APPLICATION OF FINANCIAL ETHICS IN ANNUAL FINANCIAL REPORTING OF BANKS

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ABSTRACT
The importance of financial ethics and its application in financial reporting of banks cannot be ignored as it assists in building public confidence and fostering professionalism. However, the non-compliance and conformity with Nigerian Financial Regulatory Authorities prudential guidelines in the preparation of financial statements lead to incomplete or false information. The objective of the study is to examine the application of financial ethics in annual financial reporting of banks. The study employed primary and secondary data and stratified and purposive sampling techniques were used in which 20 questionnaires were administered to respondents. ANOVA and chi-square were in analysis and the findings revealed that there are significant unethical practices in the preparation of financial reports of banks in Nigeria. The study recommends that more emphasis and attention should be given to ethical standards in all banks and banks should give out clear reports of their financial activities to the regulatory authorities.

Keywords: Financial ethics, ethical standard, unethical practices, financial reporting, regulatory authorities', banks

1. INTRODUCTION
Contrary to the impression that it is only the public service that is heavily infested with corruption and inefficiency, the trend has since changed in Nigeria. The private sector of which the financial institutions constitute an integral part has also been caught up in identical unethical muddle. Financial ethics are those principles that guides in the preparation of financial transactions. Oladoyin et al (2005) stated that “Ethics” generally refers to those principles and codes of behaviour that guide the conduct of a profession. The term usually carries along moral values normative judgments and moral obligations. At any rate, every profession possesses its own ethics. These Ethics are commonly derived from the general expectations of the public from a public officer or a professional practitioner. The issue of ethics usually goes along with allocation of value judgment such as good or bad; right or wrong. Every professional strives to keep to the guiding ethics of his/her profession.
The end product of financial accounting process is the preparation and publication of financial statements. A substantial number of alternative postulates, assumption principles and methods adopted by a reporting entity in the preparation of its accounts can significantly affect its results of operations, financial position and changes thereof. It is therefore essential to the understanding; interpretation and use of financial statements, whenever there are several acceptable accounting methods which may be followed, that those who prepare them disclose the main assumptions on which they are based. The Nigerian Accounting Standards Board (NASB) issued accounting standards which are developed to ensure a high degree of standardization in the published financial statements. They provide the necessary information about how accounting information should be prepared and presented in order to enhance the value of its contents and facilitate thorough understanding. In the banking sector, confidence, trust, reliability and goodwill are requisite characteristics for effective service and all these are intimately associated with ethical norm and transparency in discharging financial transaction. The case of impropriety therefore is a negation of transparent banking. It is against this background that this study is designed to examine the application of financial ethics in annual financial reporting of banks in Nigeria.

2. STATEMENT OF THE PROBLEM
Despite the role of the Nigerian Accounting Standard Board, Central Bank of Nigeria and Professional Accountancy Bodies in ensuring standardized financial reports as well as compliance with financial ethics in their preparation, the problem of falsification and manipulation of figures in the financial statements has been on the increase. In light of this, that there is the need to sanitize Nigerian financial reporting system.

3. OBJECTIVES OF THE PAPER
The main objective of the study is to examine the application of financial ethics in annual financial reporting of banks in Nigeria.
Other specific objectives were to:
(i) examine the emerging trend of unethical practices and professional misconduct in the Nigerian banking industry.
(ii) identify those ethical standards that are relevant to the preparation of financial reports of banks.
(iii) assess whether financial reports of banks are in conformity with Nigerian Accounting Standards and Central Bank of Nigeria prudential guidelines.
(iv) assess the information contained in the financial reports are fair and accurate.

4. HYPOTHESES
Ho₁: There is no significant relationship between ethical standard and bank’s financial reports preparation in Nigeria.
Ho₂: There is no significant unethical practice in the preparation of financial reports of banks in Nigeria.

