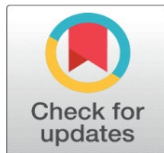
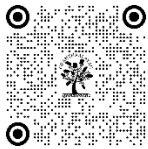


THE ROLE OF TRANSPARENCY AND RELIABILITY IN FINANCIAL STATEMENT: REFERENCE TO INDIAN CORPORATE SECTOR

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ABSTRACT

The role of transparency and reliability in financial statements is necessary to not only for the investors, but also for the business and the accounting corporate. It is regular process of Financial Accounting for identifying, posting, analysing and communicating economic information to the stakeholders to their management decision. The purpose of this research is to find the existence of reliability and transparency in the financial statement, for the benefit of investors and scholars. The scope of the study is to find the relationship of accounting standards, corporate governance, external controls, internal controls, and ethical practices with the financial statements, based on the auditors and management views the corporate sector in India. The existence of transparency and reliability in financial statements was related with accounting standards, ethical practices, internal controls, external controls, and corporate governance. The outcome will be supported by many tests through SPSS statistic software.

Keywords: Business Ethics, Transparency, Management Accountability, Reliability, Internal, Controls, Financial Statements, External Controls, Accounting Standards, Ethical Practices

1. INTRODUCTION

Financial Accounting is the common process of identifying, posting, analysing and communicating economic information to the stakeholders for their management decision. Financial statement is a set of accounting that was properly organized into its classification of the income statement, balance sheet and cash flow statement. These classifications are necessary for the shareholders investors and government to analyse the transparency and reliability of the financial statements. The role of transparency and reliability in financial statements is necessary to not only for the investors, but also for the business and the accounting corporate. Today the transparency and reliability seem blurred in the business world therefore this research is investigating the existence of reliability and transparency in the financial statement for the benefits of investors and analysts. When the relevance, comparability, and understanding were included in the financial statement, the financial statement was capable of relaying information more adequately with the accounting and non-accounting personnel.

Transparency in financial statements has been an issue for number of years in the past but the collapse of Enron finally opened the eyes of investors and shareholders in seeing the need for transparency. Hence, the investors need to understand the impact that the existence of transparency in financial statements would have necessary.

The research objectives were to find out how and to what extent the existence of reliability and transparency was in the financial statements for the investor's knowledge and rights. Hence, research questions were made to fulfil these requirements with consideration of ratio method, investor's knowledge and potential variables to the transparency and reliability of the financial statement and to what extent such variables for auditors (internal or external) are highly accepted. Accounting accuracy refers to the degree to which financial statements and records reflect the true financial position of a company. It involves that all financial transactions are recorded correctly and that the information presented is reliable and free from errors or misstatements.

This research study aims to explain the existence of financial statements and the need for various factors to identify the transparency and reliability of financial statements. Accounting Standards explain the accounting policies that should be used by the management for specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Also believed that the financial statement should provide a true and fair view of the accounting processes which were consistent with the accounting standards and legislation.

2. LITERATURE REVIEW

There are many debates and research about transparency and reliability of the financial statements around the globe. Since the collapse of Enron and other companies, the investors no longer trusted the financial statement for decision-making needs. Hence, it implies the possibility of the existence of transparency and reliability on the financial statements. Therefore, it is necessary to discuss various matters that may or may not affect the transparency based on previous studies.

2.1. FINANCIAL STATEMENTS

- 1) **Bessire (2005):** He says that transparency is a two-way mirror. It shows the inside of the organizations, transparency had revealed the inside and outside of the financial statements. However, there are many limitations on making transparency a two-way mirror, although it is something impossible to achieve in the current world. Since financial statements revealed the inside operations of the organizations and it also reflected the outside participants such as stakeholders, Investors, scholars etc.
- 2) **Berggren & Bernshateyn (2007):** Transparency is important to drive the organization's performance when such transparencies are practiced enhancing employee contributions. It is common that transparency ensures less extra work that occurs after the financial statements were published. It motivated the employees to work better and strive for the future of the organizations.
- 3) **Crompton (2011):** Revealed that transparency has a high value in the business world. The value of transparency is well-explained in the above transparency nodes; transparency nodes such as Organizational transparency drives, company performance, Information transparency and valuation.
- 4) **Brown et al. (2018)** found that companies with higher financial reporting transparency tend to experience lower stock price volatility due to enhanced investor sentiment. Financial reporting transparency is a crucial component of corporate governance, and its impact on investor decision-making has garnered significant attention in recent years. As companies strive to provide clearer and more comprehensive financial disclosures while ensuring timely information dissemination, it becomes essential to understand the implications of these transparency efforts on investor behaviour and choices in the stock market. However, despite the increasing emphasis on financial reporting transparency, there is a need for a comprehensive analysis of its direct and indirect effects on investor decision-making, taking into account recent developments in both financial reporting practices and the investment landscape.

