

CHAPTER 2

FINANCIAL REPORTING REGULATION IN BELGIUM AND THE NETHERLANDS: A COMPARATIVE STUDY

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2.1 INTRODUCTION

The aim of this paper is to present a comparative study on the present structure of financial reporting regulation in Belgium and The Netherlands. It also tries to explain a number of similarities and also differences that exist between these two countries, mostly by taking a historical approach. Furthermore, the paper presents a comparison focused on the structure as well as on the influence of the accounting profession in both countries, since the difference in the impact that the accounting profession has had and still has on financial reporting regulation, represents an interesting phenomenon.

A comparative study of Belgium and The Netherlands can not avoid starting by making the observation that both countries have much in common. For example,

- both countries are located in the same geographic location, in the North-western part of Europe. In fact, Belgium is the southern neighbour of The Netherlands. Also, both countries are bounded by the North Sea to the west and by Germany to the east.
- both countries are very small in terms of area (Belgium 30.500 km², The Netherlands 41.864 km²).

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- both countries have a number of inhabitants (Belgium: 10 million, The Netherlands: 15 million) that roughly results in the same number of inhabitants per km² and makes both countries densely populated.
- both countries (partly) share the same language (Dutch or Flemish) although in about half of Belgium the first language is French while major parts of Belgium are bilingual or even trilingual (Dutch, French and German).
- both countries have little natural resources, although there were a number of coal mines in both countries in the past and The Netherlands at present have a large reserve of natural gas.
- both countries have a sea-port of international importance (Rotterdam, which is the second largest trading port in the world, and Antwerp).
- both countries have one major stock market (Amsterdam, which is the 8th largest market in Europe, and Brussels).

Given the large number of similarities between both countries, it might be expected that there would be little difference with respect to the development and current structure of financial reporting and its regulation. This, however, is not true and there is a surprisingly large number of (historical) differences that have resulted in variances in the structure of financial reporting regulation as it exists today.

The structure of this paper is as follows. To explain the differences in the structure of financial reporting regulation in Belgium and The Netherlands, section 2.2 will present a comparative description of the most important developments in financial reporting regulations and will focus on the historical differences that might provide some explanation for the differences in the current structure of the regulatory system in both countries. The section will *not* provide a complete historical overview. Instead, it will discuss the most important events in relation to the differences (as well as similarities) that exist between both countries in terms of their current financial reporting regulatory system. Section 2.3 will provide a comparative description of the structure that underlies the current regulatory system in both countries. The section will discuss the structure and role of the bodies and organisations most important to the regulatory system in both countries. Obviously, the most striking differences and similarities in the regulatory system in both countries will be focused on. This section of the paper partly is based on two papers discussing the regulation of financial reporting in The Netherlands (Buijink and Eken, 1996) and in Belgium (Lefebvre and Van Nuffel, 1996). Finally, section 2.4 will present a detailed comparison of the structure as well as of the influence of the accounting profession in both countries. This description will be substantiated with data on the number of accountants in both in Belgium and The Netherlands and the development thereof. The aim of this section is to focus more clearly on the striking difference in the influence that accountants and auditors have had (and still have) on the development of financial reporting regulations in Belgium and The Netherlands.

2.2 A HISTORICAL OVERVIEW

The history of financial reporting in Belgium and The Netherlands, often referred to as the 'low countries', roughly can be divided into three periods. The first period runs to World War II and may be characterised as the early stage of financial reporting regulation, with few standards or laws. This period is dominated by a substantial revision of the Company Law in both The Netherlands and Belgium, which in essence represents the start of the regulation of financial disclosure in both countries. The second period runs from World War II until 1973 and may be characterised as a period of continuing increase of regulations, culminating in The Netherlands in an extensive adaptation of the Company Law in 1970/1971 and in Belgium in the 1970 Economic and Social Conference. The third period in the history of financial reporting regulation in Belgium and The Netherlands covers the decades after 1973 and is characterised in both countries by the harmonisation efforts of the European Union (EU) through a large number of EU Directives. These three periods will be discussed subsequently in the following sections.

2.2.1 The period until World War II

Both Belgium and The Netherlands have made some important contributions to the development of accounting. The earliest of these contributions date back to the sixteenth century. After Pacioli published his *Summa* in 1494, the centre of trade shifted from Italy to the more Northern parts of Europe such as Belgium and The Netherlands. In the sixteenth century the Flemish Accounting School had a great influence on accounting, commerce and finance. The most important representatives of this group of authors were Jan Ympyn, a merchant, and Simon Stevin, a mathematician, while other members came from various cities in Belgium as well as The Netherlands.

In the seventeenth century The Netherlands became one of the most important trading nations of the world. To raise capital for trading voyages, the United East Indies Company (*Verenigde Oost-Indische Compagnie, VOC*) was founded in 1602. Capital was raised by offering shares to the public, making the VOC one of the world's first public companies. The origin of the Amsterdam Stock Exchange (*Amsterdamse Effectenbeurs, ASE*) can be traced back to the founding of the VOC, and it is therefore claimed that the Amsterdam Stock Exchange is the world's oldest stock exchange (see Zeff, 1992, p. 1).

As a result of their focus on trading, The Netherlands were slow to follow the industrialisation that had started in Great Britain in the 19th century. Belgium, however, did develop an industrial sector that was financed by a few very powerful holding companies, such as the *Generale Maatschappij* which was

founded in 1822. As a result, the method of financing in Belgium differed considerably from the situation in The Netherlands. This difference may have had considerable impact on a number of developments in both countries, especially the development of the accounting profession.

The importance of a fairly small number of holding companies in Belgium resulted in a lack of interest for the disclosure of financial information by firms to third parties. Also, this dominance resulted in an underdeveloped capital market so that also in this area there was a lack of forces to improve the publication of financial statements. In The Netherlands, however, as a result of the fact that trading and maritime activities were financed by funds from the public, the call for financial reporting and some means of control over the quality of these publications, was much stronger. This may be demonstrated by the fact that the first auditing firm in The Netherlands was founded as early as 1883. This firm did conduct audits although its main activities were bookkeeping and other office work. In 1895 the first Dutch accountants' body was founded. It was called the Dutch Institute of Accountants (*Nederlands Instituut van Accountants, NIVa*). It should be mentioned here that in The Netherlands the term 'accountant' is best translated by 'auditor' and that the NIVa and its successor have focused almost exclusively on the role of the auditor and not on the role of the accountant. The first Belgian auditor's body was founded by law in 1953. This late development of the accounting profession in Belgium has resulted in a large difference in the impact of the profession on financial accounting regulation (see also section 2.4).

As far as the development of financial reporting regulation is concerned, Belgium and The Netherlands followed a rather similar path until around 1830. Before 1830, accounting regulation in both countries was dominated by the French Commercial Code of 1807. After Napoleon had been defeated in 1815, Belgium was attached to The Netherlands. But when the Dutch monarchy was founded in 1831, Belgium separated from The Netherlands to found its own monarchy. Both countries have remained a monarchy until the present day.

After the separation in 1831, The Netherlands had their first indigenous Company Law in 1837. It entailed a number of financial reporting regulations that applied to public companies (*Naamloze vennootschap, NV*) and mandated these firms to report to existing shareholders a balance sheet and the year's result. At that time there were some 140 NV's that were affected by these regulations.

In Belgium, Napoleon's Commercial Code remained in effect some 35 years longer than in The Netherlands, until it was replaced in 1873 by the first Belgian Company Law. This law applied to trading companies and contained detailed instructions on how firms should organise their accounting system. It also contained a number of disclosure regulations for public companies (of which there were 244 in 1864) aimed at informing shareholders to enable them to evaluate the management of the firm.

In The Netherlands, between 1870 and 1930 there were a number of attempts to revise the company law requirements concerning financial reporting regulation. The first attempt was a company law revision drafted in 1871, which was rejected by Parliament. Next, a government commission was formed in 1879, which took 11 years to report. Its recommendations resulted in a draft law that prescribed that companies should be required to publish their financial statements annually. This draft, however, was never submitted to Parliament. Another draft law was issued in 1910, but again it was not approved. Revised versions appeared in 1925 and 1927 and finally a new Company Law was passed in 1928. The law required 'open' public companies, that is companies that are listed on the stock exchange and other large companies, to publish their financial statements by filing them at the Chamber of Commerce². The use of an external auditor was suggested in the law, but it was not mandated. The Company Law of 1928 applied to some 1.000 companies³ (Buijink and Eken, 1996).

Financial reporting not only had drawn attention from regulators in The Netherlands, but also its academic standing increased in this period, much under the influence of Theodore Limperg Jr, who was a professor of business administration at the University of Amsterdam and who also was in charge of the auditing program since the 1920s and was a dominant figure in the NivA. Limperg had a major influence on the educational program of the NivA as well as on the University of Amsterdam and this resulted in many auditors being firm advocates of the theory of current cost that was propagated by Limperg (Zeff et al., 1992, p. 20). When the Limpergian theory and its dominance were challenged, a profound conflict emerged between the Amsterdam school, lead by Limperg and his theory of current cost accounting, and the Rotterdam School which had a more pragmatic posture. This conflict resulted in a split in the Dutch accounting profession when a second professional accounting body, the Society of Academically Trained Auditors (*Vereniging van Academisch Gevormde Accountants, VAGA*) was founded in 1927.

