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Effect of Ethical Accounting Standards on the Quality of Financial Reports of Banks in Nigeria

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Abstract: This study examines the effect of ethical accounting standards on the quality of financial reports of banks in Nigeria. To achieve this objective, data was collected from primary and secondary sources. The secondary sources were from textbooks, journals and unpublished thesis. The primary source involves a well structured questionnaire of four sections of sixty seven questions administered to a sample of eight banks systematically collected from the twenty four banks in Nigeria. The data generated from the questionnaires was analysed using econometric models such as diagnostic test, Augmented Dickey-Fuller, ordinary least square and Granger Causality. The results reveal that ethical accounting standards is significantly related to the quality of financial reports of banks in Nigeria. On the basis of the findings, the study concluded that ethical accounting standards are fundamentally necessary for accountants to produce quality financial reports free from material misstatements. The authors recommend the following among others: that professional accountants as custodian and producers of accounting information should adhere to the codes of professional best practices issued by relevant professional bodies, banks in Nigeria should establish ethics departments to ensure that activities adhere to the codes of ethics including the financial reporting process, accountants and accounting officers in Nigerian banks should adhere to the International Financial Reporting Standards (IFRS) in the reporting structure to reduce the failure symptoms in the banking industry.

Key words: Banks, ethics, ethical standards, Nigeria, quality of financial reports

INTRODUCTION

The widespread corruption in the society and the failure of organizations in every part of the world have once more increased the need for accounting professionals to adhere strictly to the codes of professional practice. According to Ogbonna and Appah (2011), the widespread corruption in the business environment seems to be the order of the day in all societies. In the United Kingdom, corporate scandals affected BCCI. Ajibolade (2008) also stated that recent times had witnessed the collapse of a number of corporate giants in the United States, for example Enron Corporation, Tyco International, WorldCom, Global Crossing, Arthur Anderson etc. The Nigerian society has also witnessed the collapse of several companies in the financial and non financial sectors of the economy. As Ogbonna (2010) argues that any organization that lacks ethical considerations may not survive for a long time to achieve its desired goals and objectives and that of its stakeholders. These failures of corporate entities have been attributed to accountants not adhering to the codes of professional ethics in the accounting profession. Aguolu (2006) says that these failures have brought to greater scrutiny the work of the accountant from both within the profession and from outside.

Mathews and Perera (1996) observes that every profession has a built in code of ethics to compel ethical behaviour on its members. The rational for this is obvious. Individuals from time to time have to face ethical dilemmas and the problem of weakness of will. Accountants are no different. In their working life they encounter numerous situations where they are tempted to do something morally wrong. That is why a feature of accountancy's claim to professionalism is its commitments to ethical standards. This involves an assurance that the accountancy bodies and their members will not pursue their material self interests in ways that conflict with their duties to the public interest (Appah, 2010). Therefore, accountants as professionals responsible for the preparation of financial reports need to adhere to the codes of ethical accounting standards to produce reliable, relevant, timely, accurate, understandable and comprehensive financial reports. According to Nzotta

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(2008), financial reporting forms the basis for economic decision making. The various shareholders need financial reports for decision making on the investment and financial aspect of the organization. The financial reports produced by the accountant should be based on certain fundamental qualities for various users to understand the content of the report. As Alexander and Britton (2000) noted that the fundamental objective of financial reports is to communicate economic measurements of and information about resources and performance of the reporting entity useful to those having reasonable rights to such information. IASB (2008) noted that providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing overall market efficiency.

Therefore, the objective of this study is to examine the effect of ethical accounting standards on the quality of financial reports of banks in Nigeria. To achieve this objective, the study is divided into five sections. The second section examines relevant theoretical and empirical literature on ethics and financial reports; the third section examines the materials and methods used in the research; the fourth section presents the results and discussions and the final section examines the conclusion and recommendations.

THEORETICAL AND EMPIRICAL LITERATURE

The nature and scope of ethics: Ethics are the moral principles that an individual uses in governing his or her behaviour. It is the personal criteria by which an individual distinguishes "right or wrong" (Ogbonna and Appah, 2011). According to Ogbonna (2010), 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. Nwagboso (2008) argues that ethics or morality as matters of good and evil, right and wrong and subscribes to the fact that "we are living today in an ethical wilderness". Nwagboso believes that ethics is in ferment and chaos among all people. Hayes *et al*. (1999) say ethics represent a set of moral principles, rules of conduct or values. 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.

