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Financial Reporting and Ethical Compliance: The Role of Regulatory Bodies in Nigeria

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ABSTRACT

This study examined the role of regulatory bodies in relation to financial reporting and ethical compliance in Nigeria. It determined the impact of accounting ethics on quality of financial reporting. Furthermore, the study determined the level of compliance with ethical standards among professional accountants. The study employed field survey method. The targeted population was the top executives of big four accounting firms, Institute of Chartered Accountants of Nigeria (ICAN) and Financial Reporting Council of Nigeria (FRCN) totalling 120. Stratified sampling technique was used. The sample size used for this research was 100 respondents divided into fifty (50) respondents from each of the two strata. Primary data were collected. The study utilized structured questionnaire to generate the primary data for the study. Data were analyzed using descriptive and inferential statistics. The result showed that accounting ethics significantly impacted on the quality of financial reporting in Nigeria ($t = 4.645$, $p < 0.01$). Moreover, it was revealed that there was significant ethical compliance among professional accountants in Nigeria (Valid percentage = 63.3%). In conclusion, the null hypotheses were rejected at 1% level of significance and it was concluded that there is significant impact of accounting ethics on the quality of financial reporting. Also, there is significant level of compliance with ethical standards among professional accountants in Nigeria meaning that there is a need to improve on ethical awareness and training among professional accountants in Nigeria as well as accounting students in institution of higher learning in order to improve the quality of financial reporting in Nigeria.

KEYWORDS: ***Financial Reporting, Accounting Ethics, Compliance, Code of conduct and Professional Accountants***.

1.0 Introduction

The concept of 'ethics' has been defined by various authors. Hornby (2010) defined ethics as "moral principles that control or influence a person's behaviour". Fisher and Lovell (2003) defined ethics as a branch of philosophy that is concerned with formal academic reasoning about right and wrong. What is common to most of the definitions is standard against which to measure what constitute acceptable behaviour – morally right. Fisher and Lovell (2003) differentiated between ethics and value. According to them, while values are the common sense, often taken-for-granted, beliefs about right and wrong that guide us in our daily lives, ethics provides principles and arguments, drawn from ethical theory, for thinking about the issue. The concept of 'ethics' has been adopted by many professions. For instance, there are accounting ethics, medical ethics, engineering ethics, business ethics, and legal ethics and to mention just a few. What each of these professions seeks to achieve is to establish what constitute acceptable professional behaviour, which will guide the conduct of her members in the course of discharging their duties to the clients and to the public (IFAC, 2006; Fisher and Lovell, 2003)

In Nigeria, the major body involved in the regulation of financial reporting is Financial Reporting Council of Nigeria (FRCN). Others are professional bodies. The two recognised professional accountancy bodies in Nigeria are Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN). There is also Chartered Institute of Taxation of Nigeria, which regulates the practice of taxation. These bodies, one way or the other, establish ethical standards to guide the conduct of their members. In this study, accounting ethics can be defined as generally accepted accounting principles and codes of conduct, established by the profession, that guide accountants in reporting financial performance of an entity (IFAC, 2006; Fisher and Lovell 2003).

Professional Accountants appear to be respected due to the quality of their training and high level of ethical standards and codes of conduct of the profession. Hence, their opinions and assertions are revered. As a result, society places great level of confidence in the financial reports prepared and audited by professional accountants because it is believed that a great amount of professional ethics and codes of conduct have been considered in preparing and auditing the financial statements (Adeyeye, Adeyemi and Otusanya, 2010). In other words, it is expected that accounting ethics impacts on the quality of the financial report. Financial statements prepared by the accountants are being used to make economic decisions by the users. According to Salaudeen, Ibikunle and Chima (2015), it is imperative therefore that the information being provided by the accountants and auditors should be meaningfully efficient, reliable, realistic and unbiased. In view of recent happenings in the corporate world, it seems there is no significant relationship between accounting ethics and the quality of financial reporting (Salaudeen *et al.*,2015). Accountants are no longer taken into consideration ethical stance and consequences of their actions while reporting financial performance.

Widespread corruption in the business environment seems to be the order of the day in all societies. In the United Kingdom, corporate scandals have involved such companies as Independent Insurance and BCCI. Recent times had witnessed the collapse of a number of corporate giants in the USA such as Enron Corporation, Tyco International, WorldCom, Global Crossing, Arthur Anderson etc. (Ajibolade, 2008 in Ogbonna and Ebimobowei, 2011). Similarly, Luftig and Quellete (2009) noted that Enron, WorldCom, Tyco, Cedant were companies that collapsed as a result of unethical practices (Ogbonna and Ebimobowei, 2011).

