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Professional Ethics and Quality of Financial Report of Nigerian Deposit Money Banks

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Abstract: ***The purpose of this study was to evaluate the effects of professional ethics on the quality of financial reporting on Nigerian deposit money banks. The study looked at the effect of objectivity, integrity, independence, professional competence and due care, and professional behavior on quality of financial reporting amongst deposit money banks in Nigeria. Descriptive survey design was utilized to conduct the study. The target population of this study was deposit money banks in Nigeria while purposive sampling technique was used to select 8 of the banks that has international recognition. The study targeted 120 respondents to participate in the study and questionnaires were used as tools to collect data from respondents. The questionnaire was sent to accountant, auditors and managers distributed over all the 8 deposit money banksand soft copies of the questionnaire was sent to them using several information technology platforms. Study results established that objectivity, integrity, independence, professional comepetence and due care and professional behaviour all had positive and significant effect on timeliness (TML) (Adjusted R2 = 0.805, F = 76.815, p < .05) and verifiability (VRF) (Adjusted R2 = 0.735, F = 52.065, p < .05) . The study recommends that management of deposit money banks should ensure that their accountants are professionals and that employment of staff should only be by merit. The management should also focus more on on-the-job training opportunities for employees.***

Keywords: Quality financial reporting, Integrity, Professional ethics, Professional competence, Objectivity, Independence, Timeliness, Verifiability

1. Introduction

Ethical professionalism is an important virtue that a successful accountant must possess in the course of his activities as a result of the delicateness of the duties of an accountant. An accountant determines the state of a nation in the long run because decisions are made on the basis of the information disclosed in the statement of financial position. The nature of the accountant's duty stresses the importance of professionalism in their activities especially in the preparation of financial reports (Ramanna & Sletten, 2014). Decisions are made on the basis of the financial reports released to the public and these decisions can either make or mar the stakeholders. These decisions may further effect the efficient allocation of resources not just for one industry but for the entire economy (Mabil, 2019). As a result of this, accountants are looked upon as reliable especially because of the special codes and professional ethics specifically put in place to ensure this. These principles and codes when strictly adhered to assists in the process of havinga credible financial statement and furthermore, confidence in the financial statement (Kalshoven, Hartog & Hoogh, 2011).

Financial report is very vital to every organisation as it gives information about the organisation to its stakeholders. The essence of every financial report is to communicate useful information about how a company is being run to anyone who needs it so that useful decisions can be made on the basis of this information. Financial report is meant to guide stakeholder's decision-making and it is prepared by accountants followed by verification by auditors before it is ready and made suitable for the public (Majiyebo, Okpanachi, Nyor, Yahaya, Mohammed, 2018). Recent accounting scandals in the financial world has raised concerns among stakeholders as regards the quality of financial report (Agrawal and Chadha, 2005; Brown et *al*., 2010). Many high-ranking banks in Nigeria like Oceanic bank, International bank and Unity bank etc. have been involved in frauds relating to their financial report which has weakened the investor's confidence toward the management team and the financial reports. The collapse of corporate organizations shortly after the release of the annual report dents the credibility of financial reports and the efficacy of professional ethics (Mabil, 2019).

Directors are saddled with the responsibility of ensuring that that they monitor the accountants in the preparation of financial statements and the verification exercise carried out by auditors. By trying to bring solution to these problems, the International Accounting Standard Board set up the conceptual framework of financial reporting. The third framework is the qualitative characteristics of financial reports and these sets out the minimum requirements expected of financial statements. The qualitative characteristics of financial statement are divided into two: fundamental and enhanced characteristics. The fundamental characteristics are relevance and faithful representation while the enhanced characteristics are understandability, comparability, verifiability, and timeliness.

