ACHIEVING QUALITY FINANCIAL REPORTING IN NIGERIA THROUGH COMPLIANCE WITH ACCOUNTING ETHICS

IHE, NDUBUISI JOHN, PhD.

DEPARTMENT OF ACCOUNTANCY ,FACULTY OF BUSINESS ADMINISTRATION

IMO STATE UNIVERSITY, OWERRI

&

EMELOGU, LOVINAH C.

DEPARTMENT OF ACCOUNTANCY

ABIA STATE POLYTECHNIC, ABA.

Abstract

The study explored how quality financial reporting can be achieved through compliance with accounting ethics. The study applied a diagnostic approach. It maintained that ethics indicate a philosophical reflection on moral beliefs as well as practices; hence, ethics is a conscious stepping back which reflects on morality. Methodologically, the study applied survey. Design using a well-structured questionnaire to seventy five (75) staff of Starline Nigeria Limited, Aba; NED Consultants, Aba and Abia State Polytechnic, Aba. A total number of seventy five (75) cases (sample size) used were all questionnaire administered and collected. The reliability test of the questionnaire was tested using Cronbach's Alpha Model. The data was analyzed in tabular form and the hypotheses were tested using Multiple Regression Model which was run using Statistical Package for Social Sciences (SPSS) version 16.0. The significance value (sig value) was used for decision making and the results show that their respective significance values at 95% confidence interval are less than 0.5: thus, all the stated null hypotheses were rejected while the alternative hypotheses were accepted which states as follows: there is a positive significant relationship between compliance with accounting ethics and faithful presentation of financial reports, there is a positive significant relationship between compliance with accounting ethics and completeness of financial reports, there is a positive significant relationship between compliance with accounting ethics and reliability of financial reports, there is a positive significant relationship between compliance with accounting ethics and understandability of financial reports and there is a positive significant relationship between compliance with accounting ethics and comparability of financial reports. The results were corroborated by multiple regression values of 0.972, 0.718, 0.859, 0.972 and 0.709 which indicated a good level of prediction and R^2 values of 0.944, 0.516, 0.738, 0.859 and 0.502 indicated that the independent variables statistically significantly explain the variability of the dependent variable. Based on the findings, the paper concluded that compliance with accounting ethics is very relevant and indispensable in achieving quality financial reporting and recommended among other things that companies should establish ethics and quality control department in order to enforce compliance to ethical codes of conduct, and accounting professional bodies should adequately monitor the members to ensure ethical compliance in order to produce quality financial reports and to avoid anything that will bring discredit to the profession

Keywords: *Quality Financial Reporting, Accounting Ethics, Nigeria*

Introduction

In light of recent failures in business and global corporate financial scandals and frauds, compliance with accounting ethics remains crucial in improving the quality of financial reporting which in turn protects the reputation of the reporting entity. Fraudulent financial reporting has become a serious challenge facing financial statement users. Fraudulent financial reporting has resulted in the global financial crisis and collapse of so many firms (Anyahuru and Emelogu, 2012).

These corporate failures have been attributed to the attitude of accountants not complying fully with the accounting ethics. Compliance with accounting ethics is indispensable for accountants to produce quality financial reports that are free from any form of material misstatement. Thus, accountants as professionals saddled with the responsibility of preparing financial statements should fully comply with accounting ethics so as to produce quality financial reports that will be relied upon by its users. Hence, Anam (2011) opines that decisions are based upon ethical principles which are the perception of what the general public would view as correct.

Quality financial reporting provides true information about the financial affairs of an entity which is used in making informed economic decisions without any future economic loss or damage. This implies that fraudulent financial reporting lacks credibility and it is the act of giving financial statement users wrong information to influence their decisions (Anyahuru and Emelogu, 2012). Nzotta (2008) states that financial reporting forms the basis for economic decision making.

Accounting is a profession that demands high level of responsibility and stewardship and as such, all members are expected to comply with the accounting ethics in order to act in a more standardized manner and not to do anything that will bring discredit to the profession. Ajibolade (2008) asked why would members of a respected profession with strict ethical standards be so willing to be in breach of the standards by engaging in the level of ethical violations observed in recent times all over the world? This question is really relevant in this study due to low rate of compliance with accounting ethics which has resulted in fraudulent financial reporting that has negatively affected the quality of financial reporting being prepared by accountants. Hence, the main objective of this study is to examine how quality financial reporting can be achieved through compliance with accounting ethics.

