

‘True and fair’ in the Netherlands: *inzicht* or *getrouw beeld*?

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ABSTRACT

In the Netherlands, the standard form of the opinion paragraph of the auditor's report refers to the financial statements giving a *getrouw beeld*, a phrase which in its literal meaning and material content closely resembles the British ‘true and fair view’. However, in Dutch reporting law, the central overriding criterion is worded differently. According to the law, the financial statements are to give an ‘insight’ into financial position and results. The co-existence of these two phrases, which pre-dates the Fourth Directive, is an interesting departure from practice in other European countries. In this paper, we present an historical analysis of this phenomenon. We argue that it is related to a number of central concerns of the Dutch audit profession, in particular its desire to stay abreast of international developments and its attempts to define a proper balance between auditor responsibility and legal requirements.

‘When I use a word,’ Humpty Dumpty said, in a rather scornful tone, ‘it means just what I choose it to mean – neither more nor less.’

Lewis Carroll, *Through the Looking-Glass*

1. INTRODUCTION

In the European Economic Community's Fourth Directive, which was approved in 1978, the overriding attribute of financial statements is, in English, that they give a ‘true and fair view’. For many member states, the notion of a true and fair view, including its function as an ‘override’, was new, and ‘serious attempts were made to translate this difficult combination

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of words into the other Community languages' (Van Hulle, 1993: 100). In the Netherlands, however, there existed prior to the Fourth Directive not just one, but two concepts broadly equivalent to the British true and fair view.

First, since 1970, Dutch company law contained an overriding requirement that financial statements provide 'an insight such that a well-founded opinion can be formed concerning the financial position and income' of the company. As far as we know, this requirement in which *inzicht* (insight) is the key word, has no clear counterpart in the company legislation of any other country.

Second, the recommended standard form of the Dutch auditor's report has, since 1972, referred to (*een*) *getrouw beeld*. This phrase, which literally means '[a] faithful image', more closely resembles true and fair view and is ordinarily so translated into English. *Inzicht* is not mentioned in the standard form of the Dutch auditor's report.

We consider the fact that the standard form of the auditor's report does not refer to the primary attribute specified in the law as an interesting departure from practice in other countries. This difference is sometimes obscured in English translations of the Dutch law and Dutch audit reports, which may use 'true and fair view' to translate both concepts.¹ Within the Netherlands, although there is no suggestion that any difference between the two concepts has immediate significance for reporting or auditing practice, there does not appear to be a generally accepted understanding of how this dual wording has come about, or why it is necessary to retain two concepts. Therefore, this paper aims to contribute to our understanding of this issue by means of an historical analysis of the development of the central qualitative reporting attributes in the Netherlands. We argue that the phenomenon of a double criterion is the result of a quite complex historical development, and that it is related to a number of central concerns of the Dutch audit profession that pre-date the Fourth Directive. These concerns include in particular the desire of the Dutch audit profession to align its practices with the English-speaking world, and its attempts to maintain a balance between the professional and the legal responsibility of the auditor.

Although the focus of the paper is primarily historical, we find that the conditions that gave rise to the simultaneous use of two attributes in the Netherlands at present no longer apply; hence, a logical consequence is that one be dropped to achieve a uniform terminology. We end the paper with the observation that, while we would prefer to retain *inzicht*, we acknowledge that the retention of *getrouw beeld* would secure a greater degree of support.

Apart from its contribution to our understanding of the Dutch situation, the paper can be linked to the European accounting literature in the following ways.

First, it is generally recognized that the Netherlands is a country outside the British sphere of influence where the true and fair view concept found

acceptance prior to the Fourth Directive (see, for instance, Parker and Nobes, 1994: 68–9; Walton, 1997; and Van Hulle, 1997). However, the historical background of this phenomenon is not well documented and our paper can be seen as an addition to the literature on the pre-Directive history of the true and fair concept.

Second, the paper can be related to earlier work on the question of whether a national or a 'European' conception of true and fair view prevails in the implementation of the concept in the various member states (Alexander, 1993, 1996; Ordelheide, 1993, 1996; Took, 1997; Van Hulle, 1993). Although this question is not the central focus of this paper, it does raise a new issue by drawing attention to the auditor's report as a separate context in which the meaning of true and fair is discussed. To our knowledge, the relationship between the true and fair concept in the Fourth Directive and the wording of the auditor's report has received little attention in the international literature.²

The paper is divided into four sections. In the first section, we review the historical evolution of the terms *getrouw*³ and *inzicht* in the Dutch literature, in auditors' reports and in the law. This section ends with the Act on Annual Accounts of Enterprises of 1970, which was the first modern Dutch law on financial reporting and which gave the *inzicht* attribute its legal standing.

The second section discusses the factors attending the decision of the management board of the *Nederlands Instituut van Registeraccountants* (NIVRA, Dutch Institute of Registered Auditors) in 1972 to recommend a standard form for the auditor's report, which was the first time that a Dutch association of auditors had spoken on the subject. The 1972 recommendation, which was universally followed by Dutch auditors, remained unchanged until the early 1990s, and, despite several recent changes, still underpins the use of *getrouw beeld* in the opinion paragraph.

In the third and fourth sections, we describe how the situation created in the early 1970s, with the two criteria existing side by side, has continued to evolve up to the present. Two important developments discussed in these sections are the adaptation of Dutch law to the Fourth Directive (with its true and fair override) and the modifications made to the recommended auditor's report in the 1990s.

In the final section, we summarize the factors that have given rise to the two attributes and to their somewhat strained co-existence, and we present our conclusions.

2. REVIEW OF *GETROUW BEELD* AND *INZICHT* UNTIL 1972

Getrouw beeld to 1955

The first appearance of *getrouw beeld* in the auditor's report of a Dutch company was in the Unilever annual report for 1932, where it was used as the

Dutch equivalent of 'true and correct view', the wording required by the British Companies Act then in force (Zeff *et al.*, 1992: 99). *Getrouw beeld* continued to appear in the report given by the joint auditors on the Unilever financial statements even though, in 1948, the required wording according to British law became 'true and fair view'. From 1934 to the early 1970s, moreover, *getrouw en juist beeld* (faithful and correct image) appeared in the auditor's report given on the financial statements of the shipping and transport firm Wm H. Müller & Co.

These early instances of *getrouw* in auditors' reports were isolated examples, not supported by the literature. It is true that, as early as 1903, Limperg translated the attribute of true and correct view required by the British Companies Act of 1900 as *juist en getrouw beeld* (Limperg, 1903: 75), but this was not related to domestic thought on the subject. In fact, one of the essential features of the history of the auditor's report in the Netherlands is that, for a long time, many auditors preferred a report with no wording at all. In 1904, Limperg wrote that no auditor's report could be more 'eloquent' than a simple signature beneath the words, 'the Auditor' (Limperg, 1904). Subsequently, Limperg showed how this position could be derived from his theory of auditing which has exerted a great influence on the Dutch audit profession (see Camfferman and Zeff, 1994). In brief, Limperg rejected extensive auditors' reports because they suggested that the auditor could meaningfully communicate to non-auditors the variations in the scope and limitations of audits. To Limperg, this assumption was not compatible with the status of the auditor as a specialist professional.

