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THE LEGAL LIABILITY OF THE ACCOUNTANT

An Address By

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The barrage of litigation which commenced in the sixties and has carried over into the present decade has jolted the accounting profession harshly. Like the victims of an earthquake, many wander dazedly asking what happened; where did the force come from; why wasn't it foreseen; how could it have been avoided; was it deserved; is the future to be simply more of the same; or is there a means of avoiding a repetition of the shocks of the last decade? In response to this disquiet and these questions, many proposals have been put forth: amend Section 11 of the Securities Act of 1933 to limit the perils to accountants posed by that statute; accelerate the move toward uniformity of accounting principles to reduce the dangers flowing from alternative treatments; double the amount of liability insurance (rapidly increasing premiums notwithstanding); legislate further to codify the common law; and deaden the puzzling, imprecise, and unpredictable impact of Rule 10b-5 under the Securities Exchange Act of 1934. Some look askance at the cries of the wounded and say, in effect, that they brought it upon themselves by inadequate standards, failure to recognize professional responsibilities, refusals to recognize portents, and deafness to the warnings of their leaders.

Truth has many faces and speaks with many voices--and in most of the foregoing there is a grain of truth. Although one of the purposes of these remarks is to identify these grains with the hope that with understanding may come a less discouraging vision

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of the future, I think that it may be that for some time to come the profession will have to be content with Charlie Brown's philosophy, "I only dread one day at a time."

Among the cases which have jolted the accounting profession, two stand out. The first, Escott v. BarChris Construction Corp., unfolded judicially for the first time the implications of the liability provisions of the Securities Act of 1933, with resulting liability for one of the "Big Eight," accompanied by strong judicial language suggesting that the work of the auditors was less than professionally done. The effect of this decision on the profession was, however, mild indeed compared with that consequent on the jury verdict, affirmed on appeal, finding two partners and an associate of another national firm guilty of criminal conduct in certifying the financial statements of Continental Vending Machine Corp. Accompanying these judicial decisions has been the increasing concern on the part of the Commission with financial disclosure and, increasingly, a belief that proper and fair enforcement of the laws committed to its jurisdiction requires including auditors among those named as defendants in enforcement proceedings. Where did this problem begin, where will it end?

Of overriding significance in the development of accountants' liability is a broad legal trend. Prior to fairly recent times, courts had elaborated a body of restrictive rules concerning liability for torts or civil wrongs. Essentially they were intolerant of the deliberate wrongdoer, but when confronted with the negligent wrongdoer they were inclined to articulate substantial limitations on the reach of liability. For instance, until the fifties it was basic law that only someone in privity with a manufacturer, that is, someone who purchased directly from him, could bring an action for injuries arising from a "breach of warranty." Thus, for instance, the purchaser of an automobile could sue his dealer for breach of warranty but not the manufacturer since he had privity of contract only with the dealer.

The law has swung significantly in the last two decades. Now the purchaser of an automobile generally has no difficulty in pursuing an action for injuries against the

manufacturer if the automobile was defective and caused the damage. On a hundred fronts the courts have opened their doors to the consumer who has cause to complain of the vendor, purveyor, or manufacturer of products and services. Impatient with the speed of the courts, the legislatures have hastened this process with a vast outpouring of consumer-oriented legislation designed to assist the consumer in asserting and realizing upon claims against manufacturers and suppliers.

The social roots of this trend are simple. First, the courts are shifting the burden of care onto the one who can do something to prevent a loss to the consumer. In this highly mechanized society, it is impossible to control completely the multitude of occasions when negligence may intervene, for instance, in the manufacture of an automobile; but the courts conclude--and certainly not without reason--that the manufacturer of the car can conceivably prevent negligence in the manufacturing process while the user has no opportunity to forestall it at all. Second, the courts increasingly, "socialize" the risks and harms that are an inevitable concomitant of living in a civilized and industrialized society. The manufacturer can theoretically spread the cost of his mistakes over a larger totality--all the buyers of his products--by raising his prices to cover the liability exposure or by purchasing insurance and working that cost into his pricing structure. The victim of the manufacturer's negligence, on the other hand, has no means of spreading his loss, but must instead bear the brunt of it alone, with only the limited and often expensive opportunity to insure against some of the risks.

