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LODIKERO, Olusola
Department of Accountancy,
Rufus Giwa Polytechnic, Owo.
Ondo State, Nigeria.

Correspondence:
LODIKERO, Olusola
Department of Accountancy,
Rufus Giwa Polytechnic, Owo.
Ondo State, Nigeria.

Accounting Ethics and Quality of Financial Reports

LODIKERO, Olusola

Abstract
The objective of this study is to investigate and identify the significance of ethics in the quality of Financial Reports and whether ethical accounting practices has any influence on Financial Reporting Quality. Appropriate ethics and ethical behaviour are crucial in the preparation and presentation of financial statements. This study adopted a qualitative, systematic review methodology. Careful selection of studies and evidence were performed, which enhanced the quality of the findings. The results of this study show that integrity, Objectivity, Confidentiality and Professional Behaviour have a strong influence on the quality of financial statement and provides a new understanding of how important an accountant's ethic are, in producing high quality financial reports.

Keywords: Accountant Ethics, Competence, Confidentiality, Financial Reporting Quality.

Introduction

The failure of several organizations and an increase in the number of high-profile scams recently, has raised questions about the honesty of the accounting profession. Enron, WorldCom, Bank of Credit, Major Crossing, Commerce International, Cadbury, Parmalat, and Polly Peck are just a few of the global scandals that have called into doubt the effectiveness of corporate governance procedures (Zeghal and Mhedhbi, 2016). Concerns about the quality and trustworthiness of financial reports and audit functions have led to increased calls for professional ethics in the financial reporting field. This is due to the fact that the corporate financial reports are solely responsible for ensuring the firm's performance. Financial statements are created with the element of independence and upholding the required ethical attributes, minimizing errors, and generating suitable information for the users of financial statements (Stice and Stice, 2012). Users of financial statements rely on the accuracy, fairness and truthful representation of financial statements and auditors' opinions regarding whether the statements represent the fair value of the organization (Ronen, 2008). Even auditors and accountants who are responsible for the integrity of company's financials can utilize their ethical knowledge to overcome this dilemma they face as they perform their roles. Ethics as a subject relates to many different aspects of life. Accountants are tasked with preparing reliable and trustworthy financial reports for use by shareholders, creditors, employees, suppliers, governments, all accounting professions, and the general public. High ethical standards can result in good financial reporting, reliability, transparency, and objectivity (Enofe et al.2015). Lack of professional ethics creates an unrealistic picture of financial reporting. Without accounting ethics, accountants' tendency to manipulate financial reports is not low (Meihami et al., 2013). Good quality financial reporting will provide an honest and accurate view of a company's performance if ethical accounting practices, including integrity, objectivity, competence, confidentiality, and conduct are followed, Accountants' professionalism, was applied as an independent variable (Eginiwin and Dike, 2014). Due to the sensitivity of corporate financial data, this study conducts a systematic review of literatures on the role of accounting ethics as an essential aspect of auditors and accountants.

Literature Review

Conceptual Framework

Concept of Accounting Ethics

Zorna (2018) describes ethics as a set of moral rules and standards that influence individuals and organizations and determine how they operate or function in their professional and personal environment. In the context of accounting and the accounting profession, Man et al (2016) assert that ethics can be associated with values and ethical standards that guide accounting professionals to ensure quality accounting and financial reporting presentation is "honest and fair". Studies also show that the main goal of accounting and auditing is to provide an accurate and fair financial position of the company to help stakeholders.

Roles of Ethics in Accounting

The primary objectives of a code of ethical conduct is to provide organizations with a clear benchmark for ethical behaviour. Oghene and Yomere (2008) **states** that the purpose of ethics in an organization is to inspire businessmen and women to adhere to a code of conduct that facilitates and even encourages public trust in their products and services. IFAC (2013) states that the introduction of a code of ethics helps build a value-driven organization, and typically deals with an organization's underlying values, commitment to employees, standards for doing business, and its relationship with wider society. Ethical accounting contributes to profitability by reduction in business transaction costs, establish basis of trust with stakeholders, and contributes to an internal environment for successful teamwork and capital retention which is part of an organization's marketplace image. (McMurrian and Matulich (2006).

Accountants and Ethical Behaviour

Accountants are required to follow certain ethical rules to perform their duties in a professional work environment. They must comply with the ethical code established by professional organization of which they are a member (Usurelu, Marin, Danails, and Loghin, (2010). "A professional accountant must adhere to the following essential principles," according to the International Ethics Standards Board (IESBA) Code of Ethics for Professional Accountants (2013), including integrity, objectivity, professional compet ence, and diligence, confidentiality, and professional conduct.

Integrity and Quality of Financial Report

The integrity of the accounting profession and the reliance on the financial information prepared by the organization have become doubts due to the manipulation of financial statements (Ahinful et al., and Boakye (2017). Integrity refers to the quality of a person's characteristics, which indicates the consistency between actions, values, steps taken, measures used, principles held, hopes to be directed, and results. Irianto, Novianti, Rosalina and Firmanto (2018). The tendency to manipulate financial statements can be reduced in the presence of an ethical environment. Every organization should develop ethical code for accountants to ensure quality financial report that is free from errors, irregularities, and fraud. (Ogbonna & Ebimobowei, 2012).

Objectivity and Quality of Financial Report

Objectivity refers to the qualities of an internal auditor, who does not allow bias, conflicts of interest, or undue influence of others to influence professional or business judgments. The lack of objectivity of internal auditors can affect the possibility of fraud in financial reporting. Auditor characteristics are fundamental to the sustainability of a company (Denziana, 2013). Auditors must maintain professional quality and ethics to provide audit results of the utmost quality and avoid misrepresentation in audit reports that may undermine the confidence of investors and shareholders other (Niyonzima and Soetan, 2018). The principle of objectivity often emphasizes that accountants must be professional, maintain judgments and actions that are objective and susceptible to influence by other parties. Professional accountants may encounter situations that compromise objectivity, which can lead to erroneous judgments (Aifuwa et al., 2018). They should have a positive attitude towards the quality of the financial reports.