The collapse of several big organizationsfor about two past decades have resulted in negative financial results to stakeholders and the public at large and this has in turn affected the trust stakeholders have on the financial statement. The credibility of financial statements has been questioned severally in Nigeria as a result of corporate failures and several fraudulent activities which has cast a doubt on the ethical professionalism of financial statements. This led to the recommendation of some reforms by professional and regulatory bodies in a bid to improve financial reporting quality in corporate organizations and their management.The code of ethics is one area that is geared towards the improvement of financial reporting quality. If the accountants responsible for the collation of financial reports and the auditors, whose function is to oversee the process of financial reporting and theoverview of the statement of financial position are ethically sound, it is believed that financial reports would reflect this ethical professionalism.

Despite poor financial reporting issues that are rampant in Nigeria, there are only a few studies that have been done with focus on professional ethics and the quality of financial reporting. Some of them are ethical principles in relation to relevance of financial reports of quoted Nigerian companies was evaluated by (Odesanya,Enyi, Adegbie& Salawu, 2019). (Musa, 2019) researched on Professionaliam and ethics of Accounting in financial reporting looking at Nigeria as a whole. (Oraka, A. & Okegbe, T., 2015)evaluated the impact of professional accounting ethics on the quality assurance of audit. A research work was carried out by Mabil (2019)in South Sudan which focused on how accounting ethics affects financial reporting of some selectedbanks and established that there is a relationship between them. In Nigeria, several works have been done which considered the effect of several other variables on financial reporting quality. Hassan (2011) looked at corporate governance and financial reporting quality among DMB's.Olowokure, Muhammad, & Nyor, (2016) considered the effect of the structural characteristics of firms and financial reporting quality among DMB's while Majiyebo, Okpanachi, Nyor, Yahaya, Mohammed, (2018) worked on financial reporting quality of DMB's in Nigeria and the effect that audit committee independence and size has on them, and these studies and many others were carried out in Nigeria.

This study therefore examines the effect of objectivity (OB), integrity (IT), independence (ID), professional competence and due care (PCD)together with professional behavior (PB) on financial reporting quality measured by timeliness and verifiability.

2. Literature Review

2.1 Empirical Review

Objectivity is a principle that expects accountant to be without bias, conflict of interest and undue influence when carrying out their work. (Musa, 2019) posits that accountants display objectivity by intellectual honesty and the protection of their own integrity. A study on accountant's objectivity among the Spanish banking industry and the extent of fiscal reporting was carried out byGras-Gil, Marin-Hernandez, & Lema (2012)and findings showed that as the number of objective accountants and auditors increases, financial reporting quality is higher.(Yosep, 2016) looked athow the objectivity of accountants affects the quality of financial reportamong listed commercial banks in India and discovered that value is placed on theessence of objectivity in accounting andauditing and that when an accountant and an auditor are objective,it means that their individual mental attitude as professionals is also objective. The study concluded thatwhen an accountant is objective, financial reporting quality is positively influenced.

The principle of integrity is the principle of honesty and strong morals that cannot be changed despite all kinds of pressure. Professionals are saddled with the responsibility of being straight forward and honest both in business and professional relationships (Musa, 2019). Eginiwin, Dike (2014)worked on accounting ethics and the impact it has on financial reporting quality amongsome oil producing and exploration companies in Nigeria and their findings reflected that there was a positive relationship between accounting ethics and financial reporting quality in relation to the proxies of financial reporting quality which were dividend per share, return on investmentandearnings per share.Yarahmadi & Bohloli (2015) opined that the principle of integrity is the basis of other principles and without it, other principles do not exist at all. Ogbonna& Ebimobowei (2012) used both primary and secondary data to investigate how ethical accounting standards affects the financial report of banks in Nigeria. Information was gathered through primary data (questionnaire) was then analyzed using models of econometricsand the study found that there is a relationship between ethical accounting standards and the financial reports of Nigerian banks.

