

## THE RELEVANCE OF THE VALUE OF HONESTY (SHIDDIQ) TO FINANCIAL REPORTING QUALITY

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**Abstract:** *Honesty (shiddiq) is a fundamental ethical value in Islamic teachings that emphasizes truthfulness, integrity, and moral responsibility. In the context of modern financial reporting, this value is increasingly relevant as organizations face persistent challenges related to manipulation, earnings management, and declining public trust. This study aims to examine the relevance of the value of honesty (shiddiq) in enhancing financial reporting quality. Using a qualitative normative approach supported by contemporary accounting literature, this research analyzes the conceptual alignment between Islamic ethical values and internationally recognized financial reporting principles. The findings indicate that shiddiq is closely aligned with key qualitative characteristics of financial information, including faithful representation, reliability, transparency, and accountability. The internalization of honesty as an ethical foundation encourages preparers of financial statements to present information fairly and truthfully, thereby reducing opportunistic behavior and information asymmetry. Furthermore, the study highlights that ethical commitment complements regulatory frameworks by strengthening moral awareness beyond formal compliance. This research contributes to the growing discourse on ethical accounting by integrating religious moral values with modern financial reporting practices. It suggests that embedding the value of honesty within organizational culture can significantly improve financial reporting quality and restore stakeholder confidence in financial information.*

**Keywords:** *Honesty (Shiddiq), Financial Reporting Quality, Islamic Ethics, Accounting Ethics, Transparency*

### Introduction

Financial reporting serves as a primary mechanism through which organizations communicate their financial performance and position to stakeholders. High-quality financial reports are essential for supporting investment decisions, enhancing market efficiency, and maintaining public trust in economic systems. The conceptual framework of financial reporting emphasizes that financial information must be relevant, faithfully represented, comparable, and transparent to be useful for decision-making. However, despite the continuous development of accounting standards and regulatory oversight, cases of financial misrepresentation and manipulation remain prevalent across different sectors and regions.

Numerous corporate scandals have demonstrated that compliance with technical accounting standards alone does not guarantee high-quality financial reporting. Practices such as earnings management, creative accounting, and selective disclosure indicate that financial reporting quality is heavily influenced by managerial judgment and ethical orientation. This reality highlights the importance of ethical values as a foundational element in accounting practice. Ethics function as an internal moral compass that guides professional behavior, especially in situations where rules allow discretion or ambiguity.

Within this ethical discourse, the Islamic value of honesty (*shiddiq*) offers a comprehensive moral framework that emphasizes truthfulness, integrity, and accountability in all aspects of human activity, including economic and financial affairs. In Islamic teachings, *shiddiq* is not limited to verbal honesty but encompasses consistency between intentions, actions, and outcomes. This value obliges individuals to present information truthfully and to avoid deception, concealment, or manipulation for personal or organizational gain.

The relevance of *shiddiq* to financial reporting becomes increasingly significant in a globalized economy characterized by complex financial transactions and heightened information asymmetry. Financial statements are often prepared by management who possess superior information compared to external users, creating opportunities for opportunistic behavior. In such contexts, honesty serves as a moral safeguard that complements formal regulations by encouraging ethical self-restraint.

This study aims to analyze the relevance of the value of honesty (*shiddiq*) in enhancing financial reporting quality. By integrating Islamic ethical principles with contemporary accounting theory, this research seeks to demonstrate that moral values are not merely normative ideals but practical determinants of reporting quality. The study contributes to the literature by offering an ethical perspective that enriches the understanding of financial reporting beyond technical compliance.

## 2.1 Financial Reporting Quality: Concept and Dimensions

Financial reporting quality has long been a central topic in accounting research due to its critical role in supporting economic decision-making. High-quality financial reports enable investors, creditors, regulators, and other stakeholders to assess an entity's financial performance, position, and future prospects accurately. According to the conceptual framework of financial reporting, quality financial information must possess fundamental qualitative characteristics, namely relevance and faithful representation, supported by enhancing characteristics such as comparability, verifiability, timeliness, and understandability.

Prior studies emphasize that financial reporting quality is not solely a technical outcome of applying accounting standards but also a behavioral outcome shaped by managerial incentives and ethical considerations. Earnings management literature demonstrates that managers often exploit flexibility within accounting standards to achieve desired financial outcomes. Although such practices may comply with formal rules, they can undermine the substance of faithful representation and distort users' understanding of economic reality. This indicates that financial reporting quality is influenced by moral judgment and ethical values embedded in organizational behavior.

