THE NEED FOR FINANCIAL STATEMENTS TO DISCLOSE TRUE BUSINESS PERFORMANCE TO STAKEHOLDERS

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Abstract

This desk top study reviewed relevant literature in order to determine the extent to which Financial Statements disclose true business performance to stakeholders. Literature reviewed established that management fraudulent reporting, relevance of reports and reliability of information are to be taken into account when assessing level of reliance that can be placed on financial statements on disclosing business performance. It also emerged that cost and benefits of disclosing financial information, relevance of financial statements and significance of stakeholder groups are some of the factors to be considered when carrying out a cost benefit analysis on the importance of financial statements. The study concludes that management fraudulent reporting, relevance of reports, reliability of information and source of information are to be taken into account when assessing level of reliance that can be placed on financial statements to determine their ability to disclose business performance.

Keywords: Financial Statements, Reliability, Reports, Stakeholders, Source of Information

1. INTRODUCTION

In trying to meet the requirements of the users of financial statements, instruments like presentations as well as disclosure are being used to communicate performance and financial position of an entity (Choy, 2014). There is still a need for presentation as well as disclosure to be included in the Conceptual Framework in order to have clarity and reducing reporting fraud (Choy, 2014). Abed et al, (2016), Miihkinen (2013), Leaz and Wysocki (2015), Castillar-Polo and Callardo-Vazquez (2016) and Ramirez, Tejada and Manzaneque (2016) are among scholars who agree that disclosure is an abstract concept that cannot be measured in an unambiguous or precise manner. However, Liesegang and Bartley (2014), Alvarez and Barlevy (2015) and Abraham and Shrives (2014) argue that disclosure may be seen as symbolic window dressing, they are of little use to the readers of financial statements.

To catch the attention of investments, corporates are faced with the need to make available financial outcome in line with the requirements of IFRS (Huefner, 2010). The argument was supported by mentioning the implementation of international standards in entity's reports so as to ensure proper reporting, display real financial situation as well as outcome of performance. Hemphill (2006) state that in line with the concept there are two major assumptions when preparing annual financial reports that are accrual basis and going concern. Eccles and Holt (2005) assert that balance sheet, comprehensive income statements and other reports do not just come into existence; they are prepared in accordance with agreed regulations. Tsalavoutas and Evans (2010) say that European Union Regulation 1606/2002 oblige publicly traded entities to prepare consolidated financial reports in accordance with IFRSs as from January 2005.The aim of this desk top study was to review relevant literature in order to determine the extent to which Financial Statements disclose true business performance to stakeholders.

2. FACTORS TO BE CONSIDERED WHEN DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

2.1. Regulatory requirement regarding disclosure of financial information

The IASB is committed to narrowing the differences in financial statements of different countries by seeking a harmonised regulation, accounting rules as well as regulations associated to how the financial reports should be presented (Conceptual framework for financial reporting 2010). The harmonization has been considered relevant for reports prepared for decision making purpose (Conceptual framework for financial reporting 2010).

Garanina and Kormiltseva (2014) stipulated that since the 1970s considerable efforts have been made by various bodies such as IASB to bring together accounting and financial standards around the world to improve the usefulness and comparability of financial reports. In 2002 such initiatives resulted in the approval of the regulation which provides for the mandatory application of IFRSs by companies listed on the European regulated stock markets as of January 2005 (Miihkinen, 2008 and Garanina and Kormiltseva, 2014). Garanina and Kormiltseva, (2014) state that by 2009 many countries adopted IFRS and other economically wellbeing nations including Japan and Canada had programs in to converge their standards with IFRS.

Companies are different from Sole Proprietorship and Partnerships in that limited companies are guided by regulatory framework that makes it compulsory to publish an amount of information that may otherwise be confidential (Collis and Jarvis, 2002). Collis and Jarvis (2002) state that financial disclosure is required for public interest because public companies may raise capital on share market through public subscription to shares at stock exchange.

Accounting information is of no relevance when it does not include details of intangible values of financial position of an entity (Flostrand and Strom, 2006). Jenkins Committee of 1991 was appointed by American Institute of Certified Public Accountants Board of Directors to assess the information that was made available to users of financial statements by those entrusted. Flostrand and Strom (2006) state that the report that was released in 1994 suggested that financial statements should review the future of an entity.