The concept of independence relates to freedom from influence or control by another party either an individual or an organization. It is one's ability to make independent decisions without interference by another and in this case, without interference by management. An accountant should be independent in mind and appearance. An accountant must be seen as independent and so independence is not limited to opinions and expressions in financial statement alone (Musa, 2019). Independence is very vital as it affects how reliable an accountant's performance is because without independence in mind and appearance, the credibility of a professional is at stake (Mabil, 2019). The nature of the duty of the accountant revolves around independence because the maintenance of objectivity, issuance of reasonable opinions and reliability of information can only be achieved with independence. An accountant must be independent in appearance, that is he must be seen by the public as independent. An accountant should also be independent from those whose report they are compilingso that their activities can be performed without interference. When independence is joined with objectivity, the extent of reliability and accuracy of the accounting profession is improved and thisboosts the confidence of employers that they can trust the output of the accountant (IIA, 2017).

The management of employees in an organization is a determinant of the effectiveness and efficient operation of that organization. Before employees are managed, the process of recruitment is equally very important as well as the educational qualification, professional qualification and experience (Nagy & Cenker, 2012). These qualities are very important and must be found in anyone who wants to carry out accounting tasks.Furthermore, a firm that has a competent accountant is on the way to having a critical attribute that would lead to the actualization of the process of a qualitative financial reporting (Mabil, 2019).An accountant is proficient and competent when he possesses adequate knowledge, skills, knowledge and other vitalattributesthat helps in the identification of problems, solving of these problems and the effective performance of their duties (IFAC, 2005). The framework of competence of accountants alsolay emphasis on the skillsrequiredof an efficient accountant such as the ability to apply relevant principles and to resolve conflict (IFAC, 2005).(Mabil, 2019) also posits that thedevelopment in skills such as in communication skills of an accountant is not just meant to make better the accountant's potential, but to improve financial reporting quality as the ability of an accountant to communicate is reflected in the annual report. (Setiyawati, 2013)conducted a study in Indonesia and evaluated the impact of the consistency of internal accountants to the development of quality financial reportsusing survey research design on the 31 local government units. The study made use of questionnaires to collect data and foundthat competent internal accountants have a significant effecton financial reports' quality.(Mabil, 2019) also found on selected banks in South Sudan, there was a strong positive influence of the ethics of accounting on financial report quality and recommended that to increase competence, hiring of staff should be on merit and management should provide on the job training for staff. (Odesanya,Enyi, Adegbie& Salawu, 2019) worked on the relationship between ethical principles and the relevance of financial report among quoted firms and recommended that quoted firms should ensure focus on ethical principles so as to facilitate the relevance of financial reporting.

The principle of professional behavior places a responsibility on all professional accountants to adhere to relevant rules and by all means, desist from any act that may bring down the profession. This also means that third party must not have a cause to discredit the action of the professional accountant after the third party has weighed all facts. Professional accountants are supposed to carry out their duty with utmost respect for their profession, they must be of high integrity and be truthful in carrying out their responsibility. They must not be fake or lie about their qualification, experience or unnecessary comparisons.

3. Theoretical Framework

3.1 Theory of Rights

The theory of rights was devised by (Rand, 1967) and the theory shows that every human being has an inherent worth and value that must be respected. This is a measure of good decision making as it places value on consideration of the needs and feelings of others and if the rights of an individual is not respected, that decision is wrong. Generally, rights are categorized into two which are contractual right and legal rights which are shaped by social agreement or natural rights which independently exist from any legal structure. Zeghal &Mhedhbi (2016) opined that natural rights are also called human right and this involves the right to truthfulness which is very important to the profession of accounting. Also, users of financial reports are entitled to accurate and truthful financial information that will help them make useful decisions. Likewise, legal rights and contractual rights are very importantin the relationship between an employer or client and his accountant. In this relationship and under the contractual right, the customer has the right to ask the services of accountants who are professionals. They also have the right to demand services such as in financial reporting. Accountants are also legally expected to carry out their duties to the best of their abilities and within the confines of their profession. This is in line with the opinion of (Copeland, 2015) who posits that the accountant should ensure expertise, necessary independence and integrity in carrying out their duties. This theory is therefore used in this study as it explains the importance of the codes of professional ethics on financial reporting quality.