Accounting professionals, who are once historically regarded as the watchdog of the society, are being implicated in these scandals which have cost the investing public serious financial losses amounting to several billions of dollars. Idialu and Oghuma (2007) in Ogbonna and Ebimobowei, (2011) also noted that there is a

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general belief that without the accountants aiding unethical practices in business and in public service as a whole, there would be no corruption. This argument is consistent with the words of Achua (2009) that the dishonest attitude of accountants and their fraudulent practices affects organisation both public and private (Ogbonna and Ebimobowei, 2011).

Consequently, many academics and researchers have carried out research aimed at evaluating the existence of the impact of accounting ethics on the quality financial reporting in Nigeria. However, it seemed, very few of them have considered the role of regulatory and professional bodies in ensuring ethical compliance, by the accountants, while preparing financial report. It is believed that aside setting the standards, there is need for these bodies to ensure compliance through enforcement and constant monitoring of the conducts of the practitioners. As a result, this study fills this gap by extending its scope to examine the role of regulatory and professional bodies, in Nigeria, in ensuring compliance with accounting ethics while preparing and auditing financial statements.

Statement of research objectives

Specifically, the research objectives are to:

determine the impact of accounting ethics on the quality of financial reporting.

determine the level of compliance with ethical standards among professional accountants in Nigeria.

Research questions

The research questions are stated below:

How does accounting ethics impact on the quality of financial reporting?

What is the level of compliance with ethical standards among professional accountants in Nigeria?

Research Hypotheses

Based on the research questions stated above, the following null hypotheses were formulated for the study:

H_0: There is no significant impact of accounting ethics on the quality of financial reporting.

H_0: Professional accountants in Nigeria do not significantly comply with ethical standards.

2.0 Review of related literature

Concept of Ethics

The term 'ethics' has been defined by various authors and researcher in many but similar ways. According to David (2004), ethics is defined as systematic moral judgments and principles of intrinsic value. Ethics are the moral principles that an individual uses in governing his or her behaviour. Ethic is the personal criteria by which an individual distinguishes "right or wrong" (Ogbonna and Ebimobowei, 2011).

According to Ogbonna and Ebimobowei (2011), when we talk about ethics and ethical values, we mean our concern about things, which we think, say and/or practice that may not necessarily violate the rules of the organization or infringe the law of the land or amount to outright crime or felony, but which borders on our sense of morality, our sense of right and wrong. They concern issues like conflict of interest, insider's dealings, compromising integrity, objectivity, independence, confidentiality, disclosure of official secret and destruction of official documents for financial benefits and other similar acts that are against moral principles and ethical standards. Ethics apply when an individual has to make a decision from various alternative regarding moral principles. Ethical behaviour is necessary for society to function in an orderly manner. The need for ethics in society is sufficiently important that integrity, loyalty, and pursuit of excellence cannot be incorporated into law. They further stated that the following ethical principles incorporate the characteristics most people associate with ethical behaviour: honesty, integrity, promise keeping, loyalty, fairness, caring for others, respect for others, pursuit of excellence and accountability (Ogbonna, 2010) Ajibolade (2008) in Ogbonna and Ebimobowei (2011) stated that the field of

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ethics can be divided into meta-ethics, ethical theories and applied ethics. Meta-ethics are the reflection upon ethics concepts and theories. Ethical theories are the substantive proposals regarding those considerations that would determine morally acceptable conduct and applied ethics are the deliberations related to a specific field of enquiry. Examples include ethics in business, public service and general professional ethics.

It is also argued that a formal code of ethics ensures that professional members will be more aware of the moral aspects of their work; an accessible reference tool for managers to keep ethical concerns in mind; abstract ideas will be translated into concrete terms applicable to every situation; members as a whole will act in a more standardized fashion throughout the profession (Mathews and Perera 1996 in Ogbonna and Ebimobowei, 2011)

2.1.2 Responses to Ethical Issues

Individuals' responses to ethical issues

According to Fisher and Lovell (2003), people's responses to ethical issues at work are guided by two main cognitive processes- categorization and particularization. The first of these involves putting an issue into a box or category and saying, 'That is the way in which I will deal with this matter'. These categories are often based on values. However, the particulars of a situation might make someone think that categorization is not right. There are eight ethical categories, as given by Fisher and Lovell (2003), which guide individuals' responses to ethical issue. These are ethical neutrality, ethical awareness, ethical convention, ethical puzzle, ethical problems, ethical dilemma, ethical cynicism and caprice, and ethical negotiation.

Ethical Neutrality

People put ethical issue into the category of ethical neutrality when they argue that nothing should be done about an issue that troubles them. There may be many reasons for this response such as ethical bracketing or ethical closure (suggested by Jackall, Karreman and Alvesson in Fisher and Lovell, 2003). This causes them to suspend their normal ethical standards when they would obstruct them in getting job done. The range of excusing conditions people may use to justify their neutrality includes arguments of inability (similar to the concept of 'you cannot give what you do not have) and ignorance (you cannot be culpable if you were unaware of the consequences of not taking the action).