2.2. ACCOUNTING STANDARDS

- 1) **Vrentzou (2011):** Revealed the accounting standards that should be followed to minimize any fraudulent activities in the organizations. Fraud occurs because the companies tend to use different accounting methods that were successful for other business industries. Hence, a good knowledge of International Financial Reporting Standards is required in enhancing the transparency and reliability of financial statements.

- 2) **Weetman (2003):** Revealed that users of financial statements favoured the accounting standard board as it is concerned on stock market. The accounting standard board served the interests of users of the financial statement well. It is wiser to request the reason as to why the accounting standard board choose FRS as the standards for critical matters.

2.3. CORPORATE GOVERNANCE

- 1) **Yakhou & Dorweiler (2004):** According to them the accounting and corporate governance can restore the public trusts towards the financial statements and the accounting professions in the world. Accounting standards and corporate governance are ethical principal practices to ensure the reliability and transparency of the financial statements. Corporate governance covers not only the shareholders but also the directors, and its employees.
- 2) **Rezaee (2004):** Stated that ethical practices and additional requirements are necessary to ensure that the auditors serve their duties right to unravelled the fraudulent matters in the financial statements. Also, it can identify the extra needs to follow other standards and principles to support the transparency and reliability in the financial statements.
- 3) **Skaifea, Collins and LaFond (2006):** revealed that the firm credit rating is unrelated to the number of blockholders in the company. However, the firm credit ratings have positive results on the weak practices of shareholder's rights during the AGM or EGM. The statistical data that was collected and managed to reveal the truth of firm credit ratings and shareholder's right in the organizations. However, it has high positivity with the degree of transparency in the organizations.
- 4) **Brennan and Solomon (2008):** They have taken their data to compute the references about accountability and presenting a framework on corporate governance. It is the best way to enhance transparency because corporate governance is known as the umbrella to the shareholders and organizations. Certain methods have been found to reveal transparency and accountability from the financial statement effectively.

2.4. INTERNAL CONTROLS

- 1) **Stone (2011):** It is more concerned with the lack of communication skills between the management and the accountant in the organizations. The accountant was previously not given higher priority but now, it is one of the top positions the company needs to fill. Hence, face-to-face is preferred in explaining and understanding the goals, the objectives and the paths of the organizations. It is supported that internal control is extremely important in facilitating the reliability and transparency in the financial statements.
- 2) **Spira & Page (2003):** Conducted research on transferring internal control into the risk management process. The observations showed that risk management becomes aligned with internal control once it flows with corporate governance policy. Thus, the risks are manageable and turned into accountability for the function and financial statements.
- 3) **Kaminski, Wetzels & Guan (2004):** They revealed the use of ratios in determining the transparency and reliability of the information in the financial. They are saying using ratio to make the analysis in order to detect fraudulent in financial reporting.

2.5. EXTERNAL CONTROLS

- 1) **Clavel, Martinez & Ortiz (2007):** They found that there are differences between net income and shareholders' funds preparation according to domestic GAAP and US GAAPs. Also, it was identified differently in the industry itself. All these options are only a matter of simple ideas when IAS (International Accounting Standards) needs to be handling for proper financial statement preparations. It requires external control and properly verification process of accounting.
- 2) **Suwaidan & Qasim (2010):** They revealed that external auditors heavily relied on objectivity, competence and work performance of their internal auditors. Hence, these affected their reliance decisions on the auditing matter. Also, the size of external auditors' company was the best way to explain the estimated fees relating to auditing

processes per year for all the companies. However, the authors decided that there was no relationship between reliance of external auditor on internal auditor and external audit fees.

