A QUALITATIVE STUDY ON THE AUDITORS' 'TRUE AND FAIR VIEW' REPORTING

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Abstract

Financial reporting by companies is strengthened with auditors' report. An auditor's report is a statement which communicates his views on the financial statements prepared by the company. When the auditors are satisfied with all the evidences they have verified, they state that the financial statements give a 'true and fair view'. 'True and fair view' is in existence since a very long time as compared to various other terms. Since its introduction, 'true and fair view' had faced a number of criticisms. Past researchers had tried to explore this concept. None of them managed to give any additional information than was traditionally available in the books. This study concludes by stating that it is time to reconsider the concept of 'true and fair view'.

Keywords: Auditor, Audit, Opinion, True, Fair, View, Report, Stakeholders, Organization, Override

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1 Introduction

The word 'audit' is derived from the Latin word meaning 'to hear'. It is about upholding the integrity of financial reporting and business conduct and is about seeking truth (Percy, 1997). 'True and fair view' is used by auditors to convince the user group or the stakeholders that the financial statements are free from error and are factual. Stakeholder is a party who affects, or can be affected by, the company's actions. The stakeholder concept was first used in a 1963 internal memorandum at the Stanford Research institute (Wikepedia). It defined stakeholders as "those groups without whose support the organization would cease to exist. The examples of stakeholders include owners/investors of companies, Government bodies, senior management staff, Non managerial staff, creditors, bankers, customers, trade union, and local community. The most important stakeholders can be seen as those with most to lose from the organisation's actions, but this does not always reflect their relative power (Worthington, 2004).

The Approved Standards on Auditing (AI), on auditors' report on financial statements talks about how an auditor is supposed to express his opinion on financial statements. As per AI 700, the basic reports can be of two types, a qualified or an unqualified report. An unqualified report is given when an auditor is satisfied that the financial statements are drawn up without any material misstatements and that they adhere to the respective accounting and auditing standards. This is when the auditors states that the financial statements give a 'true and fair' view of its income and statement of affairs.

'True and Fair view' is in existence since a very long time as compared to various other terms that were used prior to 'True and Fair view'. However researchers, lawmakers and the stakeholders have found it difficult to construe the real meaning of the term and what it intends to communicate to the stakeholders. This paper is thus an endeavor to determine if 'true and fair view' requires an overhaul. The study uses past literatures to deliberate the idea.

1.1 Research Problem

Researchers have explored and tried to identify the function of 'true and fair view' in auditing. While it is known from various legal regulations and accounting standards, that 'true and fair view' is a concept used to give an opinion on the financial statements, many still find it a very confusing and a vague term (Cowan, 1965; Walton 1993). Some believe that it is a legal term (Elliot and Elliot, 1997; Hulle, 1993), while some believe that the interpretation of 'true and fair' could differ with differing interests of the stakeholders in the company (Gill, 1983). It is clear that the law has not provided clear guidance on interpretation of 'true and fair view' which has led to lack of clarity for the auditors themselves who solely use the terms (Higson, 1991; Porter 1992; Rutherford, 1985) and at the same time it gives a wrong interpretation by different stakeholders as to the role of auditors and directors (Parker and Nobes, 1991). 'True and fair' is used in number of countries where the language of communication is not English and it was observed that these countries are fraught with difficulty while trying to literally translate the words 'true and fair' into their local language. The authors thus claim that 'true and fair view' cannot be used in a meaningful manner and can only be viewed as adjectives (Burlaud, 1993; Nobes, 1993; Walton, 1993; Hulle, 1993 Ordelheide, 1993; Stacy 1997; Haider, 2001). This research is, thus, an attempt to address the concerns which stakeholders could face when auditors provide 'true and fair' financial statements knowing that financial statements are bundled with major drawbacks.

1.2 Objectives of the research

1. To identify whether the Company Law and the Codes of Ethics have an influence on 'true and fair view' opinion given by the auditors.
2. To identify whether stakeholders are able to interpret the concept of 'true and fair view'.
3. To identify whether stakeholders are satisfied with the concept of ''true and fair' view communication by the auditors.
4. To conclude if 'true and fair view' can be retained in its original form as countries embrace International Financial Reporting Standards as a common platform for reporting.

1.3 Scope of the study

The practice of certifying the financial statements as 'true and fair' by auditors of public listed companies and other large organizations was common and rampant. However, after the financial scandals where large multi-national organizations were exposed globally, several steps were taken to address the issues involved with the concepts of 'true' and 'fair' as well as its impact on the expectations of the parties involved with the organizations. This study focuses on the issues with the current practice of certification that was developed through legislation and guidelines. The study also extends to the issues faced in the current financial world as a whole, to the accountants in particular, due to poor accounting and reporting practices. The choices that are open to an auditor, in the current environment is the main focus of this study. To be able reconsider the 'true and fair' reporting by auditors could be one such alternative.

1.4 Significance of the study

"*True and fair view' today has become a term of art*" (Edey, 1971), in the sense that it seems to be dominant in terms of reporting by auditors on company financial statements (Walton, 1993). A layman interprets the concept of 'true and fair' as accurate financial reporting, while financial reporting should never be taken as completely accurate due to the number of assumptions that has to be made during compilation of financial statements (Higson and Blake, 1993). Legal standards also allow departures from particular standards, if such departure means to give a 'true and fair' view. However, the extent of such departures should be disclosed along with the reason for the departure. Where the companies feel that compliance with certain standards could give misleading information and at the same time departures are forbidden, maximum efforts should be taken to reduce the extent of perceived misleading aspects. This can be achieved by adequate disclosure in the financial statements. It has to be clearly understood that, while auditors verify the financial statements, they do not intend to guarantee on the accuracy of the said financial statement. They only intend to give an opinion on the financial statements prepared by the client. The auditors specifically state in their audit certificate that an audit includes examining on test check basis, evidence supporting the amounts and disclosures in the financial statements (2003 Annual report and financial statements of the Malaysian Institute of Accountants). While this might be the correct approach as far as the auditor is concerned, it has, in fact, given rise to an expectation gap. The expectation gap has been growing over a period of time due to the ambiguity in the phrase 'true and fair view'. It could be perceived that when financial reporting framework develops, the significance of 'true and fair' might change. Other issues pertaining to the lack of auditor independence, lack of regulatory guidance and call for the regulators to act on the current explosion of the public on loss of funds, are some of the incentives to further the scope of study in this area.