Ajibolade (2008) states that the field of ethics can be divided into meta ethics, ethical theories and applied ethics. Meta ethics is the reflection upon ethics concepts and theories. Ethical theories is the substantive proposals regarding those considerations that would determine morally acceptable conduct and applied ethics is the deliberation related to a specific field of enquiry. Examples include ethics in business, public service and general professional ethics. Mathews and Perera (1996) states 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. According to Jenfa (2000) and Nwagboso (2008), professional ethics provides accountants with these advantages: it helps the accountant to determine the prosperity of his conduct in his professional relationship; it indicates the kind of professional posture the accountant must maintain if he is to succeed; it gives clients and potential clients a basis for feeling confident that the professional sincerely desires to serve them well and places service above financial reward; it gives clients assurance that standards of competence, independence and integrity shall remain the goal of the accountant; it enables member bodies and regulatory authorities to fulfill their responsibility of ensuring that the professional accountants have the capabilities and competence expected of them by employees, clients and the public and public interest is protected and the credibility of the profession is enhanced.

Basic approaches to ethical behaviour: Ethical behaviour in the accounting profession draws its justification and basic nature from general theory of ethics (Ogbonna and Appah, 2011). These basic approaches to ethical behaviour include:

Utilitarian approach: This approach proposes that actions and plans should be judged by their consequences. People should therefore behave in such a way that will produce the greatest benefit to society with the least harm or lowest cost (Singh, 2006; Nwachukwu, 2007).

Individual approach: This approach to ethical behaviour has some fundamental rights that should be respected in all decisions. Nwachukwu (2007) stated that the rights view is concerned with respecting and protecting

individual liberties and privileges such as the right to privacy, freedom of conscious, free speech etc.

Justice approach: This approach of ethical behaviour states that all human beings should be treated equally. Singh (2006) commenting on the justice view maintained that decision makers should be equitable, fair and impartial in the distribution of costs and benefits to individuals and groups. It follows the principles of distributive justice and fairness.

Integrative social contract approach: This approach proposes that ethical decisions should be based on empirical and normative factors. Singh (2006), Nwachukwu (2007) and Nwagboso (2008) noted that this view of ethics is based on the integration of two contracts: the general social contract that allows business to operate and defines the acceptable ground rules and more specific contract among members of a community that addresses acceptable way of behaving.

Ethical standards in the accounting profession: Nwagboso (2008) says that accounting is a profession that rests heavily on the need to exhibit a high sense of accountability and stewardship, hence the emphasis that all members be guided by professional code of conduct. Aguolu (2006), Jenfa (2000), Okezie (2008), Nwagboso (2008), Nwanyanwu (2010) and Ogbonna and Appah (2011) provided the fundamental guidelines applicable to all accountants. These guidelines include:

Integrity: This is the quality of being honest and having strong moral principles. It implies not merely honest but fair dealing and truthfulness. This principle of integrity imposes an obligation on all accountants to be straight forward and honest in professional and business relationships.

Objectivity: The principle of objectivity imposes the obligation on all professional accountants to be fair, intellectually honest and free from conflicts. This principle requires four basic needs of credibility, professionalism, quality of service and confidence.

Professional competence: A professional accountant, in agreeing to provide professional services implies that he is competent to perform the services. Accountants should refrain from agreeing to perform professional services which they are not competent to carry out unless competent advice and assistance are obtained.

Confidentiality: A professional accountant should respect the confidentiality of information acquired during the course of performing professional services. They should not use or disclose any such information without proper and specific authority.

Independence: Independence means having a position to take an unbiased viewpoint in the performance of professional assignments. Accountants must not only maintain an independent attitude in fulfilling their responsibilities, but the users of financial reports must have confidence in that independence.

Technical standards: Professional services should be carried out in accordance with the relevant technical and professional standards. The services should conform to the technical and professional standards of relevant accounting bodies and other legislation.

The nature and scope of financial reporting: Financial reporting according to Nzotta (2008) is a critical issue which affects the decision making process of various individuals, corporate bodies, investors and policy makers. Glautier and Underdown (2001) says the primary objective of financial reporting is to communicate economic measurement of and information about resources and information about the resources held by entity and performances of the reporting entity, useful to those having right to such information. According to Alexander and Britton (2000), the fundamental objectives of corporate report is to communicate economic measurements of and information about the resources and performance of the reporting entity useful to those having rights to such information. Nzotta (2008) stated that financial reports assist the user in evaluating the past and present performance of the organization and its ability to maximize the wealth of the shareholders. Furthermore, it assesses the ability of the firm to create value and objective assessment of the value created over time. Financial reports highlights financial information which provide insights into these resources held by an organization, the claims to these resources including the obligation of the firm to transfer resources to other entities and owners and the effects of transactions, events and circumstances that change its resources and claims to these resources (Glautier and Underdown, 2001; Nzotta, 2008).

