

## Article

# True and Fair Override: Accounting Expert Opinions, Explanations from Behavioural Theories, and Discussions for Sustainability Accounting

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**Abstract:** This study focuses on true and fair view (TFV) and fair presentation (FP) in financial statements. It questions if attitudes towards the true and fair override (TFO) condition, included in European Union (EU) legislation and International Financial Reporting Standards (IFRS), is indicative of a principles-based approach or lip service to a concept that is rarely applied. We address this subject because we consider that there should be a consensus and harmonisation on TFV—that TFO has a vital role within the principles-based framework, and while the accounting standard development process should limit the application of the TFO concept, in practice, it is an important reporting option. TFV/TFO harmonisation also has an important role in sustainability accounting, to reveal company actions which are influenced by more than just the objective of complying with the standards. In the empirical part, accounting experts from 24 European countries were surveyed. Their responses suggest a lack of clarity around the distinction between TFV and FP and a reluctance to consider, in practice, the application of the TFO. Drawing on behavioural theories—ostrich effect and comfort theory—we find explanations and reasoning behind attitudes to these cornerstone concepts. Specifically, we try to explain behavioural attitudes to TFV/FP and TFO positions, which defend uncompromising compliance with standards.

**Keywords:** true and fair view; fair presentation; override; survey; sustainability; IFRS; ostrich effect; comfort theory



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## 1. Introduction

The true and fair view (TFV) and fair presentation (FP) concepts continue to be cornerstone objectives of financial reporting in the context of International Financial Reporting Standards (IFRS) and European Union (EU) legislation. In 1997, IFRS moved from using the term TFV to FP in order to coincide with references included by the Financial Accounting Standards Board (FASB), although the concept has its origin and a long history in UK law. The International Accounting Standards Board (IASB) considers that TFV and FP are identical [1]. Traditionally, both EU and local European legislation have referenced TFV rather than FP. The main difference between the two concepts is in the role of the “override” provision (true and fair override, TFO), i.e., the requirement to depart from IFRS to produce a more adequate set of financial statements. The EU considers overriding in exceptional circumstances and IFRS indicates its use in extremely rare circumstances. The issue remains important and topical.

Prior studies suggest that, in practice, the TFO is regarded as “a just in case” option, where there is no real incentive to use it. Companies have reservations about using it,

even when it would avoid the presentation of misleading financial information by strictly complying with standards rather than faithfully representing the reality of the company (see, e.g., the discussion provided by [2–8]). This raises the question as to whether the future of the TFO needs to be questioned. As accounting expands into the area of non-financial reporting, as is the case in sustainability accounting and reporting, harmonised understandings are fundamental.

We consider a homogeneous understanding and application of all three concepts to be of extreme importance, given that both IFRS and EU company law are predicated on a principles-based accounting structure, meaning the principle to be achieved (a TFV) is a priority where accounting standards alone do not lead to that objective. A strict fulfilment of the standards without standing back to see the full picture and ensuring a TFV is effectively applying a rules-based approach, despite having a conceptual framework (CF) based on principles. If this is what is effectively happening in practice, it cannot be regarded as a fully developed principles-based approach. There is evidence of the focus in the Fourth EU directive on the TFV concept, while IFRS centred around FP has resulted in a lack of consensus amongst users—that the standard setters are aware of this—and the IASB is of the view that the override should only be used in extraordinary cases, if at all. This would cast serious doubt over a “true” principles-based accounting approach. The basis of any court decision in this area would revolve around whether the company’s financial statements show a TFV and while compliance with relevant specific accounting standards is considered a prime indicator of TFV, it may not be the only one. This has led to tension in understanding the relationship between compliance with IFRS, TFV, FP, application of the TFO, and a rules vs. principles-based approach (see e.g., [2,6,8–14]).

This study examines this tension. Specifically, the objective is to examine the practicality of the application of TFV/FP principles in financial statements, the TFO condition, and attitudes to using it, which could be indicative of a true principles-based approach or lip service to a concept that it never resorts to. We address this subject because there should be a consensus and harmonisation on TFV—that TFO has a vital role within the principles-based framework, and while the comprehensiveness of the accounting standard development process should limit the application of the TFO concept in practice, it should nonetheless be an omnipresent element of the financial reporting and auditing processes. If this is not the case, and the start and end positions are to apply the standards and present the information to fit the standards, then how different is this to a rules-based approach? Drawing on behavioural theories (ostrich effect and comfort theory), which explain human behaviour and decision-making, we find explanations and reasonings around these cornerstone concepts. The ostrich effect explains certain human cognitive bias in relation to financial risk situations and decisions. The comfort theory defends a comfort position and box-ticking for judgments, including decisions that require adopting a position rather than rules.

In the empirical part of the study, we administered a survey that comprised two specific case study settings and questions related to TFV/FP. The case study considered the application of the TFO in the context of IAS 40—investment properties and IAS19—employee benefits. The participants were accounting experts across 24 European countries (although Norway, Switzerland, and Turkey are non-EU member states and, as such, do not have to comply with the EU directives, the requirements of IFRS on FP should be understood). The evidence suggests a lack of harmonisation of the concepts, including overlooking completely the possibility of the TFO in some cases. The results show differences in the reaction of the experts when they consider the possibility of applying the TFO. Behavioural theories help to explain an underlying behavioural attitude to TFV/FP and TFO positions in financial reporting, as well as justifications to defend accounting standard compliance.

It is now an opportune time to consider the vital role that harmonisation of TFV/TFO and other base concepts has on sustainability accounting. Sustainability accounting, which will be developed later, is in its infancy. It can incorporate areas of high risk and uncertainty,

which require the use of professional judgement and should comply, in our opinion, with the objective of TFV/TFO, and be included under audit scrutiny. Sustainability standards are at an early stage of development and the TFO may be more necessary than in more developed standards. Set standards may not always fit every case and more so in this novel area. Presently, there are several organisations competing in the development of voluntary standards in this area. The EU is working towards obligatory information in this area, following the directive on non-financial information of the European Financial Reporting Advisory Group [15]. Conventional accounting has a long tradition; however, it is important and interesting that non-financial information is developed on a principles base to permit the use of professional judgment and to allow “overriding” the standards when necessary to achieve a TFV.

The contribution of this research can be summarised as follows. First, the study contributes to financial reporting research by addressing the perception and position of concepts, which have been the cornerstone of financial information presentation, and perhaps, the most important foundation with implications for preparers and stakeholders. The current study adds to the debate on the significance of TFV after the regulatory reforms adopted in the context of IFRS adoption. In fact, prior empirical literature shows that accounting rules do not have the same effects around the world. We consider that the lack of consensus and harmonisation in understanding these important concepts needs to be addressed by standard setters and authorities. The focus on the understanding of these fundamental base concepts is very important as accounting expands into areas of sustainability accounting and non-financial accounting.

Second, the study contributes to behavioural accounting research. In particular, the paper applies, for the first time, two behavioural theories to accounting principles and decision-making, to explain certain human behaviour. Both behavioural theories—the ostrich effect and the comfort theory—help to explain human behaviour and can be applied to explain the lack of harmonisation and bias in the application of these important concepts that have become accepted in financial reporting. A solution could be obtained through dialogue and training, a review of the TFO, and perhaps guidelines as to when it could be applied, or, in an extreme case, its elimination. Evidently, an elimination of the TFO could lead us to a more rules-based accounting system.

The remainder of the paper proceeds as follows. Section 2 examines the literature in the search of a harmonised understanding and application of the TFV and FP concepts and its impact on sustainability accounting. Section 3 presents the behavioural theories. Section 4 provides a practical application and Section 5 discusses results. The final section sets out our concluding thoughts.

## **2. In Search of a Harmonised Understanding of the Application of TFV/FP**

### *2.1. What IFRS and EU Say*

IAS 1 provides that financial statements shall present fairly the financial position, financial performance, and cash flows of an entity [16]. FP requires the faithful representation of the effects of transactions, other events, and conditions, in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the conceptual framework. The application of IFRS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a FP. An entity whose financial statements comply with IFRS shall make an explicit and unreserved statement of such compliance in the notes.