2 Literature review

The growing democracy of most countries, globalisation, freedom of practice for the professionals, lack of control by owners of their own money and the amount of 'hot' money floating in the economy are some of the reasons which had probably prompted the issuance of audit certificates as a convincing tool to third parties on the performance of companies. However, issuance of such certificates did not deter companies or their top management from committing fraud or deceit. Suseela Devi et. al. (2004) argued that the Royal Mail case, in 1931, was the first to have illustrated how it was possible to produce audited accounts, which met legal requirements and yet omitted mentioning sufficient data so as to completely mislead investors and shareholders. 'True and fair view' was not the first legal standard (Rutherford 1985). In the eighteenth century in United Kingdom, there existed an Act 'for the relief of the creditors and proprietors' which required the senior officers to make a 'true state or representation of the affairs and condition' of the company and 'to state, make up and balance the accounts' of the company. In case of default, they had to give up their right to transfer shares or receive profits with respect to their interests. This was done in order to ensure that the creditors and proprietors had a 'full satisfaction of the state and condition, debts and effects of the company' (Chambers and Wolnizer, 1991). Similar to this Act, they had various other acts drawn up which required similar disclosures to be made all of which included the words, 'true', 'exact', 'distinct', 'just', 'correct', 'properly drawn up', 'full and fair', 'full and true', and 'true and correct' to represent their conduct (Rutherford, 1985). The change of 'true and fair' from 'true and correct' was advocated by the United Kingdom's largest professional accountancy body, the Institute of Chartered Accountants of England and Wales (Amat, Blake and Oliveras, 1996). They also stated that the word 'correct' had always been too strong because it implied that there was one view which was 'correct' as against all others which were incorrect.

Between the years 1790 to 1842, various private Acts establishing canal, railway and gas companies were introduced. Some of these Acts stressed on the quality of accounts that needed to be maintained (Chambers and Wolnizer, 1991). It was here that the concepts of 'true and exact' and 'full and true' were introduced. Prior to the adoption of the phrases 'true and fair', various other phrases were used in the British legislation. 'Full and fair view' was used until 1844 (Chambers and Wolnizer, 1991; David Flint, 1982). 'True and correct view' was used from 1900 (Rutherford, 1985). Thus, until about the 1920s, the auditors were primarily concerned with detecting fraud and error, and ensuring that the solvency position of the companies (or other reporting entities) was properly portrayed in the balance sheet. In accordance with this, auditors carefully checked the detailed entries in, and arithmetical accuracy of, the company's books and made sure that the amounts shown in the balance sheet corresponded to the account balances in the ledger. This was possible as the transactions were straight-forward on the back of a simple business environment. However, as the businesses and its complexities grew, it became imperative to maintain more records than was considered necessary in the past. Subsequently, this led to the reality that it was not practically possible for the auditor to verify every transaction and check for the correctness, truth or the accuracy.

The phrase 'true and fair' was thus recommended to the Cohen Committee by Companies Act in England and Wales (Rutherford, 1985), in the year 1944. It was finally adopted in the United Kingdom in the year 1947 (Brenda Porter 1992; Gill 1983) and subsequently many companies, including those in Malaysia, followed suit. Today 'true and fair view' is the fundamental principle for financial reporting not only in the United Kingdom but also in Europe and in most Asian countries. For the last sixty years the published financial statements of companies incorporated in United Kingdom have been required by law to show a 'true and fair view' of the state of affairs of the company and its results. The 'true and fair view' doctrine thus provides the 'ultimate foundation for financial reporting and has probably become the single most important criterion in reporting performance of companies (Flint, 1982; Leach, 1981; Gill, 1983; Cowan, 1965). With the introduction of the Fourth Council Directive of the European Economic Community, 'true and fair view' was introduced as an accounting concept within the whole European Union (Ekholm and Troberg, 1998).

Further developments took place when the 'override' principle of 'true and fair' view was introduced by the European Economic Community as a means of 'accounting harmonisation'. The European Community started off with initially six countries - France, Germany, Italy, Belgium, Netherlands and

Luxembourg, as their members (Christopher Nobes, 1993). It was established in 1965 and first headed by Dr. Elmendroff. The Elmendroff Committee submitted their first draft to the European Economic commission in 1968, which was subsequently published in 1971. At this stage the accounts were required to have clarity and were supposed to be 'not misleading'. When United Kingdom, Ireland and Denmark joined the Community in 1973, negotiations between the countries led them to submit a second draft in 1974 with the requirement of 'true and fair' incorporated within (Alexander, 1993;, Amat, Blake and Oliveras, 1996). Subsequently there was a third draft submitted in 1978, which gave 'true and fair view' an overriding importance.

Article 2 of EEC states that where a particular provision is incompatible with 'true and fair view', "*that provision must be departed from in order to give a 'true and fair' view within the meaning of paragraph 3. Any such departures must be disclosed in the notes.*"

The major drawback identified was that the extent of maximum departure had not been stated in the Act. Apart from this it was found difficult to adapt 'true and fair view' due to language barriers. Translating 'true and fair view' overriding principles to different languages and yet maintaining its legal validity was one of the other criticisms that cropped up in accounting harmonization. Since its ('true and fair view') acceptance by the other Member States and its inclusion in a Community legal instrument, the interpretation of this principle could no longer come exclusively from United Kingdom law and principles (Hulle, 1993). Ordelheide (1993) concurs with this contention and further states that though 'true and fair' view is what the British accountants declare it to be, in case of European conflict, it is the European ''true and fair'' that will take effect for legal decisions.

However it was argued by Alexander (1993) that it was not possible to have a European 'true and fair view' that was different form the British 'true and fair'. Another argument given by Burlaud (1993) stated that the versions of 'true and fair' could keep changing depending upon the language one wishes to choose. Varied interpretations of the concept of 'true and fair view', when translated into different languages, were seen. It was interpreted as 'real' in Greece, 'Faithful' in France, Netherland and Belgium, 'true and correct' in Italy, 'true and appropriate' in Portugal and 'true and fair' in United Kingdom (Nobes, 1993). When translated into the Czech accounting system, it actually meant that the financial statements would provide a true and dependable picture of the matters (Sucher et. al., 1996). This indicates that the concept of 'true and fair view' is now deviating from its original values. The argument still remains as to whether 'true and fair view' is a professional concept or a legal concept. By and large it was also seen that people equate 'true and fair view' to the United States' term 'present fairly in conformity with generally accepted accounting principles'. In the United States the governing criterion is conformity with Generally Accepted Accounting Principles (GAAP). 'Present fairly' is defined by reference to conformity with GAAP, and there is no authoritative literature in the United States in which 'present fairly' is explained or defined (Zeff, 1993). Conformity with GAAP thus implies fair presentation, claims the author. 'Present fairly' in accordance with GAAP, became a part of the standard United States' audit report since 1939, (McEnroe and Martens, 1998). The meaning of '*Present Fairly In Conformity with Generally Accepted Accounting Principles'*, addresses the use of GAAP and fair presentation. It states that an auditor should not express an unqualified audit opinion if the financial statements contain a material departure from GAAP unless, due to unusual circumstances, adherence to GAAP would make them misleading (McEnroe, 2005). Now, with the introduction of the Sarbanes-Oxley Act of 2002, 'fair presentation' meant that the financial statements complied with the regulations provided by that Act as well (Cunningham, 2003).

