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Accounting Ethics and Quality of Financial Reporting of Firms in Nigeria

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Abstract

This study examines the connection between accounting ethics and the quality of financial reports in the Nigerian Manufacturing Sector, emphasis on Edo State Manufacturing Companies. Integrity, objectivity, confidentiality, professional competence, and due care as the independent variable were found to be a significant factors in improving the quality of financial reports in the Nigerian manufacturing sector in Edo State. Ten (10) manufacturing companies were specifically selected for the study, which was carried out utilizing a cross-sectional research survey. The factors were tested and examined using multiple regression analysis. The study comes to the conclusion that if a code of accounting ethics is strictly enforced as a prerequisite for professional accountants, it will increase the quality of financial reports. According to the study, accounting ethics are crucial to raising the caliber of financial reports produced by a company and ought to be given careful consideration in order to increase stakeholders' trust in those reports.

Keywords: *Accounting, Ethics, Behaviour, Financial, Report, Firms*

1. Introduction

The financial reporting process heavily relies on accounting ethics, which is a significant facet of the accounting profession, regardless of the area of competency within accounting profession, and those who assume the role of accounting are obligated in keeping high standards of the profession (Alnasser., Shaban, & Al-Zubi, 2014). It is required of the accountants to carry out their work in a manner that complies with the moral and ethical requirements of the profession. The main issue that still persist is how to build investor confidence in financial report by using moral ethical practices, which would increase trust and transparency in financial reporting process. One of the factors contributing to incorrect financial reporting, which reduces the accuracy and reliability of financial reports, is a lack of accounting ethics (Edi &Enzelin, 2022). To guarantee the integrity and dependability of the financial data given to stakeholders, high ethical standards requirement in accounting is needed.

Salaudeen, Ibikunle, and Chima (2015) asserted that it is critical that accountants offer data that is actually useful, trustworthy, accurate, and devoid of prejudice. It means that the data presented must be reliable, accurate, and devoid of bias or personal preference. Accounting code of ethics

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can reduce the likelihood of financial reporting that is deceptive (Edi &Enzelin, 2022). The foundation of public confidence in financial reporting, according to IFAC (2015), is the establishment of a code of professional behavior and ethics for professional accountants. It is impossible to overstate the significance of financial reporting and accounting integrity. Therefore, it's critical to look at the causes of financial reporting crises and accounting ethics misrepresentation as well as how the accounting industry can raise its ethical standards and financial reporting procedures.

1.2 Research Problem

Accountants sometimes have to deal with moral dilemmas and the issue of weak willpower. They are faced with innumerable situations where they have to decide between doing the right thing and doing the wrong thing. Therefore, commitment to ethical standards is one facet of accounting's claim to professionalism. It is depressing that the public still lacks confidence in the accounting profession's final products, such as financial statements and reports, despite the effectiveness of agencies and regulating bodies in the field. Corporate scandals in the non-financial (Cadbury Plc, Unilever Brothers, etc.) and financial (Intercontinental Bank, Oceanic Bank, etc.) sectors of the economy have been a commonplace in Nigerian society over the years. Intercontinental Bank committed 179 billion dollars in fraud, and Cadbury inflated its audited financial accounts (Salaudeen, Ibikunle & Chima, 2015), in July 2017, the Joint Admission Matriculation Board (JAMB) announced that it had sent a record-breaking N5 billion to the Federal Government, the highest sum in the organization's forty years of existence. This led to questions about amounts that had already been sent, which in turn led to an examination of the prior management's conduct (Aifuwa, Embele, &Saidu, 2018). It is still debatable how well the current codes of conduct and ethical principles have encouraged moral behavior among accounting professionals. In order to promote moral behavior among accounting professionals, this study attempts to provide light on how accounting ethics impact the quality of financial reporting and identify areas where codes of conduct and ethical principles may be reinforced.

1.3 Objectives of the Study

The main objective of this study is to look into the relationship between accounting ethics and financial reporting. The specific objectives are to:

(a) Examine how integrity affects quality financial reporting.

(b) Analyze how objectivity affects quality financial reporting.

(c) Find out how confidentiality affects quality

(d) Assess the impact of Professional competence and Due care on quality financial reporting.

1.4 Research Questions

(a) What impact does integrity as an ethical value have on financial reporting?

(b) Does financial reporting have any affiliation to objectivity as an ethical value?

(c) Does financial reporting relate to confidentiality as an ethical value?

(d) Does Professional competence and Due care as an ethical value have any effect on financial reporting?