5. CONCEPTUAL FRAMEWORK/LITERATURE REVIEW
Accountability in the financial institutions is best explained through the theory of Agency. Adesola (2001) explained that the person who holds or manages a given amount of resources for the benefit of another person is an agent. As an agent, he must operate according to the mandate given to him and he must perform to the satisfaction of those who are to benefit
from his achievement. The managers of a business enterprise are agents to the business owners as well as those who will benefit from the activities of the business, including the society at large. At the end of each period of operation, the managers will render accounts of stewardship for the information of those who may be interested in the operation of the business. Ethics is the sense of Morals is a branch of philosophy which is concerned with human character and conduct. Ethics is a moral principles, rules and regulations that guide or influence a person’s behaviour and character. Financial analyst handbook defines ethics as an attitude of responsibility to the public. Zubiro (2007) expressed that ethics can be both a normative and descriptive discipline, as a corporate practice and career specialization, the field is primarily normative, and in academia descriptive approaches are also taken.

Accounting and Financial Reporting code of Ethics is a statement of certain fundamental principles, policies and procedures that govern certain officers of an organization or company in the conduct of the company’s business (Obazee 2008). Oneok partners (2006) stated that the expected reporting objectives of every senior officer involved in the accounting process is to ensure full, fair, accurate, timely and understandable disclosure in the reports and documents filed with, or submitted to the Securities and Exchange Commission (SEC) by the company and in other public communications made by the company. Financial information included in such reports, documents and communications, which include, but are not limited to, financial statements, footnotes, selected financial data, statistical data, financial schedules and the management’s discussion and analysis portion of the company’s reports, must “fairly present” in all material respects the company’s financial condition, result of operation and cash flows.

According to Oladoyin et al (2005) analysed the reasons for ethics as follows: building confidence and integrity, giving a true view of market interplay, engendering participation, attracting international recognition and respect, fostering professionalism, efficiency, stability and growth and attracting more businesses. Ethics is an important part of the accounting industry. According to Vincent (1992) stated that The American Institute of Certified Public Accountants (AICPA) has created a code of professional conduct for its members to follow and refer to while working in the accounting industry. Accountant must remember that they have dual responsibilities, both to the company that has employed them and to the public interest looking for accurate accounting information. The following are the ethics that should be adhered to by professional accountants.

(i) Independence: This is the first ethics quality accountants must use in the profession. Independence is defined as the accountant’s limited interaction with a client or company prior to offering current accounting services. An impairment of the accountant’s independence may lead him/her to not accurately report or explain any accounting errors or improprieties.

(ii) Integrity and Objectivity: This is defined as the lack of conflicts of interest between accountants and clients. The AICPA also notes that accountants should not knowingly misrepresent facts or financial information when engaging in professional accounting services. Conflicts of interest may include close personal relationships with individuals employed by the accountant’s business clients or performing accounting services for individuals employed by the accountant’s business client. These relationships may cloud the accountant’s judgment and hinder her ability to be objective when performing accounting services. The public interest demands that accountants and
auditors exercise objective opinions regarding a company's current financial health and business status. This objectivity can be violated if accountants provide more than one service for a client. The AICPA often attempts to limit accountants and auditors from offering advisory or assurance services if these individuals will also be offering general accounting or auditing services. This duality can violate the objective opinion by accountants since they may not wish to denigrate their own work.

(iii) Responsibility: Accountants are required by the AICPA to be professional and responsible when handling confidential client information. Accountants often see the intimate details of a business or even information that is considered an industry secret. Accountants must respect their client's information and only release the absolute necessary information for lenders and investors needing to make wise business decisions. Failing to adhere to this standard of responsibility can put the accountant and his public accounting firm in legal cross-hairs for a violation of accounting ethics. He further explained that the following are the accounting ethics that are applicable to financial reporting of an organisation are; presentation of Accounting Information, disclosure, evaluating techniques and timely reporting.