Ethical Awareness

Ethical awareness is a category of ethical responses that causes a person to feel uncomfortable because an issue offends against their instinctively held values. At the stage, the individual has intuitive knowledge of what their duty is. In the stage of duty, a person knows what is right but cannot say why. Their reaction to an issue may only involve making their feelings known but it may extend to active opposition to the proposal under consideration (Fisher and Lovell, 2003).

Ethical Convention

An issue is allocated to the category of ethical convention when it is thought that it can best be resolved by applying accepted norms to it. They may be social norms, expectation and professional behaviour (such as Institute of Chartered Accountants of Nigeria (ICAN)'s Code of Ethics for Professional Members) or the constraint of organisational culture and sub-cultures. A feature of conventional ethical norms is that they are informal and unwritten or, if they are written, they are expressed in general terms not as detailed prescriptions (Fisher and Lovell, 2003).

Ethical Puzzle

Just like mathematical teaser or a crossword puzzle, the decision to see an issue as ethical

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puzzle requires the puzzle solver to place the issue within a coherent moral framework and to ignore the demands of contrary values and perspectives. This often enables a puzzle solver to construct detailed mechanisms and steps (rules, procedures and techniques) for resolving an issue. Although a puzzle can only exist in a clear moral context in which there is little argument about the values appropriate to its resolution, arriving at the correct solution may be no easy matter, involving much hard thought and work, but the effort is justifiable because a best answer can be obtained (Fisher and Lovell, 2003).

Ethical Problems

Unlike ethical puzzle with best solution, an issue can be seen as a problem to which there is no optimum solution. It may be necessary to take action on a problem, but the action will not remove the difficulty. A problem may be ameliorated or modified but it is unlikely to be resolved. An issue is likely to be categorized as a problem because it involves many different values and principles which, when taken in isolation, make perfect sense, but which, when taken together, fall into conflict (Fisher and Lovell, 2003).

Ethical Dilemma

Ethical issue is put in the category of ethical dilemma when it involves difficult or unpleasant choices and can lead to indecision and inaction. The options presented by dilemma are often unpleasant because they demand a choice between conventions. Choosing to act according to one set of conventional norms or rules breaks another set of expectations. Breaking out of a dilemma necessitates choosing to support one group, by accepting their rules and values, but annoying another group by offending against theirs (Fisher and Lovell, 2003).

Ethical Cynicism and Caprice

Ethical cynicism results when a person or some group of people (cynic(s)) believe that all ethical issues will be resolved in ways which primarily meet the personal and the private interests of those involved. In this situation, there is distrust to the extent that the cynics may sometimes posit that it would be better to leave matter to capricious chance than to try and improve things. The cynics' aim, apart from maintaining their safely detached position, is to cast blame on those who are trying to deal with an issue. In such situation, ethical duty turns bitter (Fisher and Lovell, 2003).

Ethical Negotiation

Ethical negotiation is the process followed in search for consensus and compromise between differing positions (powerful groups with different views and values). Ethical negotiation is not aimed at the rightness of a decision but the correctness of the process used to arrive at it. The morality of an action is ignored, only a broad acceptability of an action, as determined by voting, opinion polling, consensus seeking, deal cutting and negotiation, is required. Responding to opinion becomes more important than doing the right thing. This category involves defending oneself by responding to the demands of competing interest groups (Fisher and Lovell, 2003).

Organisational responses to ethical issues

There are some developments that have become evident as the attention paid to ethical issues in business has intensified. These developments have reflected reactions to one or more problems affecting either a specific firm or an industrial/commercial sector. Some development can be seen in the form of organisations and group of companies working in tandem, sometimes with governments and/or pressure groups, to draw up codes of practice and conduct (Fisher and Lovell, 2003).

Responses from organisations (including government, regulatory and professional bodies) to ethical issues are usually classified into codes of conduct and code of ethics.

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Codes of conduct

According to Fisher and Lovell (2003) define codes of conduct as instructions, or sets of rules, concerning behaviour. As a result they are likely to be reasonably prescriptive and proscriptive concerning particular aspects of employee behaviour. They identified specific acts that must be either adhered to (prescription) or avoided (proscription).

Code of conducts are usually developed and for use within a specific organisation (or sector). For instances most large companies in Nigeria have codes of conduct, which are developed to guide their employees and to ensure uniform services delivery and practices across their branches. However, the extent to which all possible situations can be addressed within a code of conduct is problematic (Fisher and Lovell, 2003).

Codes of ethics

Unlike codes of conduct, codes of ethics tend to be reasonably general in scope, encouraging employees and practitioners to display characteristics such as loyalty, honesty, objectivity, probity and integrity. They do not normally address specific type of decision; rather they encourage the application of what might be called virtue (Fisher and Lovell, 2003). Put differently, codes of ethics provide principles and guides to employees and professionals to be applied in dealing with ethical issues while discharging their duty to the organisation, customers and society. Example is International Federation of Accountants' Code of Ethics for Professional Accountants. The principles are to be applied by members in the course of professional duties.