2.6. ETHICAL PRACTICES

- 1) **Makkawi and Shick (2003)**. They conducted a survey in CPA firm, involving 25 senior auditors. The test was to identify whether auditors have high or low sensitivity towards fraud. According to the results, the auditors were required to audit smarter. It is because the auditors were under fixed fee environment and yet, they were required to balance between effectiveness and efficiency of audits' reports. The authors suggested that extra training would be able to cope with the fee environments and audit smarter for specific company's industry and environment.
- 2) **Thurasingam & Sivanandan (2012)**: Conducted a questionnaire to test the drive of young generation towards law and ethics. The researchers found that young generation were not driven by any differences in gender, race and religion. However, they may be influenced through moral reasoning, age, educational background, parents, peers, social upbringing, ethical knowledge and socioeconomic status. It means that their ethical conducts are based on their self-reasoning of such consequences.

3. RESEARCH METHODOLOGY:

The research has conducted on hybrid method by using both a quantitative and a qualitative method. Firstly, the research is conducted through a questionnaire using five-Likert scale and analysis approach. This questionnaire has been sent to the respondents for their responses towards the factors on transparency and reliability of the financial statements. The respondents totalled 60 people, 30 samples from auditor's firms, and 30 samples from management firms. The questionnaires were asking questions about ethical standards, accounting standards, corporate governance, internal control and external control for the financial statements. Hence, these 30 questionnaires were gathered to test the visibility of transparency and reliability in the financial statements.

3.1. DATA COLLECTION

Structured questionnaires were constructed to collect the point of views from the managements and auditors. 30 questionnaires were released to the respondents by email, by internet and by hand. All 60 respondents were returned for the analysis process. Only 26 questionnaires were potentially available for analysis for both qualitative and quantitative. The response rate was 90%.

3.2. RELIABILITY ANALYSIS

Reliability means other research can trust the data and information. Good results from the questionnaires obtained if there is a reliability instilled within the questions and variable. It is observed that Cronbach's Alpha have increased the reliability of the data and results. As the Table 1, it shows the data of each variable and Cronbach Alpha in determining the reliability of the data. The Cronbach Alpha for all variables includes here.

3.3. HYPOTHESIS

To achieve the aims of this study, the researcher has developed the below hypotheses:

H0: There is no significant relationship between financial statements with the independent variables.

H1: There are transparency and reliability in financial statement through the proper knowledge of accounting standards.

H2: There are transparency and reliability in financial statement through the acceptance of corporate governance policy.

H3: There are transparency and reliability in financial statement through the improvement of internal control functions.

H4: There are transparency and reliability in financial statement through the enforcement made by the external parties such as shareholders; securities exchange commission and external auditors.

H5: There are transparency and reliability in financial statement through ethical practices and conducts while reporting the financial statements.

H6: There are transparency and reliability in financial statement through combination of accounting standards, corporate governance practices, internal control functions, external control enforcement and ethical conducts and practices in the organizations.

4. RESEARCH OUTCOMES

4.1. DESCRIPTIVE ANALYSIS

When the data collected and implemented into the system, SPSS showed that 62% of the respondents were male while 38% respondents were female and 55% of the employees from management field and 45% of auditors with degree and professional certificates have answered the questionnaires. It also supported with 57% were holding senior positions and 43% holding junior positions either from management or auditing fields.

4.2. NORMALITY DISTRIBUTION TEST

The researcher used the method of skewness and kurtosis statistic in accessing the normality of data taken from the respondents. As shown in the Table 2, the researcher found that the normality between all the variables were far from the normal ranges used in the methodology. The data should conclude for skewness is range at +1 and -1 as well as kurtosis is range between +1 and -1.

4.3. REGRESSION

$$FS = -18.22 + 1.118, AC = 0.289, IC + 3.96, EP - 2.217, CG - 0.220$$

According to the Table 4, a summary of the regression showed that there is a valid linear correlation between the dependent and independent variable. It found through R is 0.603 constantly within the variables:

The estimated of R² is 0.355 which means about 35.5%. The variance of dependence variable explained in the variance of independent variable. The F is 5.175 is substantiated at the 1% significance level.