Objectives of the Study

The general objective of the study is achieving quality financial reporting through compliance with accounting ethics. The specific objectives of this study are to:

(i) Ascertain the relationship between compliance with accounting ethics and faithful presentation of financial reports.
(ii) Determine the relationship between compliance with accounting ethics and completeness of financial reports.
(iii) Investigate the relationship between compliance with accounting ethics and reliability of financial reports.
(iv) Examine the relationship between compliance with accounting ethics and understandability of financial reports.
(v) Ascertain the relationship between compliance with accounting ethics and comparability of financial reports.

Research Questions

Based on the objectives of this study, the following research questions are formulated;

(i) Does compliance with accounting ethics have any positive significant relationship with faithful presentation of financial reports?
(ii) Does compliance with accounting ethics have any positive significant relationship with completeness of financial reports?
(iii) Does compliance with accounting ethics have any positive significant relationship with reliability of financial reports?
(iv) Does compliance with accounting ethics have any positive significant relationship with understandability of financial reports?
(v) Does compliance with accounting ethics have any positive significant relationship with comparability of financial reports?

Research Hypotheses

In line with the research questions the following null hypotheses are stated;

Ho_1 There is no positive significant relationship between compliance with accounting ethics and faithful presentation of financial reports.

Ho_2: There is no positive significant relationship between compliance with accounting ethics and completeness of financial reports.

Ho_3: There is no positive significant relationship between compliance with accounting ethics and reliability of financial reports.

Ho_4: There is no positive significant relationship between compliance with accounting ethics and understandability of financial reports.

Ho_5: There is no positive significant relationship between compliance with accounting ethics and comparability of financial reports.

Literature Review

Conceptual Framework Accounting Ethics and Effect

Ethics are moral principles and values that govern actions and decisions of an individual or groups (Anyahuru and Emelogu, 2012). Weihrich and Koontz (1993) as cited in Izedonmi, (2012) opine that accounting ethics pertain to the code that guides the professional conducts of accountants. Izedonmi (2012) opines that maintaining a true and fair financial statement is a key part of financial reporting and it is considered to be ethically sound; hence, public assurance and confidence are enhanced. For David (2002) ethics is special morally permissible standards of a group or profession.

Ethical compliance is very crucial for an entity to function well because quality financial reporting should be a product of professional competence and sound ethical compliance. Thus, observance of sound ethical principles and codes will inspire, promote and ensure public and investor confidence in entities because without a sound code of accounting ethics and compliance to those ethics, investors may not be sure of the safety of their investments (Izedonmi, 2012). That is why Whittington and Pany (2004) as cited in Izedonmi, (2012) opine that careless work and lack of integrity on the part of any accountant may lead the public to have a negative view towards the entire accounting profession. An accountant shall comply with the fundamental principles of professional ethics which include integrity, objectivity, confidentiality, professional behaviour as well as professional competence and due care (ACCA, 2010; Anyahuru and Emelogu, 2012). So compliance with accounting ethics ensures quality financial reporting.

Quality Financial Reporting

Quality financial reporting is the major source of information that the management and other financial statement users need in order to make informed decisions. Obazee (2005) notes that financial reporting is the process of communication of financial information. Izedonmi (2012) opines that financial reporting is expected to present all data relating to an entity's past, present and projected financial health or status. Quality financial reporting assists in sustaining the goodwill of the reporting entity and enhancing financial statement users' confidence. Jennings (2014) maintains that accounting students should be taught ethics because of the role that accountants played in recent scandals of Eron, Worldcom and Arthur Anderson.

Quality financial reporting possesses the following features: relevance, reliability, objectivity, completeness, understandability, comparability and timeliness (ACCA 2010; Willekens, 2008; Anyahuru and Emelogu, 2012). Any financial report that lacks these listed features is said to be fraudulent. Hence, fraudulent financial reporting is an intentional act of giving financial statement users wrong information to influence their decisions. Fraudulent financial reporting may include misrepresentation or omission of events or transactions in the financial statements; intentional misapplication of accounting principles as well as manipulation, falsification or alteration of accounting records or supporting documents. (Anyahuru and Emelogu, 2012). The victims of fraudulent financial reporting are generally, the users of financial statements such as banks and other financial institutions that lend funds to the firm, investors, suppliers, shareholders, etc.

