by bringing it to the attention of others.

The auditor stands outside any possible conflict of interests between management and stockholders. He is responsible to the company as an entity embracing the Board, the operating executives, the

stockholders, present and prospective as well, and in some cases the creditors as well.

This audience will have no doubt that the primary responsibility for the soundness as well as the content of annual reports rests squarely upon the management, and that the responsibility of the auditor is secondary in all respects. This is not to imply that the auditor's responsibility is minor but rather to stress where the primary responsibility lies.

I would summarize the auditor's duty as being to present an accurate but summarized picture of his deliberate judgment, arrived at freely after reasonable care or caution and based on adequate facts as to:

- (a) What the company has and what it owes,
- (b) What position its stockholders have compared to other security holders and creditors,
- (c) What the management has accumulated from income over the years, lessened by what it has returned to stockholders by way of dividends,
- (d) What its true earnings were for the past year, being also satisfied that no reasonably discernable or preventable fraud prevented them from being larger.

That is an important "picture" but it is not a complete picture.

I promised to present some of the reasons why I think the current drift is toward an undue emphasis upon the accuracy of accounting for corporate reports, so I feel I should point out the several important elements which have had their impact on the results shown by any corporate report. Though these factors have had their impact on the past record, it is not the function of the accountant to assume they will have the same effect in the future. It seems futile to think of an annual report as giving any adequate basis for appraising future value of

securities in a changing world when every factor of the industrial life of the nation and several factors of world affairs will affect the future results and when the thinking of the world may be thoroughly unsound for a time. Obviously, no one may know what character of competition will arise from present competitors and still less from those later to come into the field. No one may know whether the kind of competition to which the company will be subject will be that of desperate competitors facing receivership, anxious to salvage anything from their affairs, and making it difficult if not impossible for a corporation to continue which is endeavoring to survive on a sound basis. No one may know whether the corporate management will have the fibre, the toughness if you will, to face future difficulties as they arise. No one may know the strength or the capacity of management to influence people in general, the officers of the company, the supervisory staff, the great body of employees and their spokesman, the customers through advertising and public relations work, the industry through its trade association or other form of group activities or conventions. No one may know whether management will be able to influence legislative and regulatory bodies to do the fair and wise thing to be done. No one may appraise the ability of management in future to get things done, or the ability to enthrone people enough to insure their being done. No one may know in advance whether there is adequate attention being paid to the training of personnel so as to insure continuity and effective operation of all parts of the business. No one may foresee the changing public taste toward the company's products, nor the resourcefulness of the management to meet that changing taste. No one may measure the effect of future patents secured by others, nor the probable value of research work to protect the com-

pany against these changes. No one can foresee the extent of future legislative and regulatory body acts. No one can be certain about the time taken from management for defense instead of building. No one may measure the changing political philosophy of the day, the attitude of future administrations toward business, changes in tariff, labor law or taxes, and yet unless a man considers all these problems and several more he cannot pretend to have a basis of judgment as to the future of the company, and still less can he have any judgment or even any basis for judgment as to the future value of the company's securities.

I have said that the primary responsibility for annual reports rests with management and the secondary responsibility rests with the auditor. I might add that the auditor has a different kind of responsibility, in some respects greater, and in some respects less. The auditor is expected to be an expert in accounting matters. He should know more about the accounting and legal fields than management. He must work with the care of a professional expert, with no one to check his work, whereas the management knows that its work is going to be checked, so it has some more warrant in relying upon the work done by its staff. On the other side the auditor is outside the business itself. He cannot know the underlying facts as well as the management. He must be critical certainly in his habits of mind, though he will be wise to conceal this attitude. In cases management have been guilty of culpable negligence or even criminal fraud, and such a management can cover up the facts in a way which no auditor can catch. A recent notorious case has shown this quite clearly. We have all grown familiar with the practice of separating operations into parts and placing one man in charge of each part, because then collusion has to be resorted to if fraud is to

take place and remain long undetected. In the recent notorious case this apparent protection became only a sham, as the men handling the separate parts were bound by ties of blood and by large pay, which prevented an earlier exposure.

My fear is that with all of the discussion about the need for accurate accounts, and with the assumption that they can throw a definite light upon the future of a company, there is an undue emphasis upon details of accounting, almost to the utter neglect of the other factors.

The accounts are important, but there is no social usefulness in the extreme precision and extended presentation now being demanded, and it is sheer nonsense to let the public assume that any accounts can indicate future earnings or future market value.

I wonder whether the accountants in Viipuri and Helsinki, Finland, at their professional gatherings on the night of November 28th, 1939, and at Oslo and Bergen, Norway, on the night of April 7th, 1940, were troubled over accounting details for corporate annual reports, and whether they see that even good accounts don't reveal future values.

In some places the idea persists that at any time securities should have a definitely ascertainable intrinsic value. The effort to arrive at this value by some kind of formula or by some easy method seems to me as likely to succeed as the search for the pot of gold at the end of the rainbow. As long as values are going to depend upon the opinions of people, and as long as these opinions are going to change, sometimes for good reasons, sometimes for bad reasons, and sometimes for no reason at all, I am convinced that people who try to determine future values on the basis of annual reports alone will succeed in making money only if they are lucky. If they should be lucky enough to win once by that method they will be well advised not to pursue it.