Belkaoui (2002) noted that qualities of financial reports include relevance, understandability, reliability, completeness, objectivity, timeliness and comparability. Beest *et al*. (2009) say the fundamental qualitative characteristics (that is, relevance and faithful representation) are most important and determine the context of financial reporting information. The enhancing qualitative characteristics (that is, understandability, comparability, verifiability, and timeliness) can improve decision usefulness when the qualitative characteristics are established. To assess the quality of financial reporting, various measurement methods have been used. The most widely used in prior research to assess the quality of financial reports include accrual models, value

relevance models, research focusing on specific elements in the annual report, and methods of operationalising the qualitative characteristics.

Relevance: As a quality of financial report is referred to as the capability of making a difference in the decisions made by users in their capacity as capital providers (IASB, 2008). Drawing on prior research, relevance is operationalised using four items referring to predictive and confirmatory value. Many researchers have operationalised predictive value as the ability of past earnings to predict future earnings (Schipper and Vincent, 2004; Francis *et al*., 2004). Confirmatory value to the relevance of financial reporting information if it confirms or changes past (or present) expectations based on previous evaluations (IASB, 2008).

Faithful presentation: Faithful representation is the second fundamental qualitative characteristic in the standard. To faithfully represent economic phenomenon that information must be complete, neutral, and free from material error. Faithful representation is measured using five items of neutrality, completeness, freedom from material error, and verifiability (Maines and Wahlens, 2006; Kim *et al*., 2007; Willekens, 2008).

Understandability: The first enhancing characteristic, understandability, will increase when information is classified, characterized and presented clearly and concisely. According to IASB (2008), understandability is when the quality of information enables users to comprehend their meaning. Courtis (2005) argues that understandability is measured using five items that emphasize the transparency and cleanness of the information in annual reports.

Comparability: This characteristic of financial reports explains the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena. Comparability is measured using six items that focus on consistency. Four items refer to the consistency in use of the same accounting policies and procedures from period to period within a company (Schipper and Vincent, 2004) and two items are used to measure the comparability in a single period across companies (Beuselinck and Manigart, 2007).

Timeliness: This characteristic of financial report means having information available to decision makers before it loses its capability to influence decisions (IASB, 2008). It refers to the time it takes to reveal the information and is related to decision usefulness in general.

Approaches to theories of financial reports: The primary objective of financial reporting theory is to provide a basis for the prediction and explanation of accounting behavior and events (Belkaoui, 2002). There are two major approaches to theories of financial reports, that is the nontheoretical and the theoretical. The nontheoretical approaches are a pragmatic approach and authoritarian approach. The pragmatic approach consists of the construction of a theory characterized by its conformity to real world practice that is useful in terms of suggesting practical solutions. The authoritarian approach is employed by professional organizations consisting of issuing pronouncements for the regulation of accounting

Table 1: Summary of empirical studies

Author(s)	Method and sample	Main results
Ogbonna and Appah (2011)	123 Accountants using questionnaire and Spearman Rank Correlation Coefficient with descriptive statistical tools for analysis	The ethical compliance by the accountant of positively and significantly affects the quality financial reports and performance of organizations.
Nwanyanwu (2010)	120 questionnaires to 30 accounting firms and chi Square was used for data analysis	The study reveals that a large difference exists between observed and expected acceptance of the significance of ethical standards in accounting practice.
Flugrath *et al*. (2007)	112 professional accountants using interview and questionnaire	The results indicate that the presence of ethics has a positive impact on the quality of the judgments made by professional accountants.
Berrone *et al*. (2005)	515 companies and used OLS regression analysis	Their study reveals that a strong corporate ethical identity was positively related to high levels of stakeholder satisfaction. In turn stakeholder satisfaction had a positive influence on the financial performance of the firm.
Webley and More (2003)	41-86 sampled companies in UK using OLS	The study reveals that those companies in the sample with code of ethics over the period 1997-2001 out-performed those who said they did not have a code of ethics and the general conclusion from their study is that there is a strong evidence to indicate that large UK companies with codes of ethics out-perform in financial and other indicators than those without ethics.
D'Asquilla (2001)	400 CPA's in USA using questionnaire and interview	The research reveals that accountants have more positive attitudes about management expectations of them more than they do about management own actions in terms of ethical behaviour and the majority of accountants reported that some pressure to achieve short-term performance report.

Adapted from various authors

practice. The theoretical approaches include deductive, inductive, ethical, sociological, economic and eclectic for the formulation of financial theories.

