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ETHICAL ACCOUNTING PRACTICES AND FINANCIAL REPORTING QUALITY OF SMALL CAPITALIZED FIRMS IN NIGERIA

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Abstract

Over time, one of Nigeria's main problems in its aim to become one of world's most thriving economies has been determining how to boost investor trust in country's economy via illicit accounting methods and auditing canons that promote transparency in financial reporting (FRQ). Succinctly, the study examined effect of ethical accounting practices on financial reporting quality (FRQ) of small capitalized firms in Nigeria. Data were extracted via questionnaires, study population is 180 practicing accountant of small capitalized companies in Nigeria. Sample size is 124, random sampling technique was employed using Multiple regression analysis. The multivariate analysis was used to test the research hypotheses. The paper evidenced that: integrity (INGY), objectivity (OBJ) and professional behaviour (PRB) has positive & significant relationship with FRQ. By implication, ethical accounting practices improve financial reporting quality. Accordingly, the study made two recommendations: those professional accountants develop additional strategies to support their members' adherence to ethical standards; and that professional value systems are devoid of any familiarity-based threats to those standards.

Keywords; Ethical Accounting Practices, Financial Reporting, integrity, confidentiality, objectivity.

INTRODUCTION

Over time, one of Nigeria's main problems in its aim to become one of world's most thriving economies has been determining how to boost investor trust in country's economy via illicit accounting methods and auditing canons that promote transparency in financial reporting (FRQ). According to Mubaraq, Abdulrasaq, and Saidu (2019), the disastrous failures and scandals of some corporate giants, and widespread corruption in society, highlight the urgent need to focus on foundational principles of sound professional ethics in accounting and auditing professions in both developed and developing nations. Recently, there has been concern over licit and integrity cases in accounting profession, both private and public. As a consequence, both in developed and

developing nations, this age has been defined by a number of business failures, ethical breaches, audits, and accounting scandals. According to Aifuwa, Embele, and Saidu (2018), data from previous research shows that inadequate corporate governance also leads to se failures. As a consequence, it is essential to monitor the conduct of corporate organizations and to employ appropriate legislation to oversee the actions of managers and professional accountants.

Recent high-profile cases involving Enron, Satyam, WorldCom, Global Crossing, Parmalat, Xerox, Tell One, and some Nigerian firms (including Cadbury and NAMPAC, Afri-bank), in which one of country's "big four" auditing firms was indicted, have drawn widespread attention to auditing profession. As previously stated, the failure ofse business organizations to prosper has been attributed to accountants and auditors who violated professional ethics. As a consequence of this, financial reporting and the auditing profession have suffered. All ofse worldwide occurrences have called into question the reliability and integrity of auditing and accounting professions (Enofe, Edemenya, & Osunbor, 2021).

According to Paul (2017), societies that lack ethical standards may not exist very long or be able to achieve their own goals and objectives, and those of its stakeholders. Accounting and auditing professionals in charge of preparing financial statements must strictly adhere to ethical accounting and auditing standards to produce trustworthy, pertinent, timely, accurate, understandable, and comprehensive financial statements that provide a true and fair picture of firm's financial position and performance. This is because these financial records and reports serve as the basis upon which the shareholder should feel assured when making a decision. In keeping with the above premise, Paul (2017) said that financial statements serve as the basis for making economic judgments.

As a consequence, professional accountants must continue to endeavor to guarantee that investors and other stakeholders are provided with financial statements that provide a "true and fair view," since financial reports are the basis upon which shareholders make investment choices. According to Reyhaneh (2020), corporate regulators in many countries, including Nigeria, often use specifically crafted legislation to make it simpler to monitor and supervise enterprises and their actions to achieve successful corporate governance. As a consequence, regulatory bodies have been established all over the globe to regulate the practice and conduct of auditing and accounting professionals.

For example, (IFAC) has continued to create auditing standards to enhance the accuracy and integrity of firm financial reporting. The International Accounting Standards Board is the agency in charge of this trend.

The (FRC), (ICAN) and (ANAN), and other industry-specific bodies to which auditors and accountants provide services in Nigeria typically issue guidelines relating to ethical and professional standards to be followed. The efficacy of various regulatory authorities in Nigeria in ensuring that professional accountants and business managers adhere to ethical norms is still disputed and in debate.

