Truth and Fairness in Accounting: A Case of Polish Transition Economy

Katarzyna Kosmala MacLullich
Heriot-Watt University, Edinburgh

September 2001
Discussion Paper 2001/02

Abstract

This paper addresses issues of financial reporting within the context of European harmonisation and accession. The construct of the True and Fair View (hereafter TFV) constitutes a locus of reflection for the establishment of a mutually intelligible foundation for financial reporting in the New Europe.

The Audit Act 1994 and Accounting Act 1994, as amended by the 2000 Acts, incorporate the provisions of European law with the aim of harmonising Polish accounting and financial reporting regulations with the corresponding regulations in the EU. It was the Accounting Act 1994 which for the first time introduced in Poland the actual wording of the TFV concept in accordance with the requirements of the 4th Directive.

This paper demonstrates the particular local understanding of the TFV concept in contemporary Poland through (1) textual analysis of the legal pronouncements (both national and international) and (2) narrative analysis of local debates and commentaries in the national press and academic journals. Given the difficulty in expressing judgements based upon accumulated experience, where much of the experience is constituted by regulatory arrangements of a centrally planned economy, Polish audit practice perceives the TFV requirement primarily as a formal, legal compliance, and not as something yet with a substantial rationale. The paper concludes that TFV is a contingent construct which resides in a particular socio-economic, historic and cultural context and is differently understood outside this context. The local Polish context is presented where a vacuum created in business practices by the loss of the old rules has not been yet filled by the new philosophy of public accountability and transparency.

Keywords: Financial reporting, Poland, True and Fair view
JEL Classification: G18, M41, O16

1 School of Management, Edinburgh, EH14 4AS, Email: K.Kosmala_MacLullich@hw.ac.uk, Tel. +44 131 451 3551, Fax +44 131 451 3296.
INTRODUCTION

This study addresses issues of financial reporting within the context of European Union company law harmonisation and the accession of former Eastern Block countries to the EU. The aim of this paper is to discuss and to analyse the issues that arise in relation to the implementation of TFV in the context of the Polish transitional economy where this qualitative concept of financial reporting has been introduced to national legislation.

Under EU law, financial statements are required to present a TFV and auditors are required to give an opinion on whether this objective has been met. TFV has not been formally defined in EU legislation, and views regarding its meaning and practical application differ internationally; for Western European countries see for example Stacy, 1997; van Hulle, 1997; Arden, 1997; Alexander, 1996; 1993; Higson and Blake, 1993; Nobes and Parker, 1991; Lowe et al., 1991; Rutherford, 1989 and in Eastern Europe see for example Krzywda et al, 1998; Sucher et. al, 1996; Beresińska et al, 1996; Bailey, D., 1995. The TFV requirement is increasingly contested in the context of transition economies, since an undefined concept can neither be expressed as an operational rule nor easily expressed or communicated (Alver et al. 1997). Thus, the concept of TFV constitutes a locus of reflections for the establishment of mutually intelligible and applicable foundation for financial reporting in New Europe. The question is how is the concept of TFV understood and realised in Poland?

This paper addresses this question through an analysis of de jure requirements for the realisation of TFV. The data for the de jure analysis consists of the relevant accounting legislation (in particular the Parliamentary Acts which incorporate the provisions of the 4th EU Directive and parliamentary proceedings) and international standards. For the purpose of de jure comparisons, in this paper, TFV requirements have been accessed in the Polish language. A textual analysis of the legal pronouncements is complemented with the examination of methodological categorisation of the TFV concept in the accounting framework through means of narrative analysis of local parliamentary and academic debates.

This paper is organised as follows. Firstly, a discussion of TFV as a theoretical Western concept[1] in the context of the European harmonisation is presented. Secondly, key developments in accounting reform in Poland are discussed. The de jure analysis for the realisation of TFV is conducted over three main formation phases of the regulatory framework: (1) prior to 1990, (2) from 1991 to 1994 and (3) 1994 legislation and subsequent developments. The above phases represent regulations of the pre-open market economy, the emergence of open market and subsequently the post-emergent period. This is supplemented with the analysis of parliamentary proceedings and academic literature regarding issues theoretical categorisation of the TFV. The local context is revealed to present the influence how the TFV is realised. Finally, conclusions and implications are presented.

What emerge from the study are insights into a particular local understanding of the TFV concept in Poland. The multiplicity of commonly used Polish translations and grammatical constructions for the TFV as well as a lack of consensus as to its classification imply the lack of a substantial rationalisation in understanding of the TFV concept in Poland. The
paper reveals that although Poland is *de jure* moving on a trend towards the Western concept, it appears that *de facto* is playing on words. Bailey (1995) argued that due to the undefined and amorphous nature of the Western TFV construct, the auditor situated in transitional economy eventually would need to grasp its meaning intuitively. The paper concludes, taking Bailey’s statement (1995) further, that TFV as a multifaceted construct cannot be realised outside the localised Eastern European reality in which it is situated. The transition processes and the legacy of the past influence the reality of the business environment in contemporary Poland. Also, legislation appears as ever evolving. A vacuum created by the loss of the old rules and controls has not yet been filled by the new philosophy of accountability and transparency.