Many auditors followed Limperg's dictum, even though they added a short caption above their signature, such as *accoord bevonden*, *juist bevonden* or *in orde bevonden* (found to be correct, in order). As will be discussed below, it was not until 1972 that the NIVRA recommended the first standard form of the auditor's report in the Netherlands.

This de-emphasis on the wording of the auditor's report ensured that there was quite a variety of wording in use when the significance of the auditor's report was discussed in the literature. During the first half of the twentieth century, one finds such discussions in terms of *waarheid* (truth) and *duidelijkheid* (clarity) (Knol, 1936; van Slooten, 1900), *juist* (correct) and *duidelijk* (clear) (Koster, 1931), and *balanswaarheid* (balance-sheet truth) (Nijst, 1928).

The most widespread wording, at least in the literature, was probably in terms of *juist* (correct), *juistheid* (correctness), or *een juist beeld* (a correct image). In its 1909 Rules of Professional Conduct, the *Nederlandsche Accountantsvereniging* (Dutch Auditors Society) mentioned *juist beeld* in its Article 8 on auditors' reports. This wording was adopted by the *Nederlandsch Instituut van Accountants* (NIVa, Dutch Institute of Auditors, predecessor of the NIVRA) in Article 17 of its 1919 Rules of Professional Conduct, where it remained until 1946. In keeping with Limperg's views, neither organiza-

tion suggested that this wording should actually appear in the auditor's report itself.

In 1946, in its Rules of Professional Conduct, the NIVa discarded *juist beeld* in favour of *goed koopmansgebruik* (sound business practice), a term that was associated with the Income Tax Law. Notwithstanding some attempts to give meaning to the latter phrase, it did not develop into a viable general qualitative criterion (see Camfferman, 1994). From the late 1940s to the 1960s, *juist* and its derivatives continued to be the coinage most commonly used when discussing the meaning of the auditor's report (Burgert, 1952; Hellema, 1960; Kleerekoper, 1967; Treffers, 1959; Vecht, 1962). Even the notion of *goed koopmansgebruik* came to be explained in terms of *juistheid* (Notes to Article 13 RBR, reproduced in NIVRA, 1975: 95).

As in the literature, there was no support during the first half of the century for the use of *getrouw*, or indeed any other wording, in guidance statements issued by any entities in the private sector or by government. The Commercial Code, whose skeletal financial reporting provisions dated from 1928/29, did not refer to any explicit qualitative criterion that the financial statements had to meet. Nor was there any legislation (until 1962) to regulate the audit profession which might have provided the basis for a particular wording. The 1928/29 financial reporting provisions in the Commercial Code did not even make mention of the 'auditor': it referred only to an unspecified 'expert' to oversee the company's accounting process and, unless the company's articles of association or the shareholders were to decide otherwise, report his findings to the supervisory board.

The earliest official support for any wording of the auditor's report was probably a 1950 decree, which required that an auditor charged with the audit of the accounts of insurance companies should report on whether the balance sheet and profit and loss account gave a *juist beeld* of the financial position and income.⁴

In 1954, though, *getrouw* gained a significant foothold in the vocabulary of Dutch auditors when it was used in the auditor's report of Klynveld, Kraayenhof & Co. that was given on the financial statements in the 1953 annual report of Royal Dutch Petroleum. It was then that the Royal Dutch/Shell Group (in which Royal Dutch Petroleum held a 60% ownership interest) was preparing to become listed on the New York Stock Exchange, and it was believed to be important that the auditor's report use language that was familiar to the US audience. Since the remaining 40% of the ownership of the Royal Dutch/Shell Group was held in Great Britain, the terminology, it was thought, should also be understandable there. *Getrouw beeld* was chosen by the audit firm as the Dutch equivalent both of the American fair presentation and the British true and fair view.⁵ The Klynveld firm was the largest in the Netherlands and was the auditor of AKU (later to become part of Akzo Nobel) and Philips, which also entered the New York capital market in 1953–54. *Getrouw beeld* began to appear in the Klynveld report on the two

companies' financial statements in 1954 and 1955, respectively (Zeff *et al.*, 1992: 100–1).

These instances of the use of *getrouw beeld* were connected through the Klynveld firm, and in particular its senior partner J. Kraayenhof. He was the foremost auditor in the country during the 1950s and 1960s, and played a central role in the development of financial reporting during that period. Kraayenhof was involved when, in 1955, the four employers' associations published *Het Jaarverslag (The Annual Report)*,⁶ an eighteen-page report that contained the first authoritative set of recommendations on company financial reporting. A progressive report, it was given extensive coverage in the press and was widely discussed in the professional literature. Probably owing to Kraayenhof's membership on the drafting committee, the report referred prominently to *getrouw beeld* as the standard of sound financial reporting (Zeff *et al.*, 1992: 94–111). The appearance of *getrouw beeld* in the committee's report as well as its use in the auditors' reports in the annual reports of several Dutch multinational enterprises did much to draw it to the attention of auditors.

Inzicht to 1955

The word *inzicht* was used occasionally in the literature before the Second World War in connection with financial statements, as in Knol (1936), where it was used to explain *duidelijk*, or in Koster (1931), where it was used to explain *juist*. However, such incidental usages did not constitute any sort of standard practice, such as clearly had become the case with *juist (-beeld)*.

After the war, *inzicht* began to figure more prominently. This occurred primarily in the context of increasing criticism of financial reporting in the financial press. Before the war, it was widely accepted that published financial statements had the limited purpose of assuring creditors of a minimum amount of capital, and of informing shareholders of the profits available for distribution, and little more. Following the war, increased demands for a greater accountability of enterprise management led to a consequent demand for more expansive financial reporting. Such demands were increasingly couched in terms of providing *inzicht*. An example was J. E. Spinosa Cattela's advocacy of financial reporting as it was then practised in the United States, which, in his view, 'gives significantly better insight for the outsider who is not an expert' than in the Netherlands (Spinosa Cattela, 1948: 17).

Inzicht received its first authoritative backing in 1954, in the address of the president of Philips, P. F. S. Otten, to the annual general meeting of shareholders. In his address, Otten declared his views on the role of enterprise leadership in providing information to shareholders. The previous year, Philips' shares had begun to be traded on the New York over-the-counter market, and the company's financial reporting had to be tailored to the requirements of

the US Securities and Exchange Commission (SEC) and the demands of US investors. In his speech, which was distributed in booklet form and was extensively commented upon by the press, Otten enumerated four 'demands' that had to be satisfied if the financial statements were to give an *aanvaardbaar beeld* (acceptable image), of which two cited *inzicht* as the criterion of quality:

1. An explanation must be given of the overall income so that one may acquire an insight into the enterprise's activities and the way in which the income was obtained.
2. A specification must be given of the liabilities and capital and the asset components so that an insight may be acquired into solvency and liquidity.