3.2 The Institutional theory

This theory explains how the structures and practices of administration are modified bychanges emanating from pressures such asguidelines and laws (internal and external)(Mihret& Woldeyohanes,2011). The theory links organizational and accounting practices of an organization to its immediate environment. The theory that explains how competence and objectivity affects financial reporting quality. The theory helps to examine how financial reporting can be effective especially in the corporate world and the various factors that influence financial reporting (Mihret& Woldeyohanes,2011). Institutional theory posits that since the operation of an organization or institution is open to the public, that institution is designed to meet social expectation. The cost involved in the of use of severalmethods in ensuring the training and education of staff members so as to aid financial reporting quality must be accounted for by financial organizations(Mabil, 2019). This theory was used to explain the quality of financial report.

3.3 Methodology

The current study adopted a survey research design. This is because the data for the study was gotten from primary source through the use of a well structured questionnaire. The study carried out a review on the effects of five variables of professional ethics (professional competence, integrity, independence, objectivity and due care and professional behaviour) on financial reporting quality proxied by timeliness and verifiability.

The population consists of all 22 deposit money banks listed in the Nigerian Stock Exchange (NSE) as at 31st December, 2019. The sample size is the 8 deposit money banks with international authorization and this was chosen purposively. 120 copies of the questionnaire was distributed to the selected sample frame of the 8 banksswhich consist of the management, accountants and auditors of deposit money banks. A structured questionnaire was distributed via email and other social media platforms to the sample frame consisting of 120 respondents involved in the preparation of financial reports and 93 questionnaires were retrieved which represents about 77% of the distributed questionnaire. Data was collected using a questionnaire of five point likert scale. A self-constructed structured questionnaire with close ended questions was used for the purpose of this research. A five point likert scale questionnaire (Strongly Agree, Agree, Undecided, Disagree, Strongly Disagree) was used to collect questionnaire data. Considering that the answers in the scale is qualitative, each alternative was converted to the weights of 5,4,3,2 and 1.

The reliability of the questionnaire was tested using conbach's Alpha test and the result showed 97.6% which means that the questionnaire well explains the variables of the study and that the instrument consistently measures the variables. The result of the reliability test is shown in appendix 1. Adjusted R^2 was used as a measure of the explanatory power of the variables of professional ethics. F statistics was used to measure the level of significance. All analyses were done using Statistical product and service solution (SPSS).

3.4 Description of Variables

The independent variable of the study is professional ethics (professional competence, integrity, independence, objectivity and due care and professional behaviour); dependent variable proxied by timeliness and verifiability. Data gotten from questionnaire administered was coded and the result was used to measure how professional ethics affects the quality of financial reporting. The Statistical product and service solution (SPSS) was used to conduct the test using multiple regression.

3.5 Hypothesis and Model

To ascertain how professional ethics affects the quality of financial report, the following hypotheses were proposed

H_{01}: there is no significant effect of professional ethics on the timeliness of financial report of deposit money banks in Nigeria

H_{02}: there is no significant effect of professional ethics on the verifiability of financial report of deposit money banks in Nigeria

This is functionally stated as follows:

TML = f(OB, IT, ID, PCD, PB)..... f1................. Equation 1

VRF = f(OB, IT, ID, PCD, PB)……..f2…………. Equation 2

The apriori expectation was that all the proxies of professional ethics should have a positive effect on the timeliness and verifiability qualities of financial reports.

4. Data Analysis, Interpretation and Discussion

4.1 Data Analysis

The result of data analysis is shown in Appendix 2 and 3

4.2 Interpretation of Result

$$TML_i = \alpha_0 + \alpha_1\, OB_i + \alpha_2\, IT_i + \alpha_3\, ID_i + \alpha_4\, PCD_i + \alpha_5\, PCD_i + \mu$$

The regression estimate of the model above shows that professional ethics measured by objectivity (OB), integrity (IT), independence (ID), professional competence and due care (PCD) and professional behavior (PB) all have a positive effect on quality of financial report measured by timeliness (TML). This is indicated by the signs of the coefficients, which are $\alpha_1 - \alpha_4 < 0$. These results are consistent with a-priori expectations that professional ethics will have a positive effect on timeliness.

