

Free Translations: Analyzing the implication of disclaimers attached to IFRS compliant translated financial statements within the European Union  
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## **Introduction**

International convergence has been a constant argument throughout the last two decades. A focal argument made for International Accounting Financial Standards (IFRS) is based on the notion of comparability for users of financial statements (see Ball 2006). With a single set of high-quality standards, comparability is supposed to be reached because every entity will use the same framework and provide transparent financial information. However, this argument is limited to the policies itself. The idea does not incorporate the issues that are inherent in cultures and their languages (Sunder 2011; Zeff 2007). Policies will have no comparability without first translating these difficult concepts and acknowledging their cultural differences. Once this process is finished, companies need to apply those standards in a consistent manner while also consistently translating their financial results. This process has yet been substantially analyzed.

IFRS allows users access to companies throughout multiple jurisdictions rather than only in their nation. However, linguistic differences hinder this process. The question that needs to be asked is how well are these users able to decide on which companies to fund or invest in? In order to practice due diligence, they will need access to financial information that is translated into their own language. For example, an English investor may want to invest in French companies, but will most likely avoid foreign investments unless companies provide English-translated financial information.

Currently, companies are providing 'free translations' where they translate their financial reports into English. This allows English users the capability of analyzing companies in other jurisdictions. The shortcoming of this endeavor is that companies also attach a disclaimer to the translated financial statements. Essentially, the disclaimer protects the company from lawsuits because of any issues related to the translated financial reports. Furthermore, there is not a specific location, creating even more of a challenge in identifying whether they are translated or not.

To the authors' knowledge, there are no regulations within IFRS that convey how companies can translate their results in order to encourage outside English users. Furthermore, literature has focused on issues with countries translating IFRS standards that have adopted IFRS for the first time. No research has been published on the proficiency of companies translating their own results within their financial reports.

The purpose of this paper is to analyze companies within the European Union (EU) that are providing translated financial statements and to discover any issues or inconsistencies that may exist from this process. We start with the relevant literature surrounding translation issues in accounting, followed by the current guidelines and regulations, methodology, research design, results, recommendations, and end with a conclusion.

## **Relevant Literature**

Limited literature has been written on the topic of accounting translation. Other professions, such as law and medicine, appear to have a deeper concern for the translation issue. This may be due to the constituents that have control of accounting policies are in large part English speaking, and,

therefore, not affected by translations in the same way as non-English speaking countries (Evans, Baskerville, and Nara 2015). The few articles written about accounting translation issues revolve around the topic of translating IFRS standards from English into a country's native language who are adopting IFRS. This paper differs from this research by analyzing companies' ability to translate their own results into English.

The importance of literature surrounding translation is based on the fundamental element of IFRS's claim to better comparability. This is often cited as one of the main advantages of IFRS global adoption (see Ball 2006). Barth et al. (2012) asserted that comparability is greater for firms that adopted IFRS. However, this was the result of statistical data without acknowledging the accounting language that is used to convey these results. Sunder (2011) and Zeff (2007) both contend that the claim of translated financial information's comparability has not been validated.

Some studies have now arisen that address Sunder (2011) and Zeff's (2007) concerns. Dahlgren and Nilsson (2012) found that IFRS standards translated into Swedish were not comparable. They found that translating 'impaired' resulted in the Swedish term 'nedskrivningsbar', which means 'possible to write down.' Even though part of the impairment concept involves a 'write down' the whole connotation of the impairment concept is not included within the Swedish term. Even when a word is comprehended, the concept itself may not be (Zeff 2007). Another such example is the French word 'faible', which is used to replace the English term 'remote' within IAS 31 and IAS 37. However, translating 'faible' back to English results in the terms 'light' or 'weak' (Tsakumis, Campbell, and Doupnik 2009).

Terminology differences may be easily understood by individuals with accounting backgrounds, but will be more troublesome to individuals with no accounting background. Those with an enriched background in accounting and competent in both of the languages involved in the translation process will provide better quality decision making (Holthoff, Hoos, and Weissenberger 2015).

Nevertheless, professional translators struggle with the translation process and the natural issues surrounding it. They must not only be proficient in both languages, but must also have a deep understanding of the accounting cultures that the standards are translated into as well (Baskerville and Evans 2011). This creates an extremely complex and burdening process. Furthermore, the professional translators need to be competent with IFRS standards and have a strong accounting background in order to fully understand what the concepts entail. Baskerville and Evans (2011) found that authors of translated accounting textbooks believe there is no exact equivalence when translating, and that issues will persist no matter how well the process is developed. Translating information will always have a certain aspect that is changed and will differ between cultures. In addition, Holthoff, Hoos, and Weissenberger (2015) found that accounting students in Germany that were proficient in English were more likely to use original English version rather than the translated German version IFRS standards. The German translation was considered not as accurate, and, by using the English versions, they would more appropriately follow the guidance the standard intended.