I haven't attempted to outline the responsibility of management in the complexities of modern corporate life. We have been talking only about their responsibilities with reference to annual reports. I find that many corporate officers today spend a lot of time in discussing and in considering what they are to tell stockholders, how they are to tell them the story. They wonder how to get them to read the reports and they labor to make them understandable. All of this work is worth while but it does take time from doing things for the stockholders. In a time when people are questioning management, wise management will take the time required to do what it believes the situation demands in the way of information to stockholders. This matter of reporting for its stewardship is only one feature of its work. It must still buy wisely, manufacture wisely, sell wisely and efficiently, and finance wisely. All of these require preparation for future management personnel, an attempt to measure future demands, a knowledge of the relations of Government to the particular company, the wise handling of labor problems, and the protection of the long range interests of the stockholders. No one could do more than indicate the multiple variety of obligation resting upon corporate officers today. It would be easy to handle this problem if the presentation of a good annual report was the only job of management. There have been times when managements were judged only by the results they secured. Nowadays men are being judged more in the light of what they say. There was a time when men who handled business successfully were publicly approved, though they were often envied by the few. Those few have become noisy. As long as they remain noisy both corporate management and auditors will have to recognize that fact and will have to govern themselves accordingly. Until professional work can be judged by its results

you will not be able to give so much concern to your work itself, but you will have to give more time to creating public understanding of what you do.

It has been suggested that at every stockholders' meeting at the back of the platform there should be a sign carrying Tennyson's words: "We have but faith, we cannot know." That may sound cynical when applied to this situation for I believe that the public will have faith in management whenever it is given the foundation for faith. I believe the public can be given an improved understanding of the complexities of business problems today so that it will be fair and tolerant toward others and will assume its own proper responsibility and understand its risks. There will be several elements of risk which it will have to assume. It will be helpful if it understands what those elements are and how much effect they may have upon the future results. If they should do this it should be possible for management to give more of its time to its proper work and less of its time to talking about and writing about what it has done.

A few years ago it was said that American business must be viewed by the public as freely as if it were in a goldfish bowl. Nobody quite knew what the statement connoted but gradually there came an understanding of the theme that business should stand public examination and be willing to operate under the public eye. About the time that was thoroughly understood business was placed in the dog house. It may be open to argument whether it is still there, but a little more certainty as to its present position would certainly be helpful. Even if business could feel that it was living in a glass dog house it would be better than the present uncertainty.

Recent years have been difficult for business men and auditors. I have seen some men who were weak and some who had bad judgment, some who could

not stand prosperity and some who could not stand adversity. In such times of stress these human factors will always be present. They will influence our judgment. The saddest sight of all has been of the men who lacked the courage to face the facts, the men who had a desperate hope that a better day might come and retrieve a disaster. I have seen other men in equally difficult positions who were determined to get the bad news over with in a hurry so as to leave themselves with a new attitude toward the future and with the freedom of mind that comes from having faced a bad situation. It takes courage to do this and as long as it does it will always be a factor affecting your work and the work of the men whose judgment you are checking.

I get impatient over the attempt to improve everything at once. I am just cynical enough to think of the foreman on a building job who was very impatient about the progress being made, and when someone told him that Rome wasn't built in a day his reply was: "Well, it isn't my fault, I wasn't on that job." I rather think that that foreman's son now has a job on some Government commission.

It is easy for us to say that the public must be told of the responsibility of management and of the auditors, and of what they can expect from these two groups and of what they cannot expect. It is a slow job and it cannot be done at once. It may never be done adequately but it is worth attempting if only for the purpose of our being able to present enough arguments and enough facts to deter unfair and unsound attacks.

There is the need of leading public opinion in the right direction even if there is no hope of getting it to the right destination. I believe the profession can define afresh its function and that it should do it in its own best interests and not in any way in self defense or in a self-defensive attitude.

Some of us who wrestle with this kind of problem pointing national interest and involving social trends are old-fashioned enough to believe that the only cure is in the improved knowledge and judgment of individuals. It will always be a problem to find men of good judgment. There are plenty of men with intelligence, plenty of men with good ability as talkers, but few with judgment. We admit that progress in our way is slow. We are so anxious for progress that we stand aside while more valiant souls try the methods of laws and regulations. We hope they succeed, though nothing in our experience leads us to think they will. We ask only that these valiant souls have a fair trial for their method and that should comparative failure be obvious, then we all go to the only method so far known to work.

If any body of men entitled to public confidence or who have won public confidence in a national way will review the facts in an objective way and say as their deliberate judgment that the present Securities Acts and their administration are in all respects reasonable, then I for one am prepared to accept the result. It is unthinkable to me that any such result can follow the appointment of any such body.

I have little belief in the power of law or regulation to make men honest, competent or unselfish. I believe that American business and American business men can be led to any improvement in practice that will command public confidence and respect. I am glad that they cannot be driven. There is plenty of room for improvement on the part of all of us if we are only to follow the example of the best among us.

I believe that problems such as we have discussed today are good for the profession.

May I close by quoting Theodore Roosevelt, "Every man owes some of his time to the upbuilding of the profession to which he belongs," and may I

emphasize that your standing will depend upon your conscientious undertaking of your task and the conviction you carry to the public and the press that you are competent and conscientious.