

Role of Financial Reporting Standards in Enhancing Transparency and Accountability: An Empirical Study

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DOI:10.48047/jcdr.2021.12.06.332

Abstract

Transparency and accountability hold paramount significance in upholding public trust and fostering the efficiency of capital markets. Enterprises that adhere to comprehensive reporting standards exhibit a propensity to furnish more intricate and precise financial information, thereby facilitating astute decision-making among stakeholders. Additionally, the potential hurdles confronted by companies in effectively implementing financial reporting standards. These challenges encompass the intricacy of the standards, the financial costs associated with compliance, and the requisite for professional expertise. The provision of ample resources, training, and support to assist companies in surmounting these challenges and fortifying their reporting practices." The researcher had considered people from finance department of different companies to know the role of financial reporting standards in enhancing transparency and accountability and found that financial reporting standards Facilitates comparison of dissimilar organizations across nations, enable investors and stakeholders to make well-informed decisions and furnish a careful overview of a company's performance and market positioning.

Keywords- Financial Reporting Standards, Financial Transparency and Accountability.

Introduction

Financial reporting regulations play a pivotal role in shaping the economic landscape for organizations worldwide. For Chief Financial Officers (CFOs) and finance executives, possessing a comprehensive understanding of these standards is paramount to ensure the precision and dependability of financial reports. Tschopp & Huefner, (2015), it elucidates how adherence to global accounting standards can cultivate trust among stakeholders. Financial reporting standards serve as a fundamental cornerstone for corporate transparency and accountability. These standards establish an integrated framework of accounting guidelines that companies must adhere to when formulating their financial statements. These statements furnish a meticulous overview of a company's performance and market

positioning. The primary objective of financial reporting standards is to ensure the consistent dissemination of information among public companies worldwide. This uniformity facilitates comparisons of disparate organizations across nations, enabling investors, creditors, analysts, regulators, and other stakeholders to make well-informed decisions.

Fung, (2014) implementing standardized reporting practices, stakeholders can assess companies on an equitable footing, regardless of whether they operate domestically or internationally. This fosters trust and confidence in financial markets, as it engenders equitable competition and enables effective risk assessment. Large corporations with multinational operations must diligently institute IFRS or GAAP principles across all pertinent departments, including finance and accounting teams, as well as internal audit departments. Executing these tasks necessitates expertise and finesse to ensure precision and consistency in financial reporting practices.

Literature review

The pivotal role played by financial reporting standards in augmenting transparency and accountability holds paramount significance within the realm of business. These standards encompass a comprehensive set of principles that govern the process of formulating financial statements. According to Kolk (2008) serve as an intricate framework for organizations to accurately unveil their financial information, thereby enabling investors and other stakeholders to make well-informed decisions pertaining to the entity's performance. The primary objective was to consolidate accounting practices across the heterogeneous landscape of the United States.

GAAP provides meticulous guidelines for reporting financial data, encompassing the identification and categorization of transactions, as well as the timing of their disclosure. This system of global standards facilitates the comparison of financial statements among firms operating on an international scale, even in the presence of divergent domestic accounting frameworks. IFRS places emphasis on delivering lucid guidance pertaining to asset recognition, depreciation methods, and disclosure prerequisites for transactions or events that have the potential to impact a company's financial performance over time, such as mergers and acquisitions or investments.

Van Greuning, Scott, & Terblanche, (2011) adhering to financial reporting standards, companies augment transparency in their financial statements. Furthermore, financial reporting standards also assume a pivotal role in promoting accountability within organizations. Financial reporting standards serve as a framework that steers organizations in the preparation of financial statements. This comparability empowers investors, analysts, and other stakeholders to assess the financial performance and position of organizations, regardless of their geographical location or accounting practices. The pivotal role of financial reporting standards in augmenting transparency and accountability within the realm of business assumes paramount significance.

According to Heald (2012) bedrock of trust and assurance is founded upon the bedrock principles of openness and responsibility, whereupon stakeholders repose their confidence. Through the faithful adherence to financial reporting standards, companies can furnish precise and information pertaining to their fiscal standing, operational endeavors, performance outcomes, and future aspirations, thereby fostering a climate of utmost transparency. These very standards ensure that organizations divulge pertinent and dependable financial intelligence to stakeholders.

According to Barth and Schipper (2008) encompasses elaborate financial statements, enabling stakeholders to scrutinize the generation of revenue and the incurrence of expenditures across temporal horizons. Such profound transparency empowers stakeholders to render judicious decisions in relation to their investments or affiliations with specific entities. They can meticulously assess the potential risks entailed in allocating resources or funds to a particular company, thus exercising prudence and due diligence.