One further development during this period was the voluntary preparation of consolidated accounts by a number of Dutch firms. In 1925 the first consolidated balance sheet was prepared, followed by a number of others in 1926 (Blommaert, 1995, p. 150). This development had started in the US some 30 years earlier and also in the United Kingdom consolidated accounts had been prepared by some firms since 1910. From a detailed analysis of the process that led to one of the first Dutch consolidated accounts, it can be concluded that the introduction of

² The first requirements to publish accounting information to the public, in The Netherlands originate from the Amsterdam Stock Exchange in 1909. These requirements only applied to newly listed companies. At that time 325 NV's were listed on the ASE (Buijink and Eken, 1996).

³ The exact number of firms affected is unknown. The number of listed companies in 1930 was 822, while the total number of NV's in 1929 was 2.449. The number of affected firms lies between those numbers (Buijink and Eken, 1996).

consolidation may have been closely related to the fact that the company had hired Price Waterhouse, an auditing firm which at that time already had considerable experience in preparing consolidated accounts and e.g. had been involved in the consolidation of the US Steel Corporation in 1902 (Blommaert, 1995, p. 163).

In Belgium, between 1873 and 1935, very little attention was paid to financial reporting issues. As mentioned before, due to the dominance of a small number of holding companies and the lack of a well developed stock market, there was very little pressure to enhance the financial information produced by firms. Also, Belgium was more affected by World War I (while The Netherlands remained neutral), which may have hampered the interest in financial reporting regulation considerably. There were some minor changes in Belgian Company Law in 1881 and 1913 of which the first one related to the penalty for firms that did not comply with the company law requirements. Before 1881, public companies that failed to inform their shareholders by making available their financial statements, could be dissolved. This was changed by introducing a liability for the management of the firm to comply with the disclosure regulations since it was felt that dissolving the firm was too harsh a punishment. The amendment of 1913 resulted in some further details to be disclosed in the balance sheet of a firm.

This laissez-fair attitude changed radically in 1935 when, as a result of some banks going bankrupt, the government intervened in the dominance of the holding companies since it was felt that banks that had accepted deposits from the public were not adequately protecting these depositors. As a result, banks were forced to separate their trade investments from their banking activities with the public. Also, the Institute of Bank Auditors (*Instituut der Bankrevisoren / Institut des Reviseurs Bancaires*) was formed of which one member had to be appointed as a commissioner by each bank. The creation of the Institute of Bank Auditors, however, did not result in a mandatory audit for banks, nor were there any regulations with regard to the role of the auditor in companies other than banks.

The legal reforms of 1928 in The Netherlands and of 1935 in Belgium essentially constitute the beginning of government intervention in the disclosure of financial information to interested parties. In both countries these regulations were confined to mandatory disclosures to shareholders and there were no provisions for ensuring the quality of the information produced by firms, e.g. by mandating an audit of the financial statements. Nevertheless, in practice an audit was not uncommon for Dutch companies and also the auditing profession in The Netherlands at that time was well established. In Belgium, on the contrary, the auditing profession was clearly undeveloped and only a few firms had their accounts audited. As a result, although in both countries after the Second World War there was a growing concern for the regulation of the disclosure of accounting information by firms, the driving force behind these developments was quite different in both countries. These developments will be discussed in the next section.

An overview of the major events for this period is presented in table 2.1

Overview of major events-till 1945

Table 2.1

BELGIUM		THE NETHERLANDS	
		1602	Founding of the VOC, origin of the Amsterdam stock exchange
1803	Start of the first stock exchange		
1831	Founding of the Belgian monarchy	1831	Founding of the Dutch monarchy
		1837	First indigenous Dutch Company Law
1873	First indigenous Belgium Company Law		
		1883	First Dutch auditing firm
		1895	Founding of the Dutch Institute of Accountants (NIVa)
		1925	First consolidated accounts
		1928	Revision of Company Law
1935	Revision of Company Law		
1935	Founding of the Institute of Bank Auditors		

2.2.2 The period from World War II till 1973

The post-war socio-economic orientation towards planning, control and centralisation in The Netherlands as well as in Belgium, provided the basis for the centralising order-seeking, legal framework that was to be developed in the forthcoming period. The development of the regulation of industrial organisations and of the information disclosure to the workers' councils, an essential process during this period, was very similar in both countries, but was driven by different interested parties. An overview of the major events for this period is presented in table 2.2.

In both Belgium and the Netherlands, the development of a regulatory structure started immediately after the Second World War. In the Netherlands, one of the first post-war regulations regarding labour relations was the Industrial Organisation Act (*Wet op de Bedrijfsorganisatie, WBO*) of 1950 which resulted in the creation of the Social Economic Council (*Sociaal Economische Raad, SER*). The SER was responsible for furnishing advice to the Government on a wide range of policy questions in social and economic affairs and also for supervising the establishment of a complex structure of horizontal and vertical industry boards with broad regulatory powers. Also in 1950, the Workers' Council Act (*Wet op de*

Ondernemingsraden, WOR) regulated the right to information of employees (Windmuller, 1969). The WOR, however, did not provide any structure for the workers' council to make complaints if the company management did not provide the necessary information (Rood, 1982) nor did it specify what information the workers' council was entitled to.

In Belgium, the Law of 20 September 1948 established institutions similar to the Dutch SER and WOR, in particular the Central Economic Council (*Centrale Raad voor het Bedrijfsleven / Central de l'Economie, CRB*), the Industrial Councils, the workers' councils, the National Workers' Council, the Joint Committees and the Health and Safety Committee. The 1948 Law also regulated the financial and economic information to be provided to the workers' councils.

In The Netherlands, further initiatives into the right to information of employees, primarily were taken by the employers' organisations. The Hamburger Committee, appointed by the Council of the Dutch Employers Federation, published its report in 1962 in which it suggested that managers should become more aware of the desirability of as great a degree of openness as possible about the affairs of the business. The Committee particularly addressed the importance of the provision of information to the employees, possibly through the workers' councils. As a result of these developments, the Dutch government appointed the Verdam Commission, which launched its report on 26 November 1964. The report contained draft articles for the revision of the WOR of 1950 and also contained proposals for the revision of Company Law, including financial reporting issues. The Verdam Committee recommended that workers' councils should be given additional powers, including the right to determine, up to certain limits, the content of information that management should disclose on the enterprise's economic affairs, and also the right to receive and discuss the company's annual financial statements. Also the report suggested the workers' councils could enforce their rights by application to the newly established Enterprise Chamber (*Ondernemingskamer, OK*). With respect to the revision of Company Law, the Verdam commission favoured regulation by law through a few rather general statements, rather than strictly regulating the content and form of financial statements by detailed company law requirements.

As a response to the Verdam report, the two most important auditing bodies at that time, NivA and VAGA, in 1966 issued a joint set of comments (Zeff et al., 1992, p. 168). This was the first official reaction by any Dutch auditing body on the improvement of financial reporting. The profession's basic point of view was that financial reporting had improved without any regulatory guidance and that any new regulations should not hinder the future development of financial reporting. Nevertheless, the opinion was expressed that the Verdam proposals were a valuable description of current views on financial reporting, and the points made by the NivA and VAGA did not address any fundamental issues of the Verdam report (Zeff et al., 1992, p. 171). One year later, the NivA and VAGA merged into

the Dutch Institute of Registered Accountants (*Nederlands Instituut van Registeraccountants, NIVRA*). In that same year the auditing profession was formally regulated by law (see also section 4.2).

The Verdam Report led to parliamentary consideration of a draft law for revising the Company Law, which in 1970 resulted in the Act on Annual Financial Statements of Enterprises (*Wet op de Jaarrekening van Ondernemingen, WJO*). The Verdam Report also led to a draft law which aimed to make the installation of the workers' council obligatory for large companies, provided more safeguards for its independence and also dealt with the information to be provided to the workers' council. This draft law resulted in the 1971 Law on workers' councils (Zeff et al., 1992)⁴.

In Belgium, the main stimulus for further development of accounting regulations came from employees' organisations. First, the trade unions tried to promote further regulations concerning the auditing profession. The 1948 Law had stipulated that the information provided to workers' councils should be audited. But there was not a well developed auditing profession in Belgium nor were there any legal provisions as to who could act as an auditor. Although the employers' organisations were very much against any regulation of the auditing profession, the Institute of Auditors (*Instituut der Bedrijfsrevisoren / Institut des Réviseurs d'Entreprise, IBR*) in Belgium was established by Law in 1953. The formation of the IBR separated the auditing profession from the accounting profession in Belgium, of which the main representative body became the National College of Accountants of Belgium (*Nationaal College van Accountants van België / Collège National des Experts-Comptables de Belgique, NCAB*), which was established in 1950 by some twenty professional accounting groups.