Relevance of Accounting Ethics to Quality Financial Reporting

Compliance with accounting ethics is relevant in achieving quality financial reporting in Nigeria. This is because it eliminates the issue of fraudulent financial reporting that has become rampant in the society today, thereby enhancing the credibility of financial reporting. Compliance with accounting ethics also results in faithful presentation of financial reports that will enable financial statement users make dependable economic decisions without any future economic loss or damage. It also ensures reliability, understandability, comparability, relevance, and timely preparation of financial reports.

This is also in line with the opinion of Willekens (2008) that faithful presentation of financial reports is measured using five items of neutrality, completeness, freedom from material error and verifiability.

Theoretical Framework

This study is based on four relevant theories which include ethical theory of absolutism, stewardship theory, moral theory and utilitarian theory.

Theory of Absolutism: This ethical theory opines that there are absolute moral standards against which the morality of actions can be judged (ICAN, 2014). This implies that right and wrong are recognized by objective standards that apply universally to everyone. Other terms related to ethical absolutism are ethical universalism which describes the situation whereby all mankind accept and live by the same basic ethical standards regardless of culture, race or religion and ethical objectivism

which describes the view that what is right or wrong does not depend on what anyone thinks is right or wrong but rather the pure facts irrespective of scenario (Izedonmi, 2012; ICAN, 2014).

Stewardship Theory: This describes a relationship that put one party in a position to take care of resources of another person (Anyahuru and Emelogu, 2012). This implies that when a person is entrusted with the responsibility of taking care of another person's resources, assets and liabilities, the person is said to be a steward and as such, stewards are therefore accountable for whatever actions and results they achieve. This theory puts a duty of accountability on the officer in charge.

Moral Theory: This theory was developed by a psychologist Lawrence Kohlberg and he classified moral theory into two namely; ethical subjectivism and cultural relativism. According to Izedonmi (2012) ethical subjectivism theory claims that morality is relative to the individual and that it differs among people depending on what they feel. This implies that morality is a matter of opinion. Izedonmi (2012) and Ihe (2013) concur that cultural relativism theory was developed from studies of simple cultures and it propose that morality is a societal norm. It implies that public opinion determines what is right and wrong. Cultural relativism theory maintains what is right in one society or culture may be regarded as wrong in another society or culture.

Utilitarian Theory: This theory suggests that plans and actions should be evaluated by their consequences and therefore, what is ethical should produce the greatest amount of good for the greatest number of people Abdullahi (2008) as cited in Izedonmi (2012). The theory maintains that actions are right to the extent they tend to promote overall happiness and vice versa. This happiness is not believed to be only for the individuals but the whole community. It assumes that when an individual is faced with ethical dilemma, the consequences of the action should first evaluated in terms of what produces the greatest amount of good for the greatest number of people.

Empirical Framework

Ogbonna and Ebimobowei (2012) carried out a study on the effect of ethical accounting standards on the quality of financial reports of banks in Nigeria. The study revealed that ethical accounting standards affect the quality of financial reports of banks in Nigeria.

Ajibolade (2008) embarked on a survey of the perception of ethical behaviour of future Nigerian accounting processionals. The study equally revealed that future professional accountants should be properly groomed in ethical standards which are normal for professional growth and improvement of service delivery in financial reporting and auditing in order to maintain the respectability of the profession. Bakre (2007) carried out a study on the Unethical Practices of Accountants and Auditors and the Compromising Stance of Professional Bodies in the Corporate World: Evidence from Nigeria. The study revealed that extremely poor level of integrity among accountant, auditors and accounting professional bodies in Nigeria. It concluded that there is no significance difference in the perceptions of respondent groups on the need for auditors to abide by high ethical standard and the need to shape the views of new entrants to the profession. Adeyemi and Fagbemi (2011) studied the perception of ethics in auditing profession in Nigeria. The study revealed that there is need for the profession to direct its efforts towards shaping the views of new entrants to the profession.

The study recommended sound ethical training as an important step towards restoring the integrity of financial reporting process. It concludes that adherence and enforcement of high ethical standard in the profession will go a long way in making members to inculcate diligence in the way they carry out their duties.

