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Public Accounting in Holland

BY A. VAN OSS

Public accountancy in Holland dates from about 1895. Before that year the larger Dutch concerns requiring certified or audited accounts for publication mostly employed English accountants and numerous members of the bookkeeping profession supplied other local demand for administrative experts. There had been since 1883 an association called "Confidentia," whose members, although not generally called "accountants" practised as such, but not until about ten or twelve years later could it be said that Dutch accountancy began to demand recognition.

In 1895 this association together with various outside practitioners organized the Dutch Institute of Accountants with a membership of 70 that had increased to 105 in 1906. In that year about 20 of the members resigned and formed another organization, the Dutch Accountants Society, whose membership had increased to over 70 when they united again with the institute in 1918. In 1919 the combined membership had become 195 and at this date has risen to 267. Aside from the regular members there are now about 762 so-called assistants who are, however, not members and are not allowed independent practice. There are other societies of eminent standing but all of them of much smaller membership and for the purposes of this article do not call for special mention.

The institute's assistants are appointed upon the recommendation of three members and must have passed an examination in bookkeeping that in the opinion of the board qualifies for entrance. They become members only after a prescribed course of study, preferably in the institute's own classes, and after passing its examinations, but no preliminary outside practice is demanded.

The statutes of the institute contain no provisions that differ much from those of other like documents. Its purpose is (1) to organize accountancy in the Netherlands and the Dutch colonies, (2) to encourage the employment of accountants, (3) to work for legal regulation of the profession and (4) in general to promote the interests of its members and associates. The statutes further provide for the appointment of committees of discipline, rules, etc., the publication of proceedings, rules of professional conduct

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and practice, a bureau of examinations, the institution of study courses, the foundation and upkeep of a library and they also lay down the following inhibitory rules:

The members are forbidden:

- (a) Otherwise than by means of advertisements to call attention to their offices.
- (b) To offer services in writing or by circular, unless they are asked to do so. (Ordinary notifications of establishment, change of address or name of firm, appointment of partners and managers, as well as soliciting for business publicly offered or for appointment as auditors in case of vacancies are not forbidden.)
- (c) To do promoters' work.
- (d) To act as accountants of a business of which they are officers or directors.

The institute has also adopted specific rules covering the essential features of certificates, reports, statements and other work, the limitations of the accountant's responsibility, etc. It promotes sound professional practice and conduct and in the absence of legal regulation seeks by its own rules and standards to merit the confidence of the public and the business world in its members.

By keeping these standards high it has become more and more difficult to gain admission to membership. At the organization of the institute every one was admitted who had practised the profession for five years, but immediately thereafter the only way to become a member was by passing its examinations and these have become more and more exacting so that they now require a preliminary education and a theoretical and practical knowledge of auditing, accounting, commercial law, finance, taxation, general economics, etc., of no mean order. The institute's examination programme may be of interest.

Three different examinations have to be taken covering (1) preliminary education, (2) general commercial science and (3) accountancy.

The requirements for preliminary education include a thorough knowledge of three foreign languages—French, English and German; of arithmetic, algebra, civics, geography and history.

General commercial science includes:

- (a) Trade and credit customs—including knowledge of the principal instruments and forms used in general business.
- (b) Financial and business arithmetic.
- (c) Economic history of the Netherlands, the Dutch colonies and other countries.
- (d) Economic geography—including knowledge of sources and production of the principal raw materials and other commodities and of the important trade routes, harbors and markets all over the world.

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- (e) Economics—embracing general principles, the theories of value and prices, money, credit and banking, trusts and kartells, labor movements, etc.
- (f) Law—including principles of civil and commercial law and the material features of all statutes that are of importance in the practice of accountancy.

Only those are admitted to the above examinations who fulfil the institute's requirements for preliminary education. Part or entire exemption is granted to holders of certificates of recognized institutions.

The examinations for accountancy can be taken only by those who have passed the above preliminary tests, so far as they were not entitled to exemption, and include:

- (a) Business economics.
- (b) Single and double-entry bookkeeping—including municipal bookkeeping.
- (c) Statistics—including the general principles of averages, methods, forms and their applications to various types of administration.
- (d) System—namely the application of various types of bookkeeping methods, budget administration, design and installation of books and records and forms of accounts, knowledge of mechanical aids.
- (e) Auditing.
- (f) Interpreting accounts.
- (g) Writing reports.
- (h) Tax laws and their application.
- (i) History of accountancy and of the development of the accountant's profession.