Walton (2013 Unpublished) provided the first insight into the issues regarding companies' translated financial statements. His study is derived from a section of the United States Securities and Exchange Commission (SEC) Work Plan in 2012 where they evaluated whether IFRS application is appropriate for the United States financial framework. In the section Walton evaluated, the SEC was focused on whether IFRS was comparable across numerous jurisdictions. Although the SEC was not focused on translation issues, their results may have

been affected by it. Only three of the countries used for this analysis used English as their primary language. Therefore, the remaining 19 countries observed would have been susceptible to the translation process (Walton 2013). The SEC Work Plan found that certain companies disclosed terminology that was not consistent with IFRS standards (SEC 2012).

In order to distinguish between inconsistencies of IFRS standards and ones caused by translation issues, Walton (2013) analyzed companies within France where English is not the primary accounting reporting language. The results validate the SEC Work Plan's conclusion that IFRS financial statements were not always comparable due to a degree of diversity in their presentations. Furthermore, the diversity exists within interpreting standards (i.e. companies' original financial reports) as well as companies' translations of their results (Walton 2013).

Our study differs from Walton (2013) by analyzing four EU countries: France, Poland, Italy, and Austria. Instead of analyzing both reports, the researchers focused on the translated results since neither researcher was competent in any other language than English. Therefore, a degree of biasness exists. However, it is important to note that the findings of this study portray the difficulty of comparing the works of individuals where English is the primary language to the works where English is a secondary language.

## **Current Guidelines and Regulation Concerning Translation**

### IFRS Foundation

Part of the IFRS objective is to "require high quality, transparent and comparable information in financial statements" (IFRS Foundation, 2013, p. 5). Having a single type of accounting system is complex enough, while adding translation issues further complicates IFRS Foundation's goals. In order to address the challenges arising from translating financial accounting standards, the IFRS Foundation created the Translation, Adoption & Copyright ('TAC') team. The purpose of this team is to help nations that are adopting IFRS and IAS standards with translation and copyright issues.

There are two steps for the IFRS translation process: (1) translation with the recommendation of using a professional translator and Computer-Assisted Translation (CAT) software; and (2) a committee review. In step one, the IFRS Foundation strongly recommends a professional translator to have strong skills of translating both languages in writing<sup>1</sup>. Furthermore, IFRS Foundation recommends the use of CAT software in the translation process. This technology is used to facilitate the translation process and save time and money. It uses a database that stores translated statements that others are able to retrieve in future translation processes (IFRS Foundation TAC, 3.20(b)) IFRS does not provide a specific software that should be utilized and leaves it up to the countries and TAC teams to determine whether resources permit its use. Step two designates a review committee to work with the TAC team in order to review the translation process. The coordinator of the review committee will provide monthly and annual reports about the translation process to the TAC team. Upon final review, the translation of the IFRS standards is approved by a committee vote.

IFRS Foundation emphasizes the importance of accurate translation and prohibits the translators and review committees from adding, reducing, or altering the substance of IFRS content. However, translation almost always requires something to be removed from the original

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<sup>1</sup> IFRS are issued in English. Therefore, professional translators must be competent in the English language and the target language IFRS is being translated to.

idea (Baskerville and Evans 2011). Furthermore, IFRS Foundation focuses entirely on the initial step of translating IFRS standards, but fails to have adequate review of implementing these standards and the results that individual companies interpret from them. Public companies offer translated financial statements without any criteria from IFRS Foundation and, depending on the country, from their local regulators. The issue that faces the IFRS Foundation is that they do not address how these financial statements should be regulated and reviewed. Although the country may have sufficiently translated the standards for their jurisdiction, this does not mean that companies will properly translate their financial statements back into the English language.

### European Union Translation Requirements

The European Union (EU) requires translation of IFRS into all member jurisdictions within EC 1/1958 (Holthoff, Hoos, and Weissenberger 2015). However, the EU has their own translation process apart from the IFRS Foundation. The translation process is governed by the Directorate-General for Translation of the Commission. Similar to the TAC team, the EU recommends CAT software and a professional translator to analyze the software's results (Evans, Baskerville, and Nara 2015). For this reason, it is likely that the translation processes alone will create inconsistencies between EU countries and those outside of the EU that rely on the IFRS translation process. EU countries will rely on these standards that may differ from the TAC team's requirements.

Although every country utilized in this study is part of the EU, each country has their own unique regulators that have distinct features and powers. For this reason, each country had different trends regarding the way financial statements were translated as well as the disclaimers used and the locations of them.

### French Regulator: AMF

French public companies are governed by the Autorité des Marchés Financiers—commonly referred to as AMF. AMF is an independent public body, and is similar to the U.S. Securities Exchange Commission (SEC) in regards to investor protection and setting regulations for the public financial markets.

AMF published the General Regulation that public companies must follow. The authors of this paper could not find anywhere within this document that provides a specific guideline for translating financial statements from French to English, or any other language. Furthermore, there are no guidelines on any requirements of attaching disclaimers to the translated financial statements. However, the General Regulation is a translated version and has a disclaimer of its own that states: “This translation is for information purposes only” (Autorité de Marchés Financiers (AMF), 2015). Therefore, it is difficult for an English user to determine with any certainty the requirements of French companies and the translation process.

### Polish

Polish public companies are governed by the Polish Financial Supervision Authority. The goal of this organization is to (Authority, 2016):

“ensure the proper functioning of this market, its stability, security and transparency, confidence in the financial market, and to ensure that the interests of the market's participants are protected.”