From the Table in appendix 2, the size of the coefficient of the independent variables shows that a percentage increase in objectivity will lead to a 28% increase in timeliness, also a 1% increase in integrity will lead to a 28% increase in timeliness, a 1% increase in independence will further lead to an increase in timeliness by54%, a 1% increase in professional competence and due care will lead to a 27% increase in timeliness and a 1% increase in professional behavior will lead to a 17% increase in the timeliness quality of financial reports among Nigerian deposit money banks.

The Adjusted R-square of the model showed that 77% variations in timeliness (TML) of financial report of deposit money banks can be attributed to professional ethics proxies used in this study, while the remaining 23% variations in timeliness (TML) of financial reports are caused by some other factors not captured in this model. This shows a strongexplanatory power of the model. At the level of significance of 0.05, the F-Statistics is 76.82, while the P-value is 0.00 which is less than 0.05 adopted for this work. This means that the model is suitable. We therefore reject the null hypotheses and accept the alternate which means that professional ethics has significant effect on the timeliness of financial reports.Question one is therefore answered and objective one is achieved.

$$VRF_i = \alpha_0 + \alpha_1\, OB_i + \alpha_2\, IT_i + \alpha_3\, ID_i + \alpha_4\, PCD_i + \alpha_5\, PCD_i + \mu$$

The regression estimate of the model above shows that professional ethics measured by objectivity (OB), integrity (IT), independence (ID), professional competence and due care (PCD) and professional behavior (PB) positively effects the quality of financial report measured by verifiability (VRF). This is indicated by the signs of the coefficients, which are $\alpha_1 - \alpha_4 < 0$. These results are consistent with a-priori expectations that professional ethics will have a positive effect on verifiability.

From Table in appendix 3, the size of the coefficient of the independent variables shows that a percentage increase in objectivity will lead to a 31% increase in verifiability, also a 1% increase in integrity will lead to a 13% increase in verifiability, a 1% increase in independence will lead to an increase in verifiability by78%, a 1% increase in professional competence and due care will lead to a 16% increase in verifiability and a 1% increase in professional behavior will lead to a 7% increase in verifiability quality of financial reports of deposit money banks in Nigeria.

The Adjusted R-square of the model showed that 75% variations in verifiability (VRF) of financial report of deposit money banks can be attributed to professional ethics proxies used in this study, while the remaining 25% variations in verifiability (VRF) of financial reports are caused by some other variables not included in this model. This also reflectsa strong explanatory power of the model. At the level of significance of 0.05, the F-Statistics is 52.065, while the P-value is 0.00 which is less than 0.05 adopted for this work. This means that the model is suitable. We therefore reject the null hypotheses and accept the alternate which means that professional ethics has significant effect on the verifiability of financial reports.Question two is therefore answered and objective two is achieved.

5. Discussion of Findings

The multiple regression test was carried out to check the effect of the five proxies of professional ethics on each of timeliness and verifiability of financial reports. For hypothesis 1, regression result showed a R value of 0.903 and adjusted R^2 of 0.805 which is greater than the 5% level of significance adopted by the study.

From research question 1, timeliness (one of the qualities of financial reporting) is considered as the dependent variable whileprofessional competence, integrity, independence, objectivity and due care and professional behaviourare the ethical principles which represent the independent variables. From the table in appendix 1, the level of significance is less than 0.05, therefore we reject the null hypotheses and accept the alternate hypotheses which means that professional ethics significantly affects the quality of financial reporting. The adjusted R^2 value of 0.805 also indicates that the combined independent variables explain 80.5% of the variations in timeliness. The F statistics values of 76.815 (p = 000) indicate that the proxies of professional ethics are jointly statistically significant.

The timeliness of financial report helps stakeholders make useful decisions. when an organisation does not give a timely report, the essence of the report is forfeited and useless. Several efforts have been put in place in time past on ways by which the quality of financial report can be improved and now, it is important to consider the effect of ethics on the quality of financial reports (Odesanya, Enyi, Adegbie& Salawu, 2019). The principles of ethics, when obeyed, will reduce financial reporting scandals and help to multiply the number of well-behaved professional accountants and auditors.

