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Trusted Financial Statements A Literature Review

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Abstract: The purpose of this research is to find out how much financial reporting contributes to company sustainability. The findings from this research are that financial reporting greatly influences company operations so that they can survive and develop. The research method uses a literature review study. Descriptive qualitative research methodology was used in this research. The data used in this research comes from previous research which is still relevant to the current investigation. Data was collected from leading academic online platforms, including Publish or Perish, Google Scholar, digital reference books, and Sprott journals.

Keyword: Trusted, Finance, Report, Sustainability

INTRODUCTION

In the last two decades, there have been continuous corporate accounting and financial reporting scandals revealed to the public, especially since the global financial crisis and the disclosure of accounting scandals in several large companies in the United States, which were previously considered credible companies with good performance and governance. The peak of the crisis of confidence occurred in large, world-class companies that were known to be innovative with fast growth, and had the title of managing companies efficiently and well, namely the case of Enron in 2001-2002 (Khudhair et al., 2019; Monahan, 2012; Montesdeoca et al., 2019).

Even though the international community has long been pushing for the implementation of International Financial Reporting Standards (IFRS), based on the results of research conducted by Donelson et al. (2021); Moffitt (2018) dan O'Leary, (2021) incidents of fraud and fraud on financial reports continue to this day, and tend to increase from time to time.

Accounting scandals that caused a decline and even loss of trust in financial reports occurred after the period when IFRS was adopted, including: Toshiba Corporation (Japan) 2015; Airbus Group (UR, Austria and France) 2016; Roll Royce, British Telecom (UK), Mexican Oil (Mexico) and Caterpillar (USA) 2017. Several similar events occurred in countries that have adopted and implemented IFRS, including Indonesia. In Indonesia, the audited financial reporting case of PT. Indosat Tbk and PT. Bank Bukopin Tbk, which involved KAP Purwanto, Sungkoro and Surya (Ermst and Young Indonesia) as auditors, was revealed to the public in 2017, as well as PT. Sun Primanusantara Payments (SNP) in 2018, involving KAP Satrio, Bing, Eny and Partners (Delloit Indonesia) then PT. Garuda Indonesia Tbk in 2019, involving KAP Tanubrata Sutanto Fahmi Bambang & Partners (BDO International) in the case of recording revenue recognition in the company's 2018 annual financial report (Sailendra, 2019).

Likewise, according to the report submitted by the Association of Certified Fraud Examiners (ACFE) in its biannual report, public sector companies in the last two decades have always ranked second after private companies as institutions exposed to corporate scandals and fraud which have resulted in a decline or even loss of trust. public regarding financial reports. Even though the percentage does not show a significant amount, it is indicated that there is an increase from year to year.

These events have generally had an impact on reducing public trust in financial reports and audit-related functions (Kaawaase et al., 2021) and audit process (Robert Knechel et al., 2013). Accounting scandals that have an impact on decreasing trust in financial statements will continue to occur in the future. Along with the development of digital technology, borderless nation as well as the behavior of society and millennial investors which is developing very quickly now and in the future, which can increase public distrust towards financial reporting in the future. (Sailendra, 2019).

Olson et al. (2007) states that trust is always related to vulnerability - risk and interdependence, creating vulnerability. Furthermore Martins & Júnior (2020) stated that trust in financial reports cannot be separated from, and is always closely related to, corporate governance and audit. The results of research conducted by Rehman & Hashim (2020) states that good corporate governance will produce financial reports that are accurate and reliable (trusted), while weak corporate governance (bad governance) is usually always followed by the practice of corporate scandals, fraud and fraud which will produce inaccurate financial reports and result in losses trust in financial statements. Likewise with the role of the auditor, users of financial reports view the auditor's task as detecting and reporting fraud and fraud which can cause loss of trust in financial reports, more than just looking at compliance with regulations and audit standards. (Pamungkas et al., 2018).