Based on their goals, the KNF should have some requirement on translated financial statements that companies under them provide. Users should be able to quickly identify whether the financial statement are official or merely for convenience. However, KNF does not have a translated version of their acts and laws that oversee their companies. This makes it extremely difficult for a foreign investor to determine exactly how these companies are governed, and, more specifically, what their regulations are on translated financial statements.

### Italian

Like KNF, the Italian Regulator, Commissione Nazionale per le Società e la Borsa (CONSOB), does not provide any guidelines on translated financial statements. Moreover, CONSOB provides a disclaimer like AMF stating: “Only the Italian version is authentic.” This creates numerous issues for users that do not speak Italian. They cannot research the appropriate laws and know that they are correct and free of error from the translation process. This again repeats the necessity that IFRS Foundation needs to consult with these organizations and create a system that ensures user protection.

### Austria

Lastly, Austrian public companies follow the Unternehmensgesetzbuch (UGB), or Austrian Commercial Code in English. Interestingly, the UGB has a specific section that relates to providing a duplication or other alternative type of financial statement, which infers translated financial statements. Under UGB Corporate Code 281.2, publications or duplications of financial statements that are not prescribed by law should have a heading that specifically states that it is not one of legal form. In addition, the law requires the company to not provide an audit report (Jusline Austria, 2016). However, as shown in the results, Austrian companies inconsistently comply with this regulation.

## **Methodology**

Factset was utilized to hand collect a list of public companies’ financial reports within the EU. The countries were chosen based on having a national language other than English as their primary reporting language. Some countries within the EU, however, allow for multiple languages for reporting purposes; Netherland recommends Dutch, but are able to also file them in English, French, or German (Choi and Meek 2011). This makes it difficult to determine precisely what countries use for their reporting language. Austria, France, Italy, and Poland were chosen since the regulators for each country either provided a disclaimer with regulations stating national language is abiding or they only provided regulations in the national language. Therefore, it was assumed that these regulators only accepted financial reports in the language that the laws were written. Moreover, they were selected based on being a part of the European Union and having a significant number of countries within the Producer Manufacturing industry. Producer Manufacturing industry includes the following sub-industries: Metal Fabrication, Industrial Machinery, Trucks/Construction/Farm Machinery, Auto Parts OEM, Building Products, Electrical Products, Office Equipment and Supplies, Miscellaneous Manufacturing, Industrial Conglomerates. Only one industry was used in order to mitigate any terminology differences that might occur from industries rather than translations.

Not all industries, as defined by Factset, had an even spread of companies between countries. Therefore, the Producer Manufacturing industry was chosen due to it consisting of approximately 20 companies each. In total, France consists of 63 public companies with the Producer Manufacturing industry, Poland had 66 public companies, Italy had 25, and Austria had 18—consisting of a total of 172 public companies within the Producer Manufacturing industry. Each company's website was searched to gain access to an English translated version, if any existed, of their original annual reports. Any company that did not have at least access to a translated version of a complete set of financial statements and the financial statement notes into an English version was excluded from the study. From this criteria, our sample population consisted of 21 French, 19 Polish, 15 Italian, and 13 Austrian public companies with translated financial statements and notes in English.

Since the study is looking at linguistic issues between multiple countries, the study requires a degree of judgment from the researchers. Both researchers use English as their primary language and are not competent in a secondary language within the study (i.e. French, Italian, Polish, or German). Therefore, a degree of bias exists to determine what constituted a linguistic issue. However, one researcher's language is based on United Kingdom generally accepted accounting principles (GAAP) terminology, whereas the other is based on United States GAAP terminology.

## **Research Design**

In order to effectively analyze the issues with 'free translations,' the study was separated into two parts. Part one consisted of analyzing which companies provided translated financial information and the disclaimers attached, if any. In the second part, the study analyzes the financial reports to determine if any inconsistencies exist between the results and what the standards require.

### Part I: Analyzing translated statements for disclaimer and location

Each of the 68 companies remaining were analyzed to determine if a disclaimer was issued within the financial statements. We then characterized the location of the disclaimer with the following four categories: (1) Beginning of Annual Report, (2) Consolidated Financial Statements or Notes, (3) Auditor's Opinion and Report, and (4) Other.

A disclaimer represented a phrase that implied or explicitly stated that the English statements were not the original. Due to no regulation on translated statements, there was not a specific phrase or term that was searched. For example, some stated that the statements were translated from their national language to English. Others stated that the financial statements were not the original. In the case of Austrian companies, a disclaimer referring to UGB Corporate Code 281.2 was observed as a translation disclaimer, since this disclaimer implied an unauthorized duplication.

There was no specific location where all companies provided their disclaimer. Therefore, we categorized them into four specific sections. First, the beginning of the report is meaning that a warning was given within the first couple of pages. More specifically, it had to occur before any major section that was included within the report. A company that discloses the disclaimer directly after the table of contents and before the first section of the report is a prime example of this category. Alternatively, some companies would place the disclaimer on the title page while

others somewhere between the title and before the start of the first major section of the report. For this reason, beginning of the report classification does not mean specifically on the first page (i.e. title or cover page), but merely before a start of a section such as management's report.