(Otten, 1954: 6)

That a company with a reputation for progressive financial reporting would adopt *inzicht* as the touchstone of its financial reporting could hardly have gone unnoticed. Otten's speech was almost certainly written by A. Goudekot, the chief internal auditor of Philips, who was the company's unquestioned authority on accounting and auditing, as well as a widely published author in the professional literature. Goudekot had, of course, played a pivotal role in Philips' entry into the New York capital market and was well informed about the norms of US financial reporting.⁷ Like Kraayenhof, Goudekot was appointed to the joint committee of the employers' associations that produced the set of financial reporting recommendations *Het Jaarverslag (The Annual Report)* in 1955.

Like Kraayenhof, Goudekot was a strong personality, and he also succeeded in making his mark on the committee's report by inserting four 'general demands' that were closely patterned on those in the Otten address. The result was that the report stated that giving a *getrouw beeld* was the primary aim of financial statements, which was operationalized by the set of 'general demands' formulated in terms of *inzicht*.

Thanks to Kraayenhof and Goudekot, the only two auditors on a committee composed mostly of company executives, *getrouw beeld* and *inzicht* were given vital institutional backing in the report of the employers' associations. Such support was believed to carry much more weight in a report sponsored by the employers' associations than if the sponsor had been a professional accountancy body such as the NIVa. It is important to recognize that, in the 1950s, the audit profession was still unregulated by law and there was as yet no legal requirement that companies have external audits (although, by then, most listed companies had elected to have external audits).

Inzicht and getrouw beeld from 1955 to 1970

In the 1955 employers' report, *inzicht* was arguably subordinated to *getrouw beeld* in the sense that the former was presented as a means to achieve the latter. However, as will be seen in this section, over the next fifteen years

inzicht became more prominent. An important reason is probably that *getrouw beeld* would appeal mainly to auditors, who could appreciate its reference to the English-language audit report. However, as seen above, the organized audit profession at the time was not prepared to give any wording of the auditor's report its official support. On the other hand, the idea that financial statements ought to give *inzicht* could easily be understood by non-auditors.

Inzicht received a boost in 1956, when a booklet containing the norms for the Sijthoff Prize for the Best Annual Report was published. Taking a cue from the Otten address of 1954 and the report of the employers' associations of 1955, the eleven-page booklet cited *inzicht* seventeen times in announcing the Sijthoff norms for praiseworthy financial reporting (Zeff *et al.*, 1992: 112–14). It did not use the word *getrouw*.

If *inzicht* did appeal to non-auditors, this became a factor of importance when, by the end of the 1950s, the improvement of company financial reporting had become part of the national political debate over the democratization of enterprise, including employee access to financial information in order to facilitate co-determination of enterprise policies. It was believed that companies should become more accountable not only to employees but also to their shareholders and the public. In the course of this lengthy and impassioned debate, there was little specific criticism of company financial reporting although there was a persistent belief that not enough information was being given.

In 1959, the 'think tank' of the Labour Party published a 175-page report entitled 'The Reform of Enterprise'.⁸ The report devoted 10% of its space to an argument that financial reporting should be regulated by a Companies Commission, an SEC-like government agency. In the report, *inzicht* was given pride of place as the criterion of sound financial reporting. In 1960, the government acceded to the mounting political pressures and appointed a State Commission, known as the Verdam Commission after its chairman, to propose articles of amendment to company law. Everyone was therefore on notice that legislative reform was imminent, and reports followed in short order from the Liberal Party's 'think tank' and the employers' associations.

Both reports appeared in 1962: the Liberal Party's lengthy report⁹ rejected the Labour Party's proposal for a Companies Commission and instead concentrated on the kinds of financial information that companies should report. It repeated the four 'general demands' from the 1955 report of the joint committee of the employers' associations. While *inzicht* was carried forward, *getrouw beeld* was absent. In the report produced by the council of the employers' associations,¹⁰ in the drafting of which Goudekot and Kraayenhof again played a role, *aanvaardbaar beeld* (acceptable image), which had been favoured in Otten's 1954 address, eclipsed *getrouw beeld* in importance. *Inzicht* was invoked in connection with the committee's ad-

vocacy of replacement value accounting, which almost certainly was the handiwork of Goudekot.¹¹

For its part, the Verdam Commission, acting unanimously on the report of its financial reporting subcommittee (of which Kraayenhof was a consulting member), proposed, among other things, a new law on company financial reporting. Its Articles 2 and 3, setting forth the standards of quality expected of companies' annual accounts, were included in the Act on Annual Accounts of Enterprises, passed in 1970, as follows (Article 1, containing definitions, has no bearing on the topic of this paper):

2. The annual accounts shall give an insight [*inzicht*] such that a well-founded opinion can be formed concerning the liabilities and capital and results of the enterprise, as well as, so far as the nature of the accounts allows, concerning the solvency and liquidity.

3. (1) The balance sheet, with the notes, shall present faithfully [*getrouw*] and consistently the amount and composition of the liabilities and capital of the enterprise at the end of the financial year.

(2) The profit and loss account, with the notes, shall present faithfully [*getrouw*] and consistently the amount and composition of the results of the enterprise during the financial year.

In the text of the law, the order of *inzicht* and *getrouw* observed in the 1955 report of the employers' associations was reversed. When interpreting this phenomenon, one should not overemphasize the extent to which contemporaries differentiated between Articles 2 and 3. As intended by the Commission responsible for preparing the first draft, Articles 2 and 3 were frequently jointly referred to as the core of the law,¹² and the main interest of commentators was to discuss the 'override' relationship between Articles 2 and 3 on the one hand and the other more detailed requirements of the law on the other. One can therefore find instances in which the two articles together are summarized by knowledgeable authors as either 'the *inzicht* requirement' or 'the requirement to give a *getrouw beeld*' (both in IJsselmuiden, 1972: 113, 167).

Nevertheless, there were indications in the legal literature surrounding the new law that the two articles were not to be seen as interchangeable, and that the order of the two articles did imply a primary emphasis on *inzicht*. The government's explanatory memorandum to the draft law described Article 2 as stating the 'objective' or 'purpose' of financial statements and Article 3 as defining the 'nature' of financial statements which enables them to serve that purpose.¹³ There are a number of indications that this definition of the relationship between the two articles did not mean that Article 2 was intended merely to play an ornamental role, or that meeting the requirements of Article 3 implied that the objective stated in Article 2 was automatically met as well.

First, the explanatory memorandum gave an indication of the difference between *inzicht* and *getrouw* by describing the applicability of the former to

a wide range of disclosure, valuation and income determination issues, while the discussion of the meaning of *getrouw* was mainly limited to asset valuation and the limitations it imposed on the formation of secret reserves.

Second, the importance attached to Article 2 was underscored by a concern during the drafting stage that the *inzicht* requirement might be interpreted by the courts in terms that went well beyond current reporting practice and could lead to expectations that might be difficult to meet in practice. For that reason the clause 'so far as the nature of the accounts allows' was added during the draft stage.¹⁴ Although some authors argued that this change made Article 3 (or 2) superfluous, the government's main advisory council argued against this and indicated that both articles might provide separate grounds for judicial proceedings.¹⁵

As a result, commentaries on the new Act, although they frequently referred to Articles 2 and 3 together, did make it clear that in the final analysis it was Article 2 rather than 3 which contained the more fundamental requirement (e.g. Huizenga, 1969; Sanders *et al.*, 1975) or which served as the substantial equivalent to the British true and fair view (IJsselmuiden, 1972: 36).