Management may be liable to offer voluntary disclosures as a means to clarify areas of argument and decide on voluntary disclosure timing so as to report manipulated gains as well as displaying acceptable alteration to IFRSs by so doing minimize regulatory costs (Kalbers, 2009). The idea to furnish investors and other stakeholders with voluntary disclosures may attract a positive thinking on validation of published financial reports. Kalbers (2009) state that suitable voluntary disclosures may reduce the risks and irregularities that are surrounding the financial statements. ASB statement provides voluntary best practice guidance (Kalbers, 2009).

Environmental effects from business operations are under strict inspection from society and consequently the stakeholders are asking for more and qualitatively better environmental information from entities (Fallan and Fallan, 2009). Qu, Leung and Cooper (2013) state that voluntary disclosure is provision of information other than that available in financial report and is not stated as requirement by accounting rules: it is a disclosure made in excess of requirements.

2.2. Preparation of financial statements

According to Spathis (2002) internationally there is ongoing process in line with the identification and taking up of IFRS. In the majority of developed and developing nations there is evolution to integrate accounting language, accounting methods and reporting principles. The practice of incorporating with international business started to guide companies to report in line with regulatory on financial reporting. The bases stated in conceptual framework on presentation of financial reports are unique. The conceptual framework is the source for accepting IFRS (Spathis, 2002).

IASB considers a variety of conceptual issues, it considers the way in which elements of financial statements are recognised, the units in which they are reported and the concepts used by companies (Spathis, 2002). Spathis (2002) also states that when preparing reports the main beliefs are well thought-out which are: the characteristics of financial statements and the rules and regulations in which items are classified as well as the policies used by reporting entity.

To catch the attention of investments, corporates are faced with the need to make available financial outcome in line with the requirements of IFRS (Huefner, 2010). The argument was supported by mentioning the implementation of international standards in entity's reports so as to ensure proper reporting, display real financial situation as well as outcome of performance. Hemphill (2006) state that in line with the concept there are two major assumptions when preparing annual financial reports that are accrual basis and going concern. Eccles and Holt (2005) assert that balance sheet, comprehensive income statements and other reports do not just come into existence; they are prepared in accordance with agreed regulations. Tsalavoutas and Evans (2010) say that European Union Regulation 1606/2002 oblige publicly traded entities to prepare consolidated financial reports in accordance with IFRSs as from January 2005.

Financial reports preparation (IAS 1) has to be observed when preparing financial statements. There is a need for the organisation to adhere to IFRSs when defining and recognizing financial statements items and the use of standard units across organisation's operations that are across Africa.

2.3. Audience to financial statements

According to Conceptual framework for financial reporting (2010), financial reports should be prepared and made available to external users in many companies internationally. Mack and Ryan (2007) postulate that five categories were identified for stakeholders to which internal management was also identified as stakeholders. The matter of using the financial statements and its declaration has implications on public (Mack and Ryan, 2007).

Magness (2006) argues that while stakeholders to information were primarily the owners of capital, entities now make use of their financial statements to make available information on other issues which are not financial matters. Magness (2006) further states that shareholders were the early users of financial statements to be considered for reporting purposes. According to Magness (2006) mostly disclosure in financial statements was aimed primarily to these groups alone. Conceptual framework for financial reporting (2010) stipulates that other stakeholders besides financial stakeholders may consider financial reports as worth to be prepared.

Gomez-Guillamon (2006) stipulate that bank officers or lenders as well as investment analysts are also audience to financial statements and they try to ensure correctness of financial information by asking the review of that information enclosed in financial statements. Gomez- Guillamon (2006) concurs that for the purpose of issuing loans the auditor can be used as source of reliance.

The people in charge of organisations' financial statements are failing to take the interest of all stakeholders into consideration. They are reporting on financial bases only, therefore the investors, creditors and management are the only groups that are benefiting much because they are concerned about the financial position of the entity.