The Polish translations are provided *in italics*. The English versions of adjectives used in translation of the TFV paragraphs from Polish were taken from *The Great English Polish Dictionary* and *The Great Polish English Dictionary* (Stanisławski, 1994) and a linguist of Polish and English language was consulted. The following translations can be found in the text: ‘correct’ for *prawidłowy*, ‘true’ has two translations, as *prawdziwy* referring to universal truth, and as *rzetelny* referring to notion of reliability, ‘fair’ for *jasny* referring to cleanness, and/or truthfulness, ‘clear’ also for *jasny*, ‘faithful’ for *wierny*, ‘honest’ for *uczciwy*, ‘righteous’ for *prawy*, and *szlachetny* for ‘upright’ or ‘noble’. The use of *jasny* in colloquial Polish is that the most common usage is ‘clear’. It also should be mentioned that ‘fair’ has more than one meaning; it is used as ‘balanced’, ‘equitable’ and also ‘clear’.

**HARMONISATION AND THE TFV CONCEPT**

There are many challenges associated with transferring accounting concepts from one tradition to another, with different objectives of financial reporting, different legal systems, different roles of the profession, differences in relationships between taxation and accounting, all embedded in local history and culture. The concept of TFV is conceptualised differently in various countries (see e.g. Nobes 1993). The 4th Directive, probably the most significant and far-reaching of the company law Directives, is of particular relevance, since it deals with the rules for the preparation of financial statements, and contains many specific provisions dealing with the format of accounts, the valuation and measurement rules to be applied, and disclosure requirements[2].

There are many reasons why the operationalisation of the concept varies across countries. Firstly, the rules of legal interpretation vary between Roman law and Common law legal systems. While in Common Law systems general clauses such as TFV may override specific rules, in Roman Law countries specific rules take precedence over general rules (*lex specialis precedes lex generalis*) (Ordelheide, 1996). This causes ambiguity with regard to the application of the national law to the TFV concept and leads to additional difficulties regarding its understanding. Secondly, the translations of the TFV phrase cause an inherent ambiguity (Alver *et al*., 1997; Alexander, 1993; Nobes, 1993; Parker, 1989; Rutherford, 1983). Thirdly, definitions of the implemented TFV concept can be detached from previously operated terms used to describe the nature of the financial statements (Higson and Blake, 1993). This is of a particular relevance in Eastern European countries with an experience of the centrally planned economy. Fourthly, differences in character and authority of the regulation between countries and the existence of different accounting
practices cause variations in the content and reliability of legal and professional pronouncements.

Poland is one of the countries in Eastern Europe which currently undergoes the processes of the EU accession. Poland signed an agreement with the EU to harmonise accounting practice with the European law. Harmonisation processes of the accounting practice are realised through the implementation of the provisions of the 4th and 7th Directives to the national law (The Accounting Act 1994 and the Auditing Act 1994, currently amended through the 2000 Acts). To assure the inflow of capital and attract foreign investments, financial statements of national enterprises in the countries under transition must fulfil the requirements of the adequate changes of uniformity, understandability and comparability.

‘The European norms and practices shape Polish accounting principles with requirements of the EU. In this way, Polish accounting becomes a language of business’ (Stec, 30 Sejm sitting, 1994).

The language of financial reporting becomes a tool for strategic decision making in the processes of capital globalisation where the TFV acts as a symbol of systemic stability. Poland accepted the Western notion of TFV in business and accounting communities to facilitate the fast-track accession in the context of competitive markets. Is this acceptance ‘executed’ by just the importing of the words of the TFV? The question is how is the TFV realised in Polish reality.

POLISH REGULATORY FRAMEWORK FOR ACCOUNTING: SPECIFICITY OF TFV
This section provides an overview of developments in the Polish regulatory framework and discusses how the TFV concept is situated in it. The development and harmonisation processes of accounting practice in Poland can be divided into three main regulatory periods, i.e. the first period includes the years prior to 1990, the second period falls between 1991-1994 and the current period commencing in 1994.

Pre-transition phase
The regulatory phase prior to 1990 was characterised by a turbulent political history engendered in frequent changes in the regulation. This section provides an overview of events of particular importance to developments in the accounting framework. The impact of the First World War was very significant as in 1918 a free Polish state was re-established after one hundred and fifty years of partition. The twenty years of existence of the Second Republic (1918–1939) were characterised by governmental interventionism in economic development with a particular emphasis on credit protection and tax collection. The accounting and auditing legislation was consolidated in the Commercial Code 1934, influenced by the German Code. In 1907 the professional body, the Polish Association of Accountants, was established. During the German occupation (1939-1944) the rules of the uniform German general plan of accounts were in force. The subsequent years, until 1989, involved the establishment of communist rule and a centrally planned economy. In those years accounting constituted a very detailed set of rules. The version of socialism adopted
in Poland after 1956 created conditions for the increased autonomy of state-owned enterprises which enabled the management and personnel to participate in the distribution of profits generated by the enterprise. It became the state concern to ensure that surpluses were calculated and appropriated at the end of the financial year in accordance with set targets of long-term central plans. Ministry Decree 1972 (Zarządzenie Ministra Finansów z dnia 23 września 1972 r. o rachunkowości jednostek gospodarki wspólnotowej) introduced the notion of substantive truth.

