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‘TRUE AND FAIR VIEW’ VERSUS ‘PRESENT FAIRLY IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES’

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‘TRUE AND FAIR VIEW’ VERSUS ‘PRESENT FAIRLY IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES’

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ABSTRACT

The ‘true and fair view’ concept is one of two competing but not mutually exclusive legal standards for financial reporting quality that have been subject to debate on their meaning, use and importance. The other is ‘present fairly in conformity with generally accepted accounting principles’ (GAAP). While the former is closely identified with judgement and is used in the United Kingdom, the European Union, Singapore, Australia, and New Zealand, the latter is the standard for United States financial reporting and tends to be more rule based.

This paper presents the findings of an empirical investigation of the ‘true and fair view’ in New Zealand. It reports the results of a survey of financial directors, auditors and shareholders of New Zealand listed companies investigating their perceptions of, and preferences for, ‘true and fair view’ versus other standards for financial statement reporting including ‘present fairly in conformity with generally accepted accounting principles’ (GAAP), 'fairly reflects' and 'present fairly', and compares the findings with relevant international research.

The purpose of the research was twofold; firstly to determine if ‘within-group’ and ‘between-group’ differences in perceptions and preferences for the terms existed, thus contributing to an expectations gap; and, secondly, to examine whether or not the New Zealand respondents shared the preference for ‘true and fair view’ versus ‘present fairly in conformity with GAAP’ found in previous international research.

The results show that a clear majority of all three groups share similar perceptions of the meaning of the 'true and fair view’ concept, and support its use in financial reporting. All groups preferred ‘true and fair view’ to other terms including ‘fairly present in conformity with GAAP’, a result consistent with previous comparisons of United Kingdom, and United States investors’ opinions. This illustrates that the 'true and fair view' concept remains an important international overall standard for financial reporting quality.

Key Words: True and Fair, present fairly, GAAP, financial reporting

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1. INTRODUCTION

1.1. BACKGROUND

The 'true and fair view' concept is one of two competing but not mutually exclusive legal standards for financial reporting quality that have been subject to debate on their meaning, use and importance. The other is 'present fairly in conformity with generally accepted accounting principles'.[1] While the former is closely identified with judgement and is used in the United Kingdom (UK), the European Union (EU), Singapore, Australia, and New Zealand, the latter is the standard for United States (US) financial reporting and tends to be more rule based (Hopwood, Page, & Turley, 1990).

Both terms have a long history in financial reporting. 'Present fairly in accordance with GAAP' first appeared in US financial reporting regulation in 1939 (McEnroe & Martens, 1998) and 'true and fair view'[2] in the UK Companies Act 1947 (Parker & Nobes, 1994). The International Accounting Standards Committee's (IASC) latest version of International Accounting Standard-1 (IAS-1), operational for periods beginning on or after 1 July 1998, adopts both concepts. It requires fair presentation and disclosure of compliance with IAS and a limited 'true and fair view' override if compliance is misleading (IAS-1, 1998).

New Zealand has tended to follow the UK example, especially in early legislation (Zeff, 1979; Hopwood, 1989; Parker, 1989; Nobes & Parker, 1994). Until 1993, New Zealand law (Companies Act 1955) included a schedule of rules for auditing and accounting, together with the overriding requirement for a 'true and fair view'. However, New Zealand appears to be moving away from 'true and fair' as a literal concept to a more technical meaning that also requires compliance with a set of rules (Porter, 1995). The Companies Act 1993, in conjunction with the Financial Reporting Act 1993, requires financial statements that comply with generally accepted accounting principles (GAAP) and an additional requirement of 'true and fair view'. Prior to the passing of the 1993 Acts, companies could use the legislative power of 'true and fair view' to avoid complying with GAAP. The 1993 legislation effectively removed this option for companies that are reporting entities. Thus the 'true and fair view' rule is now overriding only in the sense that, while complying with GAAP is a legal requirement, directors still have the obligation to provide additional information to ensure that the financial reports represent substance as well as form (Porter, 1995, Mathews & Perera, 1993).

Footnotes:

[1] The terms 'practices' and 'principles' although they have different literal meanings, have both been used as part of the term 'generally accepted accounting principles' (GAAP). To avoid confusion the word 'principles' will be used. For a full discussion of the history of the term and its relationship to present 'fairly' see Zeff (1995) and McEnroe & Martens (1998).

[2] For a comprehensive discussion of the history of 'true and fair view' see Chastney (1975).

Following a diverging path from UK influences, the Institute of Chartered Accountants in New Zealand (ICANZ) also uses the terms 'fairly reflect' and 'fair presentation' and states that the terms are equivalent (NZSA, 1995). This may signal a move away from 'true and fair view' towards the US requirement for 'fair presentation'.

The mainly prescriptive literature suggests that each regime that requires compliance with 'true and fair view' tends to address and interpret the concept according to specific historical, social, cultural, political and economic roots and environments. This has been confirmed by earlier empirical research (Higson & Blake, 1993; Parker, 1989; and Parker & Nobes, 1994). Thus the concept has been described as a formula for international disharmony (Higson & Blake, 1993; Blake, Dowds, & Gowthorpe, 1998), and as "an exercise in deharmonization" (Parker, 1994, p.112). Yet the 'disharmony' may not be confined to different national cultures, but may include within-country groups.

If terms such as 'true and fair view' and 'present fairly' have different meanings for different participants in financial accounting, they may contribute to an expectation gap[3]. This gap is defined here as the difference between the expectations that financial reports users have of financial reporting quality, and the level of financial reporting quality the accounting profession, who prepare and audit the reports, believe is their responsibility to deliver (Porter, 1996). Allen (1991) describes this succinctly as the gap between what accounts and audit statements mean and what many non-accountants think they mean.

The motivation for the research is exploring this potential or actual expectation gap. The objectives of the research are: a) to determine the difference, if any, in the perception of the meaning and use of, and preference for, the terms 'true and fair view', 'fairly reflects', 'fair presentation' and 'present fairly in conformity with GAAP' held by financial directors, auditors and users of listed companies in New Zealand; and b) to compare the results with those obtained by selected previous researchers.

This paper presents the findings of the research. It extends McEnroe and Martens (1998) comparison of the perceptions and preferences held by UK and US shareholders of 'true and fair view' opposed to 'present fairly in conformity with GAAP'. The research instruments are adapted for New Zealand regulatory conditions; and include additional questions pertaining to the perception of meaning of the concepts 'true and fair view', 'fairly reflect', and 'fair reflection'.

Adapting previous empirical research in the New Zealand context enables comparisons of the

[3] Much of the literature has concentrated on the 'audit expectation gap'. However the 'gap' also exists in other areas of accounting and financial reporting. For further information see Anderson, Lowe, Jordan & Reckers (1993); Epstein & Geiger (1994); Chenok (1994); Guy & Sullivan (1988); Hronsky (1998); Klein, (1994); and Porter (1993).

perceptions of the qualitative terms such as ‘true and fair view’ and ‘present fairly’ held by financial reporting participants in English speaking countries with a common colonial background. Surveying auditors, financial directors and shareholders opinions simultaneously also enables direct comparisons between the perceptions of New Zealand financial reporting participants at a set point in time. Perceptions may change at differing rates between and within groups over time. Thus capturing the viewpoints of preparers, auditors and users at the one time may achieve meaningful measurement of an expectation gap, if any, which exists between the three groups.