This concern with protecting the "consumer" is seen clearly in the securities field. What are the Securities Act of 1933 and the Securities Exchange Act of 1934, as well as other federal securities enactments, but consumer legislation--legislation intended to shift the burdens and the detriments of an inferior product from the buyer to the seller? Forty years before cereal manufacturers were compelled to explain to the customer that the "large economy size" really cost more per ounce than the small "expensive" size, the

seller of securities was required to furnish an abundance of information concerning his product.

In 1937, the significance of this trend for accountants was spoken of by Professor T. H. Saunders:

For issuers and accountants to deny any responsibility to the considerable army of investors who act not directly on their own knowledge and judgment but on the judgments of intermediaries in whom they have placed confidence seems out of step with the general trend of the law, which is disposed to hold a producer responsible to his ultimate consumer through all the increasing complexities of distribution.

The accountant renders a service, purveys a product--his opinion of the financial statements of his client. When the issue is who shall bear the risk that there is error in certified financial statements, the courts are more prone than they were to place it on the one who has the means to, and the one who can, "socialize" it in fees or insurance premiums. Thus the accountant is in some measure the victim of the reorientation of courts as they swing to stronger protection of the users of goods and services.

The inclination of courts to deal somewhat more sternly with accountants is also a reflection of the fact that the accounting profession has matured with the result that more is expected of it, and it is presumably able to reach higher levels of responsibility-- financial, legal, and ethical. Saul Levy in his landmark work, Accountants' Legal Responsibility, published by the American Institute of Certified Public Accountants in 1954, called the accounting profession "a relatively new profession" and stated that "civil liability is a normal aspect of professional status and . . . being subject to it is an inevitable attribute of the development of the profession."

Where once the connotation of "public" accountant meant one who held himself out as available to any member of the public, now it connotes a responsibility to the public. One writer has said pointedly:

. . . Some thirty years later, after Ultramares, the auditor is not a member of a new profession. He is a sophisticated member of society. Society has placed

a sophisticated role at his disposal and society is now requiring sophisticated responses from him. . . the auditor has tried to impress upon society over the last 30 years he need for audited financial statements. He has been fairly successful in that attempt. . . What society was doing at that time [enactment of the Securities Act of 1933] was making auditors the watchdogs of the financial community. . . It is no wonder that now . . . society is demanding from the accounting profession that they do precisely what they said they would do.

A former executive director of the Institute has put the same proposition succinctly: “The certified public accountant owes a moral responsibility and under the Securities Act this is made a legal and financial responsibility to be as mindful of the interests of the stranger who may rely on his opinion as of the interests of the client who pays his fee.”

This statement contains the seeds of a thought-provoking notion. In a sense, the history of legal advances has been the translation of ethical considerations into legal duties. No one doubted the ethical responsibility of the auto manufacturer to turn out a carefully made product; the law now translates that into a legal duty. The moral injunction expressed by the securities exchanges and the NASD, to the effect that their members shall conduct their businesses in accordance with “just and equitable principles of trade” has increasingly taken on legal content as it has been used to impose severe disciplinary penalties upon those who transgress this essentially ethical precept.

But has the accounting profession fully accepted and recognized the role which society has given them--and which in some measure the profession has sought and has been compensated for assuming? Another commentator stated the thought tartly: “How can we explain the tremendous increase in recent litigation against accountants? I think the answer lies in the fact that members of the accounting profession itself have not recognized in recent years just who and what they are. In my opinion, his [the accountant’s] legal problems stem, in part, from the fact that he has not fully understood the role he is playing in society. . .”

In the complicated maze of corporate finance, the auditor became the surest friend of the investor and inevitably, given the trends of the law and the accountant's own proclamation of his professionalism, the courts have demanded proportionate performance.

Inevitably, if a professional group fails to sufficiently articulate its identity, its duties, the identity of those to whom it owes a duty, and the manner in which the duty is to be acquitted, and if society assigns it a role which, despite its professional standards, it does not fulfill adequately, the courts, vested by society with the responsibility to define and enforce duties, will undertake to do it. And that in some measure has been the fate of the accounting profession.

The insistence upon disclosure--full, complete accurate, informative--since 1933 has been a coursing stream. Hard on the heels of the Securities Act of 1933 came the Securities Exchange Act of 1934 which supplemented the disclosures at the time of securities distributions with a system of continuous disclosure for listed securities, with the auditor called upon under both statutes to render his service to insure the integrity of the investment process.

