

# FINANCIAL REPORTING UNDER INFLATIONARY CONDITIONS – TRENDS AND PROSPECTS

*by Prof. Drs. G. G. M. Bak*

## 1 Introduction

In writing a paper on trends and prospects in the Netherlands in the field of financial reporting under inflationary conditions, I feel myself in a awkward position. I cannot but take a humble position in the group of outstanding spokesmen of the Dutch accounting profession who have, during many years, brought to the attention of an international audience the principles of replacement-value theory and the application of current value in the annual accounts of companies.

These two concepts to a great extent determine the trends and prospects in financial reporting under inflationary conditions in my country much more so than do price level or inflation accounting! The Dutch accountant's perspective on proposals such as inflation accounting and his way of discussing them are conditioned by nearly 50 years of theory and practice of accounting methods not based on historical costs.

Despite these efforts we now see some international companies reverting to the use of historic costs in order to gain comparability in the international market. For example in their 1973 report to the shareholders, the AKZO management explained that because other international companies were not taking into account the effects of increased prices in their annual reports, the AKZO profit figure as derived on the basis of current value compared unfavourably. Therefore they were reverting to the use of historic costs. Thus it is all the more important that some viable method of reporting that accounts for inflation be adopted internationally. I would propose that the most feasible method is one based on current value.

To begin, it is appropriate to review some of the discussions in the Netherlands during the last ten years on replacement (or current) value theory. The English-language publications only partially reflect recent Dutch developments in the theory, but to cite a few of the major ones will nevertheless prove useful in establishing a context for a subsequent discussion of developments within the Netherlands and a comparison of current-value theory and inflation accounting. I refer to papers presented by Dutch authors at International Accountants Congresses during the last 25 years.

At the Sixth International Congress (London, 1952), A. Goudekot presented a paper the essence of which was published in the *Journal of Accountancy* (October 1952) under the title „How inflation is being recognized in financial statements in the Netherlands”. In this article Goudekot emphasizes the importance of replacement-value accounting for the management of an enterprise especially in a period of inflation.

G. L. Groeneveld, in a paper prepared for the Seventh International Congress (Amsterdam, 1957), dealing with the application of replacement-value theory in the „ascertainment of profit in business”, made a strong plea for certainty as to the conception of profit.

In a paper presented at the Eighth International Congress (New York, 1962), I. Kleerekoper analyzed „the economic approach to accounting”. Here he formulated a series of postulates of accounting, three of which are summarized below because of their significance for the further development of current-value theory:

- (1) The transaction result is the difference between net proceeds on goods sold or services rendered and the cost of these goods and services based on (current) replacement value.
- (2) The difference between the amounts paid in the past for the various cost components (historical cost) and the subsequent replacement value used in determining the transaction results must be set aside as „value differences”. Thus, they do not form part of the transaction results.
- (3) The positive value differences set aside in accordance with (1) and (2) appear as capital surplus; negative value differences are debited against the surplus account until it is exhausted. If nominal maintenance of the originally paid-up share capital is aimed at, any further negative value differences are then charged to other surplus accounts and - after they have been exhausted - to the income of the period.

Goudekot, Groeneveld and Kleerekoper all presented comprehensive systems of accounting which entailed unique economic profit concepts based on replacement-value theory. F. Graafstal, however, in his paper „Harmonization of accounting principles and the concept of profit” presented at the Ninth International Congress (Paris, 1967), articulated an approach to current-value theory which was quite different. Graafstal introduced a concept of profit based on the objective of maintaining the original purchasing power of invested capital. In contrast to Kleerekoper's third postulate, for example, Graafstal concludes that any appraisal adjustment not necessary for maintaining the purchasing power of equity invested is in principle a profit or loss.

Yet another approach, and one worthy of particular notice, at the Tenth International Congress (Sydney, 1972) was taken by W. van Bruinessen. In his paper „Bases of accounting other than historical cost”, Van Bruinessen does not link income and value in the application of current value, seeing the advantages of current value primarily in terms of the improved quality of information their applications generates.

## **2 Recent developments in current-value theory**

In his report cited above, Van Bruinessen uses the term current value in preference to replacement value „because, in the literature, the latter term appears to give rise to the misconception that the valuation should be based on the price when a used-up means of production is eventually replaced by a technically identical means”. In addition to this practical argument, however, there is yet another reason to abandon the term replacement value: The term is closely linked to the idea that replacement-value theory is a solid theory of value and profit. But, as I hope to demonstrate in this paper, we may expect many benefits from the application of current value even if we

seriously doubt the tenability of the replacement-value concept of profit. Therefore, to avoid hampering the discussion which follows by needless confusion in connotations, I will use the term current value.

It would be beyond the scope of this paper to give a complete review of the discussions of current-value theory in the Dutch accountancy literature; this would also entail tracing a number of foreign influences such as the publications of Palle Hansen, Edwards and Bell, among others. However, one reference should be made to the report of Professor R. Burgert who, in his address to the Dutch National Accountants Congress (*Accountantsdag*) in 1967, gave a clear and well-balanced definition of the problem now at issue. At the end of his report „Economic accounting principles for published annual accounts”, Burgert concludes that every concept of profit is linked to a capital-maintenance objective. Some of those to be distinguished are:

- Maintenance of the originally invested nominal capital (equity) of the enterprise by application of historic-cost accounting and „the lower of cost or market (Niederstwert-prinzip)”.
- Maintenance of tangible assets by application of Lifo or current-value accounting.
- Maintenance of originally invested general purchasing power of equity. Here we enter inflation accounting.
- Maintenance of the source of income. This is the objective of replacement-value theory as mentioned above. As Goudekot put it in his article in the *Journal of Accountancy* (1952), „Profit is the income which may be spent without trespassing on the capital of the business which is the source of the income. The fruit may be picked but the tree may not be felled”!

Given this multiplicity of objectives, Burgert denies that it should be the goal of economists to agree on one single objective as a basis for an „economic” profit concept. In a paraphrase of J. M. Clark’s „different costs for different purposes”, he concludes that there are „different concepts of profit for different purposes” and feels it should be acknowledged that choosing the appropriate objective for a given firm is in principle a managerial decision. This decision, that is, the objective chosen to form the basis of the profit calculation, should be expressed in an explanatory note in the annual accounts.

At the same time, it is important to make use of the current-value yardstick to measure the effect of price fluctuations. Burgert argues that the use of historic costs in the calculation of profit might perhaps give an acceptable profit figure if maintenance of the originally invested money capital is the only objective. But it can only give poor information on the management’s stewardship and general efficiency in the past or the business’ prospects in the near future. Such information can better be gained by measuring the results of operations on a current-value basis; this gives a more usable foundation for an evaluation of the business’ purchasing and selling market position on which an assessment of the firm’s earning capacity depends.