Empirical studies: A number of empirical studies have emerged in the accounting literature since ethics became popular. Table 1 shows a summary of empirical studies.

MATERIALS AND METHODS

The primary data for the study were generated through the administration of questionnaire conducted to evaluate ethical accounting standards on the quality of financial reports of banks in Nigeria on one hundred and thirty three respondents on the sampled eight banks (Bank PHB Plc, Ecobank Plc, First Bank of Nigeria Plc, Guaranty Trust Bank Plc, Skye Bank Plc, Standard Chartered Bank Nigeria Limited, United Bank for Africa Plc, and Zenith Bank Plc) from the accessible population of twenty four banks in Port Harcourt, Rivers State. The second largest commercial and agricultural centre and the second busiest seaport and the heart of the hydrocarbon in Nigeria for the period May - October, 2010. The first part of the questionnaire contains questions on organization' and respondents' characteristics. The second part of the questionnaire examined the ethical issues using five point scale of 5- strongly agree (SA), 4- agree (A), 3- undecided (U), 2- disagree (D) and 1-strongly disagree (SD). The third part of the questionnaire examines the quality of financial reports of relevance, faithful representation, understandability, comparability, and timeliness and the fourth part of the questionnaire examines ethical accounting standards of integrity, objectivity, confidentiality and competence. A total of one hundred and eighteen usable questionnaires were completed and used for the analysis. The questionnaire were pre-tested using thirty (30) respondents in the selected banks and a reliability test was done on the data collected using Cronbach Alpha model, to explore the internal consistency of the questionnaire. The result of the reliability test shows that the designed questionnaire is highly reliable at 0.743. Excel software helped us to transform the variables into format suitable for analysis, after which the econometric view (E-view) was used for data analysis. The ordinary least square was adopted for the purpose of hypothesis testing. The ordinary least square was guided by the following linear model:

$$Yi = f(X_1, X_2, X_3, X_4) \quad (1)$$

$$R = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon \quad (2)$$

$$FP = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta 4X4 + \epsilon \quad (3)$$

$$U = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon \quad (4)$$

Table 2: Augmented dickey-fuller unit root test on Eq. (2)

Variable	ADF	1%	5%	Test for unit root
Reliability (R)	-4.314066	-3.4890	-2.8870	Level
Integrity (X1)	-3.892837	-3.4890	-2.8870	Level
Objectivity (X2)	-5.853549	-3.4890	-2.8870	Level
Confidentiality (X3)	-4.763404	-3.4890	-2.8870	Level
Tech. competence (X4)	-3.796998	-3.4890	-2.8870	Level

e-view output

Table 3: Ordinary least square output on Eq. (2) (Dependent variable: Reliability)

Variable	Coefficient	SE	Statistics	Prob.
C	4.944719	1.929828	2.562259	0.0235
X1	0.353955	0.113577	3.116436	0.0023
X2	0.324897	0.139496	2.329079	0.0216
X3	0.247582	0.138876	1.782754	0.0773
X4	0.349886	0.157315	2.223602	0.0204
R^2	0.542304			
Adjusted R^2	0.455307			
S.E. regression	3.041239			
Observation	118			

E-view output, SE:Standard Erros

Table 4: Diagnostic tests

Type of test	Probability	Critical value
Breusch godfrey LM test	0.191803	0.05
White hereroskedasticity test	0.363620	0.05
Ramsey RESET test	0.170781	0.05
Jarque- bera test	0.321341	0.05

E-view output

$$CO = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon \quad (5)$$

$$T = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon \quad (6)$$

Y1 = Quality of financial report (R= relevance, FR = faithful representation, U = understandability, CO = comparability, T = timeliness), X1 = Integrity, X2 = Objectivity, X3 = confidentiality, X4 = technical competence; β0 = intercept of the regression, β1, β2, β3, β4, are the coefficients of the regression, while ϵ is the error term capturing other explanatory variables not explicitly included in the model. However, the model was tested using the diagnostic tests of heteroskedasitcity, serial correlation, normality and misspecification. Augmented Dickey-Fuller and Granger Causality were also used in the study.

RESULTS AND DISCUSSION

This section of the study examines the results and discussion of relevant findings from the econometric analysis.