‘Entities are required to prepare the books of accounts in Polish currency, truly [rzetelnie], that is in a manner consistent with substantive truth, on the basis of charts of accounts and following rational, technical methods’ (Ministry of Finance Decree, 1972, Para 3).

The 1972 Decree was superseded in 1983 by the 1983 Decree, (Zarządzenie Ministra Finansów z dnia 16 października 1983 r. o rachunkowości jednostek gospodarki wspólnotowej) where the order of the words in para 3 was changed.

‘Entities are required to prepare the books of accounts on the basis of charts of accounts allowing for proper management….in Polish language, Polish currency, truly [rzetelnie], that is in a manner consistent with substantive truth and following rational and technical methods’ (Ministry of Finance Decree, 1983, Para 3).

The role of the state and centrally established charts of accounts was emphasised in the Decree 1983. The notion of truth was placed at the end of the paragraph. It could be argued that the significance of substantive truth and thus truth in general was somewhat diminished.

In 1957 the institution of audit experts was created to verify accounts of state owned enterprises with the appointment of a state-authorised accountant (SAA). The SAAs did not create an independent profession, they were employed on a full-time basis in the finance and/or accounting divisions of state enterprise. The role of the SAAs was agreeing appropriation of profits and verification of the achievements of centrally planned targets (Jaruga, 1979). The one and five-year plans were extremely complex and detailed. The immediate problem for the SAAs was a difficulty in arithmetical and technical reconciliation of targets. While inspecting the accounts, the auditor was concerned with the proper construction of the accounting records; that is, with a usage of the appropriate documentation and the correct accounting procedures. The audit was focused on certifying the agreement of financial statements with the law through the means of certificates of correctness (Ministry Decree 1973, Uchwała nr 210 Rady Ministrów z dnia 24 sierpnia 1973 r. w sprawie głównych księgowych i dyplomowanych biegłych księgowych oraz badania i zatwierdzania rocznych sprawozdań finansowych państwowych jednostek organizacyjnych) ensuring that the enterprise had correctly accounted for all transactions with the state budget (Jaruga, 1976).

Many of the concepts included in the Accounting Act 1994 were re-formulations of those which had been developed under the planned economy. Accounting rules, despite their shortcomings were grounded in the existing accounting theory. On the whole, accrual accounting was practised, except for the interest on debt, which was recognised only upon
the payment. Depreciation was calculated depending on the categories of assets on the uniform straight-line basis, without exception. There was no need for an allowance for bad debts because banks assured payments for goods sold via a system of the direct transfers of funds based on the submitted sale invoices. The lower-of-cost or market value principle was unnecessary in an economic sense since shortages of supply created a steady demand. Going-concern was not an issue because of the existence of state guarantees. Financial losses did not lead to bankruptcy because the government provided an infusion of capital or subsidised sales prices on an on-going basis. State-owned companies prepared aggregated financial statements as arithmetical summaries of which the consistency was dependent upon the decision of the Ministry of Finance, not solely upon the compliance with rules (Gottlieb, 1999).

It could be argued that the application of old accounting rules, grounded in the local theory, could not have shown TFV since, even if accounts contained no material misstatements, the certificates of correctness were somewhat distorted by state subsidies and/or the ‘expropriation’ of profits in the form of excessive taxes.

The results of the SAA’s inspection; that is, whether or not the accounts were prepared in a manners consistent with substantive truth (the 1972 and 1983 Decrees), were communicated to the higher administrative organs of the state and to the Treasury Office. Neither the financial statements nor the auditor’s report were made publicly available. Although there was no concept of public accountability, a certificate of correctness (the 1973 Decree) can be regarded as the qualitative concept of financial reporting in the pre-transitional phase.

Transition phase

Financial statements are considered to be correct [prawidłowe] if they are prepared on the basis of books of accounts kept in accordance with the obligatory provisions of the law and generally accepted accounting principles, and true [rzetelne] if the information disclosed in the financial statements presents the entity’s results from economic operations and its asset and financial situation for the reporting period in a manner consistent with substantive truth (Audit Act 1991, Art. 3(2)).

In the Audit Act 1991 correctness was equated with the preparation of the accounts in accordance with the requirements of laws and accounting principles. There was an
emphasis on consistency with substantive truth, an evident reference to the 1972 and 1983 Decrees.

