OBAFEMI AWOLOWO UNIVERSITY

ACCOUNTING ETHICS AND FINANCIAL PRACTICES OF ACCOUNTANTS IN NIGERIA

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B.Sc. (Hons) Accounting, M.Sc. (Lagos), M.Phil. (Ife)

(ADP11/12/R/0024)

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Being a Thesis submitted to the Department of Management & Accounting, Faculty of Administration in Partial Fulfilment of the Requirements for the Award of Doctor of PhilosophyDegree (Ph.D.) in Accounting of the Obafemi Awolowo University, IleIfe, Nigeria

JUNE, 2015

CERTIFICATION

This research thesis titled"Accounting Ethics and Financial Practices of Accountants in Nigeria" by Omowunmi Jumoke OGUNLEYE (Registration No.: ADP11/12/R/0024) has been read and approved in partial fulfilment of the requirements for the award of Degree of Doctor of Philosophy (Ph.D.) Degree in Accounting, Obafemi Awolowo University, Ile Ife, Nigeria.

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Year: 2015

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ACKNOWLEDGEMENTS

My first and uttermost thanks is to God my father, the giver of life, who preserved my life up to this present time to complete this research work successfully; you are worthy to be praised. For favour and journey mercies throughout the duration of the programme I say, "THANK YOU AGAIN BABA"

To my supervisor and the current Dean, Faculty of Business Administration, OAU, Prof. TaiwoOlufemiAsaolu, who provided the enabling environment, clues, reviews as well as critical comments and suggestions for this thesis I say a big thank you. Also I would like to appreciate Dr. (Mrs.) Yinka Akinlo who was much more than a sister to me and Prof. D. O. Elumilade of the Department of Management and Accounting for his gracious and fatherly advice during the course of my study.

I am also greatly indebted to Dr. (Mrs.) S. O Ajibolade for being a rock to lean on, an anchor to hold on to and, a shoulder to cry on and to Prof. Eddy Omolehinwa for his immeasurable support. Not forgetting Dr. S. B. Adeyemi, Prof. R. Ojikutu, Prof. Ade Ibiwoye, Prof. Yomi Akinyeye and all my wonderful colleagues at the Department of Accounting, University of Lagos, thank you for all your assistance.My appreciation also goes to others who supported me in one way or the other morally, emotionally, psychologically and spiritually to complete this work including Dr. R. Akindele, Dr.(Mrs.) Ologunde, Dr. (Mrs.) Makinde, Prof. Osotimehin, Dr. T. Otusanya, Mr. J. B. Akeju, Mrs. Foluso Emmanuel and the current H.O.D. Department of Management and Accounting, OAU, Prof. Agboola; I say a big thank you.

Similarly, I must acknowledge the love and moral support given to me by my family members especially my parents Prince AdemolaAriyo and Deaconess TemilolaAriyo; my

siblings, YemiAriyo, Yinka Ariyo, BayoAriyo, DoyinAriyo, not forgetting IyaBayo, Maggi, Abbey, Oyinade, Wole and Patrick; thank you all.

Lastly and very importantly to my darling husband Dr. Ezekiel Ogunleye ‘OLOWO ORI MI’, I truly appreciate your constant support (spiritually, morally and financially) and your patience and steadfastness.For your dedication to keeping the home front peaceful and accommodating always, I say thank you; you are one in a million. To my lovely children, Adeola, Aderinola, Adebola and Adenike, I love you always.

TABLE OF CONTENTS

CHAPTER THREE: METHODOLOGY

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The study investigated the influence of the business climate on the ethical decisions of Nigerian accountants; assessed the effect of organizational ethical value on their ethical reasoning and compared the ethical perceptions of accountants with professional qualifications with those without professional qualifications. It also evaluated the influence of the knowledge of tertiary accounting courses on the ethical predispositions of Nigerian accountants in training and finally examined the relationship between the demographic traits of age, gender, culture and religion and the ethical or unethical inclinations of Nigerian accountants. These were with a view to determining the factors that shape the ethics and financial practices of accountants in Nigeria.

Primary data was utilized for the study. The population for the study comprised of 39,389 professionally qualified accountants registered with the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN), 19,600 first and final-year accounting students in 49 Universities in Nigeria offering accounting programmes as well as accounting practitioners without professional qualification. Judgemental dimensional sampling was used to select 850 accountants drawn from five major business cities in Nigeria and 370 first and final year accounting students from five Universities that offered accounting programme. Two sets of questionnaire were used to obtain data from respondents. The first questionnaire obtained information from the selected accountants on their ethical judgements to selected accounting ethics dilemma. The second questionnaire collected data from the selected accounting students to determine how the knowledge of accounting courses influenced their ethical predispositions. Data obtained were analysed using descriptive and inferential statistics

such as T-test, Repeated Measures Anova, Mann-Witney U, Kruskal-Wallis, Chi-square and Multivariate Analysis.