H_{01}: Ethical accounting standards do not the reliability of financial reports of banks in Nigeria

The Table 2 shows that all the variables in the model are stationary at level data (that is the ADF values of -4.314066, -3.892837, -5.853549, -4.763404, -3.796998 is greater than the critical value of 1% (-3.4890) and 5%

Table 5: Pairwise granger causality test

Null hypothesis	F - statisitcs	Probability
X1 does not granger cause R	3.26715	0.04321
R does not granger cause X1	1.48313	0.23139
X2 does not granger cause R	4.01077	0.02081
R does not granger cause X1	0.57212	0.56598
X3 does not granger cause R	5.15973	0.01683
R does not granger cause X3	0.61597	0.54195
X4 does not granger cause R	6.27458	0.00262
R does not granger cause X4	1.24427	0.29214

E-view output

(-2.8870), respectively. This reveals that the mean, variance and covariance are constant at level data 1(0). This result implies that ordinary least square can be used for the purposes of analysis.

The Table 3 shows that X1 with p-values of 0.0023 is less than 0.05, X2 with p-value of 0.0216 is less than 0.05, X3 with p-value of 0.077 is greater than 0.05 and X4 with p-value of 0.0204 is less than critical value of 0.05. Therefore, there is a significant relationship between integrity, objectivity and technical competence to reliability of financial reports of banks in Nigeria, but confidentiality is not significantly related. The adjusted R-square of about 46% is explained by the variation of reliability in the model.

The Table 4 shows the diagnostic tests. The Breusch-Godfrey test shows a probability of about 19% which is greater than the critical value of 0.05; the result reveals there is no presence of serial correlation. White test of heteroskedasticity shows that the p-value of about 36% is greater than critical value of 5%; the result shows no evidence of heteroskedasticity. Ramsey RESET test shows p-value of about 17% is greater than critical value of 5%; the result reveals there is no apparent non linearity in the regression equation and the Jarque-Bera test shows that the p-value (32%) is also greater than the critical value (5%); the distribution is normal.

The Table 5 shows that the pairwise Granger Causality test. X1 granger cause R because the p-value is less than the critical value; X2 granger cause R (i.e., p-value of 2.08%< critical value of 5%; X3 granger cause R (i.e., p-value 1.68%<5%) and X4 granger cause R (i.e., p-value 0.2%<5%). The results reveal that ethical accounting standards granger cause the reliability of financial reports of banks in Nigeria.

H_{02}: Ethical accounting standards do not affect the faithful presentation of financial reports of banks in Nigeria

The Table 6 shows that the Augmented Dickey-Fuller test reveals that all the variables (faithful presentation, integrity, objectivity, technical competence and confidentiality) are stationary at the first level. That is the ADF value of -4.314066, -4.912077, -3.594972, -4.763404 and -3.796998 is greater than -3.4890 of 1% and -2.8870 of 5%, respectively. Therefore, the ordinary least square can be used for the analysis (Gujurati and Porter, 2009).

Table 6: Augmented dickey - fuller test

Variable	ADF	1%	5%	Stage
Faithful presentation	-4.314066	-3.4890	-2.8870	Level
X1	-4.912077	-3.4890	-2.8870	Level
X2	-3.594972	-3.4890	-2.8870	Level
X3	-4.763404	-3.4890	-2.8870	Level
X4	-3.796998	-3.4890	-2.8870	Level

E-view output

Table 7: Ordinary least square (Dependent variable: Faithful presentation)

Variable	Coefficient	S.E	t-statistics	Pro.
C	4.204724	2.380346	1.766434	0.0800
X1	0.326128	0.111279	2.930734	0.0041
X2	0.313712	0.112936	2.777778	0.0064
X3	0.163598	0.137752	1.187632	0.2345
X4	0.345653	0.152583	2.265344	0.0048
R^2	0.659844			
Adjusted R^2	0.577008			
S.E. of regression	2.967624			
No of observations 118				

E-view output, S.E: Standard Error

Table 8: Diagnostic test

Type of test	Probability	Critical value
Breusch-godfrey serial correlation LM test	0.203463	0.05
White heteroskedasticity test	0.393062	0.05
Ramsey RESET test	0.343972	0.05
Jarque bera test	0.235912	0.05

E-view output

The Table 7 shows the ordinary least square output for faithful presentation and ethical accounting standards. The result reveals that X1 (integrity, objectivity and technical competence, X2 and X4 are significantly related to faithful presentation of financial reports of banks in Nigeria. This is because the p-value (0.0041, 0.0064 and 0.0048) is less than the critical value of 0.05. However, X3 (confidentiality) is not significantly related with the faithful presentation of financial reports of banks in Nigeria. The adjusted R-square shows the variables combined determine about 57% of the faithful presentation of financial reports of banks in Nigeria.