1.5 Hypotheses

H_{01}. Integrity does not have any significant relationship with financial reporting.

H_{02}. Objectivity does not have any significant with relationship with financial reporting.

H_{03}. Confidentiality does not have any significant relationship with financial reporting,

H_{04}. Professional competence and Due care does not have any significant with relationship with financial reporting.

2. Literature Review

2.1 Theoretical Framework

Theories have been developed about the moral conduct and conduct of professionals within an organization. This study is anchored on:

2.1.1 Accounting Theory

Hendriksen (1985) explains that the foundation of accounting theory is a logical mindset that manifests as thorough and detailed philosophies that provide a generic framework for assessing accounting practices and, more significantly, act as a guide for newly developed practices and procedures. No arbitrary notions or viewpoints form the foundation of accounting theory, rather, it stems from systematic thought and logical reasoning. It is organized and adheres to a logical framework that aids accountants in understanding the intricate in financial events and transactions. Accountants should have both academic knowledge and practical experience to efficiently handle real-world accounting difficulties. Numerous generally acknowledged rules, norms, customs, processes, philosophies, and underlying postulates are included in accounting theories (Coetsee, 2010). This theory is employed to illustrate how accounting ethics, as formulated by the accountant, can impact the quality of financial reporting.

2.2 Conceptual Reviews of Accounting Ethics and Financial Reporting Quality

The word "ethics" has been defined by a number of scholars. Ethics is the branch of philosophy that focuses on formal, scholarly reasoning about good and evil, claim Fisher and Lovell (2003). Ethics, according to Hornby (2010), are the moral principles that direct people's behavior. High-quality financial reporting information is crucial because it will help capital providers and other stakeholders make better decisions about lending, investments, and other resource allocations, which will increase market efficiency overall, according to IASB (2008). The degree to which financial statements provide us with accurate and reliable information about the condition and performance of an organization's finances is known as financial reporting quality. According to Martínez-Ferrero, Garcia-Sanchez, and Cuadrado-Ballesteros (2015), another way to define the quality of financial reporting is the consistency of the data presented in the process.

The main purpose of a code of ethical conduct is to set a clear ethical norm for an organization's activity. In order to satisfy stakeholders, accounting professionals should act in a way that is guided by accounting ethics. Establishing a code of ethics contributes to the development of a value-based organization, according to the International Federation of Accountants (IFAC). It is clear that accounting ethics help to lower employee theft, fraud, corruption, and financial mismanagement. The impact of ethics on audit quality was revealed by Arowoshegbe, Uniamikogbo, and Atu (2017), they discovered a positive and significant correlation between audit quality and accounting ethics.Good accounting standards can help Nigerian banks prevent fraud, according to Nwanyanwu's (2018) research. Public and private sector accountants are expected to adhere to the code of ethics, which is one of the agenda topics for members of the International Federation of Accountants (IFAC) (Dankwanmbo & Izedonmi, 2018).

2.3 Fundamental Ethical Accounting Standards

2.3.1 Integrity and Financial Reporting Quality

Professional accountants are bound by the integrity principle, which requires them to act honorably and truthfully in all of their business and professional interactions. Financial statement manipulation has sparked questions about the accuracy of the company's financial data and the integrity of the accounting profession (Ahinful et al., 2017). A professional accountant should steer clear of any reports, returns, communications, or other material that they suspect contains materially false or misleading statements. Ogbonna and Ebimobowei (2012) assert that an organization's performance is significantly impacted by its ethical culture.

2.3.2 Objectivity and Financial Reporting Quality

The objectivity principle states that all certified accountants must be impartial, truthful, and free from conflicts. Additionally, they have to make sure that their professional judgment is not hampered by any prejudices or unrelated variables. Upholding the highest standards of professionalism, achieving optimal performance, and generally ensuring that the needs of the public interest are met are the objectives of the accounting profession, according to the IFAC code of ethics for professional accountants. This means maintaining transparency, providing accurate financial information, and abiding by ethical standards in order to promote public trust in financial reporting and decision-making. It was claimed that accountants who value objectivity in their work and those who compromise it would produce higher-quality financial reports (Ogbonna & Ebimobowei, 2012).