The extensive consultation process around IFRS formation ensures that in virtually all circumstances, an entity achieves a FP by compliance with applicable IFRS. FP requires an entity: (a) to select and apply accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors (IAS 8 sets out a hierarchy of authoritative guidance that management should consider in the absence of an IFRS that specifically applies to an item); (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information; (c)

to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

Importantly, however, IAS 1 provides that in extremely rare circumstances, in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements as set out in the conceptual framework, the entity shall depart from that requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

Accounting Directive 2013/34/EU [17] provides that the annual financial statements shall give a TFV of the undertaking's assets, liabilities, financial position, and profit or loss. Where the financial statements would not be sufficient to give a TFV of the undertaking's assets, liabilities, financial position, and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements. Article 4 paragraph 4 continues by stating that, where in exceptional cases, the application of a provision of the Directive is incompatible with the TFV requirement that provision shall be disapplied in order to give a TFV of the undertaking's assets, liabilities, financial position, and profit or loss. The disapplication of any such provision shall be disclosed in the notes to the financial statements together with an explanation of the reasons for it and of its effect on the undertaking's assets, liabilities, financial position, and profit or loss. The member states may define the exceptional cases in question and lay down the relevant special rules, which are to apply in those cases.

## 2.2. A Review of the Terms Included in IFRS and in the EU Directive

The requirement that financial statements present "a true and fair view" prevailed in both EU law and International Accounting Standards, Generally Accepted Accounting Practice (IAS GAAP) up to 1997. In 1997, IFRS moved from the term TFV to FP to coincide with references included by the Financial Accounting Standards Board (FASB). The IASB considers TFV and FP to be identical [1]. Although IFRS effectively replaced the TFV term with FP, no corresponding change took place in EU legislation and TFV continues to be an objective for financial reporting under EU Law.

The IASB position is that TFV and FP are not qualitative characteristics, but rather result from applying qualitative characteristics. Financial reports that embrace the qualitative characteristic of faithful representation, in effect present a TFV and FP [1]. A similar approach is adopted by the Auditing Practices Board (APB)—the terms used to express the auditor's opinion (on financial statements) are "give a true and fair view" or [in the US] "present fairly, in all material respects". These terms are effectively regarded as equivalent to "free from material misstatement and faithfully represent the financial performance and position of the entity" ([18], paragraph 18). The override provision is not mentioned in the IASB Conceptual Framework (CF), but included in IAS 1 on the presentation of financial information, and it is not mentioned in FASB standards. Literature suggests that the main difference perceived to be between the two concepts, TFV and FP, is in the role of the 'override' provision, i.e., the flexibility to depart from IFRS or EU legislation, in order to produce a set of financial statements that more faithfully represent the financial performance and position of the company [5,19]. EU legislation envisages overriding in exceptional circumstances, while IFRS indicates that it will only be appropriate in extremely rare circumstances.

## 2.3. TFV/FP and the TFO Provision

Alexander [2] suggested that the TFO provision is necessary in applying the TFV concept because it is not possible that a rule can respond to a multitude of different situations. Alexander and Archer [4] uphold the function of a meta-rule to justify non-application of a lower-order rule, but mention the override may be used for manipulative purposes also. Evans [5] suggests that an overriding clause is compatible with Roman law, as long as the 'override' is no more than a legal (residual) clause. The inclusion as a

residual clause is what allowed its adoption, with some conflict, in the regulations of EU countries without a base in common law. This means that it should not be considered an all-pervasive fundamental concept as suggested by Alexander [20], but as a residual clause, which would provide a safeguard against blatantly ‘wrong’ applications of the letter of a law/rule not appropriate to its context.

Zeffer [21], referring to the change in IAS 1 in 1997, which replaced TFV with FP, and the further revision of the standard by the IASB in 2003, states that the purport of the revised standard is that “fair presentation” means adhering to the objective of financial statements and the definitions in its conceptual framework. The 1997 decision to revise IAS 1 was reported [22] as follows:

IAS 1, Presentation of Financial Statements, was approved, but not without the usual argument over the true and fair override, which has been left in the standard. Essentially the U.S., Canada, and Australia do not believe in it, but the UK and most European countries do. The Security and Exchange Commission’s (SEC) Mike Sutton made his disapproval of the final standard clear at the meeting, though he had already written to the IASB to say that the true and fair override was unacceptable to SEC staff.

The TFO puts the responsibility for accounting judgments where it ultimately belongs—with managements and independent auditors, according to Benston et al. [23]. DeFond et al. [7] also claim that technical compliance with GAAP (in this case U.S. GAAP) is not sufficient to justify an unqualified audit opinion because it ignores “fair presentation,” a concept equivalent to “faithful representation.”

Zeffer [21] indicates that the auditor should be expected to treat the “present fairly” requirement as a substantive issue and not as a “rubber stamp” of GAAP. This comment although referring to the auditor’s report makes it clear that an auditor should not be a box ticker of compliance with standards, but regard his role as something more serious in order to serve the readers of the financial statements.

Some authors suggest that the final decision on the TFV/FP is for the courts to decide in cases where procedures and judgement are questioned. Arden [24] argues that, it is up to the courts to decide what is a TFV, because TFV is a legal term that is dynamic and subject to change, according to the circumstances. Arden [24] mentions from a court justice point of view that whenever there are rules there will always be problems that the rules cannot solve making the TFV requirement necessary. Arden [24] also considers that TFV is a stopgap to prevent the abuse of rules and cover gaps when following accounting rules. The author also suggests that TFV gets its meaning from the practices and procedures of accountants, showing that TFV comes from accounting and audit practices, but is interpreted by the court. Hamilton et al. [13] concludes that this suggestion by Arden places the TFV ambiguously in the habitus of accounting and audit practice.

Van Hulle [25] also reminds us that the final decision on TFV will be in the European Court of Justice. A similar observation was made by Garvey [26]. Zahid (2008) concluded that the law courts would consider financial statements made in accordance with GAAP/IFRS as prima facie (but not conclusive) evidence that they are true and fair. He also concludes that this is also the case in North America, in the context of the ‘fair presentation’ (FP) principle and GAAP is not an end in itself, but a means to achieving FP. This conclusion is reflected in the decision of the European Supreme Court in September 2012, when it confirmed a sentence imposed by a Barcelona Court imposing a €20 million compensation sum to be paid by one of the Big Four accounting firms of a listed company. The decision was based on the fact that the auditors’ issued a clean audit report in 1990, with the opinion that the financial statements showed a TFV and complied with relevant accounting standards. The opinion made no reference to the going concern difficulties of the company. The annual financial statements showed a profit of €24 million when in fact the claimants demonstrated that the company had, in fact, incurred a loss of €1144 million for the financial year 1990. While strict adherence to the letter of the relevant accounting standards could be demonstrated in the financial statements, adherence to the spirit of them and the principle of TFV could not. The company was declared bankrupt two years

later. It is also interesting to note in a study by Van Zijl and Maroun [27], the views of one interviewee who mentions that non-compliance with a standard may affect the image of the company. The interviewee mentions that you will never get into trouble if you follow the standard, but you will get into trouble if you should have followed the standard and you did not. The previous observation expresses a fear of non-compliance with the standard even where judgement indicated that an override is better.

Some researchers have looked into the application of TFO in specific countries. Aisbitt and Nobes [3] state that national laws in Austria and Sweden do not implement the override, as required by the directive, and Finland and Norway allow the national standard setters to state the specific departures allowed. A document by the European Commission also confirms that the override clause has not been transposed in German, Austrian, and Swedish legislation [28,29]. However, in a later paper by Alexander and Eberhartinger [6], it is stated that the override is included in Austrian law, even though most Austrian literature ignores the fact that the dominance of European law in effect signifies the dominance of the TFO requirement of the directive for Austrian accounting law. The UK considered it important to issue a new ‘opinion of Counsel’ (Financial Reporting Council (FRC, 2008), which clearly shows its support for the continued importance of the TFV override [6].