## 2.2 Ethics in Accounting and Financial Reporting

Ethics in accounting refers to the moral principles that guide professional behavior in preparing, presenting, and auditing financial information. Accounting professionals are entrusted with public responsibility, as financial statements significantly influence economic decisions and resource allocation. Ethical failures in accounting have been identified as a major contributing factor to financial scandals and corporate collapses.

The literature suggests that ethical values function as an internal governance mechanism that complements external controls such as regulations, audits, and enforcement. While formal controls establish minimum compliance requirements, ethical values shape how individuals exercise judgment in situations where rules are ambiguous or allow discretion. Ethical awareness has been found to reduce tendencies toward fraudulent reporting, aggressive accounting, and opportunistic disclosure practices.

Moreover, ethical frameworks encourage accountants to consider the broader social consequences of financial reporting, including stakeholder trust and long-term organizational sustainability. As such, ethics are increasingly viewed as a critical determinant of financial reporting quality rather than a peripheral or optional aspect of professional practice.

### 2.3 Honesty (*Shiddiq*) as an Ethical Foundation in Islamic Thought

In Islamic ethics, honesty (*shiddiq*) is regarded as a core moral value that governs all aspects of life, including economic and financial activities. The concept of *shiddiq* emphasizes truthfulness, integrity, consistency between words and actions, and the avoidance of deception. Unlike conventional ethical frameworks that often rely on external enforcement, Islamic ethics are grounded in internal moral accountability and spiritual consciousness.

Islamic teachings emphasize that individuals are accountable not only to society but also to God, which strengthens moral self-regulation. This dual accountability framework encourages ethical behavior even in situations where misconduct may go undetected by regulators or auditors. In the context of financial reporting, *shiddiq* requires that financial information be presented honestly, without intentional misstatement, concealment, or manipulation.

Previous studies in Islamic accounting literature highlight that ethical values such as honesty, justice, and trustworthiness are fundamental to achieving transparency and accountability. These values are particularly relevant in financial reporting, where information asymmetry creates opportunities for unethical behavior. Thus, *shiddiq* provides a strong ethical foundation that aligns moral responsibility with professional duties.

### 2.4 Linking Honesty (*Shiddiq*) to Financial Reporting Quality

The value of *shiddiq* aligns conceptually with the qualitative characteristics of financial reporting, particularly faithful representation and neutrality. Honest reporting requires that financial information reflect economic substance rather than merely legal form. This alignment suggests that honesty is not only a moral virtue but also a practical requirement for high-quality financial reporting.

Empirical and conceptual studies indicate that organizations with strong ethical cultures tend to produce higher-quality financial reports and exhibit lower levels of earnings manipulation. Ethical values reduce managerial opportunism by fostering a culture of integrity and transparency. From this perspective, *shiddiq* functions as an internal ethical control that enhances the credibility and reliability of financial information.

The literature therefore supports the argument that integrating honesty as an ethical value into accounting practice can significantly improve financial reporting quality. This integration bridges the gap between technical compliance and ethical substance, contributing to more trustworthy financial communication.

### Method

This study employs a qualitative normative and conceptual research design to examine the relevance of the value of honesty (*shiddiq*) in relation to financial reporting quality. A qualitative approach is considered appropriate because the research focuses on ethical values, moral principles, and conceptual relationships rather than numerical measurement. The normative dimension allows the study to explore how honesty should function as an ethical foundation in financial reporting practices, particularly in areas involving professional judgment and discretion. By adopting an interpretive perspective, the study views financial reporting not merely as a technical process but as a socially and ethically embedded practice influenced by moral consciousness and value systems.

The data used in this research are secondary in nature and derived from an extensive review of authoritative academic sources. These sources include peer-reviewed international journal articles, accounting standards and conceptual frameworks, scholarly books on accounting ethics, and literature on Islamic ethical principles. The data collection process follows a structured literature review approach, beginning with the identification of relevant keywords related to financial reporting quality, accounting ethics, and honesty (*shiddiq*). The selected literature is carefully screened to ensure academic credibility, relevance, and recency, with priority given to publications from the last decade while still incorporating seminal works that provide strong theoretical foundations.