From research question 2, verifiability (another quality of financial reporting) is considered as the dependent variable while objectivity, integrity, independence, professional competence and due care and professional behaviour are independent variables (proxies of professional ethics). From the table above, the level of significance is less than 0.05, therefore we reject the null hypotheses and accept the alternate hypotheses which means that professional ethics significantly affects the quality of financial reporting. The adjusted R^2 value of 0.735 also indicates that the combined independent variables explains 73.5% of the variations in verifiability. The F statistics values of 52.065 (p = 000) indicate that the proxies of professional ethics are jointly statistically significant.

It is important the disclosures of the financial statement can be verified. All figures must be clearly written and the authenticity of the content of report should be such that can be verified. By this, the confidence of stakeholders is boosted. When professionals are ethical in their behavior and approach to the preparation of financial statement, it becomes easy for them to accept the work of auditors and investigation of investors and other stakeholders. When stakeholders have confidence in the professional competence of professionals, both party is happy and satisfied.

In general terms, the study concluded that professional ethics affect the quality of financial report. This is in line with the findings of (Mabil, 2019) who conducted a similar study in South Sudan, (Musa, 2019) and (Odesanya,Enyi, Adegbie& Salawu,2019) who conducted a similar study on Nigeria and quoted companies in Nigeria respectively.

6. Conclusion and Recommendation

6.1 Conclusion

The main objective of the study was to consider the effect of professional ethics on the quality of financial report of deposit money banks in Nigeria and the result shows that there is a significant effect of professional ethics on financial reporting quality. The study therefore concludes that the timeliness and verifiability of qualitative financial report largely depends on professional ethics of professional competence, integrity, independence, objectivity and due care and professional behaviour. Timeliness and verifiability is a basic qualitative financial reporting characteristics and accountants, auditors and management of deposit money banks must continue to ensure ethical professionalism so as to achieve this.

6.2 Recommendation

It is suggested that the management and board of deposit money banks should establish policies and make use of opportunities that foster the development of professional ethics among their staff so as to improve the timeliness and verifiability of their financial statement. Staff of deposit money banks should also make good use of all available means to improve on their professional skills and behavior so as to boost financial reporting quality.Management of deposit money banks should ensure that their accounting department is professionalized and the competence of the department is also increased by ensuring that hiring of accounting staff is totally on merit and the management should also focus more on on-the-job training opportunities for employees.

7. Suggestion for Further Study

The study concentrated on the effect of professional ethics on the quality of financial report using data retrieved from respondents working with deposit money banks with international recognition. It is recommended that future studies should further their research to deposit money banks with national and regional recognition. Further studies could also be carried out on the effect of professional ethics on other qualitative characteristics of financial reporting such as comparability, faithful representation and understandability.

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Appendix 1

Realiability Test

Cronbach's Alpha	Number of Items
0.976	12

Appendix 2

Analysis of Hypotheses 1

Variable	Model 1			
	Coefficient	Std. Error	t	Prob.
Constant		0.209	3.419	.001
OB	-0.279	0.173	-1.414	.161
IT	-0.283	0.103	2.398	.019
ID	0.541	0.130	4.553	.000
PCD	0.269	0.117	2.109	.038
PB	0.166	0.068	2.182	.032
Adjusted R-Square: Overall	0.805			
F-Stat	76.815(0.000)			

Dependent Variable: QFR
Source: Authors Computation, 2020 using SPSS

Appendix 3

Analysis of Hypotheses 2

Variable	Model 1			
	Coefficient	Std. Error	t	Prob.
Constant		0.574	1.993	.049
OB	0.308	0.230	1.664	.100
IT	-0.128	0.188	-0.861	.392
ID	0.775	0.163	3.657	.000
PCD	-0.163	0.142	-0.865	.039
PB	0.065	0.070	0.492	.624
Adjusted R-Square: Overall	0.735			
F-Stat	52.065(0.000)			

Dependent Variable: QFR
Source: Authors Computation, 2020 using SPSS