A second point to be made is that results on holding positions of tangible assets should be reported separately from the operational activities. Holding gains and losses are the difference between the historic cost and the current

value at the moment of the transaction (if realized) or of reporting (if not realized). Contrary to the position advanced by Kleerekoper in his third postulate, I would argue that it depends on one's concept of profit whether a value difference appears as a capital surplus or as a profit or loss. However, the choice of profit concept is not essential for current-value theory. Rather, it is the relationship between „transaction” and „holding” which is crucial. „Transactions” reflect the actual results of operations on different markets; „holdings” reflect the gains or losses attributable to holding assets and liabilities.

Combining the notion of „different concepts of profit for different purposes” with the necessity of providing adequate information on operations and holdings, respectively, leads us to a general schedule for the profit and loss account.

The schedule below for example would apply in cases of a price increase in fixed assets and inventory:

Sales	a
Cost of sales on current-value basis	b
Result on transactions	c
Appraisal at current value of:	
- fixed assets	d
- inventory	e
Holding gains	f
Fictional holding gains	g
Distributable holding gains	$\frac{f - g}{c + (f - g)}$
Profit before taxes	$\frac{h}{c + (f - g) - h}$
Tax on profit	
Profit for distribution	

It will be clear that the consequences of a chosen objective (a concept of profit) are reflected especially in the figure (f), holding gains and losses, and (g), fictional (non-distributable) holding gains and losses. According to *historic-cost convention*, (f) would include holding gains realized during the period meaning, then, that they are fully distributable. Therefore, (g) would be zero! However, according to *replacement-value theory*, as propounded by Kleerekoper for example, (f) also includes unrealized holding gains, and (almost) all holding gains are considered fictional, therefore (g) could (almost) equal (f).

*Current-value theory* stresses the importance of reporting (f) and (g) separately, (f) including both realized and unrealized holding gains. The theory does not dictate the proportion of (f) to be considered fictional.

Summarizing these developments in short, we see that:

- The use of current value is recommended because it improves the quality of the information provided on „transactions” and „holdings” by segregating the two.
- The use of current value does not dictate a specific profit concept as was the case in the systems of Goudekot, Groeneveld and Kleerekoper.

In reference to the latter point, Burgert's recommendations with respect

to the role of management in choosing an objective as the conceptual basis of profit calculations is valuable but essentially tangential to a comparison of current-value and other valuation methods. As will be seen, inflation accounting can be described according to the same schedule as outlined above. In fact, our discussion has much more to do with the quality of the information reported in financial statements than with the profit concept.

### 3 Current-value versus inflation accounting, with particular reference to SSAP-7

There is little need to discuss the necessity of accounting for changes in the purchasing power of money in financial statements. As stated in *The Accountant* (May 16, 1974) at the announcement of the Provisional Standard on Accounting for Inflation in the United Kingdom: „... debate has largely shifted from „whether” to „how”. „Historic cost obviously fails to provide the information necessary in a period of heavy inflation. Application of current value - as we saw in the previous section - is primarily directed at improving the quality of information by accounting separately for the results on „transactions” and „holdings”. In this section I will try to analyze the difference between the ways in which current-value and inflation accounting come to terms with the problem of reflecting in financial statements the changes in the purchasing power of money.

We have first to deal with a very simple and straightforward system of „inflation accounting”, one which reflects, in fact, the application of current value. Using the schedule outlined above, the calculation of profit before tax in this system is based on three main items:

Result on transactions (based on current values)	c
Holding gains	f
Fictional holding gains	g
Distributable holding gains	$\frac{f - g}{c + (f - g)}$
Profit before taxes	

If management has chosen for its objective the maintenance of originally invested general purchasing power of equity, the amount (g) should be calculated

$$\frac{\text{index g.p.p.}^1) \text{ at the end of the year}}{\text{index g.p.p.}^1) \text{ at the beginning of the year}} - 1 \times \text{equity at the beginning of the year}^2)$$

It is possible, of course, to add to item (g) an amount reflecting the change in general purchasing power of equity (realized and unrealized) accumulated during the year. This amount could be calculated on the basis of the average of the index g.p.p. at the end and at the beginning of the year.

This is the system propounded by Graafstal as we noted above and it fits Burgert’s recommendations entirely. The application of current value has

1) The question of the general purchasing power (g.p.p.) index to be used is left out of discussion at this stage.  
 2) Equity calculated on the basis of current value. No attention is paid to other changes in equity (e.g. paid in capital).



been combined with a profit concept that fully accounts for changes in the general purchasing power of money.

The amount (f - g) can then be broken down as follows:

- revaluation of non-monetary items on a current-value basis for the year less the change for the year in general purchasing power of money invested in these items at the beginning of the year;
- holding gains and losses in monetary items.

These two factors should be reported separately.

Steps toward a more concrete method of dealing with inflation were taken in May of 1974 with the publication by the organizations of the accounting profession in the United Kingdom of the Provisional Statement of Standard Accounting Practice on accounting for changes in the purchasing power of money (SSAP-7). The Standard has the status of a recommendation; accordingly it lacks the sanctions of other SSAPs. It is likely, however, to have a significant influence on the practice of inflation accounting.

The system recommended in the Standard is based on principles different from those basic to the system I have been discussing. Instead of analyzing the total change in equity in terms of a (distributable) profit and a (non-distributable) „capital surplus” SSAP-7 aims at „conversion of the figures in the basic annual accounts into figures in a supplementary statement . . . in terms of the value of the pound at the end of the period to which the accounts relate”. The conversion process can be applied to all annual accounts, regardless of the accounting principles on which they are based. All transactions ultimately recorded in the accounts are translated to the value of the pound at the end of the period by means of a conversion factor:

$$\frac{\text{Index g.p.p. at the end of the period}}{\text{Index g.p.p. at the moment of the transaction or revaluation}}$$

By using the index at the time of revaluation, it is possible to apply the Standard in cases when annual accounts are based on current values. For the details of the procedures proposed in the Standard, I refer to the *Provisional Statement* and to the *Working Guide* (General Educational Trust publications of the I.C.A.E.W.).

A comparison of the current-value system described above, derived from Dutch experience, and the British SSAP-7 system revolves around five major points, each of which is dealt with below.

### 3.1 Practical considerations

It is obvious that SSAP-7 has the very important advantage of being a practical approach to contemporary problems of heavy inflation. There is a widespread feeling that something must be done as soon as possible to correct the inflated profit figures resulting from the application of the historic-cost convention. It is perfectly clear that we cannot wait for the conclusion of our debates as to which accounting principles can enjoy world-wide acceptance: „*Deliberante senatu Saguntum periit*”! From this perspective, the publication of SSAP-7 is welcomed as „doing something” without necessitating any changes in the basic annual accounts. In the meantime,

discussion on alternatives to the historic-cost convention will be stimulated by the public announcement that it fails to adequately meet the demand for qualitatively sound information in financial reporting.

