

SUMMARY

SOME COMMENTS ON A SPEECH

by W. N. A. F. H. Stokvis

Ir. P. F. S. Otten, chairman of the Board of the N.V. Philips' Gloeilampenfabriek addressed the general meeting of shareholders on the 14th of May 1954 in a speech with the title: The policy of Philips with regard to the information given to the shareholders.

The annual report, which is the principal means of information for the shareholders will comply with the standard required, if the annual accounts present an acceptable picture of the financial position and of the results attained and if the annual accounts have been certified by an auditor, as the man who has the confidence of society.

This statement of Ir Otten's is important because it lays down what pertains or is going to pertain to good commercial usage. For the auditor therefore a standard is created for this said good commercial usage, which may serve as a touchstone for him in the exercise of his profession. The auditor will have to bear in mind that society will demand to an ever increasing degree that the accountant's certificate include that the certified annual accounts present a true picture in business-economic respect.

Eventually annual accounts in which in the balance sheet valuations are given on the basis of the historical cost-price and in the profit- and loss-account no distinction is made according to changes in capital and profit and loss will not have been drawn up in accordance with good commercial usage. The auditor will fail in his duties if he certifies accounts, which do not satisfy the increasing demands, even when enterprises are concerned of which the annual reports are not published in wider circles.

Ir Otten rightly says that the accounts represent an instantaneous snapshot in the dynamics of the development and that the profit- and loss-accounts are also being influenced by the latent risks which must be covered by estimation. The problem of the distinction between the concepts: provisions, reserves with a purpose and free reserves and the allied problem of the secret reserves should be considered anew. The interpretation of the task of the management with reference to the promotion of the interests of the shareholders, but also of the other parties interested in the enterprise — on the capital-labour — buying- and selling-markets is of great importance. This task — according to Ir Otten preponderantly lies in the field of the continuity i.l. the preservation of the enterprise.

For the auditor the question is interesting in how far he can and must follow the management if the latter considering the interests of the enterprise and all those concerned keeps information to itself which normally should come up for publication. Here a conflict may arise between the conceptions of the management and those of the auditor of the enterprise.

Important finally for the auditor is that part of the speech in which attention is drawn to the frequency of the information on the analogy of the custom existing in the U.S.A. This will for the auditor lead to problems of organization and technique.