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Financial Reporting Responsibilities

A. Carl Tietjen

FINANCIAL REPORTING RESPONSIBILITIES

by
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[Introductory note: Born in Vancouver, British Columbia, A. Carl Tietjen is a 1935 graduate of Washington University in St. Louis. He joined Price Waterhouse in St. Louis the year of his graduation and was admitted to partnership (audit) in July 1956; he became a partner in charge of research in 1958, at which time the research department was begun. He served in that capacity until 1966, and from 1960 to 1966 he also served as chairman of the firm's accounting committee. He retired from active partnership in Price Waterhouse on July 1, 1974.

Mr. Tietjen is listed in the 1974-75 edition of "Who's Who in the World," is a member of FASB task force on conceptual framework for accounting and reporting, and is a member of AICPA, New York State Society of CPAs, Missouri Society of CPAs, Ohio Society of CPAs, and AAA. He has written articles which have been published in professional journals in the United States and abroad.

Mr. Tietjen, whose experience includes 39 consecutive years of working with major corporate clients, gives his views on what it takes to issue financial reports of high quality and furnishes insights based on his experience as to why that worthwhile goal has not always been achieved. He also comments on the essentials of common sense accounting and financial reporting for the 1970s, as he perceives the needs under current business conditions. This subject is timely as the Financial Accounting Standards Board is currently attempting to define a conceptual framework for accounting and financial reporting.]

Is there really a problem in financial reporting? Yes, I think there is and so do many others. Some talk about credibility. Others talk about "economic reality" but never seem very clear about what that is. A few still cling to the notion that it's just an image problem. It's more than that.

Here is the way I would describe the problem in simple terms: there have been too many cases where net income was overstated. There have been too many cases where stockholders' equity was overstated. Here's another way to say it: the accrual method has been distorted too often. Too many assets have been created and left there too long. Too much income has been recognized too soon. Too much expense has been deferred too long. How did it happen? Well, let's take a look at what makes for good financial reporting. First, there is integrity; second, competence; third, technical knowledge; fourth, experience; fifth, judgment; sixth, imagination; seventh, knowledge of the company; and eighth, just plain hard work. There's nothing mysterious about that. Where, then, did the weakness occur? To find it, you have to look at the most important factor on the list. That is definitely number one, integrity! I can't prove it, but it's my opinion based on experience that integrity is at least a 50 percent factor in good financial reporting. That is, it's at least as important as the other seven together.

The conventional wisdom is that the problem is technical in nature. Don't believe it. The state of the art is more than adequate to permit high quality financial reporting. The weakness is in people. Not all people, just some people. In fairness it must be conceded that there is confusion in the technical area.

Therefore the problem comes down to a matter of plain honesty, with technical overtones. The situation is complex enough that it can't be said that all bad financial reporting involves dishonesty. Also, I'm not accusing all people involved in financial reporting of weakness. We're talking here of a troublesome minority.

NATURE OF THE PROBLEM

To get at the nature of the problem, let's take a look at the people directly involved in financial reporting -- management and independent public accountants. Of course, there are other parties not directly involved-- investors, financial analysts, bankers, underwriters, the press, and government agencies, who also have some influence on financial reporting. Here are some basic management types as I see them. I'm happy to say that a large number, probably a majority, are honest and reasonably objective. Then there are those who are honest but with a particular weakness -- perhaps too optimistic in judgments or too much of a "yes-man." Another sizeable group might be called sophisticates-- they are always alert for advantages but wise enough to avoid real trouble. There is also the promoter or fast buck artist, usually with a new company or a new idea. Then there are the outright dishonest. I'm happy to report that these are very few in my experience.

Then there are some CPA-types I have known. Again I'm glad to say there are many who are honest, objective, and third party-conscious, but there are never enough of them. Then there are those who are honest but with a weakness; perhaps they are not forceful enough with clients, perhaps they rely too much on personality to get by. Then there's the vicarious business man who identifies too closely with his client's objectives. He's attracted by wheeling and dealing and probably should be in business himself rather than in the profession. There is the entrepreneur, who gets a personal kick out of bringing in new business and spends a lot of time on it. The profession too has its sophisticates who are not above suggesting dubious methods to clients and are not sufficiently aware of third party needs. There are a few who simply lack professional qualities-intellect, technical knowledge, etc. And of course a few are dishonest.