Table 8 shows the various diagnostic tests to determine the assumptions of the classical linear regression model assumptions. The various tests conducted on the model reveal that the assumptions of serial correlation, homoskedasticity, specification and normality are consistent with the various assumptions of classical linear regression model. That is the probability values of 0.203463, 0.393062, 0.343972 and 0.235912 is greater than the critical values of 0.05. This implies that the model for the study is reliable and the distribution is normal.

The results in Table 9 shows the Granger Causality test of faithful presentation and ethical accounting

Table 9: Pairwise granger causality test

Null Hypothesis	F-statistics	Probability
X1 does not granger cause FP	4.63523	0.01166
FP does not granger cause	1.16122	0.31688
X2 does not granger cause FP	5.03027	0.00811
FP does not granger cause X2	1.39866	0.25124
X3 does not granger cause FP	1.24427	0.29214
FP does not granger cause X3	1.27458	0.30147
X4 does not granger cause FP	6.16341	0.00262
FP does not granger cause X4	1.81032	0.16840

E-view output

Table 10: Augmented dickey-fuller

Variable	ADF	1%	5%	Stage
Understandability	-4.314066	-3.4890	-2.8870	Level
X1	-3.912077	-3.4890	-2.8870	Level
X2	-4.499575	-3.4890	-2.8870	Level
X3	-3.763404	-3.4890	-2.8870	Level
X4	-3.796998	-3.4890	-2.8870	Level

E-view

Table 11: Ordinary least square (Dependent variable: Understandability)

Variable	Coefficient	Std. errort-	statistics	Probability
C	4.618621	2.291770	2.015307	0.0462
X1	0.288183	0.110660	2.604224	0.0104
X2	0.345484	0.098930	3.492220	0.0007
X3	0.129341	0.136295	0.948973	0.3447
X	40.354422	0.149887	2.364595	0.0351
R^2	0.743577			
Adjusted R^2	0.663702			
S.E. regression	2.914050			
Observation	118			

E-view

standards. The results suggest that integrity, objectivity and technical competence granger cause faithful presentation of financial reports of banks. While confidentiality does not granger cause faithful presentation of financial reports of banks financial reports. This result shows that integrity, objectivity and technical competence of accountants affects the quality of financial reports of banks. That is an accountant that upholds the best ethical standards of integrity, objectivity and technical competence will produce more reliable financial reports for users decision making and where these ethical standards are not present in the financial reporting process, financial reports will not be reliable.

H_{03}: Ethical accounting standards do not affect the understandability of financial reports of banks in Nigeria

The Augmented Dickey Fuller Table 10 reveals that all the variables (dependent and independent) are stationary at level data. That is the ADF of all the variables of -4.314066, -3.912077, -4.499575, -3.763404, -3.796998 is greater than the critical values of 1% (-3.4890) and 5% (-2.8870), respectively. This simply implies that ordinary least square can be used for the analysis of the data.

Table 11 shows that X1 (integrity), X2 (objectivity) and X4 (technical competence) affect the understandability of financial reports of banks in Nigeria (0.0104, 0.0007 and 0.0351<0.05) and X3

Table 12: Diagnostic test

Test	Probability	Critical value
Breusch - godfrey serial correlation LM test	0.153479	0.05
White heteroskedasticity test	0.243321	0.05
Ramsey RESET test	0.104201	0.05
Jarque bera	0.352320	0.05

E-view

Table 13: Pairwise granger causality

Null hypothesis	F-statistics	Probability
X1 does not granger cause U	4.33078	0.01545
U does not granger cause X1	1.16122	0.31688
X2 does not granger cause U	3.39810	0.03696
U does not granger cause X2	2.04431	0.13432
X3 does not granger cause U	0.61597	0.54195
U does not granger cause X3	2.18911	0.11683
X4 does not granger cause U	4.90168	0.00912
U does not granger cause X4	1.24427	0.29214

E-view output

Table 14: Augmented dickey-fuller test

Variable	ADF	1%	5%	Stage
Comparability	-4.314066	-3.4890	-2.8870	Level
X1	-3.912077	-3.4890	-2.8870	Level
X2	-4.499575	-3.4890	-2.8870	Level
X3	-3.244687	-3.4890	-2.8870	Level
X4	-3.796998	-3.4890	-2.8870	Level

E-view output

(confidentiality) does not affect understandability (0.3447>0.05). The adjusted r-square of about 0.663702 reveals that the variables combined explains the variability of understandability of financial reports of banks in Nigeria.

The diagnostic test result in Table 12 reveals that the Breusch-Godfrey test suggests no existence of serial correlation. This is because the probability value of 0.153479 is greater than 0.05. White heteroskedasticity test result shows no existence of heteroskedasticity. That is the probability value of 0.243321 is greater than the critical value of 0.05. Ramsey RESET test result also shows no existence of model misspecification because the probability value of 0.104201 is greater than 0.05 and Jarque Bera test result of 0.352320 is greater than 0.05, this implies that the model is normally distributed.

