

# THE LEVEL OF COMPLIANCE WITH THE CODE OF ETHICAL VALUES FOR PROFESSIONAL ACCOUNTANCY PRACTICE IN NIGERIA

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## ABSTRACT

*The increase in the level of accounting scandals recorded in large organizations generates disrepute and frequently paints the accounting profession in bad light. A huge gap exists between the documented form of ethical codes and what is obtainable in real practice. This study seeks to evaluate the adequacy of ethical codes in the accounting profession in Nigeria. The study further examines the role played by professional accounting regulatory bodies on the level of compliance to ethical code of conducts in the accounting profession so as to ascertain the threats and challenges that pose as obstacles to the development of Professional Accounting in Nigeria. The study therefore concludes that these threats and challenges could impede the future advancement of the accounting profession. It recommends that organizations/institutions should seek to establish ethical leadership by providing adequate education for practicing accountants which will enable them embrace principles consistent with ethical reasoning and sound decision-making which will in the long run, foster a sustainable ethical working environment.*

**Keywords:** Ethical Values, Accountancy, Nigeria, scandals recorded,

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## 1. INTRODUCTION

The accounting profession has recorded a number of situations where ethical guidelines or codes seem to have little or no relevance on the conducts of accountants. Such situations leave the accountants with no options than to handle such situations intuitively. This may lead to a situation where the accountants try to resolve conflict of interests, personal beliefs, cultural background and problems of double standards without reference to the prospects of the

accounting profession (Akadakpo & Izedonmi, 2013). The issue of integrity is a major challenge facing the profession and accountants at all levels, as well as accountants undergoing professional training (Students) have an obligation to conduct themselves in a manner which is in accordance to good ethical standards. Accounting essentially supports the economic system at the global level, due to its ability to generate information that helps in shaping various stakeholder decisions. Thus, a healthy economic system needs accounting professionals who are committed to ethical and moral values (Davoodifar, 2015). According to Anzeh and Abed (2015) unethical conducts in the accounting practice is capable of causing failures in the overall economic system.

An efficient profession or business requires high and reliable ethical standards in order to stand the test of time (Smith & Smith, 2003). Ethical considerations are being prioritized in the finance and accounting departments of industries (Mathenge, 2012). There is usually a level of tension that exists between an organization's financial goals and policies for profit maximization and ethical considerations with concerns for morality. When the public is not assured of the market's ability to check corporate misbehavior, it relies more on the government for regulations. For instance, recurrent cases of misconduct by corporate officials have led to the passage of various Acts in Nigeria which include the Economic and Financial Crimes Commission (EFCC) Act 2004, the Investment and Securities Act (ISA) 2007, Banks and other Financial Institutions Decree 2004 and Money Laundering Acts etc. Due to ethical lapses amongst public accountants, a review of the standards of professional accounting has become necessary (Rist, 2002). Most organizational values and environment create a good opportunity for accountants to exploit the loopholes in financial management, although in most organizations, the accounting and finance departments are expected to enhance the growth of ethical education and awareness, they are often confronted with stiff opposition from the upper class management (Fisher and Lovell, 2009).

## **2. ETHICS AND ITS ROLE IN THE REGULATION OF PROFESSIONAL ACCOUNTING IN NIGERIA**

There is a sharp contrast between ethics and morality. The distinguishing factor is that ethics is described in terms of a philosophical discipline (rational and critical) as to right and wrong. Whereas morality encompasses a set of values, norms and principles that govern human actions as regards behavior (Vazquez, 2011). Ethics can also be understood in the field of philosophy as relating to human behavior and the consequences that emanate from its attitudes (Gitman, 2007). On the other hand, morality, encompasses values and beliefs systems that integrate a social process, in which individuals try to distinguish between right and wrong conduct (Kabir, 2009).

