

## BEDRIJFSLEVEN EN ACCOUNTANTS \*

*door Ir. P. F. S. Otten*

*Mr. President, Ladies and Gentlemen,*

After your opening remarks, Mr. President, I am even more conscious, if that were possible, of the significance of this assembly than I was at the time when I prepared my talk, for we are meeting here at the opening of an international congress of members of a profession which is of great importance to the business community throughout the world, a congress in which practically all countries of the free world are represented. A unique opportunity is thus provided for the exchange of opinions and the promotion of uniformity of professional views.

Allow me to begin by expressing my appreciation for having been invited to address you in this opening session. Not being a member of your profession but an industrialist, I am pleased that you have extended your choice of speakers for the opening session to that section of the business community which may be described as „the business-leaders”. In so doing you demonstrate that you as accountants are aware of your function in a „world economy”, a function which you accomplish mainly with and through the business community. From the reports of the proceedings of previous congresses I have learned that those congresses dealt with subjects of importance to accountants in all countries. I would like to congratulate the Council of this congress for having decided to stress the international character this time by giving a central place to world economy, which I appreciate you as accountants will approach under the headings of „accounting”, „auditing” and „financial reporting”. Although I feel personally honoured that your choice should fall on me I would beg you to accept my thanks on behalf of all business leaders outside the United States for whom I feel I am acting as spokesman at this time.

As the former President of the Board of Management and now the Chairman of the Board of Directors of an international concern I do not feel like a complete stranger in this company of accountants; neither are the basic elements of your subjects, namely „world economy”, „accounting”, „auditing” and „financial reporting” so many closed books to me. For my speech I have conformed to the subjects under discussion this week and have selected „public financial reporting” as my topic because this is a subject in which I am particularly interested. I would like to make some observations on this subject in its relationship to world economy and to the audit function. I am neither an accountant nor an economist, I am a qualified engineer, and my business career has been concerned principally with the management of an industrial enterprise. May I be permitted to deal with my subject from that angle.

First I would like to give my views on the auditor. I am aware of the fact that an auditor is somebody with a certain professional skill and that he applies this skill in his auditing function in order to arrive at an independent personal opinion. In some cases the purpose of this opinion is to give the public additional assurance with regard to the published financial statements of an enterprise; in other cases this opinion only gives assurance to the party requesting it. I also know that in

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the practice of your profession the advisory capacity plays an important role.

Independence in forming the opinion is to me an essential element of the audit function. It is a necessary complement of professional skill. So firmly do I believe in this that I am of the opinion that an industrialist who does not understand that an auditor must give an independent opinion should neither give an assignment to a public accountant nor appoint an internal auditor.

I want to emphasize that I consider the auditing function of essential importance for public financial reporting. As far as I am concerned an annual report is not complete without an auditor's certificate. But I also believe that the advisory function of the auditor, in relation to public financial reporting, is at least as important as his pure auditing function. The responsibility for financial reporting rests primarily with the management of the enterprise and by making use of the advice of experts the management can act in the most effective manner in accordance with that responsibility. Prevention is better than cure. The management of the enterprise should organize its reporting as well as possible, which implies that it should aim at preventing the auditor's comments or criticisms afterwards. It can achieve this by soliciting the auditor's previous advice. That the audit may then lead to a clean certificate without prior comments or criticisms does not decrease the significance of the audit work, on the contrary I should say! This is the reason why the auditor's advice has always been welcome to me.

The auditors, with whom I have been co-operating for many years, maintain that I am „audit-minded“. That is right, but not because of the auditors - sometimes they can be extremely difficult - but because I regard auditing as an indispensable element in the organization of an enterprise.

After these general observations regarding the auditor, I would like to proceed with my subject proper. In the first place „world economy“ demands our attention. You will agree that this subject has so many aspects and is of such importance that your entire congress could be dedicated to this, and even then it would certainly not have been dealt with exhaustively. Therefore I must severely restrict myself, and this I can afford to do because my subject is limited to financial reporting in relation to world economy.

