ISSN: 2635-2966 (Print), ISSN: 2635-2958 (Online).

Available online at http://www.atreview.org

Original Research Article

The Truism of the True and Fair View of Auditor's Report

Okhae J. IBHADODE

Department of Accounting, Faculty of management Sciences, University of Benin, Benin City, Nigeria.

Received: 01/10/2020 Accepted: 20/12/2020

Abstract

The objective of this paper is to theoretically examine the truism of the "true and fair view" in the context of financial reporting. The paper examines the concepts such as true, fair, true and fair view, problems of true and fair view, the origin/history of true and fair view, review of attributes and key issues relating to true and fair view.

The methodological approach adopted in this paper is library-based research, focusing on the review of relevant and related extant literature.

The findings based on the review of relevant and related literature is suggestive of the fact that the true and fair concept in financial reporting environment is contentious. The study concludes that given the circumstances as chronicled on this paper, it is evident that the truism of the true and fair view of the auditor's opinion is under serious threat. The way forward may be for the auditor to certify the accuracy and the correctness of the financial statement. While this position being canvassed here may help to substantially bridge the age-long expectation gap, it may as well require an upward review of the current audit fee structure in order to be able to operationalize the onerous task of certifying the accuracy and correctness of the financial statement. This position is contentious and will require a robust consideration which is not within the purview of the present review.

Keywords: Financial statement, fiduciary duty, true and correct, true and fair

JEL Classification Codes: M14, M48

Citation: Ibhadode, O.J. (2020). The truism of the true and fair view of Auditor's report. *Accounting and Taxation Review, 4(*4): 17-31.

1.0 Introduction

The inherent conflict of interest between contracting parties; multiple stakeholders alike and management in the running of the affairs of firms across the globe precipitates the need for auditing. Auditing is the process exhibited by a professional known as the auditor, who attempts to address the issue of integrity gap the agency problem may pose to the stakeholders who have invested their resources in a firm to be managed on their behalf by their agent in expectation for optimum return on investment. Management who serves as agent to these complex stakeholders render stewardship accounts which are expected to be communicated in the form of financial statements and in ascertaining the veracity of claims and bridging any integrity gaps created, the auditor is expected to do due diligence and exercise fiduciary duty through his professional opinion. The auditor's opinion determines the extent to which management (agent) uphold accounting ethics or otherwise depending on the extent of reliance on the opinion and the context under which the financial statement is being considered, that is, when the auditor opinion is arrived at on the basis of strict adherence to rules of best audit practices as well as relevant auditing legal frameworks without appeal to sentiment and violation of auditor's independence.

The auditor in the course of performing due diligence, forms his professional opinion which either validates compliance of financial statements to International Financial Reporting Standards (IFRS) formerly Generally Accepted Accounting Principles (GAAP) or non-compliance, and where there is compliance, the auditor issues a "true and fair view" or otherwise qualifies the financial statement accordingly. The importance of the auditors' opinion underscores the trend of sequence that has given rise to the current phrase known as "true and fair view" which is suggestive of the fact that financial statement is free of material misstatement. However, it is recorded in sketchy historical accounts that the phrase took a paradigm shift from an earlier concept of "true and correct view" which was originally used to represent absolute assurance on the veracity of claims presented in the financial statements to stakeholders by management, to the current phrase; "true and fair view" which gives reasonable assurance on the veracity of claims made in the financial statements. One of such historical accounts of the paradigm shift from "true and correct view" to "true and fair view" is that of Ryan (1988) who asserted that the requirement for the balance sheet of companies in line with the 1856 UK Act to show "a true and correct view" was continued until 1947, when the Cohen Committee came up with the recommendation of "a true and fair view". Similarly, Ciocan (2017) pointed out that the recommendation for the adoption of "true and fair view" was advocated by the Institute of Chartered Accountants in England and Wales (ICAEW) which brought about the adoption of true and fair view as against the earlier position of true and correct view.

The continuous change in the wordings that makes up auditors unqualified opinion, suggest the importance of the audit function in the balancing of interest between owners and managers of resources. The extent to which users of financial statements rely on the concept of "true and fair view" opinion issued by the auditor in the course of giving clean bill of health to financial statements raises ethical questions judging by recent happenings and scandals in the accounting profession across the globe. Some of the cases wherein auditor issued true and fair view opinion and were subsequently followed by accounting scandals, are: Enron and the auditor; Arthur Anderson in the United States of America, wherein the auditor gave a "true and fair view" opinion to the financial statements of Enron despite the latter engaging in sharp accounting practices. Others include wolrdcom, Adelphia (Jayalakshmy, Seetharaman, & Khong, 2005) and more recently in Nigeria are the cases of the liquidated Oceanic Bank Plc., and Intercontinental Bank Plc. wherein the concept of the validity of "true and fair view" was also tested in terms of faithful representation.