3. TO CARRY OUT A COST BENEFIT ANALYSIS ON THE IMPORTANCE OF FINANCIAL STATEMENTS

3.1. Cost and benefits of disclosing financial information

Kablers (2009) says that releasing accounting information is an obligation for every company and such disclosures must help users in evaluating the performance of business as well as policies in place. There are costs and benefits that are associated with disclosure of accounting information. Kablers (2009) continues to say that non-voluntary IFRS disclosures exhibit a larger favourable figure in leverage and a reduction in liquidity.

Elzahar and Hussainey (2012) articulate that companies attempt to meet the requirements of the users of reports by giving more detailed information on sustainability. In addition, (Elzahar and Hussainey, 2012) highlight that such information helps users to look into the current state of the company as well as the risks that affect the returns. Iatridis 2012 is of the opinion that by disclosing more information, an entity can enjoy lower capital cost at the capital market. According to Elzahar and Hussainey (2012) entities benefit from disclosures by eliminating financial failure due to undisclosed risks.

The disclosure of human capital information by organisations also has espoused benefits in particular creating trustworthiness and reducing information asymmetry (Dumay and Lu, 2010).

They further stipulate that it enhances company reputation among stakeholders and the public. The disclosure also has a positive impact on stakeholders' assessment of the company which may lead to positive financial outcome. On the other hand Cinquini et al (2012) argue that reports on sustainability are at present scarcely read by entity stakeholders since their reliability is doubtful.

Talha, Sallehhuddin and Mohammad (2006), postulate that some entities report in segments, though it is understood that reporting in segments has its benefits. In addition they state that the cost of putting together segment reports exceeds derived benefits. They further assert that segment reporting can impact negatively on reporting entity by benefiting the competitors. According to Talha, Sallehhuddin and Mohammad (2006) entities hold a reason to give more information to minimise asymmetry of information.

The organisation considers disclosure of information as a cost that does not give any benefit to the organisation, therefore, they disclose information they consider worth for disclosure. By so doing the organisation is leaving information that is of importance to other financial statements users.

3.2. Relevance of financial statements

Financial statements are prepared on periodic bases, with the aim of disclosing essential information to stakeholders (Palea, 2014). IASB however states that instead of providing guidance, annual statements also play a role in helping investors assess management stewardship.

Financial statements are used to assess management efforts in attaining organizational goals.

Dimitropoulos and Asteriou (2010), state that value relevance is a matter of concern for investors as well as management. Relevant and reliable financial reports are of greater importance to managers because they confirm the worthiness of their stewardship (Dimitropoulos and Asteriou, 2010). Analysts consider well reported information as of importance in attaining better investment decision. Dimitropoulos and Asteriou (2009) say that by relevant and reliable information, they mean ability of financial reports to give a valuable summary of information that affect stock price movements and help all stakeholders to review the value of the firm.

According to Hernandez and Perez (2006), although there are many players in the economy worldwide, decisions are to be made no matter how hard the economic situation is. The users of information are to be given all the information they may need in order to come up with well informed decisions.

According to Lander and Auger (2008), tools and systems convey reports to a point where they show high reliance. Lander and Auger (2008) concur that for all entities to achieve that level of assurance, the accounting managers and the accountants have to comply with the requirements of GAAP as well as explaining the usefulness of reported information to stakeholders. According to Gararina and Kormiltseva (2014), by adopting certain set of standards the accounting information can be used to communicate across borders and at international level.

The relevance of financial statements depends on the intended use of the financial statements, general reporting has to take every stakeholders' requirements into account. For financial statements to be relevant, benefits derived from have to override the cost of preparing them.

3.3. Significance of stakeholders groups

Abeysekera (2013), postulates that in periods where some technological means are being used to spread news, emphasis should be on accountability. Abeysekera (2013) stipulates that entities are to treat every stakeholder with self-respect and respect for the contribution they make to the success of the entity.

According to Al-Ajmi and Saudagaran (2011) companies bring together different agents and allow a relationship to build between different financial statements user groups. It allows a relationship, for instance for managers and shareholders to emerge as agents and principals, with the agent supposed to act in the interest of the principal. Therefore every user group is supposed to get satisfactory information in order to come up with sound decisions that are of benefit to interested parties.