1.2. SCOPE AND LIMITATIONS

The research focuses on financial reporting participants’ use and perceptions of meaning of important concepts used in financial accounting regulation. Its scope is limited to the opinions of a section of financial reporting participants on ‘true and fair view’, and selected terms associated with fairness in financial reporting. Thus it is limited in both its target population and focus. Financial directors, auditors and the top forty shareholders of companies listed in New Zealand were surveyed. The latter did not include foreign investors (where identified) and managers of passive index type investment schemes. Thus the results exclude small shareholders, those who do not invest in New Zealand listed companies and the financial directors and auditors of non-listed companies and those reporting entities that are not companies.

The usefulness of financial reporting and financial reporting regulation is outside the scope of the research, as are the wider philosophical issues of truth and knowledge, fairness, objectivity and subjectivity, all of which may form part of the general issue of truth and fairness in accounting. The focus is empirical, discovering what respondents are prepared to describe as their beliefs.

Other limitations are those shared by the methodology adopted. The use of postal surveys may lead to response error, non-response error and self-selection bias (Zikmund, 1994). Research results are also dependent on the questions asked and the potential for differential interpretation by the respondent individuals and groups. It is therefore possible that the use of different instruments may lead to different conclusions.

The remainder of this paper is divided into five sections. The first contains a survey of relevant literature and previous research. The second presents the propositions that were tested and describes the methodology used. Findings are presented, then discussed while the final section outlines conclusions, suggestions for further research and the implications the findings have for financial reporting.

2. LITERATURE REVIEW

2.1. BACKGROUND

'True' and 'fair' are but two of a long history of undefined qualitative expressions the law uses to describe a standard for external financial reporting. This lack of definition allows professional judgement and establishment of meaning through usage. Such words and phrases as 'true and fair view' have been described as weasel words (Henderson, 1985), but like 'reasonable man' are terms the legislators use as a catch all, to meet the requirements of any factor that the law has inadvertently or deliberately left out. These terms require an element of professional judgement by those involved in the process. They also mean that in the final analysis what is true and fair, just, material or reasonable is ultimately up to the courts to decide. The intent behind the legal use of such terms is related to a wider moral stance of society in its attempts to balance the use and/or abuse of power by providing for judgement based on common, as well as legal, standards. If the power to define truth lies with the governments who write and pass legislation, such power may be absolute, and lead to the convoluted definitions of truth used in George Orwell's *1984.* While common law interpretation is paramount, there remains a possibility for the 'reasonable person' to argue his or her case.

2.2. THE LEGAL VIEW

Since 'true and fair view' has not been defined in legislation it has been left to the courts to decide on the legal meaning and application of the term. However, the viewpoint of some commentators is that 'true and fair view' is too nebulous a concept for a court of law to base a trial on (Cowan, 1965, and McGregor, 1992). Instead courts are likely to determine its meaning according to practice, and that practice is, in turn, determined by GAAP as decided by expert accountants (Chastney, 1975).

In a legal opinion sought by the UK Accounting Standards Board (ASB), Hoffman and Arden (1983), while concluding 'true and fair view' is a legal concept, stated that the courts will treat compliance with accepted accounting principles as prima facie evidence that accounts are true and fair, and equally the converse would apply. Following the passage of the UK Companies Act 1989 that gave statutory recognition of accounting standards, Arden (1993) wrote that an accounting standard upheld by the law becomes an authoritative source of law itself. Yet case law would suggest that compliance with the rules is in itself insufficient to comprise a 'true and fair view' or 'fair presentation' (Ashton, 1986; McGee, 1992; Ross, 1998).

2.3. THE MEANING OF THE 'TRUE AND FAIR VIEW' CONCEPT

The 'true and fair view' concept has not been authoritatively defined. Some approaches to definition consider 'true and fair view' in relationship to its individual components (Cowan, 1965; Lee, 1982). Chastney (1975) raises the question of whether the terms true and fair together amount to more than their separate parts and suggests neither presupposes the other. Although the Parker and Nobes (1991) survey of UK auditors concluded that the majority of auditors distinguished between the terms 'true' and 'fair', their 1991 survey of UK directors found most saw 'true and fair view' as a hendiadys[4].

Neither 'true' nor 'fair' lends itself to precise definition. The nature of truth, whether it is absolute or relative, whether it exists as a reality, an incontrovertible thing, or as an abstraction, whether it is dependent or independent of the believer/observer and whether any statement can be proven or merely falsified are all aspects that that have been applied to accounting theory and research (Covaleski & Dirsmith, 1990; Chua, 1986; Hines, 1988; 1989).

'Fair' (and 'fairness') is also open to varying degrees of interpretation and application (Chastney, 1975; Monti-Belkaoui & Riahi-Belkaoui, 1996). Both truth and fairness may vary according to time and place, and may be relative to the framework within which they reside. This pattern is not surprising in a socially constructed and constructing discipline such as accounting. Thus when Ryan (1967) describes 'true and fair view' as a slippery concept he is using emotive language to describe the reality of concepts when circumstances rather than definition may determine application and meaning.

Chastney (1975) suggests that fairness means that, in order to achieve a true and fair view; financial reports should present information both impartially and in a manner that a reader can understand clearly. The AICPA 1986 definition of fairness in accounting, however, applies to the application of judgement to established rules, and is concerned with fairness in presentation rather than fairness as neutrality between different interests (Monti-Belkaoui & Riahi-Belkaoui, 1996).

Like Lee (1982), and Rutherford (1985), Walton (1993) tends towards explaining 'true and fair view' in terms of generally accepted accounting principles rather than accepting the concept as an independent quality. Such definitions depend on the acceptance that the consistent application of accounting principles amounts to a 'true and fair view'. This viewpoint has been gaining ground among professional accounting bodies. The explanatory foreword to general purpose financial reporting (NZSA, 1995, p.38) states that:

> paragraph 5.1: *…*In order for general purpose financial reports to show a true and fair view it is necessary to comply with generally accepted accounting practice.
>
> paragraph 5.2: In the rare circumstances that compliance with generally accepted

[4] Hendiadys: the expression of an idea by two words connected with 'and', instead of one word modifying the other (Thompson, 1995, p.632).

> accounting practice does not result in the financial reports giving a true and fair view, additional information and explanations are to be provided in order to give a true and fair view.

The professional accounting body in New Zealand, the Institute of Chartered Accountants of New Zealand (previously the NZSA), appears to be moving towards the US standard for financial reporting quality when it writes:

> The purpose of financial reports is to fairly reflect or to provide a true and fair view of an entity's performance, position and cash flows. In this foreword, the terms *fair presentation* and *fairly reflect* have the same meaning as *true and fair view* (NZSA, 1995, p. 38, emphasis in original).

This suggests that the Institute regards 'true and fair view', 'fairly reflects' and 'fair presentation' as interchangeable and, therefore, meaning the same thing.

2.4. THE MEANING OF 'FAIRLY PRESENTED, IN ACCORDANCE WITH GAAP'

The American equivalent to 'true and fair view', 'present fairly in conformity with GAAP', has also never been clearly defined. Mano, Anderson, Nycum and McBeth (1996) believed it could mean:

1). Fairly presented and also in accordance with generally accepted accounting principles.
2). Fairly presented because it is in accordance with generally accepted accounting principles.