The United States accounting and United Kingdom accounting methodologies adopted similar versions of the ultimate goal of financial reporting (Cunningham, 2003). While in United States financial reports need to show a fair presentation in accordance with GAAP, in United Kingdom the financial statements need to present a 'true and fair view' of the business conditions and the results, claims the author. Ironically, in both these cases the law has not defined the term. Thus the achievement of fairness or 'true and fair' view still depends upon professional judgment and application of general rules in specific situations. Though many have understood the two concepts to be the same, there has been a significant amount of discussion over usage of 'present fairly' as compared to 'true and fair view'. At the first glance the two notions might look similar, but conceptually, 'true and fair view' goes beyond conformity with GAAP, since it provides the reporting entity an option to depart from the promulgated accounting standards in special circumstances (Livne, 2004). The Financial Reporting Council (FRC) of United Kingdom in its paper published in August 2005 made it clear that the concept of 'true and fair' shall remain a cornerstone of financial reporting and auditing in United Kingdom despite the adoption of international financial reporting standards. The Association of British Insurers (ABI) response to FRC published in November 2005 stated that while FRC considered 'present fairly' and 'true and fair' to be similar, the consideration of similarity was not sufficient. The major concern was that the two phrases were not identical. The reason given by FRC for not changing the concept to 'fairly present' was that, the change could bring about changes in the format and content of the company accounts as well as audit report. The major criticism faced by 'true and fair' as against 'present fairly' was that with respect to present fairly there was one authoritative document, namely Statement of Auditing Standards (SAS) 69 to use in constructing a rough definition of 'present fairly in accordance with GAAP' while with respect to 'true and fair view' no such documents existed and there was no common definition as to what 'true and fair view' meant (McEnroe and Martens, 1998).

A great deal was written about the meaning of 'true and fair', much of which was intellectually stimulating for those wishing to research the topic, but few practicing auditors studied this material in any depth, if at all (Stacy, 1997). In English the *'true and fair' view of the.... assets, liabilities, financial position and profit or loss* could be interpreted literally as 'an exact and trustworthy picture of the assets, liabilities, financial situation and profit or loss' (Burlaud, 1993). The word, 'true' could mean authentic, actual, genuine, real and undistorted. All of these could be understood in the manner in which it was quoted, without ambiguity. This view was also supported by Cowan (1965). He further claimed that 'truth' which does not come within the category of fundamental or scientific truth can be judged only in the light of some clearly defined purpose. However, when we look at the word 'fair', it could mean impartial, average and promising. The Chambers English dictionary has given the meaning of 'true' to be 'faithful', 'constant', 'trusty' and 'genuine'. The word 'fair' has variety of meaning (Cowan, 1965), the relevant one includes 'clear', 'clean', 'pure', 'reasonable' and 'favorable'. All these are very subjective and there is no conclusive meaning. The word 'fair' could have different meanings to different individuals even within the same context. It all depended upon the expectation of the end users, i.e. who expects and what they expect. The form of wording 'true and fair' has led to separate discussions as to what is meant by 'truth and fairness', which could have been avoided if 'true and fair' had been treated as hendiadys i.e. an expression of a complex idea by two words coupled with 'and' (Amat, Blake and Oliveras, 1996).

In case of companies, the end users are the investors and their expectation is always to have a guarantee on the financial statements. Thus the inclusion of the word fair in the phrase 'true and fair' makes the audit certificate a subjective opinion, not conveying what it needs to truly convey. It is well understood by the professional group, that this phrase does not have a clear definition in any statute and hence is subject to various interpretations. So what constitutes a 'true and fair view' mainly depends upon whether the financial statements are drawn in accordance with the Standard Accounting Practices (SAP) of United Kingdom. The auditor's report should clearly set forth the auditor's opinion as to whether or not they give a 'true and fair view'. Financial Statements that were certified 'true and fair' indicated that the performance and changes in the financial position of an enterprise, on which the users of financial statements rely, were projected without distortion or exaggeration. Thus the 'true and fair' figure should possess the characteristics of 'reliability', 'relevance', 'understandability' and 'comparability (Lembre et al. 1998). The general standard of performance required of auditors in the United Kingdom was laid down by Lord Justice in the case of *In re Kingston Cotton Mill Co*. (No. 2) (1896) when he said:

"It is the duty of the auditors to bring to bear on the work he has to perform that skill, care and caution which a reasonably competent, careful and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstance of each case"

The phrase 'true and fair' therefore does not commit anything about the financial position of the company. It would just mean that there had been no irregularities or material misstatements in the financial statements. The 'true and fair' attestation is generally understood to require compliance with applicable accounting standards (Kershaw, 2006). Over the years, various parties who have suffered loss after relying on audited financial statements have taken auditors to court on claims of negligence, that is, on grounds that the auditors did not perform their duties properly and, as a result, failed to detect errors in the financial statements. The collapse of Enron in 2001 and the subsequent discovery that its auditor, Arthur Andersen, had shredded audit documents after notification of a Securities and Exchange Commission (SEC) investigation of Enron sent shock waves through the financial markets (Tackett et al. 2004).

3 Discussion

3.1 Meaning and interpretation for the concept of 'true and fair view'

The phrase 'true and fair' originated in United Kingdom and has been in the Companies' Law since 1947. However, the UK companies' Act has not provided a proper definition to the phrase 'true and fair'. It is understood that the phrase 'true and fair' lacks a proper definition and the interpretation that is drawn from the phrase is enormous and at times ambiguous. A definition to 'true and fair' view was offered by Lee (1981), who quoted:

"Today, "true and fair view" has become a term of art. It is generally understood to mean a presentation of accounts, drawn up according to accepted accounting principles, using accurate figures as far as possible, and reasonable estimates otherwise; and arranging them so as to show, within the limits of current accounting practice, as objective a picture as possible, free from willful bias, distortion, manipulation, or concealment of material facts. In other words the spirit as well as the letter of the law must be observed."

Higson and Blake, (1993) examined the Oxford dictionary to identify various meanings to the words 'true' as well as 'fair' and concluded that three distinct meanings appear, each of which may put a different emphasis on the "true and fair" concept:

1. "clear, distinct, plainly to be seen";
2. "free from bias, fraud or injustice"; and
3. "tolerable; passable; average".

Lee, (1982) offered the meaning for true and fair view by stating that:

"*True means that the accounting information contained in the financial statements has been quantified and communicated in such a way as to correspond to the economic events, activities and transactions it is intended to describe, while Fair means that the accounting information has been measured and disclosed in a manner which is objective and without prejudice to any particular sectional interests in the company*".

Edey (1971) explained that 'true and fair view' had a technical concept and said that it was a term of art. He wrote:

"To the man in the street…….the words 'true and fair' are likely to signify that the accountants give a true statement of facts. He will be likely to associate 'facts' with 'actual profit' and 'actual values'. He does not realise that 'profit' and 'value' are abstractions. Before they can be conceived at all in any precise way they must be defined in such a manner that the definition contains in itself, or implies clearly, a method of calculation that could be followed in practice."

Prescod, (1996) identified four separate, distinct and not totally complementary meanings for the phrase a 'true and fair view' that could be rendered. 'True and fair' can be considered

1. as a relaxation of previous accounting rules, acknowledging that various areas of judgement and estimation arise in the preparation of financial statements,
2. as a strengthening of previous accounting rules, effectively moving towards a 'substance over form' approach,
3. as an assertion that the financial statements should be free from bias, and
4. as a basis for the assertion of the authority of the technical pronouncements emerging from the accounting profession.