Again, despite the need for the general public to have confidence in financial reports prepared or audited by them to make an informed decision, it is critical that information provided by accountants and auditors be meaningfully efficient, reliable, realistic, and unbiased. However,

these accountants, among others, who are knowledgeable. Despite the ethical norms and accounting laws that regulate the accounting sector, morals and ethics have eroded as a consequence of Enron, World Com, Nigerian Cadbury, and other similar scandals.

Without the advice, assistance, or at the very least complicity of professional accountants who act in violation of their statutory duties to public, wealthy individuals, the ruling elite, private and public companies, and multinational companies use their professional services to transfer illegally obtained money, the aforementioned antisocial and fraudulent behavior of elite and multinational companies cannot be easily carried out in any country or economy. A series of high-profile accounting scandals over the last two decades have brought the profession to public prominence. For example, the case of Marjan, Mateja, Anton, and Slavka (2017) provided examples of creative accounting and fraudulent financial reporting in Nigeria, such as Alpha Merchant Bank Plc (accounting problem and market manipulation) or Lever Brothers Plc (exaggerated profit by using dubious accounting methods) and AP Petroleum Plc (false financial reporting).

Despite the availability of IT audit tools and a variety of professional standards, such as those issued by the American Institute of Certified Public Accountants (AICPA), the Financial Reporting Council (FRC), and the Institutes of Chartered Accountants of England and Wales (ICAEW), which are issued for guidance and effective audit work, there have been reported instances of lapses and scandals that have been endangering the auditing profession's existence.

It should be mentioned that non-adherence to spirit and letter of corporate governance was also responsible for corporate crises as a consequence of non-extended audit tenure hurting auditor independence and capacity to use professional skepticism on topics at their disposal. As a consequence, this field of study continues to be relevant in auditing sector.

REVIEW OF LITERATURE

Conceptual Review

For proper understanding on the concept of ethical accounting practices, it is pertinent to first understand the term "Illicit Accounting Practices". Simply put, illicit means rules that an accountant uses to direct his or her behavior are those that are illegal, illicit, unlicensed, not allowed, or rejected. Meanwhile, accounting is a profession that places a strong emphasis on demonstrating a high sense of responsibility and stewardship; as a result, all members must adhere to a code of conduct that is set down by the profession (Babayanju, Animasaun, & Sanyaolu 2020). So, illegal, unlawful, unlicensed, not allowed, or unapproved principles that a professional accountant adheres to in course of performing his professional obligations can be classified as illicit accounting practices. Licit Accounting practices, however, can be characterized as fundamental guidelines that an accountant must follow to fulfill his professional obligations. The fundamental rules that apply to practice of accounting and auditing in Nigeria were provided by ICAN and ANAN. The following is a summary of these rules:

- **Integrity:** An accountant should be truthful in all of their professional dealings and interactions.

- **Objectivity:** Professional accountants should use their professional judgment and consider the facts of your firm, and they shouldn't let prejudice, bias, conflicts of interest, or outside influences affect their work.
- **Professional competence and due care:** Professional accountants should provide the services that are within their means. A professional accountant should possess the information, abilities, and etiquette necessary for employer to assure the effectiveness of professional services, including innovative methods and procedures.
- **Confidentiality:** A professional accountant should not divulge information acquired while performing professional services without the employer's express authorization or in violation of employer's confidentiality, unless there is a legal obligation to do so under the circumstances.
- **Professional behavior-courtesy:** When performing their job, a professional accountant should treat one another with decency and respect (Azona 2019).

to inform shareholders about a company's operations, Mitnick (2019) defines financial reporting quality as the precise way in which it presents information about a business activity in relation to its predicted cash flows. According to Aifuwa, Embele, and Saidu (2018), the level of financial reporting quality indicates how accurately and truthfully a financial statement informs us on financial position and performance of an organization.

A crucial component for corporate governance system's performance is financial reporting. The primary information suppliers to participants in stock market, accountants and auditors, are required to apply a high degree of due diligence and demonstrate professional competence in accounts they examine (Ighosewe, Uyagu, & Iyere, 2020). The directors of firm will anticipate that management will create the financial statements in accordance with legal and ethical requirements, and they will rely on credibility and competence of auditors (Dankwanmbo & Izedonmi, 2018).