The Audit Act 1991 introduced standard wording for the short and long form formats of the audit report; there were differences between the legally required contents of the short form [opinia] and long form [raport] report. A short form audit report provided a written opinion on the correctness and truth of the financial statements with the date and place of its preparation (Art. 5(3)). The long form report contained (1) a statement that financial statements were prepared in accordance with law and generally accepted accounting principles, and (2) an opinion on the correctness and truth of the financial statements with the specification of data, which in comparison with the previous accounting period indicated circumstances which materially and negatively impacted on operating results and financial situation of the reporting entity. These differences in the contents of the audit reports were dictated by their public availability. The short form report was to be available to shareholders (no later than two weeks prior to the annual general meeting) (Art. 7(1)) while the long form report was submitted to the treasury office as a tax regulation requirement. Although the long form audit report was not publicly available, its required contents under the Audit Act 1991 appeared to differentiate the legal requirement for the realisation of the correctness and truth from the legal compliance with the national laws and accounting standards. In both forms of the report, truth was understood as the realisation of reliability of information also being consistent with the substantive truth.

The Ministry of Finance Decree 1991 on the Principles of Accounting was also indirectly related to the realisation of the TFV principle; paragraph 3 of the Decree stated that, in matters unregulated by the Decree, generally accepted accounting practices and customs must be complied with. This appears to only relate to the correct aspect of the phrase. Legal provisions were supplemented by Polish auditing standards issued by the newly established National Chamber of Auditors (Krajowa Izba Biegłych Rewidentów, hereafter KIBR), in particular auditing standard No 2 on the Exercise of the Profession of Statutory Auditor: The Opinion and Report on the Annual Financial Statements of Entities Other than Banks and Insurers, issued on 6 November 1992 (Norma nr 2 wykonywania zawodu biegłego rewidenta: Opinia i raport z badania rocznego sprawozdania finansowego jednostki innej niż bank lub ubezpieczyciel). De jure regulations contained in the auditing standard No 2 were in part influenced by International Standard on Auditing No 13: The Audit Report on Financial Statements. The Auditing standard No 2 provided contents for the audit report.

‘(…) [The financial statements] in form and content are prepared in accordance with the required regulations, laws and the statute and present truly and correctly [prawdziwie i prawidłowo] all information which is material to give an opinion on the effectiveness and financial results from business activity for a period form…to…as well as a state of business affairs of the audited entity for a day…’
(Auditing standard no 2, Appendix 1)

Auditing standard no 2 chose alternative to the Act translation for truth, i.e. prawdziwy as referring to universal truth. On the whole, there where two different approaches to the TFV in the second stage of developments in the regulatory framework. The Audit Act 1991
emphasised correctness above truth in the TFV construct which seem to imply compliance. In Polish auditing standards, however, the realisation of truth and correctness was emphasised, as opposed to the realisation of correctness and truth (the Audit Act 1991). Further, standard no 2 linked the concept of true and correct with the materiality principle. Perhaps a reference made to the notion of substantive truth linked materiality principle and truth and correctness concept, a heritage of the pre-transitional regulations.

**Post-transition phase**

The third key phase of the formation of Polish accounting regulatory framework started in January 1995 with the introduction of new legal acts driven by the incentives of fast-track accession to the EU. The new parliamentary acts; the Accounting Act 1994 (Ustawa z dnia 29 września 1994 r. o rachunkowości, hereafter Accounting Act 1994) and the Statutory Auditors and Their Self Regulation Act 1994 (Ustawa z dnia 13 października 1994 r. o biegłych rewidentach i ich samorządzie, hereafter Audit Act 1994), in force since January 1995, superseded and expanded the accounting and auditing regulations contained in the regulatory framework of 1991-1994. In particular, articles 64-70 of the Accounting Act 1994 superseded the provisions regarding financial reporting in the Audit Act 1991. The purpose of financial reporting was redefined; from the realisation of correctness and truth (i.e. truth perceived as reliability) of information disclosed in the financial statements (the Audit Act 1991), as to the presentation of the audit opinion of whether the financial statements correctly, truly and fairly present the assets, financial situation, financial results and profitability of the audited company (the Accounting Act 1994). The importance of truthfulness was emphasised in the process of drafting the Act (Sejm sittings, 1994).

There were a number of references made to an achievement of objectivity of presented information necessary for the realisation of transparency in financial reporting. On the whole the reliability of information was referred to simultaneously as truth and correctness.

The realisation of the TFV was perceived as achievable to some extent through compliance with the requirements of the Acts (Sejm sittings, 1994). Some speakers explained that compliance with the Act is not sufficient to give a TFV, arguing that presentation of the company’s affairs needs to agree with a realm of data contained in properly kept books.

‘The role of accounting is correct [prawidłowe], that means in accordance with the requirements of the Act, and true and fair [rzetelne i jasne] that means on the basis of proper book keeping, presentation of the company’s affairs, financial position, profit or loss account and its effectiveness in accordance with reality’ (Pazura, 28 Sejm setting, 1994; Stec, 30 Sejm sitting, 1994).