McEnroe and Martens (1998) have identified that the phrase 'true and fair' means lack of bias in the financial statements. This view is also supported by several other authors who pointed out that 'true and fair view' means making an effort to provide unbiased information of various components affecting a company's intrinsic value (Ekholm & Troberg, 1998). Kirk, (2001) was of the opinion that since 'true and fair' is not defined by law, it allows professional judgement and establishment of meaning through usage. A study conducted by Laswad (1998), on the perceptions of 'true and fair view' concluded that it is only possible to interpret the phrase rather than define it. The study identified that the phrase has more of a 'technical meaning' rather than a 'qualitative meaning'. Thus, the interpretation for this phrase would depend upon the user group. Dunn and Stewart, (2001) explained that since the phrase 'true and fair' lacks proper definition, it should be understood in terms of its normal everyday usage according to the English language. The conclusion made by the authors suggested that the phrase could be perceived differently by different individuals and can be fully understood only by those who have invested the necessary time to become immersed in the process of financial reporting. Thus it can be seen that the concept of 'true and fair view' lacks an authoritative meaning. Yet, 'true and fair view' has a special meaning that could extend to both qualitative description and a definition of content, claimed Stacy (1997). Parker and Nobes, (1993) noted that the word 'fair' was more important than 'true'. While truth could be construed as factual, fair could mean 'not misleading'. A number of authors have researched this aspect and have only managed to conclude that the concept of true and fair mean different things in different countries (Aisbitt & Nobes, 1998; Higson & Blake 1997; Nobes 1993; Prescod, 1996). Its existence for a very long time in the legal system of most countries, demands that a definition for this concept should have emerged by now, yet it can be seen that an acceptable definition has not been developed by the law till date.

3.2 An Accountant's version of 'true and fair view'

Porter (1992), was of the opinion that the phrase 'true and fair' could mean different things to different individuals, like for a lawyer it could mean unambiguous and bias free, while for an accountant it could have a technical meaning. Thus, to an accountant, if the financial statement has to present a 'true and fair view', the financial statements must be presented in such a way so as to create the 'correct' impression of the reporting entity's financial affairs. For this to be achieved the rules should be strictly adhered to. Dunn and Stewart, (2001) were of the opinion that since accountants have different cultural backgrounds, achieving truth and fairness in financial reporting is a process of communication and negotiation. They also stated that the meaning attached to truth and fairness is elusive and appears to be situated in the world in which accountants perceive, act and communicate. In Czech economy it is seen that the concept of true and fair is used by accountants to obtain specific advantage within the Czech economy and its advantage is restricted only to a particular group of accountants rather than the whole accountancy profession (Sucher et. al. 1996). In trying to derive a proper meaning of the concept, from an accountant's point of view, the authors could identify that the accounts were supposed to be complete, in a manner verifiable and correct so that one can derive a fair view of the matters that are the objects of accounting. The resulting auditors' report in the form of words and numbers characterized by clarity, logic and integrity, should convey a description of economic reality as closely as current communications, economics and accountancy allow (Briloff, 2002).

By and large, from the accountants' point of view the phrase 'true and fair' means compliance with accepted accounting principles and 'absence of material errors' (Rutherford, 1985; Cowan, 1965; Evans, 1990; Walton 1991; Higson, 1992; Parker & Nobes, 1993; Laswad, 1993; Haider, 2001; Karan, 2003). This view point is not totally shared by Low and Koh, (1993) and Karan, (2003) who were of the opinion that 'true and fair' could mean absence of material errors or free from bias, but it need not necessarily guarantee compliance with Generally Accepted Accounting Principles(GAAP) or legal requirements. It was also seen that many auditors thought that an audit report was merely an indication that the auditors have undertaken their statutory duties (Higson, 1992). Yet, in general the author could identify major reservations among the auditors in using the phrase 'true and fair'. In Poland it was seen that the auditors took a legalistic approach rather than a commercial approach to audit since the adoption of 'true and fair' and the corresponding changes in law left the auditors a challenge of *de jure* adaptability (MacLullich, 2001). Thus it can be seen that some sort of a consensus within the profession or the auditors, with respect to true and fair, is not established to date.

3.3 Users' understanding of 'true and fair view'

The fundamental principle of reporting in company accounts is that the primary responsibility rests on the directors to make a full disclosure to enable the company and the directors to be judged as to whether what they have done is acceptable to shareholders and other relevant stakeholders (Flint, 1982). It is often presumed by the users, including the sophisticated investors, that the financial statements have been determined by the certifying independent auditor, while in fact the statements are generally those of management and the auditors only opines if the financial statements are consistent with GAAP (Briloff, 2002). It is always an unanswered question when one wants to know how the stakeholders perceive the concept of 'true and fair' view. Differing interpretations among the stakeholders makes one feel that the concept of 'true and fair view' is not communicating the actual information that the auditor is trying to send claimed Higson, 1992.

Any concept that is used to report to the users should have two effects, one that the concept shall not aim to manipulate users towards a particular conclusion and second that all segments of the community should be equally well served (Cowan 1965; Higson and Blake, 1993). It has been argued that financial statements should be complete with respect to qualitative and quantitative information so that the financially sound shareholders could obtain a detailed understanding of the financial affairs of a business (Stacy, 1997). However, here again the author, in contrast to the opinion of Cowan (1965) or Higson and Blake, (1993) is not addressing the shareholders' group at large. The focus has been restricted to only the 'financially sound' shareholders. Interviews with the user group in the Czech economy revealed that 'true and fair view' was not an abstract concept to meet higher objectives (Sucher et. al. 1996). It was used only to judge if the financial statements satisfied the requirements of the Generally Accepted Accounting Principles and at the same time for some preparers and users, the concept did not have any particular individual significance either, noted the authors.

While it is felt that the concept of 'true and fair' should satisfy the user needs, it is yet to be clarified as to whether the auditors' report does so, due to the remoteness of user needs from the ordinary meanings of the words used (Rutherford, 1985). In any case by trying to cater to all the user groups, the objective of financial statements becomes unclear and confusing (Ryan, 1985). Thus, true and fair can be seen as most important to accountants as an ultimate target in accounts rather than to be used as an accounting principle (Burlaud, 1993; Soderblom, 2001).

3.4 Legal aspects of 'true and fair view'

Despite the passing of nearly sixty years since it reached the statute book, however, the term remains judicially undefined in practice. In Singapore the 'true and fair view' requirement is a legal concept. However, no efforts are made by the legislators or the courts to define the phrase (Lee and Koh, 1997). Rutherford, 1983 believed that the phrase 'true and fair' should have a more technical meaning than a legal interpretation since in case of any complications the law would get back to the accountants to understand whether 'true and fair' was achieved. It is the duty of the auditors to ensure 'truth and fairness' in financial statements, some authors felt that it would be beneficial if 'true and fair' was enshrined in the law properly through clear definition (Kirk, 2001; Lee, 1994; Prescod 1996). It was researched and identified by Higson and Blake (1993) that true and fair view, was a slippery concept and was not capable of contemplating a prosecution, neither was any legal action based on the concept by any country.