The second classification was labeled within Financial Statements and/or Notes. This classification included companies that provided a disclaimer somewhere within the financial statements (e.g. statement of financial position, statement of profit or loss, statement of cash flows, etc.), within the following financial statement notes, or if it was placed at the beginning or end of these sections. For example, this classification would be used for a company that provided a disclaimer within the section title page of consolidated financial statements.

A disclaimer located at the beginning, end, or somewhere within the auditor's report and opinion statements were classified as within Auditor's Opinion and Report. Majority of these classifications were found as either headings leading into the section or below the auditors' signatures.

Lastly, the other classification included all other areas of the financial reports, such as sustainability reports, management reports, etc. This classification was used when they did not fall into the other categories, but were still a part of the financial report.

These classifications were not consistent within the country or by the auditors. This trend made it difficult to determine who was requiring the disclaimer (i.e. management, external auditors, or regulators). Furthermore, some phrases hinted that the statements were not original or law abiding. For example, one company placed 'signed in the original' within management's report, yet still provides the names of the company's CEO. The other issue was in determining whether the disclaimer was towards translated financial statements or merely that the specific section was translated. Therefore, if the disclaimers addressed translation then they were classified as a company with a disclaimer in order to maintain consistency for Part II.

## Part II: Compliance with IAS 1 and IAS 7

Each company was categorized as a disclaimer company or a non-disclaimer company. The basis of this categorization was to analyze whether one of these specific categories resulted in the anomalies that the study observed.

This study looked in multiple areas for any anomalies that a company may have. First, each title of the main financial statements was documented (i.e. statement of financial position, statement of profit or loss, other comprehensive income, statement of cash flows, and statement of changes in equity). Since all companies analyzed were members of the EU, they all should comply with IAS 1: Presentation of Financial Statement. This standard was utilized to determine any irregularities with titles. In September 2007, IASB amended IAS 1 to include new guidance on the terminology of certain financial statements. In an earlier version of IAS 1, the terminology used for certain financial statements were balance sheet and cash flow statement, but now IAS 1 recommends the following titles: statement of financial position and statement of cash flows, respectively (IFRS Foundation, IN6). The new title recommendations were expected to better reflect the purpose of the financial statements. IAS 1 recommends the following titles for the remaining financial statements: statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the period. Although these are recommended, there is no specific requirements for what titles companies must use. IAS 1.10 states: "an entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement

of profit and loss and other comprehensive income” (IFRS Foundation A743). No examples are provided for alternative terms that can be used for the other financial statements. Furthermore, no clear guidance is given on how to create appropriate alternative titles. These leaves ambiguity to what non-native English speakers can use to translate their financial statements’ titles too.

Second, IAS 7 requires a separate line item disclosure of income taxes paid or received, interest received, interest paid, dividends received, and dividends paid within the statement of cash flows. These line items were analyzed for whether the disclosure was compliant, non-compliant, or other. The compliance category required the company to explicitly follow the disclosure requirements. A non-compliant category required the company to explicitly not follow the disclosure requirement, such as netting an item that is supposed to be separate or placing it into an area that is prohibited. If it was not unequivocal whether the company was compliant or not, then the company was placed into the other category. Meaning the other category was neither complaint or non-complaint because the disclosure of the items was not clear within the statement of cash flows or elaborated in the notes.

In regards to taxes on income, IAS 7.35 requires that “Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities” (IFRS Foundation, A801). Therefore, any companies that did not provide a line item for income taxes paid or received were considered to either have no cash flow arising from taxes or they were non-complaint. Another example of non-compliance would be if the company did not place it into one of the sections required (i.e. operating, investing, or financing) and, instead, placed it into the footnotes.

IAS 7.31 requires interest received, interest paid, dividends received, and dividends paid disclosed as a separate line item. There is no specific requirement for the location of interest paid and interest and dividends received. Each of these items can be placed within operating, investing, or financing. Dividends paid may be classified as financing or operating. Items that were missing and clearly should have been reported or disclosed improperly were considered non-complaint. For example, some companies netted interest paid and received rather than disclosing each as a separate line item. Other companies placed information about interest paid within the notes, but did not disclose interest paid within the statement of cash flows.

Third, the first line item disclosed on each statement of cash flows was captured. IAS 7.19 recommends companies to use the direct method, in which gross cash receipts and gross cash payments are disclosed. However, companies are allowed to use the indirect method, where profit or loss is adjusted by items that have a non-cash effect on profit or loss, such as depreciation. The reason for documenting the first line item of the statement of cash flows is to determine what method of cash flow the companies are using and how they disclosed profit or loss, if using the indirect method.

Lastly, all unusual terms were captured. Items were determined unusual if the disclosure item was not common in other companies throughout the EU and more specifically throughout the Producer Manufacturing Industry. Furthermore, a term was categorized as unusual if it was unclear of what the item represented. IFRS does provide any specific guidance on terminology that must be used. There are, however, certain sections that provide flexibility with the terms allowed in certain sections. For example, IAS 1.55 conveys that line items for heading and subtotals need to be presented in a way that makes the line items clear within the statement of financial position. There is no elaboration on this guidance. Therefore, it gives companies substantial scope on how to disclose each item.