Data analysis is conducted using qualitative content analysis and descriptive–analytical techniques. Relevant concepts and themes related to honesty, transparency, faithful representation, and accountability are identified and systematically interpreted. These themes are then synthesized to construct a coherent analytical framework that explains the relationship between the value of honesty (*shiddiq*) and financial reporting quality. Through iterative comparison and conceptual integration, the analysis demonstrates how ethical values complement accounting standards by guiding professional judgment and reducing opportunistic behavior. This method enables the study to develop a robust conceptual explanation of the ethical foundations of high-quality financial reporting.

## Result and Discussion

### Result

The results of this study indicate that the value of honesty (*shiddiq*) has strong and consistent conceptual relevance to financial reporting quality. A comprehensive analysis of the literature demonstrates that honesty functions as a foundational ethical driver that shapes how financial information is recognized, measured, presented, and disclosed. When honesty is embedded within professional conduct and organizational culture, financial reporting practices tend to prioritize economic substance over mere legal form. This orientation enhances the credibility, reliability, and usefulness of financial information for stakeholders. The findings suggest that ethical values operate not as abstract ideals, but as practical determinants of reporting behavior and outcomes.

The first major result shows that *shiddiq* plays a critical role in supporting faithful representation in financial reporting. Faithful representation requires that financial information be complete, neutral, and free from material error, ensuring that reported figures accurately reflect underlying economic realities. The value of honesty encourages preparers of financial statements to report transactions and events as they actually occur, without intentional distortion, bias, or selective omission. This ethical commitment discourages practices such as aggressive estimation, earnings smoothing, and income shifting that may technically comply with accounting standards while misleading users. As a result, honesty strengthens the substance of faithful representation beyond formal compliance.

Second, the findings reveal that honesty significantly enhances transparency and disclosure quality. Transparency is achieved when material financial information is disclosed clearly, comprehensively, and in a timely manner, allowing users to fully understand an entity's financial position and performance. The internalization of *shiddiq* motivates management to go beyond minimum disclosure requirements and provide meaningful, decision-useful information. Honest disclosure reduces ambiguity and information gaps, enabling stakeholders to assess risks, uncertainties, and future prospects more accurately. Consequently, transparency rooted in ethical commitment contributes directly to higher financial reporting quality.

Third, the analysis indicates that honesty plays an important role in reducing opportunistic behavior, particularly earnings management and financial manipulation. The literature consistently shows that earnings management often arises from self-interest, performance pressure, compensation incentives, and capital market expectations. The ethical value of *shiddiq* counteracts these tendencies by fostering moral restraint and prioritizing truthfulness over short-term organizational or personal gains. When honesty is internalized, managers are less inclined to exploit accounting flexibility for opportunistic purposes. This ethical orientation promotes sustainability, consistency, and reliability in financial reporting practices over time.

Fourth, the results demonstrate that honesty strengthens accountability within financial reporting processes. In the Islamic ethical framework, accountability is multidimensional, encompassing responsibility to stakeholders, society, and ultimately to God. This moral accountability extends beyond legal obligations and regulatory enforcement, encouraging ethical vigilance even in situations where misconduct may go undetected. As a result, financial reporting becomes a means of fulfilling trust (*amanah*) rather than merely a regulatory requirement. Honest reporting reflects a commitment to responsibility and stewardship, reinforcing the ethical legitimacy of financial information.

Finally, the findings suggest that honesty complements formal accounting standards and corporate governance mechanisms. While accounting standards provide technical guidance and structure, they cannot fully eliminate ethical risk arising from professional judgment, estimation uncertainty, and managerial discretion. The value of *shiddiq* fills this gap by guiding ethical decision-making in complex and ambiguous situations. This synergy between ethical values and technical standards leads to higher-quality financial reporting in both form and substance, reinforcing the idea that ethical commitment is essential for achieving the true objectives of financial reporting.

## Discussion

The findings of this study reaffirm that financial reporting quality cannot be understood solely as a technical outcome of accounting standards, but must also be viewed as a reflection of ethical values and moral judgment. The strong conceptual alignment between honesty (*shiddiq*) and the qualitative characteristics of financial reporting—particularly faithful representation, neutrality, and transparency—demonstrates that ethical integrity plays a decisive role in shaping reporting outcomes. This reinforces the argument within ethical accounting literature that moral values are foundational to the credibility and usefulness of financial information.

One important insight from this study is that honesty functions as an internal ethical control that complements formal accounting regulations. While accounting standards provide a structured framework for reporting, they inherently allow flexibility in estimates, assumptions, and judgments. This flexibility creates opportunities for opportunistic behavior when ethical commitment is weak. The value of *shiddiq* addresses this vulnerability by guiding professional judgment toward truthfulness and responsibility, thereby reducing the risk of manipulation even when regulatory oversight is limited.

