Вплив перекладу на співставність фінансових звітів

Ладіслав Мейзлік[1],
Яна Рое[2]

.Факультет фінансового обліку та аудиту,
Економічний університет, Прага, ЧЕХІЯ,
E-mail: [1]lmejzlik@vse.cz
[2]xroej900@vse.cz

Міжнародні стандарти фінансової звітності (IFRS) мають на меті забезпечити уніфіковані принципи, які б сприяли зростанню глобальної співставності фінансових звітів. IFRS викладені англійською мовою і згодом були перекладені на інші мови. В свою чергу, фінансові звіти, підготовлені згідно IFRS часто перекладаються на англійську мову. Культурні відмінності збільшують ризик неправильного перекладу та неправильної передачі інформації під час письмового та усного перекладу стандартів і звітів.

У даній роботі ми підсумовуємо сучасну літературу у сфері фінансової звітності та перекладу. Ми використовуємо якісний підхід та демонструємо можливості для перекладу з кількома прикладами. Ми пропонуємо сфери для подальшого вивчення як обиралась термінологія IFRS, перекладена з англійської мови, з мови оригіналу на мову перекладу і як дослідники намагаються визначити вплив невірних перекладів на співставність фінансових звітів.

Ми підводимо підсумки, описуючи можливі рішення проблеми перекладу та впровадження. Важливим для вдалого перекладу бухгалтерських текстів та звітів є розуміння перекладачем не лише технічної термінології, а й основних ідей тексту оригіналу, а також культури і соціальних характеристик мови перекладу.

Переклад виконано в Агенції перекладів РІО
www.pereklad.lviv.ua

Impact of Translation on the Comparability of Financial Reports

Ladislav Mejzlik[1], Jana Roe[2]

Department of Financial Accounting and Auditing,
University of Economics, Prague, CZECH REPUBLIC,
E-mail: [1]lmejzlik@vse.cz,
[2]xroej900@vse.cz

International financial reporting standards (IFRS) aim to provide unified guidance that would result in increased global comparability of financial reports. Because IFRS is written in English and subsequently translated to other languages, cultural differenes give rise to high potential for mistranslation and miscommunication when translating and interpreting standards and reports. Crucial for successful translation is the translator's understanding of not only technical terminology but also the underlying concepts.

Keywords – IFRS, translation, financial reporting, cultural differences, globalization, convergence.

I. Introduction

Financial reporting is a means of communicating company's financial and non-financial information to the public. In the past, when financial reporting functioned primarily internally, either within a company or within a country, senders and receivers of the information were relatively homogenous, therefore the quality of the communication was high because there was no need for translation from one language to another. With increased globalization, all of the groups involved in the preparation and interpretation of financial reports increased in complexity, where companies are becoming global in operations and investors are participating in markets outside their home countries.

Many levels of communication are involved in financial reporting, with each playing out not only on a local but also on an international plane. Communication with employees, managers, suppliers, customers, creditors, regulators, government, and other stakeholders occurs primarily during the following three phases of financial reporting:

- internal company communication of data during the preparation of the financial report,
- communication during the audit of the financial report,
- interpretation of the financial report by investment firms or individual investors and other stakeholders.

When two or more parties, each with a different cultural and linguistic background, participate in accounting and financial reporting communication, misunderstanding can occur on three different levels:

1) translation of words;
2) translation of meaning;
3) interpretation of the translation.

Global accounting standards convergence is accelerating since the European Union's 2002 regulation mandating International Financial Reporting Standards

(IFRS) for all public companies listed in the EU and the execution of the Norwalk Agreement between Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB). Convergence has been supported by the notion that a single set of high-quality global accounting standards is an important means of enhancing comparability of financial statements. Recent studies have shown that convergence has contributed to greater comparability in financial reporting; however, other research suggests that national culture could undermine a consistent application of IFRS across countries and convergence of standards may not automatically lead to comparability in financial reporting.

This paper shows that successful translation in the context of international financial reporting does not merely depend on the use of the correct language but also on professional and cultural familiarity with both original and target environments and languages. Current literature focuses on the translation of standards and financial reports; we will discuss how financial reporting quality, comparability and financial standard convergence are impacted by various cultural factors. The differences in financial reporting environments cause different results when applying seemingly same standards.

II. Impact of Culture on Differences in Financial Reporting

Stakeholders use information provided by financial statements in their decision-making process and although the use of information is more or less the same worldwide (decision making), the quality, quantity and means of communication of financial information differs according to the location of the company. Each country has a different mix of influences on financial reporting, which result from different environmental and cultural characteristics. The most important influences with differences that have been identified in literature and as included in financial reporting and accounting textbooks by David Alexander et. al. are the following [1]:

- provision of finance,
- existing legal system,
- link between accounting and taxation,
- cultural differences.

The provision of finance refers to whether creditors (insiders) or equity (outsiders) is used to finance company operations. According to Alexander and Britton, the following Table 1 presents several examples of shareholder versus debt-holder oriented countries.

