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An Analysis of the Concept of True and Fair View In Accounting: Global Perspective

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Abstract: *This study examined "an analysis of true and fair view concept in accounting: global perspectives" It explores the position of the concept of true and fair view in accounting in UK, Greece, Islamic perspective and impact of the concept during the financial crisis. The data sources consist of the use of established literatures in the areas under review from various sources. The paper found that the concept of true and fair view is a vital concept and statement describing the financial statement 's position as enshrined in various regulations and standards regulating accounting practices in the world by those countries considered for this study, and that it is not contrary to Islamic shari'ah. While its expression during economic downturn was not encouraging as a result of the sharp practices engaged by various organizations and which contributed to the presentation of window-dressed financial statements. Therefore, the paper recommended that the existing regulations should be improved and that the regulatory agencies and standard setters should thoroughly review the lacuna noted to meet the current realities. Also, the auditors must always be cautious when expressing an opinion of true and fair view and should validate the definition of true and fair view where there is a divergence from the regulations and norm.*

Keyword: Shari'ah, true and fair view, accounting standard, international accounting standard

Introduction

The definition of true and fair view is widely common as a language used by qualified accountants and auditors that connotes the expression of a financial statements opinion. The key aspect of the financial statement of the organization according to the International Financial Reporting Standard is the principle of true and fair view. Accounting Practice has confirmed that entities are expected to maintain financial records to ensure that the financial statement presented by them offers true and fair view of the accounting and financial condition of the company.

The seriousness of the problem of counterfeiting of the true and fair view is illustrated by both the effects of large-scale fraud and the prevalence of data misrepresentation activities spread in the majority of relatively small companies to many regions. After the scandals of a number of prominent European and American companies, the battle against creative accounting, which is definitely against the true and fair view of accounting, takes on particular significance. Corruption situations, attempts to change the tax burden are based on bookkeeping, although it is only a method for achieving the goals but also based on professional judgment and, in particular, on the application of general procedures. Rathi, (2009) said that when the company has a single auditor with robust goodwill, it may be impossible and practical to express a true and fair view opinion, even if it is done, it will trigger anomalies and deficiencies.

Every bits and pieces of financial statements, not just income and stock capital, should be genuinely and reasonably investigated. The perception is valid because it discloses the real state of affairs. Fairness defines the use of accounting procedures, when they are applied in the appropriate manner, the view is not only valid, but realistic. There are various estimation methods, such as the property estimation methods or the discounted cash flow method, and each of the methods in theory leads to a different result. It is apparent that in exercise, persistent manipulation could be found. If you look closely at financial statement problem, it can be deduced that it is not only an accounting problem. It is especially true in the management situation of the national accounting systems.

The 2008 Global Financial Crisis (GFC) took into account the role of financial reporting in times of financial distress and contributed to key deliberations on instruments, norm setters, and scholars, from the press to policy-makers around the world (Sikka, 2009; Cooper, 2015; Paolucci & Menicucci, 2014; 2016). The concept of true and fair view was a long debated issue during the crisis period, as its application was repeatedly declared the significant determinant in the sequence of events that led to the crisis. In investigating the global financial crisis (Gorton, 2009; Barberis, 2011), scholarly attempt centered on defiance of theoretical and empirical work defining the role that the concept of true and fair view plays in worsening the credit crunch. There are at any rate different assumptions and, of course, different perspectives. Several analysts see the concept of true and fair view as a measurement approach in banks ' financial statements for reporting financial instruments.

Against this context, this study's main objective is to explore the idea of true and fair view in global perspective accounting. The specific aim is to examine the concept of true and fair views in United Kingdom, Greece and Romania, as well as the Islamic perspective of the concept in order to appeal to subsist literatures and relevant materials available and to be of immense importance to accountants, auditors, shareholders and other researchers in the field of accounting.