Research Methods

This paper adopted the survey research design in order to achieve the objectives of this study and the methods of data collection were both primary and secondary sources. The secondary data were collected through internet, journals and textbooks while the primary data were collected through the administration of well-structured questionnaire. A five point likert scale was used in the questionnaire to arrive at a conclusion where five being the highest and one is the lowest. Reliability test of the questionnaire was tested using Cronbach's Alpha Model. The questionnaire was distributed to seventy five (75) respondents also known as cases which include some staff of Starline Nig. Limited, Aba, NED Consultants Aba and Abia State Polytechnic Aba. The data was analyzed using tables and the stated hypotheses were tested using Multiple Regression Model which was run using Statistical Package for Social Sciences (SPSS) Version 16.0. The significant values (sig values) were used for decision making.

Decision Rule: When Cronbach's Alpha value is above 0.7, we therefore accept that the questionnaire were well represented and are not as a matter of chance. Secondly, if the significant value (sig value) is less than 0.5, null hypotheses will be rejected and the alternative hypotheses accepted. For easy analysis, the questions in the questionnaire were coded as follows: FPOFR, COFRS, ROFRS, UOFRS, CPOFR, TROFR, TPOFR, TVOFR, PGOAE, PTPOF, HSETM, RFFMM, PRORE, AAMSM, DMMID, MFCOF and CEASIA.

Analysis, Results and Discussion

This section takes care of the analysis of data, results of test of hypotheses stated earlier as well as discussion of relevant findings

Analysis of Data

	5	4	3	2	1	Total
FPOFR	37	30	1	5	2	75
COFRS	18	34	7	11	5	75
ROFRS	43	32	-	-	-	75
UOFRS	16	25	7	18	9	75
CPOFR	20	35	7	10	3	75
TROFR	30	35	2	6	2	75
TPOFR	22	30	5	12	6	75
TVOFR	20	35	6	10	4	75
PGOAE	23	34	5	8	5	75

PTPOF	24	33	4	9	5	75
HSETM	40	30	3	2	-	75
RFFMM	40	35	-	-	-	75
PRORE	34	41	-	-	-	75
AAMSM	30	32	4	6	3	75
DMMID	25	40	3	7	-	75
MFCOF	20	35	8	8	4	75
CEASIA	37	38	-	-		75

Source: Field Survey, 2017

Key:

5 denotes Strongly Agree

4 denotes Agree

3 denotes Undecided

2 denotes Disagree

Case Processing Summary Table

Valid active cases	75
Active cases with mission values	0
Supplementary cases	0
Total	75
Cases used in analysis	75

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha based on Standardized Items	N of items
.984	.986	17

Source: Researcher's Computation using SPSS Version 16.0

Decision: Since Cronbach's Alpha value of 0.984 is higher than 0.7 this implies that the questionnaire were well represented and was not as a matter of chance. The following hypotheses were tested:

Ho_i: There is no positive significant relationship between compliance with accounting ethics and faithful presentation of financial reports.

H_{i1}: There is a positive significant relationship between compliance with accounting ethics and faithful presentation of financial reports.

Variables used in testing hypothesis 1 are CEASIA (dependent variable), FPOFR, RFFMM, PRORE and HSETM (independent variables).

Model Summary Table

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.972	.944	.941	.123

Source: Researcher's Computation using SPSS Version 16.0

Anova Table

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	17.695	4	4.424	294.310	.000
Residual	1.052	70	.015		
Total	18.747	74			

Source: Researcher's Computation using SPSS Version 16.0

Decision: Since the significance value (Sig. Value) above is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that there is a positive significant relationship between compliance with accounting ethics and faithful presentation of financial reports. Also, the "R" value of 0.972 indicates a good level of prediction and the "R Square (R^2)" value (also known as the coefficient of determination) of 0.944 indicates that the independent variables explain 94.4% of the variability of the dependent variable.

H_{O2}: There is no positive significant relationship between compliance with accounting ethics and completeness of financial reports.

H_{i2}: There is a positive significant relationship between compliance with accounting ethics and completeness of financial reports.

Variables used in testing hypothesis 2 are CEASIA (dependent variable), COFRS, TVOFR, MFCOF and TROFR (independent variables).