The results of the study revealed that the ethical decision of Nigerian accountants was significantly influenced by unethical practices in the business environment as well as by unethical organizational values. The mean ethical score which was 3.42 under a normal situation reduced to 1.94 under an unethical business environment ($p<0.05$) and to 2.53 under an unethical organizational environment ($p<0.05$). There was no statistically significant difference between the ethical responses of accountants with and without professional qualification ($p=0.699$); which provides evidence of the lack of the impact of professional accounting qualifications on accountants ethics and financial practices. The study also found that knowledge of accounting courses significantly decreases ethical predispositions of accounting students as the average mean score and mean rank of ethical perception for 100 level students was 3.89 and 223.08 while for 400 level students it was 3.26 and 130.66 ($p<0.05$). A statistically significant relationship was established between the demographic variables of age ($p = 0.008$), gender ($p = 0.001$), culture ($p= 0.001$), religion ($p = 0.001$) and the ethical or unethical inclination of Nigerian accountants.

The study concluded that business environment and organizational ethics do affect the ethical decisions that Nigerian accountants make and that a significant relationship exist between the ethical predispositions of Nigerian accountants and the demographic factors of age, gender, religion and culture.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

A current challenge in accounting practice which has been the subject of great debate both at the national and international level is the issue of unethical practice. Numerous corporate and public scandals have brought to light the fact that unethical behaviour is ubiquitous among corporate and political leadership. At the global level, the Enron, WorldCom, Tyco and Parmalat scandals generated a lot of discussion that questioned the ethics of accountants and the danger it portends to the financial fabric of nations. In Nigeria, the media is rife with the repeated instances of unethical practices at government level and also at the private level, providing evidence to the fact that the problem of corruption has escalated to staggering proportions. For instance, the failings of several banking institutions, the Cadbury scandal, the Halliburton saga, the pension scam, the African Petroleum and oil subsidy fraud are just a few of the pointers to the various expositions of corrupt and illegal practices in Nigeria in recent years.

The view that the accounting profession has a dominant role to play in questionable business and financial practices raises great concern over the ethical predisposition of Nigerian accounting professionals and the relevance of the profession as public financial watchdogs. Bakre (2007) noted that company's management and directors entrusted with company resources with the help of accountants and auditors have colluded to falsify and deliberately misrepresent company's state of affairs to the public. Consequently, some multinational companies in Nigeria such as Lever Brothers Nigeria Plc. and Cadbury Nigeria Plc. have replaced the Nigerian managing directors with expatriates.

Already, the enormous impact of corruption on the economy is staggering and the scale of unprecedented fraud among the political elite and in public institutions has seriously dented the image of Nigeria and debased the Nigerian brand name internationally (Ajibolade, Ogunleye & Omorogbe 2014). Corporate frauds have also led to the distress and closure of many companies resulting in massive unemployment, loss of investment and increased poverty (Bakre, 2007) and the adverse effect of this is a continuous erosion of confidence in government, financial institutions as well as society.

Public interest in the business ethical conduct of accountants is based on noted accounting practices without which corruption and fraud cannot be perpetrated. Such practices include the falsification and manipulation of financial records, the misappropriation and outright theft of funds, concealment of fraudulent activities through a series of complex transactions, the inflation of profits, revenue and cash balances and the understatement of loss, debts and other liabilities in company's financial reports. These practices highlight the prevalence of ethical decadence in the profession and draw attention to the need to emphasize a high standard of ethical behaviour from accountants.

Ethics assumed increased importance and became a widely debated topic in the global business community immediately following the Enron debacle. Many scholars in the field of philosophy agree that there are three branches of ethics; normative ethics, meta-ethics and applied ethics. Normative ethics involves the exploration of the moral standards that regulates the concept of right and wrong conduct. Meta-ethics involves the understanding of the motives and psychological basis of moral judgements. Applied ethics is concerned with the specific analysis of ethical issues in various groups, subdivisions or professions which include business ethics, medical ethics and environmental ethics. Accounting ethics which is the focus of this study is a sub-division of business ethics and a major category under applied ethics. Business ethics has been defined by Macdonald (2010) as the critical and structural examination of how people and institutions should behave in the world of commerce and in particular, it involves examining appropriate constraint in the pursuit of self-interest and corporate profits when the actions affect others. The thrust of ethics in the accounting profession requires that accountants do not compromise on some fundamental principles of public trust which is to be upheld through the performance of accounting duties in accordance with the ethical principles of honesty, integrity, objectivity, due care, confidentiality and commitment to the public interest before one's own. Carrol (2004) states that ethics is concerned with what is deemed acceptable or unacceptable, good or bad, fair or unfair, just or unjust, right or wrong actions in a field of human activity or in the realm of business action and decision making. Ethical behaviour is considered as one of the essential personal skills that accountants must possess because professional and ethical accounting conduct is not possible without personal ethics. Hubbard (2007) views ethical behaviour as that which seeks the best level of survival or the greatest benefits to the greatest number of dynamics and, unethical behaviour as that which offers the poorest solution and brings the greatest harm to the most number of dynamics.

The reality facing the accounting practice in Nigeria today is the concern that unethical practices have grown unchecked leading to an unprecedented level of fraud and corruption and loss of confidence in institutions in general and, in accounting professionals specifically. As such, accounting practitioners have come under scrutiny and criticism from the media, regulators and public interest groups worldwide. Immediately following the Enron debacle, the US government signed into law the Sarbanes-Oxley Act (SOX) of 2002, also known as the Public Company Accounting Reform and Investor Protection Act. This act severely increased the penalties for fraudulent financial activities in the US and subsequently several other countries such as Japan, Germany, Australia, Turkey, India, South Africa, France, Italy and Israel also introduced measures