Financial analysts are also an important group in as far as the financial statements are concerned. They play an essential role in financial markets a function that seems to have improved in importance in current years (Byard and Cerbenoyan, 2007). They are viewed as information intermediaries who gather; process and disseminate firms' information for investors and debt providers. The analysts are the ones who can install confidence and credibility in financial statements status for investment purposes and other decision making purposes. The stakeholders to the entity are not being equally treated when it comes to disclosure of information there are other groups that are always getting preference than others.

4. TO COME UP WITH LEVEL OF RELIANCE THAT CAN BE PLACED ON FINANCIAL STATEMENTS ON DISCLOSING BUSINESS PERFORMANCE

4.1. Management fraudulent reporting

Huang, Tsaih and Lin (2012) postulate that when management reports business performance in financial statements, the idea is to enlighten the stakeholders on the performance of organisations, but contrary to that some anomalies may happen. Huang, Tsaih and Lin (2012) state that misrepresentation of facts and total exclusion of essential elements from entity's financial reports exhibit financial reporting fraud. Chalevas and Tzovas (2010) concur that forgery and falsification may be used by management to make financial reports look favourable.

Crawford and Weirich (2011) say that for as long as shares are being traded at public markets, management fraudulent reporting cannot be eliminated from public enterprises. Crawford and Weirich (2011) are of the opnion that falsification in association with tax computations has been happening. These forms of fraud frequently come as a result of greediness and high level of dishonesty (Crawford and Weirich, 2011). Crawford and Weirich (2011) assert that management is able to do dress-up to the financial statements in order to meet the requirements of users.

Due to alarming rate at which financial statements fraud is being perpetrated, internal controllers of organisations enhance their duties and responsibilities (Huefner, 2010). Huefner (2010) also state that the wave of 2001 to 2002 exposed the weaknesses that are there in organisations' control mechanisms. Management is finding it worth a while to improve the internal control systems to avoid huge losses that are as a result of inadequate control systems and they now believe that a sound control system can improve level of reliance to be placed on their financial reports.

Spathis (2002) say that fabrication in annual reports mostly is in the form of forgery and misrepresentation of elements. The author furthers states that when financial reports have been misrepresented due to fraud, the meaning of the content can be misleading. It is not the big entities only that are the victims of financial statement fraud. Some small businesses are also victims and are failing to meet stakeholders' requirements due to fraud (Spathis, 2002). Kaminski, Wetzel and Guan (2004) stipulate that cases like those of Enron and WorldCom are critical problematic for external auditors, due to possible law litigation that may result in negative impacts onthe audit profession.

According to Galsinan et al (2008) citizens in order to efficiently take part in their self-governance should have the right to use information and to assure the responsibility of public officials. The current epidemic of corporate scandals has exposed how lack of transparency and responsibility create incentives for executives to commit crimes (Galsinan et al. 2008). According to Kalbers (2009) on October,19, 1987, the Dow Jones Industries Average dropped by 22.6% of its value in one day. The same author further states that it is mainly annoying for members of the Commission to view the financial reporting scandals that took place late 1990s and early 2000s over a decade after its report was issued. That shows that their recommendations fell on deaf ears.

Stakeholders have to be satisfied that the financial statements are free from management collusion and free from intentional errors for the information to be relevant and reliable. The organisation reports in line with the requirements of IFRS but clarity is still needed on certain area i.e. the difference that is there between 2013 end of year figures and restated figures in 2014 financial reports.

4.2. Report relevant and reliable information

Kostagiolas (2011) stipulate that reliability has to do with the consistency of satisfying user needs at the end of any given period. Bricker and Chandarr (2012) postulate that accounting investigations have long struggled with varied results on the assessment of effects of relevance and reliability characteristics of fair value disclosures.

Du, McEnroe and Stevens (2014) state that as long as the mark-to-model approach is still in use observable market prices will never be available and estimates are to be used. They further argue that due to the environment that surrounds human opinion, the users of annual reports are being sceptical in assessing the fairness and relevance of reported information. Lack of dependability bound the relevance of reported information. Du, McEnroe and Stevens (2014) argue that instead of relying on a precise point estimate, managers may improve the perceived reliability of fair value estimates in the gain condition by specifying the degree of confidence and such a disclosure can be at the notes of the reporting entity.