Professional capacity, diligence and Quality of Financial Report

Professional competence and diligence mean maintaining s pecialist knowledge and skills at the level necessary to ensure that the client or employer obtains competent professional services based on applicable practice, law, and procedure and acts diligently. With an internal control system, there is a division of labour based on the expertise or skills of each department in the organization.

Therefore, competent human resources can provide high-quality financial reports. Alshfire et al. (2016) argues that the level relationship between audit committee capacity and timely financial reports depend on the audit committee's capacity to oversee the financial reporting process, thus the audit committee's capacity for high-level accounting will ensure quality and timeliness of financial information. Training is also one of the factors **supporting** the preparation of quality financial reports.

Confidentiality and Quality of Financial Report

Auditors are not permitted to use information obtained from a client based on a professional and business relationship for personal gain by disseminating that information to third parties or third parties (Hendrick and Harahap, 2019). The auditor must maintain client confidentiality, even if at the time of performing his duties it is possible to obtain pressure and encouragement from other parties to obtain this information. Auditors might gain the trust of the public if they maintain the confidentiality of information obtained from a business and professional perspective (Prameswari and Nazar, 2015).

Professional Behvaiour and Quality of Financial Report

Professional Behaviour means following all applicable rules and regulations and to avoid any actions that bring the profession into disrepute.' Accounting is a profession that is highly regarded by the general public so the attitude and behaviour of professionalism are standards that must be adhered to by the professional (Kartika & Pramuka, 2019). According to Annisa and Wahyundaru (2013), professionalism refers to the responsibility that is imposed and exceeds the obligations that simply comply with the laws and regulations of society and is the main requirement for an external auditor. According to Stiawan (2018), professionalism makes decisions based on professional consideration and dedication by carrying out the totality of work where the professional owner is more careful and wiser in carrying out tasks so that it can produce good audit quality.

Concept of Financial Reporting Quality

The Companies and Allied Matters Act of 2020 (CAMA) defines a financial report as an account used to present quantitative financial information about a business to creditors, investors, and other parties interested in the financial health, operational performance, and funding sources of the reporting company. Amahalu, Okoye, and Obi (2019), states that a financial report is of high quality if it gives management and other interested parties a clear understanding of a company's financial status and profitability. Financial report is a means of communication with interested parties, the resource obligation and performance of the reporting organization. (Financial Reporting Council of Nigeria (FRCN) (2013).

Empirical review

Flugrath Bennie and Chen (2007) conducted a study on ethics and financial reporting quality using a sample of 112 professional accountants and primary data. The results indicate that the presence of ethics has a positive impact on the quality of financial reports prepared by professional accountants.

Berrone, Surocia and Tribo (2009) carry out a study on ethics and stakeholders' satisfaction in 515 companies using OLS regression analysis. Their study revealed that a strong corporate ethical code was positively related to high levels of stakeholder satisfaction. In turn, stakeholder satisfaction has a positive influence on the financial performance of the firm.

Ogbonna and Appah (2011) investigated the effect of ethics on financial reporting quality in using a sample of 123 accountants. The study found that ethical compliance by accountants positively and significantly affects the quality of financial reports.

Ogbonna and Ebimobowei (2012) evaluated the effect of ethical accounting standards on the quality of financial reports of banks in Nigeria, they found out that ethical accounting standards affect the quality of financial reports of banks in Nigeria.

Lodla, Shakeel, and Saeed (2013), in their study on the effect of ethical behaviour on employee performance, found that ethical guidance and ethical values have positive influence on employees' performance, which have direct positive impacts on organization's growth. These findings were also corroborated by those of Onyeaghala-Obioma et al. (2014). Using the Spearman Rank Order Correlation and T-statistics, their study found that there is a significant relationship between adherence to ethics and performance of business organizations.

Nabil, Osman, and Ziad (2014) investigated the effect of accounting ethics in improving managers' behaviour and decision-making. Using partial least squares (PLS), their study concludes that accounting ethics has a significant influence on improving managers' behavioor and decision-making.

Conclusions

This study concludes that ethical principles and values are necessary to ensure the trustworthiness of the accounting profession. Different stakeholders place their trust in accountants and auditors to provide them with fair and accurate picture of financial statements. Ethical values are also associated with the professional and personal values of accountants and indicate that such values help in making honest decisions. Ethical dilemmas in accounting can only be prevented by strong and strict compliance with international accounting standards and ethical values. Providing sufficient knowledge and experience to accountants will improve their performance and ensure that financial statements meet the qualitative characteristics of financial reports, such as completeness, free from error, comparability, and verifiability. The competence of human resources in an organization increases capacity and a solid foundation for the achievement of organization objectives because the knowledge, skills, and strong mentality they possess. Companies that employ auditors with high levels of professionalism tend to be more stringent in fulfilling client requests in providing opinions. They should put in place ethical codes for all staffs and ensure its compliance. Seminars and any educational activities regarding the code of ethics are also recommended as they are able to improve the competence and other professional attitudes of the staff. Furthermore, orgamisatiom should provide support and logistics that can increase employee independence and ouput. The limitation of this study is the possibility of biased opinions given by the accountant in order to build up its reputation. Further research is also recommended to add other ethical influences, such as legal constraints, the ethical climate of the industry, and technical standards.

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