⁴ Article 30 of the 1971 WOR deals with the general information disclosure to the workers' councils and article 24 covers the financial information disclosure. Article 30 mentions that company management should provide the worker's council in due time with all the information that the council needs to be able to reasonably fulfil its duties. In case of discussion about what is supposed to be 'due time' and what is 'reasonably', the civil judge was entitled to decide. Article 30 also mentions that company management is not obliged to disclose information that is not reasonably necessary or information that is vital to the company. Article 24 obliges companies to disclose their annual report to the workers' council, if the preparation of the annual report is required by the WJO.

The 1971 Law on workers' councils was replaced later by the Law on workers' councils of 5 September 1979. At that time the information disclosure requirements were enlarged considerably to include the provision of information on juridical and organisational, financial and economic, social and personnel matters and also some specific information dealing with the advisory obligations and the requests of the labour inspection. Also information relating to the company budget, as well as a half year survey of the company results, prospective information concerning plans and expectations for the company annual result, new policies, etc. had to be presented to the worker's council. Furthermore, management had to inform the workers' council about plans to consult an external expert-advisor. Since 1979, the Law on workers' councils has seen several changes (Act of 22 May 1981 (Off. Gaz. 416), Act of 7 December 1983 (Off. Gaz. 663), Act of 1 February 1990 (Off. Gaz. 91).

Furthermore, the trade unions were concerned that the workers' councils, which had become mandatory for large firms in 1948, were not provided with the information they needed in order to carry out their function (Lefebvre and Flower, 1994, p. 88). The trade unions in 1970 succeeded in persuading the government to call the Economic and Social Conference. During this Conference, government-, employers- and employee representatives confronted each other. Eventually, the trade-unions succeeded in putting forward the draft of the Fourth EC Directive as a basis for the further development of Belgian financial reporting regulations. Also, the Belgian Royal Decree of November 27, 1973 on the financial and economic information for the workers' councils brought about regulations similar to the Dutch 1971 and 1979 Laws on the workers' councils (see Lefebvre and Van Nuffel (1996) for more details).

The need for the development of professional accounting standards that should add further detail to the company law requirements, resulted in the institution of a standard setting body in both countries in the early 1970s. The *Tripartiete Overleg Commissie (TO)* in The Netherlands was organised in 1971 while in Belgium the Accounting Standards Commission (*Commissie voor Boekhoudkundige Normen / Commission des Normes Comptables, CBN*) was established in 1975. Both institutions have a similar task, related to the development of accounting standards in addition to the legal financial reporting requirements. The standards issued by both the CBN and TO have no formal legal status but they do tend to have a strong impact on the accounting practices used by reporting companies. Both bodies will be discussed in greater detail in section 2.3.

With respect to enforcing compliance with financial reporting regulations, in The Netherlands the establishment of a Companies Commission had been suggested during the process that ultimately led to the WJO. The Verdam Commission, however, felt a Companies Commission that should review all annual reports disclosed, would be too costly. Instead, in addition to introducing a mandatory audit, a specialised judicial body was instituted, the Enterprise Chamber (*Ondernemingskamer, OK*). The establishment of the OK in The Netherlands was, and still is, a quite unique issue. In Belgium, disputes on the contents of financial statements and issues dealing with the compliance to company law requirements are dealt with by the commercial courts (see also section 2.3).

As a general conclusion for this period, one could say that similar events happened in both countries in about similar pace, but that the most influential actor in the development of financial reporting regulation is different. In Belgium, the most influential group to stimulate changes were the employees' organisations, while in Dutch context the emphasis is put on the strong role of the employers/preparers. In The Netherlands, also the accountants and auditors seem to be dominant players in the regulatory process during this period, although it has been suggested that their

role is less important than is often given them credit for (Zeff et al., 1992, p. 376). In Belgium, accountants and auditors have played only a minor role in the rule-making process in the period under study.

Overview of major events 1945-1973

Table 2.2

BELGIUM		THE NETHERLANDS	
		1945	Extraordinary Decree on Labour Relations
1948	Law on the industrial organisation	1950	Industrial Organisation Act
		1950	Workers' Council Act
1953	Creation of IBR	1967	Founding of NivRA
		1967	Regulation of the audit profession
1970	Economic and Social Conference	1970	Act on Annual Financial Statements of Enterprises (WJO)
		1971	Establishment Tripartite Study Group (TO)
		1971	Establishment Enterprise Chamber
		1971	Revision of the Act on Workers' Councils
1973	Royal Decree on Financial and Economic Information for the Workers' Councils		

2.2.3 The period after 1973

Since the European Union has been involved in the design of financial reporting regulations, the changes in Company Law both in Belgium and The Netherlands have been dominated by the various Directives issued by the EU.

In Belgium, as a result of the 1970 Economic and Social Conference, the draft Fourth Directive had been promoted as the basic document for restructuring Company Law. Also, as a firm supporter of the EU, the Belgium government felt it was better to anticipate the Fourth Directive instead of making any further regulatory changes on a national level (Lefebvre and Flower, 1994, p. 88). As a result, Belgium was the first of all EU member states to incorporate the Fourth EC Directive in its national legislation as early as 1975, even before the final version of the Fourth Directive had appeared. Almost a decade later, the final version of the Fourth Directive was incorporated in Belgian law through the laws of 1983, 1984 and 1985. A Royal Decree of 1985 made the implementation of the Fourth Directive complete. The adaptation of Belgian law in 1975 applied to public and private limited liability companies and resulted in a major increase in the number of financial statements disclosed by Belgian firms. In 1977 over 10.000 firms filed their financial

statements at the *Balanscentrale* of the National Bank, while in 1983 the number of statements filed amounted to 18.000 (Jegers and Buijink, 1987, p. 5). As a result of the regulatory change in 1985, the scope of the financial reporting regulations increased considerably, as a result of which the number of filings at the *Balanscentrale* has increased to over 200.000 in recent years.

One development in Belgium during this period did not result from any EC Directive. The major accountants' organisation, the NCAB, in 1964 had decided to appoint the Geulette Commission with the task of preparing the obligation for Belgian enterprises to use a standard or uniform chart of accounts, in line with the tradition of a number of major European countries such as Germany and France. The Royal Decree of 8 October 1976 on financial reporting which included a mandatory minimum chart of accounts, was based upon the recommendations of the Geulette Commission.

In The Netherlands, the implementation of a standard chart of accounts has never been seriously considered since it was generally felt that the provision of useful information in the financial statements was not served by confronting companies with detailed regulations and prescriptions but was best served by the formulation of a relatively small number of more general statements. Dutch Company Law had been thoroughly revised in 1970, a revision that resulted from forces at the national level rather than being the result of any EC Directive. Although the first initiative of the EU to prepare the Fourth Directive had already been taken in 1968, in 1970 the Dutch government may not have wanted to delay the revision of the Company Law any further since the last revision of the Dutch Company Law dated back to 1929. The WJO of 1970 considerably extended the requirements for the contents and publication of financial statements and in that sense did bring the Dutch regulations much closer to the level of the upcoming Fourth Directive. The WJO applied to public companies and also to the large private limited liability companies. However, in effect the scope of the financial accounting regulations decreased considerably at the time of the introduction of the WJO because most small and medium sized firms changed their legal form from a public company to a private company, mostly to avoid the financial accounting regulations (Maijoor, 1991). So, although the number of public companies at the time of the introduction of the WJO was 46.400, only some 3.000 companies actually were affected by the WJO, while all others became a private limited liability company.

The incorporation of the Fourth Directive into Dutch law in 1983 then dramatically increased the scope of the Dutch Company Law as it now applied to all public and private limited liability companies. As a result the number of disclosures by Dutch firms has increased from some 84.000 in 1984 to almost 225.000 in 1991 (Bollen, 1996).

Although it was the purpose of the Fourth Directive to harmonise financial reporting regulation for member countries, a number of differences still exist after the Directive has been implemented into the Belgium and Dutch law. The most important differences will be discussed briefly here:

1. In The Netherlands the principal criterion for the company law requirements is that the financial statements of a firm should provide 'insight' into the financial position of the firm in accordance with 'acceptable' accounting standard. This element of 'insight' in Dutch law is quite unique and makes the Dutch law one of the few to explicitly define a purpose to financial statements instead of requiring the conformation to certain standard or rules without any statement of the purpose thereof (Zeff et al., 1992, p. 28). According to Belgian law, financial statements should faithfully represent ('getrouw beeld geven') the financial position of a firm. The faithful representation normally will automatically result from following the requirements of the Company Law (Van Hulle, 1993, p. 79).
2. Dutch Company Law allows firms to use current cost accounting to value their tangible and financial fixed assets and inventory. This feature, largely resulting from the strong tradition of the Limpergian theory of current cost accounting, again makes the Dutch system quite unique. In Belgium, as in most other EU member states, only historical cost accounting is allowed⁵.
3. In Belgium, firms have to comply with the standard set of accounts while also the way data is to be presented to the Balanscentrale is prescribed in detail. In The Netherlands, the use of standard formats for the balance sheet and income statement is mandatory but these requirements are far less detailed.
4. Dutch Company Law distinguishes between small, medium sized and large companies and provides partial exemptions for small and medium sized firms. In Belgium, unincorporated firms with annual sales under BEF 200.000 are completely exempted from the financial reporting regulations. Additionally, Belgian law only distinguishes between small and large firms but it should be taken into account here that the exemptions provided to *small* Belgian firms are comparable to the exemptions provided to *medium sized* firms in The Netherlands.
5. A final noticeable difference is the way legal reserves are handled. In Belgium the term legal reserves relates to the mandatory retainment of part of a firm's earnings (5% for small firms, 3.5% for large firms) to a maximum of 10% of the share capital of a firm. In The Netherlands legal reserves are related to the protection of stakeholders in cases where the firms (1) uses current cost accounting, (2) capitalises research and development costs as part of the intangible assets, or (3) capitalises the costs of issuing stocks as part of the intangible assets. The formation of legal reserves in these cases is intended to prevent any payments being made to shareholders that would result from unrealised revaluation reserves (ad 1) or from expenses being capitalised under intangible assets (ad 2 and 3).