6. FINANCIAL REPORTING

Financial reports are the testimonial and report card of the state of the company and its operation, at least for the stakeholders who have no access to the record of the company for detailed assessment. According to the Statement of Accounting Standards published by Professional Accounting Tutors limited (2002) stated that financial report of a public limited company should comprises of the balance sheet, profits and loss accounts, cash flow statement and statement of value added. Financial statements are the means of communicating to interested parties information on the resources, obligations and performances of the reporting entity or enterprise. All accounting information that will assist users to assess the financial liquidity, profitability and viability of a reporting entity should be disclosed and presented in a logical, clear and understandable manner.

Statement of Accounting Standard-SAS 2 which relates to information to be disclosed in financial statements, published by Nigerian Accounting Standards Board, comprises of the following disclosures. The financial statements of an enterprise should state, the name of the enterprise, the period of time covered, a brief description of its activities, its legal form and its relationship with its significant local and overseas suppliers including the immediate and ultimate parent, associated or affiliated company.

It further stated that financial statements should include the following: statement of accounting policies, balance sheet, Profits and loss Accounts or income statement, Notes on the Accounts, Cash flow statement, Value added statement and five year financial summary.

7. USES OF FINANCIAL REPORTS

The uses of financial reports are planning, for controlling activities of an organization, for Decision support and Information and guide to raise finance. Obazee (2008) highlighted that Accounting Standard is a benchmark or a yardstick by which accounting measurement are made. A reporting entity exists where it is reasonable to expect the existence of uses dependent on general purpose financial reports for information which will enable them make
informed judgments and decision. The quality of the information provided in such financial reports determines the usefulness and reliance of those reports to users.

7.1. Guidelines for Reading Financial Reports
Zubiro (2007) analyzed various guidelines to follow in reading financial reports: - Look out for the auditor’s statement. A qualified opinion can signal that massive write-offs or other difficulties may be on the horizon. Glance through the financial footnotes, changes in accounting policies during the year. Go through the company’s statement of accounting policies, generally required in accounting reports and try to determine the company’s position. The current earnings will look rosy, but essentially these items represent deferred cost rather than genuine assets. Do not compare this year’s net earning with last year’s bottom figure alone. In addition to accounting changes, increases in earning per share can result from selling a plant or securities or from taking various tax credits, none of which have anything to do with current operating performance. A comparison of both pre-tax incomes to sale for several years running will give a true picture of how efficiently the company is performing. Take a look at the company’s inventories, in relation to its sales. A decrease in inventory turnover can signal trouble ahead in many industries. See if the company’s account receivables are growing at a faster rate than sales. If receivables are out running sales growth, the reason could be inefficient collection policies or extension of credit to customers with greater credit risk.

8. CODE OF ETHICS AND PROFESSIONALISM IN THE BANKING AND FINANCE INDUSTRY
The aim of the code is to enable financial institutions regulatory bodies and their employees to know in clear terms what acts, conducts, omissions and practices are considered unethical, and the appropriate sanctions that would apply for non compliance with the code. It is expected that this code would bring about discipline and professionalism in the industry. According to Elumilade (2004) stated that banking sectors, confidence, trust, reliability and goodwill are requisite characteristics for effective service and all these are intimately associate to the ethical norm, transparency. The case of impropriety therefore is negation of transparent banking.

Vincent (1992) expressed that banks and other financial institutions constitute a formidable element in a modern economy, occupying a pivotal position in the credit and cash economy which Nigeria now operates. He further stressed that given the scarcity of resources and the consequent allocation of these resources by banks in the execution of their primary function places them in a somewhat invidious positions and makes them vulnerable to suspicion. He analyzed that the banking industry as a domineering economic and social institution, hence the code of professional conduct and standard of ethics which the community demands is usually very high.

9. METHODOLOGY
The study uses both primary and secondary sources of data. The primary data was generated through the use of questionnaires that were administered to the staff of both New and Old generation banks in Nigeria. The secondary data were sourced from published data. The population of this study includes all banks in the country, both New and Old generation and their members of staff. The study made use of stratified and purposive sampling techniques, in order to select appropriate and competent respondents. The sample size of 20 staff from each bank of both Old and New generation banks were selected. A total of 240 questionnaires
were administered, out of which 196 were correctly completed and returned while 44 were not retrieved at all. The analysis was conducted through the use of Statistical Packages for Social Scientist (SPSS). Pearson’s Product Moment Correlation, Chi – square and Analysis of Variance (ANOVA) was used to test the relationship between the financial ethics and its application in annual financial reporting.