## Results

### Part I: Analyzing translated statements for disclaimer and location

Numerous inconsistencies were found in regards to the companies that provided a disclaimer, the type of disclaimer used, and the location of the disclaimer. Companies appeared to follow benchmarks within the competition of the set country rather than following trends of the industry or big four audit firms. Moreover, certain firms provided ambiguous disclaimers or placed them in a location that made it difficult to determine the validity of the financial statements.

Overall, 70% of the firms provided a disclaimer and 86% provided an auditor's report. Of those that provided a disclaimer, 25% provided it at the beginning of the report, 75% provided in the auditor's report, 53% provided in the other category, and 47% provided in more than one location. Only one firm provided a disclaimer within the consolidated financial statement, and one other provided it within the notes. The firm that placed it within the financial statements was the only company to provide it in all location categories. The complete results are illustrated in Table 1.

**Table 1:**

Country	France	Poland	Italy	Austria	Totals
<b>Complete Financial Statements</b>	23	21	15	14	73
<b>Provided a Disclaimer</b>	18	9	14	11	52
<b>Provided an Audit Report</b>	21	14	15	14	64
<b>Beginning of Annual Report (Registration Document)</b>	9	2	4	0	15
<b>Consolidated Financial Statements</b>	0	1	1	0	2
<b>Audit Report</b>	12	7	14	9	42
<b>Other</b>	15	2	9	4	30
<b>More than One</b>	12	2	10	3	27
<b>All locations</b>	0	0	1	0	1

Austrian firms were the only ones that appeared to have a standard or regulation to follow when translating their financial statements. 79% Austrian public firms provided a disclaimer. Most of these disclaimers followed a similar statement as follows:

“This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditors' opinion may only be made if the consolidated financial statements and the consolidated management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code)”

A majority of the firms provided the disclaimer within the auditor's report. 82% placed it in the auditor's report, while only 36% placed it in the other category. Only 27% provided more than one disclaimer, and no companies provided a disclaimer within the financial statements, notes, or the beginning of the annual report. However, some firms did not make reference to the UGB Section 281(2) requirements. For example, one firm states at the end of the annual report: "This annual report is published in German and English. In cases of doubt, the German version shall take precedence" (Binder+Co.). This points out the inconsistencies still present even when there is some form of regulation.

Additionally, there is a key phrase within UGB Section 281(2) that states that no audit report should be included if the report is not of the original form (Jusline Austria, 2016). However, 100% of the Austrian public firms used in this study provided an auditor's report.

French public companies provide extensive disclaimers and usually provided them in multiple locations. 65% of French firms provided the disclaimer in more than one location. Likewise, 65% placed it in the auditors' report. However, no French public companies placed a disclaimer within the consolidated financial statements or the notes. Due to French companies having a requirement to report on environment, they typically had a disclaimer within these reports and the management's report to the shareholders. 82% of French public companies had a disclaimer somewhere within the registration document other than the beginning of the report, consolidated financial statements, or the auditors' report. It appears that French companies were more concerned about the other sections of their registration document rather than with the financial statements.

Polish public firms were the most inconsistent. Only 43% of the firms provided a disclaimer, while 67% provided an auditor's report. Of these, only 1 company provided a disclaimer at the beginning of the report<sup>2</sup>, only 1 firm provided it within the consolidated financial statements, 78% provided it within the auditor's report, and only 2 companies provided the disclaimer in more than one location. No firm had it in all four categories. A typical Polish disclaimer followed this disclaimer (Ceramika Nowa Gala S.A.):

"The above audit opinion together with auditor's report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail."

One Polish company provides a statement conveying that the document is a translation, but does not make a disclaimer. Rather, the company states: "The contents of these documents are decisive in case of dispute." (Elzab). The inconsistencies create a quandary for users determining whether a company's financial reports can be used or not.

Lastly, Italian firms were the most consistent in regards of providing at least one disclaimer. Only one firm did not provide a disclaimer. All of the companies provided an auditor's report. Of the companies that provided a disclaimer, 29% provided the disclaimer at the beginning of the report, 79% within the auditor's report, 50% in other, and 57% in more than one location. Surprisingly, one company disclosed the disclaimer in all four categories—the only firm to do so in this study, and it was the only Italian firm to have provided it within the consolidated financial statements.

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<sup>2</sup> Some companies split the report into downloadable sections, so they were not all complete annual reports but sections of them.

Italian disclaimers were the simplest in form. The disclaimers typically followed a phrase such as: “This report has been translated into the English language solely for the convenience of international readers.” (Compagnie Industriali Riunite SpA).

Every country appeared to have unique disclaimers, but appeared to disclose a similar concept that they are convenient but not law abiding. Furthermore, most companies tended to disclose the disclaimer in the auditor’s report, yet avoided placing a disclaimer within the financial statements or notes. One reason could be that the auditors required the disclosure. However, this solution does not address the fact that some companies would provide it in other locations but not in the auditor’s report.

Country regulators should force companies to provide clear disclaimers that will allow users to easily determine a financial statement as a translation. The disclaimer should give reference to the process of the translation as well as the third-party translator, if one is used. Lastly, companies should provide whether the statements have been audited or not. This will allow users to know that not only was the IFRS standards interpreted correctly but also that there are no unusual terms that cannot be determined.