The crux of the management-CPA relationship revolves around problem situations. When a financial reporting problem looms, how does management approach it? Again, many are perfectly straightforward about it. They view financial reporting as a shared responsibility. Therefore they gather the necessary data, notify the independent accountant promptly, and discuss it with him can-didly. Of course there are variations on this straight pitch. One is called the "surprise" -- the data is studied, a management position is taken, then the whole load is dropped on the CPA cold. Then there is the "psych" -- select a far-out method designed to put the CPA in shock, then bring forth a slightly less lethal but still dubious alternative. "Playing dumb -- take no position and see what the CPA suggests. After all he might come up with something better than you hoped for. The "delaying game -- hold up the decision until the day the final proof is supposed to go to the printer. This puts everybody into a state of shock. "Hide and seek -- hold back relevant information until the CPA specifically asks for it. "Hearts and flowers"-- tell the CPA his approach will surely push the company into bankruptcy. "Sword of Damocles" -- you'd be surprised how many ways there are to hint that you might change auditors, without being so gross as to come right out and say so.

Here are a few other things that tend to enliven the management-CPA relationships. "Stock options" -- I have remarked many times that when stock options came in, conservatism in accounting went out the window. "Family-held" -- when management has a controlling interest in the stock, objectivity is even harder to come by than usual. "Big mouth" -- that's when the chief executive makes a speech to the financial analysts before the end of the year and predicts what the profit will be. The "gentle hint" -- chief executive tells controller, "We've just got to make $2 a share this year." When the controller expresses doubt, the chief says, "Sharpen your pencil." And even when such things are absent, there are always judgments to be made, estimates are needed, and there is human bias and error to contend with.

Meanwhile, of course, CPAs are as pure as driven snow! I remember a lunch in the early 1960s with a research partner in a large firm who turned to me and said, "Don't you think it's really our job to help our clients get the highest possible earnings per share?" That shocked me but I recovered and said, "No, I didn't think so; it seemed to me we were trying to help them achieve sound accounting practices rather than the farthest out practices." And I could see that I shocked him.

CPAs are experienced and knowledgeable. They often recognize or anticipate a problem before management does. Almost always they see that there is a best, an acceptable, and a substandard solution to each problem. Too often they drop the ball at that point by not urging their client to adopt the best approach. They assume the client will opt for something less desirable anyway, and so sometimes they fail to even mention the best method. The game is lost before the kick off. I can say from my own experience that clients often do accept the best treatment, sometimes without argument. And those are the occasions that make you feel good as a professional man.

The large multi-office firms have a procedure calling for consultation with headquarters on problem cases. This can produce some interesting in-house skirmishes. The practice partner may decide to become an advocate for his client's position. In this way, if the answer is no, he can go back to his client and say, "Those New York characters turned us down." Much of that kind of intra-firm checking is done by telephone. You can imagine that the headquarters man has to be a pretty alert district attorney-type to make sure he digs all the facts out of his callers. Some of the publicized bad cases of recent years apparently involved a failure to check signals with headquarters. This might be called the "ostrich" approach -- I've got a problem, but I won't tell anyone, and maybe it will go away. This is not recommended --nowadays. It might get you one to four at Lewisburg.

CPAs have been known to go to some lengths to rationalize their decisions. I'm reluctant to even mention the lowest form of rationalization but will do so to make this lecture complete. An important client is putting the heat on you, and you're staring out your office window wishing you were dead. And then your eye falls on the offices of Shultz and Company, your competitor, across the street. You say to yourself, "What would old Shultz do if he had this problem?" And of course invariably your answer is, "Why he'd go along with the client, that's what he'd do."