10. DATA PRESENTATION AND ANALYSIS
The Central Bank of Nigeria and Nigeria Deposit Insurance Corporation are the two regulatory bodies of banks in Nigeria. Therefore, we use Pearsons Correlation to test relationship that exist between the two bodies.

<table>
<thead>
<tr>
<th>Correlations</th>
<th>CBN</th>
<th>NDIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBN</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>12</td>
</tr>
<tr>
<td>NDIC</td>
<td>Pearson Correlation</td>
<td>.473</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.121</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2010

Table 1 on correlation shows that there is a positive relationship that exists between CBN and NDIC as bank regulatory authorities pursuing the same objectives. Where the $r = 0.473$. This implies that both regulatory bodies pursue the same objectives in ensuring standardizations in the banking operations.

Accounting ethics financial reporting- Which of these accounting ethics that are applicable to financial reporting did your bank adopt and apply?
(i)  Presentation of accounting information
(ii) Disclosure
(iii) Evaluating Techniques
(iv) Timely reporting

(Table following on the next page)
Table 2: Analysis of application of accounting ethics in financial reporting

<table>
<thead>
<tr>
<th>ACCOUNTING ETHICS</th>
<th>Old gen bank staff response percentage</th>
<th>New gen bank staff response percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentation of accounting information.</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>Disclosure</td>
<td>51</td>
<td>49</td>
</tr>
<tr>
<td>Evaluating Techniques</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Timely Reporting</td>
<td>55</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: Field Survey (2010)

From table 2, it indicates that the old generation banks like UBA, UNION, WEMA, AFRI BANK and FIRST BANK adopted and applied presentation of accounting information, Disclosure and Timely reporting than the new generation banks like OCEANIC, GTBANK, ZENITH, INTERCONTINENTAL and SPRING BANK. While new generation bank applied evaluating techniques more than the old generation bank. This implies that Old generation banks complied more than the new generation banks.

Using chi-square to test the hypotheses

HO$_1$. There is no ethical standard that has significant relationship with bank’s financial reports preparation.

Table 3 Chi-Square Test for Old generation banks

<table>
<thead>
<tr>
<th></th>
<th>UBAPLC</th>
<th>UNION</th>
<th>WEMA</th>
<th>AFRI</th>
<th>FIRST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>20.833</td>
<td>20.833</td>
<td>30.000</td>
<td>21.500</td>
<td>21.500</td>
</tr>
<tr>
<td>Df</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>1.000</td>
<td>1.000</td>
<td>.964</td>
<td>.993</td>
<td>.993</td>
</tr>
</tbody>
</table>

a. 11 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.1.

b. 10 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.2.

c. 9 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.3.

From table 3, the critical value of chi-square at 5% level of significance is 18.3070, while calculated value of UBAPLC, UNIONBANK, WEMABANK, AFRI BANK and FIRSTBANK are 20.833, 20.833, 30.000, 21.500 and 21.500 respectively. The decision is that since chi-square calculated is greater than the critical value, which fall outside the acceptance region, therefore null hypothesis stands not to be accepted. This implies that there is an ethical standard that has significant relationship with bank’s financial reports preparation.
Chi-Square Test for New generation banks

HO$_2$: There is no significant unethical practice in the preparation of financial reports of banks.

Table 4 - Chi-Square Test for New generation banks

<table>
<thead>
<tr>
<th></th>
<th>ZENITH</th>
<th>INTERCONT</th>
<th>OCEANIC</th>
<th>GTBANK</th>
<th>SPRING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>20.833$^a$</td>
<td>30.000$^b$</td>
<td>20.833$^a$</td>
<td>21.333$^c$</td>
<td>21.333$^c$</td>
</tr>
<tr>
<td>Df</td>
<td>10</td>
<td>8</td>
<td>10</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>1.000</td>
<td>.934</td>
<td>1.000</td>
<td>.998</td>
<td>.998</td>
</tr>
</tbody>
</table>

a. 11 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.1.
b. 9 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.3.
c. 10 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.2.