## Part II: Compliance with IAS 1, IAS 7, and Unusual Terms

Part II consisted of analyzing the Titles, IAS 7 Line Item Disclosure Requirements, First-Line Item Disclosure of Statement of Cash Flows, and Unusual Terms. Results were separated into the sections analyzed and then separated by their category (i.e. disclaimer or non-disclaimer) and country of origin.

### *Titles*

The first items observed were the titles of the financial statements. Appendix A has the complete list of all of the anomalies found with financial statement titles.

In regards to the statement of financial position, numerous companies slightly deviated from the recommended title that IAS 1 provides. However, it is important to note that these titles still provided a clear understanding to what the financial statement represents. For example, one of the alternatives used for the statement of financial position was labeled ‘Financial Standing Statement’ (‘Polna’ Zakłady Automatyki, Poland)<sup>3</sup>. These labels do not appear to provide any ambiguity and are merely uncommon to other titles that are used for the statement of financial position<sup>4</sup>. 47% of the total companies provided an alternative title from the IAS 1 recommendation of ‘statement of financial position.’ Only one company provided a title that did not clearly identify the financial statement by labeling it ‘Consolidated Financial Statements’ (Groupe Gorge, France). The other statements for this company were labeled differently, which implied—at first look—that the ‘consolidated financial statements’ was a summary encompassing all the statements. By titling it this way, the company may confuse users as well as create less or possibly more prominence to this specific financial statement.

Likewise, the statement of profit or loss titles appear consistent—with only two companies providing abnormal disclosures. One company used the alternative title of ‘Statement

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<sup>3</sup> Other alternatives were as such: Balance Sheet, Statement of Financial Condition, Statement of Financial Situation, and Statement of Financial Standing.

<sup>4</sup> One company combined two alternative labels from statement of financial position and titled this financial statement as the Balance Sheet and Financial Position (Sabaf, Italy).

of Comprehensive Income.’ However, they used this title even though the statement of other comprehensive income was a separate statement (Faurecia, France). This classification could mislead investors to believe either there was no other comprehensive income or that the statement includes all sources of income. Another company provides two statements of profit or loss and labels them income statement by function and income statement by type (Touax, France). This disclosure appears to improperly follow IAS 1.99 where it states that the line items of this statement shall be classified by “their nature or their function within the entity, whichever provides information that is reliable and more relevant” (IFRS Foundation, A763). This company provided both nature and function rather than one or the other. Another ambiguous aspect of these statements is that the other comprehensive income statement appears as a separate statement but is only included on the same page as the ‘income statement by type.’ In other words, it appears that the other comprehensive income is only a part of the income statement by type rather than the income statement by function as well. This may mislead users to ignore the other comprehensive income statement or not realize that it is not included within the statement by function.

The statement of other comprehensive income appeared to have the most inconsistent and in some cases the most ambiguous titling when compared to the other financial statements. Some titles were more clear about the content the statement contained than others. For example, one company labeled the statement as ‘Other items of Comprehensive Income’ (Pfleiderer Grajewo, Poland). While another company labeled it as ‘Other Elements of the global profit/loss’ (MGI Courtier, France). The former title provides a clear understanding of the content of the financial statement than the latter. ‘Other elements of global profit/loss’ does not provide a clear understanding to what it contains. It implies that it contains income from all associates and joint ventures that are a part of other countries, but does not necessarily convey that it includes items that will not be classified within the profit or loss statement, or will be classified within the profit or loss statement when specific conditions are met (IAS 1.82A, A760), such as unrealized gains or losses, or impairment loss/revaluation surplus.

The statement of cash flows and the statement of changes in equity had the most consistent titles disclosed. Only one company titled the statement of cash flows as the ‘Cash Flow Table’ (MGI Courtier, France). Another company titled their statement of changes of equity as ‘variation of stockholders’ equity.’ Although both of these titles were unusual, it was still rather simple to identify what statements these titles were representing.

### *IAS 7 Line Item Disclosures*

In this step, five line items were analyzed for their consistency of disclosure: income taxes paid, interest paid, interest received, dividends paid, and dividends received. Table 2 illustrates the results of compliance, non-compliance, and other.

Overall, there was a large degree of non-compliance for both disclaimer and non-disclaimer companies. However, there appears to be a slight increase for companies with no disclaimer in compliance with each line item disclosure. In addition, there appears to be more ambiguity with companies that provide a disclaimer. This is observed through the results on Table 2 that show companies as the other category, since it could not explicitly be determined compliant or non-compliant. The complete list of anomalies can be found in Appendix B. These results are not conclusive due to there being too much ambiguity with how these companies

disclosed each item. Therefore, future research will have to find a more precise measurement of compliance and non-compliance in order to avoid categorizing line item disclosures as other.