3. THE NIVRA RECOMMENDS A STANDARD FORM OF THE AUDITOR'S REPORT

In 1972, the NIVRA management board published a recommended standard form for the unqualified auditor's report. The recommendation included as the key phrase:

We are of the opinion that these financial statements give a faithful image [*getrouw beeld*] of the amount and composition of the liabilities and capital of the company . . . and of the results. . . .¹⁶

By international standards, it is curious that the first such recommendation to emanate from an association of auditors in the Netherlands occurred only as recently as 1972. However, as seen above, the absence of such a recommendation had reflected widely held beliefs about the function of the auditor. The NIVRA's decision to make a recommendation was therefore not prompted by legal changes, such as the passage of the Act regulating the audit profession in 1962 or the Act on Annual Accounts of 1970. Apparently, the question became acute because the 'single signature' had lost its appeal. Kleerekoper (1967: 158–60) and Groeneveld (1976: 88–9), both Limpert disciples, explained the disappearance of the lone signature, and hence the need to come up with a more elaborate text, primarily in terms of foreign influence: the increasing need to translate auditors' reports into and from English, and the need to take account of the American practice of placing the auditor's report on a separate page, thus necessitating a free-standing expression of the auditor's opinion. They also pointed to a growing belief

among Dutch auditors that a signature alone suggests too absolute a degree of correctness and sufficiency of the financial statements.

Evidently, the abandonment of the lone signature ushered in a period of experimentation with alternative phrasings. Bosman (1984: 9) referred to this period as one of 'proliferation in the wording of auditors' reports'. This apparently prompted the NIVRA to encourage discussion of this issue.

In a study on the auditor's report published by the NIVRA (de Jong, 1970), the author recommended that the auditor affirm that the financial statements 'give a faithful image [*getrouw beeld*] of the financial position and the results', although his reasons were less than compelling. He preferred a formulation that explicitly mentioned the requirements imposed by the new law, but he did not make clear why *inzicht* was not also a candidate for inclusion in the auditor's report.

At the suggestion of the NIVRA's management board, G. L. Groeneveld, the partner of Klynveld, Kraayenhof & Co. in charge of the Philips audit, gave an address at the NIVRA's Fall Conference in December 1970 on the auditor's report in relation to the new Act on Annual Accounts. In his address, Groeneveld stated that the old Limpergian ideal of the lone signature and the terse *accoord bevonden* (found correct) were no longer appropriate, and that it would be useful to develop a meaningful, uniform auditor's report. After considering several alternative formulations, Groeneveld expressed a preference for *getrouw weergeven* (represents faithfully) over *getrouw beeld* (faithful image) because *beeld* was superfluous and would only require further explanation (Groeneveld, 1971: 247, 260).

These proposals were discussed by J. W. Schoonderbeek and A. B. Frielink, two leading auditors. They opposed using the word *getrouw* by pointing out that it was reminiscent of the text of the new Act on Annual Accounts. They argued that the auditor's report should not follow the law too closely, in order to avoid giving the impression that the audit is limited to checking compliance with the law. Like the earlier rejection of lengthy auditors' reports, this argument drew on Limperg's theory on the role of the auditor. Under the influence of Limperg, it had been an article of faith among Dutch auditors at least since the 1930s that an audit ought never to be restricted to compliance with formal requirements (see Camfferman, 1998). It was believed that, by referring or even alluding to the law, the auditor would give precisely this undesirable impression. For this reason, and also for the reason that *getrouw* was not part of ordinary usage and made a distinctly old-fashioned impression, Schoonderbeek suggested a search for alternatives, such as *aanvaardbaar* (acceptable) and *betrouwbaar* (reliable) (Groeneveld, 1971: 253, 259, 261).

Parallel to these public discussions, the NIVRA's Committee on the Application of Professional Regulations¹⁷ added an item to its agenda on the relation between the auditor's report and the Act on Annual Accounts that was then, in early 1969, at an advanced stage of parliamentary consideration.

The committee's initial deliberations were somewhat undirected, but early in 1971, the NIVRA's management board made a formal and rather urgent request of the committee to submit a draft standard auditor's report by 1 May, the effective date of the new law. The committee's initial reply, which was written by Groeneveld, embodied the preferred wording given in his address at the Fall Conference. The balance of the year was consumed by exchanges of views between the board and the committee and the large audit firms, which did not lead to consensus.

In January 1972 the incoming NIVRA president, C. Snoep, characterized the difference of views as a 'knotty problem' in his informal agenda for the year.¹⁸ In 1971, the NIVRA had held a series of study conferences on the new law, and included as one of the topics for discussion the format and phrasing in the auditor's report. Although it appeared that virtually everyone acknowledged the desirability of a standard form for the report, there was no agreement on the actual wording. Among the arguments advanced against a formulation using *getrouw*, based on Article 3, was that the main criterion for a clean opinion (*inzicht*) was in fact located in Article 2.¹⁹

Finally, almost a year after the committee had submitted its initial response to the board's urgent request for guidance, the board published a three-page discussion paper on the standard form of the auditor's report.²⁰

Reflecting differences of opinion within and between the board and its supporting committee, the paper was less a proposed recommendation than an implied request for comments on two unresolved issues.²¹ First, whether the auditor's report should use the wording in the law, which might signify mere compliance with the law. And second, whether the auditor's report should use the word *getrouw*. The discussion paper presented *getrouw* as an option that could not be ignored, if only because of a lack of clearly superior alternatives, despite recognized drawbacks such as its infrequent use in the ordinary spoken language and its somewhat unspecified meaning.

Nine written reactions were received and published.²² While all of the writers agreed that it was desirable to have a standard form of the report, their letters did not suggest even the beginning of a consensus about the standard wording. The reactions ranged from full endorsement to complete rejection of Groeneveld's earlier suggestion.

Of the nine written submissions, the joint comment by F. Graafstal and G. Timmer, both partners in Klynveld, Kraayenhof & Co., and the comment by A. B. Frielink, a partner in a smaller audit firm, are the most interesting. Frielink reacted as an outsider, but Timmer was on the NIVRA's management board in 1971, and in that capacity he had been involved at an early stage. Both reactions stated that it would be odd if the auditor's report were to appear to refer to Article 3 of the Act on Annual Accounts (i.e., with wording based on *getrouw*), rather than to what they perceived as the more general Article 2. However, rather than moving closer to the law, the commentators

argued that the auditor's report should follow the law only at a distance (Graafstal and Timmer) or not at all (Frielink).

Frielink preferred the following wording:

we are of the opinion that the financial statements satisfy the requirements of correctness [*juistheid*] and sufficiency [*toereikendheid*].

Graafstal and Timmer proposed that the standard form should read as follows:

these financial statements give a *getrouw beeld* of the financial position . . . and of results.