2. Review of Literature

2.1 True and fair view concept

'True and 'fair' are part of a long list of ambiguous words used by law to define a standard for external financial reporting. The lack of definition allows the use of qualified judgment and meaning-setting. These words and phrases were described as 'true and fair view' as weasel words (Henderson, 1985), but as 'rational man,' the terms used by the legislators as a catch-all to satisfy the requirements of any aspect unintentionally or intentionally left out by the legislation. Such terms require that those involved in the process have an element of professional judgement. We also say that it is essentially up to the courts to determine what is true and fair, just, substance or rational in the end. The intent behind the legal use of such terms is related to a larger moral stance of society in its efforts to govern the use and/or abuse of power by allowing for decision based on social, as well as legal, values. Unless the authority to determine truth lies with the government, the authority can be absolute, leading to the vague interpretations of truth Geoge Orwell used in 1984. Though, understanding of common law is paramount, the 'rational person' still has the potential to argue his or her case. (Kirk, 1999).

Hence, no authoritative interpretation of the concept of true and fair view was given. Some approaches to the definition consider 'true and fair view' in relation to its constituents (Cowan, 1965; Lee, 1982). Chastney (1975) raises the question of whether the terms true and fair view are more than their separate parts together, and suggests that none of them presupposes the other. Although the United Kingdom (UK) Parker and Nobes auditor survey (1991) concluded that the majority of auditors distinguished between the terms ‘true' and 'fair,' their 1991 survey of United Kingdom (UK) directors found most of them to see 'true and fair view' as hendiads. Neither 'true' nor 'fair' lend itself to precise interpretation. The nature of reality, whether it is absolute or subjective, whether it exists as a material, as an incontrovertible entity, or as an interpretation, whether it depends on or is independent of the believer / observer, and whether any argument can be proved or merely falsified are all aspects related to accounting theory and research (Covaleski & Dirsmith, 1990; Chua, 1986; Hines, 1988; 1989).

‘Fair’ (and ‘fairness’) is subject to varying degrees of interpretation and application (Chastney, 1975; Monti-Belkaoui & Belkaoui Riahi, 1996). Truth and fairness can differ from time to place, which may be due to the context in which they exist. That trend is not surprising in a socially constructed and building discipline such as accounting. Thus, when Ryan (1967) explains 'true and fair view' as a slippery term as he defines the truth of concepts using emotional language where situations can dictate interpretation and meaning rather than description.

Chastney (1975) suggests that fairness means that; financial reports should present information both impartially and in a manner that a reader can clearly understand, in order to achieve a true and fair view. The American Institute of Certified Public Accountants The American Institute of Certified Public Accountants (AICPA) 1986 concept of fairness in accounting relates, however, to the application of the decision to existing law, and concerns fairness in presentation rather than fairness as equality between different interests (Monti-Belkaoui & Riahi-Belkao, 1996). Like Lee (1982) and Rutherford (1985), Walton (1993) tends to explain 'true and fair view' in terms of generally accepted accounting principles and not accept the concept as an independent quality. Such definitions depend on accepting that a 'true and fair view' amounts to consistent application of accounting principles. This point of view has gained ground amongst the professional accounting authorities. Unlike Lee (1982) and Rutherford (1985), Walton (1993) tries to clarify in terms of commonly accepted accounting standards 'true and fair view' and does not embrace the definition as an independent standard. These concepts rely on agreeing that a 'true and fair view' corresponds to clear accounting standards being applied. This view has gained amongst the professional accounting bodies.

2.2 True and fair view and accounting standards

True and fair view is not just a mere add-on to accounting principle, but the aim of the principle is to provide the definition, evaluation, review and disclosure of particular aspects of financial statements in a manner that reflects economic reality and therefore provides a fair and reasonable perspective. Accounting standards are reached after complete due process and wider consultation. Further reviews are carried out to ensure that international financial reporting requirements follow the European Commission's approval criteria for ensuring that they offer true and fair view.

Such procedures will result in accounting principles which are complied with in vast majority of cases when a true and fair view is given. The statement in International Accounting Standard 1 (IAS 1) that deviations from standards should be permissible only in "especially rare circumstances" should be understood in the context of the analysis and other processes preceding the issue of the

standards. It does not exempt directors from their legal duty to consider individual accounts if they are sure that they have a true and fair opinion, and that directors do not rely on it to avoid making the right decisions. Disagreement with a given standard does not in itself provide grounds for departure from that standard. Where the accounting rules specifically define a problem but the requirements are insufficient to adequately explain the issue, the solution is usually that of increased disclosure. Some companies have, for example, disclosed alternative metrics, such as adjusted earnings per share measures, where such disclosures were deemed necessary to provide a more detailed picture of their performance.