2.1.3 Concept of financial reporting

Financial reporting has been defined in many ways (Alexander, Britton and Jorissen, 2005; Deegan and Ward, 2013). For the purpose of this study, financial reporting is defined as process involved in reporting the financial performance, financial position and changes in financial position of an organisation through the preparation and presentation of the financial statements.

An obligation to report often derives from legislation, regulations, common law, or contractual arrangements. However, the responsibility to report publicly is broader than the "legal" obligation and arises from the role played in the community by the reporting entity, and/ or users' reliance on financial reports for their information needs. (Ezeani *et al*, 2012). According to Ezeani *et al*, (2012), the objectives of financial reporting are to provide information to assist users in:

assessing the reporting entity's financial and service performance, financial position and cash flows.

assessing the reporting entity's compliance with legislation, regulations, common law and contractual arrangements, as these relate to the assessment of the reporting entity's financial and service performance, financial position and cash flows and making decisions about providing resources to or doing business with the reporting entity.

2.1.4 Financial Reporting and Ethics

According to Ezeani *et al*, (2012), accounting ethics is the study of moral values and judgments as they apply to accountancy. The outcomes of the many cases of unethical behaviour have underscored the importance of ethics in business; companies' bankruptcies, loss of investments and savings and loss of public confidence have shown that unethical behaviour in business is not only morally wrong but also disastrous for an economy. However, for the good of everyone, including the business organizations themselves is vitally important that business be conducted within an ethical framework that builds and sustains trust (Ezeani *et al*, 2012).

George (2004) observes that ethics of financial reporting has become a vital problem of financial sector. This is the case not only in the USA where

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the "earthquake" of this crisis of confidence broke out, but also in Europe and worldwide (George, 2004). Nigeria is not exonerated from these problems.

Ethical financial reporting, for the purpose of this study, can be defined as the preparation and presentation of financial reports about an entity that comply with ethical standards and guidelines, issued from time to time, by appropriate bodies. The stakeholders – accountants, auditors and those charged with corporate governance of the organisation are expected to ensure that financial statements complied with ethical standards. Failure to comply with ethical standards while preparing financial report results in great havocs.

It has been observed that unethical financial reporting prevents the allocation of resources in the most areas in the economy (Ezeani *et al*, 2012). Unethical financial reporting hinders efficient allocation of scarce economic resources to their best uses. Decisions about allocation of resources are based on the financial report, which, if faulty, will destroy the objective of the resource allocation.

Most business organizations have always been connected with fraud and have always been affected by financial collapses. Recently, accounting scandals like Enron, World Com, Parmalat, Tyco, etc. have cost not only billions of dollars to the stakeholders but also have damaged the accounting profession as a result of financial mis-representation (Ezeani *et al*, 2012). Some examples of unethical financial reporting practices include creative accounting, earnings management, financial engineering, to mention but a few.

2.1.5 Regulation of Financial Reporting in Nigeria

It could be argued that existence of regulations and regulatory bodies leads credence to financial reporting. In Nigeria, accounting and financial reporting requirements of companies in Nigeria are regulated by a multiplicity of laws and bodies. According to Odia and Ogiedu (2013), these include Companies and Allied Matters Act CAP. 20 L.F.N. 2004, Securities and Exchange Commission Rules and Regulations (1999), Investments and Securities Act CAP.124 L.F.N. 2004, Nigerian Stock Exchanges Act (1961), Banks and Other Financial Institutions Act (1991), Nigerian Insurance Act (2003), Nigerian Accounting Standards Board Act (2003), Institute of Chartered Accountants of Nigeria Act (1965) and Association of National Accountants of Nigeria Act (1993).

The main legal framework for corporate accounting practices in Nigeria is the Companies and Allied Matters Act CAP. 20 L.F.N. 2004. The SEC regulates securities market participants under the Investments and Securities Act CAP.124 L.F.N. 2004 and the Securities and Exchange Commission Rules and Regulations (1999). The Nigerian Stock Exchange, established by the Nigerian Stock Exchange Act of 1961, supports the Securities and Exchange Commission to supervise the securities market operations, and regulates the capital market. The Central Bank of Nigeria is the main statutory regulator of banks and non-banking financial institutions under the provisions of the Banks and Other Financial Institutions Act (1991). The Banks and Other Financial Institutions Act (1991) contain provision on financial reporting by banks in addition to CAMA requirements. The National Insurance Commission regulates financial reporting practices of insurance companies under the Nigerian Insurance Act of 2003. CAMA 2004 as amended requires financial statements of companies in Nigeria to comply with the accounting standards as laid down from time to time by the Nigerian Accounting Standard Board as constituted now known as Financial Reporting Council of Nigeria (Odia and Ogiedu, 2013).