METHOD

This research is a literature review research. Literature review is a description about theories, findings and other research materials obtained from reference materials to be used as a basis for research activities to develop a clear framework for formulating the problem to be researched. The author summarizes, analyzes and carries out a critical and in-depth synthesis of previous literature. A good literature review is one that evaluates the quality and new findings of a scientific paper.

The researcher makes an analysis of several literatures and then summarizes the results obtained, the analysis is in the form of a table which includes 7 components such as research title, research year, research location, research objectives, research methods, population and research results. After analyzing it and discussing it in depth, the researcher will get a summary result which can be written into the next chapter. Because this research is a literature review research, the population and sample do not exist. Instead, analyze the journal with these 7 components.

RESULT AND DISCUSSION

Financial reports are a structured presentation of the financial position and financial performance of an entity (Dzomira, 2017). The purpose of financial reports is to provide information about the financial position, financial performance and cash flows of an entity that is useful for most users of financial statements in making economic decisions (Wicaksana & Suryandari, 2019). Financial reports also show the results of management's accountability for the use of the resources entrusted to them. In order to achieve these objectives, financial reports present information about the entity which includes: 1. Assets 2. Liabilities 3. Equity 4. Income and expenses, including profits and losses. 5. Contributions from and distributions to owners in their capacity as owners 6. Cash flows This information, together with other information contained in the notes to the financial statements, assists users of financial statements in predicting the entity's future cash flows and, in particular, in terms of their timing and certainty. obtaining cash and cash equivalents (IAI, 2016).

Meanwhile, trust according to the English Oxford Dictionaries dictionary is to give the responsibility of doing (something) or firm belief in the reliability, truth, or ability of someone or something. Meanwhile, according to Miriam Webster's dictionary, trust is (the) assured reliance on the character, ability, strength, or truth of someone or something. From this definition, the concept of trust is generally closely related to the concepts of assurance and reliability or reliance. To obtain this kind of reliability, various mechanisms can be pursued, one of which is through corporate governance and external audits of financial information provided by the company. Good corporate governance and external audits of financial reports should lead to reasonable assurance regarding financial reports, as the final source used by stakeholders and shareholders who are outside the company (Saputra & Salim, 2020).

In countries that have a high level of trust, investors will have a lower chance of potential fraud in financial statements carried out by company managers (Buddy et al., 2019) So far there is no standard agreement on the definition of trust, although there have been many studies and research conducted from various fields of science, both from economic, sociological and psychological perspectives, each of which still has its own different meaning (S. Li et al., 2014).

The definition of trust in a business context has been presented by several previous researchers, including Znidaršič et al. (2018) states that trust in business is the extent to which external stakeholders such as society in general trust business. This trust will only receive greater attention from the public if this trust has been violated, for example by unethical corporate behavior (Yang et al., 2016).

Trust is a complex phenomenon, which can take various forms. Until now, there is little consensus regarding the theoretical concept of trust, therefore according to Rezaee, (2004)

Generalized Trust

The first perspective on developing trust through the concept of generalized trust was developed by Simmel, who was the first to separate the concepts between personal trust and general trust. Then, Rotter stated that general trust expectations of business determine the behavior of market actors and influence the success of companies (Hean et al., 2013).

Institutional Trust

The second perspective related to trust from a public perspective is through the concept of institutional trust. Sztompka states that institutional trust is guided by the guiding principles, routines and control mechanisms of institutions, such as business institutions, including rules and regulations that originate from outside the company Li et al. (2014) defines institutional trust as subjective trust in which organizational members collectively assess favorable conditions for carrying out a transaction that can produce results.

Trust in business according to this perspective refers to people's trust in business norms and procedures, for example the public can gain or lose trust based on how the company practices director bonuses and earnings management. (Darmansyah, 2016). Further Paharia & Singh (2016) argues that in modern times, personal trust is increasingly being replaced by institutional trust, as well as Johnston et al. (2011) states that society is essentially moving from relationships of trust to externally regulated behavior, hence further suggesting that society increasingly devalues trust in certain institutions by the lack of knowledge and information held about those institutions.