Nevertheless, if directors and auditors disagree with the idea of providing true and fair view under a particular accounting policy, they are legally obligated to adopt an acceptable approach, as this requires a deviation from a specified standard. As IAS 1 says, an entity can't rectify inadequate accounting policies by declaration. Such situations are more likely to occur when specific situations during the implementation of the applicable norm were not considered. IAS 1 paragraph 19 clearly includes a divergence from the specifications of a norm where conformity will interfere with the Financial Statements purpose. As to how this continues to ensure that expectations are overridden to give a true and fair view, there have been questions. Such issues arose in part because the conceptual structure of the International Financial Reporting Standards (IFRS) states that the purpose of the financial statements is to make them usable, and does not apply to the legal requirements that accounts reflect a true and fair view or be presented equally.

These concerns, however, are unfounded because, in the context of financial statements, the concepts of usefulness, truth and fairness are inseparable. For financial statements to be useful, they must have a true and fair view. IAS 1 para 24 explains that an accounting policy can conflict with the purpose of financial statements 'if it does not accurately represent transactions. "If it does not reflect the transactions faithfully, it does not reflect faithfully the transactions, other activities and circumstances that this intends to represent or may reasonably be expected to represent if a true and fair workaround is implemented, IAS 1 includes notification that the departure from a particular requirement is 'to achieve a rational presentation.

When a company departs from an obligation to have true and fair opinions, and the rationale for the departure and its implications are clearly explained, the Financial Reporting Review Committee will refuse to substitute its own judgment with that of the board of the company until it is satisfied that the board has acted properly. Cases where the bypass was used under IFRS were identified, both inside and outside the UK.

2.3 Auditors approach on true and fair view concept in accounting

The roles of an auditor when giving an opinion on a corporation's financial statements are specifically set out in Sections 393(2) and 495 to 497, Companies Act 2006. Such responsibilities include specifying that they agree the accounts offer true and fair view (section 495(3)(a)). The importance of this approach is clearly recognized in International Auditing Standards (ISA) (UK & I) 700 above, particularly in paragraphs 8, 9 and 11 (and supported in the application material at paragraphs A10 and A11). Against this background , it is clear that if auditors are to conduct their legal and ethical duties properly, they must stand back as they approach the completion of these accounts and consider if, taken as a whole and taking into account the concerns that they posed during the audit, the accounts do indeed provide an true and fair view.

3.1 True and fair view concept in accounting in the UK

The principle of true and fair view, which has been developed in the UK for many decades, ensures that the financial statements represent a business' economic realities and its financial transactions. The expectation is that the implementation of UK Generally Acceptable Accounting Practice (GAAP) or IFRS in virtually all cases would result in accounts offering a true and fair view. Nevertheless, some of the testimony heard by the House of Lords Select Committee on Economic Affairs during its inquiry into the audit sector concentration indicated that the true and fair view definition is being distorted or at odds with IFRS.

The Companies Act 2006 places duties on directors and auditors in respect of true and fair accounts. Directors shall not approve accounts that do not display a true and fair view and auditors shall form an opinion as to whether the accounts provide a true and fair view and make a statement to that effect in the audit report. The Companies Act itself does not describe true and fair, and legal judgments and jurisprudence filled this vacuum. In 2008, the Financial Reporting Council (FRC) received the most recent opinion on the true and fair principle from Martin Moore. He confirmed the importance of the true and fair principle for UK company financial statements, regardless of whether they are prepared under UK GAAP or IFRS.

To remind those concerned about the relationship between true and fair and IFRS, the Financial Reporting Council has published a paper that addresses the compatibility of accounting standards with the true and fair meaning and how they are related. FRC supports the assumption that the implementation of IFRS and UK GAAP results in true and fair accounts in all but exceptionally exceptional situations, but stressed that technical operation of the applicable accounting principles would not necessarily guarantee

true and fair accounts. Professional critical analysis is a vital element in planning all phases of accounts for it to reflect a true and fair view.