2.3.3 Confidentiality and Financial Reporting Quality

Professional accountants are expected to respect the principle of confidentiality, which means they must not divulge private information they have learned from business or professional interactions with clients, unless there is a legal or professional obligation to do so. A professional accountant should not divulge confidential information obtained through business and professional relationships to third parties or use it for their own gain. A professional accountant should maintain confidentiality even in social situations (Ogoun & Epibayerin, 2020). Al-Dmouret al. (2018) discovered that establishing a solid system foundation that encompasses availability, security, integrity, confidentiality, and privacy can enhance the overall quality of financial reports.

2.3.4 Professional competence, due care and Financial Reporting Quality

A professional accountant has an obligation to continuously update and maintain their knowledge and abilities in accordance with the latest developments in practice, rules, and procedures. A certain level of industry expertise is needed of accountants. This competence requires a deep understanding of relevant technology, laws, and accounting rules. Regularly keeping up with this expertise ensures that accountants can provide accurate and reliable financial information to their clients or companies. Eginiwin and Dike (2014) assert that the quality of financial reporting is positively impacted by professional competence and proper care. Consequently, it is undeniable that achieving and preserving professional competence raises the standard of financial reporting.

3. Methodology

3.1 Research Design

A survey and cross-sectional research designs were employed in this study, in order to examine a group of companies or firms.

3.2 Population, Sample Size and sampling Technique

The population of study consisted of all the fifty-four (54) registered manufacturing firms operating in Edo State. This study major investigation focused on the firm financial reporting, ethical value of the professional accountants, internal and external auditors' reputation, directors and managers of corporate organizations.

Purposive sampling techniques was employed. Ten (10) registered manufacturing firms in Edo State were purposively selected based on the firm financial reporting, ethical value of the professional accountants, internal and external auditors' reputation, directors and managers of corporate organisations. The firms included: Presco Plc, Okomu Oil Palm Plc, Edo Cement Company Plc, Yongxing Steel Company Ltd, Planet Company Ltd, Sunetinmu Global Resourecs Ltd, Pet Ekhosa Nigeria Company, Ellah Lake Plc, Bua Cement Plc, Guinness Nigeria PLc. A total of one hundred respondents (ten (10) from each company/firm) were randomly selected from staff in the Accounting, Finance or Audit departments.

3.3 Sources of Data Collection

Primary data, gathered through the use of a questionnaire, was used for this study in order to arrive at dependent and objective analyses.

3.4 Model Specifications

The model for this study was adapted from Ogbonna &Ebimobowei, (2012); and Aifuwaet al., (2018), the functional form of the model is presented thus:

FRQIASB-I =F (INT, OBJ, COF, PC)……………. (i)

Where integrity (INT), objectivity (OBJ), confidentiality (COF) and professional

Competence and due care (PC) were used as function of financial reporting quality measured by IASB (FRQ). This can be further expressed in an econometric model as follows:

$FRQIASB = \beta_0+\beta_1 INT+ \beta_2 OBJ + \beta_3 COFi+\beta_4 PC + \varepsilon i$……..(ii)

Incorporating the cross sectionality in the research design, hence

$FRQIASB_{it} = \beta_0+\beta_1 INT_{it}+ \beta_2 OBJ_{it} + \beta_3 COF_{it}+\beta_4 PC_{it} + \varepsilon i$……..(iii)

Logging equation (iii) to check make the presence of hetroscedasticity

$logFRQIASB_{it} = \beta_0+\beta_1 logINT_{it}+ \beta_2 logOBJ_{it} + \beta_3 logCOF_{it}+\beta_4 logPC_{it} + \varepsilon i$……..(iii)

Where:

FRQIASB = Financial Reporting Quality as measured using IASB qualitative model;

β_0= Constant; INT = Integrity; OBJ = Objectivity; COF = Confidentiality; PC = Professional competence and Due care

ε = Standard error; it= Cross sectionality (Individuals) and log is log in base 10

β1, β2, β3, β4 >0

4 Result Presentation, Analysis and Interpretation

A total of one hundred (100) questionnaires were administered and distributed to respondents in order to obtain relevant data for the study, ninety six (96) questionnaire were successfully retrieved from sampled respondents in the context of assessing the impact of accounting ethics on financial reporting quality showing a 96% response rate.

Table1: Matrix Correlation

	INT	OBJ	COF	PC
INT	1	0.3091	0.1555	0.1258
OBJ		1	0.0336	0.3416
COF			1	0.0886
PC				1

The result of table 1 showed that there is absence of multi-collinearity because none of the correlation coefficient was up to 50% (0.50). So, the statistical significance of the independent variables is not undermined or reduced.