Thus, a low level of trust in financial reports results from inadequate knowledge and information, perhaps this is not at all dangerous if regulations from the regulator can act as a substitute. (M. Pirson et al., 2019). Lebih lanjut Pirson et al. (2019) stated that understanding trust in business from this perspective further highlights the importance of context. Therefore, in exploring factors affecting public trust in business, we can utilize an understanding of institutional trust to filter contextual factors that influence public trust in business, especially in corporate financial reporting.

Reputation Based Trust

The third theoretical perspective informs the concept of public trust through reputation-based trust. Because members of the public may have all direct knowledge of all businesses, they must rely on third-party accounts, usually in the form of financial reporting (Frank et al., 2017).

Mangena et al., (2012) states that relationships with third parties influence trust, where the existing social structure shapes a person's reputation based on the third party's ability to explain things that can strengthen or weaken an institution or person. Including the description and background that forms the label for the assessment that will be given. Then the numbers, narrative and background will be influenced by stories that form historical trust in a group, business networks that create reputation effects and social norms that form trust. Burke et al., (2007). This perspective highlights how the role of management and corporations and their depiction can influence the perception of public trust in business, through reputation as a particular factor in public trust in business. For example, information regarding track records of mission statements, alleged behavior and the like can identify more specific influences at the organizational level that have implications for society. (Pirson & Malhotra, 2011). In the context of this research, especially those related to financial reporting.

Stakeholders Trust

The theoretical perspective that underlies public trust is the perspective of stakeholder trust (M. Pirson & Malhotra, 2011). In the context of stakeholder-based trust, organizations require the willingness of third parties (investors, creditors, customers, employees, or community members) to accept vulnerability to actions taken by the organization.

The public as stakeholders and every member of society, whether individually, in groups or organizations, form trust assessments based on business attributions in general (M. Pirson et al., 2012). This process is considered to be reflective, rational, informed and specific to the organization, so that the attributions made by stakeholders towards a particular business are informed by the dimensions of level of capability, policy, integrity, transparency and value congruence and accountability. (Hean et al., 2013; M. Pirson et al., 2019; Rezaee, 2004; Rui, 2017).

With this dimension, stakeholders provide the most direct assessment of trust as a determining factor in business, including financial reports.

Further according Rousseau (1990) Genericly, trust can be understood using categories that can be distinguished as follows: a) Prevention-based trust, which is based on the threat of punishment if consistent behavior cannot be upheld; b) Calculus-based trust, which is based on rational choice where the willingness to trust is limited to the exchange of certain financial information, and trust is present because the other alternative chosen is more expensive; c) Relational trust resulting from continuous interaction over time between trustor and trustee, and; d) Institution-based trust, which is based on institutional factors, such as legal regulations, social networks and generally accepted norms that are mutually agreed upon and can facilitate building calculus-based and rational trust.

Trust in a business context has been widely recognized as the key to organizational success and can be a facilitator of efficient business transactions. In this way, trust strengthens the relationship between a company or business and various stakeholders, including society. Trust can be the basis for success and sustainable competitive advantage for organizations (M. Pirson & Malhotra, 2008). To support this, AIPCA requires all accountants to accept the obligation to serve and respect public trust in order to demonstrate commitment to their professionalism which is assumed to be a belief in the truth of other parties. (M. Pirson et al., 2012).

The definition of trust in the context of economics, business and financial reporting, based on the existing description, can be concluded as far as the public believes that businesses act in certain, generally accepted ways in accordance with existing regulations and norms. Because these businesses have included public interests as part of their own, which is an important ingredient for business cooperation, social, market efficiency, transaction costs and sustainability, in order to reduce information asymmetry caused by agency problems, especially in context and dimensions. accounting for financial reporting. This is a very deep concern for the business world when this trust is absent or its existence is threatened (Pirson & Lawrence, 2010).

