

ACCOUNTANCY CROSSING NATIONAL BORDERS

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1. The past few decades are marked by business and governments having increasingly been engaged in foreign interests and activities.

Economic considerations urge business to enter foreign markets as buyer or seller of goods, labour and capital. Urged by business to do so, or for political reasons, governments are anxious to remove existing barriers to international trade, or at least to make them passable.

Steps towards achieving this are made by the European Economic Community, by intergovernmental organisations in the fields of money and trade, and by economic aid to developing countries. By participating in international bodies, national governments become increasingly involved, both politically and economically, in what is going on elsewhere in the world.

To-day, many enterprises are operating in several countries; the number of economic entities operating on a world-wide scale increases steadily. Many investors have supplied capital to companies domiciled abroad. And many are the employees, suppliers, customers and other citizens the interests of whom may be affected by decisions taken abroad.

2. As more activities cross the national borders and become interwoven internationally, information about the results of such activities is bound to become of interest to foreign readers, too.

In the field of business such reports are important for the parent company, for foreign investors, for other interested parties abroad. Traditionally, annual accounts are the core of such reports.

Because all over the world annual accounts comprise a balance-sheet summarising assets and liabilities and a profit & loss account showing amount and breakdown of the result for the year, these statements seem to be a supra-national phenomenon. They are expressed in figures and suggest exactness. And since arithmetic is universal, it is natural to assume that annual accounts are universal too.

The reality, however, is different. As social and economic structure, history and economic policy differ from country to country, the rights to receive and the duties to supply information vary accordingly. Thus, there is a great diversity in the national requirements to be met by annual accounts. Such diversity not only exists in respect of classification and breakdown of items, but also as regards the fundamental problem as to what bases should underly the valuation for balance-sheet purposes and the computation of the result. The first article in this issue deals with this diversity in requirements.

3. Diversity in requirements seriously hampers the usefulness of annual accounts for readers in other countries. Accounts which, with their limitations, are understood in their national environment, are misunderstood by

people not forming part of that environment; the more so because the latter are not acquainted with assumptions and conventions which, because they are self-evident in the national environment, are not stated explicitly.

This lack of communication impedes expansion of activities abroad. For adequately to fulfil their duty to society, it is upon accountants to reduce or even eliminate this impediment. The profession is duly aware of this.

Deficiencies in communication hurt most where international activities are most intense. For the Netherlands this points towards the territory of the European Economic Community as area of primary importance for efforts aimed at promoting the comprehensibility and harmonisation of annual accounts. The second article in this issue analyses the progress made and the expectations fostered insofar as „Europe of the Nine” is concerned.

Often, by his frequent contacts and resulting experience, a European making use of annual accounts prepared in another member-country is able more or less correctly to interpret such accounts. But the world comprises many other than E.E.C.-countries with which contacts are less frequent and experience is limited. This emphasises the duty of the accountancy profession to pave the way for a world-wide comprehensibility of annual accounts.

Only recently these world-wide efforts have been co-ordinated into a formal framework, viz. the International Accounting Standards Committee, in the activities of which the Netherlands participate. Problems arising and expectations fostered in this world-embracing field of action are the subject of the third article in this issue.

4. In still another sense accountancy crosses the national borders. Usually, annual accounts are covered by an auditor's opinion, confirming that the accounts meet the requirements.

Apart from the diversity in requirements referred to under 2. above, there is diversity in the meaning of auditors' opinions. The causes which induced the variety in accounting policies lie also at the root of the variety in both the auditor's status in society, and the expectations as to what subjects should be covered by his examination and report. Seemingly, auditors' opinions, too, are of a supra-national nature: notwithstanding all variations in wording their purport is identical, viz. that the annual accounts may be relied upon. But here, too, reality is different. The views held as to what subjects auditors should cover in their examination and report and, consequently, the responsibilities which they take upon themselves, vary from country to country. Here again there is a lack of communication, but now between the auditor and the foreigners making use of his opinion.

When analysing this matter, differences in auditing techniques should clearly be distinguished from differences in auditing concepts. When auditing techniques vary from country to country, such variations need not necessarily stem from differences in underlying auditing concepts. The techniques applied may also have been affected by the circumstances of the specific audit.

A person using a foreign auditor's opinion should know whether he may

attribute thereto the same meaning as to a domestic auditor's opinion. Primarily it is the auditing concepts underlying the opinion and not the techniques applied that determine such meaning.

Taking stock of auditing concepts is no easy job. Theoretical bases for the accountancy profession are known in a few countries only, and often are not stated explicitly. The fourth article discusses the subject as seen from a Canadian viewpoint. By comparing his own concepts with those set out in this article the reader may draw some conclusions in respect of the importance of existing differences. The fifth article deals with the case for harmonisation of auditing concepts.

5. As stated under 3. above, it is only recently that a formal framework for co-ordinating the efforts aimed at a better international understanding in the field of accountancy has been constituted. These efforts attract wide attention and publicity. However, more or less in the dark remain the efforts in this field which, for a long time, have been made by accountants' firms and their foreign professional connections. The latter efforts originated from society's needs for accountants rendering auditing services in the international field. This necessitated a cooperation with foreign public accountants.

Recently the rules of professional conduct for registeraccountants have been changed. This change also created more opportunities for such cooperation of which many auditors have availed themselves by establishing alliances with foreign colleagues.

For rendering the services as intended by such alliances, a strict adherence by all partners involved to homogeneous principles in matters of financial reporting as well as auditing is a prerequisite. This necessitates an exchange of views and taking positions not only in respect of matters cropping up in scientific discussions but also about all essential questions that crop up when the audits are being executed.

Problems and perspectives looming in this field are examined in the sixth article.