The two types of legal systems developed in the western world are common law and code law. Common law system is developed from case law instead of general rules applicable to various cases. In this system, accounting rules are prescribed by professional organizations and private sector, and generally company law is minimal. In contrast, code law system is characterized by many rules, often very detailed, which aim to prescribe guidance in all situations. This system developed originally in Roman law and is historically used in continental Europe. Code law system includes accounting regulation and financial reporting must comply with a set of detailed rules.

Table 1

Provision of finance examples

Shareholder oriented ownership	Credit, family, state oriented ownership
United States	Germany
United Kingdom	France
The Netherlands	Belgium
Australia	Spain
Canada	Czech Republic

In some countries, a strong link between accounting and taxation exists, for example majority of countries will use some form of financial result as a starting point for figuring taxable amount. For example in Belgium, amounts can be tax deducted only if they are reported as a financial deduction. In such situations, financial reporting can become influenced by tax-related decisions. Financial reporting is most often influenced in countries with more debtor-oriented approach. In investor-oriented countries, the link is much weaker, the measurement and recognition rules and estimates used in the tax accounts can differ from the valuation rules used in the preparation of the financial statements published for all external stakeholders. The financial to tax link can also vary with time, as the fiscal policy of a country changes.

According to accounting research, cultural differences play an important role in the reporting and disclosure behaviour in financial statements. One well-known way of analyzing human culture is that of Dutch anthropologist, Geert Hofstede, who developed his theories of cross-cultural communication through interviews with international business persons. According to Hofstede, each culture must deal with questions that can be resolved according to a series of dimensions, which results in a unique gestalt for each society, depending on the intensity of its tendency towards one or another end of each culture dimension spectrum [2]. In1984, Hofstede surveyed a multinational firm IBM and identified the following four characteristics, which determined the differences in reporting: 1) individualism, 2) power distance, 3) uncertainty avoidance and 4) masculinity.

Hofstede found that in contrast to collectivistic societies, where a tightly knit social framework provides resources for everyone, people in individualistic societies are expected to take care of themselves and their family independently. Power distance aspect considers how society handles inequality among people, where societies with large power distance accept a hierarchical order with no further justification. In societies with weak uncertainty avoidance exits a more relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated. Lastly, masculinity versus femininity refers to the values that society prefers: achievement and assertiveness versus relationships and caring for the weak.

Based on Hofstede's classification scheme, Gray (1988) defined "accounting values" which are formed and influenced by the different cultural values and outlined relationships between social and accounting values and accounting practice [3].

Lastly, Professor Zeff from Rice University in Houston outlined the following four cultures that differ from one country to the next, which he identified as one of the factors that could impede or interfere with promoting genuine worldwide comparability [4]:

- Business and financial culture
- Accounting culture
- Auditing culture
- Regulatory culture

Based on the research discussed in this section, we conclude that culture impacts not only how financial information is communicated, but the essence, definition and understanding of what financial information is how it should be used also differs, therefore implementing identical standards will not produce identical reports.

III. The Role of Translation in Financial Reporting

In the previous section, we explained that a specific accounting system in a particular country or a jurisdiction (by accounting system we mean the financial reporting standards and practices, type of accounting regulator and strength of the accounting profession) is a result of various local characteristics or influences. The problem arises when financial reporting rules such as IFRS do not result from national characteristics but are imposed on them from the outside. In the case of IFRS, the European Union requires these for all publicly traded companies since 2005. And in the name of globalization and economic progress, IFRS is set to be used in most countries, including USA, by 2016. The question is whether all of the countries required to use IFRS have an accounting environment ready for these standards to be effectively imposed.

Communication and language are a crucial part of a country's accounting environment; the IASB operates and publishes its standards in English, although there are approved translations in several languages. Before we discuss the issue of translation, we would like to point out that even within English itself, same terminology is not always synonymous. For example, the IASB uses a mixture of UK and US terms but the Fourth EU Directive tends to use UK terms.

Lisa Evans from Stirling University in Scotland has undertaken most recent research in the field of accounting language and translation and in 2010; she teamed up with Rachel Baskerville and published a report commissioned by the Institute of Chartered Accountants of Scotland, called "The darkening glass: Issues for translation of IFRS", addressing the issues with translation of IFRS [5]. The authors concluded that enforcing IFRS may not be sufficient to ensure equivalent quality of financial reporting. Among others, they listed the following reasons: the remaining influence of local traditions and cultures, including legal and political systems; financial markets; corporate governance arrangements; and auditing and enforcement of regulation. An additional problem is the translation of IFRS from the original English into other languages. The report further identifies specific issues which arise in the translation of accounting terminology, explores the implications of these issues and makes recommendations for stakeholders in IFRS adoption and translation.