As we all know, or should know, the CPA's position vis-a-vis his client's is not a strong one. It's well established in law and elsewhere that the financial statements are management's. The independent accountant merely renders an opinion on those statements. Thus he has neither the responsibility nor the authority to force the client's hand. This is not to say that he's without influence on his clients. For example, he can persuade clients to follow the best, or at least acceptable, practices. He can point out that some methods are unacceptable under professional pronouncements, SEC rules, or general practice. If he believes that the proposal is not a fair presentation, he can and should say so. He can argue that financial analysts give good marks to companies that use conservative methods and give full disclosure. Occasionally, he can point out that an undesirable method will have an adverse tax effect. If the controller is adamant, he can take his case to the chief executive, audit committee, or full board of directors. If it really comes to the moment of truth, he can draft a qualified opinion and present it. At that point there is usually great tearing of hair and running around, but eventually the management cools down and talks to their lawyer who says, "Well, the SEC won't accept a qualified opinion, the New York Stock Exchange won't accept it, so you'd better go back to the drawing board." So you do, and eventually something is worked out that is acceptable to both sides. Under certain unusual conditions the independent accountant may have to resign an engagement, such as when he learns the company is wholly-owned by the godfather.

If what I've been saying sounds less than ideal, I can tell you that CPAs win many battles that are never publicized. Also, you have to keep in mind the effect of boom psychology. The euphoria of the 1960s, just as in the 1920s, produced some foolish things in financial reporting. But it did the same in government, business, and most other areas of human activity.

SOLUTIONS -- THE PROFESSION'S RECENT APPROACH

So far, I've tried to give you an understanding of the real problem in financial reporting. What is the organized profession doing to resolve it? First let's go back a few years. You might say there have been three eras in financial reporting. First, pre-1930s: during that period the CPA based his opinion solely on his own judgment plus his own knowledge of then accepted practice and a few textbooks. The second period was the 1930s up to APB Opinion No. 8, on pensions in 1966. That was the period of broad guidance from the AICPA. The third period was 1966 to the present. APB Opinion No. 8 was the first detailed technical pronouncement. That was the first cookbook, and since then we have been in the cookbook era. Please note I said 1966 to the present, which of course includes the first four FASB statements. At the beginning FASB spokesmen talked about a broader approach to financial reporting. However, the product to date is still a cookbook, with a new cover on it. It looks like we've just put aside our Irma Rombauer cookbook and taken up Julia Childs'. Please note also that for half a century, up until the 1930s, the profession rendered opinions without any rules support. Now the profession has taken an official position that fair presentation and GAAP are inseparable; that is, if you have GAAP, you automatically have fairness. That is what is known as crawling into a fox hole. I don't think it will play well in Peoria.

To sum up, the profession's approach to its problem is to produce a detailed regulatory rule book. This troubles many of us. To mention just one thing, the similarity to the Internal Revenue Code can give you nightmares. Take my word for it, you'll never get quality financial reporting solely from a rule book.

SOLUTIONS -- BROAD QUALITATIVE STANDARDS

Let's take a look at other approaches that might help with the problem. These would be broader in scope than the rule book. They would not necessarily be substitutes for a rule book. Frankly, I doubt there is much point in debating the merits of the rule book. It is here, and I doubt we will be without it from now on. Even if the profession should get tired of it, I suspect the SEC and other government pressures will keep it going. Although I personally dislike the rule book, I think technical guidance material is helpful as long as it remains broad and avoids the step by step how-to-do-it technique. I regard that as unprofessional and demeaning. No matter what type of rule book we develop, more is needed. A true profession needs broad goals.

My own recommendations have been at two levels, aimed at answering two logical questions. The first question is -- *what* are we trying to do? The second questions is -- how do we accomplish what we are trying to do?

Let's take the "what" question first. Visualize yourself in practice. A publically-owned company has been criticized for alleged misleading financial reports. New management sincerely desires to improve the performance. They ask you what they must do to achieve excellence in their financial reporting.

My answer to that takes the form of a set of broad qualitative standards. It attempts to do the same job for financial reporting that auditing standards did for auditing when they were issued by the AICPA in 1947. I won't go into all of the sixteen standards I've proposed. If you are interested in the full list, you will find my article on the subject reproduced in the January 1971 *Journal of Accountancy*. I would, however, like to mention several of the standards that I consider most closely related to the problem I've described. But first we need an objective. A true profession must have an important objective. The objective of the medical profession is to heal the sick. In my view the objective of the accounting profession should be "a fair presentation of financial information essential to users." Please note the word essential -- it's important. A professional accountant ought to know what's essential to users. That's where his independence and professionalism come into play.