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2.2 Empirical Review

Adeyeye, Adeyemi and Otusanya (2010) studied ethical challenges of practising accountants in Nigeria. According to the study, factors influencing ethical behaviour of practicing accountants include social influence, moral values, culture, attitude and organisational size, personal values, trust, ethical climate/environment and professional and legal framework of accounting profession in Nigeria.

The report of study carried out by Ogbonna and Ebimobowei, (2011) on ethical compliance by the accountant on the quality of financial reporting and performance of quoted companies in Nigeria suggests that the compliance by the accountant positively and significantly affect the quality of financial reports and performance of organizations. The conclusion drawn from the findings is that the compliance by the accountant on professional ethics of integrity, objectivity, honesty, compliance and accountability will improve the quality of financial reports and the performance of organizations.

Also in 2011, Ogbonna and Ebimobowei examined the effect of ethical accounting standards on the quality of financial reports of banks in Nigeria. The results of their study revealed that ethical accounting standards is significantly related to the quality of financial reports of banks in Nigeria. On the basis of its findings, the study concluded that ethical accounting standards are fundamentally necessary for accountants to produce quality financial reports free from material misstatements.

Adeyemi and Fagbemi (2011) examined the perception of ethics in auditing profession in Nigeria. Findings from the study show that there is no significant difference in the perception 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. However, respondents have different perception on the decline of core values which attracted them to the profession. The study suggests that there is the need for the profession to gear its effort towards shaping the views of new entrants to the profession in Nigeria, ensure adherence and enforcement of high ethical standard. Regulation of the profession should be targeted towards restoring the confidence of users of financial statements in financial reporting in Nigeria.

Ezeani, *et al*, (2012) carried a study on the effect of creative accounting on the job performance of accountants (auditors) in reporting financial statement in Nigeria. Among the findings made in the study was that the accountants/auditors indulge in creative accounting through profit eroding mechanisms to attract investors and resources but deceptive or fraudulent accounting practices often conduct to drastic consequence. Their study also suggests that manipulation of financial information which is called several names like earnings management, income smoothing, creative accounting practices, aggressive accounting or account manipulation, prevents the allocation of resources in the most areas in the economy.

Adeyemi and Asaolu (2013) examined financial reporting practices among post consolidation banks in Nigeria and the subsequent stability of the banks. Reporting practices by the banks were predicated on scores obtained from a Composite Disclosure Index (CDI) computed from a checklist from SASs and Prudential Guidelines' requirements. It was found out that there is high level of compliance with the mandatory disclosure requirements for banks by scoring high on the CDI (mean in excess of 90%). The study concluded that though compliance with the existing regulatory requirements was high, this has not removed the banks' exposure to internal weakness and consequent distress. The study concluded that it seems evident that the existing

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mandatory information disclosure requirements are inadequate and require to be strengthened.

Odia and Ogiedu (2013) reported that another perceived problem of financial reporting disclosure is the non-compliance to industry corporate governance, ethics, and regulatory standards which is prevalent in the manufacturing industry. Also, the study revealed that financial reporting disclosure, corporate fraud and scandals, and financial reporting transparency have significant influence on effective management decision making related to investment in quoted manufacturing firms in Nigeria.

2.3 Theoretical review

Public Interest Theory of Regulation

The two dominants theories of regulation are public interest theory and interest group theory (Scott, 2009). For the purpose of this study, and based on pro-regulation perspective to the need for regulation, public interest theory will be reviewed. According to Scott (2009), the theory suggests that regulation is the result of a public demand for correction of market failures. In this theory, the central authority, also called the regulatory body or the regulator, is assumed to have the interests of society at heart. It does its best to regulate so as to maximize social welfare. While this view represents an ideal of how regulation should be carried out, there are problems with its implementation. It can be argued, from the standpoint of how regulation works in practice, that the theory is superficial and perhaps naïve (Scott, 2009). This claim lends credence to one of the objectives of this study – to examine the extent to which regulatory bodies are monitoring ethical compliance of professionals in the preparation and presentation of financial statement.

It has been argued that one serious problem about the role of regulatory body is motivation. The regulators are not being motivated to do their job. The ability of the legislature to force the regulatory body to act in the public interest is weak, because of the complex nature of regulation and the fact that costly and lengthy hearings would be needed for the legislature to know whether the regulator is doing a good job (Scott, 2009). It therefore appears that any weakness observed in the monitoring roles of regulatory bodies could be adduced to inability of legislature to force them to work.

Regulatory Capture Theory

If the weakness of the regulatory bodies manifests, it is rational to expect that the regulated bodies and professionals will subsequently overpower the regulators and circumvent their regulations. This situation is described by as *regulatory capture theory*. Regulatory capture is also referred to as social capture. According to Fisher and Lovell (2003), it arises when a mechanism e.g. a committee, a regulatory body or a political process, which is established to oversee a particular facet of social life, but which becomes dominated by, or influenced by, the very sectional interests the mechanism was intended to monitor or control.