They quoted the 1991 American Institute of CPAs' Statement on Auditing Standards (No. 69): *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*. The Standard requires adherence to five criteria for an auditor to claim that the financial statements are fairly presented in accordance with GAAP. The five criteria are:

1) The accounting principles selected and applied have general acceptance.
2) The accounting principles are appropriate in the circumstances.
3) The financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation.
4) The information presented in the financial statements is classified and summarised in a reasonable manner; that is, it is not too detailed nor too condensed.
5) The financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows, stated within a range of acceptable limits.

These criteria suggest the AICPA sees financial statements as fairly presented *because* they accord with GAAP. However, to define fairness in terms of GAAP does not solve the definition. GAAP is based on a multitude of estimations. One writer estimated that merely complying with the possible interpretations of accounting standards could lead to over one million versions of the facts that could equally truly reflect GAAP (Cooper, 1966). Nor does the fact that that many believe a claim to be true (generally accepted) make it true in an absolute sense. This is the essence of the difference between relative and absolute viewpoints of truth and fairness. Relative viewpoints would recognise truth in relation to individual circumstances, viewpoints or frameworks (Meiland & Krausz, 1982). Objective viewpoints would claim that there is a world out there that is irrefutable. It is but a matter of discovering those facts, an impossibility in the socially constructed sciences of accounting.

2.5. COMPARING 'TRUE AND FAIR VIEW' AND 'PRESENT FAIRLY IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES'

Cowan (1965), in a comparison of the UK standard of 'true and fair view' and the US requirement of fair presentation, general acceptance and consistency in practice, concluded that both sets of terms act as a barrier to what he sees as the ultimate objective of financial reporting and auditing. This is "to give shareholders an unbiased appreciation of the real facts regarding (a) the position of the enterprise in terms of real resources and claims against those resources and (b) the earnings which have arisen from the use of resources of the enterprise through the year" (p794).

McEnroe & Martens (1998) surveyed UK and US individual shareholders to determine how they interpreted 'present fairly in conformity with GAAP' and 'give a true and fair view' and their preference for either phrase. They found that both groups preferred 'true and fair view' but the preference of UK investors for 'true and fair view' was more marked than that of the US investors, an expected result given the US reporting rules. There was also evidence that when the language for the standard unqualified audit report is prescribed investors in both countries tended to be indifferent to the exact phraseology.

2.6. THE GLOBALISATION OF FINANCIAL REPORTING; INTERNATIONAL ACCOUNTING STANDARDS COMBINING 'TRUE AND FAIR VIEW' WITH 'PRESENT FAIRLY IN CONFORMITY WITH GAAP'

The International Accounting Standards Committee's (IASC) latest version of International Accounting Standard-1 (IAS-1), operational for periods beginning on, or after, 1 July 1998, requires fair presentation in accordance with IAS and a limited 'true and fair view' override if compliance is misleading (IAS-1, 1998). The earlier IAS did not refer to either term; the proposed standard of 1996 used 'present fairly in conformity with GAAP'; while the latest standard, adopted by the IASC, also includes the 'true and fair view' override in exceptional circumstances.[5] Thus there has been a movement towards the 'true and fair view' concept in international accounting.

[5] See IASC (1996) and IASC (1998).

The IASC standards have particular significance in what is rapidly becoming a global financial market. To meet the demands of the market, more and more countries and companies are adopting IAS standards for their financial reporting. Such a move is especially evident in EU company reporting. Countries such as Malaysia, and Singapore use IAS rather than developing national standards, and Australia appears to be moving towards this solution to financial reporting diversity (Nobes, 1998; Waller, 1996). As New Zealand financial reporting is closely allied to Australian (Rahman, Perera & Tower, 1994), New Zealand may follow the Australian lead if Australia adopts IAS.

This increasing use of IAS follows the 1989 agreement with the world's stock market regulators (IOSCO) that, provided the IASC removed certain options and increased disclosure and included other options, the IOSCO would accept IAS for companies listed on foreign exchanges (Nobes, 1998). Part of the motivation for this movement is limiting diversity in international financial reporting. Waller (1996, p. 40) quotes Carlsberg, secretary general of the IASC:

> Accountants inhabit a kind of Tower of Babel where we not only speak different languages but also give different interpretations of the same events and transactions.

Like US and UK GAAP, the IAS focus on users' needs[6]. This common focus, combined with the demands of global financial markets, is helping the drive away from diversity towards a common international language for financial reporting. It also leads to more disclosure and emphasis on technical accounting standards, combined with the qualitative elements of 'fairness' and a 'true and fair view' (Nobes, 1998; Waller, 1996). The 'true and fair view' concept differs primarily from 'fair presentation' in the use of the term 'true'. Therefore, any clear national or international preference for the 'true and fair concept' may reflect a desire for 'truth' in accounting, even if that 'truth' is tempered by 'fair' and is undefined.

3. RESEARCH PROPOSITIONS AND METHODOLOGY

3.1. PROPOSITIONS

This paper reports the results of a survey designed to investigate three propositions:

P1: There is no significant difference between the perceptions of auditors, financial directors and shareholders of listed companies in New Zealand, that, in financial reporting, complying with the 'true and fair view' concept means compliance with GAAP and the law.

This proposition focused on one aspect of perceptions of the ‘true and fair view’ concept consistent with much of the literature, the degree to which the respondents interpret ‘true and fair view’ as compliance with GAAP and legal requirements

P2: There is no significant difference between the preferences of auditors, financial directors, and both sophisticated and unsophisticated shareholders of listed companies in New Zealand, for the ‘true and fair view’ concept versus other potential terms to fulfil the ‘true and fair view’ role in financial reporting.

This proposition sought to determine the respondents’ preferences for alternative terms associated with the ‘true and fair view’ concept, and to determine if within and between group views differ.

P3: There is no significant difference between the preferences of auditors, financial directors and shareholders of listed companies in New Zealand, and US and UK shareholders for the ‘true and fair view’ concept versus other potential terms to fulfil the ‘true and fair view’ role in financial reporting.

The final proposition focused on the third main objective of the research, comparing New Zealand financial reporting participants’ perceptions and use of the ‘true and fair view’ concept with the results of previous international research.

3.2. METHODOLOGY

Based on the theory that the best way to find out what is going on is to ask questions (Patton, 1992), the research project used surveys, a method that has been used extensively in previous research into the perceptions and use of terms used in financial reporting. Postal surveys enable the survey of reasonably large samples at relatively low cost and help to minimise researcher bias by limiting the interaction between researcher and respondent (Zikmund, 1994). Disadvantages include self-report and both response and non-response bias. To minimise non-response bias and encourage replies, postage paid return addressed envelopes were enclosed with each questionnaire.

3.2.1. THE SAMPLES

The target population included three major groups involved in financial reporting: the preparers (represented by financial directors), the regulators (represented by auditors), and the users (represented by shareholders), of the financial statements of companies required to comply with the Financial Reporting Act 1993. The final sample included financial directors, auditors, and shareholders of companies listed on the New Zealand Stock Exchange (NZSE). Using DATEX 1997 annual reports as a data source, the following groups were selected:

[6] The IASC Framework identifies users as 1. present and potential investors, 2.employees, 3.lenders, 4. suppliers and other trade creditors, 5. governments and their agencies, and 6. the public (Cairns,1988).

a) The entire population of financial directors of all companies listed on the NZSE in 1997.
b) An audit partner representative from the entire population of audit firms/branches used by the above listed companies.
c) A random sample of the top forty shareholders of the above listed companies.