From table 4, the critical value of chi-square at 5% level of significance is 18.3070, while calculated value of ZENITH, INTERCONTINENTAL BANK, OCEANIC BANK, GTBANK and SPRINGBANK are 20.833, 30.000, 20.833, 21.333 and 21.333 respectively. The decision is that since chi-square calculated is greater than the critical value, which fall outside the acceptance region, therefore null hypothesis stands not to be accepted. This implies that there are significant unethical practices in the preparation of financial reports of banks.

11. FINDINGS

The study revealed as follows:

(i) All the banks agreed that there is in existence a code of ethical conduct for directors and management staff of all banks in Nigeria.

(ii) There are high significant unethical practices in the preparation of financial reports of banks, which collaborate with Zubiro (2007) that stated different types of unethical financial practices in his literature as altering records and terms related to significant and unusual transactions, e.t.c.

(iii) The study revealed that building confidence and integrity, engendering participation, attracting more businesses, attracting international recognition and respect are the reasons for ethics, which are in line with Oladoyin et al (2005), in their literature that fostering professionalism, efficiency, stability and growth are also reasons for ethics.

(iv) It revealed that financial reports are used for planning, decision making, and controlling activities of an organisation, information and guide to raise finance, which agreed with Statement of Accounting Standard 2 (SAS 2), which relates to information to be disclosed in financial statement.
The study agreed that in banking sector, confidence, trust, reliability and goodwill are requisite characteristics for effective service and all these are intimately associated with ethical norms and transparency which are in line with Elumilade (2004), in his literature that revealed the case of impropriety therefore is negation of transparent banking.

12. CONCLUSION
Effort has been made in this study to review the importance of financial ethics and its application in annual financial reporting of banks in Nigeria. Regulation and Supervision of banks remain an integral part of the mechanism for ensuring safe and sound banking practices. At the apex of the regulator/supervisory framework for the banking industry is the Central Bank of Nigeria and NDIC. In line with prevailing international standard, these agencies (CBN/NDIC) have continued to emphasize risk-focused bank supervision in Nigeria. Other integral features of the present approach to bank supervision include regular contact with bank management, consolidated supervision of banks and non-bank financial affiliates and independent validation of supervisory information. From the foregoing chapters, the current state of the banking industry a number of issues stand out as pressing challenges confronting the industry. Broadly, these issues relate to the industry’s operating environment, inherent weaknesses, in the conduct and practices of practitioners bordering on ethics and integrity otherwise referred to as weak corporate governance and inadequate legal provision for dealing with problem banks and protecting the supervisors. A notable feature of the industry is low ethical standard and transparency. These are manifesting in the rising cases of unwholesome practices being recorded. A number of banks engage in some sharp and unorthodox practices to achieve compliance with some regulatory requirements “on paper”. Many banks’ returns provide inaccurate/misleading financial report thereby preventing timely detection of emerging problems by the supervisor.

Recommendations
From the analysis of the findings, the study made the following recommendations:

(i) The capacity of the apex bank to monitor and supervise the large number of bank’s transactions which will reduce the high rate of unethical practices in the preparation of financial reports of banks.

(ii) External auditors should be made to extend their audit examination beyond their existing scope of duties and responsibilities with a view to their discovering frauds, which will enhance confidence, trust, attracting more businesses and attracting international recognition and respect.

(iii) In banking sector, confidence, trust, reliability and goodwill are requisite characteristics for effective service delivery, considering the enormous trust and confidence which the society entrust to the banks, officials have a responsibility to strive for higher ethical standard than the rest of the society because of their role in the economy.

(iv) The new generation banks should be made to comply and appropriate sanction should be impose on any defaulters by the regulatory bodies.
LITERATURE