The report summarizes the survey results of authors and translators of textbook on financial reporting and finds the following four problem areas:

- Non-equivalence of terminology, mainly because accounting concepts in any language are part of that language community's accounting culture;
- Syntax and grammar, where subtleties ay be expressed in different ways, and literal translation is usually not possible;
- Legal framework, referring to the common vs. code law system discussed in the second section, where for example the concept of substance over form is not common in the code law system countries;
- Underlying cultural differences, citing them to be among the strongest causes of accounting differences, including differences in concepts such as prudence, reasonable, and materiality.

Evans and Baskerville conclude that knowing and understanding the original wording of accounting concepts and foreign languages are essential in appropriate translations. The authors shared several solutions to translation problems, including practical technical solutions, for example explanatory notes, paraphrasing, or retaining the English original term without translation. The most fundamental issue identified by the survey was translator's familiarity with the accounting cultures of both source and target language. Lastly, the report stresses that the standards themselves need to be worded so they lend themselves to easy translation.

Worth mentioning here are Evans' other works on the language of accounting, addressing not only issues with translation, but also history of accounting terminology, shedding light on the influence of syntax, grammar and terminology on accounting translations. Evans builds in her papers on her study from 2004, which focused on the language, translation and the problem of international accounting communication, where she concluded that the choice of an inappropriate label in the translation of accounting terminology is detrimental to international accounting communication and creates problems for users and preparers of translated financial statements as well as for researchers in, and students of, international accounting and for those involved in harmonization and standardization of accounting [6].

IV. Conclusion

Recent studies have shown that convergence has contributed to greater comparability in financial reporting; however, other research suggests that national culture could undermine a consistent application of IFRS across countries and convergence of standards may not automatically lead to comparability in financial reporting [7].

From the survey of recent literature on the subject is evident that, from language and communication perspective, many potential reasons for international accounting differences are still relevant under IFRS. As in any field, there is a risk that the process of translation will change or lose meaning from the original version, in this case English. IFRS themselves are aimed at being easy to translate, and their creators try to mitigate and prevent some of the issues with misunderstanding and translation. For example, the IASB is composed of members of various nationalities representing several languages.

Combine the IFRS translation problems with other communication issues such as understanding of underlying concepts and limited communication methods such as e-mail, questionnaires, etc., the potential for miscommunication is high. Significant problem with effective communication remains because in the case of international communication, the parties' background and understanding is different, which means that a good Czech accountant and an equally good U.S. accountant do not necessarily have the same background and therefore may not come to the same conclusion using the same standard. For continental Europe, IFRS is a different (Anglo-Saxon) approach – emphasis on new concepts and the recognition, measurement and disclosure approach.

Business, demand and supply of finance are global and although communication problems do adversely impact the comparability of financial reports, the question remains whether this issue is material to the financial statements or not and what impact does it have on asset pricing; research in this area is almost nonexistent. Emphasis needs to be on the reasons and on general principles than on differences between local and foreign standards. Application of IFRS will, a subjective process of necessity, will continue to be influenced by the context and environment in which the application takes place.

Many accounting professionals involved in either part of the financial reporting process need not only to master a subject new to them but also do so in a language that is not their first. One added difficulty is that there are several forms of the English language, particularly for accounting terms. UK terms and US terms are extensively different.

Language has two distinctive roles. The specific terminology in financial reporting calls for high quality translations of financial reporting rules in order for the rules to be applied consistently and accurately. However, language in financial reporting is not used only as written means of communicating the rules – it is also used as a spoken means to inquire, explain and convey information within

With the use of English as lingua franca for financial reporting being complicated, imagine how each local country will deal with translation and communication issues. The auditors and accountants in non-English speaking countries need to know not only the technical issues but also be able to understand and translate the terminology.

Crucial part of improving the effectiveness of IFRS will include training for people in the financial reporting language of the future. New is not so much that new standards are replacing old standards. New is that as a result of the political decision to use IFRS in the future accounting is no longer a national matter, which differs from country to country. The financial reporting language of the future is an international language and this requires an international approach in the teaching of that language.

In the world where globalization is causing merging of cultures and languages, where, like species, languages are also dying out, the topic of communication and translation may be irrelevant in the future. For now, though, it is an issue which impacts the quality of our inter-cultural communication in all areas, including financial reporting and accounting.

References

[1] Alexander, David; Anne Britton; Ann Jorissen. International financial reporting and analysis. USA: CCH Aspen, 2009.

[2] Hofstede, G. (1980). Culture's Consequences: International Differences in WorkRelated Values. Sage Publications, London.

[3] Gray, S.J. (1988). Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally." Abacus, 24(1), 1-15.

[4] Zeff, Stephen A. Some obstacles to global financial reporting comparability and convergence at a high level of quality. Great Britain: The British Accounting Review 39, 2009.

[5] Evans, Lisa; Baskerville, Rachel. (2010) The darkening glass: Issues for translation of IFRS.

[6] Evans, Lisa. Language, translation and the problem of international accounting communication. Accounting, Auditing and Accountability Journal, Vol. 17, No. 2, 2004.

[7] Ineum consulting. Evaluation of the Application of IFRS in the 2006 Financial Statements of EU Companies. Report to the European Commission, December 2008.