Theoretical Underpinning

The theory of Planned Behavior was used to underpin paper. The theory stresses on how beliefs and behavior are related is known as the theory of planned behavior (abbreviated TPB). The idea was put up by Icek Ajzen in 1980 to increase the theory of reasoned action's capacity for prediction by incorporating perceived behavioral control. it's challenging to psychologically explain human behavior in all of its complexity. It can be approached on many different levels, ranging from an emphasis on social structures to an excessive preoccupation with physiological processes.

The fully functional individual whose processing of information at hand mediates the effects of biological and environmental factors on behavior is the intermediate level that social and personality psychologists frequently concentrate on.

Empirical Review

Marjan, Anton, Mateja, and Slavka (2017) examined information on accountants' ethical opinions. It was done using probit regression analysis. The findings demonstrate that impact of accountants' integrity on high-quality reports is statistically significant and positive.

Babayanju, Animasaun and Sanyaolu. (2020) examined regulatory bodies & ethical compliance in Nigeria. population of 120 respondents was employed. The outcome demonstrated a considerable impact of accounting ethics on the standard of financial reporting in Nigeria.

Paul (2017) investigated accounting profession's ethics. 500-person samples were chosen. Chi-Square statistical method was adopted. The results shows role of accountant depends on ethics of accounting profession.

Aifuwa, Embele and Saidu (2018) examined ethical accounting procedures effect on accuracy of financial reporting. primary data were used. Results shows, considerable correlation between accounting ethics and quality of financial reporting.

Azona (2019) investigated accounting ethics effect on caliber of financial reporting. . 129 respondents were invited as sample. Results shows objectivity, & integrity have considerable impact on financial reporting.

Enofe, Edemenya and Osunbor (2021) examined ethics effects on financial reporting, primary data were used. Results revealed that accounting ethics have a considerable relationship with financial reporting.

Reyhaneh Abed (2020) investigated professional ethics on financial performance of Iranian enterprises. A sample size of 206 people was chosen. The (OLS) was used. Result shows professional ethics have little bearing on financial reporting.

METHODOLOGY

Study adopted Survey design Self-administered questionnaire is used for data extraction from literate respondents of practicing accountant of small capitalized companies in Nigeria. 180 practicing accountant serve as population. 124 practicing accountants were utilized as sample size. Descriptive statistics, multiple regression analysis were used to examined relative predictive power of independent variable Integrity, Objectivity, confidentiality and professional behavior on dependent variable (financial reporting).

Model Specification

Study model was adopted from (Aifuwa et al., 2018), but was however modified to provide an insight about the direct association between the six IFAC's code of ethics for professional Accountants'- INGTY, OBJY, CONF and PB.

Functional model is thus:

$$FRQ = F(INGTY, OBJY, CONF, PB) \dots \dots \dots 1$$

Where

- Integrity (INGTY)
- Objectivity (OBJY)
- Confidentiality (CONF) and
- Professional behaviour (PB)

This is further expressed into econometric model as follows:

$$FRQ = \beta_0 + \beta_1 INGTY_i + \beta_2 OBJY_i + \beta_3 CONF_i + \beta_4 PB_i + \epsilon_i \dots \dots \dots 2$$

(i) Where:

- FRQ = Financial Reporting
- β_0 = Constant;

- INGTY = Integrity;
 OBJY = Objectivity;
 CONF = Confidentiality;
 PB = Professional Behaviour
 $\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficient of explanatory variables
 ε = Standard error
 i= Cross sectional (Individuals)

RESULTS AND DISCUSSIONS

A final sample of 124 practicing accountants was chosen at random, and have returned 116 copies questionnaire representing a 94% feedback. The Cronbach's Alpha test for internal consistency scale was used to determine the instrument's reliability for the study. The questionnaire items were pre-tested in meanwhile before the results were presented. Following is a presentation of pre-test results:

Table 1
Reliability Test

Variables	Measures	No. of Items	Cronbach's Alpha
Financial Reporting Quality(FRQ)	Relevance(REL)	4	.734
	Understandability(UND)	3	.764
	Comparability(COMP)	3	.727
	Timeliness(TMLS)	2	.736
	Faithful representation(FR)	3	.758
Ethical Accounting Practices	Integrity(INGY)	6	.734
	Objectivity(OBJ)	6	.755
	Confidentiality(CONF)	3	.711
	Professional behaviour(PRB)	3	.722

Source: Field Survey (2023)

From Table 1, Cronbach Alpha statistics of .711 was obtained which is within specification of Pallant (2008) which opined that Cronbach Alpha .700 is acceptable, this implies, research tool has a high level of internal consistency as a result.