One of my standards calls for the inclusion in financial reports of a statement of financial position, a statement of results of operations, a statement of changes in shareholders' equity, a statement of changes in financial position, and any necessary notes to the financial statements. You might ask why anything so elementary is required as a standard. Well, we now have official pronouncements that make a stack a foot high. Would you believe that nowhere in that material does it state that a balance sheet and an income statement should be part of a general purpose financial report? If you refer to APB Opinion No. 19, however, you will find that a statement of changes in financial position is mandatory. How can that statement be mandatory *when* a balance sheet and income statement are not? The APB drafting wizards got around that one by stating that when a balance sheet and an income statement are issued, a statement of changes in financial position should *also* be presented. That is what you call coming in the back door!

Here are the four standards that I regard as the core of fair presentation.

1. Such accounting practices and methods are to be employed as have substantial authoritative support, are appropriate for the particular nature and circumstances of the reporting company, and will result in a presentation of financial position and results of operations that is fair to the users of financial statements.
2. Where uncertainties, estimates, or judgments are involved in the preparation of financial statements, doubts are to be resolved by applying objective conservatism.
3. All financial information essential to an understanding of the company's financial position and operating performance by users is to be disclosed clearly and understandably. This information should include a concise description of the more important accounting practices and methods employed. It should also include disclosure of the more important areas of judgment and estimate and the bases for arriving at the amounts of such judgments and estimates.
4. An attitude of objectivity is a necessary attribute of persons engaged in, or responsible for, the preparation or issuance of financial statements.

I've found that most people don't disagree with the standards I've proposed. Many seem to be skeptical, however, that the profession will adopt them, or if adopted that they will have any great impact. For standards to have an effect, two things are necessary. One is for the profession to adopt them officially. The other is to change the wording of the short form opinion to include reference to standards. Such a wording change would drop the present phrase, "present fairly in conformity with GAAP," and substitute wording along the lines of "prepared in accordance with financial reporting standards of the AICPA." If you are shocked by the idea of dropping the term GAAP, consider for a moment that the new board is the Financial Accounting *Standards* Board. The word "principles" is used infrequently now and seems clearly to be a lame duck.

The implications of adopting standards would be as follows. The financial reporting responsibilities of both management and CPA would be defined for the first time. Although adopted for the profession, in practice the standards would obviously apply equally to management. The CPA's responsibility for financial reports would be upgraded to equal that of management. It would be a shared responsibility. It would have to be that way; otherwise the CPA would not be in a position to sign an opinion in conformance with financial reporting standards.

A change to the standards concept would, of course, be a substantive change in the system. When you consider that the present GAAP system is forty years old and ailing, a change would appear to be timely, if not overripe.

SOLUTIONS -- A BASIS FOR FINANCIAL REPORTING

I've been talking about *what* we are trying to do. Now let's shift to the other question -- *how* do we accomplish what we are trying to do?

In a technical sense this question is urgent because it involves setting up a framework for accounting and reporting. With the framework in place it should be possible to resolve on a consistent basis the more detailed technical problems that keep coming up. This is the job the APB was expected to do fifteen years ago, but did not. It is the job many people thought the FASB should tackle first, but has not. It's astonishing that this job hasn't been done when you consider the organized profession is seventy-five years old. And the FASB and its predecessors have been around for forty years.

Incidentally the "in" word for an accounting framework nowadays is a "model." We now talk about constructing a model. I'm getting concerned that if we do succeed in constructing a model, we may then get an annual model change! Anyhow, it would be in the best American tradition.

I had been encouraged by the enthusiastic acceptance accorded my 1970 proposal for broad qualitative standards. Without exception every member of my family had thought it excellent. Thus emboldened I set about constructing a model. The results appeared in the January 1973 *CPA Journal* entitled "A Basis For Financial Reporting." I'm not trying to sell this as a brand new model. It's really an old model, overhauled and with a warranty.