⁵ There are a small number of exceptions to this general rule, which are described by Lefebvre and Flower, 1994, p. 100.

In 1983 the EU issued the Seventh Directive relating to the preparation of the consolidated accounts. In the case of The Netherlands the effect of this directive, which was implemented in Dutch law in 1988, was very limited as a result of the fact that consolidation had already been mandated since the adaptation to the Fourth Directive in 1983. In Belgium, however, there had been no rules concerning consolidated accounts before the introduction of the Seventh Directive, apart from an obligation for holding companies to prepare consolidated accounts, without any specification of the contents or methods to be used, introduced in 1977. This time Belgium adapted its law as one of the last of the EU member states in 1990, and the text of the Directive was copied quite literally into the Belgian Company Law. After adaptation to the Seventh Directive, there remain no important differences in financial reporting regulation for consolidated financial statements between Belgium and The Netherlands (Van den Brand, 1996).

Overview of major events - period since 1973

Table 2.3

BELGIUM		THE NETHERLANDS	
1975	Law on accounting standards and financial reporting (implem. 4 Dir.)		
1975	Establishment of the CBN		
1976	Royal Decree on financial reporting and minimum standard chart of account		
		1979	Revision of the Act on Workers' Councils
1983	Formal implementation of the Fourth Directive	1983	Implementation of the Fourth Directive
1985	Implementation of Eighth Directive		
1985	Establishment of IDAC		
1990	Implementation of the Seventh Directive	1988	Implementation of the Seventh Directive
1992	Implementation of EU regulations concerning the financial reporting of banks		
1992	Creation of BIB		
		1993	Implementation of EU regulations concerning the financial reporting of banks
		1993	Implementation of EU regulations concerning the financial reporting of insurance companies
		1993	Implementation of Eighth Directive
1994	Implementation of EU regulations concerning the financial reporting of insurance companies		

Further EU regulations concerning the financial reporting of banks and insurance companies were introduced in Belgian law in 1992 and 1994 and in Dutch law in 1993. In 1984, the EU issued the Eighth Directive concerning the auditing profession which was implemented in Belgium in 1985 and in The Netherlands in 1993. The effect of these changes on the accounting profession in both countries will be dealt with in section 2.4. An overview of the major events since 1970 is presented in table 2.3.

2.3 A COMPARATIVE ANALYSIS OF THE CURRENT REGULATORY STRUCTURE

In Belgium, as well as in The Netherlands, the main authoritative body for the financial accounting regulation is the Government, which set out the rules in its legislation (for The Netherlands, we refer to the Title 9, Book 2 of the Civil Code and the Administrative Decrees, for Belgium to the numerous detailed regulations in Laws and Royal Decrees.). Both countries, being EU-member states, have to comply with the EU Directives. This explains a growing number of similarities concerning the contents of the accounting legislation in the last decade. Furthermore, more similarities in the content of the accounting rules and in the system of financial regulation can be observed since both countries are influenced by the International Accounting Standards Commission (IASC), of which the major professional bodies in both countries are members, as well as the International Federation of Accountants (IFAC) and the Fédération des Experts Comptables Européens (FEE).

In the process of financial reporting regulation various bodies and institutions are involved (see figures 2.1 and 2.2 for a schematic overview). On the governmental level in Belgium, the Central Economic Council (*Centrale Raad voor het Bedrijfsleven / Central de l'Economie, CRB*) provides advice to the Government on social-economic matters. The CRB's advice has a direct influence on the draft laws, including those relating to accounting matters. In The Netherlands, the Social Economic Council (*Sociaal Economische Raad, SER*) has a similar function. The SER has an advisory role and comments on draft laws that will be issued to the Dutch parliament. It therefore also is formally involved in the process of financial reporting regulation but the SER has never paid particular attention to these matters. It seems that in general the SER leaves financial reporting issues to the Council on Annual Reporting (*Raad voor de Jaarverslaggeving, RJ*) and in fact it provides two thirds of the funding of the RJ. In the CRB as well as the SER, various stakeholders, such as representatives from employers and employees, are represented.

In Belgium, with respect to the development of a set of accounting standards that should add further detail to the company law requirements, the Accounting Standards Commission (*Commissie voor Boekhoudkundige Normen / Commission des Normes Comptables, CBN*) was established to forward opinions to the

Government and Parliament as required or on its own initiative and to develop a body of thought and to formulate the principles of proper accounting by way of opinions or recommendations. The CBN has only an advisory function and its recommendations are not legally binding unless they are incorporated into laws or royal decrees (Lefebvre and Flower, 1994, p. 103). Most bulletins issued by the CBN have dealt with the interpretation and application of financial reporting regulations. Only on a few occasions has the commission dealt with issues that are not covered by the law and in this sense it has not been very successful in formulating a set of accounting standards that add to the requirements incorporated in law.

The composition of the CBN is as follows: it has representatives of the Government, of the professional bodies, of the small business organisations and of the Banking and Finance Commission. The Government has a strong representation in the CBN as the commission includes delegates from the Ministry of Finance, the Ministry of Small Business, the Ministry of Justice and the Ministry of Economic Affairs. Most of the members of the CBN are lawyers and the accounting profession either directly or indirectly holds 4 seats in the CBN.

In The Netherlands, the *Tripartiete Overleg* established in 1971, which in 1981 was succeeded by the Council on Annual Reporting (*Raad voor de Jaarverslaggeving, RJ*), has a task similar to the CBN. The RJ issues Guidelines for Annual Reporting, based upon the accounting law of the Civil Code and the Administrative Decrees and also taking into account the verdicts of the Enterprise Chamber (*Ondernemingskamer, OK*). The status of the Guidelines issued by the RJ is rather unclear. They have no legal status as they are not mentioned by Company Law. Also, the Enterprise Chamber has not recognised the Guidelines and some of its verdicts even go against the opinions expressed by the RJ. Finally, the NivRA has never required its members to follow the Guidelines although it encourages the use of them in a more informal way. Nevertheless, the Guidelines do seem to have a considerable impact on the accounting practices followed by Dutch companies.

Decisions within the RJ are taken only when consensus among all of its members is achieved. The RJ comprises members of the employers and employees federations, the Society of Financial Analysts and the NivRA. It should be noticed that most of the members of the RJ are qualified accountants because all members representing the employers federations and also some of the representatives of the trade unions are qualified accountants. In fact, out of a total number of 13 members, currently 11 are qualified accountants.

The RJ is mainly financed by annual contributions of the NivRA and the SER. The Belgian CBN on the other hand is part of the Banking and Finance Commission and is financed by this Commission. Nowadays, both the CBN and the RJ essentially are tailoring the Belgian and Dutch standards along the lines of the IASC standards and

it seems that in the last years the development of specific national standards in both countries has largely come to an end.

With respect to the enforcement of financial reporting regulations, the Dutch Enterprise Chamber (*Ondernemingskamer, OK*) is a unique feature. It is part of the Court of Justice in Amsterdam and has to judge disputes involving legal entities, including disputes concerning the contents of financial statements. The OK consists of 3 judges and 2 additional counsellors who, in the case of proceedings concerning financial statements, usually will be registered accountants. The verdicts of the OK are very influential in the regulatory process, as they have to be followed by the companies in preparing their annual reports and also because they are taken into account by the RJ in the preparation of its Guidelines. The first decisions by the OK were issued in 1977 and 1978.