Table 2
Variance Inflation Factors

Variables	N	VIF	Tolerance Value
Relevance(REL)	116	1.211	0.826
Understandability(UND)	116	1.114	0.898
Comparability (COMP)	116	1.185	0.844
Timeliness(TMLS)	116	2.534	0.395
Faithful representation (FR)	116	1.422	0.703

Source: Field Survey (2023)

The VIF evidenced that no study variables reported a VIF figure that are up to 10. This implies that no multicollinearity problem.

Regression Analysis

The main regression Estimate is presented thus:

Table 3

Summary of Structural Equation Model(SEM): significant of path coefficient

Constructs	Beta	Standard Deviation	T Statistics	P Values
INGY -> FRQ	0.683	0.164	4.16463	0.003
OBJ -> FRQ	0.372	0.128	2.90625	0.022
CONF -> FRQ	0.177	0.395	0.44810	0.099
PRB -> FRQ	0.127	0.078	1.62820	0.013
Coefficient Determination of R²				
Variables	R²	Adj. R²		
FRQ	0.748	0.539		

Source: Field Survey (2023)

R-squared and adjusted R-squared are shown in Table 3 as 0.748 and 0.539, respectively. This suggests that other factors outside of model account for the remaining 25% of systematic fluctuations in FRQ, leaving INGY OBJ, CONF, and PRB to account for just around 75% ofm.

Discussions and Practical Implications of Findings

Table 3 reported a coefficient of 0.683, ($t = 4.1646$, $p\text{-value} < 0.003$). This connotes a positive & significant relationship between integrity and FRQ at 0.05% level of significant. This is in tandem with the study of (Aifuiwa, Embelie and Saidu (2018) and Azonia (2019). These studies disclosed positive correlation among INGY and FRQ. This suggests that a substantial association exists between an accountant's INGY and FRQ. INGY as measured by compliance to ethics, avoiding insider transactions, staying away from the fear of familiarity, and disregarding ethical core beliefs all point to fact that se factors contribute significantly to variation in caliber of financial reporting among the examined firms. Secondly, the result reported a positive correlation among OBJ of accountants & FRQ with coefficient of 0.372, ($t = 2.90625$, $p\text{-value} < 0.022$) at 0.05 level of significance. Furthermore, this is similar to studies of (Babayanjua et al. (2017) and Paul (2019).

Thirdly, the result reported insignificant & positively relationship with FRQ at 0.5 level of significance as disclosed by 0.177 coefficient, ($t = 0.44810$, $p\text{-value} < 0.099$). This implies that CONF has no strong correlation on FRQ. This result supports works of (Reyihaneh Abeid,, 2016; Aifuwua, Embeile and Saidiu (2018). 2018; Azonia, 2019). They found CONF has insignificant & positive to FRQ. Lastly, result reported a coefficient of 0.127, ($t = 1.62820$, $p\text{-value} < 0.013$) for PRB. This implies that professional conduct, such as conformity to occupational requirements and guidelines and a high degree of professional competence in their work, has an effect on the accuracy of FRQ of organizations under consideration. This result support works of (Einofe et al., 2019; Aifuwiaet al., 2018) and Azonia, 2019.

CONCLUSION AND RECOMMENDATION

This study assessed ethical accounting practices on FRQ of small capitalized enterprises' in Nigeria using primary source of data collection. According to findings, a substantial positive association between INGY & OBJ of accountants & FRQ of small capitalized enterprises in Nigeria. This suggests that a sufficient adherence to ethical accounting norms may assist small capitalised enterprises in Nigeria in gaining a competitive edge over their rivals. This also ensured FRQ is increased and harmonization of accounting standards & practices around the world is promoted by the ethical codes of conduct produced by IFAC. Hence, the following submissions were advanced:

1. Industry organizations should develop training programs and seminars to help members uphold their integrity while carrying out their duties as professionals;
2. That more tactics should be developed by professional accountants to persuade their fellow practitioners to adhere to principles of ethics;
3. maintaining the objectivity of accountants with expertise by guaranteeing that ir professional competence play crucial roles in ensuring the successful completion ofir professional tasks;
4. The professional framework of values must not jeopardize the ethical standards..

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