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The traction companies issuing tokens must take every precaution to avoid duplication or counterfeiting. The dies used for manufacturing the tokens are held by the traction company when not being used. The alloy from which they are made is either furnished by the manufacturer of the token or purchased by the traction company and turned over to the manufacturer and from this a definite number of tokens must be produced which of course is predetermined from the weight of the alloy. During the manufacture of the tokens the traction company has representatives present to supervise or check the work.

The Importance of Audits in Public Utility Accounting

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HISTORY of mankind records but one person who was infallible. As far back as the chronicles of civilization take us there has been account-keeping of one kind or another. Almost concurrently runs a history of review of these accountings in quest presumably of errors. The steward of biblical times was haled to account before his master. In later years the hearers or auditors gathered to listen to a recital by the account-keeper of his financial operations and results. Review was the underlying principle.

Modern organization with its magnitude and complexity finds need for auditing greater than ever before. The method has changed but the principle remains the same. Instead of a public hearing the accountant of today presents his work for review by disinterested parties who make a profession of such practice and who report the results of review to those who may be interested therein.

In the early days of modern auditing practice, consideration was given principally to the verification of bookkeeping accuracy and satisfaction as to fiduciary integrity. The handling and accounting for funds was the subject of particular attention. Errors of commission and omission in entering and transferring amounts on the record loomed large in the eyes of the auditor as demanding his best efforts at discovery. Much ado was made of such errors when discovered. To apprehend a cashier unfaithful to his trust was the height of ambition of many auditors.

The development and financing of industry, enlarged and involved financial relations and the great problems which they raise, have wrought marked changes in the auditor's idea of what constitute matters of importance requiring attention and report. It would be erroneous to give the impression that bookkeeping matters and fiduciary integrity no longer receive consideration during an audit. They do in fact but they have been relegated to a comparatively unimportant place since more recently accounting as a basis for administrative control and judgment forming action has come to the fore.

The auditor of today considers his most useful function that of giving consideration to the big things where large amounts or financial responsibility may be involved, rather than the matters of insignificance which even if entirely wrong in principle or treatment would not affect results. What profiteth it the client if the auditor bring to his attention a ten dollar error in an invoice while overlooking entirely contingent or actual liabilities which may bring about financial ruin? Is the client interested in knowing the technical procedure which the auditor used in verifying the cash while errors in setting up the capital accounts in an organization having capital stock without par value are allowed to pass without comment because the accounting officers have elected to so treat the accounts? Does the client enjoy having pointed out the fact of minor errors in footing when there are questions involving the amortization of franchises which, if properly studied and settled, might lead to savings of thousands of dollars in taxes?

The answers to all these questions are obvious. The auditor who is alive to his opportunities wastes no time on the nonessentials. He is aware of his clients' needs and desires and he acts accordingly in supplying them. He spends his time in seeking information through his examination of the accounts which will enable him to offer his client illuminating statements and to interpret such statements in a way which will be useful.

Not only is a comprehensive analysis of earnings and expenses by departments as well as classes essential to a satisfactory audit report, but it should where possible be supplemented by data which reflect causes as well as results. For example, an increase in earnings in a utility like electricity may be due to one or more of several things. First the rates may have been increased. Further, the number of consumers may have increased, or the consumption may have increased owing to some general cause like a reversion to the hours in effect before daylight saving became operative. Again, the increase may be traceable to some special cause like an extended celebration accompanied by special illumination, or the installation of some power-consuming plant which has every probability of continuing in service.

Having in mind that his report may be designed for, or fall into the hands of, someone interested in the operating phases of a company and not familiar therewith, the auditor frequently embodies in his report information which bears on the foregoing. It is helpful in considering earnings to know the dates at which changes in rates have occurred. The substance of the order granting the increase may even be submitted. Figures showing the number and classes of consumers at different dates may be included. The circumstances surrounding some special increase may be described.

In one case where the report was designed especially for the bondholders' trustee under a mortgage the auditors said in part:

"Residential lighting sales show a substantial increase in rates as well as in kilowatt hours. During the first half of the year many of the divisions, including Merrymain, increased their rates by the addition of an emergency surcharge which, in the case of the Merrymain General Electric Company, was 5%; in other cases, 10%. Effective July 1, 1919, several divisions, including Meany, Farley, and Grand Forge, discontinued the surcharge and established revised schedules which resulted in increases of from 15% to 25%. The surcharge of 5% added by the Merrymain General Electric Company, January 1, 1919, was supplanted October 1, 1919, by revision in rates which resulted in increases ranging from $.005 to $.015 per kilowatt hour, equivalent to an increase of 15% to 25% of the former rates. It is expected that, in most instances, the present rates will remain in effect at least until there is a substantial decrease in operating costs. The increase in kilowatt hours applicable to residential sales may be attributed largely to the normal growth and expansion in the communities served.

"The greater part of the increase in power sales amounting to $554,044.23 is attributable to an increase in kilowatt hour consumption. The company estimates that at least 75% of this increase will be retained as permanent business. New power contracts were made in nearly all the divisions at increased rates."