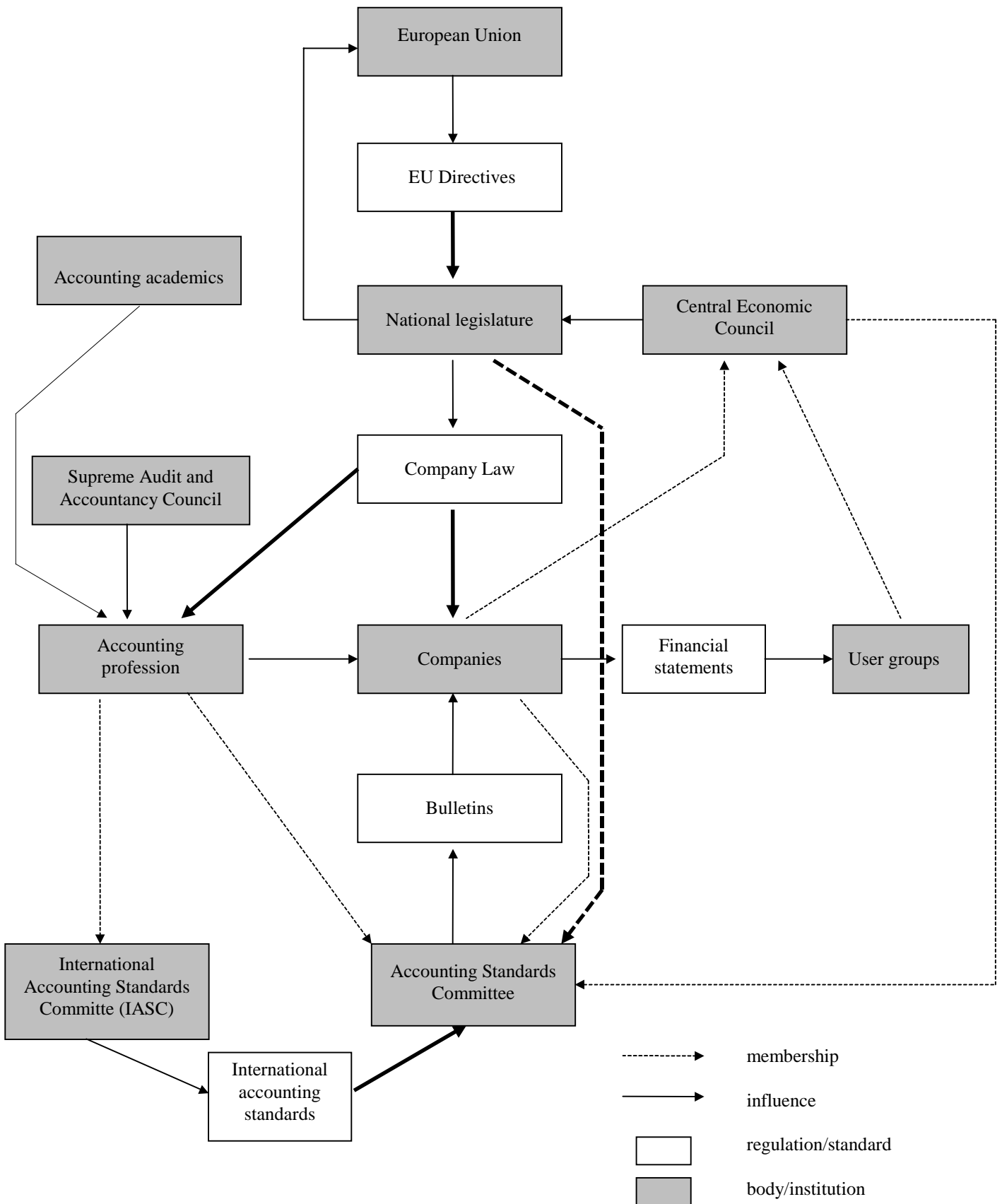
Between 1977 and 1991, a total number of 638 cases have been brought before the OK, 76 of which related to financial reporting issues (Slagter et al., 1996, p. 19). A relatively large number of these cases, however, were never decided on by the OK since the plaintiff could not prove to be an 'interested party' or could not demonstrate that he had suffered a loss as a result of the way the financial statements of a particular company had been drawn up. Of the 45 cases that the OK eventually did issue a verdict until mid-1991, 21 were introduced by the Foundation to Investigate Company Reporting (*Stichting Onderzoek Bedrijfsinformatie, SOBI*), a social pressure group pleading for an improvement of financial reporting in The Netherlands (Zeff et al., 1992, p. 340). In the last years, SOBI has withdrawn from bringing cases to the OK. The Attorney-General, who is attached to the Court of Justice, has introduced a few cases since then, but he did not succeed in demonstrating a public interest in his attempts to initiate judicial proceedings (Slagter et al., 1996, p. 30). Few other parties have brought cases before the OK, the reasons for which could be the high costs and the long duration of these proceedings (one case took some four years before a decision had been made). Therefore, the number of financial reporting cases introduced with the OK has declined considerably to an average of 1 to 2 cases annually.

An institution similar to the Dutch OK does not exist in Belgium, nor, for that matter, in any other country. In Belgium, disputes between legal entities are handled by the commercial courts. However, only on rare occasions have cases been brought before the Belgian commercial courts. In Belgium, companies are obliged to file their annual reports and accounts at the headquarters of the National Bank of Belgium (*Nationale Bank van België/ Banque Nationale de Belgique, NBB*), which is also the office of the commercial court where the corporation's file is kept. The *Balanscentrale* (established under the law of 24 March 1978) of the NBB has to check the standardised annual reports for arithmetical and logical consistency, such as subtotalling, verifying the balance sheet information with information in the notes, etc. If material errors are detected by the *Balanscentrale*, the company is required to return a corrected version of its financial statements.

Figure 2.1. The Structure of Financial Reporting Regulation in the Netherlands



Figure 2.2. The Structure of Financial Reporting Regulation in Belgium



It is worthwhile mentioning that in Belgium, every enterprise has to draw up a chart of accounts that conforms to the content, presentation and numbering system of the minimum standard chart of accounts issued by the Government (Royal Decree of 8 October 1976), while in The Netherlands, enterprises can freely choose the chart of accounts for their own business, with only a few standard requirements. Consequently, the comparability of financial statements may be greater in Belgium than in The Netherlands.

With respect to the influence of accounting and auditing academics, it seems that in the Netherlands academics are much more influential compared to Belgium. The impact of academics in the Netherlands mainly stems from the strong relation between the academic and professional world. In most cases, professors in auditing and accounting are part time academics and at the same time are part time practitioners. Also, although the NIVRA has its own training program, many auditors first acquire an academic degree at one of the six universities that offer a degree program in business economics, after which they have to follow a number of post graduate courses to become a registered accountant. Belgian accounting academics were important actors in the 1970 Social and Economic Conference, but since then their influence on the regulatory process seems to have faded. In Belgium, the academic influence on accounting regulation much more emanates from professors in law (i.e. fiscal law). Currently, it seems that the influence of Belgian accounting professors is limited to some influence on the training programs of the IBR and IDAC. Also, few accounting professors hold a part time position as a partner of an audit firm.

In both countries, the auditing profession evidently plays an important role in ensuring the quality of financial accounting information. In order to guarantee the quality of the auditor, the introduction of the Eighth Directive in the national legislation of both countries has set a minimum standard of educational level of the profession. In The Netherlands, further measures to ensure the quality of the audit and the independence of the auditor are mostly left to the professional bodies. Both the NIVRA and NOVAA members have to apply the code of conduct, of which in 1995 a joint version has been presented.

In Belgium, the Supreme Audit and Accountancy Council (*Hoge Raad voor het Bedrijfsrevisoraat en de Accountancy / Conseil Supérieur du Revisoraat d'Entreprises et des Experts-Comptable*) was established by the law of 21 February 1985 (changed by Royal Decree of 23 June 1994). The main duty of this Council is to protect the quality of the information disclosed to the general public and to supervise the audit and accounting profession. Therefore the Supreme Council is responsible for defining the 'Code of conduct and professional ethics' of the accountancy profession. As the structure and organisation of the professions of auditor, accountant, bookkeeper and tax advisor is one of the tasks of the Supreme Audit and Accountancy Council, the current President of the Council recently has launched the idea of gathering the accountancy profession in one single professional

institute of accountants and is stimulating the existing institutions to negotiate in an Inter-institutes Co-ordination Committee. The Supreme Audit and Accountancy Council is also concerned with checking the conformity of the Belgian accounting and auditing standards with the Belgian Company Law and the international accounting standards.

In both countries, the accounting and auditing profession currently has an important influence on the process of financial reporting regulation, through its representation on several boards and organisations. This particular influence will be discussed further in the following section.

2.4 THE ACCOUNTING PROFESSION

The previous section on the history of accounting in Belgium and The Netherlands has demonstrated some basic differences in the development of the accounting and auditing profession in both countries. However, with the introduction of the Eighth EU Directive it might be expected that the structure of the accounting profession in both countries would be largely similar. But even today, major differences can still be observed between both accounting profession systems.

It should be noted that there is an important difference in terminology between the Belgian and Dutch interpretation of the terms ‘accountant’ and ‘auditor’. In Belgium, the accountancy profession is exercised by two professional experts; the first one being the auditor (*bedrijfsrevisor/reviseur d’entreprise*) and the other one being the accountant, having a more advisory function. In The Netherlands there never has been a formal distinction between auditors and accountants. There is, however, a distinction between the registered accountant (*register-accountant*) who until the implementation of the Eighth Directive had the exclusive right to the certification of company accounts, and the *accountant-administratieconsulenten* whose work traditionally has been mostly directed to small and medium-sized companies.