On the whole, parliamentary debates revealed simultaneous usage of phrases fair and true, true and fair, correct and true, true and reliable. To express the TFV, in Polish translations a reverse order of adjectives true, correct and fair were used. Also, the importance of substantive truth was emphasised, although abandoned by the Accounting Act 1994.
The Accounting Act 1994 for the first time introduced the actual wording of the TFV concept in accordance with the requirements of the 4th EU Directive. Hence, the English term of a true and fair view has been embedded in the Polish terminology of financial reporting for about six years.

‘Entities have to correctly [prawidłowo] apply accounting principles, assuring a true and fair presentation [rzetelne i jasne przedstawienie] of the company’s state of affairs, financial position, profit or loss and profitability’ (Article 4(1), Accounting Act 1994).

TFV paragraphs conveyed in the Accounting Act 1994 are of a very general nature. Article 4 of the Accounting Act 1994 implies that proper application of generally accepted accounting principles assures, to some extent, the achievement of the TFV. Article 4 puts on companies the legal obligation to subordinate all accepted accounting principles to the primary objective of a true and fair presentation of the information regarding financial position, operating results from business activities and associated risks in preparation of financial statements. The Act, referred to materiality principle, however gave no legal interpretation or guidance of what might be meant by true [rzetelny], fair [jasny] and correct [prawidłowy].

The amended auditing standards (1996) made references to the TFV concept, in particular the auditing standard no 1: General principles of auditing and financial reporting [Norma nr 1 wykonywania zawodu biegłego rewidenta: Ogólne zasady badania rocznych sprawozdań finansowych] and the auditing standard no 2.

The standard no 1 simultaneously refers to the concept of truth and fairness [rzetelność i jasność] (para 3.12), in accordance with the Accounting Act 1994, and to the concept of truth and correctness [rzetelność i prawidłowość] (para 4.18). This would signify that the notion of true and fair could be equated with the notion of true and correct. Following this logic, in the standard no 1 the phrase of true and fair may mean the same as true and correct and thus, fair could be equated with correct.

Auditing standard no 2 (para 11) repeats the contents of the audit opinion defined in the Accounting Act 1994 (Art. 65(2)), referring to the realisation of the TFV. Para 12 provides an interpretation of the realisation of truth and fairness.

‘The requirement of truthfulness [rzetelność] is realised if the contents of the audit opinion reflect – to the auditor’s best knowledge – reality of the auditee’s affairs. The requirement of fairness [jasność] is realised if the information is presented in understandable and uniform manner’ (Para. 12, Auditing standard no 2).

Bednarski (1994) argued that under the 1994 framework the purpose of audit is to give an opinion assuring that the financial statements present the assets, financial standing of the business and its profitability in a straightforward and clear manner (a realisation of fairness) reflecting the real state of client’s affairs (a realisation of truthfulness).

The TFV concept in the current regulatory framework relates to the individual entity as well as to capital groups (following the requirements of the 4th EU Directive). The Ministry of Finance Decree 1995 on Detailed Rules for Preparation of Consolidated Financial Statements in Business Entities Except Banks (Rozporządzenie Ministra Finansów z dnia
14 czerwca 1995 r. w sprawie szczegółowych zasad sporządzania przez jednostki inne niż banki skonsolidowanych sprawozdań finansowych), allowed for the first time for a departure from the provisions of law if the application of these provisions would lead to untruthful presentation of the state of affairs, financial position, and profit or loss of the capital group. Any such departure must be disclosed in notes to accounts with an explanation of the reasons for such departure (para 20). Further, Article 4(3) of the Accounting Act 1994 allows for simplifications of the accounting principles, not explicitly departures, if such simplifications do not interfere with the achievement of the true and fair view of the company’s states of affairs.

Article 48 of the Accounting Act 1994 states that additional information, not disclosed in balance sheet or profit and loss account, must be given to the notes to the accounts if such additional information will lead to a true and fair presentation of the company’s state of affairs, financial situation, profit or loss and effectiveness.

In September 2000 the new Audit Act (Ustawa z dnia 21 września 2000 r. o biegłych) has been issued, which supersedes the Audit Act 1994. The new Audit Act appears to delimit the self-regulatory role of the profession. The new Act states that the process of issuing auditing standards by the Polish Chamber of Expert Auditors (KIBR) needs to involve consultation not only with the Ministry of Finance (as required by the Audit Act 1994) but also with the Polish Securities and Exchange Commission and relevant bank and insurance authorities. The Department of Accounting in the Ministry of Finance acts as a regulator of accounting procedures as well as working in the area of the qualification of accounting standards (Ministry of Finance Decree, issued in August 1998). Hence, the state appears to have an overriding role in the accounting reform.