However, as to whether the fundamental phrase "true and fair view" opinion issued by the professional accountants (auditors) in the course of rendering fiduciary duty still present the needed reasonable assurance in the context of financial reporting owing to the aforementioned chronicled local and international cases, is quite debatable in the context of academic discourse, hence a major motivation for this paper. A good example of such debate is as advanced by Kilgore, Leahy, and Mitchell (1999) in their study in Australia, where they argued that despite inherent ambiguities in the use and interpretation of the wording "true and fair view" it has to a large extent been adopted for purpose of reporting framework through enabling legislation of most countries and recent account of adoption by some members of the European Community through the Fourth Directive, irrespective of the fact that there are notable variations in terms of its interpretations and practices, thus raising the issue/puzzle of how different practitioners in various territories adopting the phrase are able to decipher the actual provisions of the said legislation.

The focus of this paper is therefore to theoretically examine the truism of the popularly used phrase for unqualified auditors' opinion "true and fair view" in the context of financial reporting, and thereafter make relevant recommendations and conclusion that sums up the key issues and arguments raised in this paper. The remainder of this paper is structured as follows: Section two examines the literature, key issues and arguments, as well as factors affecting true and fair view, while section three is the conclusion and recommendation.

2.0 True and fair view

This section clarifies the meaning of true, fair, 'true and fair view', history of true and fair view, problems of true and fair view as well as factors affecting true and fair view in financial reporting parlance.

True

Jayalakshmy, Seetharaman, and Khong (2005) credited the definition of the word "True" to Nobes (1993) who studied a large audit firm and asserted that different definitions were advanced by different professionals; hence defined the term as: based on fact; complies with rules; undistorted fact; not in conflict with facts; objective; correct, within materiality; adherence to events; and factual accuracy. In the same vein, "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 (Lee, 1982). Based on these two definitions, it could be said that "true" means information as shown in the financial reporting process represents statement of fact.

Fair

Equity is one of the synonyms for fair. 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 (Lee, 1982). Haider (2001) describe the word "fair" as: not misleading (three times); substance over form (twice); proper reflection; putting in right context; consistent with underlying reality; ability to understand what has really gone on; in accordance with rules in context; and reasonable. According to Zanola (2015) fair comes from the old English word "fager" which meant 'beautiful, pleasant' and that the etymological path of the word is strictly related to a general idea of beauty and harmony. Zanola (2015) also noted that the root of the word dates back to the Old High German adjective fagar, which meant beautiful, splendid, pretty, bright, and it is related to the Latin adjective pulcher. The root fagar- is also behind contemporary English words like beauty and glory. Fair is a measure of the degree of rationality exercised in the course of decision making process.

History/Origin of true and fair

There is no consensus in extant literature on the origin/history of "true and fair view". The true and fair view has its origin traceable to the United Kingdom in the 19th century (Ciocan & Georgescu, 2018). The initial wordings based on its Anglo-Saxon origin were "true", "correct", "honest" and "total" as evidenced in the United Kingdom (UK) regulations of the 1844 Joint Stock Companies Act. This was also supported in the work of Salihin, Fatima, and Ousama (2015). This trajectory of the conceptual phrase metamorphosing from "true, correct, honest and total" to "true and fair view" could be an indication that the current inconsistency that surrounds the use of the phrase as well as the lack of uniform definition of the concept started at the time of its historical formation. This lack of uniform definition of "true and fair view" is still prevalent till date in the financial reporting environment (Salihin et al. 2015). Based on the aforementioned, it can be deduced that the history of true and fair view is traceable to the United Kingdom as its place of origin, while there is also a near unanimous standpoint on the lack of universally accepted definition of the phrase.

Burrowes and Nordstrom (1999) opine that "true and fair view" was given birth to in the United Kingdom and first incorporated into the 1948 UK Act and that the accounting profession have found it difficult to come up with a common definition of the concept. This position is corroborated by the assertion of Salihin et al (2014) who also share the opinion that there is yet a uniform conceptualisation of true and fair view. This development according to Burrowes and Nordstrom (1999) prompted the call from Swedish Government to relax its recommendation requesting auditors to include in their report; the truth and fairness of financial statements of their clients. Hopwood (1990) maintained that the origin of "true and fair view" can be said to be confusing and haphazard in nature, a situation that further demonstrates the reason, for continuous dynamics of the phrase in terms of wordings and nomenclature. This faulty foundation could explain the reason for difficulty in trying to harmonise the concept into a universally accepted template devoid of one form of criticism or another, thus making it origin confusing and haphazard.

