

Have accountants been making up the law on 'true and fa...

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The [following comes from the latest PIRC Alert](#), issued by PIRC, a firm of investment advisers. I strongly suspect it reflects the views of my friend Tim Bush and because of its significance I reproduce it in full:

"When I use a word," Humpty Dumpty said, in rather a scornful tone, "it means just what I choose it to mean—neither more nor less."

Debate about the lawfulness of banks' defective accounts and the true and fair view requirement of the law, rumbles on. This has been heightened following the recent Bompas QC Opinion stating that there are significant problems with international accounting standards.

The core issue at stake is whether accountants should do what Parliament has intended them to do, or whether they have, literally, made up a set of rules to suit themselves? The question then arises, how could standard setters, auditors and the FRC get it wrong? What is the "true and fair view", the basic legal test that accounts must reach, actually for?

PIRC has compared what earlier key legal opinions that the FRC obtained in 1983, 1984 and 1993 actually say with an academic paper from 1993 by PwC professor of accounting at Royal Holloway College, Christopher Nobes FCCA, purporting to cite those [opinions](#)¹, and a 1993 Financial Times article citing David Tweedie CA (then at the FRC, and a former academic) that does likewise. Remarkably there is a fundamental mismatch between what the law actually is and what Tweedie and Nobes said it was. Nobes is explicit that what true and fair view means ("signifies") changes according to accounting practice, i.e. it is a dynamic concept with changeable meaning.

However the 1983, 1984 and 1993 opinions clearly state that true and fair view is fixed in meaning, for compliance with the Companies Act (which includes directors' solvency duties). Given that function, the content of accounts to attain that standard can change in a dynamic way over time, but the meaning is anchored by the law.

The Nobes/Tweedie interpretation creates quite simply a Trojan Horse. After the 1993 publications large swathes of the accounting profession ran with the line that the meaning of true and fair view can also change according to what accountants wish it to mean. However for the sake of doubt, another Opinion from 2001 says exactly the same as the 1983, 84 and 93 Opinions. The law had not changed by what Tweedie and Nobes said, and has still not changed. True and fair view is a dynamic concept that means the same it has since 1947: it is the test to comply with company law, which above all is a solvency act.

That misunderstanding appeared to have whipped control of the public policy agenda from Parliament and the judiciary to accountants, an incongruity when the whole reason for Parliament legislating in the first place was due to accountants getting things wrong so often. This has occurred again with catastrophic results in particular banks by the accountants literally circumventing the law for expediency. PIRC is surmising that the 4 months of silence by the FRC on the subject is because the FRC knows Bompas is correct. The accountants have not changed the law, the law is the same it always has.

[1] Opinion of Hoffman and Arden QCs for the FRC- ASB 1993

Now let's consider that just for a moment.

First, if accountants had not been so flexible we would not have had a banking crash, I am sure.

Second, we would not have the farce that an audit now means the boxes have been ticked, not that the accounts are true and fair - as I have long argued.

Third, we may well not have had some law changes reducing disclosure for small business that compromise solvency for others.

Fourth, we may have had country-by-country reporting as solvency risk is local.

I believe PIRC are right on this issue: it's time for the profession to say where it is.