### *3.2 Value of information generated*

A major difficulty with the SSAP-7 system is that it is not founded in basic bookkeeping principles. The system does not provide for an adequate and perpetual record of changes in equity. Every year the prior year's balance sheet must be converted to year-end pound value. Yet, no method is provided for accounting for the equity changes resulting from the conversion process. Consequently the supplementary statements can only be used in conjunction with the basic account from which they are derived. In contrast with systems based on current value, SSAP-7 provides only poor information about holding gains, especially relative to non-monetary assets. It appears that the discussion on appraisal or other means of expressing the result on holding gains and losses has been avoided by renouncing basic bookkeeping principles!

### *3.3 Use of the general index-influence on the net equity and profit*

The application of a general index reflecting changes in general purchasing power of money is a hot issue in the discussions on inflation accounting. However, it should be stressed that strict application of SSAP-7 will certainly not lead to an overall use of the general index. Paragraph 21 of the Standard states that „in the conversion process, after increasing non-monetary items by the amount of inflation, it is necessary to apply the test of lower of cost (expressed in pounds of current purchasing power) and net realizable value to relevant current assets, e.g., stocks, and further to adjust the figures if necessary”. Similarly the converted amount for fixed assets may not exceed „the value to the business” of these assets. Taking into account the differences between general changes in the purchasing power of money and price changes for specific segments in the economy, it is clear that there will be no overall application of the general index, particularly in cases of machines, for example, where technical developments generally lead to price decreases (partially) compensating the effect of inflation.

For non-monetary items, however, the application of paragraph 21 of the Standard will certainly lead in great part to valuations approaching very closely the current values. The influence on equity and profit in these cases is in conformity with the current-value system. If the prices of non-monetary assets increase more than the general index, however, their converted value according to the Standard will be below current value. One is thus left with an unfortunate effect of undervaluing equity and inflating profit, although not as dramatically as under historic-cost convention.

It will be very interesting to study the application of the Standard during the next one or two years. The introduction of the „convention of prudence” in inflation accounting - which paragraph 21 of the Standard does, in fact - undermines in great part the goals of objectivity and simplicity proposed by the ASSC. To illustrate the importance of this aspect of

inflation accounting, I quote from the explanatory note accompanying one of the first statements prepared according to the Standard (i.e. the former Exposure Draft number 8) those of the British Printing Corporation (BPC): „It is interesting to note that while the notional profit is marginally reduced, the amount of shareholders' funds is increased by more than 20 per cent to 24.4 million. Shareholders should not be deluded into thinking that the converted values represent *realizable values* or indeed that the actual value of their funds in today's terms is greater than that shown in the balance sheet. Similarly, although the notional profit reduction would indicate the need to write in increased notional costs when determining prices, in practical terms our customers would not accept this. While it was thought shareholders would be interested to see this approach applied to their company, it is strongly to be hoped that the accountancy profession will not extend this idea too far. The underlying logic of the system is unquestionable, but the only answer to the problem it exposes is to cure inflation itself, which is not within the power of individual companies.”

I do not think BPC paid much attention to paragraph 21 of the Standard!

### 3.4 *Use of the general index - comparability*

Because the SSAP-7 system is closely connected to the basic accounts, regardless of the accounting principles applied, the use of the general index does not provide for supplementary statements that are any more comparable than the basic accounts themselves. Only insofar as paragraph 21 of the Standard leads, in fact, to a method of valuation approaching current value are the supplementary statements of different companies using this system any more comparable than their basic accounts.

### 3.5 *Presentation*

The last aspect of the Standard to be considered is the presentation in the form of supplementary statements. This is, no doubt, a very practical solution, as mentioned earlier. Much depends, however, on the way the supplementary information will be used. Obviously, we must face the risk that companies will use their basic or supplementary figures according to vested interest. For example if during wage and price negotiations it is in the interest of management to emphasize the negative, attention might be drawn to the supplementary statements. When new stocks are about to be issued, on the other hand, management might wish to stress the historic-cost profit figure. A system based on current value forces management to adhere to the figures in the annual accounts as they appear, calculated on a consistent basis yearly. Surely this leads to less conscious and unconscious misrepresentation.

## 4 **Trends and prospects in the Netherlands**

In the previous sections we described some developments in current-value theory and demonstrated that the application of current value can provide for a method of inflation accounting which is as viable as the supplementary statements recommended in SSAP-7. The comparison between the two



systems given above indicates that SSAP-7 is the most practical solution from a short-term perspective, especially if the annual accounts are prepared on a historic-costs basis (as is generally the case, either by convention or by law, in most countries). Current-value inflation accounting, however, obviously has advantages as far as the quality of the information is concerned and is applicable in all cases in which companies use current values in their annual accounts.

It would be very difficult to discern a clear trend toward adoption of either of these two versions of inflation accounting in the Netherlands or, indeed, toward the adoption of any method based on current purchasing power. Should such a trend develop, the impetus could be expected to come from three different sources: Government, organized business and/or the accounting profession. In addition, of course, the public and particularly financial analysts will certainly have an influence.

#### *4.1 The Government's role in determining future Dutch accounting practice*

Reporting in the Netherlands has developed mostly on a voluntary basis, without much legal regulation or professional prescription. Given this degree of freedom, it is not surprising that one now finds both replacement-value and historic-cost conventions being employed within the country. The „Act on Annual Accounts of Enterprises”, which defines the basic form and substance of annual accounts in the Netherlands, came into force in 1971. According to the Act the annual accounts should reflect fairly and systematically the size and composition of the enterprises' capital at the end of the financial year, adding the condition that current value must be reflected either in the balance sheet or in the explanatory notes. In addition the Act introduces the criterion of „acceptability in economic and social life” as a yardstick for the accounting principles to be applied. Defining this element of „acceptability” was made the combined task of committees drawn from business, labour and accountant organizations. The first publication of these joint committees, *Considerations on the Act on Annual Accounts of Enterprises*, clearly indicates that both historic costs and current value are acceptable principles of accounting. Provided that if historic costs are applied in the balance sheet a conversion to current costs must be given - if material - in the explanatory notes. Regarding inflation accounting, the joint committees have thus far withheld a recommendation and, in the meantime, are scrutinizing carefully developments in other countries such as the U.K.