Problem of the true and fair view

One fundamental problem of true and fair view is that of proper conceptual, identification and definition despite efforts by researchers and practitioners in the Anglo-Saxon accounting system and in the Continental accounting system (Ciocan & Georgescu, 2018). Anglo-Saxon accounting system is based on common law, while the Continental accounting system is on the basis of code law. Ciocan and Georgescu (2018) in a bid to justify the inconsistency in defining “true and fair view” review the various definitions given by other scholars and clearly took a position that there is inconsistency as regards the understanding of the concept of true and fair view, thus an indication that the concept of true and fair view could be taken as ambiguous.

Another problem is the extent of the use of “true and fair view override”. Cook (1997) explained the issue of override while examining the structure requiring the use of “true and fair view” in financial reporting environment. The requirement as enshrined in the Fourth Directive (Article 2) read thus: Paragraph 3. “The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss. Supplemented by: Paragraph 4. Where the application of the provisions of this Directive would not be sufficient to give a true and fair view within the meaning of Paragraph 3, additional information must be given. It is only after this positive requirement that the so-called 'override' is stated: Paragraph 5. Where in exceptional cases the application of a provision of this Directive is incompatible with the obligation laid down in paragraph 3, that provision must be departed from in order to give a true and fair view within the meaning of paragraph 3. Any such departure must be disclosed.” In his reaction to the “true and fair view override” Cook (1997) noted that contentious issue usually surround the practice of overrides in terms of it extraordinary nature than the basic requirement, thus raising ethical question, such as the ability to be able to control accounting ethics when it comes to decision in off-balance sheet transactions. Similarly, Hulle (1997) argue in support of the “true and fair view override” by emphasising its usefulness in financial reporting. The concept of true and fair view override may promote off-balance sheet activities in the long run. Meanwhile Stacy (1997) argued that the concept of true and fair is gradually becoming insignificant to audit practitioner, maintaining that as accounting framework continues to evolve, auditors judgment will be shaped by these accounting framework. Hence, standard setting bodies should be sensitive to the plight of information needs of users of financial statements, thus promoting the issue of true and fairness by default. This claim might be a function of how well the practitioners and stakeholders are better able to decipher the provisions of the established frameworks.

The concept of ‘true and fair view’ is an important phrase in the auditing profession and auditors use it in giving reasonable assurance on the veracity of claims made in the financial statements, hence the premise upon which different users of financial statements based their decisions. It is a universal concept used in the accounting profession, and the interpretation/understanding by different user may differ and in this respect, the concept can be very ambiguous. According to Hamilton and Ohogartaigh (2009), true and fair view means compliance with Generally Accepted Accounting Principles (GAAP) now compliance with International Financial Reporting Standard (IFRS) and on a broader definition, as the objectivity of the auditor's judgement beyond GAAP. True and fair view is an important objective of financial statement that conforms to standards, rules and regulation (Albu, Albu, & Alexander, 2009). This is an indication that the financial statements must possess certain minimum characteristics which are in compliance with laid down rules and procedures before the auditor is able to exercise professional judgement leading to the issuance of true and fair view. Attempt to give fragmented definition of the phrase 'true and fair' is usually difficult (Moldovan, Achim, & Bota-avram, 2010).

Zanola (2014) gave a fragmented explanation of true and fair view and a brief history and origin of 'true and fair' view. He posited that it was introduced in the year 1948 in the UK Companies Act, while its legal origin dates back to the 18th century, while the 20th century saw its translation into its legalistic definition concerning corporate accountability. He asserted that what is true is real and reliable and what is fair is good, maintaining that it is usually not practicable to describe anything as both fair and true in English language, and that strangely, the two adjectives are joined in the accounting profession causing rhetorical problems. This claim buttresses any ambiguity that may characterise reliance on the phrase 'true and fair view' either across cultural divides or linguistics interpretation as the case may be. For the fact that true and fair view only guarantees reasonable assurance as against the hitherto true and correct view which the auditor originally issued. It is therefore, a sufficient reason to raise doubt on the reliance on the opinion formed by the auditor, as well as the ethical issues surrounding the conduct of the audit exercise. Passas (2001) asserts that enterprises engages in plethora legal violation under the aid/supervision of professionals such as accountants and lawyers, stating that some of these criminal practices may range from insider trading, price-fixing, commercial corruption, as well as variety of frauds. This might be made possible with the shield provided with the accounting/auditing phrase, true and fair view. It is pertinent to point out at this juncture that the reasonable assurance objective of the audit function backed up by the phrase 'true and fair view' creates a loophole that a smart or unethical professional accountant can rely upon in assisting management in perpetrating accounting irregularities, hence raising subjective judgement on the reliance of the auditors' opinion. From the above submissions, the key issues and arguments that may arise following reliance on the auditors' opinion of 'true and fair view' by the different users are the truism of the 'true and fair view' as it relates to legal implication, linguistic/cross-cultural complexities interpretation, the place of true and fair view in theoretical set-up, truism of the true and fair view in developed and developing economies, true and fair view in the context of Generally Accepted Accounting Standard (GAAS) and Generally Accepted Accounting Principles (GAAP), and the differing views in understanding the construct of true and fair view by the multi-stakeholders. Flowing from the above, four factors affecting the interpretation of the concept of true & fair view could be identified: (i). Legal provisions; (ii) Linguistic/Cultural complexities (iii). Ethical concerns; and (iv)

Generally Accepted Accounting Standard (GAAS) and Generally Accepted Accounting Principles (GAAP).