Houghton [30] uses a sample of professional stakeholders (accountants and shareholders) and finds different cognitive structures as to the meaning of TFV. Parker and Nobes [31] focus on a sample of UK auditors and find that the participants establish a distinction between ‘true’ and ‘fair’. It seems that ‘fair’ is more important than ‘true’. Another conclusion was that the TFV concept was used to support auditors’ views in practice in areas that were not covered specifically by accounting standards. Nobes and Parker [9] also examined the TFV understanding of finance directors of large UK companies. Low and Koh [32] showed that accountants, bank officers, and managers in Singapore understood that TFV was more than just complying with GAAP and/or legal requirements. Kirk [12] focuses on auditors, financial directors, and shareholders of listed companies in New Zealand, and shows that the three groups surveyed share similar perceptions of the TFV; but perceive TFV to be quite different from ‘fairly presents’ and ‘fair presentation’.

The evidence obtained from academics complements previous results for professional users. A survey answered by Polish practitioners revealed that there was a complete lack of understanding and consensus of TFV by practitioners in Poland, argued to be due to a lack of familiarity with the origins and the substance of the concept [10]. In this same study, the strengthening of the TFV principle in Poland was considered to facilitate “creative accounting”. Kosmala-MacLulich [33] had similar conclusions in this regard.

Livne and McNichols [34] found that UK firms invoking more costly overrides report weaker performance and have less informative financial statements and lower earnings quality. More recently, Gonzalo Angulo et al. [8] use a sample of auditors in public practice and Spanish students (undergraduates enrolled in final year and postgraduate students enrolled in an audit masters course) and find that participants prefer to follow the accounting standard rather than consider the overriding aspect that is included in the EU Directive, when compliance with the standards does not achieve a TFV. The evidence also suggests that the understanding of TFV is different depending on the participant’s professional status and maturity. Garvey et al. [35] find that academics and students do not share similar cognitive structures when different aspects of TFV are tested. Egan and Xu [14] focus on how managers, audit committee members, and external auditors deal with the true and fair view concept in financial statements. Using eight semi-structured interviews, the evidence suggests that managers and audit committee members equate true and fair to commercial substance, while auditors equate the term with accounting-standard compliance.

#### 2.4. Sustainability Accounting and IFRS

A new field in accounting has emerged known as “sustainability accounting”, due to the growing interest in this field over the last decades, the concept of sustainability has experienced a growing interest in accounting for several decades (e.g., [36]). Sustainability accounting deals with tracking, tracing, aggregating, and reporting environmental and social information, often linked to economic information, with regard to reducing problems of unsustainability or contributing to sustainable development (e.g., [37]). Sustainability accounting includes reporting, the management control systems to support reporting, and the assurance of external reporting [38].

The IASB issued a Consultation document on Sustainability Reporting in September 2020 [39] to examine the need for creating a Sustainability Standards Board (SSB). There were 564 comment letters in response to this consultation, showing the interest in this theme. This board would be included under the governance structure of the IFRS Foundation and have the objective of developing global sustainability standards. The standards would be introduced progressively, and climate issues would be given priority due to the inherent risks encompassed by it. Risk areas focus on the materiality principle, which already forms part of the IASB’s conceptual framework (CF). However, the IASB’s intention would be to develop itself or guide another organisation to develop qualitative characteristics of useful sustainability information. It would make use of existing sustainability frameworks and standards including the task force on climate-related financial disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), and the Sustainable Development Goals Disclosure recommendations (SDGD).

We would assume that new financial reporting requirements for sustainability accounting would follow IAS 1 on Presentation of Financial Information and would therefore require compliance with TFV/TFO. This would entail incorporating sustainability accounting into our present accounting processes rather than disconnecting it entirely as a separate accounting area. Sustainable development is a radical transformative programme, rather than a discrete object or entity [40]. Therefore, the TFV and TFO and the use of professional judgement are more important than ever in an area that incorporates much risk and fluctuation in order to guarantee high quality financial information to users. The important factor when preparing sustainable accounting information is not so much who prepares it, but the quality and reliability of the accounts is all that really matters [41].

The European Financial Reporting Advisory Group (EFRAG) [15] has been commissioned by the EU to undertake the technical preparation for the development, adaptation, and implementation of European standards for non-financial reporting. This comes about as a natural step after the issue of the EU Directive on non-financial information, which is presently being revised. A multi-stakeholder project task force, appointed by the Steering Group of the European Reporting Lab, was set up to work on the project. The Task Force prepared a roadmap structured in a three-phase approach. Phase I, which may overlap with phase II, required the Task Force to split into seven different areas, each to focus on a specific aspect of the project. In phase II, different possible scenarios were designed and detailed recommendations elaborated, and outreach initiated. In phase III, the recommendations will be finalised, feedback from stakeholders integrated for the issue of a final report by the end of January 2021. The progress report states that an effective and efficient implementation of EU non-financial disclosure requirements is based on the relevance, comparability, and reliability of the data generated and used. It points out the need for more homogeneous and clear definitions and principles. Although it does not refer specifically to TFV, we would consider this to be one of these principles. It also mentions the lack of a systematic verification process of non-financial information, which could hinder its reliability. Of the almost 100 initiatives identified and examined, important conceptual differentiations were identified, according to the progress report and require clarification and orientation. They include materiality, the scope of the information (qualitative and quantitative). The gap found on the characteristics of quality information

and reporting is significant. Although the attributes for non-financial information may not be fundamentally different from those of quality financial information, a clear definition is necessary to align the attributes of non-financial and financial information quality. The Global Reporting Initiative (GRI), which provides the most widely used sustainability standards, supports the EU initiative for separate non-financial reporting standards [42].

In this context, Cöster [43] shows that most companies are still struggling with understanding what sustainability means to them. López-Arceiz et al. [44] found that using sustainable practices could help companies to maximise their market value. They concluded that by belonging to a sustainability ranking, which is an innovation in accounting and reporting, enables a more accurate assessment of the level of sustainability performance, which, at the same time, promotes relationships with stakeholders. Zyznarska-Dworczak [45] proposes the use of a conceptual framework for sustainability accounting. Gonzalo and Garvey [46] comment that sustainability information should respect the principles related to sincerity and obtain a balance between the quantity and relevance of the information. They also insist on the importance of an independent audit for the credibility of this data. We support the idea of sustainability information needing to be incorporated under the audit report umbrella if it is to be taken seriously. An independent validation and opinion on the information showing a TFV is of utmost importance. The information to be subject to audit could be included progressively to accommodate companies to this new situation. We also observe that sustainability accounting is in the process of being developed, and may concern areas of high risk, which should be dealt with, carefully emphasising the importance of showing a TFV of the information.

### 3. Behavioural Theories: Ostrich Effect and Comfort Theory

#### 3.1. *The Background to the Theories*

In this section we explain two psychological and behavioural theories—the ostrich effect and the comfort theory—valuable for human behaviour and decision-making. The ostrich effect explains certain cognitive bias, and was first coined by Galai and Sade [47], when it was defined as the avoidance of apparently risky financial situations by pretending they do not exist. The term was widened by Karlsson et al. [48] when they explained it as avoiding exposing oneself to information that one fears may cause psychological discomfort and apply the term in relation to financial risk situations.

The ostrich effect has not been extensively applied in the accounting and auditing field to date. In the area of psychology in labour relations the ostrich policy, Dejours [49] explains that workers who lack confidence in themselves leave aside the prevention of risks as a priority, and instead try to dominate their fear by developing defensive strategies, one of which is the ostrich policy, which is ignoring what really worries them. In the finance field, Cai and Lu [50] reveals that financial attention frequency shows a clear ostrich effect, suggesting that investors acquire financial information less frequently following periods of low market returns and high market volatility. Moreover, Olafsson and Pagel [51] find evidence of the ostrich effect whereby individuals access their financial accounting information, less when cash holdings are low or when they spend a lot. Sicherman et al. [52] show that the number of investors who check their accounts drops by 8.7% after market declines compared to market increases. This study also confirms individuals who displayed ostrich behaviour in 2007 were more likely to display ostrich behaviour again in 2008.