#### *4.2 The role of the EEC in determining future accounting practice*

The EEC is not expected to exert strong pressure toward the adoption of inflation accounting. However, in the amended proposal for a Fourth EEC Council Directive (21 February 1974), it is recommended that a general rule for valuation be „purchase price or production cost” (article 29). We also find in the proposed amendment a favourable attitude towards „new methods of valuation that have recently been developed which allow for the effects of inflation on the accounts unlike those based on replacement

value". Consequently, the Member States are authorized to apply replacement or current value, provided a clear disclosure is given in the notes on the accounts (articles 30, 31). This EEC development will undoubtedly reinforce the stance taken by the Dutch joint committees, and we may expect that the application of valuations other than historic costs will continue to be authorized in the Netherlands.

4.3 *The role of organized business and the accounting profession*

Given their role under the law on annual accounts of enterprises, the organizations of business, labour and the accounting profession have the opportunity to coordinate their activities. However, these activities, as far as the law is concerned, are restricted to consolidating the accounting principles which can be regarded as acceptable in economic and social life.

Aside from their participation in the work of the joint committee the Dutch Institute of Registeraccountants (NIVRA) is very much involved in the discussion regarding the ED8 proposal issued by the British in January 1973. In their position paper on inflation accounting prepared for a meeting of I.C.A.E.W. and NIVRA delegations on the subject, we find a proposal for supplementary statements that is based on current value similar to that outlined in section 3 above. As this proposal will undoubtedly influence future inflation accounting in the Netherlands it is appropriate to offer a brief summary of the form and substance of the statement.

Profit for distribution (on basis of current value)	a
Add: Realized holding gains	$\frac{b}{c} +$
Profit for distribution on basis of historic costs	$\frac{d}{e} + / -$
Add/deduct: unrealized holding gains	
Increase of equity, excluding dividends, on current-value basis	
Equity shown in prior year's balance sheet in current year's guilders (apply g.p.p. index)	f
Equity shown in prior year's balance sheet	g
Increase of equity necessary to maintain the purchasing power of originally invested capital	$\frac{h}{i} -$
Surplus/deficit	<u><u>          </u></u>

The above is applicable when basic accounts are based on current value. If accounts are based on historic cost the items could easily be rearranged so that the supplementary statement begins with „Profit for distribution on basis of historic cost". Generally speaking the other figures will be approximations.

Although the above proposal is still in the preliminary stage the trends and prospects in the Netherlands, as I have tried to demonstrate in this report, are, and traditionally have been, towards adoption of this or other equally effective methods of accounting for inflation.

## AUDITOR'S REPORT – SOCIETY'S EXPECTATIONS v. REALITIES

*by A. J. Th. van Eijndhoven*

The invitation of the Israeli Institute to the Second Jerusalem Conference to discuss present Dutch thinking about the auditor's report, specifically the expectations of society in the light of realities, is an honour to me, an honour which extends to the Dutch profession at large. It reflects the warm friendship and working relationship between the professional bodies of Israel and the Netherlands so clearly illustrated by the lively functioning of the Israelian-Dutch bilateral discussion group.

This invitation to act as a national spokesman obligates me to present as clearly as possible the views of the Dutch profession on the subject of society's expectations and how they relate to the present state of the art. However, the discussions in the Netherlands, as in other countries, are far from concluded; indeed, they may never be. Thus, presenting a rounded-off view is not only impossible, but one would wonder if such a definitive position might not, in essence, signal the death of the profession as a living, responsive service.

Unfortunately, even to detail for you all existing viewpoints and opinions in the Netherlands would be virtually impossible. I would therefore like to limit myself to the general, though often disparate, tendencies reflected in the range of written or verbal statements by my colleagues and others, primarily those more recent publications which articulate the more or less consolidated views of the present generation of accountants. Many of these statements were spurred by the publication in 1971 of the Netherlands Institute of Registered Accountants study group report on the future of the profession (1) and a subsequent conference, in May of this year, on the problems of accountants today. The status of accountancy today and in the future is, of course, part and parcel of the topic now before us.

I would like to emphasize that my observations do not pretend to scientific analysis; the scope of such an analysis, especially in view of the limited time available, would be beyond the powers of a general practitioner. I am somewhat comforted in this respect by the recent report of the American Institute of Certified Public Accountants, „Objectives of Financial Statements”; many men and \$ 1,000,000 were devoted to assessing the user's needs and the upshot was that the problems involved were virtually insurmountable.

### **Introduction**

The title of this paper suggests that there exists a certain divergence, an implicit tension, between the ideal and the real. Indeed, it is this tension that moves people, individually and as social units, to perpetually reevaluate not only the ways and means available for achieving their goals but even the goals themselves. Thus this creative tension inspires progress: People are driven to improve their situation when reality falls dramatically short of

their expectations while full satisfaction leads only to an atrophied *status quo*. Crucial to defining, and hopefully closing, the gap between the real and the ideal, however, is a careful assessment of how that ideal is translated into immediate expectations and how those in turn correlate with reality. What follows is my own analysis of the Dutch profession's attempt to come to terms with their particular brand of ideal versus real, that is, the problem of remaining responsive to the ever-changing demands of society while at the same time maintaining a set of operational and concrete guidelines. The salient points to be covered are:

- 1 *The auditor's report and accountability.* An inventory and review of contemporary assessments of the function, form and usefulness of the auditor's report: Society's expectations versus the auditor's realities.
- 2 *The future context of the profession.* A review of the major information explosion factors and their sources.
- 3 *Potential demands the auditor may face.* A summary of information needs likely to crystallize into concrete demands.
- 4 *The auditor's role in the information explosion.* A review of realities and possibilities given the nature of the audit function and the attestability of the information he supplies; is the auditor able, by definition, to meet potential demands and does he want to!
- 5 *Conclusions.*

## **1 The auditor's report and accountability**

First and foremost, I would point out that accountants, both with regard to the *Soll*, the expectations, and the *Ist*, the realities, suffer from several handicaps, a major one of which is the limited possibility for empirical research; the profession draws sporadically and rather inconsistently from other social science disciplines; moreover these disciplines themselves are so often amorphous or contaminated by intermixtures from yet other spheres that it is difficult to achieve any level of abstraction. In addition, the users of auditor's reports are often diffused and unorganized and have no structuralized vehicles through which to make their views known (with the possible exception of the stock exchange which serves as a vehicle for the shareholder). Thus it is difficult for even the users to define and make known their needs. Consequently, much of what professional literature refers to as society's expectations is, in fact, the product of guesswork-hypotheses based on reporting in the financial press or pressure from governmental agencies. This unsureness about the actual situation pollutes any discussion on this topic with views whose strength lies more in their supposed logic than in their empirical truth. This applies equally to much of what will be said hereafter.