The result of Table 13 shows that X1 (integrity), X2 (objectivity) and X4 (technical competence) granger cause the understandability of financial reports of banks in Nigeria, while X3 (confidentiality) does not granger cause the understandability of financial reports of banks. This result implies that integrity, objectivity and technical competence of accountants affects the quality of financial reports of banks and confidentiality does not affect the quality of financial reports of banks in Nigeria.

H_{04}: Ethical accounting standards do not affect the comparability of financial reports of banks in Nigeria

The Table 14 shows the Augmented Dickey -Fuller test for the variables. The results reveal that all the variables are stationary at level data. That is (-4.314066, -3.912077, -4.499575, -3.244687 and -3.796998) is

Table 15: Ordinary least square, Dependent variable: Comparability

Variable	Coefficient	S.E	Statistics	Prob
C	4.966417	2.194939	2.262667	0.0256
X1	0.279134	0.109644	2.545826	0.0122
X2	0.280711	0.108899	2.577709	0.0112
X	30.203897	0.124334	1.639913	0.1038
X4	0.294284	0.138613	2.123062	0.0212
R^2	0.778464			
Adjusted R^2	0.699825			
S.E. regression	2.891434			
Observation	118			

E-view; S.E: Standard Error

Table 16: Diagnostic test

Test	Probability	Critical value
Breusch - godfrey serial correlation LM test	0.056150	0.05
White heteroskedasticity test	0.167652	0.05
Ramsey RESET test	0.132837	0.05
Jarque bera test	0.214503	0.05

E-view

Table 17: Pairwise granger causality test

Null hypothesis	F- statistics	Probability
X1 does not granger cause CO	4.72575	0.01072
CO does not granger cause X1	0.82956	0.43893
X2 does not granger cause CO	4.90168	0.00912
CO does not granger cause X2	2.04431	0.13432
X3 does not granger cause CO	1.24427	0.29214
CO does not granger cause X3	6.27458	0.00262
X4 does not granger cause CO	6.27458	0.00262
CO does not granger cause X4	1.24427	0.29214

E-view

greater than (-3.4890 and -2.8870). This result simply means that the variables are stationary at level data i.e. 1(0). The result implies that ordinary least square can be used for analysis of data.

The Table 15 shows that X1, X2, and X4 (integrity, objectivity, and technical competence) affect the comparability of financial reports of banks in Nigeria. That is, (0.0122, 0.0112 and 0.0122 is less than 0.05) and X3 does not affect the quality of financial reports of banks in Nigeria. That is (0.1038>0.05). The adjusted r-square shows that about 69% of the combined variables explain the variability of the comparability of financial reports of banks.

Table 16 shows the diagnostic test of serial correlation, heteroskedasticity, misspecifications and normality. The results suggest the non existence of serial correlation (0.056150>0.05); non existence of heteroskedasticity (0.167652>0.05); non existence of misspecoification (0.132837>0.05) and normality of the distribution (0.214503>0.05).

The Table 17 shows that X1 (integrity), X2 (objectivity) and X4 (technical competence) granger cause comparability of financial reports of banks. That is, (0.01072, 0.00912 and 0.00262<0.05). X3 (confidentiality) does not granger cause the comparability of financial reports of banks in Nigeria. The result implies that integrity, objectivity and technical competence of the

Table 18: Augmented dickey-fuller test

Variable	ADF	1%	5%	Stage
Timeliness	-4.314066	-3.4890	-2.8870	Level
X1	-3.784569	-3.4890-	2.8870	Level
X2	-3.524811	-3.4890	-2.8870	Level
X3	-3.472283	-3.4890	-2.8870	Level
X4	-3.796998	-3.4890	-2.8870	Level

E-view

Table 19: Ordinary least square(Dependent variable: Timeliness)

Variable	Coefficient	S.E	statistics	Prob
C	5.107919	2.231731	2.28870	0.0240
X1	0.269440	0.110482	2.438773	0.0163
X2	0.265855	0.109816	2.420924	0.0171
X3	0.160670	0.108839	1.476220	0.1427
X4	0.286523	0.102453	2.796627	0.0185
R^2	0.721341			
Adjusted R^2	0.64068			
S.E. regression	2.928372			
Observation	118			

E-view ; S.E: Standard Error

Table 20: Diagnostic test

Test	Probability	Critical value
Breusch godfrey serial correlation LM test	0.008803	0.05
White heteroskedasticity test	0.377934	0.05
Ramsey RESET test	0.340676	0.05
Jarque bera test	0.492510	0.05

E-view

accountant affects the quality of financial reports and confidentiality does not affect the quality of financial reports.