3.5 True and Fair View Override

It is understood that the true and fair view override was an origination in the Fourth Directive by the European Commission (EC) and meant to be followed by countries registered under EC. In accordance with Article 2(3) of the Fourth Directive *'the annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss'*. Where, application of a specific provision of the Directive would not be sufficient to give a true and fair view, additional information must be given (Article 2 (4)). Where, in exceptional cases, additional information would not be enough in order to give a true and fair view, the specific provision in the Directive must be departed from (Article 2(5)). Under such circumstances, the departure must be disclosed in the notes, together with an explanation of the reasons for it and an assessment of its effect on the company's assets, liabilities, financial position and profit or loss. A similar provision is also given in the Seventh directive (Article 16 (3) for the consolidated accounts. However, under the Seventh Directive the true and fair requirement does not apply to the scope of the consolidation (Hulle, 1993). Thus the overall impression is that there was no strong objection to the inclusion of the true and fair view as such in the Fourth Directive since all the key institutional players formed their policies around the true and fair view principle (Walton, 1997). Interestingly, the arguments placed by Alan Cook (1997) extend this thought by stating that both 'true and fair' as well as 'true and fair override' must always be viewed together, as they compliment and reinforce each other.

The major issues raised in application of true and fair view override principles is basically the translation of English language into various other languages like German and French, as these countries are a part of EC. It was pointed out by Burlaud, (1998) that in English *the true and fair view of the ……..assets, liabilities, financial position and profit or loss* could be interpreted literally as '*an exact and trustworthy picture of the assets, liabilities, financial situation an profit or loss*'. As for the French version, that states that the accounts should give '*a faithful image of the owner's capital, the financial situation and the results*'. He also pointed out that there is not a single official EC language, and in certain limited cases one could imagine that the expressions 'real situation', 'exact and trust worthy picture' and 'faithful image' are not equivalent to each other and that there are therefore several versions of the Fourth Directive.

A notable finding by Livne and McNicholas (2003) stated that the reporting practices that result from one country are a consequence of their standards, legal environment and the manner in which standards are enforced. Given that UK is at the high end of the range of enforcement of accounting standards, override behavior in other countries might differ significantly from the behavior documented in the UK. This view is supported by Zeff (1993) who said that there had been cases in Dutch companies, who had close ties with the US capital market and have used 'present fairly' in place of 'true and fair view'. It was found in such cases that 'give a true and fair view' as used in the legislation of EC countries is not the equivalent of 'present fairly' as used in the United States. Various authors have different solutions to solve the problems arising from the interpretation of the phrase 'true and fair view' and to narrow down the differences arising from the adoption of the override principles. But still the basic problem remains unsolved, which points at the phrase itself. This argument could be supported by the comment made by Burlaud (1993, 98) who said that "*very few companies would take the risk of departing from the accounting rules and justifying this by the extremely vague notion of the true and fair view*".
It was pointed out by Linve and McNicholas (2003) that Security Exchange Commission (SEC) had historically objected to the possibility of an override if international accounting standards were to be allowed for companies listed in the U.S. Amat, Blake and Oliveras (1996) support Burlaud's view by stating that Germany does not require, or even permit departure from the detailed requirements of the law to give a 'true and fair view'. Walton (1997) looked down upon the override by claiming that the UK accountants used this concept as a means of escaping from the austere rules of the Fourth Directive.

3.6 'True and fair view' as compared to 'Present fairly'

Familiar terminology such as a 'true and fair view' in the UK, and 'present fairly' in the USA, constitute the means by which users are informed by the auditor about integrity of the management. In both these cases it can be observed that the concept lacks a proper or acceptable definition (Lee 1994). Neither 'true and fair view' nor 'present fairly' helps to reach the objective of financial statements, that is to give unbiased information about the financial performance of companies (Cowan, 1965). McEnroe and Martens, (1998) identified that many users considered 'true and fair' to be superior to 'present fairly' in accordance with Generally Accepted Accounting Principles (GAAP). These results were consistent with that of Kirk, (2001) who identified that in New Zealand users preferred to use 'true and fair' concept. Some felt that the two concepts could not be interchanged and they had to be retained as the essential parts of the UK audit report and US audit report respectively (Kirk, 2001; McEnroe & Marttens, 1998;). However in order to make financial reporting easier, it is better to come up with one internationally accepted accounting standard, particularly with the onset of International Financial Reporting standards with about 110 countries embracing the same.

3.7 Criticisms of 'true and fair'

The major limitation identified by most authors is that 'true and fair' lacks a proper definition and the interpretation depends upon the people for whom the financial statements are intended to be. This means that different people could interpret 'true and fair' differently. The multiplicity of commonly used Polish translations and grammatical constructions for 'true and fair view' as well as a lack of consensus as to its classification imply the lack of substantial rationalization in understanding the 'true and fair' concept in Poland (MacLullich, 2001). The research by Higson (1993) affirmed that, in the United Kingdom, the phrase 'true and fair' aroused little enthusiasm amongst those who are concerned with the application of this phrase.

Karan, (2003) opined that 'true and fair view' has led to discordant interpretations. Dunn and Stewart, (2001) said that the requirement that financial statements should give a true and fair view creates a great deal of difficulty for preparers, auditors and users of financial statements. Cultural differences of each country could influence the practice and application of 'true and fair view'. Rather than being over-economical with 'truth', it should be unambiguously clarified that both 'true' and 'fair' adjectives have been used not in the generally understood sense but in a narrow or restricted or limited sense. Cowan, (1965) pointed out that insufficient thought has been given to the concept of 'true and fair view' while Ekholm and Troberg, 1998 were of the opinion that true and fair view reporting may many times lead to a dramatic decline in the market value of an enterprise and consequently, such information may be regarded as causing significant harm.

3.8 Current significance of 'true and fair view' and the override principles

Karan (2003) suggested that one could use "not misleading" in the place of 'true and fair' for the reason that, unlike cultural connotations of the 'true and fair' view that have lead to discordant interpretations. In the author's words "*the concept of 'not misleading' has the potential to transcend national idiosyncrasies and assist in the development of consistent accounting standards in both national and international application*." The Czech legislation chose to avoid the use of the word 'true', which was perceived to have been misused in the Central Europe over the last sixty years (Sucher et. al., 1996). It was correctly pointed out by Clarke, (2006) that if a judge were to expect that 'true and fair', being ordinary words, be given ordinary meaning, one will not be able to defend any other usage. It is expected and observed that all the other professions, which entails greater complexities than financial affairs, have regular, common, profession wide, tried and proven methods of reporting (Dean and Clarke, 2004). However this acumen is lacking in accounting, thereby leading to lack of professional expertise.