2.4.1 The accounting profession in Belgium

The history of the accounting profession in Belgium dates back to the end of the 19th century. The first accountancy body was founded in 1903 when the *Syndicale Kamer der Boekhouders (Chambre Syndicale des Experts-Comptables)* was established. In the following years a large number of small accounting bodies were established, resulting in a disassociation of the Belgian accounting profession. Therefore, in 1946 some 20 accounting bodies jointly set up a committee to prepare the establishment of a body that should organise the training of accountants, that should secure the accounting profession, enlarge its responsibilities, enhance the accountancy science and literature and should promote the official recognition of the

accounting profession. As a result, the National College of Accountants of Belgium (*Nationaal College van Accountants van België / Collège National des Experts-Comptables de Belgique, NCAB*) was established in 1950. Although the NCAB lacked any legal status, it may be considered to be the most representative body of mainstream accountants in Belgium at that time.

The regulation of the auditing and accounting profession in Belgium started when the Belgian government in 1935 decided to intervene in the dominance of the holding companies, forcing them to separate their trade investments from the banking activities with the public. This rule was set in the Royal Decree of 9 July 1935, which also regulated the supervision of the banks and established the Institute of Bank Auditors (*Instituut der Bankrevisoren / Institut des Réviseurs Bancaires*). Each bank had to appoint one member of the Institute of Bank Auditors as a commissioner. In the Report to the Crown preceding the Royal Decree of 9 July 1935, the establishment of the function of 'bank auditor' is explained as follows: 'the observance of the rules set by the Banking Commission has to be controlled by an adequate institution; therefore this Royal Decree is enlarging the technical competence of the commissioners in the banks'. At that time, no regulations were issued for the audit of the company accounts of enterprises not involved in banking activities.

The Law of 20 September 1948, settling the information disclosure to the workers' councils, mentioned that this information had to be certified by an auditor (*revisor*). During the following period the idea of establishing an institute of auditors emerged, which ultimately resulted in the enactment of the Institute of Auditors (*Instituut der Bedrijfsrevisoren / Institut des Réviseurs d' Entreprise, IBR*) that was created in 1953 (Law of July 22, 1953). Also, as a consequence of the law of 1953, the title of Auditor (*Bedrijfsrevisor / Réviseur d' entreprise*) became protected and auditors were designated a number of functions, for which, however, they were not holding the monopoly. In the following years, the responsibilities of the members of the IBR were regulated further by various Laws and Royal Decrees (e.g. Law of December 1, 1953, stating that quoted companies should appoint one auditor from the IBR among the commissioners; Law of March 16, 1954, reserving the monopoly of auditing the organisations of public interest to the members of the IBR; period 1962-1972: different laws and Royal Decrees extending the responsibilities of the auditors). The Royal Decree of March 16, 1957 and the Law of 24 July 1957 stipulated the ethical code and the rules for the training of auditors.

A large number of members of the Institute of Bank Auditors have joined the IBR. This means that while some bank auditors are only a member of the Institute of Bank Auditors, most are members of both institutions. Nevertheless, at the start of the 1970s, the IBR still was a relatively uninfluential institution, both in terms of status and number of members. There was no mandatory audit and the small number of audits that were conducted voluntarily, were mostly carried out in a cursory and

casual manner. As a result qualifications and reservations were virtually unheard of (Lefebvre and Flower, 1994).

In 1985, as a result of the Eighth EU Directive, a law was passed in Parliament (Law of 21 February 1985) giving members of the IBR the exclusive right to perform all functions with which public auditors were entrusted by law, including the exclusive right to certifying the accounting statements of all large enterprises⁶ and all companies that were required to have a workers' council. In the Belgian structure, the statutory auditor has to be appointed as a commissioner to the enterprise for a period of three years. The commission fee is settled at a fixed rate at the start of such a three year period. Statutory auditors may also provide other accountancy and consulting services, provided they remain ancillary to their auditing activities (IBR has set the norm of a minimal of 60% of the earnings of the auditor to be related to legal duties).

While the IBR was the sole representative of the audit profession, the accounting profession in 1957 again separated into two major bodies: the aforementioned NCAB and the National Association of Belgian Bookkeepers (*Nationale Associatie der Boekhouders van België / Association Nationale des Comptables de Belgique, NABB*). The first step to reunite the accountants within one single body was taken when the Institute of Accountants (*Instituut der Accountants / Institut des Experts-Comptables, IDAC*) was created by the Law of 21 February 1985. The activities of IDAC-accountants include the verification and rectification of all accounting documents, the provision of accounting and administrative or organisational expertise, the organisation of, and advising on accounting and administrative or organisational matters, the bookkeeping on behalf of third parties and tax advice services. The members of IDAC can be divided into two different groups: the external accountants, who are professionals who offer their services to the general public, and the internal accountants, who are employees, mainly associated or employed by companies, firms and other institutions.

Most NCAB members and NABB members joined IDAC. However, a number of Belgian bookkeepers could not become a member of IDAC because of insufficient (according to IDAC standards) professional education or experience. They started a strong lobby to have their own official body, a process that ultimately led to the creation of the Professional Institute of Bookkeepers (*Beroepsinstituut van Boekhouders / Institut Professionnel des Comptables, BIB*) (Royal Decree of May 19, 1992). At that time the NCAB and NABB were dissolved

In 1985, in order to supervise the organisation of the auditing profession, the Supreme Audit Council (*Hoge Raad voor het Bedrijfsrevisoraat / Conseil Supérieur*

⁶ To qualify as a large company, a firm must exceed two of the following criteria: an average of fifty employees, a turnover of 170 million BEF, and a balance sheet total of 85 million BEF. A company with over 100 employees is immediately considered to be a large company.

du Revisorat d' Entreprises) was established by Law. The responsibilities of the Supreme Audit Council in 1994 were enlarged, and also its name was changed into Supreme Audit and Accountancy Council (*Hoge Raad voor het Bedrijfsrevisoraat en de Accountancy / Conseil Supérieur du Revisorat d' Entreprises et des Experts-Comptable*). The Supreme Audit and Accountancy Council prepares recommendations to the Government and to the Institute of Auditors or Accountants, upon request or on a voluntary basis. These recommendations may relate to the organisation of the accountancy profession, the code of conduct and professional ethics of the accountancy profession and related to the auditing and accounting standards.

The implementation of the Eighth EU-Directive was completed in 1995 with the company law changes in the Law of April 13, 1995. Article 98 of this law mentions that the legal framework of the profession of accountant will be adapted to the existing legal framework for the auditors' profession. The Supreme Audit and Accountancy Council therefore is trying to stimulate the co-operation between the existing accountancy institutions in Belgium. It even advocated the idea of creating one single professional body of accountants and auditors. Discussions between IDAC and IBR on further collaboration are now under progress. Up till now, BIB has not been involved in these negotiations. The Belgian fiscal consultants are trying to get their own Institute of Fiscal Accountants (*Instituut van Belastingconsulenten*) established. At this moment they are facing heavy opposition from IDAC, IBR and BIB. According to these institutions, it would be preferable to have the fiscal consultants join one of the existing institutions, instead of creating a fourth one. At the end of 1995, the Supreme Audit and Accountancy Council launched the idea that the co-operation between IBR, IDAC and BIB should be stimulated and asked the professional institutions to establish the Inter-Institutes Co-ordination Committee (by January 1996), in order to exchange views on a closer co-operation.

It is worthwhile mentioning that the Belgian auditor plays an important role in the provision and certification of the financial and economic information to the workers' councils in Belgium. The *revisor* not only has to certify the financial and economic information prepared by the company management, but also is present during the meetings of the workers' councils concerning this information, where he is permitted to comment on the information provided to the personnel and the management. In 1994, a study based on a sample of 1206 firms out of a total of 2822 companies providing this information to their workers' council, showed that 91.9% of the sample firms had appointed an auditor for the certification (Min. van Economische Zaken, 1994, p. 48). The members of the workers' councils also have the right get the assistance of an expert. In that case, an auditor can be asked to help the workers' council to clarify the management report. In practice, in cases where the workers' council requires the assistance of an expert, they tend to choose a trade union's representative more often than an auditor. On average, only about 7 % of the requested experts are auditors (Lefebvre et al., 1995).

2.4.2 The accounting profession in The Netherlands

In the process of financial reporting regulation in The Netherlands, the auditing profession has been, and still is, one of the dominant factors. As mentioned earlier, the first Dutch auditing firm was founded in 1883 and in 1895 the Dutch Institute of Accountants (*Nederlands Instituut van Accountants, NIVa*) was founded. As a result of these early developments, the accounting profession has been a strong force in the financial reporting environment from an early stage. Although the accounting profession was formally regulated by law and in this way was designated a number of exclusive tasks only as late as 1967, the accountant has had a strong influence on financial reporting practice since a much earlier period in time. This may be demonstrated from the results of a number of studies on the voluntary audit of Dutch company accounts and from studies on the early development of Dutch consolidated accounts.