According to Nikolaeva and Bicho (2011), financial reporting standards wield considerable influence in instilling trust and bolstering confidence within the business community. When companies steadfastly adhere to these standards, they manifest their unwavering commitment to accountability and responsible corporate conduct. This facet of accountability assumes paramount importance in upholding ethical practices and thwarting fraudulent activities. In addition to legal compliance, financial reporting standards impel companies to actively consider stakeholder interests when making consequential decisions. This facet of accountability is emblematic of a broader commitment to responsible corporate behavioural ethos of openness and responsibility in financial reporting serves to minimize information

asymmetry, engendering unwavering confidence among stakeholders. Furthermore, financial reporting standards engender uniformity and comparability across a myriad of organizations. When entities espouse a shared set of standards, stakeholders are endowed with the ability to effortlessly juxtapose financial information, thereby evaluating the performance of diverse entities.

This very comparability fosters an environment of transparency and accountability within the business domain, as stakeholders can discern the fiscal status and performance of companies within the same industry or sector. Organizations must also cultivate a culture steeped in responsibility and openness throughout their operative framework. This encompasses the creation of an ecosystem where employees feel emboldened to voice concerns and report any improprieties sans fear of reprisal.

Organizational leaders must assume ownership for any missteps, eschewing the propensity to shift blame onto others, thereby fostering an ambiance that cultivates collaboration, teamwork, and innovation. Financial reporting standards serve as a pivotal framework that companies must adhere to when formulating their financial statements and other reports. These requirements necessitate the inclusion of supplementary information beyond the conventional financial statement line items. Such information may entail particulars about outstanding debt instruments, commitments and contingencies, equity transactions, lease obligations and arrangements, as well as acquisitions and divestitures.

Certain countries have even enacted specific legislation mandating disclosures concerning environmental matters or executive compensation packages. These supplementary disclosures serve to cultivate public trust by providing deeper insights into how management operates the organization both operationally and strategically. Furthermore, these disclosures equip regulators with additional resources to effectively monitor the activities of publicly traded corporations. These standards establish a common language for reporting financial information, ensuring consistency across diverse organizations and industries. By adhering to these standards, companies provide stakeholders with the assurance that the financial statements accurately reflect their activities and financial standing. Furthermore, financial reporting standards augment accountability by establishing a system of checks and balances. These audits provide an additional layer of assurance to stakeholders, affirming the reliability and trustworthiness of the financial information presented.

According to Brown, Preiato, and Tarca (2014), financial reporting standards fulfil a critical role in enhancing transparency and accountability in corporate reporting. They provide a framework for companies to follow, ensuring accuracy, consistency, and reliability in financial disclosures. Financial reporting standards establish a comprehensive framework that companies must adhere to when creating and presenting their financial reports. The significance of transparent and comprehensive financial information cannot be overstated.

Similarly, creditors utilize these standards to evaluate the creditworthiness of borrowers and assess the viability of extending funds. According to Owen (2013), external auditors employ these international accounting standards when scrutinizing the financial results of previous years to ensure their accuracy. They offer independent opinions on the financial statements presented by management teams at public corporations. Global organizations have access to various resources that enable them to remain competitive and comply with local laws in diverse jurisdictions across the globe.

By leveraging international accounting standards, companies can provide services like audits and consulting engagements while ensuring that clients from different countries meet their respective regulatory requirements. Furthermore, a comprehensive understanding of financial reporting standards enables external auditors to meticulously review historical financial results before endorsing them to the management teams at public corporations. Financial reporting standards play a pivotal role in ensuring accountability within global organizations, and regulators are instrumental in promoting transparency by enforcing these standards.

It is crucial to acknowledge the significant contribution of regulators in advancing this mission. The significance of financial reporting standards in augmenting transparency and accountability becomes apparent through their influence on investor decision-making. It serves as the foundation for their analysis and aids in evaluating the value and feasibility of their investments. When financial statements conform to the prescribed standards, they are more likely to exhibit transparency and reliability. Through the establishment of consistent reporting guidelines, financial reporting standards also facilitate comparability among companies. This enables them to identify patterns, evaluate relative strengths and weaknesses, and make more informed investment choices.

According to Agoglia, Doupnik, and Tsakumis (2011), financial reporting standards promote accountability by imposing a set of regulations and requirements on companies. Investors can have greater assurance that the reported figures have undergone scrutiny and accurately reflect the company's real financial performance. By providing a shared language and framework for reporting, they reduce information asymmetry between companies and investors.

This, in turn, fosters market transparency and enhances market integrity. Regulators hold a pivotal position in fostering transparency and upholding compliance with financial reporting standards, thereby reinforcing transparency and accountability within organizations. Their involvement is instrumental in ensuring companies adhere to established guidelines and regulations, cultivating trust and confidence in the financial reporting process. They diligently monitor and supervise the financial reporting practices of organizations, ensuring their adherence to the prescribed guidelines. Through their vigilant oversight and robust enforcement measures, regulators assist in identifying and addressing any irregularities or fraudulent practices, thereby safeguarding the integrity of financial markets.