Excluded were:

a) Overseas investors and those whose addresses were unobtainable through the major share registries.
b) Passive investors, including those who invest through an index system.
c) Companies reporting under non New Zealand regulations.
d) Companies no longer listed at the time of the survey.
e) Reporting entities other than companies listed on the NZSE.

The rationale for sample selection was based on the following factors:

a) By definition, all companies listed on the stock exchange are financial reporting entities as per the Financial Reporting Act 1993. They are therefore required to comply with GAAP and present additional information if complying with approved accounting standards does not give a 'true and fair view.' Thus excluding non-listed entities ensured that the research is directly applicable to all respondents.
b) Financial directors or their nominees have the practical responsibility for the preparation of company financial statements.
c) Surveying a sample selected from the total population of auditors may include those without the responsibility for the outcome of audits of reporting entities. Directing the questionnaires to the audit partners of all firms identified as auditors in the 1997 DATEX file, limits the impact of differing responsibility, work complexity and demographic factors.
d) Previous research has mainly used surrogates for shareholders including for example, financial analysts and bank officers (Low and Koh, 1997). However, the assumption that choices or preferences of expert users match that of shareholders is by no means proven. For example the preferences of such analysts may be based on different priorities including self/professional/firm interest and protection rather than shareholder or public interest.

Data from the DATEX files was converted into spreadsheets and transformed line by line into usable input for random statistical selection. After eliminating identified foreign investors from the entire population of over 5000 shareholders listed in the company reports, 388 shareholders were randomly selected.

3.2.2. THE RESEARCH INSTRUMENT

Three separate but mirrored questionnaires were developed. Financial directors, financial statement auditors, and shareholders received separate questionnaires to ensure individual questions met the requirements of different respondents. Section A of each questionnaire requested demographic details to determine the differences if any in the role, experience and training of participants. The shareholder questions were designed to distinguish between sophisticated and non-sophisticated shareholders, by differentiating firstly between institutional and private investors, and secondly between those respondents with or without formal accounting education or experience.

The questions in Section B, adapted from McEnroe and Martens (1998), aimed to distinguish the differences, if any, in preferences for and understanding of phrases used in financial reporting and to compare the results with previous research. Using questions adapted from previous research had two major advantages; it enabled comparative analysis and the use of previously tested survey instruments. The questionnaires were further tested using a pilot sample and, after minor modifications, posted to respondents. A follow up letter including a replacement questionnaire was sent three weeks after the original posting. All postings included a letter as per the Massey University ethical guidelines to inform the respondents of their rights and offering the opportunity to receive a copy of the research findings. Fifty-five percent of respondents requested the results.

3.2.3. ANALYSIS AND INTERPRETATION

Descriptive, statistical and qualitative analysis was used to examine the results for each section of the questionnaires. Results were tabulated and analysed using ANOVA, a multidimensional statistical tool that enables comparative analysis between more than two groups. The Scheffe test was also used. It performs simultaneous joint pair-wise comparisons for all possible pair-wise combinations of means, using the F sampling distribution. Thus this test can be used to examine all possible linear combinations of group means, not just pair wise comparisons. It distinguishes multiple differences, comparing the differences in means between each group and produces the same type of pair-wise results as Chi-square T tests for significance differences between two groups (Zikmund, 1994).

4. FINDINGS

4.1. RESPONSE RATE

A total of 200 questionnaires were returned for a final response rate of 68% for auditors, 39% for financial directors and 38.5% for shareholders. This response rate compared favourably with McEnroe and Martens (1998) who received 37% for US shareholders and 21% for UK shareholders. Mail surveys typically receive a 25% response rate (Patton, 1978, McEnroe & Martens, 1998). The second mailing improved the response rate considerably.

According to Aaker, Kumar, & Day (1995) and Oppeheim (1996), non-responses tend to share the characteristics of later responses. To test for non-response bias, the mean responses of replies received before the reminder requests were compared to those received after that date. Only one item, "the term 'fair presentation' should replace the term 'true and fair view''' (question B14), showed significance (2 tailed) at the 0.05 level in the ANOVA tests. Separating the respondents into their groups found one significant difference each for auditors and shareholders and none for financial directors. Thus there is little evidence to suggest a non-response basis.

4.2. SECTION A: DEMOGRAPHIC STATISTICS

Table 1 presents the results of the Section A of the shareholders questionnaire. The table indicates that most of the respondents replied as individual shareholders, and were evenly split between those with and without formal accounting education and experience in financial accounting. The results of the statistical and descriptive analysis that follows indicates that using the level of formal accounting education usefully separates the shareholders into separate groups henceforth identified as 'sophisticated' versus 'unsophisticated' investors.

TABLE 1 DEMOGRAPHIC CHARACTERISTICS OF SHAREHOLDER RESPONDENTS

Interest in Financial Reporting	N	%	Valid %	Cum. %
Individual shareholder	88	74	74	74
Institutional investor	20	17	17	91
Other interest	11	9	9	100
Total	119	100	100	

Experience in Financial Accounting	N	%	Valid %	Cum. %
Yes	61	51	51	51
No	58	49	49	100
Total	119	100	100	

Formal Accounting Education	N	%	Valid %	Cum. %
Yes	59	50	50	50
No	60	50	50	100
Total	119	100	100	

The shareholder responses also included a third group, slightly under 5%, who replied that they had no knowledge of the survey topic and relied on others, including brokers, relatives and other advisors, to select their share investments, and, therefore, did not complete the remainder of the questionnaire. As the population for the survey was confined to the top 40 shareholders of each listed company, the sample would be expected to be skewed towards the more sophisticated shareholder. Therefore, this result suggests that a reasonably high proportion of shareholders in the total population of all shareholders are likely to be non-represented in equivalent surveys. This finding indicates that there is a need for further research seeking to establish the size and relative importance of this third group of shareholders.

4.3. ANALYSIS OF SECTION B

To aid in international comparison, section B is analysed using the three headings employed by McEnroe and Martens (1998): a) general issues, b) specific attributes and c) perceived need for the phrases in financial reporting. The results are illustrated in Tables throughout the text and in the Appendix, while Tables 6 and 7 in the Appendix summarise all significant results at the 0.05 and 0.10 level.

4.3.1. 'TRUE AND FAIR VIEW VERSUS 'PRESENT FAIRLY IN CONFORMITY WITH GAAP': GENERAL ISSUES

The first three questions concern general issues. They were designed to:

a) Identify the degree to which shareholders study annual financial reports and audit reports and whether this differed between sophisticated and unsophisticated investors.
b) Determine whether auditors and financial directors correctly estimate the degree of sophisticated and unsophisticated shareholder interest in the above.
c) Identify whether respondents had more confidence in 'true and fair view' than in 'present fairly in compliance with GAAP'.

As Table 2 illustrates, the majority of shareholders, both sophisticated and unsophisticated, study both the financial statements and audit reports, a result consistent with McEnroe and Martens' (1998) research. However, both the auditors and financial directors slightly over estimated sophisticated shareholder affirmative responses while underestimating non-sophisticated shareholder interest in, and use of the financial statements and audit reports. A potential explanation for this difference may be different definitions of sophisticated and non-sophisticated shareholders. For example, auditors and financial directors may base their responses on the economic importance of the groups, defining unsophisticated shareholders as small shareholders holding a low percentage of shares. A future research instrument may benefit from defining the researcher's use of the terms 'unsophisticated' and 'sophisticated' and reduce ambiguity.