Legal implications on the interpretation of true and fair view

The "true and fair view" opinion issued by an auditor usually derives its legal backing from relevant laws enabling the auditor to form such professional opinion in any financial reporting environment. In Nigeria, section 359 of the Companies and Allied Matters Act (CAMA) 2004 as amended to date make provisions for auditors' reports, while section 368 of CAMA 2004 provides for liability of auditor for negligence. There are other specific Acts such as Banks and Other Financial Institutions Act (BOFIA) and Insurance Acts that also assist the auditor in the forming of 'true and fair view' opinion.

Section 24(2) of BOFIA provides that for the purpose of subsection (1) of this section, proper books of account shall be deemed to be kept with respect to all transactions if such books as are necessary to explain such transactions and give a true and fair view of the state of affairs of a bank are kept by the bank and are in compliance with the accounting standard as may be prescribed for banks, while section 28(1) provides that every balance sheet and every profit and loss account of a bank shall give a true and fair view of the state of affairs of the bank as at the end of the reporting period.

Similarly, section 28(2)(e) of the Nigeria Insurance Act 2015 provides that the balance sheet of the insurer and the profit and loss account respectively gives a true and fair view of the financial position ofthe insurer, while section 42(2)(b) provides that the accounting records kept under paragraph (a) of this subsection give a true and fair view of his business at the accounting date. However, there may be certain fundamental issues that may arise as a result of the phrase issued by the auditor, which will seek to test the legality of the 'true and fair view'. Numerous users of financial statements based their decisions and judgments on the validity of such statements because of the verdict passed by the auditors' opinion.

The fundamental challenges faced in this context is whether the reliance on the 'true and fair view' is capable of withstanding litigation test, should the decision based on auditors' true and fair view opinion cause harm/contingent liability to the users of the audited report and whether the auditors can be held liable to the users (third party). Tarr and Mack (2013) pointed out that "true and fair view" as used by the auditor to form opinion on financial reporting is susceptible to differing shades of meaning. Chung, Farrar, Puri, and Thorne (2010) in an examination of auditor liability to third parties in the United States of America (U.S.A) pointed out that among state courts, four legal standards are used in determining the category of third parties that are entitled to the duty of care by auditors. The standards range from very rigid to flexible and include: (1) privity rule; (2) near-privity standard; (3) restatement rule; and (4) the reasonable forseeability rule (Pacini, Hillison, & Sinason 2000a; Pacini, Martin, & Hamilton 2000b; Trakman & Trainor, 2005). Privity rule is the most restrictive standard. Strict privity requires a contractual relationship or direct connection to exist between an auditor and a third party for the latter to be able to sue the auditor for negligence. The near privity rules stipulates that three prerequisites must be satisfied before auditors can be held liable for negligent misrepresentation to noncontractual third parties: (1) the auditor must have known that financial reports were to be used for a particular purpose; (2) the known party or parties were intended to be able to rely on those reports; and (3) there must have been some conduct linking the auditor to the relying party.

However, the restatement rule, first applied in 1968, (Trakman & Trainor, 2005) broadens the class of persons to whom the auditor owes a duty. The intended, identifiable and unidentifiable beneficiaries are included in the class. However, if an auditor has no reason to believe the information would be made available to a third party, or if the information's use changes so as to increase audit risk materially, the auditor is not liable to this class. The major difference between the restatement rule and the near-privity rule is that the restatement rule does not require that the identity of specific third parties be known to the auditor, only that they be members of a limited group known to the auditor. In the reasonable forseeability rule, auditor has a duty to all those whom he should reasonably foresee as receiving and relying on the audited financial statements. The duty extends only to those users whose decision is influenced by audited statements obtained from the audited entity for a proper business purpose. Furthermore, the duty extends only to users who obtain a firm's financial statements directly from the audited entity. Chung, Farrar, Puri, and Thorne (2010) asserted that the passage of Sarbanes Oxley Act (SOX) has resulted in series of development in auditor liability, and that SOX was passed into law following the Enron scandal so as to enhance objectivity of financial reporting through enhanced corporate disclosure and governance practices (Toda & McCarty, 2005).

