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Correspondence: Election of Auditors by Stockholders; "Effective Criticism"

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Recommended Citation

Sharp, F. W. and Werntz, William W. (1939) "Correspondence: Election of Auditors by Stockholders; "Effective Criticism";" *Journal of Accountancy*. Vol. 67: Iss. 1, Article 8.

Available at: <https://egrove.olemiss.edu/jofa/vol67/iss1/8>

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CORRESPONDENCE

ELECTION OF AUDITORS BY STOCKHOLDERS

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: As a chartered accountant of many years' experience I was interested in reading your editorial on page 356 under the caption of "Election of Auditors by Stockholders," wherein you refer to the provisions of the English companies act to do with the appointment of auditors.

In Canada, as you probably know, the companies act (federal) has the same provision, but I would like to call to your attention that in the actual working out of the arrangement it is not always entirely satisfactory to the auditor appointed. While the auditor for the incoming year is appointed at the annual meeting, invariably the directors of the company have already made their selection and similar to other motions of a routine nature requiring to be passed at the annual meeting of shareholders, they have arranged that a shareholder present move a resolution to appoint or reappoint the auditor selected by them. This does not tend to keep the auditor in a position where he is entirely independent of the directors, despite the fact that the act will have had that intention in view. However, I suppose, even as it is, the shareholders are better off in having a tool available for use if they want to use it and if there are any differences between the directors of the company and a majority of shareholders who do not happen to be directors, the shareholders' voice would carry, but it is only on rare occasions that such happens; generally speaking it is the directors who in fact appoint the auditors.

The provision that, if there is a change of auditor, notice must be given before the annual meeting, is a useful one inasmuch as it does give the auditor a chance if the directors (or shall we say the managing director) is insistent that the auditor's report, or certificate, shall delete certain references of a special nature which the directors do not like. But even in case of a disagreement between the directors and the auditors, resulting in a

new auditor being appointed at the annual meeting, it can easily be recognized just what an unpleasant situation the auditor is placed in if, because of the provision of the companies act, he insists on reappointment; the relationship will be anything but pleasant in the continuing conduct of the audit, and I have observed that it is seldom that a displaced auditor demands that the provisions of the act be enforced. In fact, I only recall one instance where it was put into effect. Generally speaking, the position of auditor of a public company almost becomes a permanent position, similar to Tennyson's "Brook" — "Men may come and men may go, but I go on forever."

Another point you refer to is the remuneration of the auditor, which, under the act, has to be fixed at the annual meeting of shareholders. In most cases, or perhaps I should say in a great many cases, a minute is recorded authorizing the directors to fix the auditor's fee.

This has a favorable, as well as an unfavorable, aspect. If unforeseen work arises, and this is not unusual in these days of excessive taxation, with government employees oftentimes resorting to unreasonable and unfavorable decisions against the taxpayer; or in case of refinancing, or increased work on account of better business conditions, the auditor has an opportunity of obtaining a reasonable remuneration, whereas, if the fee was limited to the amount of fee named when the appointment of auditor was made, it might be difficult to get reconsideration.

The unfavorable feature of the provision is that the management, or managing director shall I say, oftentimes desires or has perforce to reduce expenses to the minimum and forgetful of the fact that the auditor is supposed to be responsible to the shareholders; regardless of the amount of work that a shareholders' audit would involve, the auditor is advised that the fee is such a figure and no more and he must cut his work to suit the

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fee. On the other hand, I have observed that where embezzlements have occurred which a fuller audit would have uncovered at an earlier date, some of the said managements are not averse to endeavoring to collect the loss from their auditors and if suit is taken, some of the judges in the lower courts, having little actual business experience, at once jump to the conclusion that the auditor is appointed in the main to discover cash shortages, and gives a verdict accordingly.

The provision that the auditor is permitted

to attend the company's annual meeting is a good one as it gives an opportunity for the auditor to speak to the subject of the statements and, at times, to protect and explain himself on debatable questions which may arise.

Pardon me for being so lengthy in my remarks, but your subject is interesting to one of experience.

Yours truly,

F. W. SHARP

Montreal, Canada

"EFFECTIVE CRITICISM"

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: I have just been looking over the December issue of THE JOURNAL OF ACCOUNTANCY and on page 354 in the editorial on "Effective Criticism," I note some language which I think is open to a misconstruction. The editorial states:

"It would be a grave mistake for the accounting profession, or for business in general, to accept these rulings as more authoritative than their authors intended them to be. The chief accountant of the S.E.C. has publicly stated within the past three months that accounting releases of the commission should 'serve as a basis for discussion of accounting rules and standards and thus submit the commission's views to effective criticism.'"

I believe the editorial there refers to a passage on page 6 of the mimeographed copy of my address before the Controllers Institute last September. However, that language

was used in reference to the proposed new series of factual releases which are not intended to express an opinion but merely to state the facts and circumstances of individual cases which have been decided by the Commission. I do not feel that this language is at all appropriate when used in respect of the formal accounting opinions which have been rendered from time to time. While future advances in accounting theory and practice might result in modification of such releases, nevertheless, until then such accounting opinions set forth principles which must be observed in statements filed with the Commission and thus are of an entirely different order than the proposed factual releases.

For your convenience I am enclosing a copy of the address referred to.

Yours truly,

WILLIAM W. WERTZ

Washington, D. C.