They attached great importance to international aspects, and they favoured an auditor's report that, once translated, would be comfortable to an English-language audience – a view that, to them, was by far the most important consideration.²³ They also sought to adhere as much as possible to current practice in the Netherlands and asserted that:

For us there can be no doubt that in our country the wording in which the phrase *getrouw beeld* (usually followed by 'of the financial position and the results') is used has found fairly general acceptance [p. 133].

They defended their proposal with the argument that they wanted to adhere as much as possible to 'practice in the Netherlands, in particular with respect to the large and middle-sized enterprises, as it has developed over the last decade' (p. 135).

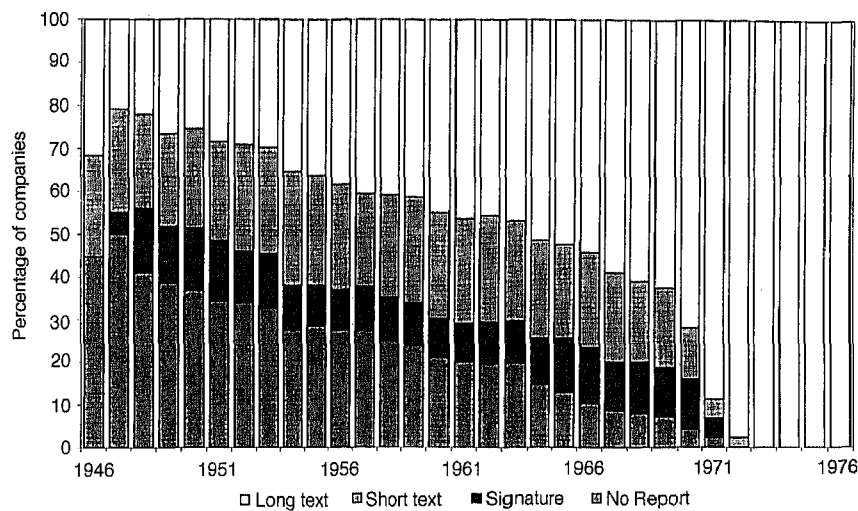


Figure 1 Types of auditor's report: Dutch listed companies, 1946–76
Note: Based on sample of 107 companies. Owing to (de)listing and data availability sample size is not equal across years.

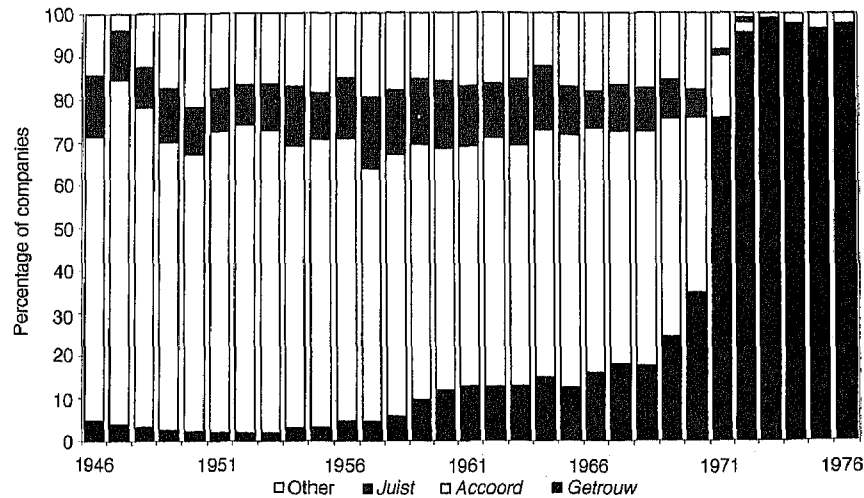


Figure 2 Key wording in auditor's report: Dutch listed companies, 1946–76
 Note: Percentage of companies shown as 'short text' or 'long text' in Figure 1.

Graafstal and Timmer's assertion is not, however, borne out by a survey of auditors' reports for the period. We have studied the auditors' reports on the annual accounts of 107 listed companies over the period 1946–76.²⁴ Figure 1 displays the breakdown of companies according to:

- 1 Those that did not publish an auditor's report (gradually declining from over 40% in the 1940s to zero in 1972).²⁵
- 2 Those publishing an auditor's report consisting of a signature only (between 10 and 15% each year until reaching 5% in 1971 and zero in 1972).
- 3 Those publishing an auditor's report with text, either as a caption over the signature ('short text') or as a free-standing expression of opinion ('long text').

With respect to auditors' reports containing text, Figure 2 shows the distribution of wording used in the reports. Of interest is the fact that *getrouw* was used in fewer than 20% of the reports in each year prior to 1969. The remarkable growth in the use of *getrouw* between 1970 and 1972 was associated with the efforts of the NIVRA to introduce a uniform wording, and the use of this preferred wording became virtually universal by 1973. It is difficult, therefore, to argue that *getrouw* had 'found fairly general acceptance' as a matter of free development of practice during the decade prior to 1972. Indeed, even within audit firms, there was a diversity of format and wording as among different client companies.

Following the publication of the comment letters, the NIVRA board seemed to realize that it should act with some authority, rather than attempt to forge a consensus. In November 1972, the board decided to propose a final recommendation to the NIVRA's members, as follows:

... we are of the opinion that these financial statements give a *getrouw beeld* of the amount and composition of the liabilities and capital ... and of the results.

Somewhat disingenuously, the board gave the Committee on Application of Professional Regulation a week in which to convey its reaction to the proposed final recommendation. As the board must have known, that was too little time for a committee of ten members to respond. The board wanted to bring the matter to a head, and its final recommendation was published in December 1972.²⁶

A parallel development that may have influenced the NIVRA's management board, or at least would have given it a measure of support, was the 1972 revision of the Registered Auditors Act, in which registered auditors alone were authorized to give an opinion on the annual accounts. Their opinion, said the Act, was to be on the *getrouwheid* (fairness) of the annual accounts.

The 1972 recommendation therefore established the preference of the organized audit profession for a report couched in terms of *getrouw beeld*, even though it had not, up to that time, found widespread acceptance in practice and even though the 1970 Act had made *inzicht* at least an equally likely candidate. As if aware of a possible divergence of meaning between the two concepts, the NIVRA formally reconciled the two shortly afterwards in its new 1973 Rules of Conduct and Professional Practice.²⁷ In the Rules, the function of the auditor was defined as issuing opinions on *getrouwheid*, yet the criterion for issuing a clean opinion by the auditor was that the accounts in question 'give the required insight' (*het vereiste inzicht geeft*). Hence, while the auditor was to draw on the primary criterion invoked in the Act on Annual Accounts (*inzicht*) when determining whether to give a clean opinion, he or she was instructed to cite one of two secondary criteria in the Act (*getrouw*), a quality better understood internationally, in the auditor's report itself.