In the accounting field, MacNeal [53] compared those who ignore changes in economic values to the ostrich: “Accountants and laymen alike are constantly rebelling against economic values which do not please them, are throwing the law of supply and demand to the winds and are setting up values of their own which can have no justification, save in the desires of their inventors. One can deplore changes in economic values all he likes and can argue that such changes should not occur, but the fact remains that they do occur and that anyone who ignores them is exceedingly apt to find himself in the same predicament as the mythical ostrich who buries his head in the sand when pursued by danger”.



Curley [54] mentions the ostrich approach or effect when reflecting on conglomerate growth. He says that the windfall effect is ignored entirely, presumably on grounds that if it is not reported, it will not be recognised and refers to this avoidance of information as the ostrich effect. Although, he does not refer to the ostrich effect as an element of psychological theory on cognitive biases, it is accepted that they are aware that there are human behaviours, which show a similar reaction to that understood done by the feathered creature in question. Knapp and Knapp [55] discuss the different cognitive biases that impact auditors' decision-making and comment that identifying them is the first step in overcoming them. Guénin-Paracini et al. [56] refer to the ostrich policy practiced by auditors as reminiscent of the exacerbated concern with reputational risk in organizations appears to be symptomatic of a defensive state of mind reminiscent of the ostrich policy practised by auditors.

In the context of TFV/FP concepts, we can expand the definition of the ostrich effect as avoiding or ignoring an exposure to information that one fears may cause psychological discomfort even when there is a risk in doing so. The steps to reaching a TFV/FP may cause psychological discomfort and it is much easier to simply follow the standards or rules, so the tendency is to ignore the remaining requirements and believe that TFV/FP is effectively compliance with the accounting standards rather than making changes to comply correctly. The real requirement is ignored. This ignorance converts into a psychological sensation of comfort. This argument is supported by the comfort theory as we explain below.

The comfort theory was first established by Kolcaba in the area of nursing care. Kolcaba [57] alluded to comfort as the state of having met basic human needs for ease, relief, and transcendence. Kolcaba [58] referred to three technical senses of comfort, they are a state sense, which is an enduring state of ease and peaceful contentment; the relief sense, which is the relief from discomfort, and, thirdly, the renewal sense, which refers to being strengthened and invigorated. This theory was later applied to other disciplines. The first time we see the theory applied directly to auditing is in 2007 by Carrington and Catasús [59]. It has never been used to the application of an accounting principle. However, it is not the first time that the term comfort is used to describe audit process situations.

Pentland [60] mentioned in 1993 that signing off is part of getting comfortable when he referred to the audit process. According to Pentland [60], audit engagements are used to interpret auditing as a ritual, which transforms the financial statements of corporate management from an inherently untrustworthy state into a form that the auditors and the public can be comfortable with. In fact, Pentland [60] focuses exclusively on comfort to explain the audit process without referring to the comfort theory as introduced by Kolcaba.

Carrington and Catasús [59] suggest that feeling comfortable in an audit assignment is more than the elimination of doubts but a feeling that the management can be trusted. Lherm [61] refers to the Justification of Comfort where comfort alone has the authority to tell reasonableness. This is applied in the audit context, whereby auditors best address the most uncertain cases in a practice that extends auditability beyond conformity. This conclusion arose when evidence demonstrated that audit failure appears to be caused more by the inadequacy of evidence-based audit to assure estimates, rather than by auditors' lack of professional consciousness.

Comfort theory also explains certain human accounting behaviour. It is possible that preparers of financial statements feel comfort by following the accounting standards or by maintaining the accounting and legal traditions of the country in question. Change is always difficult and requires change management. For countries who never had to deal with TFV/FP before, a principle with no definition and no explicit guidance on application is very difficult to implement. Even in countries that understand the requirements of reaching a TFV/FP, some find comfort in following the traditional system or by following the standards rigorously and by box-ticking them when they have been complied with. This happens even when there is a risk involved. The risk is non-compliance with the final objective, if a case is taken against them to a court of justice, it could have its negative

consequences. However, perhaps the feeling is that this risk is low, and they are willing to accept it if comfort is obtained by adhering to the standards.

### 3.2. *The Application of the Theories to TFV/FP*

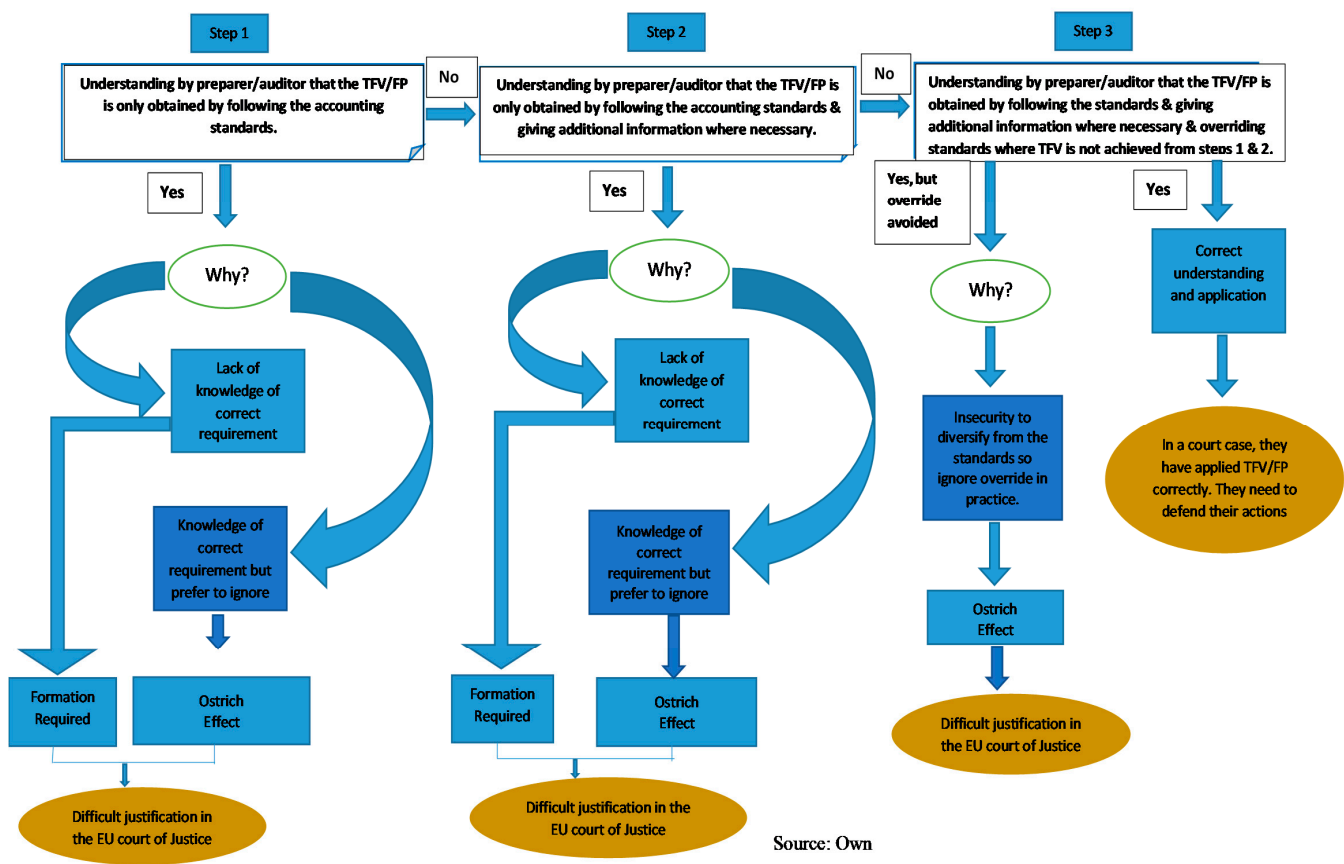
In this section, we applied the ostrich effect and comfort theory to the TFV/FP subject. Looking at the criteria included in both IFRS and the EU Directive, a step-by-step procedure is proposed. Firstly, the accounting standard is applied and if a TFV/FP is achieved then that is sufficient. Secondly, if TFV/FP is not achieved by following the accounting standards then additional information is required to reach the objective of a TFV/FP. Thirdly, if by including additional information the objective is not achieved, then the standards should be overridden to achieve the TFV/FP.