### *1.1 Historic review*

From an historical perspective, the Dutch profession is very much indebted to the inspiring and dynamic work of Prof. Th. Limperg. In the 1930s, Limperg and his followers evolved a doctrine which might best be translated

as „the principle of inspired confidence” which is particularly germane to our present topic. The principle in essence states that the auditor should not present his report in such a way that it inspires more confidence than is justified by the audit work done and the proficiency of the auditor, while, conversely, the quality of the work done must justify the level of confidence it inspires. Independence (in fact and in appearance) and proficiency become the basic roots of the profession. In point of fact, Limperg went so far as to say that a simple signature on financial statements under the audit firm’s letterhead carries the same weight as the short- or long-form report. (2) (This is particularly intriguing given the present discussions within the American profession on audit opinions.)

Despite the early development of Dutch multi and international companies, Dutch accounting developments have been rather insular, evolving primarily from Limperg’s normative yardstick. Thus it is that only in the 1970s was general legislation regarding accounting and reporting requirements introduced in the Netherlands. And even at the present time no compulsory professional regulation exists on accounting principles and auditing standards and procedures.

Although the Dutch profession is clearly showing increased interest in standardizing auditing standards and procedures in order to cope with the complexities of today’s audit objectives and for purposes of collective quality control, it has yet to codify its operating principles.

The business economic approach and organic analysis of the main cash product flow within a company are basic to the auditing standards and procedures employed. These principles, which can be gleaned from the professional literature and handbooks, are assumed to guarantee sufficient quality control in auditing practice to assure that the principle of inspired confidence is fulfilled. Adherents of this school of thought, however, find it more and more difficult to defend their position that each audit object is economically and organizationally unique against arguments for standardizing the now-uncodified techniques of Dutch auditing theory and practice. However, whatever the audit approach chosen might be, there is a clear understanding within the profession that the method must comply with the predominant audit philosophy, that is, they must meet the overall objectives of an audit.

Also for purposes of clarity and consistency, the need has gradually been felt for a more explicit method of reflecting the auditor’s opinion and his concomitant responsibility regarding the financial statements he reports on. Consequently the Netherlands Institute for Registered Accountants (N.I.v.R.A.) developed the following short-form report which at the moment has the status of a recommendation (3): We have examined the financial statements for the year 19\_\_ of \_\_\_\_\_. On the basis of this examination we are of the opinion that these financial statements present fairly the financial position and its composition at \_\_\_\_\_, 19\_\_ and the results of its operations for 19\_\_.”



## *1.2 Accounting principles and procedures and reporting requirements*

The Act on the Annual Accounts of Enterprises, legislation passed in 1970, established as a legal requirement the professional examination by registered accountants of financial statements of limited liability companies, as well as those of some other categories of businesses: „The general meeting appoints a registered accountant to examine the balance sheet, the profit and loss account and the explanatory notes as prepared by the directors, and to report thereon to the general meeting . . . The expert brings his report to the knowledge of the board of supervisory directors (raad van commissarissen)” (4). In addition, the law provides for certain minimum standards of reporting and disclosure.

Although it was generally agreed that the introduction of this legislation was simply, in fact, making official a practice already extant, it highlighted the social function of the audit profession and in so doing made explicit the need for the profession to carefully assess the degree to which it was fulfilling the expectations of the society it serves. It became clear that there was a danger that the significance of the auditor's report might be misconstrued or exaggerated (5); if an audit is compulsory, might not its users expect that 100% accuracy be also mandatory? The audit opinion is that the statement reflects a „true and fair view”, but clearly there never can be as an objective system for value and profit determination serving all purposes.

It should be noted that selecting the accounting system to be employed from the various alternatives is a managerial decision, made on the basis of their company's objectives. The auditor tests this choice for its social and economic acceptability. This acceptability is, in turn, decided by all major interested parties, including the accounting profession. In the explanatory notes to the company's act, it is mentioned (6): „Business life and the organization of accountants cooperating therewith will jointly consider it their duty to make an inventory of the standards used in economic and social life and to test these standards against what, in their opinion, may be deemed to be acceptable in the present social system whilst also meeting the requirements that the annual accounts provide such information that a sound judgment can be formed on the financial position and the result of the enterprise and, to the extent to which annual accounts permit, on its solvency and liquidity - section 2”. It further mentions: „The publications about acceptable bases resulting from these activities will fill a real need experienced by the board of enterprises and may also serve as a guide for the Enterprise Chamber of the Court of Justice of Amsterdam when a suit about this is submitted to its judgment. In order to avoid a possible consequential rigidity, the organizations concerned will continually have to devote their attention to developments that present themselves in this field.”

The joint study group that has taken up this assignment is composed of representatives of labor, employer organizations and the accountancy profession. The group is working hard, and a number of draft exposures have already been circulated, while the first is officially approved as a non-compulsory, non-exclusive guideline.

The study group limits itself to an inventory of present practices and

makes no attempt to set standards to eliminate differences in approach which co-exist despite the heavy influence in the past of the business economic approach, especially with regard to the larger companies (though it should be mentioned that only an estimated 15% of public companies in the Netherlands apply some form of current-cost accounting). One assumes that a complete inventory such as that undertaken by the study group will serve as an adequate operational guide for business and the profession. After it has completed an all-inclusive inventory, the study group will attempt to narrow down the options available in cases where it is deemed necessary and scientifically possible. The departure from the business economic approach as a foundation for accounting represented by the study group's thoroughly inductive method is only temporary; but one may wonder whether the business economic approach will ever be reinstated as the „absolute” it tended to be regarded in the past in the Netherlands.

The study group has been subject to criticism because it incorporates the politically polarized groups of management and labor, buffered by the professional accountancy organization. It is argued that such a composition can only result in decisions reflecting the lowest common denominator, while the work will be needlessly slowed by endless ideological conflicts. At this particular stage, this forecast has not been confirmed.

Another criticism of the study group is that not all relevant information users, especially the shareholders, are represented (7). Generally, in categorizing information users (or „society”), one should distinguish between those users directly involved in the decision-making processes – management, shareholders, employees, bankers, creditors and the government (called „the most important shareholder”) -- on the one hand, and the more peripheral interested parties - society in general - on the other. This distinction is important in assessing the relationship of enterprise goals to social goals and in the measurement and reporting of social interactions in financial statements - that is, the translation of profitability into prosperity and prosperity into „quality of life”. Unfortunately, social accounting has not been given much attention in the Netherlands; indeed, it is questionable whether the public is aware of its importance.

### *1.3 The auditor's report*

The auditor's report as it most immediately concerns us here is the attestation of periodic financial statements by the auditor in the exercise of his public function. For the most part, I exclude special investigations and other certifications he might undertake, focusing rather on the work through which the auditor most often deals with the public - the „short-form report” or „certificate”. Although it is clear that the information needs of and services required by management and the supervisory board of directors are different from those of the general public and equally clear that the auditor could play a useful and critical role in satisfying such needs, we are here more concerned with the auditor's relationship with users who do not have direct access to inside information.