Exemptions are given for business economics but only to holders of certificates of the higher Dutch institutions and full membership of the institute calls for the actual passing of its examination in all other subjects.

A prospectus is issued by the institute wherein the foregoing subjects and requirements are specified. There is also a list of the books that the applicant should study and this list includes the latest German, French, English and American contributions to the literature of the profession. The variety of subjects and their difficulty have not acted as deterrents to the aspiring Dutch student. As in the United States so in Holland the profession has attracted a large number of well qualified and ambitious applicants. Moreover, the demands of the public and of the business world are becoming more and more exacting, and the examinations have as a result become more and more difficult and the educational and intellectual level of the new practitioners correspondingly higher.

There is now on foot a movement to have this programme or a similar one accepted by several of the existing accountants' or-

ganizations and indications are that soon an agreement will be reached. This movement, of course, recognizes the necessity for timely changes of the programme parallel with the progress in the profession. At present it takes a graduate of a Dutch high school, while working in an accountant's or other office, about eight years to complete the required studies and to be graduated as a full member. The institute's examinations are both written and oral.

So far as theory and book knowledge are concerned the Dutch beginner, after having mastered the programme outlined can be expected to hold his own among accountants of other nationalities. The programme gives proof that a proper estimate is held within the profession of the importance of thorough preliminary groundwork. It would seem, however, that the entire absence, already mentioned, of practice requirements may somewhat reduce his otherwise great advantages, even though at the examinations of the institute the questions are usually framed to test the practical insight of the applicant.

Several Dutch practitioners are of the opinion that it would be of benefit to make a few years' professional practice an essential requisite. Many, however, believe that it would give rise to an apprentice system in some form or another which in turn would encourage monopolistic tendencies and restrict entrance into the profession to the financially privileged.

Also in Holland there has been a tendency toward combination and association and the relative number of firms as against single practitioners as well as their size has increased and still is increasing. The profession is fully aware of the advantages of this kind of organization. The ideas expressed in certain articles written on the subject show sound perceptions concerning internal organization of accountant offices, the relations between junior and senior assistant, managers and principals, the control of the work in hand, responsibilities, etc. As customary in such articles excellent methods are advocated indicative of earnest endeavor to approach a high efficiency. The writer is not personally acquainted with the internal workings and routine of Dutch accountants' offices and does not know how near the average performance approaches the set standard. From general experience he believes that the love of the Dutch for administrative detail and order prevails also here and makes them lean in the direction of methodical record.

The increased government control and taxation and the progress in banking industry and trade have also in Holland brought about an increased demand for accountants' services and for ever higher qualifications in ability and character. Many practitioners believe that legal regulation of the profession will further this tendency. They believe it is bound to come and that further postponement will only increase the difficulties to be met in the transition period.

As already mentioned the several accountants societies have in the absence of government regulation set their own standards of entrance requirements and general professional conduct. The majority of practitioners, however, seem to favor regulation by law, in the belief that opinions and interests within the profession are too diversified to deal efficiently and fully with the problem by internal rules. Some very eminent members of the profession have expressed their doubts and do not take it at all for granted that legal regulation is necessary or even of general benefit. They believe that it will give no better protection to the investing public or the business world in general and that the demand does not come from outside but almost entirely from inside the profession. On the principle that practice will on the whole go to the most competent and worthy, whether or not they have state certificates, they feel that regulation is better left to the accountants themselves.

The law already gives authority to courts of justice or special commissions to employ accountants in specific instances. Sooner or later a certification by accountants of the annual accounts of all corporations may be required. It is generally thought by those in favor of government regulation of the profession that it should precede such a compulsory measure. The extent to which the government should step in is of course a matter on which the opinions differ. It would seem that accountants generally favor regulation that is confined to the use of the designatory title and to the institution of state examinations for full membership, covering of course educational requirements, practical experience, age limit, etc. Proper legislation is expected to do away with many of the present examination boards, commissions of control, discipline, conduct, etc., and by thus simplifying conditions within the profession to eliminate the confusion that results from the diverse standards set up by the various societies.