The previous pressures for disclosure were augmented substantially by a brief, broad, and, at the time, seemingly innocuous rule promulgated in 1942 by the Commission which was intended to do nothing more than apprehend a greedy corporate officer who was committing fraud in the purchase of securities at a time when the statutory scheme somewhat shortsightedly imagined that frauds only existed in the context of sales. The rule became much more and became, once its potential was discovered, the enforcer of officer and director integrity and a powerful goad to corporations to make accurate and reliable disclosures. Quickly many of the barriers which previously provided comfort to auditors--such as privity, the requirement that the defendant have been a seller to or buyer from the plaintiff--fell under the imaginative expansion of Rule 10b-5. Out of this came dramatic reinforcement of the transcending

theme of disclosure. The exchanges published guidelines for disclosure. The Commission importuned the business community to make a practice of prompt and complete disclosure. Analysts' and institutional investors' demands for more reliable information grew.

It was inevitable that accountants, who figured so prominently in the birth of the new world of full disclosure under federal parentage, should be burdened with new responsibilities. Through Colonel Arthur H. Carter, senior partner of Haskins & Sells, the profession had, after all, fought vigorously to establish its foothold in the new arena by opposing strongly, when the 1933 Act was under consideration, the notion that federal employees should assume auditing responsibilities and by asserting the competence and responsibility of private practitioners.

The case that perhaps more than any other has convinced the accounting profession that indeed the legal atmosphere has changed to their detriment is the celebrated case of U. S. v. Simon, in which a jury verdict of guilty rendered against two partners and an associate of a national accounting firm was affirmed by the Second Circuit Court of Appeals.

The defendants were indicted for violating the federal Mail Fraud Statute and the Securities Exchange Act of 1934 because they had allegedly wilfully and intentionally certified a financial statement which was false in material respects. The allegations all focused on a footnote to the consolidated financial statements of Continental Vending Machine Corporation and its subsidiaries.

The defendants sought to barricade themselves behind "generally accepted accounting principles," which had always been considered central to the integrity of financial statements. They based their defense largely upon testimony of eight witnesses, all acknowledged experts, who testified with varying degrees of certainty that the note was prepared in accordance with generally accepted accounting principles. Against



these, the only contrary witnesses were a staff accountant of the Commission and the Chief Accountant of the Commission.

The defendants were tried twice. The first trial resulted in a hung jury, the second in a conviction. In instructing the jury in the second case, the judge said:

[p]roof that the defendant did act in accordance with such generally accepted auditing standards and accounting principles is evidence which may be very persuasive but not necessarily conclusive that he acted in good faith, and that the facts as certified were not materially false or misleading. . .

[t]he auditor's responsibility in accordance with his engagement is, first, to render an opinion that must satisfy the auditor that the statement fairly presents the results of the operations about the financial position of the client; and, second, to be satisfied that the statement contains no misstatements of fact, or, at least, no misstatement of facts known to the auditor.

The critical test, therefore, is whether the financial statement here, as a whole, fairly presented the financial condition of Continental. . . and whether it accurately reported the operations. . .

While the court acknowledged the persuasiveness of adherence to generally accepted accounting principles, nonetheless the court unequivocally rejected the notion that such adherence would be a complete defense. Rather both the trial court and the appellate court established the primacy of "fair presentation" of the financial position of Continental.

It has been suggested that this decision should be narrowly construed. In my estimation, any attempt to narrow the impact of the opinion of the Court of Appeals is a dangerous course--one that misconstrues the atmosphere in which the case was decided, an atmosphere in which the consumer is king, an atmosphere in which it has been spelled out that smoking may cause cancer, that the unit cost of cereal is so much, that Profile Bread won't recreate one's physique without the discomforts of dieting.

Accounting is communication. The accountant is a sophisticated, albeit specialized, communicator who must wield the symbols in which he expresses himself in

a meaningful manner, so that others may understand that meaning and form accurate conceptions of what he said. Does he speak only to other accountants? Does he speak only to the upper reaches of financial sophistication? In 1947 the Commission surely did not think so when it said:

It is not enough to say that here perhaps much . . . of the factual background was given in footnote data. . . Even if [all significant data] had been given there is an additional obligation to present the material in a way in which it will be useful to the informed but less sophisticated readers.