Panel Regression (Fixed and Random Effects) Results

Table2: Fixed and Random Effects Results (DV: FEQIASB)

Variable	Fixed Effect Result	Random Effect Result
C	-.009615 *(0.8611)*	.001347 *(0.0281)*
INT	.018174 *(.5227)*	.020143 *(0.0431)*
OBJ	.065694 *(.4048)*	.059916 *(.0280)*
COF	.051828 *(.3046)*	.03964*(.0473)*
PC	.000748 *(.9836)*	0.005198 *(0.0045)*
Prob(F-stat)	.00991	.00088
D.W	1.60321	1.688482
Hausman Test		0.3481 > 0.05
Cross-sections included	10	10
No. of observations	96	96

From the result of table 2, since the Hausman value (.3481 > 0.05) was greater than .05, it meant that the null hypothesis was accepted meaning that the result of the random effect was preferred

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to the fixed effect, hence the random effect result was more desirable. The meant that the intercepts were time variant (the value of the variable does change across time).

The result of Prob>F which was.00088 and less than .05 showed that all the coefficients in the model were different from zero which made the model good. The result of *DW statistic* of 1.6 approximately 2 indicated the absence serial auto correlation which meant that the model was desirable.

The coefficient result of integrity (INT) revealed that a unit increase in integrity of the individuals involved in financial reporting will increase financial reporting by.020143 units, andit is significantly affects financial reporting because the *p-value* of*.0431* was less than .05. This meant that an increase in the integrity of individual involved in financial reporting willincrease financial reporting. This meant that integrity of individuals was good for financial reporting and significant. This is valid within the period and scope of the study.

Also, a unit increase in objectivity of the individuals involved in financial reporting will increase financial reporting by .059916 units, however it significantly affects financial reporting because the *p-value* of *(.0280)* was less than .05. This meant that an increase in the objectivity of individual involved in financial reporting will increase financial reporting, and it is significant. This meant that objectivity of individuals was good for financial reporting and significant. This is valid within the period and scope of the study.

Also, a unit increase in confidentiality of the individuals involved in financial reporting will increase financial reporting by .03964 units, however it insignificantly affects financial reporting because the *p-value* of *(.0473)* was less than .05. This meant that an increase in the confidentiality of individual involved in financial reporting will increase financial reporting, and significant. This meant that confidentiality of individuals was good for financial reporting and significant. This is valid within the period and scope of the study.

In addition, a unit increase in professional competence and due care of the individuals involved in financial reporting will increase financial reporting by .005198 units, however it insignificantly affects financial reporting because the *p-value* of *(.0045)* was less than 0.05. This meant that an increase in the professional competence and due care of individual involved in financial reporting will increase financial reporting, and significant. This meant that professional competence and due care of individuals was good for financial reporting and significant. This is valid within the period and scope of the study.

5. Conclusion

The study's findings did aligned with existing literature that emphasizes on the significances and positive importance of integrity, objectivity, professional competence and due care, and confidentiality on financial reporting. In conclusion, the findings from the regression analysis highlight the significant impact of ethical values on financial reporting in Nigeria firms' emphasis on Edo state. These results reaffirm the importance of ethical conduct in maintaining the quality, reliability, and credibility of financial information, which, in turn, fosters trust among stakeholders.

This study emphasizes the vital connection between accounting ethics and quality offinancial reporting and in Edo State manufacturing companies. It looked into how professional competence, impartiality, confidentiality, honesty, and due care affect financial reporting. The results demonstrate how these ethical principles have a major impact on the precision, dependability, legitimacy, and trustworthiness of financial reports. The study emphasizes that professional competence and due care, objectivity, integrity, and secrecy are essential components of ethical financial reporting. These moral precepts assist informed decision-making, preserve investor confidence, and guarantee the effectiveness of financial markets. They also conform to accepted accounting and auditing standards.

5.1 Recommendations

Several suggestions are made to improve ethical principles and procedures in financial reporting within businesses in light of the study's recommends:

(a) Firms should establish mechanisms for accountants to report unethical behaviour or financial irregularities confidentially.

(b) Firms should consider forming an ethics oversight committee responsible for monitoring and ensuring compliance with ethical standards in financial reporting.

(c) Accountants should engage in continuous learning and development to enhance their professional competence.

(d) Accountants should enhance transparency in financial reporting practices, ensuring that stakeholders have access to clear and comprehensible financial information.

By implementing these recommendations, firms can strengthen their ethical foundations in financial reporting, thereby contributing to improved financial outcomes and sustained success in Nigeria's dynamic business environment.

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