The relevance of capture theory to this study can be discussed in relation to financial reporting and regulatory environment. Preparation and presentation of financial reports are being regulated. Accountants being the preparer of the financial reports, as well as the entities, are expected to comply with regulations. The regulations as directed by regulatory agency usually provide an option (right of lection) for entities to choose which method or basis of accounting they prefer. In taking advantage of this, the entities eventually capture the regulatory agency such that the focus of the objective of regulation (promoting public's interest) is shifted to protecting the interest of the entities. For example, the objectives of taxation, among others, include raising fund for government, redistributing

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income all in the public interest but with the availability various tax options and reliefs, companies have taken the advantages of the created loopholes to evade and avoid tax to their advantage. The implication of this is that there will be lesser fund for government to execute public projects. Accountants are the co-culprit in these acts. They understand the regulations and connive with the business owners to manipulate results to their clients' advantage (Otusanya, 2011). In another instance, the officials of the regulatory bodies are being bribed by those whose activities they are to regulate to bypass or evade their obligations and, in most cases, professionals (including accountants) are involved.

Furthermore, regulatory capture is construed as 'life-cycle theory of regulatory agencies'. According to Estache and Martimort (1999) cited in Frederic, (2007), this suggests that just as a product in the market, a new regulatory agency undergoes a life-cycle: when established during regulatory reform, the agency is subject to close scrutiny by the government and even by the general public, but with the time the attention focuses on other topics and the day-to-day activities of the regulator are less in spotlight of public attention. While at the beginning the regulator faces strong pressures to effectively play its role as protector of users against the industry, this pressure decreases with time while the pressure by the industry remains constant. With this evolution, the regulator becomes more prone to be dominated by the interest of the regulated firms.

The above appears to be the case in Nigeria. Most regulatory agencies and bodies in Nigeria seem to be active in the early years of their establishment, ensuring strict and substantial compliance with the established rules. As they grow old, they tend to be dominated by the industry actors.

3.0 Methodology

Research Design

For the purpose of this study, field survey research design method was adopted because of large population and in order to give every member of the population chance to respond. Field surveys are non-experimental designs that do not control for or manipulate independent variables or treatments, but measure these variables and test their effects using statistical methods.

Population of Study

Population of this study included top executives of big four accounting firms, Institute of Chartered Accountants of Nigeria (ICAN) and Financial Reporting Council of Nigeria (FRCN) totalling 120.

Sampling Technique and Sample size

For the purpose of this research work, stratified sampling technique was used. In using this technique, the researcher divided the study population into two strata- (1) Preparers made up of Accounting Firms and Business Organisations and (2) Regulatory Bodies. The sample size used for this research was 100 respondents divided into fifty (50) respondents from each of the two strata.

Data Collection Method

For the purpose of this study primary data were collected. The study utilized structured questionnaire to generate the primary data for the study. The questionnaire was divided into two parts, namely – Section I and II. Section I comprised nine (9) items relating to respondents socio-demographic data while section II consisted of 5-point Likert scale statement that explained key variables of study.

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Sub-Scale and Number of Items

S/N	Sub-Scale	Number of Items	Questions Number
1.	Accounting ethics	4	10 – 13
2.	Quality of Financial Reporting	4	14 – 17
3.	Regulations by Regulatory Agencies	4	18 – 21
4.	Regulations by Professional Bodies	4	22 – 25
5.	Compliance with Ethical Standards	4	26 – 29

Source: Field Survey, 2016

Validity and Reliability of Measuring Instrument

In this study, validity and reliability of the measuring instrument have been ensured. To ensure validity of the instrument, the standardized questionnaire was adapted from the work of Iyoha, (2009) to measure the variables

Reliability Test

Number	Type of Reliability Test	Value	Remarks
1	Cronbach's Alpha	0.935	Very Reliable
2	Split-Half	Part 1 = 0.828	Very Reliable
		Part 2 =0.916	Very Reliable
3	Correlation Between Forms	0.879	Very Reliable
4	Spearman-Brown Coefficient	Equal Length = 0.936	Very Reliable
		Unequal Length = 0.936	Very Reliable
5	Guttman Split-Half Coefficient	0.927	Very Reliable

Source: Field Survey, 2016

Test of Reliability by Variables

No.	Variable	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items	Remarks
1	All Variables	0.935	0.929	20	Very Reliable
2	Accounting Ethics	0.673	0.645	4	Reliable
3	Quality of Financial Reporting	0.907	0.914	4	Very Reliable
4	Role of Regulatory Bodies	0.827	0.822	4	Very Reliable
5	Role of Professional Bodies	0.427	0.669	4	Moderately Reliable (based on Standardised)
6	Compliance with Ethical Standards among professional Accountants	0.516	0.516	4	Fairly Reliable

Source: Field Survey, 2016

Data Analysis Method

Data were analyzed using descriptive and inferential statistics. Descriptive statistics tools of frequencies tables, percentage, valid percentage, and cumulative percentage were used to address the research questions. Furthermore, inferential statistical tools of correlation coefficient and multiple regression analysis were applied to measure the extent of the relationship between variables and to draw inferences with the aid of Statistical Package for Social Science (SPSS) Version 21.0.