And in at least one case a federal district court flatly rejected this notion. It stated that

The purpose of the financial statement is to inform the man in the street; and the underlying policy of the Securities and Exchange Acts and of Rule 10b-5 is to assure that he can have truthful information in buying securities, regardless of the intended victim of the fraud. Moreover, the defendants have set themselves up to be independent certified public auditors. As such, they have assumed a peculiar relation with the investing public. As accountants, the defendant clearly cannot be immunized from suit.

Is the thought that generally accepted accounting principles are subordinate to fair presentation or that generally accepted accounting principles have value only to the extent that they assist in fair presentation so novel a notion?

Hardly. In 1942, after discussing at tremendous length a multitude of technical accounting matters involved in determining whether to suspend or withdraw the registration of the common stock of Associated Gas and Electric Company under the Securities Exchange Act of 1934, the Commission said:

We think, however, that too much attention to the question whether the financial statements formally complied with principles, practice and conventions accepted at the time should not be permitted to blind us to the basic question whether the financial statements performed the function of enlightenment, which is their only reason for existence. Each of the accountants' certificates in question contained the opinion that, subject to various qualifications therein, the financial statements fairly presented the financial condition of the registrant, in accordance with generally accepted accounting principles. If that basic representation was not accurate as to the financial statements as a whole, no weight of precedent or practice with respect to the minutiae of the statements could justify the

accountants' \_ certificates. . . For the average investor [read layman?] the financial statements of this system contain not a hint of the rot hidden beneath the surface of this holding company system.

We believe that, in addition to the question whether the individual items of financial statements are stated in accordance with accounting principles, practices and conventions, there must be considered the further question whether, on an overall basis, the statements are informative.

With the increased emphasis on disclosure and the development of remedies for failures of disclosure, inevitably accountants, whose very profession is "presentation" a disclosure, are caught up in the trend.

There is most than a trace of reason to suggest that in many respects there has been some exaggeration of the extent to which the accounting profession's posture vis-à-vis the law has changed sharply in the 40 years since Ultramares. In many respects the changes have been evolutionary, not revolutionary.

When the most significant developments are examined, there is reason to think that the departures are less dramatic than they might appear and that, in some respects, what has happened is simply the making explicit of forces that have long been latent and intimated.

The case of Ultramares Corp. v. Touche had been, until midway through the sixties the definitive description of the extent of an auditor's liability to persons other than the one who retained him. For the accounting profession this was considered something of a safe harbor, though, interestingly, at the time the decision was rendered it was regarded with hostility and dismay by the profession.

In this case, the New York Court of Appeals, speaking through the eloquent Justice Benjamin N. Cardozo, later to gain additional renown as a Justice of the United States Supreme Court, analyzed with characteristic skill and expressed with typically rich words, the standard which should determine the liability an auditor has to a third party who relies upon the audited statement to his detriment. Justice Cardozo was awed by the consequence of succumbing to the urgings of the plaintiff who sought to have the court

adopt a rule that an auditor was liable for simple negligence to anyone who relied upon his work product. He wrote that:

If liability for negligence exists, a thoughtless slip or blunder, the failure to detect a theft or forgery beneath the cover of deceptive entries, may expose accountants to a liability in an indeterminate amount for an indeterminate time to an indeterminate class.

To avoid this consequence, Justice Cardozo engaged in a careful examination of existing New York precedent and concluded that liability for negligence in making an audit extended only to the party with whom the contract was made and only to those for whom it was explicitly prepared--that is, cases where the delivery of the financial statements to a specified person was the "end and aim" of the contractual relationship between client and auditor. While recognizing that the ancient doctrine of privity had been pretty well diminished in importance, nonetheless he salvaged a substantial portion in this context. The opinion recognized that if there was fraud or a degree of negligence that really constituted recklessness or gross misconduct, then the result would be different.

The holding, that there could be liability to anyone other than the client for gross negligence, sobered the profession. However, they lived with it and eventually regarded it as a friendly barrier to further liability, until the sixties when new assaults were made on it.

The first significant questioning of its rationale was uttered in the dissenting opinion of Lord Justice Denning in a British case, Candler v. Crane, Christmas & Co., decided in 1951. Lord Denning was deeply troubled that though the majority found the auditor guilty of being "extremely careless in the preparation of the accounts," nonetheless the court determined there was no liability since the auditor owed no duty of care to one whom the accountant knew would be shown the financial statements. Lord Denning said:

[To] whom do these professional people owe a duty? They [accountants] owe the duty, of course, to their employer or client; and also I think to any third party to whom they themselves show the accounts, or to whom they know their employer is going to show the accounts, so as to induce him to invest money or take some other action on them. . . In my opinion accountants owe a duty of care not only to their own clients, but also to all those whom they know will rely on their accounts in the transactions for which these accounts are prepared.