Werner (2011) stipulate that to improve reliability pension accounting rules worldwide have been progressively been moving to a transparent model. This follows FASB and IASB efforts to combine and harmonise standards internationally. Werner (2011) states that the changes at issue were slightly informative for equity as well as credit valuation. The resultant was an important issue because it affects the main users of financial reports.

As stipulated by Pilcher (2005), as of the current community all sort of organisations be it private or public are obliged to be sensitive and responsible. Many factors are considered when assessing responsiveness of organisations which include the way the service is being provided. Pilcher (2005) also state that the ability to give a breakdown regardless of way or form used to give the breakdown on someone's actions shows high level of accountability. Transfer of authority from one person to another gives the person authority to act on someone's behalf but accountability is not transferred together with authority (Pilcher, 2005). The issue of accountability brings about relevance and reliability of information that is being reported.

Information has to be timely reported for it to be relevant and reliable, in the organisation there is a trend of delaying the timing for financial information to be reported and that leads to uninformed decisions.

4.3. Source of information

For accounting information to be relevant and reliable the source from which one gets information from has to be considered. According to Chaudhry and Alansari (2013), there are sources such as brokers and investment advisors from which investors get information about securities performance on the market. They further assert that investment professionals like financial analysts, investment advisors, share brokers, amongst others are there to assist with information. Investment specialists use their capability and understanding to give an opinion on favourable investment portfolio to investors as well as organisations (Chaudhry and Alansari, 2013). The same authors further stipulate that for a good return one has to make a good choice on what to invest in. Investment advisors should be able to give valid advise if the information they are using is from authentic source and that can help clients in understanding the situation they are getting into and the advisors are able of advising throughout the investment process. Financial analysts require all sort of information to succeed on their work both for financial providers and non-financial participants (Chaudhry and Alansari, 2013).

Schwarzkopf (2006) stipulates that the source from which information comes from plays an important role in planning, so it has to be credible. The assumption used is that investors look at the source of information when assessing trustworthiness of decisions made. They further state that independence as well as accountability of the source of information is also used in measuring source reliability. If you understand the requirements of the investors, you particularly scan the source before making decisions. The users of information may differ according to situation (Schwarzkopf, 2006).

O'Mara-Shimek (2015) point out that financial news reporting plays an important role in informing people's financial decisions such as in the collapse of Nothern Rock Bank in September 2007 following the BBC's coverage of its sensitive liquidity situation. The journalists can create or increase panic scenarios or promote stability and faith in prevailing conditions. O'Mara-Shimek (2015) is of the opinion that the existing crisis in international banking, markets and economies took us back to the significance brought by financial and business journalism. Another example is the ideological implications of how financial journalists communicated information concerning the stock market crash of 2008 at the New York Stock Exchange (NYSE), the singular event that initiated the Great Recession, whose effects are still being felt in many places of the world and how it impacted perceptions of the events (O'Mara-Shimek, 2015).

Haller and Staden (2014) argue that a well thought-out presentation of the traditional determinant of value added in purported value added statement would be a practical, effective, efficient and reliable and as a result helpful reporting instrument that complements and represents the concept of Integrated Reporting. They provide argument that the value added statement might and must become one of the key reporting instruments for Integrated Reporting and they should be assembled to best provide the information requirements for both internal and external stakeholders of integrated reports.The source of information is of greater importance when it comes to assessing the reliability of information.

5. COMING UP WITH FINANCIAL INFORMATION NEEDS FOR DIFFERENT STAKEHOLDERS

5.1. Provide informational needs regarding non-financial issues

Flostrand and Strom (2006) state that participants in the accounting sector are to adjust and try to give meaning to accounting information in line with ever changing stakeholders' informational needs that vary from financial to more of non-financial. Temporarily, financial performance measures directly connected to profitability are appropriate measures of performance. Hussain, Gunasekaran and Islam (2002) suggest that nonfinancial items maximise profits in the long run as a result of showing the intangibles in financial statements. These factors that are considered non-financial in the short run are usually financial in the long run. They further suggeste that factors like employee morale boost customer satisfaction as well as higher return on capital because there is a direct impact on performance due to satisfaction of customers.