The FRC also deals with the notions of prudence and neutrality. Some witnesses before the Select Committee have suggested that IFRS could lead to imprudent valuations of assets , particularly for financial assets valued at fair value rather than cost. The FRC refutes this argument and maintains that prudence remains a significant concept in planning IFRS and UK GAAP reports. However, the concept of prudence has evolved over time and, as this makes accounts more reliable, greater emphasis is placed today on neutral information. Another essential fundamental concept for the preparation of accounts is content over legal structure. IFRS does not have this principle as an explicit prerequisite but the FRC says it would be incorrect to conclude that this principle does not have a role in IFRC. Implicitly, IFRC needs preparers and auditors to analyze the details of a transaction and ensure that the reported information is correct.

In summary, the FRC paper reaffirms that the true and fair principle is embedded within the context of UK GAAP and IFRS, and that their implementation will lead to financial statements presenting a true and fair view. Both UK GAAP and IFRS appear to deviate from a popular accounting standard on request, and it is the duty of managers and auditors to make the decision using their professional judgment. The FRC states that regulators, if the override is fair and well known, will be hesitant to question a deviation from accounting standards.

3.2 True and fair view concept in accounting in Greece

In Greece, the annotated 'fair view' principle is a basic concept, since the provisions of Article 42a & 3 of Law 2190/1920 state:

i. Where the provisions of the rules regulating the preparation of financial statements are not adequate to establish a reasonable opinion, any additional details required to attain this purpose shall be given.

ii. If, in special circumstances, the implementation of the rules regulating the preparation of financial statements is incompatible with the concept of 'fair value,' the fair value should be set.

iii. All departures shall be reported in the notes along with the explanations and details concerning their impact on the asset structure, the financial situation and the company's performance. By virtue of the above in Greece, the financial statement will provide important information to any interested user of financial information in order to obtain accurate and truthful image applicable to the financial statement. IFRS's compulsory foreign application is a concrete example of the latest measures to ensure reliable details. The overriding aim of implementing IFRS is to ensure that the "just view" of company on the valuation of the land, the financial situation and the profit or loss is applied. The premise is, in fact, that the underlying objective of financial statements is to demonstrate very clearly the "fair view" of the asset structure, financial situation and gain or loss (MacKenzie, 2010).The theory of justice requires, in particular;

i. The balance sheet contains all assets and liabilities which the company had at the time of the balance sheet. We should remember, that is, there is less or more assets and liabilities in the balance sheet than the company currently owns. Additionally, that funds actually received under the commonly recognized accounting concept in the "revenue" category.

ii. The balance of funds provided by real and correct sums after appropriate valuation in compliance with the law.

iii. The net balance of the funds came from the collection of homogeneous, identical sub-funds.

iv. The assets listed in the balance sheet are based on the degree of liquidation, while the liabilities are based on the degree of maturity of the liabilities in order to derive the financial status of the company from the balance sheet;

In the light of the other accounting principle, the real image does not comply with objective reality and in some situations, fundamental deviations from this theory occurs. Therefore, the laws regulating the valuation of assets are governed by prudence principle and do not reflect the true value of products (fixed assets at historical cost, inventories at the lower price between the purchase price and the current price, etc.). It follows from the above discussion that this theory defines the absolute but not the actual image resulting from the widely accepted accounting principle as it operates in Greece.

3.3 True and fair view concept in accounting: Islamic perspective

From an Islamic viewpoint, Mohamad (2004) noted that the aim of auditing and checking is to verify work phases, correct errors, reward those who do good and take action against the wrongdoers. He recommended that those involved in the preparation and presentation process should take corrective measures, i.e. self-monitoring. Moreover, it is important to provide internal oversight, which is inspection by the individual or by those with authority who are independent of the job or project. The external auditor will give an opinion on whether the accounts are true and fair (T&F), after completing the internal review process.

In summary, there is still a need for auditors, provided that a Muslim business owner, i.e. a business manager or manager, should be a person of high moral honesty, act fairly and should not be able to steal or deceive (Lewis, 2006). That's because humans keep making mistakes and thus need a second pair of eyes to make sure errors are reduced if robust Islamic auditing practice improves the accounting profession's credibility.

In Islam, the functions of al-kateb and al-muhtasib (auditor's) are very important, since they are directly involved in the process of account preparation and verification, respectively, and thus ensure that the accounts are T&F. As mentioned above, accountants and auditors must meet unique standards before fulfilling their duty to fully understand their duties and the value of the basic obligation to give a true and fair value. Since auditors are reliant on the statements of other people, they themselves must be trustworthy so that they can be trusted on giving an honest and reliable opinion on the quality of the company's accounts and thus on the trustworthiness. So they have to see themselves as trustworthy people, because their programs are practically worthless so morally corrupt if they don't.