When speaking of world economy we find that the free world is composed of a number of countries which, it is true, have achieved a certain degree of economic co-operation, but in which national economies continue to hold a dominating position. Fortunately there is a growing awareness that a closer co-operation must be achieved. We can observe with satisfaction that in several parts of the world - notably Europe - efforts which have been made in this direction are encouraging. It is of the utmost importance that all free countries should realize that the ultimate goal is the unity of the entire free world. I believe that only in this way can we create a position on which we can take a stand against communism. Destructive criticism will not save the free world from the communist danger; demonstration of the unity of the free world and the favorable results of our co-operative endeavours is the appropriate weapon. If the highly developed countries of the free world succeed in achieving this - and they must succeed for the sake of their very existence - then the young countries, the newly emerging countries, will have little difficulty in deciding whether they want to belong to the unity of the free world based on liberty or to the so-called unity

of the communist world based on dictatorship. The free world will have to play an active part in helping the developing nations to make that choice, if only because initially they feel more attracted to the Russian than to the Western example, by reason of the wider economic and social gap between the developing nations and the West.

In my opinion there is no reason to doubt the fundamental rightness of our economic system. The continuous improvement of productivity made possible by the dynamic technical development in our society leads to a continuous rise in the standard of living and we may feel confident that this improvement, contrary to what happened in past years, will be attained without major cyclical setbacks, although there may be minor incidental interruptions in our progress. On the one hand we have learned more about the nature of business cycles and their effect, while on the other hand the structure of our economy has been strengthened with a number of „built-in stabilizers” among which I would like to mention specifically improved social security, such as unemployment benefits.

After these observations on some general aspects of the world economy, in which I hope I have left no doubts as to what we in the free world should be striving for, I now come, when reflecting on my subject of financial reporting, to the free enterprise on which the economy of the free world is mainly based. The spectacular economic progress in the free world during the past hundred years is due to a large extent to the rise of the large industrial enterprise. The rapid technical and social evolution has been attended by a fundamental change in the ideas regarding the objective of the enterprise. Formerly this was considered to be the pure striving for profits to which everything else was subordinated more or less. In the development of the economy it has become abundantly clear that our efforts should be directed not at maximum short term profits but rather at the most appropriate profit applicable to the continuity of the undertaking. The evolution in the social field shown in the continuous improvement in terms of employment and in social relationships within the enterprise, has caused the social aspect to become an important element in the policy considerations of management with regard to that continuity.

The effect of the emphasis on continuity is that financial reporting should not be restricted to a particular period, but should be suitable to the concept of continuity. One should also take into account that the report is intended for various groups of interested parties, whose interests, again seen in the continuity of the enterprise, should be weighed against each other in drafting the report. Thus the report should not only serve as an accounting to shareholders, but also as information for all those who play a part, either directly or indirectly, in the continuity of the undertaking, that is to say the capital market, employees, customers, suppliers and the government.

Another development plays a part in financial reporting, namely that investors, in their selection of investments, increasingly seek the advice of experts, who in forming their opinion, rely principally on published information. In this context the annual report holds the predominant position, although we should not overlook the importance of quarterly reports, press conferences and incidental information published as and when deemed necessary.

Thus there are a number of considerations which a management, and in particular the management of a large enterprise, will have to take into account in

their financial reporting to meet the requirements imposed by this evolution. If a reasonable solution for the problems connected with reporting at this level is to be found, a profound knowledge of business economics will be required both on the part of the experts within the organization itself and on the part of the advisers of the enterprise, especially the auditors.