3.9 Case Study and judgements given on Auditors' liabilities due to False Certification

History has seen a number of cases where the auditors were charged in the courts for not disseminating the correct information to the stakeholders. The auditors have taken shield under concept of "true and fair view" which does not communicate what is meant to be communicated to the stakeholders (Higson and Blake, 1993). The Royal Mail Case in 1931 was the first to have illustrated how it was possible to produce audited accounts, which met the legal requirements and yet omitted sufficient data so as to completely mislead the investors and the shareholders. The trend is still continuing, which could be seen in Parmalat, the largest Italian food company, which eventually collapsed in 2003 with 14 billion euro hole in its accounts. Melis (2007), analyzed that in spite of following all the legal requirements including rotation of auditors, the company was the biggest European bankruptcy case. As against the earlier corporate collapses like that of Enron and WorldCom, where, Arthur Andersen, the auditors of these companies were implicated with giving wrong information to the stakeholders, the latest in the series of financial mismanagement is Satyam computer services, which was incorporated in 1987. This company's chairman openly declared having indulged in financial statement fraud and had managed to escalate the figures beyond recognition. While the name "Satyam" meant "truth", no truth about the company was observed. The company claimed to have employed 53,000 employees and later it was discovered that the company had in fact employed only 40,000 employees, there by creating 13,000 dummy employees, the salary of who were pocketed by the chairman. PricewaterhouseCoopers, the auditors of the said company, had failed to discover this fact and had been issuing unqualified reports. When queried, they claimed that the information provided and verified, had justified an unqualified report. Numerous other leading cases are analyzed in this research in establishing the principles of law relating to breach of trust like:

The London and General Bank Ltd. The main emphasis in the judgement given by the judge says: "*His (Auditor's) first duty is to examine the books not merely for the purpose of ascertaining what they do show but also for the purpose of satisfying himself that they show the true financial position of company."* The judge, in his judgement, also stressed that the auditor "*must be honest that is he must not certify what he does not believe to be true and he must take reasonable care and skill before he believes that what he certifies as true."* This was a very good case in projecting the duty of the auditors' and their responsibilities.

Republic of Bolivia Exploration Syndicate Ltd. The judge held that "*auditors of a limited company are bound to know or make themselves acquainted with their duties under articles of the company whose* *accounts they are appointed to audit and the Companies Act for the time being in force. When it is shown that the audited balance sheet did not project the true condition of the company and that damage had resulted, the onus would be on the auditors to show that it was not the result of any breach of duty on their part.*"

Rex corporation The auditor and the chairman of the company were criminally prosecuted for publishing annual reports knowing them to be false in a material particular intent to deceive the shareholders. While the company was making a trading loss, deliberate false representation was made to the shareholders that the company was making a trading profit.

Scott group : It was held that the auditors were liable since the auditors should have foreseen that the company's low profits and rich assets would make the company a good target for takeover. The auditors report would thus be relied for any such takeover bid.

Jeb Fasteners Limited. It was held that the auditors should have foreseen at the time of audit that some person might rely on those accounts for the purpose of deciding whether or not to take over the company and therefore could suffer loss if the accounts were inaccurate. The case of Scott group was upheld.

Twomax Ltd & Goode The financial statements were negligently audited and the auditors' reports were relied on for a takeover bid. The auditors were awarded damages of £65,000 plus costs.

United States v. Andersen: The auditors were charged with actively involving themselves in all the misdeeds of Enron and finally also with the charge of shredding documents related to the firm's audit of Enron. This resulted in the company's restatement of income showing finally a loss of $618 million for the first quarter of 2001. The auditors were held grossly negligent thereby leading the firm to be barred from auditing publicly traded US companies. This case is attributed to lack of independence of the auditors, since they were bribed heavy amounts for consultation services than for statutory audit.

3.10 Factors influencing the acceptance of the concept of 'true and fair view'

Various factors can be seen influencing the acceptability or the understanding of 'true and fair view'. These have been identified from the literatures reviewed. The first and foremost being the restrictions set by the professional codes of ethics and the legal requirements. Ethical codes help in defining appropriate behavior for an individual practitioner and also in sending out a message to the wider community about the type of behavior that can be expected by a member of the professional body concerned (Page & Spira, 2005). In the absence of any guidance, people look to the professional codes of conduct and the legal rulings to decide on the right or the wrong. Secondly it is acknowledged that auditors' report is the only means of communication between the auditors and the shareholders thereby expecting the auditors to communicate in a clear and unambiguous manner. In order to be able to achieve clear and unambiguous communication the auditors must ensure that the stakeholders are able interpret the report and reap the benefit of their reports. The well-being of the society and the economy is dependent on the extant law as well as its ability to enforce the same. In this research the authors aim to ascertain if the existing law is sufficient to enforce integrity in the auditors while stating 'true and fair'.

3.11 Restrictions set by law and ethical conduct

Ethics refer to a system or code of conduct based on moral duties and obligations that indicates how one should behave (Messier & Boh, 2004) Ethical interrogations will rise every time the decision maker exercises the freedom of choice given a range of possibilities and those conclusions will have significances for the wellbeing of the society (Marshall, Smith and Armstrong, 2006). When contemplating the design and implementation of an ethics program, it is appropriate to first examine the preconditions that may be necessary in order for the individuals to behave in a morally responsible manner, insist McDonald and Nijhof, 1999. However, it can be seen that the profession of accounting and auditing are trying dreadfully to prove to the world their ethical stance (Vinten 2007).

Like any other professions, ethical codes of conduct are not the latest introduction to the accounting profession. They have been upon since the inception of numbers and accounts. Sihag and Balbir (2004) noted that during the ancient accounting period, legal rules had to be written with clarity and completeness, in order to ensure effective enforcement of rules and regulations and allocation of duties to various office bearers. While there is, still, misperception on what constitute proper codes of ethics, it is suggested that the legal system must have precise guidelines, proper documentation and appropriate disciplinary action that can be instituted against breach of law, enshrined in it (Farrell et. al. 2001). Professionalism on the other hand, means that the individual possesses certain characteristics, attitude and aptitude that mark a profession or a professional person (Messier, Jr & Boh, Auditing and Assurance services in Malaysia, second edition). Professions establish such codes to demonstrate to the users, the standards of behavior they intend to follow while providing services to their client. Thus in order to protect the privileges and the coffers of the stakeholders apart from legitimacy, morality of transactions are indispensable, which means that the auditors have a moral duty not only to check the transaction but also ensure that the amounts spent are within the regulatory framework (Percy, 2000, Amat *et.al.*). This explains the need to have truth in the reporting element which must be unbiased, consistent with rules and neutral to adopt. The codes of ethics set by the profession consistent with that of the law remain the guiding forces for the auditors to act ethically, bearing in mind the high level of social obligation they carry.

Ordelheide (1996) believed that legal norms are formulated in abstract terms and in practice every particular accounting case can be solved with reference to legal norms only. It is therefore, necessary to define legal norms, which could bring consistency in interpretations. Consequently, if we could define the professional codes of conduct in a legal context, it could probably help to bring about reliance or achievement of the 'true and fair' certification. The recent high profile collapses and also the downfall of Andersen has raised a question as to the adequacy of the rules for the auditors to act ethically (Flugrath et. al. 2007). This became more questionable when more firms (KPMG and Ernst & Young) were instilled with civil fraud charges, specially because these firms gave an unqualified audit opinion to nearly half of the 228 public listed companies that later filed for bankruptcy within the year (Brown, 2005). The question of ethics cannot be addressed in a vacuum if one has lost his humanity claimed Doost, 2004. Arthur Andersen with their impeccable reputation for quality audits aggressively pursued the schemes of wealth generation and accumulation through any means (Toffler & Reingold, 2003). The existing retro can be seen as a very ambiguous period in human history with lots of openings and opportunities for a better future, which cannot be achieved by mere revision of accounting and auditing rules of conduct (Doost, 2004). However it can be seen that number of firmer protocols are being incorporated to monitor the work performed by auditors, the audit committees and the directors of organization with the introduction of the Sarbanes-Oxley act (Razaee et. al. 2003).