Such standards by Muslim auditors typically expand traditional audit criteria to determine whether the prepared financial statements are adequate, reliable, complete, and reasonably presented. In its audit objective, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 1996) stresses that the aim of a financial statement is to enable the auditor to express an opinion on the preparation of the accounts in all material respects. AAOIFI accounting standards and relevant national accounting standards and procedures in the country in which the Islamic Financial Institutions (IFI) operate, in compliance with the Shari'ah rules and principles supports the auditor 's opinion that TFV in a financial statement enhances the credibility of that statement. Therefore, the underlying theory of the TFV concept might be to verify that, in addition to accounting standards and legal criteria, the auditors have exercised extra caution in performing their jobs in accordance with the principles of shari'ah.

In summary, the TFV has a legitimizing role under Islamic perspective because it carries on an auditor's duty to give an opinion that the audited information does indeed represent a TFV of the company's financial position for the purpose of sound economic decision-making by stakeholders (Campbell 2005). To sum up the above, the principle of true and fair view, which the auditors will maintain, together with the auditors' honesty further improves the consistency of the prepared financial statements from an Islamic view point.

4.1. The Consequences of Using the Concept of True and Fair Value During an Economic Downturn

True and fair view aspect definition allows banks to disclose losses that indicate a reduction in their equity. Any benefit or loss in financial processes assumed by an entity in any circumstance translates into an increase or decrease in equity of its shareholders. Therefore, its capitalization is changing or deteriorating. In addition , the idea of true and fair view by Benefit or Loss means reporting on balance sheet assets and liabilities at fair value and defining adjustments in true and fair value as gains or losses in the statement of income.

The asset revaluation does not impact the gain at true and reasonable value by the full profit model, and the surplus revaluation oils the equity. Then, for their credit worthiness ratio to be preserved, banks need to boost their extra capital and lower their loans under dejected market conditions. The situation would create a curved downward trend with compulsory asset sales and a further decline in their current prices under the theory of fair and equitable viewing, possibly resulting in inflated balance sheet values. In other words, true and fair view value would also produce an increase in the propensity of financial variables to fluctuate around a trend during the lending of the economic cycle as more concentrated declines in bank income and capital during downturns will help over credit reduction.

True and fair view definition implies that market prices are the primary basis for determining the worth of an asset or a liability, but that fair values inevitably fall during a market crisis. In the case of assets and liabilities that are not sold regularly or do not have a market, even though they have not lost their vital value, the fair values fall. Whether the loss is real or fictitious, financial institutions must either recognize or report the reduction in the value of their income statement as other major revenues. It is important to emphasize that asset prices guarantee a corresponding but contrary propensity of financial variables to fluctuate around a trend over the impact of the economic cycle, which is the opposite of broader fluctuations. Contamination method is the

full opposite of upgrades. It is especially the case during economic booms as bank assets and income priced at market levels also increase as asset prices start to rise and the acceleration of the financial market cycle has unfair implications for banks.

4.2 Effects of the concept of true and fair view during a financial crisis

The key strong resistance to the idea of true and fair view is that it may cause market volatility. Since most assets and liabilities are measured at true and fair value, financial instruments valuations are more difficult and becoming increasingly unreliable as a result of non-liquid nature of the markets and the emerging volatility of values recorded on the balance sheets. Therefore, there are two main reasons to clarify how true and fair value leads to market volatility. The first is that true and fair value will cause impurity on financial markets because financial institutions have to sell assets at a lower price than the critical value, their primary potential cash flows or the sum for which they will eventually be sold (SEC, 2008) because the prices of such forced sales are important for other institutions that are approved by true and fair value.

The second point is that true and fair value increases banks boom leverage through asset write-ups. (Adrian and Shin, 2008a). This makes financial system more vulnerable through reinforcement of financial crisis. Therefore, when there is downward pressure on financial assets prices by large supply, there's the potential for further asset sales, and this reduces asset prices and contributes to weaker balance sheets. This is the reality during a time of economic crisis in assets are directly impacted as a result of fall in their market prices. This inhibition of growth of credit is therefore caused by disproportionate losses.