4. THE DUTCH ADAPTATION OF THE FOURTH DIRECTIVE: RETENTION OF *INZICHT*

When the EEC's Fourth Directive on annual accounts was approved in 1978, its key provisions on the central requirement of financial reporting and its function as an override were based on the British experience with true and fair view. In the official Dutch translation of Article 2, paragraphs 1–5, of the Directive, the central requirement was rendered as *getrouw beeld* (emphasis added in the Dutch text):

- | | |
|--|--|
| <p>1. De jaarrekening bestaat uit de balans, de winst- en verliesrekening en de toelichting. Deze stukken vormen een geheel.</p> <p>2. De jaarrekening wordt duidelijk en overeenkomstig de bepalingen van deze richtlijn opgesteld.</p> <p>3. De jaarrekening moet een <i>getrouw beeld</i> geven van het vermogen, de financiële positie en het resultaat van de vennootschap.</p> <p>4. Wanneer de toepassing van de bepalingen van deze richtlijn niet voldoende is om het in lid 3 bedoelde <i>getrouwe beeld</i> te geven, moeten aanvullende inlichtingen worden verstrekt.</p> <p>5. Indien in uitzonderingsgevallen blijkt dat toepassing van een bepaling van deze richtlijn in strijd is met de in lid 3 bedoelde verplichting, dient van deze bepaling te worden afgeweken opdat een <i>getrouw beeld</i> in de zin van lid 3 wordt gegeven. Zulk een afwijking moet in de toelichting worden medegedeeld en naar behoren gemotiveerd onder vermelding van de invloed ervan op het vermogen, de financiële positie en het resultaat. De Lid-Staten kunnen de uitzonderingsgevallen nader omschrijven en de daarmee overeenstemmende afwijkende regeling vaststellen.</p> | <p>1. The annual accounts shall comprise the balance sheet, the profit and loss account and the notes to the accounts. These documents shall constitute a composite whole.</p> <p>2. They shall be drawn up clearly and in accordance with the provisions of this Directive.</p> <p>3. The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss.</p> <p>4. Where the application of the provisions of this Directive would not be sufficient to give a true and fair view within the meaning of paragraph 3, additional information must be given.</p> <p>5. Where in exceptional cases the application of a provision of this Directive is incompatible with the obligation laid down in paragraph 3, that provision must be departed from in order to give a true and fair view within the meaning of paragraph 3. Any such departure must be disclosed in the notes on the accounts together with an explanation of the reasons for it and a statement of its effects on the assets, liabilities, financial position and profit or loss. The Member States may define the exceptional cases in question and lay down the relevant special rules.</p> |
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Dutch legislation was adapted to the Fourth Directive by a new law to replace the 1970 Act on Annual Accounts of Enterprises. The main clauses of Article 2 of the Directive were incorporated in Article 362, paragraphs 1–4, Book 2, Civil Code, as follows (English translation by the authors, emphasis added to the Dutch text):

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|---|--|
| <p>1. De jaarrekening geeft volgens normen die in het maatschappelijk verkeer als aanvaardbaar worden beschouwd een zodanig <i>inzicht</i> dat een verantwoord oordeel kan worden gevormd omtrent het vermogen en het resultaat, alsmede voorzover de aard van een jaarrekening dat toelaat, omtrent de solvabiliteit en de liquiditeit van de rechtspersoon.</p> | <p>1. The annual accounts shall give, in accordance with norms that are acceptable in the economic and social climate, an insight such that a well-founded opinion can be formed concerning the financial position and income, and, in so far as the nature of financial statements allows, concerning the solvency and the liquidity of the legal entity.</p> |
|---|--|

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|--|---|
| 2. De balans met de toelichting geeft <i>getrouw</i> , duidelijk en stelselmatig de grootte van het vermogen en zijn samenstelling in actief- en passiefposten op het einde van het boekjaar weer. . . . | 2. The balance sheet, together with the notes, shall represent faithfully, clearly and consistently the financial position and its composition of assets and liabilities at the end of the financial year.
... |
| 3. De winst- en verliesrekening met de toelichting geeft <i>getrouw</i> , duidelijk en stelselmatig de grootte van het resultaat van het boekjaar en zijn afleiding uit de posten van baten en lasten weer. | 3. The profit and loss account, together with the notes, shall represent faithfully, clearly and consistently the amount of income for the financial year and its derivation from items of revenues and expenses. |
| 4. Indien het verschaffen van het in lid 1 bedoelde <i>inzicht</i> dit vereist, verstrekt de rechtspersoon in de jaarrekening gegevens ter aanvulling van hetgeen in de bijzondere voorschriften van en krachtens deze titel wordt verlangd. Indien dit noodzakelijk is voor het verschaffen van dat <i>inzicht</i> , wijkt de rechtspersoon van die voorschriften af; de reden van deze afwijking wordt in de toelichting uiteengezet, voor zover nodig onder opgaaf van de invloed ervan op vermogen en resultaat. | 4. If required for the provision of the insight referred to in paragraph 1, the legal entity shall provide information in the annual accounts in addition to what is required by the special regulations laid down in or pursuant to this section. If necessary to provide that insight, the legal entity shall deviate from those regulations; the reasons for such a deviation must be stated in the notes, where necessary with an indication of its effect on the financial position and the results. |

As can be seen from these texts, the original *inzicht* criterion from the 1970 Act was retained to perform the functions of *getrouw beeld* as used in the Directive.

During the deliberations leading up to the adaptation of the Dutch law to the Fourth Directive, the Justice Ministry asked the NivRA whether the *inzicht* criterion should be replaced by a wording based on *getrouw beeld*. The NivRA replied that it had no objection to retaining the traditional wording.²⁸ Hence, notwithstanding the clear specification of *getrouw beeld* as the override in the official Dutch translation of the Fourth Directive, the Dutch legislation approved in 1983 retained *inzicht* as the primary principle in Article 362, paragraph 1, and also used *inzicht* in its rendering of the explicit override clause in the Directive (Art. 362, para. 4). *Getrouw* continued to be assigned to paragraphs 2 and 3, and so the basic structure of the 1970 Act was maintained.

The wording chosen in the Netherlands can be contrasted with that in Flemish-speaking Belgium. The Flemish version of the law incorporating the Fourth Directive used *getrouw beeld* as suggested by the Dutch version of the Directive (Lefebvre and Flower, 1994: 95). Note that in Italy, as in the Netherlands, the Fourth Directive implementation used different wording than in the Italian translation of the Directive (Took, 1997).