In 1964 Lord Denning's dissent became law in England in Hedley, Byrne & Co., Ltd. v. Heller & Partners, Ltd.

The first dent on the Ultramares doctrine in the United States appears to be Rusch Factors, Inc. v. Levin. Once again the Court confronted the possible economic consequences to the profession, which had so alarmed Justice Cardozo, of a rule broader than Ultramares, and said:

The wisdom of the deviation in Ultramares has been doubted. . . and this Court shares the doubt. Why should an innocent reliant party be forced to carry the weighty burden of an accountant's professional misconduct? Isn't the risk of loss more easily distributed and spread by imposing it on the accounting profession, which can pass the cost of insuring against the risk onto its customers, who can in turn pass the cost onto the entire consuming public?

The court then added this pregnant thought: "Finally, wouldn't a rule of foreseeability elevate the cautionary techniques of the accounting profession?"

The court concluded after this renewed weighing of social consequences that an accountant should be liable in negligence "for careless financial misrepresentations relied upon by actually foreseen and limited classes of persons."

This brings us to the question: How radical has the change been since Ultramares? There the court established, in effect, that the only one who could recover for negligence was the client or the one for whom the statements were prepared--those whose use of them was "the end and the aim." Is there such a radical extension when account is taken of the trends in securities laws since 1931?

Increasingly, audited financial statements have been oriented toward public investors in securities in addition to their use for longer-standing and more conventional purposes--securing credit, inducing small groups of new investors, reassuring suppliers, and the like. This trend was accentuated in 1932 when the New York Stock Exchange adopted the rule that all listed companies had to furnish to their shareholders certified financial statements. A further strengthening of the trend was in 1933 when Congress, confronted with the alternative of having financial statements authenticated by federal auditors, or having them certified by private professionals, opted for the latter and required as a part of a registration statement under that Act that certain financial statements be certified by an "independent public or certified accountant." The 1934 Act reinforced the exchange requirements by requiring the filing of certified financial statements with the Commission.

Through this process, it became apparent that the financial statements of companies which sought to secure capital from the public and those which had their securities listed on the exchanges had to avail themselves of the professional competence of the accounting profession, and just as obviously, that this was intended to give to the public additional protection it would not have if they were not so certified. Thus, in a very specific sense, it may be said that the public investors were the ones whom the accountants could reasonably foresee would rely upon them (the test in the Rusch Factors case) or those for whose benefit and guidance he intended to supply the information (the proposed Restatement of Torts test). In fact it truly becomes the "aim and end" of the relationship between the auditor and his client that statements be available to the investing public. As the Commission noted in 1957, the accountant's "duty is to safeguard the public interest, not that of his client."

A second case which aroused concern was Escott v. BarChris Construction Corp. In this case, a national firm of auditors was held liable for negligence in preparing

certified financial statements and in its “S-1 review” in connection with a registration statement under the Securities Act of 1933.

The decision caused alarm, not because it established new law, but simply because, for the first time in the 35 years since the enactment of the 1933 Act, its implications for auditors were exposed clearly; auditors may be liable for faulty financial statements to anyone who buys a registered security if they fail to establish their due care, regardless of any notion of privity. As far as “foreseeability” is concerned and as far as “end and aim” are concerned, the 1933 Act carefully avoids those considerations by requiring a consent statement. Thus, in effect, he acknowledges that the public’s reliance on his certificate is foreseeable and that the “end and aim” of his certificate is the transaction in the marketplace.

In one particular there has been a significant change. Despite statements long ago about the accountant’s role as a protector of the investor, the accountant’s opinion was in years past almost universally directed to a small group or to one party, such as a creditor, a bank, a supplier, or a potential investor. In more recent times the “consumer” of its product has become masses of people, the investors in publicly distributed, held and traded securities. The Securities Act of 1933 specifically recognized this thrust as did the New York Stock Exchange in its requirement of audited statements from listed companies. This somewhat abrupt change of emphasis is amply seen in the litigation pattern. Until fairly recently the landmark accounting cases almost invariably involved creditors, suppliers, banks, and others susceptible of being identified by precise and small numbers. Now those who rely on the financial statements may be numbered in the hundreds of thousands and even the millions. The result is that all of the landmark cases of the sixties and seventies involved statements prepared and published by publicly held companies, statements reasonably intended and expected to be relied upon in investment decisions. In this significant respect, there has indeed been a sobering change of accountants’ exposure to liability.