We argue that the comfort theory is used by the accounting profession when they prefer to follow the accounting standards strictly and avoid the TFO. We also consider that the ostrich effect is operating when the exact steps offered by IFRS and EU legislation are ignored when applying the TFV/FP. The ostrich effect is operating by preparers who ignore the real objective of financial information, by auditors who review the financial information and by the authorities who are aware that the accounting process is not being followed as intended and certainly not understood by all in the same way but prefer to ignore it. It is noted that we attempt to explain TFV/FP perceptions in relation to the TFO and explain the preferences of the accounting profession according to behavioural theories.

Figure 1 shows how the ostrich effect operates in the application of TFV/FP. We take three scenarios to reflect how a TFV/FP might be achieved according to the EU Directive [17] and IAS 1 [16]. The first scenario is to apply the accounting standards or rules in order to show the TFV/FP. If an accounting expert (country) considers and prefers that this is the only necessary requirement for achieving the required principle, we can ask if the reason is because of a lack of knowledge of the European Union legislation or IASB requirements. In this case, it could be useful to review the conditions for reaching TFV/FP. On the other hand, if the accounting expert (country) has knowledge of the real requirements but prefers to ignore them then the ostrich effect is being applied.

A similar situation arises when accounting experts (country) understand that the TFV/FP is achieved and preferred by moving to scenario 2, which is the application of the corresponding accounting rules or standards and supplementary information required to achieve the TFV/FP. Once again, we examine the reason why experts (countries) do not embrace scenario 3, and it is similar to that already examined, either because of a lack of knowledge of the EU Directive [17] and IAS 1 [16], in which case it could be useful to review the conditions for reaching TFV/FP or where knowledge exists, but the expert (country) prefers to ignore it and, thus, we have an application of the ostrich effect.

Scenario 3 envisages where the application of the required standard and the provision of additional information does not achieve the required objective of TFV/FP. Then, in these exceptional or extremely rare circumstances, the standards or rules need to be overridden to attain the TFV/FP of the financial information. Here, we find two situations, the first one is where the legislation is understood and there is predisposition to follow it, but when it comes to the point of the override, an insecurity occurs, and comfort is found in the written standards even when the overall objective is not achieved, and a legal risk of non-application applies. This is once again the application of the ostrich effect; the true application is ignored because the rules and standards provide psychological comfort, but this application does not achieve the main objective of the financial statements. The second one occurs where the legislation is understood and applied correctly. If a court case is taken against a company that has followed the criteria in good faith and can explain the reasons for overriding the rules, then this company cannot be reprimanded. This is not the case in any of the other situations described, where TFV/FP of the financial information has not been attained. In the cases where TFV/FP is not applied correctly, and the reason is due to a lack of knowledge of the EU legislative requirements, we consider that education and training is required so that it is better understood.



**Figure 1.** Perception and application by experts (countries) of how true and fair view (TFV)/ fair presentation (FP) is obtained and ostrich effect.

In the case described, we expand the definition of the ostrich effect as avoiding or ignoring an exposure to information that one fears may cause psychological discomfort, even when there is a risk in doing so. By not reaching the objective of the TFV/FP in the EU, a company does not comply with EU legislation and, as a consequence, enters into a risk of being taken to court and having to explain why the TFV/FP was not obtained.

Obviously, the risk of having to override is in exceptional circumstances and adherence to the standards or rules provides psychological comfort to the preparers of financial information. This seems to compensate the risk involved. The three steps to reaching a TFV/FP may cause psychological discomfort and it is much easier to simply follow the standards or rules, so the tendency is to ignore the remaining requirements and understand that TFV/FP is a compliance with the accounting standards.

#### 4. Materials and Methods

To explore the perceptions of TFV and FP and, in particular, the TFO condition included in EU legislation and IASB standards, we conduct a survey on a panel of 29 accounting experts representing 24 European countries. A small number are often used in studies involving experts. These experts are authors or colleagues of authors of research articles published in the journal *Accounting in Europe*, under the series “The Role and Current Status of IFRS in the Completion of National Accounting Rules—Evidence from European Countries” (Volume 14, 2017). We call them interchangeably respondents or experts due to their experience in the field.

We gather their views and assess the attitudes of the respondents, in two specific case study settings and generic terms through an online survey. The participants received a cover letter that outlined the objectives of the project and assured participants of confidentiality. Although, it is very common in surveys to take some pre-tests to control factors, such

as knowledge and certain attitudes when responding to the questions; in our case, the participant experiences in the accounting standards field made us discard this type of control. The survey was administrated during the first semester of 2019 and the response rate was 66% of the total authors in the initially population.

The survey design comprises two sections. Part A captures how TFV/FP perceptions translate into practice. Respondents were presented with two case studies where the question of applying the TFO was relevant. The first case study was concerned with the most appropriate valuation of investment properties (IAS 40—investment property). This setting was included as it incorporated a revaluation of assets and the use of the fair value measurement, a topical area where experts would, by now, have an informed opinion and which is applicable to our concerns in the sustainability accounting area, especially concerning the overall objective of quality financial information. The fair value measurement is very important in sustainability accounting, for example, the incorporation of environmental assets and liabilities, the valuation methods to be used and their corresponding disclosure requirements is being considered and fair value is at the forefront of this debate. The second case study explored the appropriate valuation of pension fund liabilities (IAS 19—employee benefits). This setting was incorporated because it deals with the area of risks, which is important in the sustainability debate to attain quality financial information. More specifically the discount rate used for example in measuring the benefits and costs of coastal restoration projects is very important, the use of one discount rate or another could substantially change the results and is a matter of concern in the area of sustainability accounting. The responses to the case study questions are classified into three areas: following the standards only, following the standards with additional information in the notes, and finally, an override alternative. The opportunity to add in additional comments was also available.

Part B captures the perceptions of TFV/FP through four closed-form statements relating to the role of TFV/FP, the interaction of compliance with accounting rules and satisfying the TFV requirement, and whether sanctions should be imposed where TFV/FP is not achieved. The respondents rated their agreement with each survey statement on a five-point Likert scale (from 1 ‘strongly disagree’ to 5 ‘strongly agree’), and there was a facility to add in additional comments.

Methodologically, the expert responses are analysed by the frequency of agreement and disagreement in each question. The additional comments were examined manually to capture the complete sense of the responses. Two authors read the comments to ensure responses are accurately reflected. We also use LIWC 2015 software that allows one to examine thinking styles, social concerns, and emotionality and social relationships (see, e.g., [62] for a review). The analysis is based on a ‘dictionary’ that contains almost 6400 words [63]. The most important variables for this study are analytic thinking (a high value reflects formal, logical, and hierarchical thinking while lower scores reflect more informal narrative style) and emotional tone (a high score is associated with a more positive, upbeat style, and a low score reveals greater anxiety, sadness, or hostility). The scores for analytical thinking are 81.79 in the questions and 79.65 in the cases, reflecting hierarchical thinking. The scores for tone are 56.96 in the questions and 87.95 in the cases.

## 5. Results

### 5.1. Descriptive Statistics

Table 1 shows the descriptive statistics. The number of participants is 29 academics representing 24 European countries: Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Malta, The Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Spain, Sweden, Switzerland, Turkey, and UK. In 2005, these countries adopted IFRS mandatorily for the consolidated financial statements of listed companies. The exception is Malta that adopted IFRS in 1998.

**Table 1.** Sample.

EU Countries	Experts	IFRS Adoption	EU Countries	Experts	IFRS Adoption
Austria	1	2005	The Netherlands	2	2005
Belgium	1	2005	Poland	1	2005
Croatia	1	2005	Portugal	1	2005
Cyprus	2	2005	Romania	1	2005
Czech Republic	1	2005	Slovenia	1	2005
Denmark	1	2005	Spain	2	2005
Finland	1	2005	Sweden	1	2005
France	1	2005	UK (pre-Brexit)	1	2005
Germany	1	2005			
Greece	1	2005	Non-EU Countries	Experts	IFRS adoption
Ireland	3	2005	Norway	1	2005
Italy	1	2005	Switzerland	1	2005
Malta	1	1998	Turkey	1	2005

Source: results obtained by the authors.

