Book Review

Corporate Financial Reporting: Theory and Practice, *Andrew Higson,* Sage Publications, London, 2003, pp xii+228.

The central purpose of accounting, as has been pointed out by *Littleton* decades ago, is to make it possible for persons to reach a calculated judgement of the success of the enterprise in rendering its services. In today's world, there are varieties of groups who are interested to know the financial performance of a corporate organisation. It is the financial reporting of a corporate enterprise that serves the purpose. Earlier, the objectives of financial reports concentrated on the issue of ensuring that organisational assets were correctly accounted for to the owners of that organisation. However, over time the objective of financial reporting has broadened. The *Corporate Report* (1975) of the UK has rightly identified the objective of financial reporting as "... to communicate economic measurement of and information about the resources and performance of the reporting entity useful to those who have a reasonable right to such information." The users of economic information, needless to mention, give stress on the correctness of economic information. If the information supplied to them is presented in a wrongful way, it would certainly generate a substantial economic loss to them because they take decisions on the basis of such faulty information. Therefore, users should necessarily be assured with the authenticity of the information they are furnished with. The critical role of external auditors that they are required to perform in providing the said assurance to the external users of financial reports is particularly important while judging the reliability of financial reporting of corporate entity. External auditors may be considered as a third party in the accountor-accountee relationship as elaborated by Yuji Ijiri.

The present book is built around the premise that to understand financial reporting, it is necessary to understand the motivations of management, and the work of the external auditors. According to the author, to understand the financial statements, one needs to appreciate the auditors' work and opinion, and, conversely, to understand the auditors' work and opinion, it is necessary to appreciate the scope and limitations of the financial statements. Auditing is not just about vouching the contents of the accounting records but it is significantly important to understand accounting data in context. The book seeks to explore the interdependences between financial reporting and auditing.

The book is divided into ten chapters that are well integrated. Chapter 1 is introductory chapter and it deals with the scope of the problems facing financial reporting. The current issues like globalisation, development of knowledge economy, the rise of corporate governance and their possible impacts on financial reporting are also discussed in this chapter. Chapter 2 examines the notion of 'accounting theory' and discussions are done noting that this phrase is usually used in the sense of financial accounting and financial reporting. The next chapter gives focus on the development of accounting and corporate reporting. It also emphasises the importance of viewing financial reporting in the context of corporate governance, and not vice versa. The more recent developments in financial reporting and the regulation of accounting are dealt with in chapter 4. It examines the development of the belief that the objective of the financial statements is to enable users to take economic decisions and to enable them to make their own predictions of future cash flows. The next chapter gives stress on, while discussing the development of the company external audit, how the external audit has changed over time in line with changes in the business environment.

The next chapter i.e. chapter 6 explores the management-auditor relationship and the chapter suggests that the external audit may properly be viewed as the audit of motivations. Chapter 7 examines the message the auditor is trying to communicate at the end of the audit through his audit report. The next chapter suggests that the possibility of a financial reporting expectations gap which results from a financial statements expectations gap and an audit expectations gap.

The penultimate chapter (i.e. chapter 9) seeks to offer, after having identified the financial reporting expectations gap, an alternative basis for the construction of a conceptual framework for external corporate reporting. In the concluding chapter the author has identified 'the corporate communication of performance and risk' as the alternative conceptual framework, referred to in previous chapter, and identifies some areas which are required to be developed in order to tackle problems associated with construction of alternative conceptual framework.

The book has been written in a very well-integrated manner and it never slips from the original tune , identified by the author as " to understand financial reporting, it is necessary to understand the motivations of management" and while discussing elaborately management-auditor relationship in chapter 6, the author has rightly argued that there may arise potential for bias on the part of management in course of preparing financial reports because they used to be relied heavily upon personal judgement and estimates. Therefore, it is not really the duty of external auditors to eliminate such biasness. In present day's context, the auditors are often criticised (after the mishaps of Enron, World-Tel) for failing to detect a fraud and its effectiveness is now under question. The author has argued nicely by saying," ... it may be cold comfort that if things are bad now with the external audit, they would probably be much worse without it"(p.132).

The book is written in lucid English and is easy to understand. The author has used a vast reference while trying to establish his own viewpoint to a particular context. These can be a source of further researches in the area of financial reporting.

Finally, the external auditors do an audit and provide a report on their opinion of the truth and fairness and other properties of the financial statements. The effect of this is that investors and others have a level of assurance from the auditors that the financial statements are credible and reliable. The International Standard on Assurance Engagements (ISAE), issued in June 2000, provides an overall framework for assurance engagements intended to provide either a high or moderate level of assurance. It may be said that the quality of the book would increase further had a chapter been devoted to examine how far that framework be useful to enhance the quality of audit report of external auditors and how much it will contribute to make the said report free from the biasness as referred to Chapter 6.

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