**Table 2:**

<u>Disclaimer</u>			
	Compliance	Non-Compliance	Other
Income Tax Compliance	69.23%	13.46%	17.31%
Interest Paid Compliance	53.85%	21.15%	25%
Interest Received Compliance	36.54%	7.69%	55.77%
Dividends Paid Compliance	78.85%	9.62%	11.53%
Dividends Received			
Compliance	19.23%	25%	55.77%

<u>No Disclaimer</u>			
	Compliance	Non-Compliance	Other
Income Tax Compliance	85.71%	0%	14.29%
Interest Paid Compliance	66.67%	14.29%	19.05%
Interest Received Compliance	47.62%	14.29%	38.10%
Dividends Paid Compliance	85.71%	9.52%	4.76%
Dividends Received			
Compliance	42.86%	33.33%	23.81%

### *First Line Item Disclosed in Statement of Cash Flows*

Interestingly, all companies in this study used the indirect method. Therefore, all the companies should have started with some form of profit or loss based on IAS 7 (e.g. Net Income before taxes or Net Income after taxes). However, three companies started with the beginning cash and cash equivalents for the year. These three companies do not follow the normal procedure of reconciling the beginning cash and cash equivalents with the ending cash and cash equivalents at the end of the statement of cash flows. The ending should summarize the data through this reconciliation. Rather, these three companies somewhat distort their reconciliation by having the beginning cash flow removed from the ending, which does not allow users to quickly analyze the overall effect of cash flows between periods.

### *Unusual Terms*

It is important to note that results of what terms appear unusual will differ between professions (Walton 2013). As accountants, we have a different background in the terminology we are accustomed to than financial advisors. Even the location of schooling will cause different results. For example, schooling in accounting terminology in the United States is different than that in the United Kingdom even though they are both English oriented.

Our results show that most companies did not appear to excessively disclose unusual terms that were difficult to comprehend the function of the line item. They appeared to follow benchmarks that the industry followed within the EU. However, there were a few exceptions where a company would provide multiple disclosures that were ambiguous. For example, Stocks and WIP was a term that was used for inventory, Value Added for Gross Profit, and Global Income for Total Other Comprehensive Income, inter alia (MGI Courtier, France). This is a prime example of how one company appeared to translate their financial statements rather poorly. Appendix C has a complete list of the ambiguous terms found.

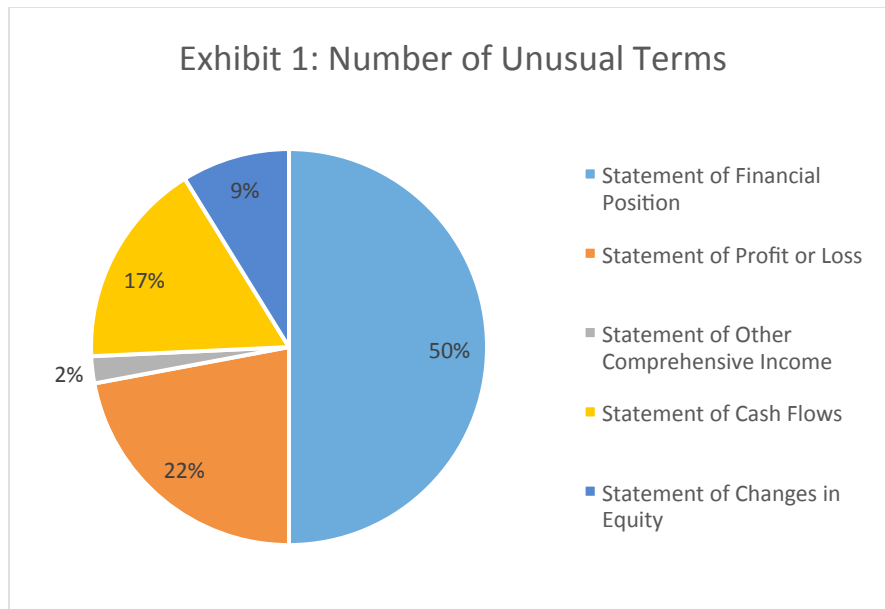
The results of this section illustrate that translation is not a general issue. However, the lack of guidance permits some companies to take advantage and provide poor translated financial statements and exploit the notion of comparability. A few companies would provide notes to the terms that were unusual, which would provide clarification to the meaning. However, other companies—such as the examples above—did not provide notes that let the user comprehend the line items function. This leaves room for user error when an individual decides to guess on what the content means, and may end up incorrectly identifying line items because of this extra step.

Table 3 categorizes each company based on how many unusual terms they had within their financial statements. It appears that most companies had three or less discrepancies with unusual terms. Alternatively, relatively few companies appear to have more than four unusual terms. French and Polish companies appear the worst with unusual terms as they have the most companies with more than four unusual terms.

Table 3: Companies categorized by amount of Unusual Terms

Country	0	1	2	3	4	5	6 or more
France	11	1	2	2	2	4	1
Poland	3	4	3	5	4	0	2
Italy	7	5	1	2	0	0	0
Austria	4	3	5	1	1	0	0

Next, we analyzed where the unusual terms were most common by categorizing them by financial statement. Results are shown in Exhibit 1. It is important to note that some words were counted twice if they were used in multiple financial statements. For example, Hybrid Capital appeared on the statement of financial position, statement of cash flow, and the statement of changes in equity for one company.