The concept of trust in the economic, accounting and financial dimensions is actually in accordance with the qualitative conceptual framework of financial reporting. Furthermore, the characteristics of financial reporting to make financial report information useful and trustworthy consist of fundamental characteristics, namely relevance and accurate representation. As well as enhancing characteristics consisting of comparability, verifiability, timeliness and understandability, which are further explained as follows:

1) Relevance
   According to IAI (2016) Financial information is considered relevant if it is able to make a difference in the decisions taken by users. Financial information can make a difference in decisions if it has predictive value or confirmatory value, or both. Relevant operational measurements usually use predictive and confirmatory values, predicted values are considered as indicators of importance and relevance for decision making (De Meza et al., 2008; Dion, 2012; Rafailidis & Tselekidis, 2009; van Dierendonck, 2011).
2) Faithful Representation
   Accurate representation is when financial reports present economic phenomena in words and figures completely, neutrally and free from errors. Accurate representation is usually always measured by neutrality, free from material errors and verification (Garcia-Blandon et al., 2019). The proxies used to measure accurate representation, among others, include: (1) freedom from bias; (2) neutrality; (3) the audit report does not meet the requirements

(unqualified) and (4) corporate governance statement (Klijn et al., 2010; Mbo & Adjasi, 2013).

3) Comparability
Comparability is the quality of information that enables users of financial statements to identify and understand the similarities and differences between items or two sets of economic phenomena. (IAI, 2016). The measure of comparability is usually measured by (1). Changes in accounting policies and their implications; (2) revision of accounting estimates and their implications; (3) adjustments to accounting period figures and the resulting impacts; (4) comparison of the results of the current accounting period with the previous period; (5) annual report information with information from other organizations on the same matter; (6) presentation of financial index figures and ratios in the annual report (Klijn et al., 2010).
4) Verifiebility
Verification is useful in helping information users ensure that existing information consistently reflects and represents the economic phenomena that occur. In the statement of Financial Accounting Concepts (SFAC) verifiability there is a high level of consensus between independent measurements using the same measure. Furthermore (IAI, 2016) states that verifiability is when it can help convince users of financial reports and that the information presented represents economic phenomena exactly as they should be.
5) Timeline
Timeliness is the availability of information to decision makers at the right time, so that it can influence the decisions of users of financial statements, before it loses its certainty to influence decisions (IAI, 2016).
6) Understandability
Understandability of financial report information can be understood well if classification, characterization is carried out and the information is presented clearly and concisely, so that the information can be understood (IAI, 2016).

The concept of trust in the economic, accounting and financial dimensions is closely related to openness, accountability and integrity of data and information conveyed to the public in a democratic social society. (M. Pirson et al., 2019). Where the big idea is that in society lies the true strength for the sustainability of an institution or corporation. Therefore, the public trust attached to companies which is reflected in financial reports is part of an institution that must be respected and protected (M. Pirson et al., 2017). Genericly, according to Tomlinson & Mayer (2009) The trust element consists of three main elements, namely: integrity, capability, and benevolence. Meanwhile, according to Pirson et al. (2019) To rebuild public trust in financial reports, three main elements are needed, namely: transparency, integrity and accountability.

Research result Zhang (2006) states that the implementation of good corporate governance can positively improve company performance, because the decision-making process is carried out better. Likewise research conducted by Ramadan & Abdallah (2019) states that corporate governance has a positive effect on financial performance, which can affect trusted financial reports. In line with the results of research conducted by Pintea et al. (2020) which states that corporate governance has a positive effect on financial reports which can improve the trustworthiness of financial reports.

Research conducted by Augustine (2012) on corporate governance related to trust, empirically proving that corporate governance has a significant positive effect on trusted financial reports. Meanwhile, research results Pande, (2015) proves that companies that increase value through corporate governance can increase the number of analysts, improve share prices and increase investor confidence and trust in financial reports. Thus, based on empirical evidence from research conducted by Augustine (2012) It can be concluded that corporate governance has a positive effect on trusted financial reports.