And of course this shift has meant far greater monetary exposure. The liability of an auditor whose statements are used by a corporation in securing credit or satisfying a supplier of its solvency is usually significantly less than the potential liability when masses of shareholders rely on those statements in committing funds in connection with a distribution of securities or trading in the market.

More than anything, this expansion of dollar exposure has been alarming, and no amount of analysis concluding that recent developments are merely gentle extensions of basic principles will quiet that alarm. It may well be that the sharply enhanced danger of unbearable losses to firms in the profession with accompanying personal exposure on the part of partners will result in a reversion to the concerns expressed by Justice Cardozo in the Ultamares case.

The Commission is not unconcerned with the danger of excessive financial loss, for we recognize that an indigent profession, or one blighted with financial adversity, will need to reduce its exposure and thereby lessen the protection afforded investors. Several years ago the American Institute of Certified Public Accountants proposed an amendment to Section 11 of the 1933 Act to limit the liability on the auditors on the theory that it was absurd to expose them to liability for the entire amount of the offering while each underwriter was responsible only for his participation. The Commission was not unsympathetic to this plea. Furthermore, the American Law Institute project to codify the federal securities laws in the present draft provides limits with respect to the liability of the auditor.

In the midst of deploring the consequences of the litigation storm which has hit the accounting profession, it is well to step back a moment and ponder whether these adversities have been entirely without redeeming social benefit. It is very doubtful if that can be said. As a consequence of Fischer v. Kletz, the AICPA developed Statement on Auditing Procedure No. 21, which provided the additional safeguard to the investor that the error or deceit discovered after completion of an audit would not be concealed by the



silence of the auditor. It is reported that, as a consequence of the Simon decision, several auditing firms have instituted a procedure whereby a partner not involved in the audit, as one of the final steps before release of the opinion, steps back and considers the financials as a whole in terms of their understandability for laymen. Unquestionably, the registration review procedures of the profession as a whole were sharpened up as a consequence of the criticisms of the court in the BarChris case. This and other litigation has undoubtedly stimulated even greater endeavors to eliminate opportunities for misleading financials marching under the protection of generally accepted accounting principles.

It is clear that in very large measure the courts have shaped the responsibilities of the auditors and provided them with benchmarks against which to measure their conduct because the auditors were slow in doing so themselves in response to such “surging” forces in society as a great demand for disclosure, a greater involvement of the public in the securities markets, more insistence upon disclosure reasonably understandable in the marketplace, and more demanding definition of the role of the auditor in this society.

Unquestionably the development of Rule 10b-5 has given rise to a considerably greater volume of litigation involving transactions in securities. As the number of cases has mounted, and the courts have eased the restrictions which previously frustrated plaintiffs in such litigation, inevitably the example set has given rise to greater temptation for investors and others to litigate when they believe they have been the victims of fraud or misleading representations, including financial representations.

Despite the apparent broadening of common-law liability of accountants to include the consequences to relying third parties of auditors’ negligence, and despite the vast expansion of applications of Rule 10b-5, still there has not apparently been any final judgment for money damages entered against auditors based upon simple negligence in favor of investors relying upon the statements. So far most of the decisions have been on motions by which defendants have sought to persuade courts to dismiss the actions

because they failed to state a claim under the law, leaving the proof of negligence for later. This should not obscure the fact, however, that in instances involving alleged negligence substantial settlements have been reached. However, I think very recently there may be a discernible trend to limit liability to investors under Rule 10b-5 to situations in which the fault exceeds negligence, and similarly there are indications that a similar trend is developing in common law.

Perhaps the ultimate salvation of the profession lies in the words of one of the masters of the art of accountancy, Arthur Andersen, who said in 1935:

Fundamentally, the financial statements are a vehicle for conveying information. If they are truly informative and if they are predicated upon a reasonable examination in accordance with duty and custom, the question of statutory liability will automatically be answered. When confronted with the necessity for a decision on a difficult question of policy with respect to financial statements the accountant should search his conscience rather than the statutes.