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Model Specification

The proxy for quality of financial reporting is the reliability of financial reporting (QFR2) while proxies for accounting ethics are-Teaching of accounting ethics in institutions of higher learning in Nigeria (AE1), Ethical awareness among professional accountants in Nigeria (AE2), Accountants' preference for personal welfare when faced with a difficult situations (AE3) and Accountants' conscious of consequence of their action on stakeholders (AE4).

The OLS model for the study is:

$$QFR2 = \alpha + \beta AE1 + \beta AE2 + \beta AE3 + \beta AE4$$

Where QFR2 = Reliability of Financial Reporting

AE1 = Teaching of accounting ethics in institutions of higher learning in Nigeria,

AE2 = Ethical awareness among professional accountants in Nigeria

AE3 = Accountants' preference for personal welfare when faced with a difficult situations

AE4 = Accountants' conscious of consequence of their action on stakeholders

4.0 Results

Hypothesis testing

Hypothesis one:

H_{01}: There is no significant impact of accounting ethics on the quality of financial reporting.

Variables Entered / Removed

Model	Variables Entered	Variables Removed	Method
1	Accountants conscious of consequence of their action on stakeholders, Accountants' preference for personal welfare when faced with a difficult situations, Teaching of accounting ethics in institutions of higher learning in Nigeria, Ethical awareness among professional accountants in Nigeria	.	Enter
2		Accountants' preference for personal welfare when faced with a difficult situations	Backward (criterion: Probability of F-to-remove >= .100).
3	.	Ethical awareness among professional accountants in Nigeria	Backward (criterion: Probability of F-to-remove >= .100).

Source: Field Survey, 2016

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747[a]	.557	.536	.78428
2	.746[b]	.557	.541	.78010
3	.745[c]	.555	.544	.77723

Source: Field Survey, 2016

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.555	.383		1.450	.151
	Teaching of accounting ethics in institutions of higher learning in Nigeria	.477	.103	.455	4.645	.000
	Ethical awareness among professional accountants in Nigeria	.068	.105	.073	.645	.521
	Accountants' preference for personal welfare when faced with a difficult situations	-.030	.088	-.025	-.343	.732
	Accountants conscious of consequence of their action on stakeholders.	.322	.092	.340	3.476	.001
2	(Constant)	.468	.285		1.640	.105
	Teaching of accounting ethics in institutions of higher learning in Nigeria	.482	.101	.459	4.751	.000
	Ethical awareness among professional accountants in Nigeria	.065	.104	.069	.619	.538
	Accountants conscious of consequence of their action on stakeholders	.321	.092	.340	3.493	.001
3	(Constant)	.495	.281		1.759	.082
	Teaching of accounting ethics in institutions of higher learning in Nigeria	.513	.088	.489	5.862	.000
	Accountants conscious of consequence of their action on stakeholders	.350	.079	.371	4.445	.000

The table above presents coefficients of the models for the purpose of testing hypothesis 1. Three models are built, using backward method. Ordinary Least Square regression analysis was used to build the models as follows:

Model1: $QFR2 = 0.555 + 0.477AE1 + 0.068AE2 - 0.030AE3 + 0.322E4$

Model2: $QFR2 = 0.468 + 0.482AE1 + 0.065AE2 + 0.321E4$

Model3 : $QFR2 = 0.495 + 0.513AE1 + 0.350E4$

Model 1:

$QFR2 = 0.555 + 0.477AE1 + 0.068AE2 - 0.030AE3 + 0.322E4$

From the above, Quality of Financial Reporting has positive relationship with all the components of proxies used to measured accounting ethics except **AE3** (accountant's preference for personal welfare when faced with a difficult situation). This implies that there is negative relationship between Reliability of financial statement and accountant's

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preference for personal welfare when faced with a difficult situation.

Model 2:

$$QFR2 = 0.468 + 0.482AE1 + 0.065AE2 + 0.321E4$$

In model 2, variable (AE3) has been removed and the result showed that Quality of Financial Reporting has positive relationship to all the components of proxies used to measure accounting ethics. This implies that there is the higher the level of Accountants conscious of consequence of their action on stakeholders, Teaching of accounting ethics in institutions of higher learning in Nigeria, Ethical awareness among professional accountants in Nigeria, the better the reliability(quality) of financial reporting.