As I said in the beginning, the accrual concept has been carried too far. My model is based on the importance of cash income and outgo. The guts of any business is simply this: does cash income consistently exceed cash outgo? If it does, you have a going concern, and it's worth a lot of money. This comment applies as much to General Motors as it does to a hot dog stand. The accrual basis, of course, is required to apply cash transactions to appropriate periods. However, the accrual basis should be kept as close to cash as possible, consistent with fair presentation of net income. In other words, when there is any doubt about what period the cash receipt or disbursement applies to, it should be resolved in favor of moving it closer to the cash transaction rather than farther away.

You have probably heard the term "quality of earnings" a lot lately. Financial analysts say one company has it and another does not. What does the term mean? Most accountants would probably say that conservative accounting practices give you quality of earnings. True, but another way of saying it is that quality earnings are those backed up by cash. The best current example of my point is inventory accounting under conditions of rapid inflation. The companies on a FIFO basis find that the price increment in inventory from one period to another gives a big boost to reported profits. But the cash isn't there! It has to go right back into inventory. What's worse, you have to pay federal income taxes in cash on this noncash profit, so you actually lose liquidity. Of course, that's why you've been reading about dozens of companies switching to LIFO in recent months. Earlier I referred to the popular but nebulous term "economic reality." In my opinion economic reality is cash income exceeding cash outgo!

My proposed basis for financial reporting consists of ten basic points. Instead of going into these points, let's take an example to see how a model or framework might work in practice. Let's take something noncontroversial like the investment credit! You all know what it is, and I believe it is now ten cents on the dollar under the new tax bill. The financial reporting question, of course, is whether the ten cents should be reported in current income as a tax reduction or deferred and taken into income over the life of the related asset. Since I've been emphasizing cash, you might jump to a conclusion. The ten cents is a reduction of current taxes so it must be current income under my model. Not so! To get that ten cents you must spend a dollar of cash or borrow it. The dollar will be recovered only through operations over the life of the asset. As I see it the flow-through concept fails the cash test. I thing it also stumbles on two other points in my model. The first, net income should be viewed in terms of eligibility for dividend payout to stockholders. Spending a dollar to get a ten-cent tax reduction doesn't seem to meet that test either. Second, the net income figure for each period should be as representative as possible of operating results for the period. When a company builds a major plant and takes a large investment credit into income in the year the plant goes into service, it hardly meets the test of presenting operating results for the period.

To sum up, flow-through flunks on all three counts! Spread method passes all three tests! But let me make one thing perfectly clear -- I'm not at liberty to reveal my personal preference on accounting for the investment credit here!

SOLUTIONS -- A REVIEW COUNCIL

While we are on the subject of cures for financial reporting ills, let's take a brief look at something called a review council. Several years ago it came to my attention that in the United Kingdom they have had for many years a press council. Its purpose is self-regulation in the publishing field. Its work is to study bad cases in the industry -- let's say a news columnist attacking a public official in an unprofessional manner. Its membership is drawn from various fields, and they are people of distinction. They have the right to make their findings public, and their decisions are said to pack a considerable wallop in the U.K. More recently a somewhat similar organization has been established for the U.S. advertising industry.

One of my suggestions to the Wheat Committee in 1971 was to consider a broad-based review council, with a membership large enough to include at least one representative of each of the groups having an interest in financial reports. Its objective would be to uphold standards by reviewing apparent deviations and taking appropriate action where required. The council should have the power to publicize its decisions, but the legal implications of such power would require careful study. Since the Wheat Committee completed its work three years ago, I don't expect them to act on my suggestion! But I still think it's a reasonable idea.

PRACTICAL ASPECTS

I've talked mostly about the need for change in financial reporting by publicly owned corporations. I am amused when I read about the vast changes that have already been made. As I see it, there have been very few important changes in the last forty years. One was the adoption of broad qualitative auditing standards in 1947, a very constructive change. Then there were the first authoritative accounting rules in the 1930s. And in 1966 those rules took a decided turn away from broad guidance toward a detailed regulator approach. In other words in forty years there has been no future shock for this boy!