Chung et al. (2010) opined that from examination of auditor liability to third parties from the standpoint of legislation and regulatory framework, it is evident that common law countries (such as the United States, Canada, the United Kingdom, Australia, and New Zealand) have enacted legalistic frameworks that have direct or indirect increase on auditors' liability, while on the contrary, civil law countries (such as Germany and France) are slow or yet to come up with legislative or regulatory reforms. Following this polarised position in terms of legal definition of 'true and fair view' and the treatment of the subsequent liabilities that may arise on account of reliance on auditors' opinion due to legal differences across different countries, it is plausible that the truism of the 'true and fair view' could be influenced by the nature/type of existing law in a country.

The effect of linguistic/cross-cultural complexities on the interpretation of true and fair view

Different users may have different interpretation of the concept of 'true and fair view.' Hamilton and Hogartaigh (2009) asserted that the word 'true and fair view' is very subjective, stating that the conceptualisation of 'true and fair view' privileges practice and authenticates the accounting habitus, hence the auditor tries to reinforce the status quo and the constitution of hierarchy and inequity that exists in the accounting field through the issuance of 'true and fair view'. Despite the differences in interpretation, Lee (1981) gave the mostly widely cited definition, which contains a number of elements: "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 accounting practice, as objective a picture as possible, free from wilful bias, distortion, manipulation, or concealment of material facts. In other words, the spirit as well as the letter, of the law must be observed". Within this definition, Higson and Blake (1993) find four distinct elements: 1) One element is an acceptance of a reasonable limitation on the degree of precision that the Accountant can achieve, expressed in Lee´s definition by reference to 'reasonable' estimates and acceptance of the 'limits of current accounting practice'. 2).The introduction of the 'true and fair view' requirement in 1947 replaced a previous 'true and correct view' requirement. The change was advocated by the U.K.´s largest professional accountancy body, the Institute of Chartered Accountants in England and Wales. "The word 'correct' has always been too strong because it implies that there is one view which is 'correct' as against all others which are incorrect. In published accounts there is no standard of absolute truth and the Institute´s suggested amendment would recognize that the presentation of figures can only be that which is, in the personal view of the auditor, a fair view."

Parker (1994) argues: "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. the expression of a complex idea by two words coupled with 'and'". 3) A third element in the notion of the 'true and fair view' is identified by Lee´s reference to "as objective a picture as possible, free from wilful bias". "The concept has two aspects, firstly, that in presenting accounts there should be no attempt to manipulate users towards a particular conclusion, and secondly, that all segments of the user community should be equally well served". 4) A fourth element in Lee´s definition is the reference to "accounts drawn up according to accepted accounting principles". This aspect arises not so much from the specific wording in the 'true and fair view' requirement as from the very existence of a broad based requirement of this type within the law; since specific legal accounting requirements are deemed to require supplementing by this additional injunction, some additional authority must be looked into.

According to Zanola (2014) the question of understanding the authentic meaning of the expression 'true and fair' is much more a matter of translating it correctly than in making it understood by British Accountants. The problem is the way the concept was 'transferred', or translated, in the other languages of Europe, namely, Spanish, Portuguese and Finish. It is a matter of finding the right translation. Nevertheless, as it often happens in legal translations, the question is not which translation will be right but, much more modestly, which one is less wrong. All over the world Accountants know exactly what true and fair means, so that the hendiadys is no longer considered a seemingly unnecessary anglicism. On the contrary, it has become a well-known term of art, which needs no translation but needs urgent interpretation. The true and fair formula combines two words and concepts into a single token having a unique global meaning. Zanola (2014) also pointed out that a good deal of the complexity of financial discourse lies not in sentence structure, but in the complex phrases that make up the sentence. It seems also that many of these phrases are recurrent and predictable, as in the case of 'true and fair'.

The effect of ethical arguments on the truism of true and fair view

The true and fair view opinion which is expected to guarantee reasonable assurance may turn out to be falsehood, thus might be capable of questioning the fact of the statement that makes up the audit opinion. Passas (2001) drew attention on criminal act perpetrated by professional accountants through issuance of true and fair view on falsified financial statements. Passas (2001) used Glokal/BCCI fraud as a case study and the modus operandi as well as the issuance of audit opinion that may not address the reality on ground by the auditor. Moldovan et al. (2010) asserted that because one of the trademarks of the accounting profession is taking over the responsibility of acting in the best interest of the public, ethics should be above everything else for someone choosing this career path in a perfect world. They noted that in the current generation of the world, there is high-profile accounting scandals which make shareholders and analysts less reliant on reported figures and less trusting of audited accounts, making them doubt the ethics of this profession in general. Moreover, "manipulating the accounts is misleading the society as a whole, not just the shareholders; it leads to sub-optimal allocation of resources and, consequently, wastage of resources" because "unethical behaviour often imposes a cost not only on the victim and the wrongdoer, but also on countless others". So much for the responsibility towards society, since creative accounting is at the limit of the law, Amor and Warner argue that creative accounting becoming too creative is a "question of degree", that there is a "fine line between acceptable earnings smoothing and outright manipulation" (Moldovan et al. 2010).