According to Guilem & Figueiredo, (2008) individuals deliberately assume a set of norms or rules of conduct to establish interpersonal relationships centered on moral values. Morality paves the way for ethics at certain points, because human attitudes and its consequences are analyzed based on rational philosophy so as to establish norms of conduct (Crane & Matten, 2004). Also, Smith and Smith (2003) opine that ethical values serve as the foundation on which any civilized society exists. Currently, ethical standards act as a scope that directs and monitors the actions of people in order to ensure that true and fair practices are achieved. Doolan (2009) adds that regardless of the source through which one derives ethics from be it religion, literature or personal experience, there exists some basic ethical guidelines and codes that are universal to everyone.

The accounting profession, as an institution, functions as a reference group for individual practitioners with a code of ethics that elucidates the norms that should govern the conducts of its members and outsiders as well (Frankel, 1989). The regulatory bodies for professional

accounting in Nigeria are the Institute of Chartered Accountants of Nigeria (ICAN), Association of National Accountants of Nigeria (ANAN) and the Chartered Institute of Taxation of Nigeria (CITN). Each of these bodies has laid down code of ethics for her members. It is expected of Licensed professional accountants in Nigeria, to operate within the stipulation of the code of conducts that enforces the responsibility of self-regulation. It is also expected of them to support and liaise with others in executing their functions and in cases of violation, report violators to the regulatory bodies such as ICAN, ANAN, CITN, and other Financial reporting bodies. On the other hand, reporting errant members has a lot of risks and less rewards associated with it. Therefore, other means of social control are employed such as licensing, peer review and mandatory reporting principles.

Preservation of professionalism and good practice is the main goal of accounting ethics and ethical values. Professional code of ethics is the adhesive that binds the professional community and ensures the basics of trust between a profession and the society at large (Russ-Eft, 2004). It provides a tangible standard with which the performance of the professional is evaluated (Coughlan, 2001). Furthermore, some professional code of ethics includes disciplinary measures (e.g. loss of membership) for members who violate the standards (Frankel S. M, 1989). Thus, this has raised the question among some scholars as to whether punitive measures affect the level of adherence to professional ethics. It has also raised questions about the role of professional code of ethics on professional practice and the level of commitment to the enforcement of these code of ethics (Neu 1991 and Allen 1991).

It is pertinent to note that accountants, apart from being professionals, are also members of the society. So, their behaviors and disposition has an influence on both business and society in general (Cristina & Florina, 2008). The ethical conduct of these professionals with respect to the provision of accounting services imparts the socioeconomic development and also influences the decisions of their clients (Pimenta & Souza, 2014). The significance of professional ethics is connected to the protection of both professionals and clients, based on the fact that it spells out the responsibilities of the professional and improves their profile. It serves as motivator and inspires participants, guiding them on acceptable behavior and improving the dependability and quality of ethical issues.

### **3. LEVEL OF COMPLIANCE TO CODES OF ETHICAL STANDARDS IN NIGERIA**

There is an ongoing debate by scholars in the field of business ethics regarding the issue of compliance to laid down professional code of ethics. It has been observed that professional accountants rarely make use of professional code of ethics to solve the problem of compliance in their field of practice resulting to several indignities and business failures. This questions the influence of professional code of ethics on professional practice in accounting. The development and active implementation of professional code of ethics deserves urgent attention. Jamal & Bowie, (1995) argue that professional code of ethics was designed to protect the economic interest of the professional rather than protecting the public from unethical conduct because some of the provisions when scrutinized, show that some particular morale positions of professionals do not represent the moral view of the society. In order to curb unethical behaviour in in the various sectors of professional practice, the government and other and other organizations including institutions of higher learning are adding new measures to foster legitimacy and a public campaign to support ethical behaviour (Messikomer, 2010). Professionals are devising means of improving professional service and to regain public confidence (Frankel, 1989).