Accountants in Holland do not believe that any accountancy law should prescribe specific rules of conduct, except perhaps concerning professional secrecy, or meddle with the accountant's responsibilities except on very broad lines, since these matters can be properly left, as they are now, to professional organizations. On the whole there seems to be a considerable majority in favor of legal regulation and the Dutch Institute of Accountants has made it one of its principal objects.

In the absence of legal regulation and consequently of its influence upon opinions and practice, the ideas concerning professional responsibility and conduct have on the whole developed on ethical and moralistic lines and as a result there is yet much diversified opinion among well-known authorities. Every society of accountants has set its own standards, to which its members have to adhere. These standards are of course developing with the increased scope and importance of the profession and probably tend toward uniformity although this state has certainly not yet been reached.

There are prominent Dutch accountants who consider that in the ordinary task of auditing accounts their clients can not limit the scope of the work to be done and that they can themselves limit it only in so far as there is proper justification. They believe that an accountant's opinion is of no value except when it can be based upon work actually performed by himself or his associates and in accordance with established theory and practice. They insist that a complete verification is necessary of the book figures, including for instance actual stock taking and valuation, a verification of debtors' balances, including circularization and a thorough investigation of the internal audit system, before an opinion can be given. They do not believe that the opinion or the certificate of responsible officers of a concern can or should take the place of their own investigation and insist that the accountant is responsible, not only for the technical correctness of the figures but also for the impression that the accounts audited by him produce on the mind of third parties.

They consequently insist that, the usual accountant's declaration being of no value if not based upon substantially unrestricted investigation, no ordinary audit work should be undertaken wherein the client limits the scope of the examination. No qualification on account of limited scope is thus thought admissible in an accountant's declaration and only such qualifications

are admitted as have bearing upon the results of an investigation in which the accountant's work has not been restricted.

Many practitioners accept the above view for all cases where the result of their work will come before the public. Where it is intended only for the clients' personal or other restricted use, they believe that limited instructions may properly be carried out. Others are of the opinion that the usual restrictions upon actual stock taking, circularizations of debtors, checking the income and outgo of cash, merchandise, materials and supplies may be accepted, and in actual practice they probably constitute a large majority.

The responsibility of the accountant in Holland is the subject of many discussions and published articles. A comparison with like expressions by, say, British authorities directly discloses a dissimilarity of view. The Dutch, as already observed, occupy a strictly professional position unaffected by any regulatory laws, while the British accountants are guided by the companies act and court decisions.

The Dutch accountant takes his profession as one of very wide scope and believes that it embraces also the functions of the business economist. Through his studies of economics he feels that he can give better service as an accountant and that he is better able to collect and present the essential data that permit banker, business man and general public to draw conclusions. As long as his functions are confined to the statement of facts disclosed through examination of books and records, there is nothing unusual in this view. There is a tendency, however, perhaps stronger than in countries where the profession has been longer established, to go beyond this and to enter upon the domain of the efficiency or business expert. Some of the textbooks and other literature decidedly encourage branching out in this direction instead of advocating more conservative limitation.

The form of the accountant's certificate is a fruitful subject for discussion. Preferences of eminent practitioners vary between a simple signature and more detailed expressions of opinion, statements of work performed and qualifications. The certificates attached to the published accounts of some of the larger United States and English corporations are often quoted in these discussions. On the whole the so called "long" certificate is not looked upon with favor.

The institute's rules stipulate that the accountant's signature to any statement expresses his approval of the statement, subject

only to the qualifications expressed over his signature. This rule is by many prominent members interpreted as meaning that in the certificate a statement of the work performed or omitted (for instance, in case of inventories, debtors' accounts, etc.) is not permissible, for the reason that this would virtually admit the client's right to limit the scope of the work to be done. In these circumstances they will refuse to certify. Others, however, do not take this stand and do not hesitate to mention facts of this kind in their certificates.

Although a very busy season, the first months of the year do not produce in Holland the tremendous rush of work with which the American accountants have to struggle. The bulk of the work consists of continuous audits. Annual verifications of assets and liabilities undertaken soon after the close of the calendar year are not as customary as in the United States. The problem how to tide over this period of stress is therefore not so serious and the work as a rule is handled with the regular assistants and without employing temporary help.