### 5.2. Results to the Case Studies

Part A of the survey sets out two case studies and surveys the experts on their preferences to the application of TFV/TFO in these practical situations and their attitude towards TFO. There is no correct answer in either of these cases and the TFO would be possible where a TFV is not obtained by step 1 or 2, but applying behavioural theories, more specifically the ostrich and the comfort theory, we shed light on the possible reasoning behind the various responses of the experts. The case studies are shown in Appendix A, but they summarise as follows: Case 1 questions whether a TFV is achieved when 90% of a company's assets are IP but are recognised according to local GAAP using historical cost measurements. We enquire about the possibility of a TFO to use FV measurements to reflect a TFV. Case 2 questions the use of the interest rate on sovereign bonds required in IAS 19 for pension fund liabilities when this does not reflect the reality of the company, as assets and liabilities will be equal on maturity. The use of the interest rate suggested by IAS 19 would incorporate unnecessary fluctuations in the Income statement according to the company. We enquire about the possibility of using TFO in this case.

Table 2, Panel A, shows the results for Case 1. It is noted that 20 participants (71.43%) consider that the accounting treatment should be local GAAP, with a note in the financial statements to show the values at FV. Six participants (20.43%) consider the TFO applicable, and only two participants consider that the accounting treatment should be to use local GAAP with no need for notes to the accounts. These results are interesting in that despite being presented with a textbook setting of when the TFO could be considered in depth, close to 80% of the respondents advocated unequivocally approaches other than the TFO. The comments by experts are varied in relation to the possibility of another accounting treatment. It is also noted that all the comments are provided by respondents from EU-member States including the UK, which was a member at the time of the study.

Table 2, Panel B, summarises the responses for Case 2. The results show that 15 participants (53.57%) consider that the accounting treatment should be IAS 19, including yearly fluctuations in the financial statements, but with a note to the accounts explaining the hedged position. Eight participants prefer to apply IAS 19 without any additional disclosures over and above the requirements of IAS 19 and, finally, five participants consider that the best treatment is to override IAS 19, on the basis that the application of IAS 19 and the resulting volatility in the financial statements year-on-year do not achieve the TFV/FP objective of financial statements. Again, only approximately 20% of respondents are comfortable with applying the TFO. Taken together, there are only three experts that adopt a TFO position in both cases studies.

**Table 2.** Results Part A. Case studies.

<b>Panel A. Results for Case Study 1.</b>			
<b>Accounting Treatment</b>	<b>Frequency</b>	<b>%</b>	<b>Comments</b>
Local GAAP	2	7.14	"I believe conservatism is an important principle, and given the lack of information provided in the case, I would opt for this rather a FV assessment that may be unreliable."
Local GAAP with a note to show Fair Value (FV)	20	71.43	"Is it legal to override local GAAP? I answered assuming I cannot break the law..."
			"In this case, the notes make it possible to give a true and fair view. The entity could also include, by way of note, supplemental financial statements (balance sheet, profit or loss account) based on fair valuing the investment properties."
			"Company can disclose this information voluntarily."
			"They should use 2. It would set a strange precedence if you could just choose not to follow accounting standards in place."
Override local GAAP	6	21.43	Other accounting treatment
			"It also depends on the market of the country and how FV may be determined. If it is an unstable market FV might produce a lot of volatility. Consider that both costs and FV are relevant for the case; hence, I support disclosures on FV in the notes."
			"This depends on the local culture as well and how well a deviation from GAAP to show a TFV, is understood."
IAS 19	8	28.57	Other accounting treatment
			"Show as FV and a note to show values at local GAAP for comparison with Local businesses, etc."
IAS 19 with a note	15	53.57	"If possible."
			"This is too complex an issue to allow each company to decide what to do. Your question should mention OCI."
Override IAS 19	5	17.86	"The DB benefit commitment is independent of the invested assets and the risk free assertion could not be deemed acceptable as the returns are not controllable and are subject to whims of financial markets and government economic policy."
			"Because in deciding on the content of IAS 19, this issue has been discussed and another choice has been made, a true and fair override should not be applicable. I would like to restrain the override to situations that standard setters have not taken into account in developing standards but where a strict rules-based approach would not result in a true and fair view."
			"They should use 2. It would be misleading to financial statement users if they did not follow IFRS, as they state they do."
			"Explaining in the notes the reasons for the criteria adopted."

Source: results obtained by the authors.

The expert comments are interesting because they suggest, again, a high reluctance to consider that the standards might not capture the TFV/FP in every situation and, in some respects, suggest that if the exercise of judgement causes conflict with the standard then that judgement must be inferior to that applied by the standard setters. The first comment considers that this issue was discussed in deciding the content of IAS 19 and, as a result, it should not be overridden, regardless of whether the financial statements could be misleading, as a consequence. The second comment mentions that it is too complex an issue for each company to decide what to do! The last comment seems to disregard the relative security of the sovereign bonds, which would provide relative certainty as to their value on maturity, and would, on maturity, exactly match the equivalent liability. All of the

comments are provided by respondents from EU-member states, including the UK, which was a member at the time of the study.

### 5.3. Results to the Questions

Part B contains four questions to examine expert opinions on whether the TFV/FP concept is understood, according to the applicable GAAP or law, and level of compliance with principles-based accounting in the EU (the survey is presented in Appendix B).

Q1. A TFV/FP should sometimes require more than the strict compliance with current accounting standards and these standards may need to be overridden.

The responses to Statement 1 reveal the consensus (or the divergence) in relation to whether a standard or part of a standard should be overridden in order to achieve financial statements that show a TFV/FP. Table 3, Panel A, shows that there is high scale agreement with this statement, almost 70% (and the mean is statistically different from 3). However, we would have expected an even higher rate of agreement from respondents who are very familiar with IFRS and the EU Directive. Interestingly, the level of agreement is high; in the case studies, there is a preference for adopting a more conservative position, in the sense that there is a preference for local GAAP or local GAAP with a note instead of TFO. We received specific comments in Question 1.

Comments in disagreement category:

- (1) "Fair presentation is grounded in the conceptual framework. In IFRS, the framework cannot override a specific standard".
- (2) "That could/should be the case in specific and extraordinary occasions. If that is not the case, it could be used as an excuse to do whatever in an opportunistic way".

Comment 1 demonstrates the difficulty in understanding the relationship between compliance with IFRS, the TFV/FP concepts, and the TFO. There is not a harmonised understanding of the concepts fifteen years after IFRS adoption, despite their long tradition. We agree with the respondent when he/she says that effectively the CF cannot override a standard, but IAS 1 includes the FP requirement, and this has precedence over the CF. Even if we go back to the CF for solving the problem, an override may still be necessary. Comment 2 mentions the necessity for applying the TFO; consequently, although we receive a disagreement, the expert has in mind the TFO application. It is also noted that the expert explicitly mentions the possible abuse of the override requirement.

Comments in agreement category:

- (1) "Not necessarily, only in exceptional and justified cases".
- (2) "Strict compliance may in fact be superficial compliance in a tick box manner that allows creative accounting to triumph over meaningful financial reporting".

Interesting, comment 2 references a box-ticking exercise of strict compliance, which may give way to creative accounting to the detriment of meaningful financial information. This expert is clear on the override requirement and recognises the need for the overriding concept to provide meaningful financial information.

**Table 3.** Results part B. Questions.

	N	Mean	S.D.	%Disagree		%Agree	
				Frequency	%	Frequency	%
Q1	29	3.66	***	5	17.24	20	68.97
Q2	28	3.04		12	42.86	11	39.29
Q3	29	2.59	**	15	51.72	6	20.69
Q4	29	3.69	***	6	20.69	20	68.97

The asterisks of the mean figure tests if the mean is significantly different from 3, \*, \*\*, and \*\*\* represent significance difference levels of 0.10, 0.05, and 0.01, respectively. Source: results obtained by the authors.