There are three auditor's reports currently used in the Netherlands (8):

- 1 The clean opinion and the qualified opinion (In Dutch practice, a qualified opinion is equivalent to a clean opinion except that a qualification is attached for the user's information, but the qualification does not affect the overall fairness of the presentation)
- 2 The disclaimer or non-opinion
- 3 The adverse opinion.

The Dutch certificate does not include a scope paragraph as such; issuance implies that a full audit has been carried out both in accordance with generally accepted auditing standards and procedures and that the accounts are based upon generally accepted accounting principles; in addition, the certificate states that the fundamental guideline of the law, „a true and fair view”, is adhered to. Our American colleagues might confirm that qualifying the nature of the „true and fair view” by adding „in accordance with generally accepted accounting principles” does not guarantee that the user will not misunderstand the opinion. The phrase „true and fair” will most often remain the main point of contention in any argument or law suit.

The auditor interacts with society, via his report, in two basic respects: accountability and attestation. He is accountable to management and the general user in that his report certifies that the work has been carried out according to generally accepted auditing standards. Kleerekoper, in 1961, pointed out that accountability was, in fact, a two-way interaction: Audit reports should not only meet the information needs of those they are meant for or could be meant for but also must meet responsibility of the profession to society.

Moreover, in his certificate the auditor attests to the value of the financial statement, that is, he certifies that the statements correspond with certain established criteria. The Code of Professional Conduct, article 1, limits the meaning of „attest” to a „written statement of an auditor relating to the results of an examination of the fairness of a set of accounts”. However, the question remains how far does the auditor's responsibility extend with regard to the information contained therein when such a statement is associated with an annual report. This is an area of potential misunderstanding which N.I.v.R.A. is paying close attention to. The profession's viewpoint is that the auditor's responsibility extends only to the financial information contained in the annual report; however, the „man in the street”, or for that matter management itself, might not recognize this limit. The former may see the auditor's report as a guarantee of the continuity of the business while the latter may read the report as an official warrant that no fraud exists in its company. Here is a very real potential gap between reality and expectations.

#### 1.4 Summary

In assessing the gap between expectations and realities, the crux of the matter is not simply the formal exposure of the auditor's activities via his report but rather the ambitions, or even pretensions, of the profession at large versus the hard realities of arriving at concrete recommendations. The Dutch profession, by its participation in the joint study group, has recognized the responsibility and right of the wide spectrum of information users

to define their own needs. This in itself is a major step forward in bridging the gap between expectations and realities. The interested parties themselves are now confronted with the hard technical reality of how to translate universal objectives into operational guidelines, and the profession is less inclined to retreat into ivory towers.

One may still wonder, however, whether this process will add sufficient substance to „a true and fair view"! Other categories of users will also have to get involved, and, methodologically, many obstructions still have to be cleared. One must bear in mind that the study group's inductive inventory is not an end in itself but only part of a broader plan for a comprehensive undertaking in which the business economic approach will have a standard-setting role. To this end, a research foundation, The Limperg Institute, is in the making.

For the time being, however, publication of the major premises underlying financial statements and a consistent application of deductively determined procedures seem to shift the emphasis towards pragmatism, the unavailability of which is also acknowledged by the academic branch of the profession. It is an implicit recognition of the lack of a universally recognized set of standards.

The 1967 National Accountants Congress on the subject of the business economic foundation of financial reporting concluded that „many different roads lead to Rome". Even in current-cost accounting, once simply the hobby horse of the Dutch profession, but more and more frequently recognized today as a legitimate mount, the selection of „maintenance concepts" introduces a major subjective element into the „true and fair view" of financial statements. There is still a long way to go from profit policy setting to objective profit determination.

And one keeps wondering what society thinks of all this! Auditors tend to speak much about society's expectations but little with society itself. The tripartite study group may, in part, counter this criticism. Assurances that their work will meet society's expectations cannot be given, however. The recent AICPA report, „Objectives of Financial Statements" observes: „Users' needs for information, however, are not known with any degree of certainty. No study has been able to identify precisely the specific role financial statements play in the economic decision-making process".

As a general practitioner and on the basis of my examination, even on the basis of my intuition, I must disclaim an opinion about the nature or extent of any gap between society's expectations and the accountant's reality. That it exists is a certainty; that it can or should be narrowed is a question that must await further research.

## **2 The future context of the profession**

The prime function of the auditor is the attestation of information, to be more specific, financial data, data which are periodically presented by an economic entity to report its progress towards its set goals.

This information is generally available to known and unknown users

having a direct or indirect interest in the economic entity's status. Present and anticipated social developments are expected to change considerably the information needs of these users, as well as the categories of users themselves. These developments are at the same time a cause and a result of what is generally called the information explosion: The continuing tendency to supply more and different information.

One particularly important matter relevant to an assessment of our future working environment given this information explosion is the influence which increasing prosperity exerts in constantly changing the value systems and perceptions of workers. The result of this realignment is that workers now demand more than basic „bread and butter“; they now quite rightly insist that they be allowed self-fulfillment, not simply status or remuneration.

The new demands of the labour force, justified and inspired by its better and more sophisticated training and improved cultural education (in turn made possible by increased leisure time) leads not only to claims for a bigger share of the national pie but also to concrete demands for workers' participation and responsibility in the decision-making process. It is argued that people do not live to work anymore but rather work to live - a part of that life is self-determination.

May I quote, as good illustration of the situation in the Netherlands, a statement made by Mr. P. C. Louwers during a conference organized in 1973 under the auspices of the *Financial Times* (London) (9). He pointed out that a major implication of these new demands and developments is that „a company should no longer be looked upon as a selfcontained economic“ „entity but rather as a social institution in which various groups have a“ „more or less important interest. Operational targets and objectives retain“ „of course their practical importance but they do not and cannot answer“ „the question which is increasingly being asked, viz. for what and for whom“ „does an enterprise exist anyway. Profits - so it is said - are a wonderful“ „yardstick for measuring the economic success of a company but they“ „permit no conclusion regarding the question whether the enterprise is“ „fulfilling its social tasks and meeting its social obligations. Profitability“ „and continuity, so it is argued, are only part of the story. The rapid“ „development of so called worker participation or co-responsibility of the“ „employees, as it is usually referred to in Holland, must be seen in this“ „context.“

„Not only the trade-unions but also the higher employees, the press and“ „the university teachers increasingly underline that the employees do have“ „a far more important and intensive relationship with the company than its“ „shareholders.“

„The shareholders - so it is said - are usually only to a very limited“ „extent dependent upon the results and the future of the company, but the“ „employees and their families and often even whole communities are for“ „their entire existence dependent upon the success or failure of the“ „company. Nobody wishes to impair the shareholder's right to relevant and“ „reliable information, but it is said that the employees should have (and to“ „a great extent in Holland already do have) access to further and earlier“



„information and should bear co-responsibility in the preparatory stage of”  
„certain important management decisions.