According to Tilt (2010), regulators actively contribute to the ongoing development and enhancement of financial reporting standards. They actively participate in the process of setting standards, providing valuable insights and feedback based on their extensive regulatory experience and knowledge. Compliance with financial reporting standards assumes a pivotal role in cultivating stakeholder confidence and elevating the veracity of companies' financial data. When organizations adhere to these standards, it engenders assurance among stakeholders, encompassing investors, creditors, and the public, regarding the precision and dependability of the disclosed financial information. By upholding established financial reporting standards, companies manifest their dedication to transparency and answerability.

Goel, (2010) reliance on the information furnished in financial reports to formulate well-informed determinations regarding their involvement with the company, such as investing in its shares or extending credit. When financial reports are formulated in accordance with the prescribed standards, stakeholders repose a higher level of faith in the disclosed information, as they are cognizant that it has undergone meticulous scrutiny and satisfies the requisites set forth by regulatory entities. It profoundly impacts the company's reputation, its capacity to

allure investors, and its access to capital. Adhering to financial reporting standards enables companies to erect a sturdy bedrock of trust with their stakeholders. Moreover, compliance with these standards fosters consistency and comparability in financial reporting across diverse organizations. This facilitates stakeholders in evaluating and contrasting the financial performance of different companies more effectively, thereby facilitating enhanced decision-making. Furthermore, it streamlines regulatory oversight and aids in the detection of any potential misrepresentations or fraudulent activities, as financial reports are prepared in a standardized manner subject to external audits.

Objective: To Measure the Role of Financial Reporting Standards in Enhancing Transparency and Accountability.

Methodology: The researcher had considered people from finance department of different companies to know the role of financial reporting standards in enhancing transparency and accountability. The survey was conducted with the help of a questionnaire. The researcher had collected the primary data through random sampling method and was analysed by statistical tool called mean.

Findings

Table 1 Role of Financial Reporting Standards in Enhancing Transparency And Accountability

| S. No. | Statements | Mean Value |
|--------|---|------------|
| 1. | Financial reporting standards facilitate smart decision-making among stakeholders | 3.18 |
| 2. | Shapes the economic landscape for organizations all around the world | 3.13 |
| 3. | Establish a combined framework of accounting guidelines that companies must follow while formulating their financial statements | 3.16 |
| 4. | Furnish a careful overview of a company's performance and market positioning | 3.14 |
| 5. | Ensure reliable broadcasting of information among public companies | 3.17 |

| | | |
|----|--|------|
| | worldwide | |
| 6. | Facilitates comparison of dissimilar organizations across nations, enable investors and stakeholders to make well-informed decisions | 3.15 |

Table 1 shows the different role of financial reporting standards in enhancing transparency and accountability. The respondent says that financial reporting standards facilitate smart decision-making among stakeholders with mean value 3.18, Ensure reliable broadcasting of information among public companies worldwide with mean value 3.17 and establish a combined framework of accounting guidelines that companies must follow while formulating their financial statements with mean value 3.16. The respondent also says that financial reporting standards facilitates comparison of dissimilar organizations across nations, enable investors and stakeholders to make well-informed decisions with mean value 3.15, Furnish a careful overview of a company's performance and market positioning with mean value 3.14 and shapes the economic landscape for organizations all around the world with mean value 3.13.

Conclusion

In culmination, this empirical inquiry sheds light on the pivotal function of financial disclosure criteria in augmenting transparency and answerability within establishments. The discoveries furnish substantial substantiation that embracing and adhering to robust financial disclosure criteria positively influences the comprehensive transparency and answerability of an establishment. Firstly, financial disclosure criteria provide a structural framework for establishments to consistently present their monetary information, ensuring comparability and dependability. By fostering uniformity and comparability, financial disclosure criteria enable stakeholders to make well-informed determinations and assessments based on reliable monetary information. Secondly, financial disclosure criteria mandate establishments to divulge pertinent details regarding their monetary position, performance, and vulnerabilities. This revelation amplifies transparency by providing an all-encompassing outlook on an establishment's monetary affairs.

Stakeholders can access relevant information pertaining to the establishment's assets, liabilities, revenues, and expenditures, empowering them to evaluate its monetary potency and stability. Moreover, financial disclosure criteria play an integral role in fostering

answerability. By imposing reporting obligations and disclosure requisites, these criteria hold establishments accountable for their monetary disclosure practices. Establishments are obligated to furnish precise and dependable monetary information, ensuring answerability to shareholders, regulators, and other stakeholders. The implementation and adherence to these criteria confer advantages upon establishments by fostering reliance, enticing investments, and promoting responsible monetary administration. By establishing a shared language for monetary disclosure, these criteria contribute to the stability and efficacy of monetary markets, thereby fostering economic growth and development. It is imperative for establishments to recognize the significance of financial disclosure criteria and ensure their meticulous application to uphold transparency and answerability in their monetary disclosure practices. Present study was conducted to know the role of financial reporting standards in enhancing transparency and accountability and found that financial reporting standards facilitate smart decision-making among stakeholders and ensure reliable broadcasting of information among public companies worldwide.

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