Increases in operating expenses may likewise furnish opportunity for extensive investigation and report as to the cause or causes. One case in which the net earnings fell off markedly showed that the coal costs had increased substantially, thus increasing the operating costs. Investigation disclosed the fact that the company had abandoned its former policy of buying coal for consumption and was mining its own coal.

Incidentally this recalls what has frequently been discovered by auditors in making investigations among companies in other industries and fields, namely, that individual company power costs might be materially decreased if such companies would take their power from power companies instead of attempting to make their own power. There is perhaps along this line a new field of opportunity for power companies in working out power costs for potential and possible consumers, using the results when favorable as a basis for soliciting new business.

Because of the unique position which public utilities occupy there is perhaps the more reason for audit. The many controversial points involved in their public service and the contact with government regulation make it almost imperative that disinterested and unbiased parties review their accounts. Not only is such independent scrutiny demanded because of their service to the public, but because they derive their funds for existence and operation from the public. And in a competitive market for funds an audit certificate is now practically a necessity.

An audit is valuable to public utilities because through the audit report are usually brought out the facts of financial condition as well as operation. The investing public, now more than ever before, is demanding comprehensive, clear, and reliable data from which to judge the desirability of investment offerings. Strange as it may seem, the investor is learning to ask the pertinent questions as to the chances of safety, return on investment, and prospect of the continuation thereof. He is not satisfied if the financial statements do not tell him these things. He feels better satisfied if the statements are the result of an audit and are certified by competent and well known auditors.

To meet the needs of investors the balance sheet which usually occupies a prominent part in an audit report should show, preferably in comparative form, at least six distinct groups among the assets, namely, fixed property, securities held as investments, securities held for control, intangibles, such as franchises and goodwill, liquid assets, and deferred charges. The liabilities require classification into at least three groups, e.g., funds borrowed for capital purposes, current liabilities, and deferred credits, with the owned capital, according to classes and preferences, if any, and the surplus resulting from operations appearing as the balancing items. Needless to say, surplus arising from revaluation, appreciation of property, or other causes should be set out by itself, as should reserves which constitute bona fide segregations of surplus. Bookkeeping reserves may be regarded as offsets to certain asset accounts and deducted from such assets or set up broad as suits the fancy. Any classification of balance sheet items short of the above fails to satisfy the intelligent reader who seeks information as to financial condition. More detail may be appreciated by some.

The income statement in order to be sufficiently illuminating in the case of an electric utility should at least show in summary form the following:

The revenue, classified so as to set out (1) residential sales, (2) commercial lighting and power, (3) municipal lighting and power, (4) sales of current to other utilities, (5) miscellaneous revenue; operating expenses; income from investments or other non-operating sources; fixed charges; profits for the period; dividends declared and the balance transferred to surplus. Nothing short of this information will be acceptable to the investor who wishes to analyze and consider the operating phases of a company in arriving at his conclusions.

Public utility organizations can ill afford to ignore their relation to and dependence on the investing public. The time is probably rapidly approaching when still greater power generating and distributing projects will come into existence. The prediction has been made that the future of American industry will witness increased use of machinery and mechanical appliances, decentralization and geographical spreading of industrial enterprises. The history of machinery in this country leaves little doubt that the prediction with regard to its increased use will come true. The decentralization of industry will, if it follows, be brought about probably through some gigantic scheme for organizing and distributing power to the most remote parts of the country. In such a development the utilities will need vast blocks of funds which the public alone can furnish. The record of the utilities in employing funds in the past will be a vital factor in obtaining such funds in the future. The information derived from the accounts through audit and the fidelity of the companies in the handling of investment funds as verified and approved by independent auditors should go far in contributing to the success of the utilities in this movement.

The Annual Meeting

THE annual meeting of firm members and managers was held at the Executive Offices, September 22 and 23. It has left behind a sense of closer union in the common cause for which all are striving, namely, the rendering of a professional service on a high plane.

All firm members were present except Messrs. Cook, Fuller and Tilton, who are in Europe. All managers were in attendance except Messrs. Vincent, Leffler, and Leo, who were prevented from being present by pressure of engagements, and Messrs. Lovibond and Holding, of the Paris and London offices, respectively. Mr. DeVault, from Shanghai, and Mr. Tompkins, from Havana, both of whom are in this country on vacation, represented the foreign offices.

After a few words of welcome and general information by Mr. Sells, on Friday morning, September 22, Mr. Ludlam took charge of the meeting, which proceeded to a discussion of various matters pertaining to organization, professional relations, and technique.

All the usual festivities were omitted, owing to the death of Mr. Ralph T. Hollis. The only social function was a family dinner at the Hotel Biltmore, Friday evening. A number of the wives of members and managers were present at this affair.

On Saturday afternoon the meeting was addressed in a most interesting manner by Mr. Harvey E. Whitney, of the Bankers Trust Company. Mr. Whitney is chairman of a committee of The Robert Morris Associates, a national association of bank credit men, the purpose of which committee is to co-operate with a similar committee of the American Institute of Accountants in improving and standardizing financial statements used for credit purposes.

Mr. Alexander Wall, secretary-treasurer of The Robert Morris Associates, gave an interesting exposition of his ratio scheme for judging credit risks, and, like Mr. Whitney, stated frankly some of the ways in which the accountants may improve their reports and better co-operate with the bank credit men.