I would like to pay separate attention to the effect of the development of world economy on financial reporting. Enterprises increasingly call on foreign capital markets, investors operate on them and there is a tendency for enterprises to participate more actively in the industrial life of other countries. In these cases there is a need for certainty as to the meaning of the information which is embodied in the reporting. Moreover I hope that I have succeeded in demonstrating that from pure motives of self-interest it is the duty of all of us to make the maximum contribution to stimulate co-operation and unification of the free world. Therefore I am of the opinion that the development of world economy places on those who are responsible for financial reporting the obligation of attaining the greatest possible uniformity in contents and presentation. Only when this is achieved will the national boundaries in the field of reporting disappear and will it be possible for everyone to draw his conclusions from reports of any enterprise located in any country with understanding and confidence. Only then will readers place the same reliance on the auditor's certificate included therein.

The need for uniformity - I would like to stress this - does not only relate to accounting but it also concerns the economics of the enterprise. Problems of the highest order are involved. I would like to mention for example the effect of changing price levels on the calculation of profits and capital; in the Netherlands the application of the replacement value theory is, at least for management, an important aid in arriving at economically justified and therefore also comparable results. In our own enterprise we only consider as profit the surplus remaining after the purchasing power of the capital invested has been maintained. Also I would draw your attention to the rates of exchange, which in times of inflation require a lot more attention than a mere glance at the quotations to arrive at a justified calculation of capital and profit. In conclusion I would like to mention the importance of the tax problem, arising from the differences between tax regulations and economic principles. It would certainly be a great step forward if all tax authorities were to accept the economic principles.

The striving after uniformity in public financial reporting in my opinion should only concern itself with principles and not with details. If one were to go further it would lead to a rigidity which would be too restrictive for both management and auditors.

In financial reporting I perceive four areas in which uniformity is of essential importance, namely:

- the function of the annual report

- the reconciliation of the annual report with the internal information for management

- the principles of the calculation of capital and profit and the demonstration thereof in the annual report

- the meaning of the auditor's certificate.

The function of the annual report should not only be for management to



render an account in respect of a past period, but management should be aware of the concept of continuity in the drafting of its reporting. I would like to say that reporting should be „dynamic”, that is: the period to which the report directly relates should be placed in the right perspective: the past, the present and the future. Only in case the annual report demonstrates the relation of the present with the past and creates the possibility for the reader to form an opinion on the future the annual report fulfils its function.

The reconciliation of the annual report with the internal information for management implies that capital and profit will have to be the same in either case. I am firmly convinced that there should not be different concepts of capital and profit for internal and external purposes. Of course one will have to take into account the extent and the nature of the needs in each case which means that in public reporting many details, and such information which when disclosed might be prejudicial to the interests of the enterprise, have to be omitted.

The principles of the calculation of capital and profit and the demonstration thereof in the annual report should not differ in their concept from country to country, nor need they differ if the right economic principles are accepted. I know that the hosts of this congress have already achieved much in this respect by way of their accounting principles, and that in other countries also rules and recommendations are in existence, but from the arguments I have expressed it will be obvious that I would like to see more. This is not the appropriate time for me to go further into this very important point nor would I venture to do so.

In respect of the meaning of the auditor's certificate I know that in a number of countries a basis for a certain uniformity has been created; in the United States this has been effected by auditing standards and procedures. I have already stated that I consider the auditor's certificate an essential element of reporting and the uniform meaning of that certificate will be a suitable manner of promoting certainty as regards the fair view of the published financial information.

With regard to the uniformity to be achieved in respect of the first and the second point namely the function of the annual report and the reconciliation of published accounts and internal information, I see a specific task for management in the interest of the enterprise because it improves its position in the capital markets. With regard to point three, namely the accounting principles, I see internationally a task for the auditors in close co-operation with the business community. Point four, the auditing standards and procedures, is a specific task for you as auditors.

In closing I hope that I have succeeded in demonstrating that from the management's point of view it will be necessary to strive after greater uniformity in the fields in which you are specific experts. I firmly believe that in this way financial reporting can contribute significantly to the universal acceptance of our system of free enterprise which is of greatest importance for a satisfactory development of the world economy.

May the blessing of the Almighty be upon your discussions of this coming week.

I thank you.