„Moreover, this development is taking place in a time during which”  
„concepts such as authority, confidence and credibility are no longer the”  
„self-evident preconceived points of departure which they used to be, but”  
„their actual existence has now to be proven time and again by the enter-”  
„prises and its leaders.”

„One of the most remarkable features of present Dutch economic life is”  
„the so-called works council, a representative body freely elected by the”  
„various groups of employees of any organization, whatever its legal struc-”  
„ture, employing more than a certain number of people. The 1971 Act on”  
„Works Council specifies that the main objectives of these Councils are”  
„twofold, viz. on the one hand to protect the interests of the organization”  
„as a whole and on the other hand to look after the specific interests of the”  
„employees.”

„The Council must meet at least 6 times per annum and a minimum of”  
„two of its meetings must be attended by members of the Board of Direc-”  
„tors to discuss the general state of affairs and the results of the operations”  
„of the company. The Council is empowered to discuss and to ask”  
„questions about the financial accounts of the company and it must be”  
„informed and consulted beforehand in respect to a number of decisions”  
„such as:”

„- mergers and take-overs;”

„- termination of the operations or even of parts thereof;”

„- important changes in the organizational structure;”

„- changes in locations of the operations;”

„- decisions regarding wages structure, training, rating systems and policies”  
„as to hiring and promoting personnel.”

„The Council must approve factory regulations, pensions, profit”  
„sharings and savings plans, working time rules, holiday periods, rules”  
„regarding safety, health, etc. The Council may recommend and can veto”  
„the appointment of supervisory directors. The Council may also invite at”  
„its own discretion internal and external experts such as internal and”  
„external auditors, organization specialists, union representatives, etc., to”  
„advise on all matters and to attend council meetings.”

„Mr. Louwers felt that the audit profession would be well advised to”  
„follow this development very closely. „I have been trained in the concep-”  
„tion that a public auditor should behave and act as an impartial observer”  
„on behalf of all interested parties and I therefore consider it most regret-”  
„table that some writers are pleading for two types of audits, one on behalf”  
„of the shareholders and one on behalf of the Unions and the employees.”

Mr. Louwers' warning clearly indicates the danger of the auditor being sandwiched in a social and professional power struggle.

While one may wax euphoric when discussing, in the abstract, the awakened demand for „quality of life” and the potential improvements in communication and resource use it signals, one should bear in mind that there are also grave difficulties in trying to meet the new requirements it is

likely to generate. Measuring „quality of life” requires a realistic cost and benefit analysis. Too often we tend to forget those elements which are so important to our well-being but which, unfortunately, are not directly measurable. For example, Dr. R. Hueting stated in a recent publication (10) that a measure of the Gross National Product does not account for negative factors such as loss of recreational functions, air and water pollution, unemployment (which weighs heavier than can ever be accounted for in a GNP factor), traffic casualties, etc. And we might add the other casualties - those of us who cannot cope with the increasing complexities and tensions of life.

The potentials, negative and positive, inherent in new social developments demand controls, communication, involvement, that is, an exchange of information, reliable information. So we return to the contribution the profession might make in the future social order.

### **3 Potential demands the auditor may face**

What is the information the auditor is likely to be asked to attest to for purposes of lending validity to that information? We are not yet concerned here with whether that information is attestable but rather with the manifestation of the need itself.

A preparatory study group of the 1974 N.I.v.R.A. Spring Conference took an inventory of demands presently surfacing in the press and other media, in congresses, political programmes and professional journals (11). This inventory confirms that, in addition to information presently required in financial economic reporting, additional demands related to historical information should be expected. Some of these are:

- insight into amounts spent for research and development
- increasingly frequent interim reports by companies
- financial reporting for segments of a business enterprise
- improved ratio and trend analyses
- insight into the effects of non-recurring events such as devaluation or strikes.

The inventory further pinpoints possible demands for predictive information in financial reporting such as the inclusion of forecasts in annual reports.

A third category of potential demands is those designed to satisfy the sometimes conflicting needs of the information users, leading perhaps to differential reporting of subjects such as the social and labour policies of a company, information on investments made in the human infra-structure of a company (human resource accounting), information on source applications and returns on government subsidies, information on the environmental effects of a company's activities and the amounts spent for pollution control and, not least, the energy budget.

Another rather acute problem that crops up in the literature is that of the „continuity warrant”, mentioned earlier, which society expects an audit certificate to guarantee. At base, a continuity warrant or any statement to the effect that such a warrant cannot be given must come from management rather than the auditor (12). Although the fact that an economic unit is a

„going concern” is one of the basic assumptions of financial reporting, the public does not seem to realize that only matters beyond the control and objectives of a regular financial audit determine the probability of continuity.

Other, more peripheral, developments are related to potential demands for the guarantee of privacy (e.g., data banks) and social indicators designed to disclose peoples' work-satisfaction rating.

There is also some pressure for social paragraphs in the annual report outlining the company's personnel policy as well as indications that society expects to know whether a company adheres to social and legislative conventions and whether, and how far, it contributes to the overall prosperity or „quality of life”. These matters, while they are touched on in the literature, are not as yet of popular concern in the Netherlands.

#### **4 The auditor's role in the information explosion**

Attestability of this flood of information will not be the only deciding factor in determining the usefulness of the information. Apart from a standard cost-benefit analysis, many other factors such as the functional value and use to be made of the information will determine its ultimate validity. Once these bottlenecks are overcome and the information supply is a reality, the question of attestability becomes a matter to be dealt with.

The N.I.v.R.A. conference paper of the 1974 Spring Conference formulates the following questions in relation to the expanding information flow:

- Does the auditor want to get involved? (policy aspect)
- Is the information by nature attestable? (technical aspect)
- Is it possible for the auditor to limit himself to his traditional role and attest only part of the information? (interdependence aspect)
- What is the exact role of the auditor in the tension field between the information supply and the information demand? (social aspect)

The discussions on these questions have just begun and, at this stage, widely different opinions are emerging.

With regard to its social involvement and responsibilities, the profession faces the essentially political question of whether to play an active or passive role. The more conservative position on this question is reflected in a statement about the „struggle for information” made by J. A. Burggraaf, registered accountant and chairman of the joint study group (13):

„I see the problems of information supply as a political power-struggle in which the auditor should not get involved. I for one will wait and see and will some day hear the outcome and receive my marching orders”.