The responses to question three (Table 3) also indicated consistency with McEnroe and Martens (1998). It showed that all respondents had more confidence in 'true and fair view' than in 'present fairly in conformity with GAAP'. ANOVA tests showed significant differences both within the shareholder group, and between the three groups for this question. The between group differences applied to unsophisticated rather than sophisticated shareholders.

TABLE 2 GENERAL ISSUES

	Question	Sample		Never 1	2	3	Always 4	5	Mean (SD)	ANOVA Sig	M & M UK Mean (SD)	M & M US .Mean (SD)	M & M T Sig
1	When I am (shareholders are) interested in investing in a company or have already invested in a company, I (they) study its annual reports	All Shareholders	N	4	23	8	33	49	3.87		3.42	3.62	NS
			%	3.4	19.0	6.9	26.7	42.2	(1.26)		(1.42)	(1.15)	
		Sophisticated Shareholders	N						4.05				
			%						(1.36)				
		Auditors	N			1	5	13	4.63				
			%			5.3	26.3	68.4	(0.60)				
		Financial Directors	N	1			17	26	4.52				
			%	2.3			38.6	59.1	(0.73)				
2	When I am (shareholders are) interested in investing in a company or have already invested in a company, I (they) read the audit opinion	All Shareholders	N	13	36	11	26	31	3.22		3.40	3.40	NS
			%	11.2	30.2	9.5	20.7	26.7	(1.43)		(1.44)	(1.32)	
		Sophisticated Shareholders							3.28				
									(1.45)				
		Auditors	N	1	5	1	5	7	3.63				
			%	5.3	26.3	5.3	26.3	36.8	(1.30)				
		Financial Directors	N	2	10	7	16	8	3.38				
			%	4.7	23.3	16.3	37.2	18.6	(1.17)				
1	When I am (shareholders are) interested in investing in a company or have already invested in a company, I (they) study its annual reports	All Shareholders	N	4	23	8	33	49	3.87		3.42	3.62	NS
			%	3.4	19.0	6.9	26.7	42.2	(1.26)		(1.42)	(1.15)	
		Unsophisticated Shareholders							3.70				
									(1.35)				
		Auditors	N	1	14	1	3		2.32				
			%	5.3	73.7	5.3	15.8		(0.82)				
		Financial Directors	N	2	21	13	5	2	2.63				
			%	4.7	48.8	30.2	11.6	4.7	(0.93)				
2	When I am (shareholders are) interested in investing in a company or have already invested in a company, I (they) read the audit opinion	All Shareholders	N	13	36	11	26	31	3.22		3.40	3.40	NS
			%	11.2	30.2	9.5	20.7	26.7	(1.43)		(1.44)	(1.32)	
		Unsophisticated Shareholders							3.17				
									(1.39)				
		Auditors	N	3	14	2	5		1.95				
			%	15.8	73.7	10.5	11.6		(0.52)				
		Financial Directors	N	16	18	3	5	1	2				
			%	37.2	41.9	7.0	11.6	2.3	(0.1.07)				

Unsophisticated shareholders displayed more confidence in 'true and fair view' than the other groups. Whether sophistication was identified through interest in financial reporting (institutional versus private shareholder) or accounting education presence or absence (labelled sophisticated versus unsophisticated) the ANOVA test's significance results comparing the different classes of shareholders to auditors and financial directors were virtually identical. They were 0.255 for those shareholders with accounting education and 0.251 for institutional investors (not significant) and 0.029 (significant at the 0.05 level)) for both those shareholders without accounting education and those who identified their interest in financial reporting as private, further validating the choice of accounting education to represent sophistication for this survey.

TABLE 3 GENERAL ISSUES

	Question	Sample		Much more confidence caused by A 1	2	3	Much more confidence caused by B 4	5	Mean (SD)	ANOVA Sig	M & M UK Mean (SD)	M & M US .Mean (SD)	M & M T Sig
3	Suppose that there are two audit opinions A and B for the same company given by the same auditors. The only difference between A and B is that A uses the words 'present fairly in conformity with GAAP where B uses the words give a 'true and fair view'. Which audit opinion would cause you to place more confidence in the financial statements of the company?	Shareholder	N	3	14	26	49	24	3.66	0.102*	3.96	3.38	0.000
			%	2.7	12.4	22.1	41.6	21.2	(1.03)	0.029**	(1.13)	(1.34)	
		Auditors	N			8	9	2	3.68	0.029***			
			%			42.1	47.4	10.5	(0.67)	0.251****			
		Financial Directors	N	1	8	14	20	2	3.31	0.255*****			
			%	2.2	17.8	31.1	44.4	4.4	(0.90)	.			

* ANOVA test comparing all shareholders with auditors and financial directors
** ANOVA comparing private shareholders with auditors and financial directors
*** ANOVA comparing unsophisticated shareholders with auditors and financial directors
****ANOVA test comparing institutional shareholders with auditors and financial directors
***** ANOVA comparing sophisticated shareholders with auditors and financial directors

4.3.2 'TRUE AND FAIR VIEW' VERSUS 'PRESENT FAIRLY IN CONFORMITY WITH GAAP': SPECIFIC ATTRIBUTES

Questions 4 to 12, and 18 and 19 of section B concern specific issues related to the preference for the different terms (Table 4, Appendix). Only question 11 showed significant between group differences (for unsophisticated shareholders only). They differed slightly in the strength (less) of their agreement with the statement 'if financial statements present fairly in accordance with GAAP, then they are free from undue bias' in comparison to auditors and financial directors.

It appears from the generally non-significant results of the ANOVA tests for significant between group differences that all three groups share similar preferences for 'true and fair view' over other terms. The results are also generally consistent with McEnroe and Martens (1998). Questions 9 to 12 inclusive (Table 4, Appendix) show greater support for the 'true and fair view' concept than for 'present fairly in accordance with GAAP' in ensuring that financial statements are not misleading and are free from bias. This result is consistent with a literal definition of the 'true and fair view' concept, rather than a definition dependent on GAAP. However, questions 4 and 5 demonstrate a degree of neutrality between 'present fairly' and give a 'true and fair view' resulting from the application of GAAP, when referring to financial condition. As both terms are described in relationship to GAAP, this result is expected.

The results of question 7 (Table 4, Appendix), and the two additional questions added to the McEnroe and Martens (1998) questionnaire, 18 and 19, are consistent with each other and with Kirk (2000a; 2000b). No group sees ‘true and fair view’ as equivalent to ‘in accordance with GAAP’, ‘fair presentation’ or ‘fair reflection’. This strongly suggests that the ICANZ (NZSA, 1995) statement that the terms are equivalent is not shared by the respondents, who represent significant and important participants in financial reporting.

4.3.3. PERCEIVED NEED FOR PHRASES

Table 5 (see Appendix) summarises the respondents’ perceptions of the need for the ‘true and fair view’ concept in comparison to the perceived need for ‘present fairly’. Responses to questions 13 to 15 indicate that all groups prefer ‘true and fair view’ to other terms and disagree with its replacement. The group that most strongly supports true and fair view is the auditors, an unexpected result, given the Blake, Dowds and Gowthorpe (1998) findings, and the apparent move away from the ‘true and fair view’ by the professional body associated with financial statement auditors. All groups see ‘true and fair view’ as important in obtaining directors’ responsibility. They believe that it fulfils an important role in accounting and should remain as an essential component of audit reports. However, all three groups show a degree of indifference to the terminology of the audit report provided it is the standard unqualified report.