I've given a lot of thought to why change comes so slowly. Here are some candid observations. Most people in influential positions always seem to favor the status quo. More importantly, relative freedom and flexibility in financial reporting is an economic advantage -- a power factor. It's natural for those exercising such power to want to keep it. Some influential people appear to be actually promoting complexity in financial reporting. They seem to see advantages in making it mysterious. Many seem to be fearful of assuming a clear cut responsibility for fair presentation. GAAP has Men their security blanket all these years, and they want to keep on chewing the edges. Of course, historically, big changes have usually come in the wake of very difficult times. The last time we had severe economic weather was in the 1929-1934 period, and that also happens to be the time we last had important changes in the system. While economic problems are now with us, few people see a parallel to 1929 up to this point.

What's the outlook for action at AICPA, FASB, and SEC? AICPA has seemed somewhat disoriented since it lost the standard-setting function to FASB. They also seem unable to get a handle on the big problems of independence and legal liability. Recently they've been doing some promising work on auditing standards. The objective seems to be a set of broad standards such as integrity and competence which would apply to all work done by members. Then there would be separate sets of more detailed standards for audit, tax, and management advisory work. AICPA has also set up a commission to study the independent auditor's role and responsibilities. I wish we didn't need a commission to tell us that. The fact that we have one says a lot about the problem I mentioned earlier.

How about the FASB? I think they are good men with good intentions. However, I believe they see their job as defending the system as it now is, making it work, you might say. Of course with that viewpoint big changes from the FASB are unlikely. I'm a member of the FASB task force on conceptual framework for accounting and reporting. I'd like to tell you where the project stands, but I'm not sure myself. After fifteen months it is not very far along. I'm afraid it might be another revival of *Long Day's Journey into Night*.

The SEC has been a strong influence from the beginning and still is. Their performance has been above average for a government bureau. You have to remember, though, that they operate in a political environment. They, too, get pressure from politicians, businessmen, and the public. Some people believe that the SEC hungers to take over auditing and financial reporting. I doubt it. They know it would put them directly on a very tough spot. There's been a lot of activity and noise at the SEC lately and it will probably continue. Times are tough, and the cop on the beat likes to let you know he's there. But I don't expect any big changes in the near term.

SUMMARY OF MAJOR POINTS

I'd like to close with a brief summary of my views. The system is forty years old and needs constructive changes. The problems are real, not just image problems. Integrity, independence is the big one. Technical confusion exists, and that's important also. These problems require direct attack. The integrity problem should be attacked with broad, qualitative standards. That isn't a quick fix; it's a long-range remedy. The technical confusion should be attacked with a basis for financial reporting, a framework if you like. Also helpful would be a broad-based review council and a sensible rule book-broad guidance on frequently encountered technical questions. What I'm saying is that you need a combination of standards, basis, review council, and technical support. Present sole reliance on a rule book is too narrow to be successful. It all comes down to people, really. Put me down as an optimist. I think most people will do the right thing if you give them sound leadership.

SELECTED QUESTIONS AND ANSWERS

Question:
Mr. Tietjen, I quite agree that these standards for financial reporting you've set forth are good ones. Your inclusion of fairness is one of them. Why did you omit the words "present fairly" from the suggested opinion wording?

Mr. Tietjen:
The words "fair presentation to the users of financial statements" are included in one of the standards I've proposed. It's my philosophy that you don't have to say that in the opinion itself because it's a part of the standards. In the same way, since consistency is one of the standards, you wouldn't have to say "presented on a basis consistent with the preceding period." Obviously it would be impractical to refer in your opinion to sixteen separate standards. You would simply refer to the standards. In that we have a fine precedent in the auditing standards. The auditing standards number a dozen or so but for many years we have referred to auditing standards without enumerating any of them in the opinion.

Question:
You mentioned two tenets of standards that we should attack -- particularly integrity and technical competence. Now my question is two-fold. First of all, in reference to technical competence -- do you feel that we should screen applicants to the profession, in terms of the CPA examination? And perhaps should we use other measures, such as oral examination? And second, as to ethics, do you feel that we should have some kind of committee for evaluating a person's ethics?

Mr. Tietjen:
I have never thought that the technical weakness was in those entering the profession. It seems to me that people nowadays have a better educational background than I did when I entered the profession in 1935. But I do think that a young person coming into the profession is likely to go in any one of several

directions depending on the people he's working with most closely. If the man he's working with, the older person, happens to be a person with high integrity and technical competence, I think he will guide the younger man in that direction. So it's my thought that everyone in the profession should have standards right in front of them so they know they have to deal with them in preparing their opinions. The ethics book is a good document, but frankly, it gathers dust in people's book cases. The standards I have enumerated have an ethical basis, but they're more than just ethical. They are also a very sound prescription for getting out good financial reports.