Parallel with changes in auditing legislation, the new Accounting Act was issued in October 2000 (Ustawa z dnia 9 października 2000 r. o zmianie ustawy o rachunkowości z 1994 r.) releasing the small and medium enterprise from compulsory annual audits. The Act did not result in any changes in relation to true and fair view paragraphs and its meaning. The interpretive gaps are left to the discretion of audit judgement.

Table 1 presents a summary of de jure developments in the TFV concept in Poland and demonstrates that the concept has evolved from the certificates of correctness in the pre-transitional phase towards a uniform expression of the true and fair view as per current regulation.
**Table 1**

**Developments of TFV concept in Polish legislation**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Law</td>
<td>Certificate of correctness</td>
<td>Correct prawidłowy</td>
<td>True rzetelny</td>
<td>True and fair view rzetelny i jasny</td>
</tr>
<tr>
<td></td>
<td>(Ministry Decree 1959, 1973)</td>
<td></td>
<td></td>
<td>True and fair view rzetelny i jasny</td>
</tr>
<tr>
<td></td>
<td>True rzetelny</td>
<td>Consistency with</td>
<td>Consistency with substantio class truth</td>
<td>True and fair view rzetelny i jasny</td>
</tr>
<tr>
<td></td>
<td>(Ministry Decree 1959, 1973)</td>
<td>substantio class truth</td>
<td></td>
<td>(Standard No 1, Para 3.12; Standard No 2, Para 12)</td>
</tr>
<tr>
<td></td>
<td>Consistency with substantio class truth</td>
<td></td>
<td></td>
<td>True and fair view rzetelny i jasny</td>
</tr>
<tr>
<td></td>
<td>zgodny z prawdą materialną</td>
<td>(Art 3.2 Audit Act 1991)</td>
<td></td>
<td>(Standard No 2, Para 12)</td>
</tr>
<tr>
<td></td>
<td>(Para 3, Ministry of Finance Decree, 1972, 1983)</td>
<td>Correct and true prawidłowy i rzetelny</td>
<td>True and correct prawdziwy i prawidłowy (Standard No 1, para 4.18)</td>
<td>True and correct prawdziwy i prawidłowy (Standard No 1, para 4.18)</td>
</tr>
<tr>
<td>Standards</td>
<td>True and correct prawdziwy i prawidłowy (Standard No 2, Appendix 1)</td>
<td>True and fair view rzetelny i jasny</td>
<td>True and correct prawdziwy i prawidłowy</td>
<td>True and correct prawdziwy i prawidłowy</td>
</tr>
<tr>
<td></td>
<td>(Standard No 1, Para 3.12; Standard No 2, Para 12)</td>
<td>(Standard No 2, Para 12)</td>
<td>(Standard No 1, para 4.18)</td>
<td>(Standard No 1, para 4.18)</td>
</tr>
</tbody>
</table>

A variety of translations were given to the phrase over the three phases of developments in the regulatory framework. Until the 1994 regulation, the phrase existed simultaneously as a one-word construct and a two-word construct. In the Audit Act 1991 separate reference was made to **correct** [**prawidłowy**] and separate reference to **true** [**rzetelny**] information (Art. 3(2)). Also, more emphasis was given to **truth** by inclusion a notion of **substantive truth**.
since 1972. In Polish auditing standards truth was given a primary importance and had two Polish equivalents as prawdziwy, referring to universal truth (pre-1994), and rzetelny as referring to reliable (post-1994). These differences in translations could be related to the reliance on the alternative sources of references supporting the harmonisation processes of Polish accounting. References to the local traditions and practices, the 4th and 7th EU Directives and IASC’s accounting standards are reflected in the legal acts, in particular the 1994 and 2000 while the national auditing standards are influenced by IFAC’s standards[3].

In short, under the current regulatory framework, Polish audit opinions are required to state whether the accounts present a true and fair view [rzetelny i jasny obraz] (Accounting Act 1994, Art 65.1) on the basis of correctly [prawidłowo] kept books and comply with the law and accounting regulations (Accounting Act 1994, Art. 65.2). The Accounting Act 1994 on the whole retains the emphasis on the legal compliance but the word ‘and’ implies that the realisation of the TFV cannot be solely achieved through compliance with the legal pronouncements.

It is important to emphasise that accounting rules in Poland, since the days of the Second Republic, have been strongly influenced by the income tax legislation, this link was de jure weakened by the Accounting Act 1994 (Jaruga et al., 1996). The introduction of the TFV principle by the Accounting Act 1994 implies that formally accounting rules override tax requirements (Bailey, 1995). There are however reservations in the profession as to the actual comprehension of the philosophy and function of contemporary accounting in the companies.

THEORETICAL CATEGORISATION OF RZETELNY I JASNY

The problems associated with the operationalisation of the TFV were illustrated above through issues of translation in legal pronouncements into the Polish language. The classification of the concept and its authority in the Polish accounting theory provide further insights into local understanding of the construct.