Model 3:

$$QFR2 = 0.468 + 0.482AE1 + 0.065AE2 + 0.321E4$$

In model 3, two variables (AE2 and AE3) have been removed and the result showed that Quality of Financial Reporting has positive relationship to Teaching of accounting ethics in institutions of higher learning in Nigeria and Ethical awareness among professional accountants in Nigeria.

Conclusion on the hypothesis:

Decision criteria is to accept the null hypothesis if P-value is higher than the level of significance (0.01) otherwise, it is rejected. From table, all the models are significant with P-Values of 0.00, which is less than 0.01. Hence, the null hypothesis that "There is no significance impact of accounting ethics on the quality of financial reporting" is rejected and it is therefore concluded that "There is significant impact of accounting ethics on the quality of financial reporting", at 1% level of significance.

Hypothesis two

H_{02}: There is no significant level of compliance with ethical standards among professional accountants in Nigeria.

In order to answer the research question and make decision about the hypothesis, the responses of respondents, based on their view of the relevant statement under the compliance variable are presented in the table below:

Level of compliance with ethical standards among Professional Accountants in Nigeria

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Weak	10	10.8	11.1	11.1
	Weak	17	18.3	18.9	30.0
	Fairly Strong	30	32.3	33.3	63.3
	Strong	26	28.0	28.9	92.2
	Very Strong	7	7.5	7.8	100.0
	Total	90	96.8	100.0	
Missing	System	3	3.2		
Total		93	100.0		

Source: Field Survey, 2016

From table respondents representing 30% have the view that level of compliance with ethical standards among Professional Accountants in Nigeria while 63 respondents, representing 70%, are of the view that the level of compliance with ethical standards among Professional Accountants in Nigeria is, at least, fairly strong. Though only 7 respondents, constituting 7.8%, opined that the level of compliance is very strong, it can be inferred that majority of the respondents are of the view that the level of compliance with ethical

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standards among Professional Accountants in Nigeria is, at least, fairly strong.

Based on the above, the null hypothesis (H_{02}) which states that "there is no significant level of compliance with ethical standards among Professional Accountants in Nigeria" is rejected and it is therefore concluded that "there is significant level of compliance with ethical standards among Professional Accountants in Nigeria".

Discussion of findings

The findings from this study shows that, in Nigeria, the relevance of accounting ethics cannot be overemphasized. Notwithstanding, it appears financial reporting professionals (including trainees) are not so conscious of the consequences of their actions that they get themselves involved in unethical practices. However, the level of knowledge of the profession possessed by the professionals, lack of awareness of ethical issues involved impact on the quality of the output (financial reports).

There a lot of arguments about the need for regulation of an industry. Going by the findings from this study, it is obvious that regulation of every industry is necessary though the dimension may differ from one industry to another. In financial reporting industry, regulation has been found to play significant role in ensuring compliance with standards while preparing and auditing financial statements. This was revealed from the findings of this study. It is therefore imperative for the regulatory and professional bodies to be more firm in their oversight function of the activities of the firms and professional in the industry.

5.0 Conclusion of the study

In Nigeria, non-compliance with ethical standards and absence of role of regulatory and professional bodies are possible factors that could impair ethical financial reporting. This is because the result of the analysis revealed that these factors have positive impact and relationship with quality of financial reporting in Nigeria.

All the two hypotheses formulated to achieve the objectives of the study were tested. The null hypotheses were rejected at 1% level of significance and it was concluded that:

There is significant impact of accounting ethics on the quality of financial reporting.

There is significant level of compliance with ethical standards among professional accountants in Nigeria.

Recommendations

Based on the results of the analysis and the conclusions drawn therefrom, the following recommendations were suggested:

There is a need to improve on ethical awareness and training among professional accountants in Nigeria as well as accounting students in institution of higher learning in order to improve the quality of financial reporting in Nigeria;

Regulatory and Professional bodies in Nigeria should intensify effort on their roles in ensuring ethical financial reporting in Nigeria by increasing the quality of training and ethical standards from time to time;

Contributions to knowledge

This study did not only provide empirical evidence of impact of accounting ethics on the quality of financial reporting but also provided evidence of the significance of the role of regulatory and professional bodies in ensuring ethical financial reporting.

The study provided a model, which could be used as a framework for analyzing the effects of accounting ethics on the quality of financial reporting.

The findings of this study could be used as the bases and references for future study of regulation, ethics and financial reporting.

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Suggestions for further studies

This study examined the impact of accounting ethics on the quality of financial reporting in Nigeria and the role of professional and regulatory bodies in ensuring compliance with ethical standards when preparing and auditing financial statements. Hence, the following are suggested:

Future studies should explore the level of compliance with ethical standards among sectors and industries in Nigeria;

Future studies should extend the areas of coverage beyond Lagos and increase the sample size in order to increase the generalizability of the results.

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