Question:
I would like to have you share with us your thoughts on how you view today's accounting education. And what, in the light of your recommendations and your model for accounting, you would suggest is the proper education for a future accountant.

Mr. Tietjen:
I've been a long time away from the academic halls, as you probably know. That's difficult. From the outside it seems to me there is too much emphasis in the schools on the so-called value basis. I'm talking about the technical side now. I don't believe we want to get into that battle here. I think it's perfectly plain from my model, the parts of it that I touched on, that I don't see the value basis as a solution to our everyday practical problems. However, those fans that did read my article know I had one point that permitted recognition of value when the difference between cost and value becomes so great, you obviously don't have a fair presentation. I wouldn't presume to comment on how the colleges can do a better job. Aside from the preoccupation with the value basis, which I think they've gone overboard on, I wouldn't want to comment without giving the question considerable study.

Question:
Would you say that the things you spoke about this evening apply equally to municipal reporting which seems to me, at least in my limited experience, to be as bad as any there is in terms of understanding by the people.

Mr. Tietjen:
I think the basic things I was talking about, particularly the factors that make for good financial reporting, would apply to any kind of financial report. Integrity, competence, hard work, etc. certainly enter into municipal reporting as much as anything else. As far as the technical side is concerned, I claim no expertise in any field other than profit-making organizations, but I feel that fundamentally my emphasis on the importance of cash movement would apply to any kind of financial report.

Question:
Disclosure?

Mr. Tietjen:
Oh, disclosure, yes. Disclosure is one of the standards that I've proposed that I think is the very essence of good financial reporting.

Question:
Sir, of the things you mentioned in terms of standards and of disclosure, you didn't talk about the problem of privity. That is, where should the accountant stand when he gets into a dispute with the management of the corporation. Although he's employed by the corporation, he's representing the corporation's statements to the outside world. If he disagrees, should he be entitled to publish his disagreement and not just resign his commission with the company. Or, should he wait until this thing is out in the press and some investigative reporter finds out about it?

Mr. Tietjen:
Well this is a problem I see largely overcome by standards. I have long felt there are entirely too many clean opinions. I think it's rather ridiculous that, to take our firm, it's top clients, the multi-national

giants who have the most sophisticated internal controls, the finest qualified management, and all that sort of thing, would get an opinion identical to a very small client who perhaps only has two or three employed and obviously does not have sophisticated internal controls. I think that under the standards approach there would be many more qualified opinions than there are now under the GAAP approach. You understand, of course, that the accountant at the present time doesn't feel that he's in a position to disclose his viewpoints in his opinion. He could do it, but I'm afraid it takes more courage than most of us have. It's not general practice to do it. The accountant limits himself to judging whether the management has presented the financial data in an acceptable fashion. I favor more candor in the accountant's opinion, and I think you would have it under the standards approach.

Question:
First, may I very briefly pick up on a previous question. You were asked about "present fairly in accordance with standards adopted by the Institute." Supposing those standards adopted by the Institute in and of themselves could be demonstrated to be potentially unfair. Does it then not mean that "present fairly" in accordance with these potentially unfair standards could produce an unfair result? Now later on, in response to another question, you said something very effectively and forcefully, when you said your philosophy would say, "present fairly" period. Should that not be the point where we ought to say stop in our certificate. And then everything else, our entire integrity and our competence would be subsumed in that ultimate opinion ... "present fairly."

Mr. Tietjen:
I think the very short opinion you have in mind goes back fifty years or more. If you dig out some of the opinions on public companies of those days, they might say "we certify that the balance sheet is correct." I'm not against taking the reference to GAAP out and relying just on "present fairly." I think that would be a vast improvement over the present system. However, it seems to me that if you read carefully the standards I've presented, they articulate what you have to do to get good financial reporting. I think it's better to have on the record just what you're expected to do to get a good financial report than it is to rely solely on the man signing his opinion to say it "presents fairly."