Q2. In the case where more than one TFV/FP can be obtained, the closest one to the accounting standards should not always prevail necessarily.

We would have expected a high percentage of agreement to Statement 2, but, in fact, it was very low at 38% (Table 3, Panel B). This statement centres on the point that the requirement in law is for a TFV not the TFV, and potentially, there could be more than one TFV. In such a situation, judgement is required, and potentially, the most appropriate treatment may not be the one most in keeping with the relevant accounting standards. The low level of agreement suggests that respondents did not appreciate the nuance in the statement, suggesting that they may not have appreciated the complexity of the TFV/FP debate. Some clarifications are obtained in the comments:

Comments in disagreement category:

- (1) "The accounting standards are a suitable benchmark to which adherence is valued and expected. It is only in a situation of full disclosure with robust explanation, should deviation be acceptable and adopted. The earlier remarks should not be seen as providing a carte blanche approach to compliance".

Comments in agreement category:

- (1) "Comply with the standards is the general rule, overriding them by invoking TFV/FP is exceptional".

Reviewing the comments, one expert who disagrees explains when the TFO can be implemented, but does not precise which standard is more adequate in the case of obtaining more than one TFV/FP. The expert who agrees highlights again that TFO is exceptional.

Q3. When a company has complied strictly with the accounting standards, but does not achieve a TFV/FP, this company and/or its auditors should be subject to sanctions, such as a fine (this would be in the context of a court hearing/tribunal).

Responses to this statement show interesting results (Table 3, Panel C). Almost 21% are in agreement with this statement and almost 52% in disagreement. We would have expected a much higher percentage of agreement given that to show the TFV/FP of the financial information according to IAS 1 is the principal objective and the low level of agreement is disquieting. This contrasts to previous research under Spanish GAAP, whereby a sanction was considered appropriate especially by students. The evidence suggests that students tended to be more justice orientated than accounting academics and professionals, who show a more sceptical vision [8].

Although we examine the specific comments in the paragraphs below, it is interesting to observe that there is not a clear consensus here. There were many indifferent responses to this statement, suggesting that experts were unsure about the statement or felt they could not answer definitively in agreement or disagreement. Some experts' comments are as follows:

Comments in disagreement category:

- (1) "That would create a legal uncertainty difficult to accept."
- (2) "Materiality must come into play, as well as proportionality. A fine may be merely a cost of doing business. Other penalties may be more meaningful: restating the financial statements, publication of the notice of determination, a directive on partner rotation, public warning, requirement to process an appropriate communication through stock market channels, etc."
- (3) "You cannot base legal proceedings on such undefined concepts."

Comments in agreement category:

- (1) "This is what happened in the Enron case."

Looking at the disagreement justifications, one expert says that this would create a legal uncertainty difficult to accept. A second expert looks for other possible penalties for non-compliance with TFV. It seems that the role of sanctions is not clear among experts, to deter and penalize or to correct and restate, or all of these, or even whether companies can be judged for not complying with undefined concepts. Comment 3 is concerned with the feasibility of TFV/FP being judged in the courts. It refers to the impossibility of basing



legal proceedings on an undefined concept, suggesting that breach of rules, rather than breach of principles, were grounds for legal proceedings. This is surprising given that TFV/FP has been the subject of legal cases, notwithstanding that it may be an undefined concept.

Looking at the agreement justification, one expert's comment refers to the Enron case. We understand that Enron applied the standards strictly, but there were loopholes because the rules did not consider the need for SPE information to be included in the consolidated financial statements. If a TFV/FP had been achieved, then the standards would have been overridden and the information from SPE would have been consolidated because they included very important information for the decisions of users.

Q4. When the accounting standards are applied, and a TFV/FP is not obtained by providing additional information either, the standard or standards that prevent the information from showing a TFV/FP should be abandoned and a more suitable treatment applied.

This question is fundamental to gauging the understanding of the respondents of the role of the override provision TFO. Experts were almost 69% in agreement with this statement and almost 21% in disagreement (Table 3, Panel D). We would have expected almost complete agreement with this question to show a complete understanding of the role and application of this concept in IFRS and EU legislation. Some experts' comments are as follows:

Comments in disagreement category:

- (1) "I don't see where this should be the case. However, that what notes are for. Just state that you disagree with the treatment required by the standards and other additional explanations (regardless of obtaining TFV get a close as possible)."
- (2) "Abandoned implies huge decision leeway. More suitable treatment should indeed be applied, and regard should be had to the objectives and frame of the standard, as well as the debate and discussion regarding its development. A more suitable treatment covers a wide spectrum of possibilities and the greater the deviation from the standard, the more onerous the obligation to have a valid justification for the approach."

Comments in agreement category:

- (1) "Of course. Then accounting standards are to blame."
- (2) "Properly reasoning the causes in the notes."

Looking at the answers in disagreement, one expert likewise seems to suggest—apply the rules and state in the notes why you disagree with them. Another expert recognises that the TFO is the extreme solution and there may be a spectrum of options and treatments with TFO being at the end of that spectrum. Looking at the answers in agreement, one expert mentions that the standards are to blame, and another refers to properly reasoning the causes in the notes.

Taken together, only three experts agree in all four questions. However, almost 36% agree with the statements of questions 1 and 2, and almost 55% with the statements of questions 1 and 4. Respecting the questions and the cases studies, most of the participants that agree in questions 1 and 4 adopt a more conservative posture in the cases, that is, there is a preference to adopt local GAAP with a note or IAS 19 with a note. The more concerning answers to the statements are the agreements to questions 1 (68.97%) and 4 (68.97%), because these statements reflect the content of IAS 1 and EU requirements, and it could be interpreted that the experts who do not agree to these statements do not consider the TFO as a possibility at all.

#### 5.4. Discussion

In this section, we explain the preferences observed by experts in the case studies and the analysis of the answers to the four questions on TFO by reference to the ostrich effect and the comfort theory. We will also discuss the importance of these results for future areas

of reporting and, in particular, for sustainability accounting, which is at the forefront of discussions presently.

The results show that around 30% of respondents do not consider the TFO as a practical option. Almost 80% consider that companies should not be subject to sanctions when the accounting standards are applied, and a TFV/FP is not obtained. When there are several possibilities to achieve TFV/FP, nearly 39% consider that, in this case, the closest treatment to the accounting standards should not always prevail, while nearly 42% consider that the closest treatment to the accounting standards should prevail.

We propose that ignoring the existence of the TFO follows the ostrich effect, even when this involves the risk of not showing a TFV and a possible future court sanction, and that by following the accounting standards strictly offers comfort as to the fulfilment of the requirement, when in reality the objective may not have been achieved. Comfort is also achieved by maintaining the accounting and legal traditions of the country in question.

Based on both behavioural theories and the preferences shown by experts, it seems that the comfort theory explains the behaviour of experts (countries) when they prefer to follow the accounting standards strictly and avoid the TFO. The ostrich effect could be when the exact steps offered by IFRS and EU legislation are ignored when applying the TFV/FP. The ostrich effect could rationalise the behaviour of preparers who ignore the real objective of financial information and authorities who are aware that the accounting process is not being followed, but they prefer to ignore it.

There is no doubt that the TFV is a complex concept [35], but we perceive that the ostrich effect is being applied when there is difficulty in employing its intended application in financial reporting or by simply following the accounting standards provides comfort to both the preparers of financial information, even when there is a risk in doing so. A risk, which they supposedly perceive, as being low.

Although it is not within the scope of this study to examine each individual country's situation, Germany would be an example of how the ostrich effect is applied in this sample, for the reason that it is difficult to include the third step into its own legislative system.

In sum, the evidence reveals that some experts (countries) ignore the existence of the TFO as part of the accounting standards and legislation. Hence, the ostrich effect can explain the lack of any real action to harmonise the understanding of the TFV and FP concepts across the EU. Many experts (countries) prefer a strict application of the standards, without ever considering the need to override, because there is comfort in following the rules. However, strict box-ticking techniques can damage the accounting profession in the long term, in our opinion. Our results raise concerns as to the harmonisation of the understanding and possible application of the TFO. Reporting is now in the financial arena and is rapidly entering areas which were unexplored in accounting.