An annual external audit for Dutch firms only became mandatory with the introduction of the WJO in 1970. However, at that time most large Dutch firms already had an annual audit performed voluntarily. From a study concerning Dutch firms in 1926, it is clear that at that time already a substantial part of the firms listed on the Amsterdam Stock Exchange voluntarily had an audit performed annually. From a sample of 141 firms, out of a total of 238 listed firms, the study shows that in at least 65 (46%) cases an auditor was involved and had signed the financial statements. In 83 (59%) cases the involvement of an external auditor was at least mentioned in the director's report (Buijink, 1992, pp. 95-96). One other study using a sample of mostly listed industrial and trading limited liability corporations reports that in 1932/1933 52% of the sample firms were externally audited (Sternheim, 1933). It should be mentioned, however, that the results of both studies may seriously understate the number of audits performed at that time since some companies for a number of reasons did not reveal the fact their financial statements had been audited (Zeff et al., 1992, p. 65). In conclusion, these data strongly suggest that external audits in The Netherlands were common practice long before the requirements for such an audit was entered into Dutch Company Law. As to the reasons why these firms voluntarily had an external audit it seems that the proportion of private debt is an important variable (Buijink, 1992, p. 105).

Studies on the first consolidated accounts prepared by Dutch firms, also suggest that this development was strongly related to the hiring of Price Waterhouse, an international auditing firm that very early had gained a considerable experience in preparing consolidated accounts, for example in the United States (see Blommaert, 1995, p. 163).

The large influence of the Dutch accounting profession may be closely related to the early development of a high standard of education of the professional accountants. The NIVa soon after its initiation started to organise courses for the training of

auditors. The educational efforts of the NIVa eventually lead to a complete part-time auditors' program. In recent years about 60% of all new registered accountants have followed this program (Zeff et al., 1992, p. 19). But also students may acquire an academic degree in *bedrijfseconomie* and then enrol in a post-graduate program to become a registered accountant. Throughout the years there has always been a close relationship between the academic world and the audit profession. Today, many of the professors in accounting and auditing as well as a considerable part of the associate and assistant professors are part-time academics and are employed in or associated with auditing firms (Zeff et al., 1992, p. 18).

Although the NIVa may be regarded as the most important professional accounting body in the first decades of the century, it did not succeed in being the single representative of accountants. Internal rivalry over the educational program of the NIVa in 1927 led to the foundation of a second major professional body: the Society of Academically Trained Auditors (*Vereniging van Academisch Gevormde Accountants, VAGA*). The Dutch auditing profession remained unregulated until 1967 when the audit of financial statements became restricted to registered accountants (*registeraccountant, RA*). In that same year the NIVa and VAGA, as well as a number of smaller auditing bodies, merged into the Dutch Institute of Registered Accountants (*Nederlands Instituut van Registeraccountants, NIVRA*) which became the single representative body of registered accountants that were entitled to audit the financial statements of firms. Also from that year on the training program of the NIVRA led to the title of RA. In 1971, with the introduction of the WJO, an audit for all public limited liability companies became mandatory.

In addition to the NIVa and VAGA, in 1948 a third major body was founded under the name of the Dutch Order of Accountants (*Nederlandse Orde van Accountants, NOvA*) whose members particularly rendered accounting and advisory services to small and medium sized companies. Members of the NOvA, in 1967 did not receive the RA-title and therefore were not entitled to perform an audit. The NOvA's members were regulated in 1974 and received the title *accountants-administratieconsulent* (AA), after which the NOvA changed into NOvAA accordingly. The AA's major function was to perform reviews and compilations for small and medium size companies but he can not provide auditing services to his clients.

The adaptation of the Dutch company law to the Eighth Directive of the EU in 1993, however, has had a major impact on the structure of the auditing profession. One result is that now NOvAA members can obtain the right to audit companies if they complete some additional courses which are being organised by the NOvAA. Although for some time there seemed to be a tendency towards a close relationship or even a merger between the NIVRA and NOvAA, some recent disputes have hampered this development. In 1995, they succeeded in reaching agreement on a joint Code of Conduct that applies to all RA's and AA's. Both organisations currently are discussing a joint set of standard audit reports but have not yet

succeeded in finishing these negotiations. Recently, however, there has grown a serious difference in opinion on the audit program for small firms, an important issue to the NIVRA but especially the NOVAA. Although small companies are exempted from the obligation to have their financial statements audited, the voluntary audit of these firms may be an interesting market for AA's. Current Dutch auditing techniques, however, very often result in reservations or qualified opinions for small firms, mostly as a consequence of a lack of internal control that is inherent to a small organisation. Recently the NOVAA issued a statement advocating an alternative approach to auditing small firms, which, however, has met strong opposition from both the NIVRA and a number of large audit firms.

The impact of the audit profession on the current structure of financial reporting regulation is clear from a number of things. First of all the NIVRA has a strong influence on the activities of the RJ. Not only does the NIVRA provide some one third of the funding of the RJ but also of the 13 members of the RJ, 11 are registered accountants and thus are members of the NIVRA. The delegation of the users in the RJ has two RA's among its members, one of which is the president of the delegation. The RJ-delegation representing the firms consists entirely of NIVRA members. Furthermore the delegation of auditors consists only of auditors while also the president of the RJ is an auditor. Finally, members of the NIVRA have been used by the Enterprise Chamber as expert witnesses and in this way are being recognised as an important factor in the assessment of the quality of financial statements.

For now, the NOVAA has not been involved much in the process of financial reporting regulation. Whether they will become more active in this area in the near future remains unclear and up to now it seems the NOVAA has no plans to e.g. join the RJ.

2.4.3 The accounting profession in Belgium and The Netherlands: a comparison

In both countries, the accounting and auditing profession momentarily has an important influence on financial regulation, through its representation in several boards and organisations. If we have a look e.g. at the structure and the composition of the CBN in Belgium, the representative of the Ministry of Justice and one representative of the Ministry of Economic Affairs are both also members of the IBR. The IBR and the IDAC both have one direct representative in the CBN. This means that 4 of the 14 members of the CBN are members of either IBR or IDAC. But, as should be clear from the descriptions provided in section 2.2 and 2.4, historically as well as currently the impact of the Dutch accounting profession is much more marked. For example, as mentioned before, in The Netherlands, 11 of the 13 members of the RJ per 31 December 1993 were RA's, 4 of which are directly appointed by the NIVRA.

Although the accounting profession in The Netherlands was not regulated until 1967, while the IBR was established by law in 1953, at that time the Dutch accounting profession, mostly through the activities of the NIVa and VAGA, already had a large impact on accounting practice and also on the development of financial reporting regulations. This may be demonstrated by studies on the early introduction of voluntary audits and consolidated accounts in Dutch accounting practice. Also, the professional accounting bodies in an early stage have tried to increase the educational level of the profession and until today there remains a strong relation between audit education and research on a university level and the auditing profession.

An influential factor in the development of the Dutch accounting profession may have been the early introduction of public companies, such as the VOC. These firms raised capital by offering shares to the public, thereby creating a need for the disclosure of financial accounting information and the audit thereof. In contrast, most Belgian firms were funded by a small number of holding companies that developed their own control mechanisms and did not depend on auditing services. As a result, the market for auditing services developed much earlier in The Netherlands and resulted in a larger number of auditors who were well organised and relatively highly trained. In Belgium the development of the audit profession seems closely related to the provision of adequate financial information to the workers' councils in the early 1950s. The introduction of the IBR therefore did not relate to the legal recognition of an audit profession that had already evolved, as was the case in The Netherlands in 1967, but instead constituted the initiation of the development of the Belgian auditing profession.

From data on the number of members of the auditing bodies (IBR for Belgium and NIVRA for The Netherlands) in both countries (see table 2.4), it is clear that the number of auditors is much larger in The Netherlands. As a result of the implementation of the Eighth Directive in 1985, the number of auditors in Belgium has grown considerably, most clearly in 1988 as a result of the 3-year training period for new auditors (Meuwissen, 1994, p. 12). In The Netherlands the number of auditors has grown more gradually, although there was a significant increase in 1992. The numbers for The Netherlands represent RA's that are active as a public accountant. The total number of RA's in 1992 amounted to approximately 8.000, but many of these are active as internal accountants or managers of a (non-auditing) firm. The number of RA's that do provide services as a public accountant/auditor therefore amounts to 3.223 in 1992 and 3.550 in 1994.

The effect of the introduction of the Eighth Directive in The Netherlands is most clear from a significant increase in the number of auditors between 1992 and 1994. As mentioned before, the regulatory change in 1993 resulted in AA's being entitled to conduct legally required audits when they meet some additional educational requirements. Many AA's since then have met these requirements and as a result a large number of AA's (± 1.700) has entered the audit profession

between 1992 and 1994, thereby increasing the number of auditors by almost 50% (Maijoor, 1995).