In spite of all these efforts taken by the regulatory authorities, one could witness the commission of financial statement fraud, for companies such as WorldCom, Parmalat and Satyam Computers, which acknowledge good corporate governance as prevailing framework but had failed to implement it, resulting in loss of wealth by the stakeholders (Mardjono, 2005). This shows that merely having good ethics, rules and principles, by itself is not sufficient; in fact more focus has to be put on the way in which it is implemented. UK has taken steps to ensure that the auditor independence is implemented following the collapse of Enron, noted Fearnley and Beattie (2004). Among the various steps implemented were, increased transparency and disclosures by audit firms apart from calling for voluntary disclosures wherever possible in preference to costly and interventionist strategies, claimed the authors. The authors also posit that further changes to the rules were possible if the existing rules and mechanisms proved unsatisfactory.

One can assume that as long as the auditors are able to abide by the regulations set by the Law and as long as the auditors' code of conduct is within the restrictions set by the standard setters, 'true and fair view' of financial statement could have been achieved. It is difficult to imagine 'true and fair view' results that are not obtained and communicated by adherence to a set of rules claimed Low and Koh, 1993. Higson and Blake (1993) quoted the view of Institute of Chartered Accountants of England and Wales (ICAEW), on the true and fair view, which suggested that the auditor must be, satisfied that

a. *All relevant Statements of Standard Accounting Practices have been complied with, except in situations in which for justifiable reasons they are not strictly applicable because they are impractical or, exceptionally, having regard to the circumstances, would be inappropriate or give a misleading picture.*

b. any significant accounting policies which are not the subject of Statement of Standard Accounting Practice are appropriate to the circumstances of the business.

In this regard, a question posed by Porter (1992) is considered very relevant. *To what extent must financial statements comply with the Accounting Practices before they could give a 'true and fair' view? Is full compliance with all Accounting Practices necessary, as accountants have traditionally maintained? Or is there a "core" of Accounting Practices, which if adhered to, would ensure that the financial statements portray the 'correct impression' of the reporting entity's financial affairs?* Although one would not expect ethical considerations to be applied across every waking moment of an organization, the only really guaranteed way to ensure this is by adoption of total quality procedures suggested Vinten 2007. A higher audit quality increases the chances of informative audit evidence and helps the auditor make more informed attestations, even though a higher audit quality comes with higher audit cost (Lu, 2005). The revised statement of auditing standards (SAS 240) issued by the Auditing Practices Board (UK) on 'Quality Control for Audit Work', includes a strong emphasis on independence of auditors and objectivity as crucial factors in audit quality (Stevenson, 2002).

The financial scandal of the 1980s focused attention on apparent weaknesses within the financial reporting system, which failed to protect investors and other stakeholders from significant losses (Spira, 2001). These weaknesses continue to lead to major financial scandals in the 21st century (Brown 2005), which in turn has led to current confidence crisis of investors over the credibility of financial reporting (Makkawi & Schick, 2003; Sridharan et. al. 2002). Furthermore, the rules of ethics are not considered to provide sufficient guidelines to practitioners in specific situations, especially when it comes to independence of auditors (Gorman and Ansong, 1998). A collaborative venture between the American Institute of Certified Public Accountants, the American Accounting Association, the Financial Executives Institute, the Institute of Internal Auditors, and the National Association of Accountants recommended that public listed companies should develop and enforce written costs of corporate conduct, which in turn can foster a strong ethical climate as well as open channels of communication to help protect against fraudulent financial reporting (Vinten 1998). The above arguments speak volumes about how ethical codes do not add value to the current reporting practices by the company, accountants and the auditors.

3.12 Interpretation of the concept 'true and fair view'

Current audit practices may lay stress on the audit opinion paragraph, but it is not clear whether the users of the financial statements have sufficient understanding about different forms of opinion expressed by the auditor and the information content of the audit paragraphs (Soltani, 2000). It is thus a fact that 'true and fair view' lacks a proper and an acceptable definition. This has subjected the concept of 'true and fair view' to various interpretations depending upon the purpose of the audit, the type of audit report and the users for whom the audit report is being prepared. True and fair could be used to describe non financial information if the requirement to meet reasonable expectations could be satisfied (Stacy, 1997). This has created a great deal of ambiguity among the user group and has also brought about an expectation gap between the user groups and the auditors (Porter, 1993). The user group is by and large, of the opinion that an audit report which states that the financial statements show a 'true and fair view', is in fact promising the accuracy of financial statements as well as integrity of the managers of funds. The users assume that the auditors will undertake responsibilities with respect to detection of fraud, improving audit effectiveness, communicate useful information in a better and effective manner including early warnings about possible business failure (Guy and Sullivan, 1988).

However, in fact, there is a great deal of difference between what the public and financial statement users believe accountants and auditors are responsible for and what the accountants and auditors themselves believe they're responsible for, which commonly is called as the 'expectation gap' (Guy & Sullivan, 1988; Lee, 1994). It implies that the auditors are not required to look specifically at the accuracy. They are only required to ensure that the financial statements do not contain any *material errors*, which could change the perception of the users. The users are ignorant of the fact that the word *'material'* itself is subjective. With so many vagueness in reporting and communication the concept of 'true and fair' view causes the users to be confused on what the auditor is trying articulate through the audit certificate. Higson, (1991), in his research deliberated that the phrase 'a true and fair view' is not communicating the message that the auditor wants to send. Thus an alteration to the audit report may reduce the audit expectation gap. The case of Parmalat was used by Andrea Melis, (2005) in order to understand how the relationship between the corporate financial reporting and corporate governance influenced, negatively, the enforcement of the 'true and fair view' accounting principle. It was observed that 'true and fair view' reporting became just a chance for the auditor's gateway.

Nobody is sure of what 'true and fair' stands for and how it can be applied without losing its originality. Ambiguity is said to exist where a message is capable of multiple interpretations, where a single form of words encompasses multiple substances of meaning (Page & Spira, 2005). When using 'true and fair as a single construct, the importance of 'truth' in relation to either universal truth or to reliability of information prevails (MacLullich, 2001). The more ambiguous adjective 'fair' is equated with 'correct', 'true', 'clear', or even 'faithful' claims the author. This sort of confusion basically exists due to the failure of the law to define and showcase the correct usage. It was opined by Walton (1993), with respect to the meaning of the phrase 'true and fair', that it is a legal term in origin and yet the Companies Act have never defined it (nor has the Fourth Directive) and there is very little jurisprudence which bears upon it. Parker and Nobes, (1991) argued that from the UK point of view it was accepted that 'true and fair view' requirement existed mainly for the benefit of the auditors. Whether or not the directors found the use of 'true and fair' by auditors in their interest depended upon the circumstances. Thus they concluded that it was the auditors who used and supported 'true and fair' requirement.