As part of the adaptation law, a provision was inserted (Art. 393) which expressly charged the auditor to investigate 'whether the accounts give the

inzicht required by Article 362, para. 1'. Two years later, Article 393 was expanded to charge the auditor to 'present the outcome of his investigation in an opinion concerning the fairness [*getrouwheid*] of the annual accounts' some years after a similar provision had been inserted into the Registered Auditors Act. Hence, the auditor was expected to submit a report on 'fairness' after having completed an investigation into whether the annual accounts give an 'insight'. To the government, *inzicht* and *getrouw beeld* were clearly equivalents, as is evident from the fact that the two were used interchangeably in the Justice Ministry's explanatory memorandum attached to the draft adaptation law.²⁹

That the *inzicht* requirement did not have a purely ornamental function in the late 1970s and early 1980s is shown by the important role it played in the deliberations of the Enterprise Chamber (the civil law court that considers complaints about company financial reporting). In not a few cases brought against companies that were alleged to have violated the financial reporting provisions of the law, the Chamber took the *inzicht* requirement seriously and invoked it rather more frequently than it did *getrouw weergeven*. It often used *inzicht* as a ground for judging the propriety of companies' measurement and disclosure practices.³⁰

5. DEVELOPMENTS SINCE 1983

Following the adaptation of the law to the Fourth Directive, the audit profession again entered into a debate on the aptness of the standard form of the opinion in the auditor's report. While the possibility of an explicit reference to *inzicht* in the auditor's opinion was considered, the general view was that, especially given the wording of the Registered Auditors Act, it was sufficient for the auditor to give an opinion on whether the annual accounts give *een getrouw beeld*. The NIVRA's management board thereupon issued a report treating the implications of the changed financial reporting law for the auditor's report (NIVRA, 1984). The report explicitly addressed the question of whether the new law required the auditor's report to be expressed in terms of *inzicht*. While the board conceded that the law as amended in 1983 made it clear that 'the auditor's report must above all answer the question of whether the annual accounts meet the primary requirement of Article 362, paragraph 1', it nonetheless concluded that

inzicht is something that the user of a set of financial statements must acquire, whereas *getrouwheid* is a demand placed on the preparer of a set of financial statements. It is true, of course, that the auditor must form an opinion on whether the accounts can reasonably be expected to allow the acquisition of insight, but this does not mean that the auditor should presume, by means of the wording of his opinion, to give a judgement that belongs to the user of that opinion.

This argument, that *inzicht*, as opposed to *getrouw beeld*, cannot be assessed completely by the auditor, can still be encountered in the literature (e.g.

Braam and Damen, 1996). However, it sits uneasily with the formal equation of the two in the NIVRA's Rules of Conduct and Professional Practice and the explicit charge to the auditor in the law to investigate whether the financial statements give the required insight (see above). Similarly, while *getrouw beeld* continues to be the attribute cited in the auditor's report, the Guidelines issued by the Council on Annual Reporting (the private-sector standard setter) appeal to *inzicht* in counselling auditors when it might be necessary to invoke the true and fair override: 'The Council considers that there are valid reasons [for departures from the Guidelines] when, with these departures, an improvement upon the insight given in annual accounts is intended and achieved'. Hence, one has the impression that *getrouw beeld* is given only when, in the auditor's opinion, an *inzicht* is conveyed, and that, notwithstanding the view of the NIVRA's management board in 1984 that 'the auditor should [not] presume . . . to give a judgement that belongs to the user', the auditor so presumes.

It is therefore likely that a more significant reason for rejecting the use of *inzicht* in the auditor's report was expressed by the following remark added by the NIVRA board in its 1984 report: 'Internationally, such wording is unusual as well'. One of the two historical reasons for preferring *getrouw* was clearly still relevant.

But the other reason, the wish to prevent a purely legal interpretation of the function of the auditor, was losing its force during the 1980s. In the 1970s, Kraayenhof still fiercely criticized a proposal to include a reference to compliance with the law in the auditor's report, adding that such a suggestion 'would have turned Limperg pale with anger' (Kraayenhof, 1976: 431). Yet, in a series of articles published in *De Accountant*, the NIVRA's journal, in the mid-1980s, proponents of a reference to the law gained the upper hand. Among them was G. G. M. Bak, an auditor and the accounting adviser to the Justice Ministry, who said,

The audit profession must overcome its timidity and insert a reference [in the auditor's report] to the legal framework in which [the profession] has been operating now for some time. . . . Omitting such a reference can easily give the impression that the audit profession does not quite know what to do with the task [given it by the law] and maintains, from early times, its own particular system of norms, while leaving the 'legal' verification (whatever that may be) to the lawyers.

(Bak, 1984: 6)

In 1991, the NIVRA's management board finally relented and changed the recommended form of the auditor's report to include an explicit reference to compliance with legal requirements. An even further step was taken when, in 1996, the NIVRA adopted a new opinion paragraph of the standard form of the auditor's report based on the format recommended by the International Federation of Accountants (IFAC), which in turn was heavily influenced by the phraseology in the US auditor's report. The new wording, which formally

introduced a Dutch-language equivalent of 'generally accepted accounting principles' (*algemeen aanvaarde grondslagen van financiële verslaggeving*) into the official accounting literature, was as follows (in the NIVRA's translation):

In our opinion, the financial statements give a true and fair view [*getrouw beeld*] of the financial position of the entity as of 31 December 19xx and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2, of the Netherlands Civil Code.

In this version of the auditor's report, *getrouw beeld* is qualified by the reference to generally accepted accounting principles. Though the latter concept has, as yet, no well-defined meaning in the Netherlands, the proximity in wording to the auditor's report as used in the US is at least suggestive of a move in the direction of more formal, codified financial reporting rules. In this way, the motive of seeking an internationally current form for the auditor's report, which was at the origin of the introduction of *getrouw beeld* in the Netherlands, now served to overturn the traditional reticence to restrict the function of the auditor by means of formal regulations.

6. CONCLUDING REMARKS

When complex notions like the essential characteristics of financial statements have to be described by a simple phrase like true and fair, *inzicht* or *getrouw*, the dictionary meaning of words is obviously of limited help. Legislators, standard-setters and the audit profession are placed in the position of Humpty Dumpty and have to choose the meaning of words. Unlike Humpty Dumpty, though, they may be interested in genuine communication and therefore their choices can to some extent be the subject of discussion.

In the Dutch situation, while one can accept that there is no obvious basis to decide between *inzicht* and *getrouw beeld* as the overriding criterion, one can question the necessity of the two concepts existing side by side. As our historical survey has shown, the concepts have been closely related, were often used interchangeably and are currently, strictly speaking, formally defined in terms of each other in the Rules of Conduct and Professional Practice of the audit profession.

Since the law calls for *inzicht* as the primary criterion of quality in the annual accounts, with *getrouw* as one of three secondary criteria (the other two being 'clearly' and 'consistently'), it would seem logical for the criterion of quality stated in the law also to appear in the auditor's report. In other countries of the European Union, this appears to be the case (see Buijink *et al.*, 1996). In the UK, where the override originated, true and fair view is cited in the auditor's report because it is the override cited in the law.

Although our paper shows that at least three factors can be cited to explain the emergence of a double criterion, the present situation does not provide compelling arguments for the continued co-existence of the two concepts.

One factor is that the two concepts have not always been viewed as equivalents. During the 1950s and 1960s, *inzicht* connoted to some a higher aspiration for financial reporting than the status quo reflected by the *getrouw beeld* in auditors' reports. For instance, not infrequently, *inzicht* implied the use of replacement value accounting instead of historical cost. Viewed in this light, it is plausible to see the *inzicht* criterion as a kind of legacy by Goudekot, who, through the financial reporting policy of Philips and his membership on two important committees of the employers' associations, gave currency to *inzicht* as the hallmark of sound financial reporting and who also was a staunch advocate of replacement value accounting. Another difference between the two concepts is the lingering perception that *getrouw beeld* is a prerequisite for *inzicht* and that the auditor can assess the former but not the latter.