Previous research highlights this lack of harmonisation in the TFV using other samples, and previous to the incorporation of IFRS as part of EU standards. It is for this reason we considered it important to consult an expert from each country, who is considered a specialist in their national accounting standards. In a survey administrated in Poland, apparent lack of consensus, with regard to a construction of the TFV, reveals the general unfamiliarity with the origins and substance of the concept was observed [33]. In this same study, the strengthening of the TFV principle in Poland was considered to facilitate "creative accounting" ([33], p. 10). Important differences in the perception of TFV were found between different groups, namely auditors, academics, and students in Spain [26], where auditors were more averse to the use of TFO. Differences between auditors and finance directors were found in the UK [9,31]. Gonzalo-Angulo et al. [8] focus on a sample of undergraduate students, postgraduate students enrolled in an audit master course, and auditors, and they find a different understanding in the area of TFV, according to the participant's professional status and maturity. Garvey et al. (2017) [35] also detect that academics and students do not share similar cognitive structures when different aspects of TFV are tested. Egan and Xu [14] also find differences between managers and audit committee members and auditors in a sample of eight participants.

This lack of harmonisation is problematic in early-stage accounting standards, which is the case for sustainability standards. We argue that they should be built on a solid base. Our concern is on already implemented accounting principles, which lack harmonisation, which is reaffirmed in our study and has been confirmed in previous literature. The TFV and TFO and their use are more important than ever in the area of sustainability accounting, an area that incorporates much risk, uncertainty, and fluctuation in order to guarantee high quality financial information to users. We make a call for the base concepts to be re-examined, to set a solid harmonised base for these important central objectives of reporting to allow for a smoother expansion of accounting into new areas and build on solid foundations.

## 6. Conclusions

There is a wealth of existing literature on TFV, FP, and TFO and the apparent tension in the interplay between EU legislation and accounting standards with regard to these concepts. This research deals with a practical exercise to assess the preferred treatment. The possible treatments offered are those included in the EU Directive and in IFRS for obtaining a TFV/FP, which should be considered as a step-by-step approach. Firstly, by simply following the standards, secondly by following the standards (but with the inclusion of additional information in the notes to the accounts), and thirdly, by overriding the accounting standard or standards.

There was evidence in the responses to the case study, of adversity to the risk of going down the road of the TFO. Rather than exploring the value added of an alternate treatment, barriers to considering it were raised—the standard setters must have considered it so there is no point in second guessing them—it is not conservative enough—or is too complex a topic to argue with the views of the standard setters. All of these points are perfectly valid strands of a greater discussion on whether the TFO should apply in a particular setting, but they should not be definitive answers in themselves. The apparent safety net of avoiding sanctions by applying the standards, whether or not a TFV is achieved, would appear to be a significant element in the thought processes of the respondents, and which offers them comfort according to our proposal.

After 40 years of using TFV and TFO in the EU directives, and similar criteria in IFRS we find a lack of harmonisation of its meaning and understanding by experts in the field of accounting. We refer to the obligations set out by the concept before being applied in practice. The use of professional judgement in its application makes the final result subjective. This subjectivity is expected but ignoring the initial requirements of the principle are not appropriate and becoming comfortable with this understanding has important consequences for accounting harmonisation. As accounting expands and will advance over the coming years in the areas of non-financial information, and especially sustainability accounting, we consider that effort should be made to achieve a harmonised understanding of these requirements and not have them dealt with in an “a la carte” fashion as the content requirements, and steps are clear. Our research shows that some experts do not consider the TFO as part of the principle. As non-financial reporting (especially sustainability accounting) comes to the forefront, it is important to confront these inconsistencies in the short term. We support the use of the TFV for sustainability accounting and its inclusion under the audit report umbrella.

The TFO position can be explained using two behavioural theories—the ostrich theory and the comfort theory. The evidence suggests that box-ticking and a desire to follow the rules and traditional methods, which do not incorporate significant changes, are more comfortable for individuals. Maybe these arguments could explain why a solution has never been found to the lack of harmonisation of the TFV/FP in the EU. Given that our respondents were well versed in this area and yet demonstrated marked reluctance to actively advocate the role of the TFO in practical situations, it has to be concluded that practitioners in general would be even more reluctant to take on this challenge. It may indeed be easier to “tick the box” than “open the can of worms”!

This article contributes to the actual discussion on accounting harmonisation by focusing on a crucial concept with a long history in EU jurisdictions. However, the TFV offers multiple areas that could be examined in future research. An interesting line is to consider how FP and TFV contribute or detract from the representation of the financial position and performance of the firm. Another interesting topic is to analyse the implications for the education and preparation of future accounting practitioners and professionals.

As in other studies, some limitations could be mentioned. This article examines two case studies and four closed-questions; future research could extend both the practical applications and questions emphasising other interesting areas relating to TFV/FP. Although our participants are qualified accounting experts and highly experienced in the field, future studies could extend the sample to other collectives in order to generalise the results. It could be interesting to collect information from more academics, auditors, and preparers to advance in the development of sustainability accounting.

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## Appendix A Survey. Part A. Case Studies

### Case 1. IAS 40 (Investment Property)

Background to the case.

Company GeForce adheres to local GAAP (non-IFRS).

GAAP recognises no difference between investment and non-investment properties. All subject to depreciation, etc.

Ninety percent of non-current assets in GeForce are investment properties (IP).

Directors want to value IP at FV going forward (as facilitated by IAS 40) on the basis that this treatment would reflect the real substance of the company's assets and reflect a TFV/FP of the financial situation.

Company needs to override (not to apply) local GAAP to do this.

What is your preferred treatment in this case to show a TFV/FP?

1. Use local GAAP as before.
2. Use local GAAP, but include a note in the accounts to show the values at FV.
3. Override local GAAP and use FV for IP to show a TFV/FP.
4. Other treatment.

Comments (optional)

### Case 2. IAS 19 (Employee benefits)

Background to the case.

Company sponsors a defined benefit pension scheme for 150 employees.

Seventy of these employees are due to retire in 10 years' time.

Company invests company and employee contributions in what it considers “risk free” sovereign bonds, which will mature at the same time as the pension liabilities. Assets will equal liabilities on maturity.

Company considers that both the assets (sovereign bonds) and liabilities (pension entitlements) should be discounted using the same discount rate, i.e., the interest rate on the sovereign bonds.

On this basis, the NPV of the assets equal to the NPV of the liabilities. The company is of the view that this would fairly reflect the hedging strategy of the company.

IAS 19 requires pension fund liabilities to be discounted by reference to interest on AA corporate bonds of a size and duration matching the liabilities in question.

This will result in reported fluctuating profits and losses over the 10-year period, cancelling out to zero profit or loss overall, by the time the bonds and the liabilities mature.

Company decides to override IAS 19 on the basis that, on maturity, the pension assets and liabilities will be equal and the reported fluctuating profits and losses in the interim could be confusing and potentially misleading for users.

What is your preferred treatment in this case to show a TFV/FP?

1. Apply IAS 19 hereby reporting the yearly fluctuations in the financial statements.
2. Apply IAS 19, including yearly fluctuations, in the financial statements, but including a note in the accounts explaining the overall hedged position on maturity.
3. Override IAS 19, on the basis that the reported fluctuations in the financial statements do not provide a TFV/FP of the 100% hedged position.
4. Other treatment.

Comments (optional)

### Appendix B Survey. Part B. Questions

Q1. A TFV/FP should sometimes include more than the strict compliance with current accounting standards and these standards may need to be overridden.

Q2. In the case where more than one TFV/FP can be obtained, the closest one to the accounting standards should not always prevail necessarily.

Q3. When a company has complied strictly with the accounting standards, but does not achieve a TFV/FP, this company and/or its auditors should be subject to sanctions—a fine (this would be in the context of a court hearing/tribunal).

Q4. When the accounting standards are applied, and a TFV/FP is not obtained by providing additional information either, the standard or standards that prevent the information from showing a TFV/FP should be abandoned, and a more suitable treatment applied.

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