Gill, (1983) was of the opinion that the 'true and fair' view statement by the auditors depended on who they directed the report to. In most cases, since the shareholders are known to have appointed the auditors, the 'true and fair' view would mean that it was directed to the shareholders. Diverse interests within a company make the phrase complicated with different interpretations drawn by different individuals. This view is also supported by Samuelsson et. al., (2003) who stated that the meaning of 'true and fair' view is based on individual reflections and that it all depends on whom you are asking. A valid point raised by Gill was that the company legislation consistently speaks of *a* 'true and fair' view and not *the* 'true and fair' view. This is to be expected because of the multiplicity of choices that are available in the treatment of various items in the accounts. So, one is forced to conclude that there are as many 'true and fair' views as there are viewers. Higson (1992) viewed that one standard unqualified report being used for very large public companies as well as very small privately controlled companies could convey different messages. This calls for a requirement to have different reports depending upon the size of the client. Comparing what the British Auditors are trying to tell to what the American Auditors are trying to tell via their audit certificate, it has been identified by Cowan (1965) that, lack of clear cut definition of objectives in the financial statements bring about a barrier in general acceptance by the investors.

The inference thereby drawn is that if we could draw a clear interpretation for the phrases used in certifying financial statements, it would help the users to make better judgement and have more reliance on the audit certificate. The current 'true and fair' has very little advantages over the disadvantages when the users are to interpret it in the way in which it is reported.

3.13 Satisfaction of stakeholders

The wide meaning and a wide range of interpretations drawn by financially sound shareholders and the other stakeholders, makes the level of satisfaction on 'true and fair' reporting questionable. Stakeholders are individuals within and outside the organisation who have a vested interest in the organisation. The public, in the form of shareholders and other stakeholders take comfort from the fact that the auditor as a watchdog is overseeing the integrity of business through the process of reporting on financial information (Percy, 1997). It is therefore, important that audit is not perceived as an overly expensive overhead, but a cost willingly spent for value rendered both to the audited organsiation and to stakeholders auditors are ultimately serving, (Percy, 2000). The main purpose of preparing financial statements and getting them audited and certified by independent auditors is to provide reliable information to the stakeholders, who believe that the auditors have a responsibility as watchdogs of the integrity of business (Percy, 1997). On taking a look at the way in which auditors are hired, reappointed, and paid, it is not wrong to state that shareholders and other users of accounts have to be concerned with the way in which the stakeholders' interests will be safeguarded (Firth, 2002). The role of an audit and auditors is to reduce the information risk associated with financial statements (Makkawi & Schick, 2003). Stacy (1997) argued that the meaning of 'true and fair' view is that it is firmly based on the reasonable expectation of the users and with changing economic and business activity accounting should also be ready to change with new financial instruments and new measurement techniques. Having a wide range of people with different objectives of looking at the same financial statement, it is always seen as a difficult task to satisfy all of them.

The interests of all users have economic dimensions and should therefore be satisfied by such information about the entity which is necessary for establishing the entity's intrinsic value, noted Ekholm and

Troberg, (1998). However, it is understood that the financial statements are normally prepared to satisfy the shareholders of the organisation. This means that the audit certificate should be prepared with an aim of satisfying the shareholders. This is true when the auditors are certifying the annual financial statements of an organisation. There could also be situations when the auditor is required for special purpose audits like tax audit, management audit or investigative audit. In such cases again, the users are very specific and the audit certificate shall be expected to satisfy such specific users. This is to conclude that as long as the users are satisfied, we could trust the 'true and fair view' certification.

The concept of 'true and fair' has two aspects: First, that in presenting the accounts there should be no attempt to manipulate users towards a particular conclusion; and second, that all segments of the user community should be equally well served. This is emphasised in the American Accounting Association's first discussion of accounting conventions and in Paton and Littleton's 1940 work (Higson & Blake, 1993). This could mean that all the stakeholders should be equally satisfied with the 'true and fair view'. In Re London and General Bank (No. 2), for example, the purpose of the statutory audit was described as securing "*to shareholders independent and reliable information respecting the true financial position of the company at the time of the audit*" (Karan, 2003,p.4). Does this mean that as long as the shareholders are satisfied, one need not be bothered about the rest of the stakeholders?

Rutherford (1985) stressed that meeting user needs forms a part of presenting a 'true and fair' view. However, it is far from easy to be confident that users of contemporary financial statements do as a matter of fact feel that their needs are satisfied. Dunn and Stewart, (2001) argued that it cannot be assumed that truth and fairness has one meaning for all. Therefore achieving truth and fairness in financial reporting is a process of communication and negotiation. Given that accountants have different meanings for truth and fairness, the users will have even greater difficulty to deal with the concept. To the layperson truth and fairness implies correctness and they rely on the accountants as experts to ensure this. However, is it possible for the auditor to give one 'true and fair' view to satisfy all the stakeholders and fulfill their responsibilities?

It is acknowledged that the current widespread criticism of and litigation against, auditors is a ramification of auditors failing to meet society's expectations of them and further that such failure is serving to undermine confidence in auditors and the work they do, pointed out Porter (1993). It is very interesting to take note of a couple of comments given in a research undertaken by Higson (1992). One interviewee claimed that a satisfactory meaning of the concept is yet to be worked out while another interviewee argued that when professionals themselves were confused with the term, how could one expect the shareholders to understand and interpret it correctly?

4 Concludingremarks – 'True and fair view'

The purpose of this study was to infer whether 'true and fair view' reporting could be retained in its current form while hundreds of countries have joined hands in adoption of International Financial Reporting Standards. This is particularly relevant due to UK's stand of retaining 'true and fair view' as the corner stone in financial reporting. To aid the study a wide range of literatures, newspaper articles and text books were used. There were three crucial elements to 'true and fair view reporting'. The codes of ethics and law govern the etiquette of the auditors and preparers of accounts. The insinuation from the literatures is that the codes of ethics nor the law provide sufficient guidelines on the usage of the terms 'true and fair view'. At the same time it is difficult to enforce legal action against the auditors when they provide true and fair' reports despite having knowledge of wrong doings by companies unless evidence can be hoarded proving the auditors' lack of integrity. The second element was the ability of the stakeholders to interpret 'true and fair view'. There is a wide spread confusion when auditors report using 'true and fair view' concluding that, in the long run 'true and fair view' will become an oppressed term if retained in its original form. The last element discussed was extent of satisfaction resulting from reading true and fair view reports. With varying degrees of independence and competencies, the auditors are unable to provide the users with observable evidence on their integrity when they report using 'true and fair view'. This has led to dissatisfaction among the stakeholders who insist on extending roles of auditors and also reporting in a manner that does not befuddle the users.

Overall this study has provided mixture of thoughts with respect to 'true and fair view' reporting. While it can be seen that many users favor the concept, it is also evident that there are intense displeasures among the users. It is therefore the deduction of the researchers that it is time to re-look, or more strongly overhaul 'true and fair' reporting. The major limitation of this study is that the views of the researchers have not been tested empirically.

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