Several results show significance between group differences. Question 14 (Table 5, Appendix) shows significance at the 0.05 level. The post hoc test (Scheffe) indicated that the main difference is between auditors and financial directors, with auditors showing stronger disagreement with the statement that ‘fair reflection should replace true and fair view’. Shareholders differed from financial directors in the strength (stronger) of their support for ‘true and fair view’ in ensuring financial directors fulfil their duties, and in their belief (higher) that ‘true and fair view’ performs an important role in financial reporting.

5. DISCUSSION

Overall findings confirm that the three New Zealand groups all prefer ‘true and fair view’ to the other potential terms and support its use in financial reporting. Although there are some significant between group differences, both between shareholders and financial directors and between auditors and financial directors, there is little indication that the three groups differ significantly in their *overall* perceptions of, and preferences for, the ‘true and fair view’. The results are also consistent with McEnroe & Martens (1998). Thus the findings generally confirm the propositions.

While results show that there is no overall significant difference in the respondent’s perceptions and use of the term ‘true and fair view’ or their preferences for ‘true and fair view’ versus other potential terms as a standard for financial reporting, the answers to some individual questions did produce significant results at the 0.05 level. These mainly applied to differences between the auditors' opinions and those of the other two groups, and to non-sophisticated shareholders rather than sophisticated shareholders (see Tables 6-7 in the Appendix for a summary of all significant differences at the 0.05 and 0.10 level). Similarities between the sophisticated shareholders and financial directors' responses suggest that both groups may share common characteristics. Future research that further refines the demographic information may determine the reasons for this result.

Future research may also benefit from the investigation of the level of sophistication factor by using two important findings of the research study: the similarity between the viewpoints of those without formal accounting education and private shareholders and the existence of at least three main levels of sophistication. The first implies that level of accounting education may be a suitable proxy for level of sophistication. The second strongly suggests that future financial reporting research would benefit from recognising this group as a separate population, either excluded from the results, or included by using questions to determine their level of sophistication and use of financial reports and to seek their opinions.

The results suggest that auditors place more confidence in, and value the 'true and fair view' concept more highly, than the conclusions of Blake, Dowds and Gowthorpe (1998) would suggest. Of the three respondent groups in the current study, auditors appear to have at least as much and possibly more confidence in 'true and fair view' than the financial directors and shareholders.

There is a strong similarity to the results of the McEnroe and Martens (1998) extensive survey of US and UK non-institutional shareholders. The findings of this study also confirm that respondents distinguish between the 'true and fair view' and other potential qualitative terms, and share an overall preference for 'true and fair view' compared to other quality standards for financial reporting. This finding is particularly important in relationship to the New Zealand professional accounting bodies pronouncement that 'true and fair view',' fairly reflects' and 'fair presentation are equivalent. The finding also suggests that 'true' as one of the elements separating 'true and fair view' from terms that include only ' fair' may be an important element in participants' perceptions of factors required for financial reporting quality. Thus the overall results suggest that the New Zealand respondents share the trend towards the IASC view that combines both concepts 'true and fair view' and 'fair presentation', rather than away from 'true and fair view'.

The general similarity of auditors, financial directors and shareholders' responses and that of other empirical research also suggests that the globalisation of financial reporting may be leading to a lessening of between-country differences in perceptions and use of terms such as 'true and fair view' in financial reporting. Thus the largely descriptive research reported in the literature review that suggested national and international diversity in the interpretation of ‘true and fair view’ may reflect earlier experience and views of the concept specific to the circumstances relevant to that time and place. The finding also partially counters the earlier conclusions by Higson and Blake (1993) and Parker (1994) that the ‘true and fair view’ concept contributes to deharmonisation and the conclusion of Blake, Gowthorpe and Higson (1996) that it leads to ‘declustering’.

6. CONCLUSION

This study sought to empirically measure three major New Zealand financial reporting participant groups’ understanding of the ‘true and fair view’ concept’s meaning, and their preferences for ‘true and fair view’ versus other potential terms to ensure financial reporting quality. Its focus included exploring a potential expectation gap and determining the degree to which the groups’ perceptions of use and meaning differed both from each other and from the results of previous research.

Generally the findings suggest that there is little significant overall difference in the opinions of the three New Zealand groups, and demonstrate consistency with much of the previous empirical research. Thus it appears that, within the respondent populations, there is little evidence to suggest an expectation gap related to the ‘true and fair view’ concept. The results consistently reflect support for the ‘true and fair view’ concept and a preference for its use over other potential terms as a standard for financial reporting regulation. The results also show that ‘true and fair view’ is not seen as equivalent to ‘fairly reflect’ or ‘fair presentation’. This suggests that an expectation gap may exist between the professional accounting association (ICANZ) and the respondents. As the auditors surveyed are required to be members of ICANZ or an equivalent body, this is an unexpected result and requires further investigation.

This paper reported findings of an extensive survey of New Zealand financial reporting participants: financial directors, shareholders and auditors, the first time that the three groups have been surveyed simultaneously. As the three populations surveyed represent important participants in financial reporting and their responses represent a significant proportion of the populations or samples selected, the results do have significance for those involved in financial reporting and the financial markets generally.

There still remains a need for considerable research into other financial reporting participants’ use, preferences for, and perceptions of meaning of terms used in financial reporting. Thus the research can also be extended to different populations and different samples including creditors, academics, financial analysts, and share brokers. Finally, although the qualitative terms of ‘true’ and ‘fair’ have been integral to financial reporting regulations, there remain important areas for empirical research using both qualitative and empirical methods, and triangulating the results to increase the validity of the findings (Patton, 1990; Covaleski & Dirsmith, 1990). For example, in depth interviews, experiments, and questionnaires can be used, and longitudinal historical comparisons made on the use and acceptance of both ‘true and fair view’ and other terms and labels used as signifiers of accounting and financial reporting attributes and qualities.

The finding that at least three major groups of shareholders exist requires further investigation. Further research is required to determine the relative size, importance and effect of demographic differences on shareholders’ perceptions of the meaning and use of ‘true and fair view’ and other similar terms used in financial reporting, and the corresponding impact on equity prices and trading volumes.

There are several important issues arising out of this research. One is that there appears to be little support for removing the ‘true and fair view’ term from financial reporting in New Zealand and replacing it with the US equivalent ‘present fairly in conformity with GAAP’, or other terms such as ‘fairly reflects’. A clear majority of all respondents appear to favour the current financial reporting regulatory regime that includes ‘true and fair view’ as additional to compliance with GAAP and or other regulations. Thus before any major change takes place, further research needs to be conducted, clearly detailing and explaining any options involved.

The overall findings suggest that the New Zealand respondents share the trend towards the IASC view that combines the ‘true and fair view’ and ‘fair presentation’ concepts rather than moving away from ‘true and fair view’. Thus the results tend to demonstrate that the ‘true and fair concept’ remains important in a world of explicit accounting standards.

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APPENDIX

TABLE 4 TRUE AND FAIR VIEW VERSUS FAIR PRESENTATION: SPECIFIC ATTRIBUTES.