The Dutch accountants' offices and the work in general are organized very much like those in the United States. The usual gradation as to juniors, seniors, managers and partners exists and the supervision and personal contact between them as well as the system of promotion among them are very much the same.

The accountant's staff is recruited from graduates of business schools and colleges and from bookkeepers and other office employees who are preparing themselves for the accountant's certificate. Although there are no actual practice requirements for entrance to full membership of the Institute, the examination questions are such that considerable practical knowledge is necessary to work them out satisfactorily. It should therefore not be thought that the Dutch accountant enters the profession as a full-fledged member without having as a rule a reasonable amount of experience in technique.

The profession is not so long established in Holland as it is, for instance, in Great Britain, but Holland seems to be ahead of most other European countries. There is hardly a business of any size that has not important connections with other countries and a thorough knowledge of international exchange is required in most matters of finance, while in the period of currency inflation and gradual recovery especially difficult problems had to be solved in the effort to guard against exchange losses. Furthermore,

the domestic system of purchase and sale, paying and collecting debts, banking, etc., is far from simple. Holland, although small, thus has had a relatively wide field for the development of its accountancy.

When he leaves the more advanced schools the average Dutch youth is well equipped as to foreign languages. He has usually studied German, English and French and speaks these languages quite fluently. From the beginning of his business career he absorbs an intimate knowledge of foreign exchange and becomes familiar with rather intricate general business and office methods. As soon as he commences his work as an assistant accountant he is confronted with varying problems and practice in his diverse audits. Everywhere he has to meet the problems and conditions that arise from differences in currency standards, import and export duties and regulations, taxes of all kinds in various countries, and he has to master and adapt himself to the accounting and other methods whereby these conditions are turned to advantage or their disadvantages minimized.

The assistants of the higher junior and senior grades, after passing through the selective processes, are good material and by reason of their international outlook and experience would be desirable adjuncts to the continental branch offices of British or American accountant firms. Some of these firms have already made the experiment with seemingly satisfactory results and to mutual advantage.

A word should be said concerning office and factory bookkeeping and administration in Holland. The good sized modern concerns are getting quite up to date in that respect. They seem to incline considerably toward administrative control—in my experience certainly more so than in the United States. This may find its cause in prevailing social and business conditions and it is perhaps a necessary stage in the evolution toward a high modern level. In many concerns control of capital expenditure, standard costs and budgetary methods are in successful operation and a typical Dutch administration does not suffer from lack of detail.

Nor is Holland behind in the attempt to effect economies by means of accounting appliances. Most of the machinery is of American make or type and is vigorously pushed and eagerly given a test. The old objections to loose-leaf and card ledgers are almost entirely overcome and there are several large banking

and business institutions whose administrations are almost entirely mechanized. Payrolls, customers' invoices and ledgers, stock records, cost accounts and statistics are often prepared and kept by machinery and on the whole the familiar mechanical equipment of the American offices is also here in general use and in great and ever-increasing demand.

After all, the difference between American and Dutch accountants and accountancy is not very great. They probably only differ in so far as Dutchmen differ from Americans and general conditions in Holland from those in the United States.

The Dutch accountants are as a rule better versed in the theory of accountancy and related studies and therefore often inclined to look upon the practice in the light of theories absorbed. One often observes in the younger Dutch accountants a tendency to look upon accountancy more as a science and as a subject to be studied from books and lectures and less as a profession or an art that has to be learned from actual practice. This may be ascribed to the intensive, thorough-going schooling they have received from early youth to graduation from high school or college.

Dutch accountancy is more complicated because of the more involved conditions in a small, commercially long developed and centrally situated country. International trade and finance, exchange fluctuations, import duties, taxation, tradition, general customs and probably many other causes work together to make them so.

The facts given in this article are taken mostly from authoritative sources, viz.: statutes, rules and regulations of the several accountants' associations, textbooks, published lectures, etc.

I am also much indebted to several colleagues and acquaintances, all present or past members of the profession, fully acquainted with its history and much interested in its progress and achievement.