Most techniques employed by creative accounting are common place and usually acceptable as long as it is not part of an intention to deceive over the long-term. There are some who denounce the fact that some business schools teach creative accounting saying that such a thing should not be done. On the contrary, our opinion is that people cannot protect themselves against what is bad unless they are told or taught what the bad thing is. We do agree, however, that creative accounting should not be taught with a positivist approach to it, but rather with a negative one, perhaps under the form of forensic accounting, that would deter future professionals from dirtying themselves with such actions.

Moldovan et al. (2010) submitted that there is almost wide-world consent that the purpose of financial reporting is to show a true and fair view of the company to the outside users of information related to the company. A true and fair presentation is the most important task for those who prepare financial statements. In the anglo-saxon accounting system, this principle is valued more than any other. In fact, accounting regulations ask that if the true and fair view cannot be achieved by respecting and applying existing standards and regulations, these should be put aside and other accounting treatments that will ensure a true and fair view must be applied. Therefore, it obliges management and auditors to "use their judgement when assessing the impact of accounting practice and, if necessary, allow them to overrule technical issues and legal niceties". Moldovan et al. (2010) sought to find out if it opens large doors for creativity or not'? As these authors and others, point out, the request for a 'true and fair view' implies valuing professional judgement over obeying accounting rules and regulations. This would work marvellously well in a perfect world. In our imperfect world, however, this is just one huge door pushed open for those who want to benefit from what is on the other side more easily. Professional judgement is regarded as critical to the implementation of principle based standards. In the light of this view, one would suppose that all major accounting scandals happened in principle-based accounting systems, that is the European countries. Reality contradicts this, and shows us that the accounting scandals everyone in the world knows something about happened in the US, which has a rule-based accounting system (Moldovan et al. 2010). Nobes (1993) suggests that true and fair view principle and all fundamental principles of accounting mean different things and have different effects according to time and place. He explains this through the principle's organic relationship with practice, although it is intended to be an "independent concept". On the other hand, simple accounting rules like "the lower of cost and net realisable value" are in practice a minefield of judgement and detailed accounting regulation alone cannot solve the problem. Based on the points advanced here, it is plausible that ethical arguments/judgments may influence the truism of the true and fair view.

The effect of Generally Accepted Auditing Standards (GAAS) and Generally Accepted Accounting Principles (GAAP) on the interpretation of true and fair view

Generally Accepted Auditing Standards (GAAS) and Generally Accepted Accounting Principles (GAAP) are rough-rule-of thumb practices adopted in auditing and financial reporting. The test for true and fair view might be very fundamental in this context as compliance to these standards and principles are most times a function of persuasion. Gormley, Porcano, and Staton (2003) suggested that auditor liability for violation of Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS) has been the focus of much litigation. They opined that in line with the provisions of Securities Exchange Act of 1933, of the United Stated of America (U.S.A), the Certified Public Accountant (CPA) firms are liable subject to the plaintiff's ability to substantiate and prove that the auditor made false statements or omitted material fact that the plaintiff based his decision and subsequently caused the plaintiff's injury.

The limitation pointed out by Gormley et al. (2003) in their study is that it did not address situations where pre-trial settlements were reached and where there was no evidence of any wrongdoing, it did not also address the Enron-Arthur Andersen situation because at the time of the occurrence, there were yet to be any Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS) violation litigation and judgement in court in the circumstance or any form of judicial precedence. They however suggested that proliferation of pre-trial settlements might have impacted on CPA liability and legislation; it also stated that the outcome of any Enron-related litigation involving Generally Accepted Accounting Principles (GAAP) or Generally Accepted Accounting Standards (GAAS) breach may have significant impact on legal tussles and CPA liability. This weakness in Gormley et al. (2003) study tends to also question the convention of reliance on the auditor opinion of 'true and fair view'. According to the Financial Reporting Council (June, 2014) "true and fair" is not peripheral to accounting standards it is the overall objective that the accounting standards and other sources of authority are designed to achieve.

Similarly Smieliauskas, Craig, and Amernic (2008) argued that one key challenge faced by the Security and Exchange Commission (SEC) (2003) and Public Company Accounting Oversight Board (PCAOB) (2005) is whether the standardised wording of the audit report unnecessarily constrains the ability of financial statements to capture the alleged economic reality of specific contexts. Smieliauskas et al. (2008) also doubted the fact as to whether standardised wording will obscure the importance of narrative as a way of knowing, maintaining that one way attempt to deal with such problems in professional practice involves the experimentation with two-part opinion concept: in conformity with GAAP and on fairness of presentation. The aforementioned arguments in the context of GAAP and GAAS may have a rippled effect on the auditor judgement and audit opinion.