According to a limited test of opinion among registered accountants in the Netherlands, three-quarters of those polled agreed with this view - with the caveat that the auditor should nevertheless assist in collecting the information necessary to guarantee an informed and adequate decision-making process. But not taking a stance is still making a choice, a choice for the *status quo* - which may be safe and secure for established interests but is questionable in terms of whether it satisfies the auditor's responsibility to

the public and, in the long run, to the auditor himself.

Many sciences are faced with this question of whether one can guarantee so-called objectivity and impartiality by acting solely as a „technician“. After all, „know-how“ can only have some permanent value after one explores „know-why“; we are in essence dealing with the roots of our social existence.

The profession as far as this question is concerned is not completely above suspicion: Labour unions cite the auditor's financial dependence on his client, claiming that that dependence mitigates against objectivity and therefore undermines the auditor's neutrality. (In this respect, one would wonder whether some unions would not be better served in the context of a conflict model in which the fact of polarised positions would allow them to appoint their own professional spokesman, a spokesman who is not hindered by what the unions see as the auditor's purely historian function and supposed management-oriented views.)

This objection should make us wonder if indeed the profession is adequately accounting for the needs of society at large or whether it shouldn't better take a firm stand. A truly free professional should be able to cope with these problems providing he is allowed, in his activities, the spiritual room to independently arrive at his conclusions and provided he is supported by a code of ethics.

For the time being, the Dutch profession has not chosen for one alternative or the other but is trying, by actively participating in discussions on the subject both between its members and with members of society at large, to carefully chart and probe the new territories and analyse where its assistance can best serve a useful purpose. We are perhaps not going to the front but are following the battle closely.

With regard to the technical aspect, the profession tends more and more to feel that the present proficiency and training of the auditor is not the decisive factor in deciding whether or not he should extend his activities into areas not presently covered such as management audit and forecasting. He could be trained for other tasks or he could enlist the assistance of professionals from other sciences. This feeling is reflected in the recent liberalization of the professional code of ethics regulation regarding the cooperation with other disciplines. (14)

Discussions within the profession are still going on, stimulated particularly by N.I.v.R.A., although no consensus has been reached as yet. One of the main concerns of the profession is that indecisiveness automatically results in leaving the initiative and the potential market to other professional groups not necessarily as well equipped to do the job. By going too slowly we may miss the train while by going too fast we may pretend to more than we can accomplish.

Even the traditional financial audit can no longer be exercised with the traditional tools: Financial statements distilled from and integrated with the total information system of an economic entity can hardly be isolated from this system without affecting the quality of the outcome. In addition, the interdependence of the various units of the information system raises the

question of whether it is in fact possible, for example, to carry out a forecast audit or management audit without a financial audit.

In this attempt to answer the question of what his exact role is in the tension field between information supply and demand, the auditor, and the profession at large, is faced with obvious problems regarding independence and proficiency. In the first place, the auditor is financially dependent upon his clients. But secondly, and more importantly, should the auditor involve himself in the attestation of forecasting and/or management auditing (and many feel he should not), he might well develop a vested interest in reconciling the forecast he attests with subsequent reality. Extreme care should have to be exercised to assure that the responsibility the auditor assumes is based on an objective and factual analysis of the state of affairs so that no misunderstanding arises as to the extent of his involvement or the degree of his responsibility. This could be done through a careful wording of the opinion. This opinion would not, then, entail a simple identification of the work done, the audit object, the objective and the outcome (by simple reference to a „true and fair view”) but would entail a rather complex summation of the work done and an analysis of the probability that the conclusions reached will be proven true.

There is a consensus of opinion that extreme care will also have to be taken to assure that, on the one hand, the profession's image is not damaged by individual adventurers who do not quite appreciate their own professional limits and that, on the other, the profession does not kill useful experimental practices by keeping its members on too tight a leash. Ultimately, generally accepted standards can only evolve if professionals do things rather than simply talk about them.

In preparation for this new professional context, N.I.v.R.A. recently established a special committee to coordinate, stimulate and integrate the elements basic to arriving at sound professional decisions on these key issues. The Institute encourages its potential members to acquire a broadly based university degree in conjunction with a vocational apprenticeship in order that they be professionally grounded in both theory and practice. In addition „Education permanente” for current members is also being considered by N.I.v.R.A. to keep its people technically, but also socially, up to date regarding professional and related developments. Study conferences, ad hoc study projects, activities of many regional organizations and individual publications demonstrate the interest the Dutch accountant has in appropriately responding to what society reasonably expects and may expect from him. N.I.v.R.A.'s active participation in virtually all international professional organizations underlines its interest in international solutions to outstanding problems; there are many and many can only be solved within an international context.

The profession's attempts to reconcile expectations and reality are manifest in yearly public congresses organized by the Institute on subjects of general interest, „open” study conferences, press conferences and releases and especially in its participation in the accountants/labour/employees study group where „les extrêmes se touchent”.



## 5 Conclusion

The auditor's report: Expectations versus realities. It is hopefully clear from the preceding that the Dutch profession is conscientiously trying to bridge the often unknown and unmeasurable gap between expectations and realities. The profession realizes that what it assesses as society's expectations may not always be the reality while at the same time what it sees as reality may not always be realistic. It recognizes its responsibility to further investigate and narrow down those areas of difference crucial to its very existence and the level of confidence its work inspires.

## Literatuurverwijzing

- 1 NIVRA 1972, Commissie Toekomstverkenning „De accountant morgen”.
- 2 Prof. Th. Limperg Jr., MAB April 1939, „De uitvoerige accountantsverklaring”.
- 3 NIVRA Berichten, December 1972 (standaardverklaring).
- 4 Code of Commerce, Section 42 a (partly).
- 5 Prof. Drs H. H. J. Nordemann. De accountantsverklaring bij een jaarrekening, een poging tot demystificatie; N.R.C. Handelsblad 22 Februari 1972.
- 6 Act on Annual Accounts of Enterprises, 10 September 1970, explanatory comments on the sections, Section 5.
- 7 Dr. F. W. C. Blom, De accountant vandaag en morgen, De Accountant, November 1973.
- 8 NIVRA Rules of Conduct and Professional Activities, December 1973, art. 12-2.
- 9 P. C. Louwers, The trends towards fuller disclosure and wider dissemination of financial information, Conference Financial Times, July 1973.
- 10 Dr. R. Hueting, Nieuwe schaarste en economische groei, Agon Elsevier 1974.
- 11 S. Kalkman, Andere en meer informatie, (Spring Conference NIVRA 1974).
- 12 C. Snoep, Press Conference NIVRA 10 February 1972
- 13 J. A. Burggraaff, Bewaar wat u is toevertrouwd, De Accountant September 1973.
- 14 NIVRA Rules of Conduct and Professional Activities, December 1973, art. 24-1.