4.3 Argument on the Role Concept of True and Fair View Plays During Financial Crisis

The financial crisis gives rise to the idea of the notion of real and equal accounting principles and becomes a central principle in the framework of financial accounting policy led by particular FASB and IASB members. To its advocates, fair value is more than just a technological aspect and represents a transformation that is universal in objective (Power, 2010). According to Glavan, (2010) Fair Value is a theme with support throughout the world with growing interest in accounting literature till date, the extent to which fair value in accounting played a role in triggering the financial crisis has not been thoroughly investigated.

Jarolim and Oppinger, (2012) say that the results of the different studies performed by the researchers are not in agreement. To date, the focus of the debate has been on how the adoption of the theory will cause a financial crisis and whether its effect on the economy will play an important role in causing instability and market volatility. A variety of academic and non-academic research argued that account with fair value triggered a financial crisis and exacerbated it, harming financial institutions' equity positions.

There is no doubt, according to rivals of the idea, that applying the theory of true and fair perspective when considering financial instruments in banks ' financial statements (Whalen, 2008; Wallision, 2008) has aggravated financial uncertainty by triggering procyclicality and the vicious cycle of asset-fire selling during the crisis (Whalen, 2008; Wallison, 2008).In its claim, Mala and Chand (2012) claimed that the important findings could easily be viewed as finger-pointing since the fair value account was regarded as a key player in the GFC. Some opponents, however, argue that fair value account increases the uncertainty and increases the business cycle consequences.

Though, many studies offer different views on the use of the idea of true and fair view in times of crisis (Bezemer, 2010; Arnold, 2009; Roberts and Jones, 2009; McSweeney, 2009) but others go deeper into other theoretical frameworks such as sociological behavioral theories, economic value theory and equal understanding of representations. Some other scholars gave a different point of view about equal worth during a period of crisis, For example, Bezemer (2010), who adopted an accounting model approach, while other scholars highlighted the relationship between the position of the principle of true and fair view and auditing aspects of the financial crisis. Nevertheless, Allen and Carletti (2008) stressed that true and fair view can result into unwarranted bank failures through inaccurate current prices when markets are illiquid. This is the most frequently supported and suitably probable mechanism by which true and fair view could affect a financial crisis regarding the relationship between accounting rules and regulation of bank capital (Strampelli, 2011).

Palea (2014) argued that best possible value indicator are not always a function of market prices since applying the concept of true and fair view raises the apparent well-being of bank balance sheets at the top of the cycle and lowers it to an equivalent degree at the bottom. Fair value therefore apparently increased importance but decreased reliability. From his own view, Magnan (2009), a troubled era about the importance of true and fair value and its effect on bank balance sheets and capital requirements, may see a major trade-off happening as banks may be forced to write down the value of financial assets when losses are incurred and that marking assets and market-price liabilities can logically exacerbate downward spirals. This is the most widely advocated and rightly likely mechanism by which the principle of true and fair view could affect a financial crisis with regard to the relationship between accounting rules and bank capital (Strampelli, 2011).

5. Conclusion and Recommendations

The proof from the above discussion indicates that in any ramification the principle of true and fair view consideration in accounting is crucial and sacrosanct. This is because it represents the auditors' view on the financial statements that are brought

before them. This support the backing of the concept by legislations, standards and guidelines from the world's different bodies that are to be implemented by the preparers, auditors and all those responsible for governance. This is because the expression of the "true and fair view" opinion shows that the financial statement is free from material errors and mistakes and where such errors cannot be ascertained on a long-term basis as in the case of Enron, Cadbury and others, the implications are always disastrous and sometimes lead to the collapse of such an organization.

The study therefore recommends the following:

1. That the available regulations be strengthened and lacuna noted should be thoroughly reviewed by regulatory agencies and standard setters to meet the current realities.

2. The auditors must always be cautious when expressing an opinion of true and fair view and should validate the definition of true and fair view where there is a divergence from the regulations and norm.

3. Preparers and auditors should take their time to ensure that the reports as a whole provide a true and fair view and to ensure that compliance with an accounting principle is adequate at all times.

4. Director of organizations must provide additional information that will strengthen the true and fair view of their organization activities where necessary and that the attention they provide to these issues is reflected in their discussions and documentation.

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