Samudhram, Sivalingam and Shaumugam (2010) postulate that in some instances these non-financial issues referred to as intangible assets allow activities that are good for economic growth to be implemented. It is therefore critical to understand the effect these intangible assets have on stakeholders and thereby come up with a proper approach to be used in dealing with such assets. Due to high demand for information, the business sector has employed new information and communication technologies to make financial information more transparent (Perez and Hernandez, 2008). Transparency is required in both government and private sector financial affairs so that accountability can be facilitated and citizens appraised of the decision making process.

5.2. Provide information needs for employees

According to Bellou (2007) the relationship between employer and employee enhances the status of employees. It is an important thing to identify differences in employees' insights when assigning responsibilities on the bases of specialty depending on what the entity does. Furthermore, it is necessary for certain information to be accessible to employees for them to see how important they are to the organisation. Bellou (2007) suggests that there is some important information that is needed by employees and they need such information to be presented to them in a manner they understand.

Samudhram, Sivalingam and Shaumugam (2010) in their study suggest that a framework that considers some theoretical perspectives may be capable to give details regarding why firms are unwilling to disclose supplementary information on human capital in external reports. Few issues regarding employees are presented to public domain and most of these issues are kept as confidential.

Gaicedo and Martensson (2010) articulate that considering the importance of human resources as intellectual capital of entities may allow channelling of more resources towards ensuring that employees do not have a medical condition that is work-related. If it exists, they should get treated and if it is a disability they should be able to continue with their employment. It appears that these days, employee wellbeing is no longer related to how the person lives and what that person has in the community they stay. An employee is considered to be essential for business operations. Management should therefore be in a position to divulge their employees' health conditions (Gaicedo and Martensson, 2010).

Employee issues are some of the issues that are still being treated with high level of confidentiality in organisations with little or none being reported at all in financial statements. As stated by Komissarov (2014), matters that have to do with employee benefits are being treated with great confidentiality at all levels of operation. It appears the users of financial statements are finding it difficult to make an assessment using financial reports. Komissarov further states that FASB issued two standards as a remedy to the disclosure of employee issues for both pension and post retirement. These two standards work as a basis for disclosure for entities on employment policies.

In business environment there are many stakeholder groups with some classified as capital providers and others as non-capital providers. Employees are under non-capital providers. Williams and Adams (2013) state that employees are a responsibility of the entity and the entity should be responsible for employee morale and well-being. Although other authors are of the view that employees must be furnished with information that concern them on post-retirement issues, Garaai and Kleiner (2003) argue that developments regarding employee benefits and pensions appear to expose a tendency towards self-reliance on the part of employees. They further assert that the complexities of the business environment now demands that employees take responsibility for their investments and their future. It is assumed that employees are able to handle their affairs and they must have all the necessary information at their disposal.

5.3. Providing information needs for society and public at large

The environmental matters are the issues that affect public or society in which entities operate from and they are a matter of concern to organisations. Negash (2012) is of the opinion that failure to observe recognition rules may lead to reported losses. Some of the organisations report on environmental issues voluntarily. Negash (2012) argues that when monitoring environment it's not easy to make a voluntary disclosure.

According to Chiang (2010), environmental issues may affect an entity and its financial reporting in numerous ways and may also have an effect on the government. Furthermore, in excessive situations, growing concern of an entity may be affected by failure to comply with requirements of environmental laws. The same author also stipulates that when environmental affairs are significant to an entity and are important to financial reporting, there may be risk of material misstatement in the financial statements rising from such issues.

Companies have faced growing demands from stakeholders for reporting environmental information (Monteiro and Guzman, 2010). They further state that firms that issue environmental reports often provide these disclosures to demonstrate their contribution to sustainable development.

Ferreira, Moulang and Hendro (2010) argue that environmental management accounting does not influence product innovation. Even though the outcome proposes that use of EMA do not affect usual operations but some benefits flow into an entity. The environmental matters have been however, linked with the overall performance of the business. Dunk (2002) state that improved quality due to taking part in environmental reporting is the other benefit attainable. The growing demand by stakeholders for disclosure of information that replicates relations between organisations and the environment, product quality and the implementation of environmental accounting are considerable factors in enhancing quality performances.

