

**A STUDY OF THE TERM 'TRUE AND FAIR VIEW'
IN THE CONTEXT OF ACCOUNTABILITY**

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Abstract

Historically, as companies grows in size, become more complex and involved in society, so to whom and for what their managers are accountable has also been extended. Until **the** 19th Century, managers of companies and part of public bodies were required to produce accountability reports and submit **them** for audit. This is because the funtion of financial report has shifted from stewardship function to performance evaluation and decision usefulness funtion. Therefore, the auditor's opinion is very important now since the accountability report audited is being used in making investment decision. A discussion over the need for an interpretation of the term used by auditors in expressing their opinion appears in **the** accounting literature. But, **this** does not change the inherent and long-standing vagueness and ambiguity of the undefined term, 'true and fair' view **which has been used since it was introduced in the 1948 U.K. Companies Act. The term has a legal** origin in the **18th** Century, and it appears to have been translated into a legal definition concerning corporate accountability in the **20th** Century. This change does not only apply in the private sector, but also in some parts of public sector bodies. From this historical study, it is apparent **that** the changes in the requirement of **the** disclosure and debate in searching the true definition of 'true and fair' was developed together with the accountability process in both sectors. The practitioners were also argued to give certain mystique in **the** opinion of TFV as a means of demonstrating their professionalism.

CHAPTER 1

INTRODUCTORY CHAPTER

1.1 Introduction

In agency theory, a principal delegates decision-making responsibility to an agent, in the case of a company the agents are the directors/managers. The theory implies trusting resources to the agent and in turn these agents must usually produce a report regarding the use of resources both in quantitative and qualitative manner. Those entrusted with decision-making authority are generally regarded as having a duty of 'accountability', a duty to demonstrate how they managed the resources entrusted to them. This duty of accountability arises both in public and private sectors wherever a steward is entrusted with the authority to use and manage the resources of others. Since the principal cannot trust the agents (i.e. managers), they need an expert to assess and report on them. This lack of trust exists because they may differ with respect to preferences, beliefs and information. Not trusting or not having total confidence in the management, the principal need an expert to check or to verify the accounts produced or the quality (effectiveness and efficiency) of the stewardship.

The need to verify the information produced by management and evaluate their performance suggests a need for mechanisms to accomplish this task. One of the mechanisms that has evolved is an audit. Essentially, an [external] audit is an examination of the accounts of a business. Its purpose is to verify the veracity of the accounts of the organisation. It is clear that auditing must have occurred thousand years ago, the day that an owner entrusted his resources to an agent, or steward.

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