The discussion also highlights the relevance of honesty in mitigating agency problems arising from information asymmetry between management and stakeholders. Managers often possess superior information regarding organizational performance and risk, which can be exploited for personal or short-term organizational benefits. By internalizing honesty as a moral obligation, management is less likely to engage in earnings management or selective disclosure. This ethical orientation enhances stakeholder trust and supports more efficient capital market decision-making.

From a broader perspective, the findings suggest that ethical values rooted in Islamic teachings offer universal relevance to modern financial reporting systems. Although *shiddiq* originates from Islamic ethics, its emphasis on truthfulness, accountability, and integrity aligns closely with globally accepted principles of good governance and transparency. This indicates that religious ethical values can contribute meaningfully to contemporary accounting discourse without being limited to specific cultural or institutional contexts.

The implications of these findings extend to organizational culture and governance practices. Organizations that embed honesty as a core value are more likely to foster ethical awareness among employees and management. Such ethical cultures discourage short-term opportunism and promote long-term sustainability by prioritizing trust and credibility. This suggests that improving financial reporting quality requires not only technical reforms but also ethical leadership and value-based governance.

Finally, the discussion underscores the importance of integrating ethical education into accounting curricula and professional development programs. Preparing future accountants with strong technical skills alone is insufficient if ethical judgment is neglected. By emphasizing values such as honesty (*shiddiq*), accounting education can cultivate professionals who are capable of navigating complex reporting decisions with integrity. This integration is essential for strengthening the accounting profession and restoring public confidence in financial reporting practices.

### Conclusion

This study concludes that the value of honesty (*shiddiq*) holds substantial relevance in enhancing financial reporting quality. The analysis demonstrates that financial reporting is not merely a technical process governed by accounting standards, but also a moral practice shaped by ethical values and professional judgment. Honesty functions as a foundational ethical principle that ensures financial information reflects economic reality faithfully and responsibly.

The findings confirm that *shiddiq* strongly aligns with the fundamental qualitative characteristics of financial reporting, particularly faithful representation and relevance. By emphasizing truthfulness and integrity, honesty encourages the accurate recognition, measurement, and disclosure of financial information. This alignment suggests that ethical values are not external to accounting practice, but are inherently embedded within the objectives of financial reporting itself.

Furthermore, this study highlights the role of honesty in promoting transparency and reducing information asymmetry between management and stakeholders. When honesty is internalized, financial disclosures are more comprehensive and less biased, enabling users to make well-informed economic decisions. This transparency strengthens stakeholder trust and enhances the credibility of financial statements.

Another important conclusion is that honesty serves as an effective internal control mechanism that mitigates opportunistic behavior such as earnings management and financial manipulation. While accounting standards provide flexibility to accommodate diverse economic conditions, this flexibility can be misused in the absence of ethical restraint. The value of *shiddiq* addresses this limitation by guiding professional judgment toward ethical and responsible decision-making. The study also emphasizes that ethical values complement, rather than replace, formal regulatory and governance frameworks. Accounting regulations, audits, and enforcement mechanisms are essential for maintaining minimum standards of reporting quality; however, they cannot fully prevent unethical behavior due to inherent limitations in monitoring and enforcement. Honesty fills this gap by fostering self-regulation and moral accountability within individuals and organizations.

In addition, this research contributes to the accounting literature by integrating Islamic ethical values into contemporary discussions on financial reporting quality. By bridging ethical theory and accounting practice, the study expands the conceptual understanding of how moral values influence financial reporting outcomes. This integration demonstrates that religious ethical principles can offer universal insights relevant to modern financial systems.

The implications of this study extend to accounting education and professional development. Embedding ethical values such as honesty into accounting curricula and training programs can cultivate professionals who are not only technically competent but also morally responsible. Such professionals are better equipped to uphold the integrity of financial reporting and to respond ethically to complex and ambiguous situations.

Finally, this study acknowledges its conceptual nature and encourages future research to empirically examine the relationship between ethical values and financial reporting quality across different institutional and cultural contexts. Despite this limitation, the study underscores the critical importance of honesty (*shiddiq*) as a moral foundation for high-quality financial reporting. Strengthening ethical commitment within organizations can ultimately enhance accountability, sustainability, and public trust in financial information.

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