6. EFFECTS OF NEGLECTING OTHER STAKEHOLDERS WHEN PRESENTING INFORMATION

6.1. Loss of trust and confidence in financial statements

Barlaup, Dronen and Stuart (2009) postulate that trust and confidence is fundamental to the performance of capital markets. Accounting scandals, where entities fraudulently prepared financial statements as well as auditor's issuance of clean report cause worn out of trust amongst stakeholders. Stakeholders wonder about the independence of auditors when management fraud occurs. According to Barlaup, Dronen and Stuart (2009), along with policies and contracts, trust and confidence lead interactions in the market. Trust and confidence have for all time been essential but are still more important in today's complex, changing business environment. Atkinson (2002), states that the capability to appropriately evaluate company and to rely on its financial reports disclosures is vital to the free market concept. Fischer (2013) stipulates that in the business perspective, trust can be a significant prerequisite for commercial exchange and in inter-enterprise dealings. Trust is considered as an influential commercial asset mostly because lack of trust can have rigorous cost implications.

Tonkiss (2009) asserts that trust is the pillar of economics. The combination of trust and confidence are critical in the functioning of the whole economy.

Hurley and Waqar (2014) also stipulate that the effects of losing trust were felt internationally during the global financial catastrophe of 2008 when money stopped moving and the economy ground to a standstill. Rezaee (2004) says that Certified Public Accountants (CPAs) have appreciated and were grateful for confidence the public have in their work as professionals.

6.2. Organisational reputation

Qu, Leung and Cooper (2013) state that other information that is not available in financial statements give rise to voluntary disclosure for enhancement of entity stakeholder relationship. Stakeholder theory reflects on the handling of stakeholders in the environment in which entity operates for its long run survival. According to Bebbington, Larrinaga and Moneva (2008) voluntary reporting may act as risk management remedy for an entity.

In addition, conceptualizations of reputation vary from economic management point of view to sociological with different perceptions being drawn. Bebbington, Larrinaga and Moneva (2008) are of the opinion that reputation is an asset that can bring tangible benefits. Samkin and Schneider (2010) state that failure to attain legitimacy from stakeholder groups has severe implications for organisations in that these groups may exhibit lack of interest towards efforts by organisations to deal with and protect the environment. Hemphill (2006) say that when a corporation is dealing with allegations of business rudeness, one of the most significant intangible assets the entity has to lose is its well acknowledged reputation in the market place.

Salama, Hussainey and Hubbash (2010) postulate that societal issues tend to be accepted as an important corporate responsiveness to be in touch between organisation and the society with consideration to social responsibility and sustainability. Organisations like those not for profit making are highly dependent on upholding a sound reputation to maintain legitimacy and protect access to funding bases (Conwary, O'Keefe and Hrasky 2015). They further state that one way organisations can respond to potential legitimacy threats is by demonstrating accountability through disclosure in annual reports. The annual report has been identified as a key accountability document for not for profit organisations.

Graca and Arnaldo (2016) stipulate that corporate reputation is one of intangible assets an entity can have and is considered an important intangible resource that can provide competitive advantage to companies. Intangibles include all resources that although lacking physical substance, contribute future benefits to the organisation to which they belong (Castillar-Polo and Gallardo-Vazquez, 2016). These include know-how, quality management, innovation, consumer trust and reputation among other assets.The organisation's reputation is something that an entity cannot do without. Reputation is good for the future of any entity that operates in a going concern bases.

7. CONCLUSION

The research appreciate current developments in the International Financial Reporting Standard, and Generally Accepted Accounting Standards as achievements towards disclosure of true business performance to stakeholders. It has been established that regulatory requirements regarding disclosure of financial information, preparation of financial statements and audience to financial statements are amongst the factors to be considered for information disclosure purpose.

The research also identified the cost and benefits of disclosing financial information, relevance of financial statements and significance of stakeholder groups as the factors to be considered when carrying out a cost benefit analysis on the importance of financial statements. Literature reviewed indicated that benefits derived from the financial statements outshine the costs of preparing them.

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