In Nigeria, the major regulatory body responsible for the regulation of financial reporting is the Financial Reporting Council of Nigeria (FRCN). The other recognized professional supervisory bodies in Nigeria are the ICAN and ANAN. The sole responsibility of these bodies is mainly establish ethical standards to control the conduct of their members. Professional Accountants are highly respected in the society due to the excellence and high level of ethical standards in their profession. Hence, their estimations and assertions are revered. Accordingly, the society places a high level of confidence in the financial reports and audits carried out by professional accountants owing to the level of professionalism and code of ethics required for the preparation and auditing the financial statements (Adeyemi & Fagbemi, 2011). Financial statements prepared by professional accountants are utilized in the making of economic decisions by the clients. As a result of the level of confidence the society places on accountants, it is vital therefore, that the information provided by the accountants should be implicitly efficient, realistic, unbiased and reliable. One of the recommendations for bridging ethical gaps in businesses is the application of professional code of ethics. The main function of ethics and the importance ethical expertise is to enable the decision maker to make proper professional judgement (Keim & Grant, 2003). Good ethical standards are widely acknowledged by both professional regulators the general public. For instance, ICAN, identifies the importance of ethical behaviour in the accounting profession and therefore provides its code of conducts to guide the behaviour of members (Buff & Yonkers, 2005). Accordingly, Ethical standards laid down by professional accounting regulatory bodies in Nigeria like ICAN and ANAN can boost morality and good conducts in the execution of auditing functions in Nigeria. Despite all the efforts being made to enforce the practice of ethical standards by the supervisory and regulatory bodies, strict adherence to the set standards has been a challenge.

Considering the current happenings in the corporate world, there seems to be no significant relationship between code of ethics and the quality of financial reporting. Currently, most accountants neither consider ethical stance nor the consequences of their actions while carrying out their duties. The prevalence of corruption is in the business environment has become the status quo in all societies. In recent times, corporate giants in the US such as Enron Corporation have experienced a crash. Also, the United Kingdom has witnessed corporate scandals have involving companies like Independent Insurance and BCCI, Arthur Anderson Tyco International, Global Crossing and WorldCom (Ogbonna & Ebimobowei, 2012). In Nigeria, the scandal involving Cadbury (Nig) PLC has remained a point of reference for fraudulent financial reporting. Other financial reporting scandals in Nigeria include those involving Afribank Plc and Lever brothers (Nig) Plc (Ajayi, 2006). The impact of fraudulent financial reporting goes a long way to affect not only the victim organizations but also the nation as a whole especially when it involves giant companies.

#### **4. THE ISSUE OF ADEQUACY**

Regardless of the fact that recognized professional accounting regulatory bodies in Nigeria, like ICAN and ANAN have done their best to ensure best practice in the auditing profession through the administration of professional code of conduct to their members, the strict adherence of such codes is still doubtful which shows that the major challenge is not the problem of adequacy but that of adherence. Accounting Ethics is principally a field of applied ethics, which deals with the study of moral values and judgment as related to accountancy. Adequate ethical practices increase societal and professional standards and ensure equity, fairness, and social justice. According to Beverly et al (2007), there are certain factors which contribute to unethical behaviour, and they include; improper leadership and ill culture, lack of competence, self-interest, inability to maintain objectivity and independence, lack of ethical sensitivity, failure to withstand advocacy threats and lack of organizational support.

## 5. CONCLUSION AND RECOMMENDATION

According to reports from the research carried out by the International Federation of Accountants IFAC (2006), Rebuilding public confidence in financial reporting; “An international perspective” which was issued after the collapse of Enron and WorldCom in 2002, established that the prevalence of financial scandals in recent times were indications of deeper problems and acknowledged that development of ethical standards, adequate financial reporting and management mechanisms, improvement in audit quality and strengthening of governance regimes would serve as useful tools for increasing public confidence in financial reporting. The accounting profession is to be held accountable in these areas where paucities in ethical standards have led to corporate indignities and collapses. We recommend that organizations should seek to build ethical leadership by educating accounting personnel to go beyond simply complying with laws, to adopting principled workplace behaviours, constant ethical reasoning and thorough decision-making skills. It is also recommended that employees should feel comfortable bringing up ethical issues with their supervisors and managers, and they should know how to report such incidents appropriately. Principally, employees should be confident in the fact that the management will respect persons who report ethical misconducts, and also thrust in the management’s capability of investigating and resolving such issues fairly and without favouritism. Clear procedures and receptive reporting systems build trust, therefore individuals must be able to identify how their regular behaviour affects others and how their actions reflect on the organization’s reputation and credibility to engender trust in the market place.

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