A second factor has been the long-standing desire on the part of the Dutch audit profession to keep a certain distance from the law in order to avoid giving the impression that the task of the auditor is completely defined by law or regulation. It was therefore convenient for the auditor to refer in his opinion to an attribute of the profession's choice, *getrouw beeld*, rather than to the primary attribute, *inzicht*, specified in the law.

A third – and, we believe, the most important – factor is the desire of the audit profession to be seen as following international practices, especially those in the UK and the US. This factor was responsible for the introduction of *getrouw beeld* in the recommended auditor's report in 1972 even though, until the end of the 1960s, its use was distinctly a minority practice and it was opposed by some leading auditors as archaic-looking and a break from established practice. The importance of adhering to internationally accepted practices has been a recurring argument, both at and below the surface in the Dutch literature on the auditor's report. The pressure to 'go international' continued to be strong in the 1990s, when the NIVRA formally introduced the US wording, 'generally accepted accounting principles', into the Dutch-language accounting literature by inserting it in the auditor's report.

If our analysis is correct, it shows that the Fourth Directive has played only a minor role in determining the function of the Dutch equivalent to the concept of true and fair view. By far the more important influence, both on the law and on the wording of the auditor's report, has been directly exerted by the practice of the Anglo-American audit profession. This raises an important issue related to the question of whether or not there is a 'European' conception of true and fair. The Dutch case shows the importance of the auditor's report as a context in which the meaning of true and fair is determined. As the auditor's report is currently subject to harmonization in a

broader international setting than the European Union this may give rise to conflicting claims of competence to interpret the meaning of true and fair.

Leaving the broader implications to return to the Dutch situation, we conclude with the following recommendation. If one accepts that conformity with international practice should be paramount, it would seem that the next logical step would be to bring all Dutch usage in line with international practice and thus remove references altogether to *inzicht*, both in the law and therefore in the Guidelines. Therefore, the NIVRA might wish to reconsider its advice of 1981 to the Justice Ministry and now propose that all references to *inzicht* be removed from the law. As seen above, there are no formal impediments to such a change, and the inhibition against direct references to the law in the auditor's report has been largely overcome (see also Zeff *et al.*, 1999).

Yet we are of the view that Dutch law is in advance of comparable legislation in other countries in raising the aspiration for financial reporting to a level described by *inzicht* – providing a statement of purpose and a healthy challenge both to the preparers and auditors of annual accounts. In today's environment, financial reporting in many countries is inexorably becoming an exercise in compliance with detailed rules. The Dutch law contains a well-intentioned reminder that financial reporting is more than conformity with rules. It would be a pity for this reminder to disappear.

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NOTES

- 1 See, for instance, Moret Ernst & Young (1994).
- 2 See Buijink *et al.* (1996) for an analysis of the wording (in English translation, which may introduce noise) of the overriding attribute in the standard auditor's report in EU member states.
- 3 The term *getrouw* should be separated from *beeld* (image) when examining the evolution of this terminology. Some authors accept the former, while rejecting the latter and prefer a term such as *getrouw weergeeft* (renders faithfully).
- 4 See KB, 8 December 1950, Stb. 545, cited in Groeneveld (1976).
- 5 Zeff (1990) has argued, however, that 'present fairly' is not a proper English-language translation of *geeft een* [gives a] *getrouw beeld*.
- 6 *Het Jaarverslag* ('s-Gravenhage: Commissie Jaarverslaggeving van het Verbond van Nederlandsche Werkgevers, het Centraal-Sociaal Werkgevers-Verbond, het Katholiek Verbond van Werkgeversvakverenigingen en het Verbond van Protestants-Christelijke Werkgevers in Nederland, 1955).

- 7 As it happens, J. E. Spinosa Cattela, who had appealed to 'insight' several years earlier, was formerly a member of Philips' internal audit staff and later joined an overseas firm that audited some of Philips' subsidiaries.
- 8 *De hervorming van de onderneming* (Amsterdam: De Arbeiderspers, 1959).
- 9 *Open Ondernemerschap: De groei van de onderneming en het vennootschapsrecht* ('s-Gravenhage: Martinus Nijhoff, 1962).
- 10 *Verslaggeving verantwoording en voorlichting door de besturen van naamloze vennootschappen* ('s-Gravenhage: Raad van Nederlandse Werkgeversverbanden, 1962).
- 11 Goudekot was an ardent advocate of replacement value accounting which had been practised by Philips in both its balance sheet and income statement since 1951 (see Goudekot, 1960). Almost certainly owing to Goudekot's urging, replacement value accounting was recommended in the 1955 report of the joint employers' associations. Kraayenhof, however, was not known as an advocate of replacement value accounting.
- 12 *Herziening van het ondernemingsrecht, Rapport van de Commissie ingesteld bij beschikking van de Minister van Justitie van 8 april 1960* ('s-Gravenhage: Staatsuitgeverij, 1968), p. 52.
- 13 *Bijlagen Handelingen Tweede Kamer, 1967-1968, 9595, no. 3, p. 12.*
- 14 See, for instance, the commentary of the NivA management board on the draft law (NivA, 1966).
- 15 *Advies inzake de wetgeving over de jaarrekening van ondernemingen*, uitgebracht aan de Minister van Justitie, 1966, No. 4 (Sociaal-Economische Raad, 1966), pp. 12-13.
- 16 *NivRA Berichten*, December 1972.
- 17 Commissie van bijstand inzake Toepassing Beroepsregelen, CTB.
- 18 NivRA Archives, DB 1972: 8.
- 19 See 'Wet op de jaarrekening van ondernemingen', *De Accountant*, Vol. 78, No. 9, June 1972, pp. 456-82.
- 20 *NivRA Berichten*, March 1972.
- 21 A third issue, relating to whether the word 'consistently' (*stelselmatig*) as used in the law should also be used in the auditor's report was a major complication in the discussions covered in this section. As it is not related to the topic of this paper, it is not discussed further here.
- 22 *NivRA Berichten*, June 1972.
- 23 Graafstal and Timmer confirmed the importance of the international aspect in an interview on 27 May 1994.
- 24 The 107 listed companies were selected from the holdings of annual reports in the library of the *Vrije Universiteit*, Amsterdam. Selection was at random except for the inclusion of the most prominent multinational companies.
- 25 Since the first law requiring companies to have an external audit did not take effect until 1971, companies had previously been required only to publish a balance sheet and profit and loss account (with few restrictions as to content), and if an external audit had been conducted there was no obligation to publish the auditor's report. Evidently, a significant number of companies elected not to publish the report of the auditor. For further discussion, see Zeff *et al.* (1992: 65-6).
- 26 *NivRA berichten*, December 1972.
- 27 *Gedrags- en Beroepsregels Registeraccountants, GBR.*
- 28 Interview with H. Beckman, 18 May 1995.
- 29 *Bijlagen Handelingen Tweede Kamer, 1979-80, 16326, No. 3.*

30 For a discussion of the jurisprudence resulting from cases heard by the Enterprise Chamber, see Bak and Boukema (1983).

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