There appears to be no consensus on where the concept should be sited in the regulatory framework. There is on-going debate as to whether TFV should be labelled as a concept, method, rule, or principle in the relation to other accepted accounting principles and practices in the context of the Polish accounting framework.

Concerned with the theoretical categorisation of accounting Terebucha (1960) distinguished scientific (dialectical) and practical methods of accounting. Any method associated with financial reporting was classified as practical method and thus the certificates of correctness. Peche (1966) argued that the specific methods of presenting the economic events of the company’s affairs involve application of local currency, charts of accounts and the double-entry concept. As accounting principles Peche (1966) also classified completeness, inventory, standard format, accuracy, and argued that these act simultaneously as detailed rules of accounting. At this stage there was no direct reference to the notion of truth and correctness. For the first time a notion of truthfulness was introduced to the accounting framework in the 1970s. Skrzywań (1971) distinguished between accounting methods, principles, rules and features. He explained a method as a
way of attaining the goal (e.g. methods of grouping, valuation methods) arguing its inherent ambiguity resulting in different application. A principle of accounting was explained as a generally accepted convention or custom evolving in time and space and reflected in the national legislation (e.g. charts of accounts, inventory principle). He explained rules as the ways of realisation of accounting principles, e.g. with regard to inventory principle, rules determined ways of its organisation and execution. Another example of rules was a double entry rule. Completeness, truthfulness, fairness, and correctness of presented information were classified as characteristics (features). According to Skrzywański (1971) truthfulness [rzetelność] meant a postulate of accounting facilitating financial data to correspond with reality; that is, reflecting actual state of assets, liabilities, business operations, and financial results of the company’s affairs. It could be argued that Skrzywański’s categorisation (1971) must have been influenced, to some extent, by Western accounting since in those years in Poland certificates of correctness were operationalised in financial reporting.

Further developments in accounting theory started in 1980s. Gmytrasiewicz (1977) pointed out a simultaneous treatment of accounting methods and procedures. She argued that accounting method was a scientific interpretation of financial activity aimed towards an objective formalised presentation of its correctness, while principles reflected directives or technical procedures of bookkeeping. A systematisation of the accounting framework in 1960-80s suggests that today’s TFV concept could be categorised simultaneously as accounting method (Peche, 1966; Terebucha, 1960), as accounting feature (Skrzywański, 1971) or as a technical procedure (Gmytrasiewicz, 1977).

More recent systematisation of accounting concepts has acknowledged the requirements of European law and international standards. In the commentary to the Accounting Act 1994, Fedak (1994) emphasised the role of all accepted accounting principles and norms in the realisation of truthfulness of accounting data in the processes of valuation of asset and liabilities; that is, prepared in accordance with reality, and in fair presentation of accounting information; that is, without ambiguity. It was emphasised in the report on parliamentary committee on implementing the Accounting Act 1994 that the compliance with primary accounting principles such as going-concern, prudence, accrual accounting, matching principle (contained in Accounting Act 1994) is required for the realisation of truthfulness of presented information in the financial statements. Hence, the regulatory framework of 1994 categorised TFV as a primary concept of accounting.

Despite the authority of the legal acts 1994, Olechowicz (1995) argued the primary importance of the balance sheet method over the true and fair view. He argued that accounting principles and rules, such as TFV, prudence, going concern, continuation of activity, substance over form and matching, are all inferior to the balance sheet method. Sawicki (1994) following guidance of IAS No 1 distinguished between superior principles, such as TFV or completeness and essential formal principles, such as prudence, substance over form or going-concern. Similarly, Jaklik and Micherda (1994) distinguished between superior methods, such as true and fair view, going-concern, prudence or continuation of activity and general methods, such as balance sheet method. Beresińska et al. (1996) systematised all accounting categories into a concise framework with a clear hierarchy of concepts, principles, methods, rules and characteristics with concepts being superior to all other categories.
TFV was classified as a superior accounting concept implying that accounting, as opposed to solely financial statements should produce TFV of the state of affairs and results of the business activity. They argued that, in practice, TFV is related to financial reporting instead of perceiving financial report as a final product of realisation of the TFV concept applied in each stage of functioning of the accounting information system.

Beresińska et al. (1996) equated a superior concept of TFV with subject or business entity concept and placed these two concepts on the top of the hierarchy for qualitative categories in accounting. On the whole, academic debate reveals a lack of consensus in the theoretical categorisation of TFV under the current regulatory framework. Olechowicz (1995) argued the inferiority of the TFV to the balance sheet method while Sawicki (1994) and Jaklik and Micherda (1994) argued its superiority. Sawicki (1994) equated TFV principle with completeness principle. The methodological framework of Beresińska et al. (1996) equated the importance of the TFV with the concept of business entity and argued simultaneous primacy of both. Hence, introduction of the new laws appears to advance ambiguity in the classification of the TFV concept in the Polish accounting theory.