The truism of the true and fair view in contemporary times

The dynamics that characterises financial reporting process as evidenced in the continuous shift in paradigms in terms of approaches and procedures in financial reporting environment, could also have multiplier effect on the original intent and purpose which led to the conceptualisation of the wordings "true and fair" at the time of its origination into financial reporting parlance, thus creating a likely ambivalence on what the concept represented at the time it made its debut into financial accounting and auditing framework in historical times in comparison with the interpretation in contemporary times. Accounting development at national and international template in recent times tends to be more advanced than it were when true and fair view concept was given birth to in the nineteenth century. In the same vein the extent to which auditor opinion is relied upon in contemporary times differ substantially than what it used to be, while advancement in legislations have also made it more competitive and increase legal obligation on the part of an auditor in the course of discharge of his statutory responsibility.

Ultimately different sources of authority now governs the process of financial reporting which serves as catalyst geared towards achieving goal congruence by parties involved in financial reporting which could have conflicting provisions/views on the concept of 'true an fair view'. The different sources of authorities focus on the reporting process which tends to promote true and fairness of the financial reporting process, thus guiding the work of the auditor. The fundamental issue therefore is, on the average, the advances made thus far regarding developments in the financial reporting environment from the nineteenth century when "true and fair view" first found its way into the financial reporting environment to date could be sufficient to cast doubt on "the truism of the true and fair view" due to the changes that have taken place, hence a justification for this paper.

3.0 Conclusion and Recommendations

The focus of this study is to theoretically examine the truism of the "true and fair view" in the context of financial reporting. The audit function was brought into the financial reporting environment because of the inherent agency problems that persist between owners and managers of resources (in a principal-agent relationship). However, there is growing controversy on the validity and reliability of the opinion issued by the auditor. Recent global and national organisation failures/accounting scandals tied to accounting manipulations or misstatements has led to the questioning of the truism of ‘true and fair view’ opinion used in giving clean bill of health to financial statements. A consequence of these different accounting scandals despite the insertion of ‘true and fair view’ in the audit report spurred up the relevant debates advanced in this paper. The paper examined concepts such as true, fair, true and fair view, problems of true and fair view, the origin/history of true and fair view, review of attributes and key issues relating to true and fair view, as well as factors affecting true and fair view which includes: Legal provisions; Linguistic/Cultural complexities; Ethical concerns; and Generally Accepted Accounting Standard (GAAS) and Generally Accepted Accounting Principles (GAAP).

In the context of the prevailing circumstances as chronicled on this paper, it is evident that the truism of the true and fair view of the auditor’s opinion is under serious threat. The way forward may be for the auditor to certify the accuracy and the correctness of the financial statement. While this position being canvassed here may help to substantially bridge the age-long expectation gap, it may as well require an upward review of the current audit fee structure in order to be able to operationalize the onerous task of certifying the accuracy and correctness of the financial statement. This position is contentious and will require a robust consideration which is not within the purview of the present review.

References

Albu, C.N., Albu, N., & Alexander, D. (2009). *The true and fair view concept in Romania: A case study of concept transferability*. Bucharest Academy of Economic Studies, Romania. Version prepared for the 30th congress of the association Francophone de Comptabilite, 27-29 May 2009, Strasbourg, France

Amat, O., Blake, J., & Oliveras, E. (n.d).*Spanish auditors and the ‘true and fair view’*. Working Paper

Burrowes, A., & Nordstrom, J. (1999). An alternate approach in implementing the 4th directive - a territorial claim to financial reporting and auditing in Sweden. *Managerial Auditing Journal, 14*(6), 302-307.

Chung, J., Farrar, J., Puri, P., & Thorne, L. (2010).Auditor liability to third parties after Sarbanes-Oxley: An international comparison of regulatory and legal reforms. *Journal of International Accounting, Auditing and Taxation, 19*, 66-78 doi:10.1016/j.intaccaudtax.2009.12.005

Ciocan, C.C., & Georgescu, I. (2018). An analysis of the international research on the relationship between prudence and true and fair view in financial reporting. *Journal of Eastern Europe Research in Business and Economics,* 1-16. DOI: 10.5171/2018.926522

Ciocan, C.C. (2017). True and fair view: Incentive or inhibitor for creative accounting? *Ovidius University Annals, Economic Sciences Series, XVII* (1), 451-455.

Cook, A. (1997). Requirement for a true and fair view - a UK-standard-setter 's perspective. *The European Accounting Review*, *6*(4), 693-704.