	Question	Sample		Strongly Disagree 1	2	3	4	Strongly Agree 5	Mean (SD)	ANOVA Sig	M & M UK Mean (SD)	M & M US Mean (SD)	M & M T Sig
4	If financial statements are In accordance with GAAP then they present financial condition fairly	Shareholder	N	2	20	32	49	10	3.40	NS	3.17	3	NS
			%	1.8	17.7	28.3	43.4	8.8	(0.94)		(0.092)	(1.04)	
		Auditor	N		3	4	10	2	3.58				
			%		15.8	21.1	52.6	10.5	(0.90)				
		Financial Directors	N		10	5	23	5	3.53				
			%		23.3	11.6	53.5	11.6	(0.98)				
5	If financial statements are in accordance with GAAP then they give a 'true and fair view' of financial condition	Shareholder	N	1	25	25	49	13	3.42	NS	3.13	2.95	NS
			%	.9	22.1	22.1	43.4	11.5	(0.99)		(0.98)	(1.02)	
		Auditor	N	1	4	1	11	2	3.47				
			%	5.3	21.1	5.3	57.9	10.5	(1.12)				
		Financial Directors	N	1	9	7	20	6	3.49				
			%	2.3	20.9	16.3	46.5	14.0	(1.05)				
6	Present fairly in accordance with GAAP means the same as "are in accordance with GAAP"	Shareholder	N	5	39	32	28	10	2.99	NS	3.11	3.18	NS
			%	4.4	34.2	28.1	24.6	8.8	(1.06)		(1.20)	(1.20)	
		Auditor	N	2	6	2	6	3	3.11				
			%	10.5	31.6	10.5	31.6	15.8	(1.33)				
		Financial Directors	N	1	15	10	14	4	3.12				
			%	2.3	34.1	22.7	31.8	9.1	(1.06)				
7	Give a 'true and fair view' means the same as "are In accordance with GAAP'	Shareholder	N	14	56	17	20	7	2.56	NS	2.70	2.37	(0.047)
			%	12.3	49.1	14.9	17.5	6.1	(1.11)		(1.33	(1.14)	
		Auditor	N	4	6	2	6	1	2.68				
			%	21.1	31.6	10.5	31.6	5.3	(1.29)				
		Financial Directors	N	3	16	17	3	4	2.74				
			%	7.0	37.2	39.5	7.0	9.3	(1.03)				
18	The meaning of the two terms true and fair view and fair reflection are equivalent	Shareholder	N	20	52	20	18	3	2.40	NS	NA		
			%	17.7	46.0	17.7	15.9	2.7	(1.07)				
		Auditor	N	2	10	3	3	1	2.53				
			%	10.5	52.6	15.8	15.8	5.3	(1.07)				
		Financial Directors	N	2	20	12	7	2	2.70				
			%	4.7	46.5	27.9	16.3	4.7	(0.96)				
19	The meaning of the two terms true and fair view and fair presentation are equivalent	Shareholder	N	17	50	26	17	3	2.46	NS	NA		
			%	15.0	44.2	23.0	15.0	2.7	(1.01)				
		Auditor	N	2	9	3	4	1	2.63				
			%	10.5	47.4	15.8	21.1	5.3	(1.12)				
		Financial Directors	N	2	20	12	9	1	2.70				
			%	4.5	45.5	27.3	20.5	2.3	(0.93)				
8	Present financial condition fairly means the same as give a 'true and fair view' of financial condition	Shareholder	N	7	39	34	24	10	2.98	NS	3.00	2.91	
			%	6.1	34.2	29.8	21.1	8.8	(1.07)		(1.28)	(1.25)	
		Auditor	N	1	7	1	7	3	3.21				
			%	5.3	36.8	5.3	36.8	15.8	(1.27)				
		Financial Directors	N		14	15	12	3	3.09				
			%		31.8	34.1	27.3	6.8	(0.94)				

\# Significant difference between all shareholders, auditors and financial directors.

- Significant difference at 0.05 level between unsophisticated shareholders and auditors and financial directors.

TABLE 4 TRUE AND FAIR VIEW VERSUS FAIR PRESENTATION: SPECIFIC ATTRIBUTES (CONTINUED).

	Question	Sample		Strongly Disagree 1	2	3	4	Strongly Agree 5	Mean (SD)	ANOVA	M & M UK Mean (SD)	M & M US Mean (SD)	M & M T Sig
9	If financial statements present fairly in accordance with GAAP, then they are not misleading as to financial condition	Shareholder	N	5	35	22	45	6	3.11	NS	3.20	2.79	0.004*
			%	4.4	31.0	19.5	39.8	5.3	(1.05)		(1.12)	(1.12)	
		Auditor	N		6	1	9	3	3.47				
			%		31.6	5.3	47.4	15.8	(1.12)				
		Financial	N	1	9	9	22	3	3.39				
		Directors	%	2.3	20.5	20.5	50.0	6.8	(0.97)				
10	If financial statements give a 'true and fair view' then they are not misleading as to financial condition	Shareholder	N	1	15	15	65	17	3.73	NS	3.74	3.51	
			%	.9	13.3	13.3	57.5	15.0	(0.91)		(1.06)	(1.04)	
		Auditor	N		2		14	3	3.95				
			%		10.5		73.7	15.8	(0.78)				
		Financial	N	1	3	9	23	7	3.74				
		Directors	%	2.3	7.0	20.9	53.5	16.3	(0.90)				
11	If financial statements present fairly in accordance with GAAP then they are free from undue bias	Shareholder	N	2	30	35	41	6	3.17	All	3.03	2.85	
			%	1.8	26.3	30.7	36.0	5.3	(0.94)	158 #	(1.04)	(1.09)	
		Auditor	N		1	8	8	2	3.58	Private			
			%		5.3	42.1	42.1	10.5	(0.77)	Unsophi			
		Financial	N	2	9	8	21	4	3.36	sticated			
		Directors	%	4.5	20.5	18.2	47.7	9.1	(1.06)	0.047*			
12	If financial statements give a 'true and fair view' then they free from undue bias	Shareholder	N	3	14	22	61	14	3.61	NS	3.63	3.29	
			%	2.6	12.3	19.3	53.5	12.3	(0.95)		(1.04)	(1.09)	
		Auditor	N			5	12	2	3.84				
			%			26.3	63.2	10.5	(0.60)				
		Financial	N	1	5	8	28	2	3.57				
		Directors	%	2.3	11.4	18.2	63.6	4.5	(0.856)				

\# No significant difference between all shareholders, auditors and financial directors

* Significant difference at 0.05 level between unsophisticated shareholders and auditors and financial directors.

TABLE 5 PERCEIVED NEED FOR PHRASES.