H_{05}: Ethical accounting standards do not affect the timeliness of financial reports of banks in Nigeria

The Table 18 reveals that the Augmented Dickey - Fuller test was used for the purpose of ascertaining the stationarity of the data. The results reveals the ADF of -4.314066, -3.784569, -3.524811, -3.472283 and -3.796998 is greater than -3.4890 (1%) and -2.8870 (5%) respectively, that all the variables are constant at the level data 1(0), which implies that ordinary least square method can be used for analysis and interpretation of result.

The Table 19 reveals that X1 (integrity), X2 (objectivity) and X4 (technical competence) affect the timeliness of financial reports of banks in Nigeria (that is, 0.0163, 0.0171 and 0.0185 is less than 0.05), while X3 (confidentiality) does not affect the timeliness of financial reports. The results suggest that ethical accounting standards do affect the quality of financial reports of banks. The adjusted square result of 0.64 provides the all the combined independent variables explain the variability of the dependent variable.

The Table 20 shows the diagnostic tests. The Breusch Godfrey serial correlation LM test result shows a probability of 0.008803 of about 8.8% which is greater than the critical value of 0.05(5%); the result reveals no existence of serial correlation. The White Heteroskedasticity test result shows that the probability

Table 21: Pairwise granger causality test

Null hypothesis	F - statistics	Probability
X1 does not granger cause T	14.69972	0.01098
T does not granger cause X1	0.93360	0.39620
X2 does not granger cause T	5.00414	0.00830
T does not granger cause X2	1.64546	0.19600
X3 does not granger cause T	3.42774	0.03593
T does not granger cause X3	2.141522	0.12230
X4 does not granger cause T	5.23433	0.00672
T does not granger cause X4	1.35162	0.26305

E-view

value of 0.377934 (38%) is greater than the critical value 0f 0.05(5%); the result indicates the no existence of heteroskedasticity. The Ramsey RESET test result shows that the probability value of 0.340676(34%) is greater than the critical value of 0.05(5%); the test result shows there is linearity in the regression equation and the Jarque-Bera test result shows that the probability value of 0.492510(49%) is greater than the critical value of 0.05(5%); which implies that the model is normally distributed.

The Table 21 shows the pairwise Granger causality test. The result shows that integrity granger cause timeliness of financial reports and timeliness does not granger cause integrity. That is 0.01098<0.05 and 0.39620>0.05. Objectivity granger cause timeliness of financial reports and timeliness does not granger cause objectivity, that is 0.00830<0.05 and 0.19600>0.05; technical competence granger cause timeliness and timeliness does not granger technical competence, that is 0.03593<0.05 and 0.12230>0.05 and confidentiality does granger cause timeliness and timeliness does not granger cause confidentiality, that is 0.00672<0.05 and 0.26305>0.05.

CONCLUSION AND RECOMMENDATIONS

In this study, the effect of ethical accounting standards on the quality of financial reports of banks in Nigeria was evaluated. The hypothesis was that ethical accounting standards has not significant effect on the quality of financial reports of banks in Nigeria. This hypothesis was tested by using data from the administered questionnaires with granger causality test, multiple regression and Augmented Dickey - Fuller test. The analysis of the data showed that ethical accounting standards affect the quality of financial reports of banks in Nigeria. The result is consistent with the study conducted by D' Asquilla (2001), Flugrath *et al*. (2007) and Ogbonna and Appah (2011) that ethics in the accounting profession is fundamental in the quality of financial reports of organizations. On the basis of the findings, the study concludes that ethical accounting standards of integrity, objectivity and technical competence is fundamental in the production of quality financial reports. Therefore, the following suggestions were provided to improve the financial reporting framework:

- The employment processes of banks need to be improved for men and women with high level of ethical standing to be employed in the banking industry.
- Banks in Nigeria need to establish ethics and compliance department to guide and monitor ethics implementation in their day-to-day activities.
- The banking industry reporting structure should adhere strictly to the financial reporting framework issued by the International Financial Reporting Standards for better and more acceptable financial reports.
- Accountants as custodians of good financial reports should follow the codes of professional practice issued by the Institute of Chartered Accountants of Nigeria (ICAN) for their day-to-day responsibilities.
- Above all, relevant professional accounting bodies in Nigeria should monitor the activities of their members to ensure that codes of ethics are followed in the preparation of quality financial reports in the country.

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