Financial Reporting Council (June, 2014).*True and fair*. Accounting and Reporting

Gormley, S.P., Porcano, T.M., & Staton, W. (2003). Auditor liability: A review of recent cases involving generally accepted accounting principles and generally accepted auditing standards. *Research in Accounting Regulation, 16*, 61-85

Hamilton, G., & Hogartaigh, C.O. (2009). The third policeman: 'The true and fair view', language and the habitus of accounting. *Critical Perspectives on Accounting*, *20*, 910-920. doi:10.1016/j.cpa.2009.02.003

Haider, S.A. (2001). Truth about financial statements. Available at: www.dawn.com/2001/05/21/ebr9.htm

Higson, A., & Blake, J. (1993). The true and fair view concept – a formula for international disharmony: Some empirical evidence. *International Journal of Accounting, 28* (2), 104-115.

Hopwood, A.G. (1990). Ambiguity, knowledge and territorial claims: Some observations on the doctrine of substance over form: A review essay. *British Accounting Review*, *22*, 79-87.

Hulle, K.V. (1997). The true and fair view override in the European accounting directives. *The European Accounting Review*, *6*(4), 711-720.

Jayalakshmy, R., Seetharaman, A., & Khong, T.W. (2005). The changing role of the auditors. *Managerial Auditing Journal*, *20*(3), 249 - 271.http://dx.doi.org/10.1108/02686900 510585591

Kilgore, A., Leahy, S., & Mitchell, G. (1999). *The true and fair view concept: Evidence from Australia.* University of Western Sydney, Nepean

Lee, G.A. (1981). *Modern financial accounting,* Nelson, Walton on Thames, Surrey.

Lee, T.A. (1982). The will-o'-the-wisp of 'true and fair'. *The Accountant, 187* (5601), 16-18.

Moldovan, R.L., Achim, S.A., & Bota-avram, C. (2010). Fighting the enemy of fair view principle-getting to know creative accounting. *Stiinte Economice,* Numar special, 51-61

Nobes, C.W. (1993). The true and fair view requirement: Impact on and of the fourth directive. *Accounting and Business Research*, *24*(93), 35-47

Pacini, C., Hillison, W., & Sinason, D. (2000). Auditor liability to third parties: An international focus. *Managerial Auditing Journal*, *15*, 394–406.

Pacini, C., Martin, M. J., & Hamilton, L. (2000). At the interface of law and accounting: An examination of a trend toward a reduction in the scope of auditor liability to third parties in common law countries. *American Business Law Journal*, *37*, 171–235.

Parker, R H. (1994). Debating the true and fair in Australia. An exercise in deharmonisation. Journal of International Accounting, Auditing and Taxation. Reprinted in R.H. Parker & C .W. Nobes (Eds.), *An international view of true and fair accounting*. London: Routledge

Passas, N. (2001). False accounts: Why do company statements often offer a true and fair view of virtual reality?

European Journal on Criminal Policy and Research, 9(2), 117-135.

Ryan, J.B. (1988). *A True and Fair View: A revised "Accounting Interpretation"*, Accounting & Finance Working Paper 88/1, School of Accounting & Finance, University of Wollongong.

Salihin, A., Fatima, A.H., & Ousama, A.A. (2014). An Islamic perspective on the true and fair view override principle. *Journal of Islamic Accounting and Business Research, 5*(2)142-157. http://dx.doi.org/10.1108/JIABR-12-2011-0005

Salihin, A., Fatima, A.H., & Ousama, A.A. (2015). Analysis of the true and fair view concept: An Islamic perspective. *Int. J. Managerial and Financial Accounting, 7*(1), 38-61.

Smieliauskas, W., Craig, R., & Amernic, J. (2008). A proposal to replace 'true and fair view' with 'acceptable risk of material misstatement'. *ABACUS, 44*(3), 225-250. doi:10.1111/j.1467-6281.2008.00261.x

Stacy, G. (1997). True and fair view: A UK auditor's perspective. *The European Accounting Review, 6*(4), 705-709**.**

Tarr, J., & Mack, J. (2013). Auditor obligations in an evolving legal landscape. *Accounting, Auditing & Accountability Journal, 26*(6), 1009-1026.

Toda, M., & McCarty, W. (2005). Corporate governance changes in the two largest economies: What's happening in the U.S. and Japan? *Syracuse Journal of International Law and Commerce, 32*, 189–231.

Trakman, L. E., & Trainor, J. (2005). The rights and responsibilities of auditors to third parties: A call for a principled approach. *Queen's Law Journal, 31*, 148–205

Vladu, A. B., Matis, D., & Salas, O. A. (2012). True and fair view and creative accounting conceptual delimitations based on Papineau`s tree methodology. *Annales Universitatis Apulensis Series Oeconomica, 14*(1), 104-115.

Zanola, A. (2014). Linguistic and cross-cultural complexities of a specialised legal item: The "true and fair" case. *Journal of Arts and Humanities (JAH), 3*(1), 110-125.

Zanola, A. (2015). *True and fair: a truly fair hendiadys or a fairly true tautology? Considerations on a specialized formulaic item*. Rivista semestrale