	Question	Sample		Strongly Disagree 1	2	3	4	Strongly Agree 5	Mean (SD)	ANOVA (Scheffe***)
13	The phrase present fairly should	Shareholder	N	19	37	44	7	7	2.53	NS
	replace true and fair view		%	16.7	32.5	38.6	6.1	6.1	(1.04)	
		Auditor	N	4	8	6		1	2.26	
			%	21.1	42.1	31.6		5.3	(0.99)	
		Financial	N	3	20	10	9	2	2.70	
		Directors	%	6.8	45.5	22.7	20.0	4.4	1.02)	
14	The phrase fair reflection should	Shareholder	N	28	35	39	9	1	2.29	0.023*
	replace true and fair view		%	25.0	31.3	34.8	8.0	0.9	(0.96)	(Scheffe***
		Auditor	N	8	8	3			1.74	0.027*
			%	42.1	42.1	15.8			(0.73)	Au/
		Financial	N	4	22	14	4		2.49	Financial
		Directors	%	9.1	50.0	31.8	9.1		(0.79)	Directors
										0.051
										Au/sh)
15	The phrase fair presentation	Shareholder	N	31	34	36	6	3	2.24	NS
	should replace the term true and		%	28.2	30.9	32.7	5.6	2.7	(1.01)	
	fair view	Auditor	N	7	8	4			1.84	
			%	36.8	42.1	21.1			(0.76)	
		Financial	N	3	23	15	2	1	2.43	
		Directors	%	6.7	52.3	34.1	4.4	2.2	(0.95)	
16	The phrase true and fair view	Shareholder	N	1	7	25	48	33	3.92	
	should remain an essential part of		%	.9	6.1	21.9	42.1	2.9	(0.91)	Uns
	the (New Zealand) audit report	Auditor	N	1		4	11	3	3.79	0.047*
			%	5.3		21.1	57.9	15.8	(0.92)	
		Financial	N		5	13	21	5	3.59	
		Directors	%		11.4	29.5	47.7	11.4	(0.90)	
17	I am indifferent to phraseology	Shareholder	N	5	26	18	46	16	3.38	0.050*
	used in audit reports; all that		%	4.5	23.4	16.2	41.4	14.4	(1.13)	
	interests me is whether or not I	Auditor	N	2	6	3	4	4	3.11	
	am looking at an example of a		%	10.5	31.6	15.8	21.1	21.1	(1.37)	
	standard unqualified report for the	Financial	N	1	6	8	15	14	3.80	
	company (country) concerned.	Directors	%	2.3	13.6	18.2	34.1	31.8	(1.11)	
20	The true and fair view requirement	Shareholder	N	4	8	21	56	23	3.77	0.055**
	is required to ensure that directors		%	3.6	7.1	18.8	50.0	20.5	(0.98)	
	fulfill their reporting obligations	Auditor	N	1		7	8	3	3.63	(Scheffe***
			%	5.3		36.8	42.1	15.8	(0.96)	0.039*
		Financial	N	3	7	8	24	2	3.34	PS/Uns)
		Directors	%	6.8	15.9	18.2	54.5	4.5	(1.03)	
21	The term true and fair view	Shareholder	N	4	1	12	74	22	3.96	0.031*
	performs a useful function in		%	3.4	.8	10.1	62.2	18.5	.81	
	financial reporting	Auditor	N			6	12	1	3.74	(Scheffe***
			%			31.6	63.2	5.3	(0.56)	0.037
		Financial	N	1	6	6	28	3	3.59	Sh/
		Directors	%	2.3	13.6	13.6	63.6	6.8	(0.82)	Financial
										Directors

* Significant at 0.05 Level

** Significant at 0.10 Level

***Scheffe test results in parenthesis showing pair-wise differences between the groups included in the parenthesis. Aud= auditor; Ps= private shareholders; Uns = unsophisticated shareholders; Sh= all shareholders

TABLE 6 MULTIPLE COMPARISONS: ALL SHAREHOLDERS, FINANCIAL DIRECTORS, AND AUDITORS: SCHEFFE AND ANOVA SIGNIFICANT RESULTS AT THE 0.05 AND 0.10 LEVEL

	Dependent Variable	(I) RTYPE	(J) RTYPE	Mean Diff. (I-J)	S.D.	Scheffe. Sig	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound	ANOVA Sig.
B14	Fair reflection should replace true and fair view Strongly disagree 1 Strongly agree 5	Auditor (1.74)	Shareholder (2.29)	-0.55	0.223	0.051**	-1.10	2.23E-03	0.023*
			Fin. Dir. (241)	-0.67	0.247	0.027*	-1.28	-6.25E-02	
B15	Fair presentation should replace true and fair view Strongly disagree 1 Strongly agree 5	Auditor (1.84)	Fin. Dir. (2.43) (Sh. 2.24)	-0.59	0.257	0.075**	-1.22	4.53E-02	0.075**
B17	Indifferent to phraseology Strongly disagree 1 Strongly agree 5	Fin. Dir. (3.80)	Auditor (3.11) (Sh. 3.38)	0.69	0.316	0.096**	-9.09E-02	1.47	0.050*
B20	True and fair view = directors fulfill reporting obligations Strongly disagree 1 Strongly agree 5	Shareholder (3.77)	Fin. Dir. (3.34) (Aud. 3.63)	0.43	0.176	0.055**	-7.59E-03	0.86	0.055**
B21	True and fair view performs a useful function in financial reporting Strongly disagree 1 Strongly agree 5	Fin. Dir. (3.59) (Aud. 3.74)	Shareholder (3.96)	-0.37	0.144	0.037	-0.73	-1.72E-02	0.031

*The mean difference is significant at the 0.05 level.
** The mean difference is significant at the 0.10 level.

TABLE 7 UNSOPHISTICATED SHAREHOLDERS COMPARED WITH AUDITORS AND FINANCIAL DIRECTORS: SCHEFFE AND ANOVA SIGNIFICANT RESULTS AT THE 0.05 AND 0.10 LEVEL.

	Dependent Variable	Sample (Mean)	Sample (Mean)	Scheffe Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound	ANOVA Sig
B3	Confidence in audit opinions Much more confidence in present fairly in accordance with GAAP = 1 Much more confidence in true and fair view = 5	Unsophisticated shareholders (3.77) (Aud. 3.68)	Fin. Dir. (3.31)	0.031*	3.33E-02	0.88	0.029*
B9	Present fairly IAW GAAP = not misleading as to financial condition Strongly disagree = 1 Strongly agree = 2	Unsophisticated shareholders (3.02)	Auditors (3.47) (Fin. Dir. 3.39)				0.047*
B14	Fair reflection should replace true and fair view Strongly disagree = 1 Strongly agree = 2	Auditors (1.74)	Fin. Dir. (2.41) (Un.Sh. 2.20)	0.026*	-1.28	-6.38E-02	0.026*
B15	Fair presentation should replace true and fair view Strongly disagree = 1 Strongly agree = 2	Auditors (1.84)	Fin. Dir. (2.43) (Un.Sh. 2.19)	0.083**	-1.24	5.85E-02	0.076**
B16	True and fair view should remain Strongly disagree = 1 Strongly agree = 2	Unsophisticated shareholders (4.0)	Fin. Dir. (3.59) (Aud. 3.79)	0.049*	1.23E-03	0.82	0.047*
B17	Indifferent to phraseology Strongly disagree = 1 Strongly agree = 2	Fin. Dir. (3.80)	Auditors (3.11) (Un.Sh. 3.34)	0.10 **			0.046*
B20	True and fair view = directors fulfill reporting obligations Strongly disagree = 1 Strongly agree = 2	Unsophisticated shareholders (3.82) (Aud. 3.63)	Fin. Dir. (3.34)	0.039*	1.95E-02	0.93	0.039*
B21	True and fair view performs a useful function in financial reporting Strongly disagree = 1 Strongly agree = 2	Unsophisticated shareholders (4.0)	Fin. Dir. (3.59) (Aud. 3.63)	0.033*	2.66E-02	0.79	0.028*

* The mean difference is significant at the 0.05 level.
** The mean difference is significant at the 0.10 level

'True and fair view' versus 'Present fairly in conformity with generally accepted accounting principles'

Kirk, N. E.

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