CONCLUSIONS

The paper sought insights into the processes of realisation of the TFV construct in contemporary Poland through an analysis of key developments in accounting reform. Prior to the transition phase, although there was no concept of public accountability, a certificate of correctness was perhaps equivalent in its role as to a general clause. It was however not a version of the TFV. In such certificates the auditor (the SAA) certified the agreement of financial statements with the law ensuring that all transactions were correctly accounted for with the central budget (Bień et al., 1967). The bureaucratic-administrative experience of audit function continues to influence the way in which the audit tasks are fulfilled today. For a generation of auditors, trained for the SAA, a contrast between a need for the attestation on the TFV of information contained in the financial statements and the old traditions and practices seems to be attributed to the high degree compliance with the legal pronouncements in financial reporting.

In the context of the newness of the institutional framework and market conditions, the Polish auditor needs to establish a compliance with the existing at time the letter of the law in the realisation of the TFV[5]. Further, the on-going changes in law leave the auditor with a challenge of de jure adaptability. Hence, the Polish auditor appears to take, in large, a legalistic rather than commercial approach to audit.

There is no consensus as to translation and grammatical constructions of TFV. Commonly accepted phrases among others such as koncepcja rzetelnego i jasnego obrazu (true and fair view concept) zasada wiernego obrazu, (principle of faithful view), koncepcja wiernego i rzetelnego obrazu (a construct of faithful and true view), rzetelny i prawidłowy (true and correct), prawidłowy (correct), jasny (fair) indicate the multifaceted ways in theoretical categorisation of the TFV in the accounting framework. While referring to a two-word construct, phrases such as correct and true, true and correct, and fair and true are used simultaneously. When referring to the TFV as a single-word construct, the importance of truth in relation to either universal truth or to reliability of information prevails. The more
ambiguous adjective **fair** is either equated with **correct, true, clear** or even **faithful**. Some Polish academics prefer to operate the original English True and Fair View because of the multiplicity of existing translations (Beresińska et al, 1998), admitting the incompatibility of the TFV message conveyed in Polish and English language and subsequently in Polish and British or Western if defined broader) contexts.

TFV as a multifaceted concept has to be analysed within the specific local Polish milieu which arises in the convergence of issues of on-going economic transformation and years of previous experience. An enactment of the TFV is attributed to external political pressures from international funding agencies and domestic political pressures for the market transformation and the EU accession. It could be argued that the TFV acts as a label attached to data received from the accounting information system, a guarantor of objectivity inherent in financial statements. Further, there is not much initiative on the part of the Polish auditing profession to promote a substantial rationalisation of the concept.

It appears that a unification of Polish accounting regulation with IASs (the Accounting Act 2000) will dominate developments of TFV accounting with the benchmark set by the White Paper (EU, 1995). Hence, explanations of accounting concepts such as TFV are set with a reference to the UK market. Could Poland be then regarded as a victim of ethnocentrism (Lowe et al., 1991)? Or the **locality** of TFV is going to be recognised and accepted leaving in harmony a dialectic of existing socio-political system?

**NOTES**
1. In this paper the Western concept of the TFV is referred primarily as to a Common Law based concept where it originated.
2. Article 2 requires that a company’s financial statements must be drawn up in accordance with the Directive and that they must give a TFV. Should following the rules of the Directive *not be sufficient* to show a TFV, *additional information* must be provided. Should, in exceptional circumstances, following the rules of the Directive be incompatible with the TFV requirement, the rules of the Directive must be departed from.
3. The translated international accounting standard no 1: Presentation of financial statements (1997) refers to the notion of **truthfulness** [*rzetelność*]. Art. 15 explains that the **true** presentation can be achieved through compliance with international accounting standards.
5. In contrast, in countries with well-established market economy, the auditor may presume a legal compliance unless otherwise alerted, transcending concerns to potential litigation (Bailey, 1995).
REFERENCES


Międzynarodowe Standardy Rachunkowości (1997) [International Standards of Accounting], Polish version.

Międzynarodowe Standardy Rewizji Finansowej [International Auditing Standards], Polish version.


Rozporządzenie Ministra Finansów z dnia 14 czerwca 1995 r. w sprawie szczegółowych zasad sporządzania przez jednostki inne niż banki skonsolidowanych sprawozdań finansowych [Ministry of Finance Decree 1995 on Detailed Rules for Preparation of Consolidated Financial Statements in Business Entities Except Banks].


Ustawa z dnia 2000 r. o rachunkowości [Parliamentary Act of 2000 on Accounting].

Ustawa z dnia 20 lipca 2000 r. o biegłych rewidentach i ich samorządzie [Parliamentary Act of 20 July 1994 on Statutory Auditors and Their Self Regulation].

Ustawa z dnia 13 października 1994 r. o biegłych rewidentach i ich samorządzie [Parliamentary Act of 13 October 1994 on Statutory Auditors and Their Self Regulation].

Ustawa z dnia 29 września 1994 r. o rachunkowości [Parliamentary Act of 29 September of 1994 on Accounting].