Model Summary Table

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.718	.516	.488	.360

Source: Researcher's Computation using SPSS Version 16.0

Anova Table

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	9.673	4	2.418	18.656	.000
Residual	9.074	70	1.30		
Total	18.747	74			

Source: Researcher's Computation using SPSS Version 16.0

Decision: Since the significance value (Sig. Value) of .000 is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that there is a positive significant relationship between compliance with accounting ethics and completeness of financial reports. Also, the "R" value of 0.718 indicates a good level of prediction and the "R Square (R^2)" value of 0.516 indicates that the independent variables explain 51.6% of variability of the dependent variable.

H_{o3}: There is no positive significant relationship between compliance with accounting ethics and reliability of financial reports.

H_{i3}: There is a positive significant relationship between compliance with accounting ethics and reliability of financial reports.

Variables used in testing hypothesis 3 are CEASIA (dependent variable),ROFRS, TPOFR, PEOAE and PTPOF (independent variables).

Model Summary Table

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.859	.738	.723	.265

Source: Researcher's Computation using SPSS Version 16.0

Anova Table

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression Residual Total	13.828 4.919 18.747	4 70 74	3.457 .070	49.196	.000

Source: Researcher's Computation using SPSS Version 16.0

Decision: Since the significance value (Sig. Value) of .000 is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that there is a positive significant relationship between compliance with accounting ethics and reliability of financial reports. Also, the "R" value of 0.859 indicates a good level of prediction and the "R Square (R^2)" value of 0.738 indicates that the independent variables explain 73.8% of variability of the dependent variable.

H_{o4}: There is no positive significant relationship between compliance with accounting ethics and understandability of financial reports.

H_{i4}: There is a po sitive significant relationship between compliance with accounting ethics and understandability of financial reports.

Variables used in testing hypothesis 4 are CEASIA (dependent variable), UOFRS, AAMSM, DMMID and RFFMM (independent variables).

Model Summary Table

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.972	.859	.851	.194

Source: Researcher's Computation using SPSS Version 16.0

Anova Table

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression Residual Total	16.104 2.643 18.747	4 70 74	4.028 .038	106.625	.000

Source: Researcher's Computation using SPSS Version 16.0

Decision: Since the significance value (Sig. Value) of .000 is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that there is a positive significant relationship between compliance with accounting ethics and understandability of financial reports. Also, the "R" value of 0.972 indicates a good level of prediction and the "R Square (R^2)" value of 0.859 indicates that the independent variables explain 85.9% of variability of the dependent variable.

Ho5: There is no positive significant relationship between compliance with accounting ethics and comparability of financial reports.

Hi5: There is a positive significant relationship between compliance with accounting ethics and comparability of financial reports.

Variables used in testing hypothesis 5 are CEASIA (dependent variable), CPOFR, AAMSM, TVOFR and TROFR (independent variables).

Model Summary Table

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.709	.502	.474	.365

Source: Researcher's Computation using SPSS Version 16.0

Anova Table

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression Residual Total	9.419 9.328 18.747	4 70 74	2.355 .133	17.669	.000

Source: Researcher's Computation using SPSS Version 16.0

Decision: Since the significance value (Sig. Value) of .000 is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that there is a positive significant relationship between compliance with accounting ethics and comparability of financial reports. Also, the "R" value of 0.709 indicates a good level of prediction and the "R Square (R^2)" value of 0.502 indicates that the independent variables explain 50.2% of variability of the dependent variable.

Conclusion

Accounting is a profession that demands high level of responsibility and stewardship and as such, accountants are expected to comply with the accounting ethics in other to produce quality financial reports that will be used in making dependable economic decisions that will be void of future regrets.

The paper highlighted among other things that compliance with accounting ethics is very relevant and indispensable in achieving quality financial reporting.

Recommendations

The following recommendations are made in line with the findings of the study.

- Companies should establish ethics and quality control department in order to enforce compliance to ethical codes of conduct.
- Accounting professional bodies should adequately monitor the members to ensure ethical compliance in order to produce quality financial reports and to avoid anything that will bring discredit to the profession
  Companies' Chief executives should encourage the accountants to comply with code of ethics so as to avoid any form of fraudulent financial reporting.
- Accountants should at all times be objective in all their dealings to minimize the cases of corporate failures.
- Accountants, clerks and bookkeepers should be sent for ethics courses each year.
- Internal checklist should be created in order to make a company's books honest.

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