Table 1: Reliability Status:

Sr. No.	Variables	Cronbach's Alpha	No. of items
1.	FS – Financial Statements	0.876	6
2.	AS- Accounting Standards	0.899	6
3.	IC- Internal Controls	0.782	6
4.	EP- Ethical Practice	0.937	6
5.	EC- External Control	0.983	6
6.	CG- Corporate Governance	0.957	6

Table 2 Normality Position:

Sr. No.	Variables	Sample Numbers	%
1.	FS – Financial Statements	30	100
2.	AS- Accounting Standards	30	100
3.	IC- Internal Controls	30	100
4.	EP- Ethical Practice	30	100
5.	EC- External Control	30	100
6.	CG- Corporate Governance	30	100

Table 3 The results of skewness and kurtosis within the agreed range of +1 and -1.

Sr. No.	Variables	Skewness	Kurtosis
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1.	Total Financial Statements	-0.449	-0.786
2.	Total Accounting Standards	0.307	-0.005
3.	Total Internal Controls	0.045	-0.876
4.	Total Ethical Practice	0.567	-0.886
5.	Total External Control	0.496	-0.566
6.	Total Corporate Governance	0.295	-0.890

Table 4 Regression Analysis:

Model	R	R Square	Adjusted R Square	Std Error	F	Significance
1	0.594	0.359	0.286	3.9901	4.561	0.01

a Predictors: (Constant), Total EC, Total CG, Total AC, Total EP, Total IC,

Dependent variable p-value is <0.01. Thus, the null hypothesis was rejected since it is $p < 0.027$. In this case, the researchers discussed which hypotheses won the case for the relationship with the financial statement.

According to the linear regression, the hypothesis 1 can be accepted because the sig level is 0.458. In this case, there is a transparency and reliability in financial statement through the proper knowledge of accounting standards.

Second, hypothesis 2 tested on the transparency and reliability in the financial statement through the acceptance of corporate governance policy. The results for sig level are 0.290 which resulted to acceptance of this matter.

Third, it is the hypothesis 3 through improvements of internal controls function. The sig level is 0.2380. Hence, the researcher believes that a small improvement of internal controls functions might be beneficial for transparency in financial statements.

Fourth, it revealed that the sig level for hypothesis 4 is 0.445. It means there are slightly results than the financial statements transparencies gathered with full support and controls from the external parties such as auditors, shareholders, and securities exchange commission and public.

Fifth, the hypothesis that tested the transparency and reliability through ethical practices resulted in 0.332. As a single detail, the researcher decided to accept that the employees need to conduct ethical practices to ensure that fraud, bribery and misstatements would not occur in the business.

In conclusion, it is easier to say that the researcher picked the entire hypothesis and confirmed that hypothesis 6 is more suitable for the declaration in this research. It means there is transparency and reliability in financial statement through combination of accounting standards, corporate governance practices, internal control functions, external control enforcement and ethical conducts and practices in the organizations.

4.4. MULTI-COLLINEARITY ANALYSIS

Table 5 Coefficients & Pearson’s correlations:

Model	Unstandardized Beta	Standard Error	Standard coefficient Beta	t-value	Sig.	Pearson’s coefficient
Constant	10.90	4.91	-	2.228	0.027	-
Total AS	-0.74	0.257	-0.112	-0.706	0.458	0.336
Total IC	1.161	0.925	0.334	1.116	0.380	0.545
Total EP	1.023	1.004	0.223	0.556	0.332	0.556
Total EC	0.938	1.033	0.224	0.778	0.445	0.540
Total CG	0.179	0.913	0.056	0.230	0.290	0.474

Checking multicollinearity was vital because the researcher can check the correlation coefficient between financial statements, accounting standards, ethical practices, internal controls, external controls and corporate governance.

Multicollinearity existed when the correlation coefficients are high between the variables. According to Table 5, the Pearson correlations are 0.336 between financial statements and accounting standards, 0.474 with corporate governance, 0.545 towards internal controls, 0.556 together with ethical practices and 0.540 with external controls.

Here, only p value for accounting standard is more than 0.01. However, p value for accounting standard is not more than 0.05. Hence, the accounting standards is still accepted, and null hypothesis again was rejected in this case. Thus, it explained the same conclusions in the regressions that all independent variables played a role in the transparency and reliability of the financial statements towards various parties that used the financial statements for investment evaluations.

4.5. ANALYSIS OF QUALITATIVE QUESTIONNAIRES

A simple analysis of Ten questions has been conducted to the auditors and the management to understand the questionnaires. It is necessary to understand each part that was vital to be understood by the external parties on why and how transparencies and reliability of financial statements could occur.