The results of research conducted by Sinaga & Sinaga (2019) states that audit quality as a proxy for audit fees has a positive effect on financial reports which can affect the trustworthiness of financial reports. Further research conducted by Farouk & Hassan (2014) proves that audit quality has a positive effect on the performance of financial reports which can influence the trustworthiness of financial reports. These results are supported by the results of other research conducted Matoke & Omwenga (2016); Wang et al. (2014) that audit quality has a positive effect on the performance and disclosure of financial reports as a way to increase the trustworthiness of financial reports. The results of research conducted by Sayyar et al. (2014) states that audit quality has no effect on financial statement disclosure. Likewise with the findings of research conducted by Eyenubo et al. (2017) obtain empirical evidence that audit quality has a negative effect on financial reports which has implications for trusted financial reports. However, the results of research conducted by Berglund & Kang, (2013) generally show that audit quality has a positive effect on trust. Further research conducted by Ardelean (2013) proves that audit quality has a positive effect on trusted financial reports. The quality of financial reports greatly influences accountability, good quality financial reports will provide dedication to accountability or responsibility for the financial reports made which will influence trust in the fairness of the financial information presented (Alsmairat et al., 2019).

The financial condition of a company that experiences financial distress causes the company to receive a negative audit opinion and loss of stakeholder trust in the company. This opinion is also supported by Ardelean (2015); Berglund & Kang (2013); Dunstan (2017) which states that, the better the company's financial condition, the less likely it is that there will be high confidence in the financial statements. The company's financial condition is a condition that can be measured quantitatively to describe the company's condition. The company's financial condition in question is the financial condition that is generally reflected in the Financial Reports published by the company.

Financial difficulties or what is often known as financial distress is something that is most avoided by all companies. Financial distress is defined as the financial condition of a company that experiences a cash shortage on the asset side and excessive debt value on the liability side (Muñoz-Izquierdo et al., 2020). Lack of cash inflow results in uncertainty in meeting the company's financial obligations. Financial distress is defined as a condition where a company experiences difficulty fulfilling its obligations, which requires the company to take corrective action.

The company's financial condition reflects the company's true health (Kurnia et al., 2019). If a company experiences problems with liquidity, it is very possible that the company will begin to enter a period of financial difficulties, and if these difficulties are not quickly resolved, this could result in business bankruptcy. (Platt & Platt, 2006). This shows that there is a bad signal, namely that the higher the company's financial distress, it shows that the company has a higher risk of experiencing bankruptcy and the inability to continue its business, so that trust in the company becomes lower. (Platt & Platt, 2008). This is supported by research Hay & Cordery (2018) which states that financial distress has a positive effect on trust because financial distress indicates the actual financial condition of a company and is an early warning for a company of the threat of business bankruptcy. But it is not supported by research (N. R. Berglund et al., 2018) which states that financial distress has a negative effect on stakeholder trust because the company is experiencing financial difficulties.

A company can be said to be experiencing financial distress where there is negative cash flow, a decrease in equity prices, layoffs of workers, eliminating dividend payments, experiencing technical violations in debt, predicted to experience bankruptcy in the coming period, several years the company experiences negative operating net profit, ceased operations and planned restructuring (Waqas & Md-Rus, 2018)

CONCLUSION

1. Trust as vulnerability to actions taken by management (company), as a mechanism to reduce uncertainty and risk based on positive expectations and good intentions for the behavior and actions carried out by management (company) which are reflected in financial reports (Luna-Reyes, 2013; Pirson et al., 2019; Rezaee, 2004; Rosli Mahmood et al., 2013; Siddiki et al., 2017).
2. The concept of trust in the economic, accounting and financial dimensions is closely related to openness, accountability and integrity of data and information conveyed to the public in a democratic social society (M. Pirson et al., 2019). Where the big idea is that in society lies the true strength for the sustainability of an institution or corporation. Therefore, the public trust attached to companies which is reflected in financial reports is part of an institution that must be respected and protected (M. Pirson et al., 2017).
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The advice given is that it is necessary to carry out research that influences T with a different approach. Given the complexity of the relationship between corporate governance and financial distress, further in-depth research can be conducted to explain in more detail why this relationship is not significant. Qualitative approaches such as case studies, interviews, or comparative analysis can be used to gain deeper insight into the context and mechanisms underlying these findings.

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