The number of auditors in Belgium and The Netherlands
(data partly from Meuwissen, 1994)

Table 2.4

	IBR	NIvRA
1968	221	1.350
1970	221	1.427
1972	217	1.553
1974	228	1.699
1975	232	1.774
1978	243	1.874
1980	256	1.971
1982	277	2.099
1984	332	2.185
1986	408	2.269
1988	676	2.523
1990	708	2.770
1992	806	3.223
1994	904	3.550

In 1992, there were 617 audit firms employing at least one *registeraccountant* in The Netherlands while at that time in Belgium there were 327 audit firms employing at least one *bedrijfsrevisor*. On average Dutch audit firms are larger in terms of auditors employed, as the average Dutch audit firms employs 5.22 *registeraccountants* while a typical Belgium audit firms employs 2.46 *bedrijfsrevisoren* (Meuwissen, 1994, p. 11). From these data it would seem that the Dutch audit market is 4 to 6 time the size of the Belgian audit market.

In The Netherlands, the audit market is dominated by the 4 largest audit firms⁷, while in Belgium there is a distinction between a number of large international audit firms providing services to the multinationals that have Belgian subsidiaries⁸, and the Belgian audit firms that mostly provide services to local firms that generally have not copied the financial reporting and auditing practices of the multinationals (Lefebvre and Flower, 1994, p. 87). In Belgium as well as The Netherlands most audit firms employ both members of IBR/NIvRA and members of IDAC/NOvAA, although among the smaller ones there are also firms that specialise in only one of these sectors of employment. In 1991, 60% of all

⁷ In 1993, Moret, Ernst & Young was the largest Dutch audit firm (based on total sales), followed by KPMG, Coopers & Lybrand and Deloitte & Touche.

⁸ The Big Six in Belgium in order of size are KPMG, Ernst & Young, Deloitte Touche & Tohmatsu, Coopers & Lybrand, Price Waterhouse and Arthur Anderson (size measured by the number of auditors employed in 1993).

Dutch RA's were employed with one of the five largest audit firms, while in Belgium the Big Six in 1993 employed 33% of all IBR-members⁹. It therefore seems that the Belgium audit market is much less concentrated compared to the Dutch audit market (for more details see Meuwissen, 1994, p. 12 and De Beelde, 1994, p. 20).

As mentioned before, in Belgium, the auditing profession is separated from the accounting profession. Accountants are organised in IDAC. In The Netherlands there has never been a comparable distinction although there is a second tier of accountants - the *accountant-administratieconsulenten* (AA), of which the NOvAA currently is the sole representative.

The number of accountants in Belgium and The Netherlands Table 2.5

	IDAC	NOvAA
1988	7.146	2.022
1990	7.109	2.416
1992	6.901	2.865
1994	6.523	4.200
1996	6.313	4.300

Table 2.5 presents the number of IDAC and NOvAA members between 1988 and 1996. The number of IDAC-accountants in 1988 is much larger than the number of NOvAA-accountants, but much of this difference has disappeared in later years. One explanation for this development is that the NOvAA has only been the official representative of all AA's since 1993. As a result, the number of AA-accountants presented in table 2.5 is underestimated. However, even before 1993 the NOvAA was the main body for AA's and e.g. in 1992 the NOvAA represented 70% of all AA's and 90% of all AA's that were active as a public accountant. With respect to the NOvAA as well as IDAC it should also be mentioned that not all members of these organisations are active as a public accountant but many are internal accountants or active as a manager of a firm.

BIB, which was created in 1992, represents a third tier of accountants in Belgium and originally had up to 8.790 members. Later, when it was found out that a number of these members actually were not bookkeepers, the number of members has decreased to little over 7.500 in 1996. In The Netherlands, bookkeepers that are not a member of the NIVRA or NOvAA, are not represented by one single body but are organised in a large number of small associations.

In both countries, the implementation of the Eighth EU Directive has raised the issue whether there should just be one single body to represent the professional

⁹ Comparable data for IDAC-members and AA's are not available.

accountants and auditors. In Belgium, the Supreme Audit and Accountancy Council stimulates the process of integration between IBR and IDAC and very recently it has urged IBR and IDAC to establish a committee to co-ordinate the relations between both institutions.

In The Netherlands, intense co-operation or even a merger between the NivRA en NOvAA seemed to be a serious option after the Eight Directive had been implemented in Dutch law. For example, in 1995 both institutes presented a joint Code of Conduct to which all RA's and AA's are subject to. However, recent disputes over a number of issues may have spoiled the relationship between the two parties. It seems therefore that, at least in the short run, the establishment of one single Dutch accountants' and auditors' organisation is not very likely.

2.5 CONCLUDING REMARKS

This paper has presented a comparative study on the structure of financial reporting regulation in Belgium and The Netherlands. It has demonstrated that, notwithstanding the actions of the EU to harmonise financial reporting regulations of its member countries, there are still some noticeable differences between two countries that seem to have so much in common.

An essential historical difference between the two countries is the way companies were financed during the last three centuries. While in Belgium, a relatively small number of holding companies invested in a large number of trading and industrial firms, in The Netherlands at an early stage capital was raised by offering shares to the public. The Dutch structure led to a much stronger demand for financial accounting information and also stimulated the importance of the audit profession as an independent party to check the information produced by firm managers.

During the 1940s until the 1970s in Belgium the trade unions were the main force to stimulate financial reporting regulations, particularly to enhance the information provided to the workers' councils. In The Netherlands both employers organisations as well as the auditing profession showed most concern with enhancing financial reporting activities. Although the trade unions took some interest in the matters they have never been an important force in the development of financial reporting regulation in The Netherlands, which is in strong contrast to the Belgian situation.

Since the 1980s both countries have been strongly influenced by the actions of the EU to harmonise financial reporting regulations. Belgium was the first EU member to implement most of the Fourth Directive requirements but on the other hand was one of the last members to implement the requirements of the Seventh Directive. Both directives have brought the financial reporting requirements in

both countries closer together but there still remain a number of noticeable differences, especially with respect to the implementation of the Fourth Directive.

The Eighth Directive has had a major impact on the accounting and auditing profession in both countries. In Belgium, traditionally there has been a separation between auditors and accountants. Today there are still two separate professional institutions representing these parties (IBR and IDAC). In The Netherlands there has never been such a distinction. Nevertheless, also in the Dutch accounting market, two tiers of accountants are active, each represented by its own professional body (NivRA and NOvAA). In both countries the implementation of the Eighth Directive has started a process of integrating the activities of the various professional accounting and auditing bodies but there have been and still are a number of considerable differences in opinion, especially in The Netherlands.

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INDEX OF BODIES AND INSTITUTIONS

A

Accounting Standards Commission (*Commissie voor Boekhoudkundige Normen / Commission des Normes Comptables, CBN*)
Amsterdam Stock Exchange (*Amsterdamse Effectenbeurs, ASE*)

C

Central Economic Council (*Centrale Raad voor het Bedrijfsleven / Central de l'Economie, CRB*)
Council on Annual Reporting (*Raad voor de Jaarverslaggeving, RJ*)

D

Dutch Institute of Accountants (*Nederlands Instituut van Accountants, NIVa*)
Dutch Institute of Registered Accountants (*Nederlands Instituut van Registeraccountants, NIVRA*)
Dutch Order of Accountants (*Nederlandse Orde van Accountants, NOvA*)

E

Enterprise Chamber (*Ondernemingskamer, OK*)

F

Foundation to Investigate Company Reporting (*Stichting Onderzoek Bedrijfsinformatie, SOBI*)

I

Institute of Accountants (*Instituut der Accountants / Institut des Experts-Comptables, IDAC*)
Institute of Auditors (*Instituut der Bedrijfsrevisoren / Institut des Reviseurs d'Entreprise, IBR*)
Institute of Bank Auditors (*Instituut der Bankrevisoren / Institut des Reviseurs Bancaires*)
Institute of Fiscal Accountants (*Instituut van Belastingconsulenten*)

N

National Association of Belgian Bookkeepers (*Nationale Associatie der Boekhouders van België / Association Nationale des Comptables de Belgique, NABB*)
National Bank of Belgium (*Nationale Bank van België / Banque Nationale de Belgique, NBB*)
National College of Accountants of Belgium (*Nationaal College van Accountants van België / Collège National des Experts-Comptables de Belgique, NCAB*)
NOvAA Zie NOvA

P

Professional Institute of Bookkeepers (*Beroepsinstituut van Boekhouders / Institut Professionnel des Comptables, BIB*)

S

Social Economic Council (*Sociaal Economische Raad, SER*)
Society of Academically Trained Auditors (*Vereniging van Academisch Gevormde Accountants, VAGA*)
Supreme Audit and Accountancy Council (*Hoge Raad voor het Bedrijfsrevisoraat en de Accountancy / Conseil Supérieur du Revisorat d'Entreprises et des Experts-Comptable*)
Supreme Audit Council (*Hoge Raad voor het Bedrijfsrevisoraat / Conseil Supérieur du Revisorat d'Entreprises*)
Syndicale Kamer der Boekhouders (Chambre Syndicale des Experts-Comptables)

T

Tripartiete Overleg Commissie (*TO*)