

1 November 2005

ICAEW Rep 19/05

Paul George  
Financial Reporting Council  
Aldwych House  
71-91 Aldwych  
LONDON  
WC2B 4HN

Dear Mr George

**THE IMPLICATIONS OF NEW ACCOUNTING AND AUDITING STANDARDS  
FOR THE “TRUE AND FAIR VIEW” AND AUDITORS’ RESPONSIBILITIES**

I have pleasure in submitting the response of the Institute of Chartered Accountants in England & Wales (“ICAEW”) to the Financial Reporting Council’s consultation paper *The implications of new accounting and auditing standards for the “true and fair view” and auditors’ responsibilities*.

The ICAEW operates under a Royal Charter, working in the public interest, and is the largest professional accountancy body in Europe, with over 127,000 members in business, practice, the public and voluntary sectors and academe. In preparing this response we have taken account of the views of ICAEW members and individuals with experience as company directors and external auditors.

We agree with the fundamental FRC position that the terms “true and fair” and “presents fairly” are in substance equivalent and that in practice the distinction is only a technicality. However, although we do not believe that there will be significant changes in the behaviour of either directors or auditors in the short term, we perceive a risk that the difference in wording will come to be tested in litigation, with potentially serious consequences for the reputation of the profession. We therefore welcome the FRC’s consultation as a useful contribution to this debate.

Whilst the FRC’s analysis is reasonable, we would like to see legal justification for uniting the two terms “true and fair” and “presents fairly”. Only this is likely to resolve this debate and fully maintain investor confidence in the financial reporting framework. Nevertheless, the proposal that an amendment be included in the forthcoming Company Law Reform Bill to require all accounts to give a true and fair view is welcome. We look forward to providing input into any consultation on such a proposal and the supporting legal justification.



We agree with the FRC observation that “true and fair overrides” have been used mainly as a way to override company law in order to comply with GAAP. However we believe that concerns expressed by investors may derive from a general wariness of the future direction of the IASB. If revised IFRS standards move further toward rules-based prescription, as opposed to being principles-based, these concerns are likely to increase. In part, this is because of a perception that situations in which an IFRS override would be permissible are likely to be significantly rarer than under UK GAAP. It is therefore important that the FRC is seen to be committed to maintaining principles-based standards through the engagement of the ASB in the work of the IASB. Similar considerations apply in relation to the APB and the work of the IAASB.

If you would like further information on this submission or any of our other recent and future submissions and proposals, we please contact Andrew Gambier, Manager, Technical Strategy at [andrew.gambier@icaew.co.uk](mailto:andrew.gambier@icaew.co.uk) or on 020 7920 8643.

Yours sincerely

A handwritten signature in black ink that reads "Robert Hodgkinson". The signature is written in a cursive, flowing style.

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