These ten questions were asked on transparency and reliability is necessary for the investors, the possibility of reliability in the financial statement for decision-making processes, the reliability of financial statements after auditor's approval, company practice for transparency in their financial statements, whether every business practice transparency in their financial statements, whether corporate governance enhanced the reliability and transparency in the financial statements and internal and external control systems. Majority of participants replied that the investors are investing their trusts and money into a corporation. The financial statements are showing the performances of the business hence they are reliable for decision making documents for the investors and suppliers. Sometimes the companies cannot reveal their secrets to their competitors and believe that it is better to shield them than revealing transparency and truths from the competitors. Every business should practice transparency in their financial statements to benefits for the investors and corporate governance enhanced a part of the reliability and transparency in the financial statements. Also, internal controls are vital for the transparency and reliability of the financial statements. It is done to avoid fraud, misstatements and bribery cases that occurred in the organizations.

5. FINDINGS AND CONCLUSIONS

- 1) It was found from the auditor's report that Increase the cash flow for the corporate transparency in financial statements helped to increase the cash-flow of a country. The auditors believe that due to transparency and reliability in financial statement more investors will spend their money investing in their preferred company. When they gained more dividend and capital appreciation from the company they will re-invest more fund in the same company or other company hence the cashflow of the corporate will be working well and contributed for success in many ways.
- 2) When investors keep investing money into an organization, many opportunities for employment arises, hence more projects and work opportunities are open for the public. Top management might spend on redevelop or bid for more projects to increase the company financial power. Transparency and reliability in financial statement reduce unemployment rate and financial help for the country
- 3) Companies set their trusts to employees that increase their motivation to contribute in the company's projects or investments. That's how transparency and reliability in the financial statement is set for the investors. With trust, they invest a large amount of money to an organization. It helped to increase financial power of an organization to conduct their day-to-day activities.
- 4) Many investors have been investing for years to see the development of corporations. They wanted to see the profits and gain for the benefits of their investment. Hence, a corporation that increases these matters should try to make the investors happy. They might even tell other investors or main agents about the truth of this organization.
- 5) It was found that the transparency and reliability of a financial statement can relate to the image management of a company. An investor released a word about the positive of the organization it helped to gain more projects and more collaboration between countries or companies. They have power to overrule any organization because they have basic knowledge or accounting knowledge based on the history of Enron and other companies. It increases

the stock markets, employment rate and image of the corporation. This is known as free image management created by the investor.

- 6) It was also found that transparent disclosures not only mitigate information asymmetry but also foster trust and confidence among investors, ultimately leading to more informed and rational investment decisions.
- 7) When the investors detect that the financial statements are not transparent and not reliable, big troubles arises for the organizations. The investors can request the court to validate the company wellbeing. Then, they may ask for liquidation or bankruptcy. Bankruptcy does not happen because a company requested it. In today's world, a group of investors can request bankruptcy for suspicious company. Liquidations are done to pay back all the creditors amounts before giving the rests to the shareholders. However, it took a long and tedious process to complete this matter.

6. CONCLUSIONS

- 1) Transparency has been the only reliable way to have faith in the financial statements. Hence, it is not a simple matter that should be ignored or ruined by the organizations. As the organization is using the shareholder's investments, they must continue to carry such good faith in dealing with that money. When there is no transparency, the financial statements and its information are useless for the decision-making needs. It is not only affects the shareholders, but also affects the organization's decision in the future.
- 2) The relationship between the dependent variables (financial statements) and its independent variables (accounting standards, corporate governance, internal controls, ethical practices and external controls). These variables have proven to enhance the reliability and transparency of the financial statements, thus increasing the informative needs, not only for the investors but the management to decide in the future.
- 3) There are several limitations like the number of management's respondents exceeds the auditor's and researcher's expectations, and time on the respondents and researchers
- 4) A connection between its independent variables towards the financial statements. The best way to see the depth of transparency and reliability is the internal controls functions in the organization is Conflicts of Interest.
- 5) To bridge the gap in understanding how cultural and institutional variations affect the transparency-investor relationship, future research should emphasize cross-cultural studies and Practice Companies should recognize the potential variation in the impact of financial reporting transparency across industries. Tailoring transparency practices to industry-specific needs and expectations can better serve both investors and the company itself.

CONFLICT OF INTERESTS

None.

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