Our results show that 50% of the unusual terms found in this study were within the statement of financial position. This is most likely caused from the statement of financial position containing the most terminology compared to the other financial statements. Therefore, more room for error was probable.

Results in part two express two main findings. First, companies appear to misinterpret IAS 1 and IAS 7. Whether this is from the translation process or from a lack of regulation is unknown from this study. We believe that a degree of the issue lies in part of both lack of sufficient guidelines on translations and a lack of stringent regulations to enforce IFRS standards properly. Secondly, our results show that there are numerous companies that have adequately translated their financial statements, and, thus, substantiates the claim that translation is possible to meet a high degree of quality, transparency, and comparability. However, there are still numerous companies that disclosed unusual terms, which expresses the necessity of having a set translation process.

### **Recommendations and Limitations**

Numerous issues caused limitations within this study. The main limitation of this study is that there are not specific laws or regulations within IFRS that explain how companies must translate their financial statements, or the disclaimers that they should provide. Trying to determine what individual country regulators enforced was just as challenging. They either did not provide an English version of their regulations, or they provided a disclaimer on them as well. Without specific guidance, there was no concrete way of determining whether a company, without a specific disclaimer, was translating their financial statements and having them audited. Results may be different or inaccurate if some companies never translated their results because English is their primary language used for business.

IFRS convergence has greatly reduced the terminology differences between countries, which has led to a higher degree of comparability. Yet, there is still areas that need improvement. Professors should be able to provide students an ample IFRS experience through knowledge of country regulators, cultures, and other differences that affect the translation process.

In order to make this process more efficient, IASB and national regulators need to implement their own guidelines on translating financial statements. Furthermore, regulations need to be made accessible in a language that matches the translations of financial statements. For example, the Warsaw Stock Exchange allows for companies to publish their reports in English or Polish, yet KNF does not provide their regulations in English. Therefore, there was no clear way of determining whether KNF also allows companies to publish their reports with them in English or Polish, or if that is solely allowed by the exchange and not the regulator.

IASB's current translation process of using the TAC team to ensure proper translation of IFRS standards is incomplete. Merely translating the standards does not ensure results are translated as efficiently as the standards are. Therefore, the standards may end up worthless and incomprehensible to English users when a poor translation is given.

Additional research into EU country regulations can provide further insight on translations. Austria is the only country within the study to have some sort of guideline that encompass translations. Nevertheless, Austria still does not provide any guidelines that specifically addressed translations issues. It involves duplications of publishing financial statements, which can be easily confused when it is translated into English or another language. Other countries within the EU may have benchmarks that can be further analyzed and facilitate IASB creating a more comparable translation process. Further research should analyze other EU country regulations to determine if a process already exists.

Moreover, IASB and regulators need to collaborate on a set location for disclaimers that will create an efficient process for determining whether a financial statement was translated or not. Furthermore, the disclaimer needs to be descriptive of what is entailed in the financial report. For example, the disclaimer should state whether the translated version was audited, and how the financial statements were translated (e.g. CAT software, professional linguistic firm used, or both). This can provide a user with further information about the reliability and quality of the financial statement being presented.

## **Conclusion**

The translation issue has mainly focused around standards. However, if issues are inherent in the process of translating standards, then surely there are as many, if not more issues, when individual entities decide to re-translate their results. For example, Dahlgren and Nilsson (2012) explained how Sweden used the term 'nedskrivningsbar' for impairment. However, this term means 'possible to write down' when translating it back to English. How successful are these companies at translating their results with more complex standards than what this study analyzed? And, what terms are they using for these disclosures? Regulators and IASB need to work together in order to create an effective translation process that works throughout jurisdictions. Having a general guidance should help alleviate some of these issues.

This study found that, for the most part, companies were rather consistent with translating their languages (i.e. in French, Polish, German, and Italian) into their English equivalent. However, there were certain companies that either struggled with finding equivalent terms or merely did not find it necessary since the financial statements may not have been law abiding—in the case of those that provided a disclaimer. Like Walton (2013) our results show that diversity does exist to a small degree because of companies translating their results and it is not entirely from interpretation of IFRS standards within their original financial statements.



Other issues are still under researched. This study found numerous inconsistencies that were not documented. For example, some companies provided a translated financial statement one year and not in the most recent year. This causes issues with the timeliness characteristic that is important within the IFRS Framework. Furthermore, the IAS/IFRS standards analyzed in this study were rather simple. Examining more complex standards that require more complex disclosures may expose more translation issues prevalent within the IFRS process. A coding process may be able to more effectively show where the translation issues are more prominent. Companies may have more difficulty in interpreting the standards and that may be why they produce results that are poorly translated. Alternatively, companies may see an opportunity to reach new investors yet some do not want to put in the extra costs associated with proficiently translating their results.

One company combines both an English version and Polish version annual report. However, the company does not provide any financial statement notes. Furthermore, the company website only provided a link to this specific annual report in both their English and Polish websites. A financial statement with notes in English or Polish could not be found on their website, stock exchange, or through the regulator (i.e. KNF).

These concerns illustrate the need for further research into the topic of translations, specifically regarding translation of financial statements. We believe our results can help the IFRS Foundation increase awareness with translations and create a more effective process to mitigate these issues.

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